



Minimum wage raises contribute to rural-urban inequality in Kenya

By Tabitha W. Mwangi, Florence Simiyu, Lulit Mitik Beyene, Albert Onderi

Key messages

- Minimum wage increases are linked to increased inequality between rural and urban areas.
- The poorest rural households are the most negatively affected by minimum wage increases.
- Social protection measures (other than minimum wages) are needed to support low-income and poor families.

Job creation strategies in Kenya

Kenya Vision 2030 is the Kenyan government's long-term development strategy. It aims to create more than 700,000 jobs annually as part of its socio-economic program. The strategy targets job creation in manufacturing, agriculture, wholesale and retail trade, ICT, and financial services – all sectors subject to the country's minimum wage policy. In Kenya, the minimum wage is set according to the employment sector and whether the job is in a rural or urban area.

Despite higher minimum wage growth for agricultural workers than those in other industries, minimum wages still tend to be higher in urban areas. As such, labor migration from rural to urban areas has not decreased. These high levels of rural-urban migration lead to increased unemployment and poverty in urban areas. Unable to find formal-sector work, migrants often have to turn to the informal sector where there is less stability and lower incomes than in rural areas.

Furthermore, long-term earnings differences across sectors and locations are seen as a key factor contributing to higher poverty rates in rural areas, especially among wage earners.

The agricultural sector provides over 70% of the total employment in rural areas. In urban areas, most employment is in the services and industrial sectors.

A team of local PEP researchers set out to evaluate how increases in minimum wages affect the Kenyan labor market, economy, and household incomes.

Given the importance of the agricultural sector in the Kenyan economy, the research team particularly sought to identify whether the minimum wage policy hinders growth in this sector.

The team also examined whether minimum wages can be used to support growth and reduce urban-rural inequality.



Data and methodology

To be able to answer the research questions: “How do minimum wage increases affect labor migration between urban and rural areas?” And “What is the impact of differential minimum wage increases on income distribution and poverty in Kenya?” The research team modified the PEP 1-1 Computable General Equilibrium (CGE) model to analyze data from a 2009 social accounting matrix (SAM) for Kenya.

Using the CGE model, the team conducted three simulations:

1. A 5% increase in the wage rate for formal rural and urban labor.
2. A 10% increase in the wage rate for formal rural labor, and a 5% increase for formal urban labor.
3. A 10% decrease in the wage rate for formal urban labor, and a 5% decrease for formal rural labor.

Key findings

The research team’s findings indicate that **minimum wage increases often have a negative effect on poorer rural households** but can slightly benefit urban households. The team’s findings suggest this effect **contributes to increased rural-urban inequality in the country.**

The opposite also appears to be true, with rural households benefitting more than those in urban areas when the minimum wage decreases.

The findings show that increasing the minimum wage:

- Reduces urban and rural growth as labor costs increase and labor demand decreases.
- Increases rural unemployment.
- Increases migration to urban areas.
- Slightly increases exports of labor-intensive goods.
- Reduces consumption spending in rural and urban households.
- Reduces rural household incomes but slightly increases urban household incomes.
 - The negative effect is greater for poorer households.

Poorer households in rural areas are heavily dependent on paid employment as farm laborers. As such, they are disproportionately affected by wage increases.



Table 1. Impact on volume of unemployment and rural-urban migration

Simulation	Change in Volume of Unemployed (%)	Migration
SIM 1	21.80	3.73
SIM 2	14.21	4.12
SIM 3	-57.72	-7.04

Table 1 shows the extent to which minimum wage increases contribute to increased unemployment and rural-urban migration, factors which stifle economic expansion.

Meanwhile, reducing the minimum wage:

- Increases the demand for formal-sector workers.
- Increases formality and reduces informality.
- Reduces unemployment by nearly 58%.
- Reduces rural-urban migration by 7%.
- Increases government income.
- Leads to a rise in the consumption budget of rural households, with the highest gain among the poorest households.

Implications for policy

The results of this study indicate that **minimum wage changes can have a significant effect of inequality**. Applying a uniform minimum wage in urban and rural areas would not only be impractical due to the diversity of employment sectors in the two areas, it would also increase inequality.

Any adjustments to minimum wages **must aim to achieve a balance between workers' demand for higher wages and the unwanted effects on employment, income, formality, migration, and spending** that higher wages can produce.

Rather than increasing minimum wages, **the Kenyan government should consider implementing other social protection measures that support low-income earners and poor households**. Further research is needed to identify which social protection measures would be the most effective.

The positive outcomes linked to lower minimum wages are due to reduced labor costs and increased employment under this scenario. Therefore, **rural job creation schemes**—such as providing incentives to establish industrial parks, particularly in agro-processing—**could also improve earnings for people in rural areas and reduce rural-urban migration**.



In 2012, with support of the UK Department for international Development (DfID) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities in “Policy Analyses on Growth and Employment” (PAGE) in developing countries.

This brief summarizes the outcomes of [MPIA-12838](#) supported under the 3rd round of the PAGE initiative (2015-2016). To find out more about the research methods and findings, read the PEP [working paper 2017-22](#).

The views and opinions expressed in this publication are those of the authors and do not necessarily reflect those of PEP.