

**APPRAISAL OF THE EMPLOYMENT TAX REBATE IN KENYA: STUDY  
OF FIRMS REGISTERED UNDER KENYA ASSOCIATION OF  
MANUFACTURERS.**

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## DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

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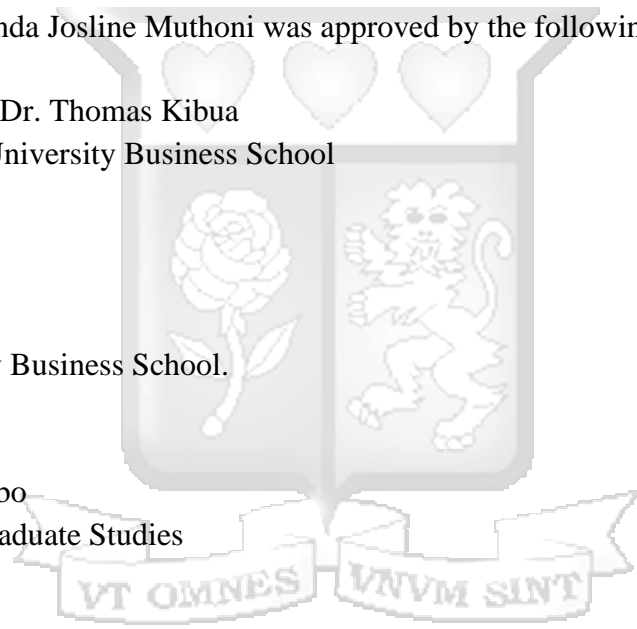
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## ABSTRACT

Kenya's substantial and youthful demographic, representing approximately 62% of the working-age population, offers a promising avenue for economic advancement. However, the realization of this potential is impeded by high youth unemployment rates which is exacerbated by among others, lack of work relevant skills and experience. To encourage employers to hire and train fresh graduates, the Kenyan government implemented a tax incentive in 2016, which provided employers with a 50% tax rebate on the salaries paid to fresh graduates. The objective of the study is to appraise the tax rebate scheme to examine the gaps in its policy design and sector specific challenges faced by firms registered under the Kenya Association of Manufacturers. Anchored on the Incentive Theory, the study adopted a qualitative approach and gathered insights from the selected firms on their experience and perceptions of the rebate. Data was collected using open ended interview questions from the target population of 1,212 firms under the Kenya Association of Manufacturers. Stratified and purposive sampling were used to select 44 firms. Data collected from interviews was transcribed and organized into thematic areas to identify recurring patterns, themes, and topics. Findings collected from the 42 firms who responded reveal that awareness of the rebate is generally low. Firms who were aware of the rebate faced barriers in accessing it such as lack high eligibility requirements, limited timeframe, inadequate information on the rebate and complex application process. The study highlights that while rebate holds promise of addressing youth unemployment, flaws in its design and aspects of implementation have hindered its uptake. The study recommends a reduction of the minimum hiring threshold, expansion of the time frame, increased awareness campaigns through multiple channels, simplification and digitalization of the application process, and targeted support to SME's and sectors facing distinct challenges. These measures will ensure the tax rebate is well aligned to the interests of employers and improve its uptake as per the principles of the Incentives Theory.

*Key words: Employment Tax Rebate, Financial incentives, Fresh graduates, Kenya association of Manufacturers*



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## LIST OF ABBREVIATIONS

ETI - Employment Tax Incentive

FKE- Federation of Kenyan employers

GDP- Gross Domestic Product

GOK- Government of Kenya

ILO- International Labour Organization

KAM- Kenya Association of Manufacturers

KNBS- Kenya National Bureau of Statistics

KYEOP- Kenya Youth Employment and Opportunities Project

NACOSTI- National Commission for Science Technology and Innovation

NITA- National Industrial Training Authority

SSA- Sub Saharan Africa

SME- Small and Medium Enterprises

TVET- Technical and Vocational and Educational Training



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## DEDICATION

I dedicate this work to my mum, whose constant question, "When are you graduating?" inspired me year after year to stay on track. To my dear Anthony and our sons, born during this journey, you are a constant reminder that no obstacle is too big to overcome.

To my friends, for your unwavering encouragement and for reminding me that giving up on this dissertation was never an option.

This is as much your victory as it is mine.



## **CHAPTER ONE**

### **INTRODUCTION**

This study evaluates the gaps and challenges associated with the employment tax rebate implemented in Kenya in 2016 to address youth unemployment by incentivizing firms to hire fresh graduates. Nine years later, there is no public evaluation of the policy to establish any gaps in its design or implementation challenges faced by employers. The study focuses on firms registered under the Kenya Association of Manufacturers (KAM) and examines how the challenges and policy gaps manifest across different sectors. By exploring employer experiences, the study seeks to generate insights that can inform improvements in the design and implementation of the employment tax rebate in Kenya.

Chapter one provides a background to the employment tax rebate scheme implemented in Kenya to address the high rates of youth unemployment caused by lack of employability skills. It also examines adoption of employment tax incentives by governments in other countries as a labour policy tool. The chapter also delves into the research objectives, research questions, significance, and scope of the study.

#### **1.1 Background to the Study**

Kenya's demographic profile offers opportunities for economic growth and development as approximately 61% of its working-age population falls within the 15 to 64 age brackets (Kenya National Bureau of Standards (KNBS), 2023). The youthful population is a significant reservoir of human capital that can be harnessed to drive innovation, entrepreneurship, and sustained economic progress (Hall, 2017). However, this youthful group faces challenges such as high rates of unemployment including prolonged unemployment (KNBS, 2023). As per the 2023 economic survey of Kenya, the percentage of youth who were neither employed nor enrolled in education or training stood at 20% in the year 2022.

Youth unemployment stems from multiple causes, including an economy's failure to produce sufficient jobs and social factors such as limited work experience, underdeveloped personal and professional networks, and lack of understanding about the labour market (Chari et al., 2017). Among the unemployed youth in Kenya, 92% lack job training beyond formal education (Federation of Kenya Employers (FKE), 2019). This means that unemployment among the youth is not only due to lack of work opportunities, but also due to lack of employability and

work- readiness skills (FKE, 2019). Skill gap in the labour market is expected to increase as new technologies emerge, underscoring the need for training of employees (Dimeny, 2019).

Skills development through work-based learning, often referred to as apprenticeships, internships or traineeship, can mitigate youth unemployment arising from a mismatch between the formal education system and the demands of the labour market (Ngure, 2022). Work-based learning offers a promising approach to integrating youth who encounter challenges in accessing the labour market due to lack of prior work experience by facilitating their transition into the workforce (Kis, 2016). Work based learning has also been argued as a viable means of enabling the youth to secure productive employment opportunities as some of them are retained by the employers after completing their training period (Amin-Smith, Cribb, & Sibieta, 2017). Providing work-based learning further benefit employers by increasing the productivity of the workers who are equipped with the specific skills required for their industry. Further, companies that retain the trained workers reduce the need for external hiring and the associated recruitment costs (Moretti et. al., 2019).

Despite the recognized advantages of offering work-based learning to young individuals, many countries encounter difficulties providing sufficient training opportunities for recent graduates entering the labour market each year (Kuczera, 2017). This results in a situation where demand for work-based training often surpasses supply (Kuczera, 2017). Firms exhibit reluctance to hire and train fresh graduates due to the significant investment required in terms of cost and time, as well as concerns about potential unproductivity during the training period (Groh et al., 2016; Alfonsi et al., 2020). A significant challenge for policymakers is developing strategies to incentivize employers to provide work-based learning opportunities to recent graduates. While some employers may be motivated by social responsibility to offer such opportunities, they are constrained by the need to generate profits, prompting them to evaluate the cost and benefits of providing work-based learning programs (Kis, 2016). To address this issue, governments, especially in developing countries, provide tax incentives to the private sector to encourage hiring of fresh graduates (Kuczera, 2017). Such incentives include wage subsidies and corporation tax credits to employers, reduction in minimum wage for apprentices, exempting companies from statutory remittances for the apprentices and reducing payroll taxes for apprentices (Kuczera, 2017).

To promote work-based training for fresh graduates in Kenya, the government implemented a tax incentive for employers through the Finance Act, 2015 by way of a 50% tax rebate on

salaries paid to the graduates. The rebate is available to employers who hire more than ten graduates for a duration of six to twelve months. The tax rebate was initially provided to companies employing university students but was subsequently expanded to include companies offering internship and training to students from Technical and Vocational and Educational Training (TVET) institutions in 2021 (Government of Kenya, 2021). The aim of the incentive is to lower the financial burden on employers associated with hiring and training graduates, ultimately incentivizing private companies to offer valuable work experience to recent graduates from universities and TVET institutions (Government of Kenya, 2015). Gaining on the job training by graduates is expected to equip them with relevant skills thus enhancing their employability or equip them with skills to be self-employed.

### **1.1.1 Employment Tax Incentives**

Tax incentives refer to any policy that grants specific businesses or industries a more advantageous tax treatment than is generally accorded to others (Klemm, 2009). Such incentives include tax rebates, corporation tax credits and wage subsidies to employers, reduction in minimum wage for apprentices, public funding of the apprenticeship cost, exempting companies from statutory remittances for the apprentices and reducing payroll taxes for apprentices' wages (Kuczera, 2017). Employment incentives targeting apprentices include stipends for food and transport and study materials, allowances for learning away from home, and assistance for women, handicapped people, and vulnerable groups (Fazio et al., 2016).

The goal of an employment tax incentive is to encourage more hiring of targeted workers than would have occurred in absence of the incentive (Brunette et al. 2022). The French government has heavily invested in subsidizing apprenticeship programs, and it is estimated that the government spent 9,500 Euros on each apprentice in 2010. 60% of the cost was subsidies provided to employers (Brébion, 2020). In Austria, firms receive a subsidy equal to three months (gross) salary payments to an apprentice in the first year, two months wage in the second year and one month wage in the third and fourth years. It is estimated that the government paid €150 million in subsidies to training firms in 2014 (Moretti et al. 2019). In Spain, employers receive a subsidy of up to 40% of the gross wage in the first year, and 25% in the second year. In addition, firms receive bonuses for converting an apprentice contract to an indefinite contract of EUR 500 per year for males and EUR 700 for females for the first 3 years after the end of the apprentice contract (De la rica & Gorjón, 2022). In 2014, South Africa implemented an employment tax incentive (ETI) to incentivize companies to employ young, low-wage workers aged 19 to 29, earning less than R6,000 per month (Bhorat et al, 2020;

Budlender & Ebrahim, 2021). Similarly, Tunisia and Côte d'Ivoire have adopted wage subsidies for apprenticeships to encourage and support apprenticeship programs (Broecke, 2013; Crépon & Premand, 2019).

The effectiveness of tax incentives as labour policy tools is a contested area as evaluation of these incentives has yielded varying results. These range from very pessimistic, indicating that employment tax incentives are a waste of government money, to very optimistic, that they have significant positive effects on improving labour market outcomes (Broecke, 2013). A study by Emiru & Wajebo (2024) in Ethiopia challenges the assumption that tax incentives are effective for achieving policy goals such as employment creation. The study found no significant impact of fiscal incentives on job creation, arguing instead that broader systemic challenges such as high operational costs and unstable macroeconomic conditions rendered the policies ineffective. Similarly, Neumark & Grijalva (2017) evaluated the effectiveness of Job Creation Tax Credits (JCTCs) in stimulating employment growth in the United States and found little evidence to suggest that these incentives boosted job creation. In contrast, however, Agyemang et al. (2023) explored the impact of location-based tax incentives on employment creation and rural development in Ghana and found a significant positive relationship between tax incentives and employment growth. Specifically, a 1% increase in tax incentives was associated with a 57.9% increase in employment creation, highlighting the potential for targeted tax incentives to stimulate job growth in rural areas.

Crepon & Premand (2018) who examined the effects of subsidized apprenticeships in Côte d'Ivoire also found that the subsidy significantly expanded access to apprenticeships, increasing the proportion of youths securing formal apprenticeships by 52.8%. However, the study also highlighted that subsidized apprentice displaced traditional, non-subsidized apprentices. Further, Broecke (2013) on assessing Tunisia's employment subsidy program, which aimed to enhance graduate employment and found that the initiative reduced graduate unemployment by 8%. However, the study also revealed substantial deadweight loss, as 75% of firms benefiting from the subsidy would have hired apprentices even in its absence.

The mixed results on the impact of employment tax incentives suggest that their effectiveness depends on how it is designed, and its interactions with the context in which it is implemented. Brunetti et al. (2022) emphasize that the design of tax incentives is crucial in ensuring they achieve their objectives in a cost-effective manner.

### **1.1.2 Kenya Association of Manufacturers**

Kenya Association of Manufacturers (KAM) is a business association established in 1959 to represent the interests of manufacturers in the country. As of 2023, the Association had 1,212 members (KAM, 2024). Firms registered under KAM span a wide range of industries, including direct manufacturers and supporting sectors such as financial services, law, accounting, technology, transport, and logistics (KAM, 2024). Additionally, KAM's membership includes both large multinational corporations and small and medium-sized enterprises (SMEs), enabling an analysis of how the tax rebate impacts firms of different sizes and capacities. Furthermore, KAM members are geographically distributed across the country.

### **1.2 Problem Statement**

Despite ongoing efforts to tackle youth unemployment in Kenya, a significant proportion of young people remain unemployed (KNBS, 2023). Each year, an estimated 500,000 to 800,000 youth, including graduates from universities and technical, vocational, and training institutions, enter the job market. However, despite various interventions, the country continues to grapple with high youth unemployment, which stood at 20% in 2022 (KNBS, 2023).

One of the reasons for youth unemployment in Kenya is lack of key skills required by employers due to lack of prior work experience (National Treasury, Kenya, 2015). It has been observed that 92% of unemployed youth lack job training beyond formal education which indicates that unemployment among the youth is not only a result of lack of opportunities, but also due to lack of employability and work-readiness skills (FKE, 2019). While addressing unemployment requires an increase in the demand for labour, it also entails addressing other related challenges such as lack of employability skills by the job seekers. This can be achieved by creating opportunities for work-based learning for the youth by partnering with stakeholders such as private sector (Kis, 2016).

Governments have a long history of providing employment tax incentives, also referred to as job creation incentives to the private sector to encourage firms to hire targeted workers who comprise of the youth and other vulnerable groups (Kuczera, 2017). Employment tax incentives are intended to ease the financial burden of hiring or training the targeted group of workers. Employment tax incentives have been adopted in Europe in countries such as France, Austria, Spain and Sweden to encourage hiring of particular workers (Daunfeldt et al. 2020; Cottet, 2020). In Africa, South Africa, Tunisia and Côte d'Ivoire have implemented varying forms of employment tax incentives to either encourage hiring of youth and provision of on-

the-job training through apprenticeships or internships (Bhorat et al. 2020; Budlender & Ebrahim, 2021; Broecke, 2013; Crepon & Premand, 2019). An evaluation of these incentives has yielded varying results ranging from very pessimistic, indicating that employment incentives are a waste of government money, to very optimistic, that they have significant positive effects on improving labour market outcomes (Broecke, 2013).

The employment tax rebate scheme implemented in Kenya in 2016 was aimed at increasing opportunities for work-based learning for fresh graduates and subsequently address unemployment due to skills mismatch between graduates and employers (National Treasury, Kenya, 2015). Literature reveals that the effectiveness of an employment tax incentive and indeed, any tax incentive in achieving its objective depends on how it is designed coupled with the specific context in which the incentive operates (Bellman & Stephan, 2014; Queensland, 2016; Kuczera, 2017; Brunetti et al., 2022).

Nine (9) years after its implementation, there is no publicly available evaluation of the employment tax rebate scheme to establish whether it has achieved its intended objective and how it can be further enhanced. The objective of the study is to appraise the tax rebate scheme implemented in 2016 with a view to identifying gaps and challenges in its implementation, any emerging issues, and propose policy alternatives to enhance its effectiveness.

### **1.3 Research Objectives**

#### **1.3.1 General Objective**

The general objective of the study is to appraise the employment tax rebate scheme implemented in Kenya in 2016.

#### **1.3.2 Specific Objectives**

The specific objectives of the study include:

- i. Identify gaps in the design of the Kenyan employment tax rebate.
- ii. Evaluate the challenges faced by firms registered under the Kenya Association of Manufacturers in implementing the employment tax rebate.
- iii. Examine how the gaps and challenges vary across different sectors of firms registered under the Kenya Association of Manufacturers (KAM).

## **1.4 Research Questions**

The research questions of the study are:

- i. What gaps are present in the design of the employment tax rebate in Kenya?
- ii. Which challenges have firms registered under the Kenya Association of Manufacturers faced in implementing the employment tax rebate?
- iii. How do the gaps and challenges vary across different sectors of firms registered under the Kenya Association of Manufacturers (KAM)?

## **1.5 Scope of the Study**

The study focused on evaluating the employment tax rebate implemented in Kenya, with particular focus on its current design and implementation. The study obtained insights from firms registered under the Kenyan association of manufacturers (KAM) at a specific point in time.

## **1.6 Significance of the study**

The significance of this study extends to policymakers, employers, the Kenya Association of Manufacturers, and the academia.

### **1.6.1 Policymakers**

The findings from the study provide valuable feedback to policy makers on the gaps and challenges faced by employers, who are the target of the policy. By identifying the gaps and challenges which include, unrealistic hiring thresholds, widespread lack of awareness, lack of information and guidance and complex application process, the study offers recommendations that can assist policymakers in enhancing the tax rebate.

### **1.6.2 Kenya Association of Manufacturers**

By understanding how its members have responded to the tax rebate for apprenticeship in its current form, the Kenya Association of Manufacturers will be able to strengthen its advocacy efforts to the government on behalf of its members. The specific insights will enable KAM to tailor its engagement strategies, ensuring that diverse concerns and barriers are adequately represented. Additionally, these insights will support more targeted education and sensitization efforts, helping KAM enhance awareness and uptake of the incentive program among its members.

### **1.6.3 Employers**

The findings from the study will be useful to employers in evaluating their participation in the tax rebate program. Employers who are already participating will have insights on how their peers have responded to the program while those not participating may gain insights on the experience of those who are participating. This will inform employers decision-making regarding participation in the tax rebate program.

### **1.6.4 Researchers**

The findings from the study will contribute to academia by expanding existing knowledge on designing and implementing tax incentives, specifically those targeting the labour market.

### **1.7 Summary of the Chapter**

This chapter has provided a background to the tax incentive implemented in Kenya to encourage hiring of fresh graduates, and adoption of employment tax incentives by governments to promote apprenticeships and existing debate on their effectiveness. The chapter has also delved into the research objectives, research questions, significance, and scope of the study.

The subsequent sections of the Study are organized as follows: Chapter two outlines the theoretical and empirical underpinnings of the study and presents the conceptual framework used to carry out this research as well as the operationalization framework. Chapter three provides research methodology that will be employed in the study. It includes the research philosophy, research design, target population, sampling techniques, data collection method, and data analysis method. The chapter also includes data diagnostic tests to be carried out to ensure reliability and validity of the data. Chapter four presents' findings from interviews with human resource managers from firms registered under the Kenya Association of Manufacturers. Chapter five discusses the findings and conclusions from the study, proposes policy recommendations and areas for further study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter explores the theoretical perspectives that relate to behavioural response to incentives. It also examines empirical literature on employment tax incentives, including gaps in their design and challenges faced in their implementation. The chapter further explores policy measures that could improve the effectiveness of employment incentives to achieve their objectives. Additionally, the chapter will identify gaps in literature and develop a conceptual framework for the study.

#### **2.2 Theoretical Framework**

##### **2.2.1 Incentives Theory**

The incentive theory argues that individuals are motivated by external factors that align with their goals and needs. The Theory is rooted in the work of several scholars across psychology, economics, and behavioural science. Initially influenced by B.F. Skinner's, the theory focuses on how external rewards and punishments shape behaviour (Skinner, 1953). In economics, Gary Becker and James Buchanan extended these ideas by applying incentive-based models to human behavior, particularly in labour markets, highlighting how individuals and organizations seek to maximize utility by responding to various incentives (Becker, 1976; Buchanan, 1975).

In the context of evaluating Kenya's employment tax rebate, the Incentives Theory offers insights into how tax incentives can encourage firms to provide work-based learning and employment opportunities for fresh graduates. According to the Theory, these incentives (such as wage subsidies or tax credits to employers) serve as powerful external motivators and influence employers' decision-making and behavior regarding hiring (Brunetti et al., 2022). The financial incentives offset the costs associated with hiring, such as wages, training, and mentorship, making it financially viable for firms to engage in employment programs (Muehleemann & Wolter, 2014). The Incentives Theory posits that the effectiveness of an incentive in influencing behavior depends on how well it aligns with the recipient's goals (Deci & Ryan, 1985), which helps explain why some firms respond more strongly to employment incentives than others.

For the tax rebate to be effective, the structure and delivery of the incentive must resonate with employers' practical realities and interests. Furthermore, the government must actively seek to

understand areas of misalignment such as gaps in its design and challenges faced by the target group, and address them, to ensure the policy is effective. Research by Smith et al. (2020) highlights that when tax incentives are misaligned with employer needs or poorly targeted, their potential impact diminishes. For example, employers may be reluctant to participate in tax incentive programs that do not align with their specific workforce needs or business operations (Jones et al., 2019).

In Colombia for instance, Peters (2012) examined the effectiveness of tax incentives in stimulating manufacturing investment in low-income countries, comparing VAT and income tax exemptions. The study used empirical data from manufacturing firms in Colombia and found that VAT exemptions were more widely utilized because they provided immediate financial relief through upfront deductions, whereas income tax exemptions, which were spread over time were less attractive to firms. This highlights the importance of designing incentives that align with firms' immediate economic needs, especially in contexts with limited liquidity. Muehleemann and Wolter (2014) further argues that the amount of the incentives must be adequate to offset actual hiring and training costs to influence employer decisions.

### **2.3 Empirical Literature Review**

The empirical literature provides valuable insights into employment tax incentives including their effectiveness in increasing hiring of targeted workers. It also highlights the gaps in their design and challenges in their implementation. Studies evaluating the effectiveness of employment tax incentives have yielded varying results. Emiru and Wajebo (2024) evaluated the effectiveness of tax incentives introduced by the Ethiopian government to spur job creation in the manufacturing sector. Using a mixed-methods approach, the study analysed administrative tax data alongside survey responses from large and medium-sized firms between 2012 and 2018. The study found that the incentive did not result in meaningful employment gains, largely due to rising production costs that diminished their intended benefits. The study highlights the importance of aligning policy tools with broader economic realities.

Contrary to the study in Ethiopia, the effect of the employment tax incentive yielded positive results in Italy. Brunetti et al. (2022) used both administrative data and firm level data from a representative sample. The authors created a counterfactual scenario by incorporating a survey question regarding the firm's action in absence of the incentive and employed a difference-in-difference with propensity score matching model. The findings revealed a positive correlation between the hiring incentive introduced in 2017 and an increase of newly hired workers.

Similarly, Crepon and Premand (2019) observed a positive impact of an apprentice subsidy implemented in Côte d'Ivoire. They used a double-sided experiment to establish whether interested youths were assigned formal apprenticeships and whether apprenticeship position in firms was filled with formal apprentices. The study revealed that the subsidy program substantially expanded access to apprenticeships as the share of youths in formal apprenticeships increased by 71.2 percent. A study by Broecke (2013) also observed a positive impact of Tunisia's employment subsidy program. The study, which adopted a survey of students who had participated in the apprenticeship program observed that the program decreased the rate of unemployment of graduates by 8%. He however also observed that the subsidy program resulted in large deadweight as 75% of the firms who benefitted from the subsidy would have hired even in absence of the subsidy.

While there is limited literature evaluating the gaps and challenges of implementing employment related tax incentives, there is a broader body of literature examining the challenges of other government policies. Jansen and Pineda-Herrero (2019) examined why some firms in Spain, do not participate in dual apprenticeship training programs. Through a survey of about 800 companies, they found that the primary barrier to participation was a lack of awareness about the program. Arkorful et al. (2018) on examining the operational challenges of the national health insurance scheme found that resource constraints, both financial and human impacted a health policy in Ghana. In addition, however, the study found that delayed reimbursements hindered the scheme's success. The study adopted a case study approach and collected data through semi-structured interviews with health professionals and community members. Delay in reimbursements was also found to hinder effective implementation of e-government initiatives in Qatar. The study by El-Haddadeh et al. (2010) used case study approach and interviewed key stakeholders involved in e-government projects. Weak institution, weak macroeconomic conditions, corruption and insufficient citizen engagement were identified as barriers to effective implementation of Kenya's vision 2030 by Bolo and Nkirote (2012). The study used case study approach and collected data through interviews with senior staff at the Vision 2030 Delivery Secretariat.

Public policies have been found to receive varied responses across sectors. Kumar and Singh (2023) explored how regulatory frameworks influence sectoral performance across various industries. Using a systematic literature review methodology, they analyzed 51 peer-reviewed studies sourced from seven multidisciplinary databases. The review revealed that sectoral

responses to regulation are highly varied, with the most attention given to telecommunications, energy, and finance sectors. This finding is similar to a study by Choi (2023), who examined how economic policy uncertainty (EPU) and geopolitical risk (GPR) influence sectoral volatility in the U.S. stock market. Using a quantitative approach to analyse sectoral data from the U.S. stock market, the study observed that different industries reacted differently to economic uncertainty.

From the examined literature, aligning the design of a tax incentive with the economic realities of the environment in which the incentive is implemented is critical to its success. Resource constraints, both financial and human and administrative hurdles are significant barriers to successful implementation of government policies as highlighted by Walugembe et al. (2024), Arkorful et al. (2018). The study by El-Haddadeh et al. (2010) emphasize the need for streamlining bureaucratic process by highlighting that despite the financial resources being available, delay in disbursement of the funds hindered successful implementation of the program in Qatar. On the other hand, Emiru and Wajebo (2024) emphasized the impact of external factors such as such as the business environment and operational costs on government policies. The findings underscore the importance of a favourable business environment for tax incentives to be effective. Finally, there is consensus in literature that policy interventions, even when broadly applied, do not land evenly across sectors (Kumar & Singh, 2023; Choi, 2023).

The following section reviews specific gaps in the design of tax incentives and delves into the challenges associated with their implementation.

### **2.3.1 Gaps in the Design of Employment Tax Incentives**

#### **2.3.1.1 Targeting of the incentive**

Ineffectively targeted tax incentives may lead to substantial losses in government revenue without achieving the intended economic outcomes, such as increased investment or job creation. Orihara and Suzuki (2023) investigated whether tax incentives stimulate additional investment using firm level data and difference in difference approach. The study found that financially stable firms are more inclined to take advantage of such incentives. However, these firms often do not expand their investment beyond levels observed before the incentives were introduced, instead using the tax benefits to bolster their cash holdings. In contrast, firms facing financial constraints are more likely to channel tax incentives into actual investment, indicating

that the effectiveness of such policies can depend heavily on the financial profile of the recipient firm.

In Sweden, Daunfeldt et al. (2021) observed that firms with a pre-existing policy of hiring workers targeted by an incentive program are more likely to respond to the financial incentive, viewing it as a windfall gain. The study used both firm-level and administrative data, and triple difference methodology. Additionally, the authors observed that firms that had already hired the targeted group of workers received the most cash saving and hired more workers, including those not targeted by the program. On the other hand, Cottet (2020) who used both firm level data and administrative data and difference-in-differences methodology also observed that the incentive increased hiring of the workers targeted by the program. However, contrary to Daunfeldt (2021), Cottet (2020) observed that the increase in hiring of workers was more in firms that did not previously hire targeted workers highlighting the need to strategically target financial incentives. Further supporting the idea of strategically targeting financial incentives, Brunetti et al. (2022) found that small firms with fewer than 50 employees in Italy experienced the greatest increase in hiring following the introduction of a wage subsidy. The author used firm level data from a national survey that incorporated a counterfactual question enquiring about the firm's behaviour in absence of the incentive.

The Kenyan tax rebate is designed to incentivize employers by offering tax relief to those who hire at least 10 fresh graduates for a minimum period of six months. However, this criterion poses a significant challenge, as it potentially excludes a large portion of the private sector in Kenya, particularly Micro, Small, and Medium Enterprises (MSMEs). Micro, Small, and Medium Enterprises (MSMEs) constitute over 90% of Kenya's private sector and employ 93% of the workforce (Government of Kenya, 2022). For these MSMEs, which employ fewer than 250 people, meeting the requirement of hiring 10 fresh graduates at a go may be an insurmountable challenge.

### **2.3.1.2 Amount of the Incentive**

Bednarz (2014) argues that a company's decision to hire apprentices is significantly influenced by the financial implications involved. When the perceived costs outweigh the anticipated benefits, firms may be hesitant to engage in apprenticeship programs unless there are financial incentives in place (Bednarz 2014). Muehlemann and Wolter (2014), posit that the decision for a firm to undertake apprenticeship training is significantly influenced by the cost-benefit

analysis of such an investment in comparison to alternative approaches for obtaining skilled workers. The costs associated with taking on apprentices encompass various elements such as apprentice wages, expenses related to training personnel, costs of training materials and infrastructure, as well as recruitment and administrative expenditures. On the other hand, a benefit to the firm is the value of apprentices' productive work during the period of apprenticeship. The amount of subsidy available to firms determines the net position of firms after offsetting the cost of hiring the apprentices. Where the subsidy is substantial and firms realize a net benefit, they are more likely to increase hiring of apprentices (Muehleemann and Wolter 2014).

The tax rebate in Kenya offers employers a 50% rebate on the salaries and wages paid to apprentices. Question remains whether employers perceive it as adequate to encourage them to hire 10 fresh graduates at a go.

#### **2.3.1.3 Duration of the Incentive**

The duration of the incentive program affects its effectiveness. Muehleemann and Wolter (2014) argue that the duration of an apprenticeship program should be determined in way that allows both firms and apprentices to generate a sufficiently high return on their training investment. Further, front-loaded incentives have been found to be more attractive to firms because they are more cost-effective compared to incentives that are spread through many years (Lerman et al., 2020). The tax rebate for fresh graduates in Kenya applies when an employer hires fresh graduates for a period between 6 to 12 months. This means that employers who hire for short-term periods, or periods longer than 12 months do not qualify for the rebate.

#### **2.3.1.4 Legal Framework**

The legal framework governing apprenticeships may influence the willingness of firms to participate in apprenticeship. According to Dustmann and Schonberg (2012), apprenticeship training schemes are more successful in countries where firms and students commit to the training through a legally enforceable contract. Legally binding contracts provided certainty for both the student and the company and clearly set out expectations from both parties. On the other hand, restrictive conditions of an incentive may hinder some firms from taking up an incentive (Brébion 2020). Flexible conditions that align with the diverse needs of employers can enhance participation rates. For instance, offering incentives that can be used to cover

various costs associated with apprenticeship training, such as wages, training materials, or mentoring support, increases the appeal for firms (Muehlemann & Wolter, 2014).

The rules governing the tax rebate requires that employers obtain written consent from the director of NITA and register the apprentice contract prior to engaging them. Employers are further required to issue a certificate of completion in a pre-defined format and thereafter, claim the tax rebate within a period of three years.

### **2.3.2 Emerging Economic issues**

Emerging issues, both economic and societal, can significantly impact the effectiveness of tax incentives. Changes in a country's macroeconomic environment, such as inflation, economic recessions, or external shocks like pandemics and conflicts, can alter the behaviour of firms and the government's ability to support business growth through fiscal measures (Muehlemann & Wolter, 2014). For instance, the COVID-19 pandemic had a profound effect on global economies, disrupting businesses, causing mass closures, and shifting the priorities of firms, thus reducing the impact of employment incentives (World Bank, 2021).

Additionally, geopolitical events such as the Russia-Ukraine conflict have contributed to rising inflation, affecting the purchasing power of firms and individuals, and thereby altering the effectiveness of tax incentives designed to stimulate business activity (Central Bank of Kenya, 2023). These economic pressures were further compounded by the introduction of the Finance Act 2023, which introduced new taxes, including higher tax bands for PAYE, the affordable housing levy, and increased social security contributions. These measures have led to reduced business optimism, with 40% of employers reporting intentions to reduce their workforce due to rising costs (FKE, 2023). It is estimated that Between October 2022 and November 2023, 70,000 jobs were lost in the formal private sector, illustrating the strain businesses are facing (FKE,2023). Weak alignment between policy objectives and operational realities were cited as barriers to implementing the Kenya Vision 2030 (Bolo & Nkirote, 2012). The study adopted a case study approach, interviewing staff of the 2030 secretariat. These emerging issues suggest that for long term policies, the assumptions that shaped their design may no longer hold in subsequent years. This is especially true when no evaluation of the policy is undertaken.

### **2.3.3 Challenges Faced in Implementation of Employment Tax Incentives**

#### **2.3.3.1 Inadequate Sensitization and Policy Awareness**

Jansen and Pineda-Herrero (2019) identified a lack of awareness as the primary reason for the absence of apprenticeship training in certain Spanish firms, rather than a reluctance to participate. Similarly, ineffective sensitization and poor communication about policies can result in limited public awareness, understanding, and support, leading to suboptimal implementation (Ménard, Jimenez, & Tropp, 2018). Hosono, Hotei, and Miyakawa (2023) also noted that Japan's 2014 tax incentive for small and medium-sized enterprises (SMEs) failed to improve capital investment rates, largely due to a small number of firms utilizing the incentive. This low uptake was attributed to either a lack of awareness or the ineligibility of many firms.

#### **2.3.3.2 Inadequate Information Dissemination on the Policy**

Policy making cannot make any significant impact without the passionate commitment of the people it targets (Dimeny, et.al, 2019). Oji (2018) argues that development plans in Nigeria often failed due to lack of public engagement, which results in public apathy in its implementation. Effective policy communication is crucial for promoting public engagement and garnering support for new initiatives. Southwell et al. (2005) argue that the effective dissemination of information serves as a critical bridge between innovative project outcomes and their practical application. Therefore, disseminating information should be prioritized as an integral component of a project's success rather than being treated as an afterthought. Nisbet (2009) highlights the need to present information in ways that align with the audience's values and concerns. Further, Maibach, Van Duyn, and Bloodgood (2008) found that utilizing multiple communication channels is more effective in reaching diverse audiences which is essential in building public support for policy changes.

#### **2.3.3.3 Administrative Challenges**

Complex application procedures and strict eligibility requirements may discourage the target audience from participating (Smith et al., 2020). These include submitting substantial documentation especially manually, adhering to strict deadlines, and multiple compliance and reporting obligations (Jones et al., 2019). The administrative burden is intensified when

employers must coordinate with multiple government agencies or departments involved in the program (Johnson, 2019).

In Kenya, the qualification process for the tax rebate is specified in The Income Tax (Set-Off Tax Rebate for Graduate Apprenticeships) Regulations of 2016. Employers must first obtain written consent from Director General of the National Industrial Training Authority (NITA) before engaging the graduate. The employer must also register the contract with NITA prior to its commencement. Currently, this registration is done manually, as NITA does not offer an online registration option. Upon completion of the apprenticeship, employers are required to submit a certificate of completion to NITA and provide copies to the apprentices. The tax rebate must be claimed within the subsequent year and can only be applied for within three years of engaging the apprentices. Employers are also required to maintain certified copies of the apprenticeship contracts and completion certificates for each apprentice.

#### **2.3.4 Sectorial Variations in Policy Response**

Cairney (2021) posits that sectoral responses to policy are shaped by distinct "policy styles," defined by industry practices, key actors, and the networks through which policy is interpreted and implemented. These internal structures influence how sectors engage with public policy, particularly in terms of uptake and compliance. Supporting this view, Kuczera (2017) observes that the adoption of apprenticeships varies across industries, with higher uptake in sectors where training is embedded in human resource practices or is a prerequisite for entry into the profession. Apprenticeships are also more common in sectors with strong trade unions, indicating that institutional arrangements and workplace culture shape how policy instruments are received. Kumar and Singh (2023) also observes that sector-specific characteristics significantly shape how regulations are implemented and experienced, and that uniform regulatory approaches are often ineffective.

#### **2.4 Summary of Literature and Research Gaps**

The reviewed literature has discussed the Incentives Theory and its relevance in understanding how tax incentives can encourage firms to provide work-based learning and employment opportunities for fresh graduates. According to the theory, financial incentives can serve as powerful external motivators and influence employers' decision-making and behaviour regarding hiring (Brunetti et al., 2022). According to the theory, the design and implementation

of the tax rebate must be aligned with the interests of employers to ensure its effectiveness. There is broad agreement on the importance of strategically targeting these incentives (Orihara & Suzuki, 2023; Daunfeldt et al., 2021; Cottet, 2020; Brunetti et al., 2022; Bellman & Stephan, 2014). Additionally, expanding public awareness (Adhiambo & Theuri, 2019) and simplifying administrative procedures (Klemm, 2009; Gale, 2001) are critical for the effective implementation of tax incentives.

Existing literature focuses on the impact of tax incentives, often assessing whether they achieve their intended outcomes, such as increasing employment or investment. While some studies have identified gaps and challenges in the implementation of tax incentives in general, there is limited literature specific to employment tax incentives and in their context. This study seeks to address this gap by examining the specific challenges and barriers encountered in the implementation of the tax rebate in Kenya by firms hiring fresh graduates. The table below summarizes the reviewed literature and identifies the gap therein.

**Table 2.1 Summary of Reviewed Literature and Gaps Identified**

<b>Title</b>	<b>Author(s)</b>	<b>Objective</b>	<b>Methodology</b>	<b>Key Findings</b>	<b>Research Gap in literature</b>
Evaluating Tax Incentives for Job Creation in Ethiopia’s Manufacturing Sector	Emiru & Wajebo (2024)	Assess whether tax incentives stimulated job creation in Ethiopia	administrative tax data and firm surveys (2012–2018)	Incentives did not yield meaningful employment gains, largely due to rising production costs	Focuses on impact and not gaps and challenges
Assessing Hiring Incentives: Evidence from Italian Firms	Brunetti, Martino & Ricci (2022)	Examine impact of hiring incentives on firm recruitment practices in Italy	Difference-in-Differences and propensity score matching firm level and admin data	Incentive linked to increase in new hires	Focuses on impact and not gaps and challenges
Payroll Tax Cuts and Youth Hiring in Sweden	Daunfeldt et al. (2021)	Measure effects of payroll tax cuts on youth employment	Triple-difference using firm and admin data	Created 18,000 jobs, with greatest gains among firms already hiring youth	Focuses on impact and not gaps and challenges

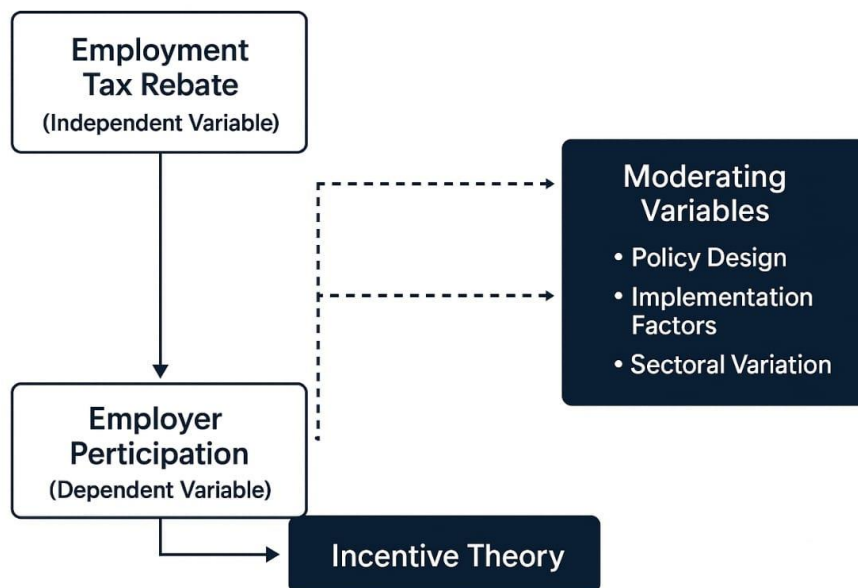
Evaluating Youth Hiring Incentives in Sweden	Cottet (2020)	Determine effect of tax incentive on firms' youth recruitment	Difference-in-Differences on firm and admin data	Increased youth hiring, especially in firms that had not previously employed the target group	Focuses on impact and not gaps and challenges
South Africa's Employment Tax Incentive: A Modest Boost	Bhorat, Kanbur & Mayet (2020)	Assess ETI's impact on youth employment	Difference-in-Differences and propensity score matching	Modest but statistically significant increase in youth employment	Focuses on impact and not gaps and challenges
Operational Challenges of Ghana's National Health Insurance Scheme	Arkorful et al. (2018)	Examine barriers to equitable healthcare access under Ghana's NHIS	Case study; semi-structured interviews	Delayed reimbursements, staff shortages, logistical constraints undermined scheme	Implementation challenges not related to employment incentives
Subsidized Apprenticeships in Côte d'Ivoire	Crépon & Premand (2019)	Measure impact of apprenticeship subsidies on youth enrollment	Randomized allocation to formal vs. informal apprenticeships	Subsidy increased formal apprenticeship uptake by 71.2%	lacks insight into implementation hurdles
South Africa's Youth Wage Incentive: No Effect	Ranchhod & Finn (2016)	Determine if ETI increased youth employment	Difference-in-Differences on national survey data	No impact—firms would have hired the same number of youths absent the incentive	Focuses on impact and not gaps and challenges
Graduate Employment Subsidies in Tunisia	Broecke (2013)	Evaluate impact of subsidy on graduate employment	Surveys of program participants	Unemployment fell by 8% but 75% deadweight (firms would have hired anyway)	lacks insight into implementation hurdles
Dual Apprenticeships in Spain - Catalonia - The firms' perspective	Jansen & Pineda-Herrero (2019)	Investigates factors influencing firms' participation in dual	Survey- 800 firms	Non-participation in the program attributed to lack of awareness	Study not specific to employment tax incentives

		apprenticeship training			
E-Government Implementation Challenges in Qatar	El-Haddadeh et al. (2010)	Identify barriers to e-government rollout	Case study; stakeholder interviews	Bureaucratic delays and skill shortages impeded implementation despite ample funding	Implementation challenges not related to employment incentives

## 2.5 Conceptual Framework

A conceptual framework is a coherent structure of interrelated concepts that offers a visual representation of how the key ideas in a study are connected (Grant & Osanloo, 2014). The conceptual framework for the study indicating key variables is shown below.

**Figure 2.1: Conceptual framework**



*Source: Author's presentation.*

## 2.6 Operationalization Table

**Figure 2.2: Operationalization Table**

<b>Variable</b>	<b>Definition</b>	<b>Indicator</b>
Gaps in the design of the policy	Weaknesses or shortcomings in the structure of the employment tax rebate.	<ul style="list-style-type: none"> <li>○ Eligibility Criteria</li> <li>○ Targeting of the incentive</li> <li>○ Duration of the incentive</li> </ul>
Challenges in implementing the policy	specific obstacles that firms encounter in applying for and benefiting from the employment tax rebate.	<ul style="list-style-type: none"> <li>○ Policy awareness</li> <li>○ Administrative process</li> <li>○ Access to information</li> </ul>
Sectorial variances across firms registered under KAM	Refers to how the gaps and challenges in the implementation of the employment tax rebate vary across different sectors within the Kenya Association of Manufacturers (KAM).	<ul style="list-style-type: none"> <li>○ Cross cutting issues</li> <li>○ Sector specific challenges</li> </ul>

## 2.7 Summary of the Chapter

This chapter has explored the theoretical perspectives that relate to employment tax incentives. It has also reviewed relevant empirical literature and identified a research gap in literature.

## **CHAPTER TWO**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the research design, including details on the target population, sampling techniques, data collection tools, methods for data collection and analysis, and ethical considerations to be used in the study.

This study is grounded in the interpretivism philosophy, which emphasizes understanding the subjective experiences and contextual realities of individuals (Schwandt, T.A., 1994). This approach enables the researcher to gain deeper insights into how firms registered under the Kenya Association of Manufacturers (KAM) interact with and interpret the employment tax rebate scheme.

#### **3.2 Research Design**

Research design refers to the general plan on how the research question will be answered (Saunders, Lewis & Thornhill, 2016). The study adopted a qualitative approach and was exploratory in nature, guided by interpretivist philosophy. Exploratory approach was selected due to limited empirical evidence on the tax rebate in Kenya. This approach allowed the researcher to obtain views and insights from the employers regarding their perception and experience of the employment tax rebate. The study emphasized interpretation over measurement, aiming not to predict outcomes but to explore how the policy is experienced and understood by employers.

The target respondents were human resource managers from selected firms, who are members of the Kenya Association of Manufacturers. Human resource managers were selected to provide insights on behalf of the firms due to their role in hiring of employees. They develop and implement hiring policies such as whether to hire fresh graduates or not. They are therefore key stakeholders of the tax rebate which seeks to incentivise firms to hire fresh graduates.

### 3.3 Population

The target population for the study was firms registered under the Kenya Association of Manufacturers. The association had 1,212 members as of 31 December 2023 who represent 40% of the manufacturing value chain industries in Kenya (KAM, 2023). Members of the association include small, medium and large firms located in the major cities in the country. The membership also includes service firms that support the sector such as banks, law firms, accounting firms, technology firms, and others (KAM, 2023).

### 3.4 Sampling Technique and Sample Size

Due to constraints in time and budget, sampling was employed to conduct the study. According to McClave et al., (2014), sampling is a viable approach when conducting a census of the entire population is prohibitively expensive or time-consuming. The total sample size for the study was 44 firms. A sample of 44 participants was found appropriate for this study because it aimed to capture employer perspectives from diverse employers in diverse sectors. According to Guest et al. (2017), while information saturation can be obtained with smaller samples of between 9 to 17 interviews, larger samples are justified in research with multiple subgroups. To determine the number of firms to include from each sector, the study used the 2024 Kenya Association of Manufacturers (KAM) directory, which lists all registered member firms by sector. Each sector was treated as a stratum under a stratified sampling approach. Within each stratum, purposive sampling was applied to select specific firms. The number of firms selected from each sector was calculated using the formula:

$$(\text{Number of firms in a sector} / \text{Total number of firms}) \times 44$$

**Table 3.1 List of Sectors as classified by KAM's 2024 directory and selected sample size**

	<b>Sector classification as per KAM</b>	<b>Population</b>	<b>Sample size</b>
1.	Agro Processing	2	1
2.	Automotive	74	3
3.	Building and Mining & Construction	61	3
4.	Chemical & Allied	157	4
5.	Energy, Electrical and Electronic	59	3
6.	Food & Beverage	259	5

7.	Fresh Produce	13	1
8.	Leather and Footwear	19	2
9.	Metal & Allied	119	4
10.	Paper & Board	76	3
11.	Pharmaceuticals & Medical Equipment	32	2
12.	Plastic & Rubber	114	4
13.	Services and Consultancy	125	4
14.	Textile & Apparel	75	3
15.	Timber, Wood & Furniture	27	2
		<b>1,212</b>	<b>44</b>

*Source: Author's compilation based on KAM's 2024 directory*

### **3.5 Data Collection Methods and Procedures**

Data was collected by conducting interviews with the human resource managers of the sampled firms. Human resource managers were selected due to their role in hiring of employees. The respondents were contacted on phone or email where the purpose of the study was explained and consent to participate obtained. Interviews were conducted using open ended questions to allow the respondents share their views and insights. The participant consent form and the interview guide to be used are attached in Appendix I.

### **3.6 Data Analysis**

Data collected from interviews was transcribed and organized into thematic areas to identify recurring patterns, themes, and topics within participants' responses. A word list was created to aid interpretation. The codes were then analysed to determine overlaps, relationships with literature review categories, and connections perceived by interviewees. Categorization continued until saturation was achieved. Sector-specific analysis was conducted to examine the unique challenges and strategies within each sector, ensuring that sectoral differences were captured. This analysis provided a comprehensive understanding of the challenges, strategies, and recommendations articulated by stakeholders.

### **3.7 Data Presentation and Dissemination**

Findings from the data have been presented through tables and discussions, including direct quotes from the respondents. Subsequently, a summary of the findings will be compiled into a policy brief, which will be disseminated to the relevant stakeholders to ensure they have access to the key insights and recommendations derived from the study.

### **3.8 Data Reliability and Validity**

#### **3.8.1 Reliability**

Reliability, as defined by Saunders et al. (2016), pertains to the replicability and consistency of research findings. It denotes the degree to which research methods yield consistent results when reproduced. To ensure reliability, the study ensured comprehensiveness and inclusivity by obtaining sample firms from each sector. Additionally, the study ensured careful and systematic analysis of the data collected to ensure the findings accurately represent the views of the respondents.

#### **3.8.2 Validity**

Validity, as defined by Heale and Twycross (2015), involves the extent to which a study accurately measures what it is intended to measure, and it also relates to the generalizability of findings to the entire population (Slack & Draugalis, 2001). To uphold validity, data was collected from different firms, and the respondents were carefully selected to ensure they are relevant. The respondents comprised of human resource managers who are responsible for hiring of the fresh graduates.

### **3.9 Ethical Considerations**

The research sought permission from the Strathmore University Ethical Review Board (Appendix II) and the National Commission for Science Technology and Innovation (NACOSTI) (Appendix III) for evaluation before the initiation of data collection. Additionally, the researcher provided the respondents with comprehensive information about the study's purpose and objectives, prioritizing the prevention of harm during the data collection process. A formal letter of introduction from the University was obtained to facilitate this process. Moreover, to maintain anonymity, respondents were not required to disclose their names.

Informed consent was obtained from all key informants after a thorough explanation of the study's purpose, anticipated outcomes, estimated participation time, privacy safeguards, confidentiality measures, and their right to withdraw at any stage. The consent form is provided in Appendix IV.

### **3.10 Summary of the Chapter**

This chapter has presented the research methodology to be employed in the study, encompassing the research philosophy, research design, target population, sampling techniques, data collection method, and data analysis method. Additionally, the chapter introduces the data collection tool.



## CHAPTER FOUR RESULTS AND FINDINGS

### 4.1 Introduction

This chapter examines the study's findings based on interviews with hiring managers from firms registered under the Kenya Association of Manufacturers (KAM). It presents their insights on gaps in the design of the tax rebate for employers hiring fresh graduates, challenges encountered in its implementation, and potential improvements to enhance its effectiveness. The chapter also analyses the responses to identity cross cutting issues and sector specific issues.

### 4.2 Response Rate

The study obtained responses from 42 out of the 44 targeted firms, achieving a 95% response rate. All sectors sampled reported 100% response rate, except the automotive, energy, electrical and electronic sectors which had a 65% response rate as shown below.

**Table 4.1 Summary of Responses per Sector**

	<b>Sector classification as per KAM</b>	<b>Population</b>	<b>Sample size</b>	<b>No of respondents</b>
1.	Agro Processing	2	1	1
2.	Automotive	74	3	2
3.	Building and Mining & Construction	61	3	3
4.	Chemical & Allied	157	4	4
5.	Energy, Electrical and Electronic	59	3	2
6.	Food & Beverage	259	5	5
7.	Fresh Produce	13	1	1
8.	Leather and Footwear	19	2	2
9.	Metal & Allied	119	4	4
10.	Paper & Board	76	3	3

11.	Pharmaceuticals & Medical Equipment	32	2	2
12.	Plastic & Rubber	114	4	4
13.	Services and Consultancy	125	4	4
14.	Textile & Apparel	75	3	3
15.	Timber, Wood & Furniture	27	2	2
		<b>1,212</b>	<b>44</b>	<b>42</b>

### 4.3 Gaps in the Design of the Tax Rebate

Respondents highlighted the high eligibility requirement, limited time commitment and lack of stakeholder engagement, as gaps in the design of the employment tax rebate. These are discussed further below.

#### 4.3.1 High Minimum Hiring Requirement

The requirement to hire a minimum of 10 fresh graduates at once was cited as a major drawback to the tax rebate by seven (7) respondents from the following sectors: Paper & Board, Pharmaceuticals & Medical Equipment, Plastic & Rubber, Services & Consultancy, Metal & allied, Food & Beverage and Fresh Produce. The respondents indicated that requiring firms to hire a minimum of 10 graduates was unrealistic and not possible for most firms. A respondent in the Food & Beverage observed, “Other than the big 5 and a few listed companies, organizations lack the capacity to hire 10 graduates at a go.” This sentiment was echoed by another participant from the service sector who remarked, “The number of hires is too high for us in the SME sector.” Yet another respondent from the service sector stated, “It may not be applicable to us because I do not think we have had the opportunity to hire 10 graduates at once.” The feedback from the respondents highlights a mismatch between the design of the tax rebate, which requires firms to hire at least 10 fresh graduates to qualify, and the hiring capability of the firms. Consequently, firms without the stipulated hiring capability are unable to utilize it.

### **4.3.2 Time Commitment**

Limited time commitment was identified by two respondents in the service sector. One respondent noted that the limited time commitment under the rebate, which is between 6 months to 12 months is too short and may be inadequate for firms to realize the benefit of training the fresh graduates. In contrast, the other respondent from the same sector, observed that the exclusion of hires that are below six months is problematic since some firms may be unable to offer training for longer periods. Both concerns highlight the varied concerns of different employers, even within the same sector. It also highlights that the tax rebate in its current form does not capture the realities and concerns of diverse employers.

### **4.3.3 Lack of Employer Engagement**

Lack of employer engagement and consultation during the development of the rebate was highlighted as contributing to the gaps in the design of the tax rebate. A firm in the Pharmaceuticals & Medical Equipment sector expressed that "the government should have started with seeking our input on this. It would have had better results." Similarly, an employer from the Metal & Allied sector questioned whether public participation took place, stating that "it is an example of good ideas that fail to have impact because stakeholders were not allowed to participate." This sentiment was echoed by a respondent in Metal & Allied who stated, "I do not think companies were involved in the making of this rebate, that is why it is not popular, and its impact not felt". This feedback highlights the perception among employers that lack of stakeholder engagement may have resulted in the design of a policy that fails to reflect the interest and realities of the stakeholders.

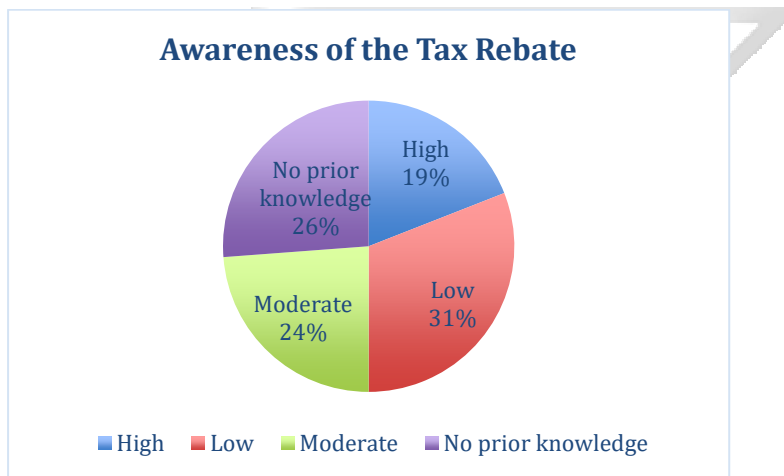
### **4.4 Challenges in Implementing the Tax Rebate**

Respondents identified several challenges in implementing the employment tax rebate for hiring fresh graduates including bureaucratic hurdles, lack of information, lack of awareness of the rebate, and delays in approvals. While some challenges, such as lack of awareness and delays in rebate approval were specific to certain sectors, others such as bureaucratic hurdles and lack of information cut across multiple sectors, as illustrated in the chart below.

#### 4.4.1 Lack of Awareness

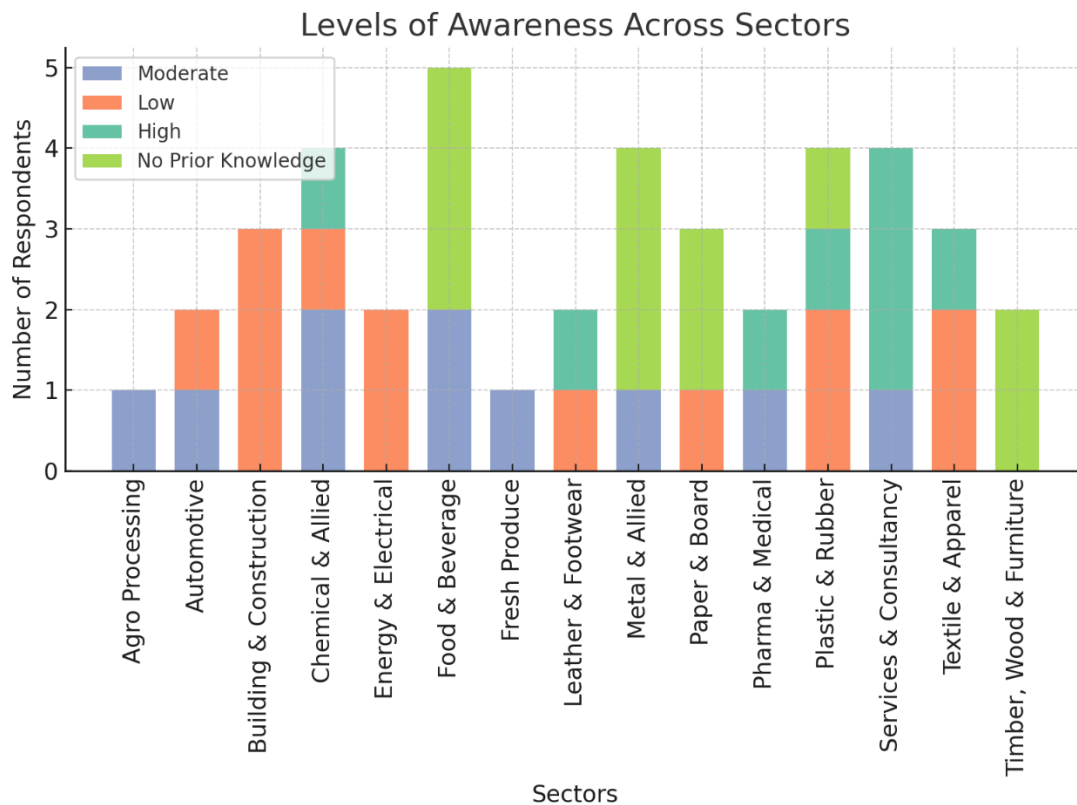
The study results indicate that awareness of the employment tax rebate among respondents is generally low as only 19% of respondents reported high awareness of the tax rebate. A larger portion, 31%, indicated low awareness, while 24% classified their awareness as moderate. Concerning feedback was that 26% of respondents had no prior knowledge of the tax rebate, suggesting a significant knowledge gap that could hinder the program's uptake by the intended audience. This highlights the need for expanded awareness and outreach efforts to ensure the rebate is adequately communicated to the relevant stakeholders.

**Figure 4.1 Level of Awareness of the Tax Rebate Among Employers**



The level of awareness of the tax rebate varied across different sectors. While some sectors indicated high level of awareness, other sectors reported they had no prior knowledge of the tax rebate as shown in the chart below:

**Figure 4.2 Level of Awareness Across Sectors**



The service sector exhibited the highest levels of awareness, with 75% of respondents indicating high awareness of the rebate. A respondent within Services and Consultancy stated, "Awareness of the tax rebate among us in the IT sector is high since this is a youth-intensive industry." Pharmaceuticals and Leather & Footwear sectors followed, with 50% of respondents stating that awareness levels were high. One respondent from the pharmaceuticals sector attributed this awareness to past hiring initiatives, stating, "We are aware of the rebate because we had a hiring drive some years back."

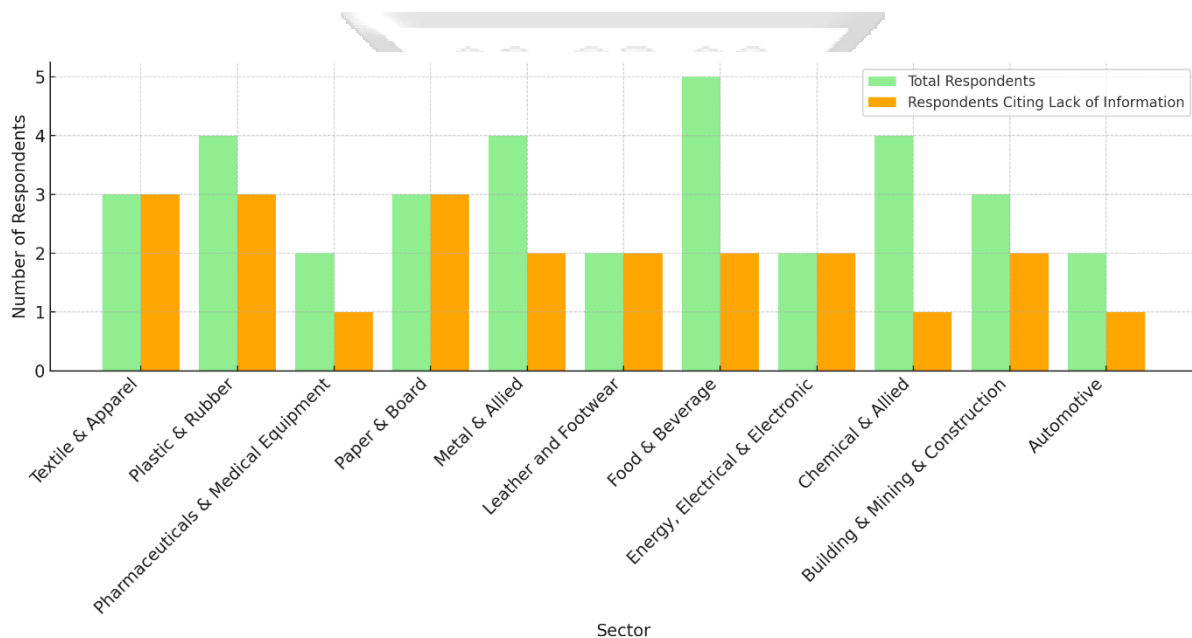
On the other hand, the Metal & Allied sector had 75% of respondents indicating no prior knowledge of the tax rebate. One respondent bluntly stated, "We had no idea this rebate existed," while another added, "I had no idea that there is a rebate for hiring fresh graduates." Similarly, Paper & Board had 67% of respondents indicating a lack of awareness, with statements such as "No idea," and "Not known both within our organization and in the industry." The Food & Beverage sector also showed significant knowledge gaps, with 60% of respondents reporting no awareness. These findings suggest that while sectors such as the service industry are aware of the tax rebate, others such as the Metal & Allied, food & beverage,

Paper Wood & Furniture are struggling with low awareness. The variance in awareness across sectors suggest that there may be a need for sector-targeted outreach efforts to ensure that firms across all industries understand the benefits of the rebate.

#### 4.4.2 Lack of Information and Unclear Guidelines

Among the 42 respondents, 23 explicitly identified lack of information as a challenge in accessing the employment tax rebate for hiring fresh graduates. These respondents were drawn from various sectors indicating that lack of information was a widespread barrier to accessing the tax rebate.

**Table 4.3 Respondents citing lack of Information as a Challenge**



An employer from Timber, Wood & Furniture lamented, “Where does one even start? There is lack of information and procedures to guide us.” The Plastic & Rubber sector reinforced this concern, pointing out that “challenges in accessing the tax rebate information and guidelines is the first and most prominent” issue. Additionally, respondent from the Textile & Apparel sector noted that the lack of information has directly impacted their decision-making, stating, “we have not had information that can help us make decisions on our hiring practices.” This sentiment was echoed by a respondent in the Automotive sector who cited “unclear guidelines from tax authorities” as a major obstacle. Similarly, a firm in the Energy, Electrical & Electronic sector reported that “we have no information that can inform our access of the service.”

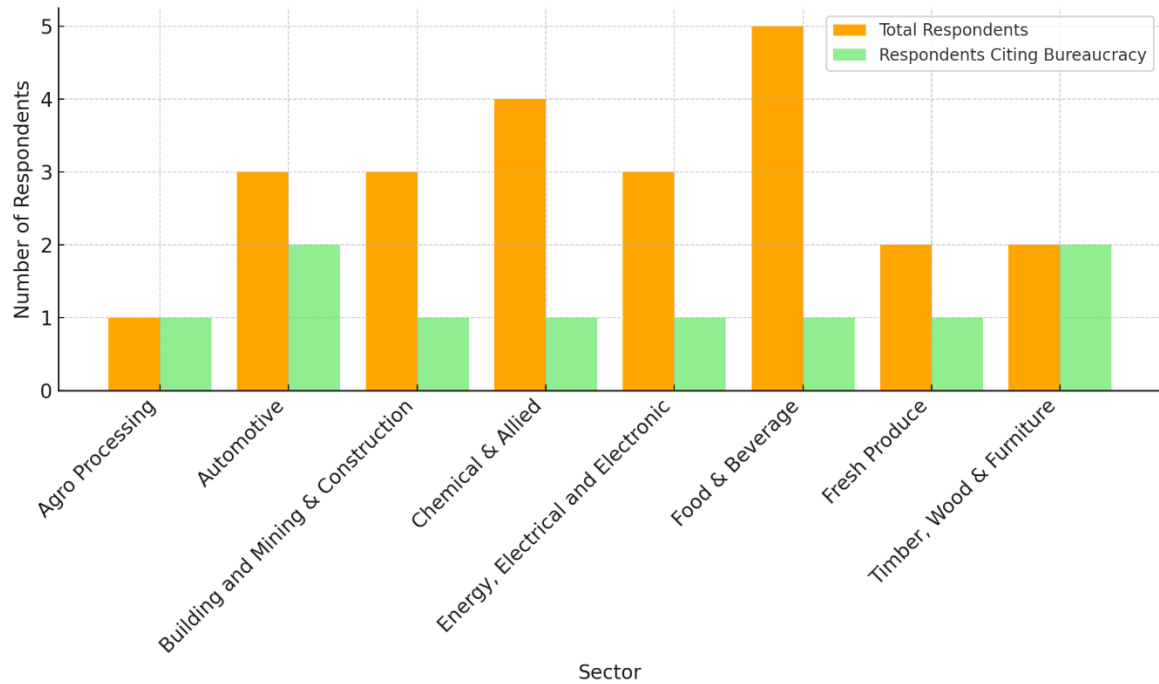
A respondent in the Food & Beverage sector described the available information as “scanty at best” and noted that “information on the process is not even easily found.” This sentiment was echoed by respondents in the Metal & Allied and Paper & Board sectors, who stated that “there is no information about this rebate” and “no information available on the how and where to get the rebate,” respectively. The widespread lack of information across sectors imply that the information dissemination strategy or execution for the tax rebate has been ineffective. Consequently, there is need for expanded information dissemination by ensuring that it is clear and easily accessible.

#### **4.4.3 Bureaucratic/ Administrative Process**

Bureaucratic / administrative hurdles were widespread as 10 out of 42 firms across different sectors expressed frustration with the bureaucratic process involved in accessing the tax rebate, they described the process as “cumbersome”, “unclear”, and “time-consuming”. This suggests that the administrative procedures involved in applying for the rebate maybe discouraging firms, even those aware of it and are eligible, from pursuing the benefit.

A respondent in Agro processing stated, “Our main challenge has been navigating the administrative process of accessing the tax rebate. Streamlining the application and verification process would greatly help.” Another respondent in Automotive echoed similar concerns, noting, “Accessing the tax rebate has been challenging due to bureaucratic hurdles and unclear guidelines from tax authorities.” Others pointed to the prolonged timelines for approval, with a respondent from Chemical & Allied stating, “The process and delays in approval of the rebate is the issue,” while another added, “Challenges in accessing the tax rebate include bureaucratic procedures and lengthy approval processing times. These responses suggest that the administrative burden and inefficiencies in the process are widespread and affect multiple sectors, potentially discouraging firms from utilizing the rebate. Simplifying and expediting the process could improve access and encourage more businesses to take advantage of the rebate. Respondents citing bureaucratic hurdles as a challenge are shown below:

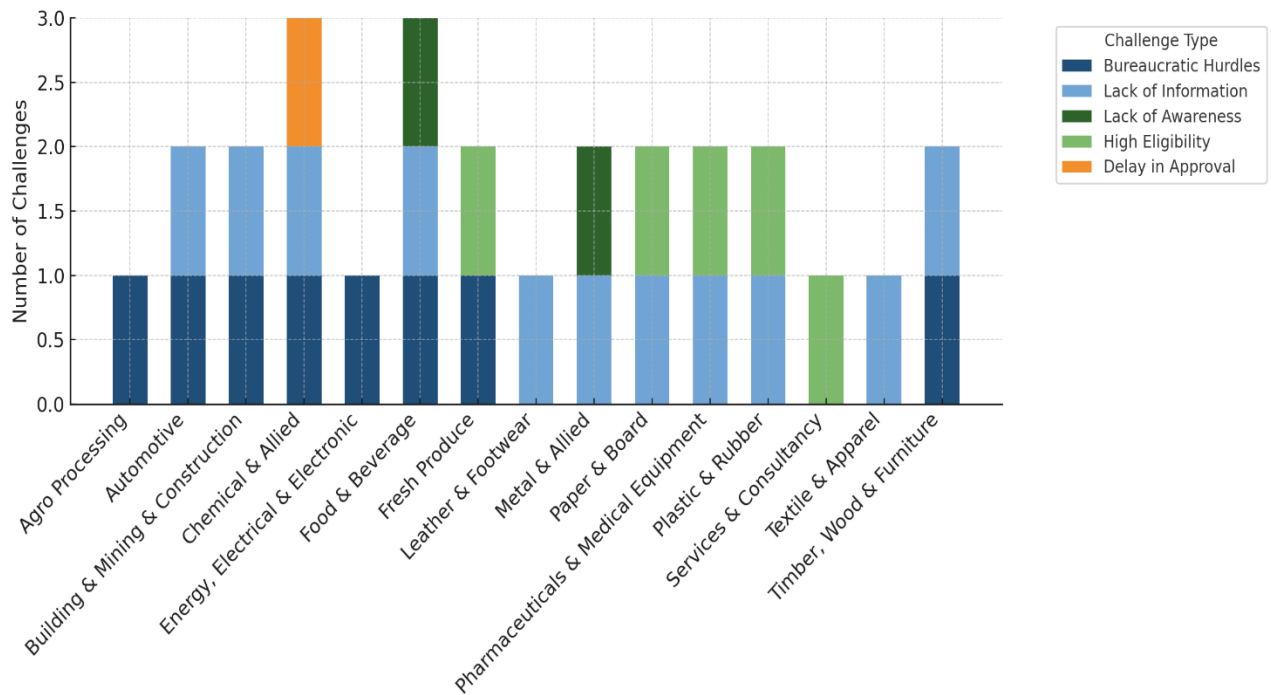
**Figure 4.4 Respondents Citing Bureaucratic Process as a Challenge**



#### **4.5 Sectorial Variations in Policy Gaps and Implementation**

The study revealed a combination of cross-cutting issues and sector-specific challenges, as summarized in the table below and discussed in the subsequent sections.

**Figure 4.5 Challenges faced by Sectors in Implementing the Employment Tax Rebate**



#### 4.5.1 Cross-Cutting Issues

Several recurring issues were identified across sectors, pointing to systemic weaknesses in the design and implementation of the employment tax rebate scheme. The most frequently cited issue across sectors was the lack of information and unclear guidelines, mentioned by 23 out of 42 respondents. Firms across sectors including Timber, Plastic & Rubber, Textile & Apparel, Automotive, Energy & Electrical, Food & Beverage, Metal & Allied, and Paper & Board expressed concern that there was little to no information on the procedures, eligibility, or contact points for accessing the rebate. This absence of clear and accessible communication has created confusion, slowed decision-making, and discouraged potential applicants from engaging with the policy.

Closely related to this was the issue of low awareness, reported by 26% of respondents as having no prior knowledge of the rebate at all, while only 19% reported high awareness. Although the levels of awareness varied by sector (as elaborated in the sector-specific issues), the findings indicate that lack of awareness is a widespread barrier to uptake. This reflects gaps in the outreach and dissemination strategy of the implementing authorities as well as challenges in access to information by some sectors.

The bureaucratic and administrative burden was another cross-cutting concern, highlighted by 10 respondents from sectors such as Agro-processing, Automotive, and Chemical & Allied. These respondents described the rebate application process as time-consuming, unclear, and riddled with procedural inefficiencies.

The high minimum hiring requirement was cited by 7 respondents from sectors including Paper & Board, Pharmaceuticals & Medical Equipment, Plastic & Rubber, Services & Consultancy, Metal & Allied, Food & Beverage, and Fresh Produce. These firms noted that the requirement to hire a minimum of 10 fresh graduates at once was unfeasible for most SMEs, making the policy inaccessible to a large portion of the manufacturing sector. The uniform threshold failed to consider sectoral variations in workforce needs and firm sizes.

Lastly, the lack of employer engagement in policy design was raised by respondents in Pharmaceuticals & Medical Equipment, Metal & Allied, and Services & Consultancy sectors. These participants expressed frustration that employers were not consulted during the development of the rebate scheme, leading to a policy that is perceived as misaligned with real-world business practices. The absence of stakeholder involvement has likely contributed to low uptake, poor awareness, and limited policy impact.

These issues cited by respondents from a broad range of industries indicate that the challenges are not isolated but rather affect firms irrespective of their sector. This suggests that gaps and challenge exist within the tax rebate itself regardless of the firm characteristics or operations.

#### **4.5.2 Sector Specific Issues**

While several challenges cut across industries, notable variations emerged between sectors, in terms of awareness levels, time commitment aspect of the tax rebate and specific administrative hurdles. These differences underscore the impact of the context of the target of a policy and highlights the need to nuance, sector-sensitive approach in its design and implementation. The most pronounced sector-specific issue was the variation in awareness levels. While the Services & Consultancy sector exhibited the highest awareness, with 75% of respondents indicating familiarity with the rebate, sectors such as Metal & Allied, Food & Beverage, and Paper & Board reported extremely low awareness. In the Metal & Allied sector, 75% of respondents had no prior knowledge of the rebate. Similar findings were noted in Paper & Board, where 67% expressed unawareness, and in the Food & Beverage sector, where 60% lacked awareness.

This uneven awareness suggests the need for targeted outreach that considers sector-specific communication channels and hiring dynamics.

Time commitment requirements under the rebate (6 to 12 months) raised concerns within the Services & Consultancy sector. Two firms in this sector expressed opposing concerns: one found the duration too short to realize the benefit of training, while another noted that excluding hires below six months was a problem, as some employers may not retain graduates that long. These contrasting perspectives illustrate the inflexibility of the current policy design, which does not accommodate diverse hiring and training cycles across sectors.

Delays in approval were reported specifically in the Chemical & Allied sector, where respondents expressed frustration with the prolonged timelines associated with accessing the rebate. A firm in this sector described the process as slow and uncertain, noting that "the process and delays in approval of the rebate is the issue." This points to a sector-specific challenge where the administrative response time undermines policy effectiveness. Given the operational demands within the chemical industry, delays in policy execution may discourage firms from initiating or completing the rebate application process

#### **4.6 Summary of the Chapter**

This chapter presents an analysis of the findings from interviews conducted with 42 out of the 44 targeted human resource managers from firms registered under the Kenya Association of Manufacturers (KAM). The responses from these stakeholders provide insights into the effect of the employment tax rebate on hiring fresh graduates. The chapter report outlines the feedback from firms registered under KAM on the design and implementation of the tax rebate. The feedback has been analysed to identify cross cutting issues and sector specific issues.

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents a synthesis of the data gathered from interviews with employers regarding their knowledge, experiences, and perspectives on the tax rebate policy implemented in Kenya to encourage the hiring of fresh graduates. Using the lens of the Incentives Theory, which emphasizes that behavioral responses depend on how well incentives align with recipient needs and values (Deci & Ryan, 1985), the chapter demonstrates that the design and implementation of the rebate have not sufficiently addressed the contextual realities of employers. The high hiring threshold, rigid duration limits, limited awareness, complex bureaucratic procedures and lack of information have diluted the motivational value of the policy. Literature affirms that well-designed financial incentives must not only be economically viable but also accessible and administratively manageable (Muehleemann & Wolter, 2014; Cottet, 2022). Accordingly, the chapter analyses the policy's design and implementation gaps, proposes targeted recommendations to enhance its effectiveness, and outlines potential areas for future research.

#### **5.2 Gaps in the Design of the Tax Rebate**

##### **5.2.1 High Eligibility Criteria**

Poorly targeted tax incentives often result in failure to achieve intended objective and may result in loss of government revenue (Orihara & Suzuki, 2023). The high minimum hiring threshold was cited by employers as a gap in the design of the tax rebate. The current requirement of hiring at least 10 fresh graduates at once is untenable for many organizations. Respondents noted that even large firms lacked the capacity to hire 10 fresh graduates at once, making the rebate inaccessible to them. The high criterion potentially excludes most private sector firms in Kenya considering that Micro, Small and Medium enterprises (MSMEs) constitute over 90% of the private sector enterprises in Kenya and 93% of the total labour force of the economy (Government of Kenya, 2022). This means that micro enterprises do not qualify for the tax rebate, while small and medium enterprises would only qualify for the tax rebate if a substantial portion of their employees are fresh graduates.

Research indicates that small firms respond more to financial incentives than large firms due to financial constraints. Brunetti et al. (2022) observed that small firms with less than 50 employees recorded the highest increase in hiring of workers in Italy following introduction of a wage subsidy. Similarly, Bellman and Stephan, (2014) noted that small firms with not more than 20 employees were the main users of the wage subsidy introduced in Germany while firms employing more than 500 employees constituted a small proportion of the firms utilizing the subsidy. As such, excluding Micro, Small and Medium enterprises (MSMEs) through the high hiring threshold is a major gap in the design of the tax rebate.

### **5.2.2 Limited Time Frame**

The finding further suggests that the limited timeframe, where the tax rebate only applies to graduates hired for a period between 6 and 12 months, poses a barrier to employer participation. Some employers find the duration too short to realize a meaningful return on investment. When firms invest time and resources in onboarding and training, they expect to benefit from improved productivity or performance over a longer period. If the incentive ends too soon, it undermines the rationale for hiring and training graduates. In contrast, another employer observed that the exclusion of hires that are below six months is problematic since some firms may be unable to offer training for longer periods. Research supports the concerns of both employers. Muehleemann and Wolter (2014) emphasize that the effectiveness of training-related incentives depends greatly on duration—if it's too short, employers may not recoup their investment, while if it's too long, it may not be financially or operationally viable. Therefore, a one-size-fits-all time requirement may discourage firms whose business models or operational structures don't align with the set duration. This points to the need for more flexible policy design that considers sector-specific training needs and employment dynamics.

## **5.3 Gaps and Challenges in Implementing the Tax Rebate**

### **5.3.1 Low Levels of Awareness**

Low awareness of the tax rebate emerged as a central barrier to its utilization. Numerous employers indicated that they had never heard of the rebate or lacked adequate information on how to access it, a finding consistent with Jansen and Pineda-Herrero (2019), who linked low participation in Spain's apprenticeship program to insufficient awareness rather than employer resistance. Despite being enshrined in the Finance Act 2016, there has been no public

sensitization programs of the rebate. Inadequate sensitization has left many employers uninformed and unable to benefit from the policy. As Ménard, Jimenez, and Tropp (2018) emphasize, policy effectiveness depends not only on its design but also on whether intended users are aware of and understand its provisions. Without targeted, strategic communication efforts—including multi-channel outreach and stakeholder engagement—public policies risk irrelevance, regardless of their potential benefits.

### **5.3.2 Lack of Information and Guidance**

Some respondents expressed frustration over the lack of guidance and support, with one noting the lack of clear information from the Kenya Revenue Authority (KRA) and other regulatory bodies. Respondents also expressed frustration over the lack of procedural guidelines and the perceived reluctance of tax authorities to facilitate access to the rebate. Some respondents indicated they had heard about the rebate but lacked sufficient details to navigate the process effectively. This finding is consistent with the absence of public information about the tax rebate program on the website of the institution charged in administering the incentive, NITA. There is also no information on the rebate on the website of Kenya Revenue Administration. This lack of information limits participation in the program, especially among businesses that may benefit from the incentive but are unsure about application procedures (Jansen & Pineda-Herrero, 2019).

The critical role of ensuring effective dissemination of information is emphasized by Southwell et al. (2005), who argue that information serves as a critical bridge between innovative project outcomes and their practical application. Therefore, disseminating information should be prioritized as an integral component of a project's success rather than being treated as an afterthought. Nisbet (2009) highlights the need to present information in ways that align with the audience's values and concerns.

### **5.3.3 Administrative Hurdles**

Employers further reported significant challenges in navigating the bureaucratic procedures required to access the employment tax rebate. The administrative process involved in claiming the employment tax rebate presents several challenges for employers. The requirement to obtain written permission from the Director-General of the National Industrial Training Authority (NITA) before an employer can engage an apprentice adds an additional layer of

bureaucracy that may discourage employers from participating in the program. Furthermore, even after the written consent is obtained, the employer is required to register the apprenticeship contract with NITA and complete a form of completion. Many respondents described the process as overly cumbersome, involving excessive paperwork, lack of clarity in requirements, and long processing times, all of which make it financially and administratively burdensome. Such complexity discourages employer participation, especially when the costs associated with compliance exceed the perceived benefits of the rebate. This aligns with the findings of Smith et al. (2020), who observed that complex application procedures and rigid eligibility criteria often deter businesses from engaging in incentive programs.

The impact of administrative burden is particularly acute for small and medium-sized enterprises (SMEs), which constitute over 90% of private businesses in Kenya. These businesses often lack the internal administrative capacity to manage intricate compliance processes. As Queensland (2016) notes, large firms typically have the resources to dedicate personnel to regulatory compliance, whereas smaller firms struggle to do so, placing them at a disadvantage in accessing government incentives. This finding is echoed in broader empirical literature examining policy implementation challenges. For instance, El-Haddadeh et al. (2010), in their case study on e-government initiatives in Qatar, found that despite the availability of financial resources, bureaucratic delays—particularly in the authorization of funds—significantly hampered policy implementation. Similarly, Walugembe et al. (2024), in their study of Uganda’s Maternal and Perinatal Death Surveillance and Response (MPDSR) policy, highlighted how administrative hurdles and resource constraints undermined the policy's effectiveness across different health facilities. These studies emphasize that policy success is not solely determined by financial investment but also by the efficiency and accessibility of implementation structures.

Taken together, these insights underscore the critical need to streamline and simplify the application process for Kenya’s employment tax rebate, to make it more accessible to small firms. Without addressing the bureaucratic obstacles, the program risks underutilization and limited impact, particularly among the very businesses that are central to job creation in the Kenyan economy.

## 5.4 Sectorial Variations in Policy Gaps and Implementation

The findings of this study revealed both cross-cutting and sector-specific challenges in the implementation of the employment tax rebate. Issues such as lack of information, bureaucratic hurdles, and the high minimum requirement were reported across multiple sectors, highlighting systemic barriers that cut across firm types. However, the study also pointed to sector-specific differences in how the policy was experienced. For instance, the Metal & Allied sector reported significantly low awareness of the rebate, in contrast to the Services sector, where firms described high awareness—often attributed to the sector’s youth-focused employment practices. Similarly, the Paper & Board and Food & Beverage sectors also reported low levels of awareness, suggesting that some industries have more limited access to policy information than others.

These patterns align with existing literature that underscores the influence of sector-specific characteristics on policy engagement. Cairney (2021) argues that sectors respond differently to public policies due to distinct "policy styles," shaped by internal structures, dominant actors, and the networks through which policies are understood and implemented. Supporting this, Kuczera (2017) observes that the uptake of apprenticeships, for example, tends to be higher in sectors where structured training is part of the employment culture or a prerequisite for entry—often seen in youth-intensive sectors.

The disparity in awareness levels regarding the employment tax rebate among various sectors can be attributed to factors such as levels of informality and administrative capacity to stay informed. This highlights the need for the government and KAM to tailor their communication and information dissemination strategy to the specific contexts of the employers.

## 5.5 Conclusion

This study set out to examine the effectiveness of the employment tax rebate (ETR) in Kenya, with a focus on identifying gaps in its design, implementation challenges, and how these vary across sectors represented by the Kenya Association of Manufacturers (KAM). The Employment Tax Rebate Scheme in Kenya presents a promising avenue for addressing youth unemployment by incentivizing businesses to hire fresh graduates. Work-based learning, including apprenticeships, internships, and traineeships, helps address youth unemployment by bridging the gap between formal education and labor market demands (Ngure, 2022). It

facilitates workforce entry for vulnerable youth lacking prior experience (Kis, 2016) and enhances their chances of securing employment, as some are retained by employers after training (Amin-Smith, Cribb, & Sibieta, 2017).

The study revealed that the design of the ETR policy is marked by three major gaps: a high minimum hiring threshold of 10 graduates, a limited and rigid time commitment requirement, and a lack of stakeholder engagement during policy formulation. The hiring threshold was found to be particularly exclusionary for small and medium-sized firms that do not have the capacity to recruit large numbers of graduates at once. Similarly, the stipulated time commitment—requiring employment to last between six and twelve months—was considered misaligned with the operational realities of many firms, especially those with short-term projects or seasonal cycles. These issues point to a disconnect between the policy design and the actual employment patterns and capacities of employers.

Implementation challenges compounded these design flaws. Limited awareness, poor communication from implementing agencies, and bureaucratic hurdles discouraged firms from applying for the rebate. Lack of awareness and insufficient communication from the government meant that many firms were either unaware of the rebate or did not have the necessary information to take advantage of it. Additionally, administrative inefficiencies—such as delays in approval and cumbersome application procedures—further discouraged uptake. Notably, the challenge of lack of information and bureaucratic processes were cited across nearly all sectors, highlighting them as cross-cutting barriers. On the other hand, some challenges, such as awareness and delays in approval varied across sectors. Some industries like Services & Consultancy reporting higher awareness while Metal & Allied or Food & Beverage had very low awareness.

While the ETR policy represents a well-intentioned effort to tackle youth unemployment, its design and delivery suffer from practical and structural weaknesses. Addressing these issues requires not only refining the policy's criteria but also strengthening implementation systems and ensuring meaningful engagement with key stakeholders. These findings form the basis for the recommendations that follow.

## **5.6 Recommendations for Policy Improvement**

### **5.6.1 Adjust the Eligibility Criteria**

The study suggests lowering the minimum hiring threshold of 10 graduates for firms to qualify for the employment tax rebate to allow more firms, including SMEs to participate. Employers proposed a revised minimum threshold ranging from 3 to 5 graduates, with one employer suggesting that the criteria be tailored to individual firm characteristics, rather than applying a uniform standard. By diversifying the types of employers that can participate, the scheme would offer more opportunities for graduates to gain relevant work experience across various sectors.

Targeting the tax incentives to accommodate industries or sectors with high growth potential can lead to significant economic benefits, as suggested by Johnson (2019), who emphasizes the need for a targeted approach to ensure that incentives attract the right participants. Further, the tax incentives can be particularly effective if it targets companies that demonstrate a clear commitment to workforce development and training instead of merely targeting large firms (Amin-Smith et al., 2017). Additionally, sector-specific eligibility criteria could be introduced for industries with critical workforce shortages, such as healthcare and renewable energy, to help meet the specific demands of these industries (Peprah et al., 2020).

### **5.6.2 Extend the Hiring Timeframe**

Some respondents raised concerns that the current timeframe is too short, while others found the exclusion of hires below six months problematic, especially for businesses that are unable to offer long-term training. For tax incentives to serve as a meaningful motivator for employers, the perceived economic benefit must be sufficient to offset the associated costs of participation such as recruitment, onboarding, supervision, and potential productivity losses during training or induction periods (Bednarz, 2014; Muehleemann & Wolter, 2014). If the financial return from the incentive is too small or delayed, firms may view it as inadequate compensation for the effort and resources invested. Furthermore, tax incentives with an immediate economic impact have greater appeal than those that accrue over a period of time (Peters, 2012).

The study recommends that the time commitment for employing fresh graduates under the tax rebate be extended to a range of 3 to 24 months. Extending the employment duration would

allow for greater flexibility in accommodating various hiring practices across firms. Drawing from international best practices, a model that varies the benefit depending on the length of employment could be considered. For example, in Austria, firms receive subsidies equivalent to three months of gross wage payments for apprentices in the first year, two months in the second year, and one month in the third and fourth years (Moretti et al., 2019). In Spain, a similar structure exists where employers receive a subsidy of up to 40% of the gross wage in the first year and 25% in the second year, alongside bonuses for converting apprenticeship contracts into indefinite contracts (De la Rica and Gorjón, 2022). These models demonstrate the potential benefits of tailoring the subsidy to different employment periods, thereby supporting both short-term and long-term employment and training arrangements

### **5.6.3 Enhanced Awareness Campaigns**

The effective implementation of tax incentives hinges on the level of awareness among potential investors and the intended recipients of these incentives. The findings from this study reveal that awareness levels of the tax rebate are generally low which hinders eligible employers from participating in the program.

Studies suggest that lack of awareness of financial by investors creates a significant barrier to their effective utilization. Furthermore, the lack of clear guidance from revenue authorities on the workings of these incentives can result in unnecessary compliance costs and hinder awareness (OECD, 2021). For improved uptake of tax incentives, it is essential to ensure availability, dissemination, and accessibility of information, as well as the active involvement of stakeholders (Klemm, 2009; Gale, 2001).

The government should implement enhanced and targeted awareness campaigns to address the widespread lack of information regarding the employment tax rebate scheme. These campaigns should adopt a variety of communication channels, such as social media, radio, television, and workshops (Maibach, et.al, 2008). By raising awareness about the benefits and opportunities associated with the scheme, employers would be more informed, therefore inclined to participate (Maibach, et.al, 2008). Additionally, targeted awareness campaigns should be implemented for sectors that exhibit very low awareness of the tax rebate such as the Metal & Allied, food & beverage, Paper Wood & Furniture.

#### **5.6.4 Expand Access to Information**

To overcome the challenge of limited access to information and clear guidelines on the employment tax rebate, it is recommended that the government, through the Kenya Revenue Authority (KRA) and the National Industrial Training Authority (NITA), develop and widely disseminate simplified, user-friendly guidance material. These should be provided through both digital and non-digital channels, along with a comprehensive FAQ section, to help employers understand the application process, the required documentation and eligibility requirements (Patrick, 2018; Ayub, 2020; Yitzhaki, 1974).

#### **5.6.5 Simplifying the Tax Rebate Process**

There is broad consensus on the importance of simplifying tax incentives. Streamlining the procedures for accessing these incentives can reduce the time, financial, and psychological burdens that taxpayers often face in navigating complex requirements (Klemm, 2009). Such simplification could also help reduce inadvertent tax evasion, improve the implementation of tax subsidies and increase taxpayers' perception of the tax system's fairness (Gale, 2001).

To address the administrative bottlenecks in accessing the employment tax rebate, it is recommended that the National Industrial Training Authority (NITA) digitalize the entire application and registration process. Currently, employers are required to first obtain written consent from the Director General of NITA before engaging a graduate apprentice, and then separately register the apprenticeship contract—both of which are manual processes. This duplication creates unnecessary delays and increases the administrative burden on employers. By integrating the consent and contract registration steps into a unified, streamlined digital platform, NITA can significantly reduce procedural inefficiencies, improve turnaround time, and enhance compliance. A digital system would also make it easier for employers to maintain the necessary records and submit completion certificates, ultimately promoting wider uptake of the tax rebate program, particularly among small and medium-sized enterprises.

#### **5.6.6 Comprehensive Policy and Administrative Review**

The cross-cutting issues identified in this study, namely, the high minimum hiring requirement, lack of awareness, limited information and guidelines, bureaucratic barriers, and lack of employer engagement point to systemic design and implementation gaps that transcend firm

size or sector. These concerns highlight the need for a comprehensive policy and administrative review of the employment tax rebate. The government should address these foundational weaknesses to ensure the rebate achieves its intended goal of stimulating youth employment.

### **5.6.7 Address Sector Specific Issues**

The effectiveness of a financial incentive is greatly influenced by its interactions with the context in which it is implemented. Brunetti et al. (2022). The study reveals sector specific challenges due to their production and hiring processes, regulatory burdens, market characteristics, and varying levels of access to communication and administrative capacities.

To address the low awareness of the employment tax rebate in certain sectors such as Metal & Allied, Paper & Board, and Food & Beverage, the government, in partnership with the Kenya Association of Manufacturers should implement targeted sector-specific awareness campaigns, considering aspects such as sectors dominated by SME's and those with firms operating informally.

### **5.6.8 Targeted Support for Small Business**

Small businesses, regardless of the sector they operate in often face distinct challenges in complying with regulations and accessing government services, largely due to their limited financial and human resource capacity. (Jones et al., 2019). To address these issues, the government should create specific support structures, such as online platforms and dedicated help desks for SME's, to assist small businesses in applying for the tax rebate. To ensure broad geographical reach, such support structures should be decentralized such as through Huduma centres. These resources could provide guidance on eligibility checks, document submission, and any other concerns that small businesses may face in navigating the process (Slemrod. 2019).

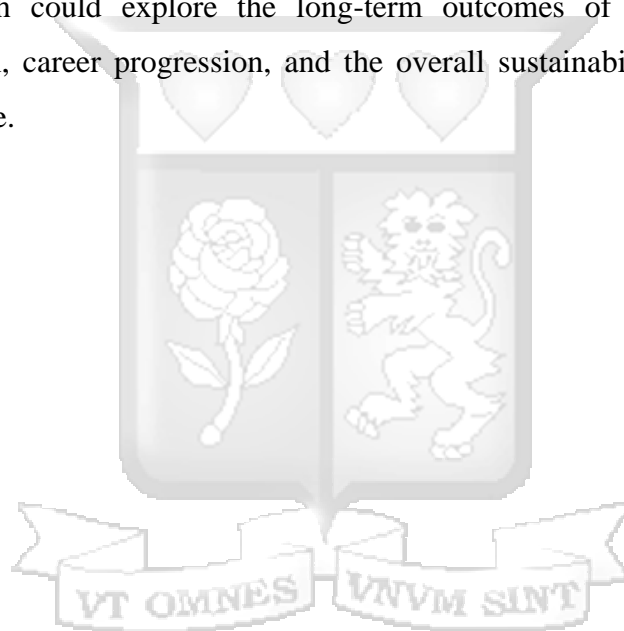
## **5.7 Limitations of the Study**

One of the key limitations of this study is that it focuses on the perspectives of employers and does not incorporate the views or experiences of the prospective graduates or the government. While employers are critical stakeholders in the Employment Tax Rebate Scheme, understanding the challenges and gaps from the graduates' and government's standpoint is equally important. The absence of their input means that crucial aspects of the rebate have not

been fully explored. Another limitation is the low level of awareness about the tax rebate scheme among employers which restricted the depth of the feedback collected during the study. Many participants may not have been fully informed about the rebate's structure, eligibility criteria, or benefits, leading to limited input on potential gaps or challenges in its design.

### **5.8 Areas of Future Research**

Future research could focus on evaluating the impact of the Employment Tax Rebate Scheme from the perspective of prospective graduates, which was not adequately addressed in this study. Understanding how graduates perceive the scheme, its benefits, and challenges they face in accessing these opportunities will provide a more holistic view of its effectiveness. Additionally, research could explore the long-term outcomes of the scheme, such as employment retention, career progression, and the overall sustainability of businesses that benefit from the rebate.



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## Appendix I- Introduction Letter

Ole Sangale Rd, Madaraka Estate,  
P.O Box 59857 00200, Nairobi, Kenya.  
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Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



Wednesday, 15 May 2024

To Whom It May Concern,

**RE: FACILITATION OF RESEARCH – LINDA MUTHONI**

This is to introduce Linda Muthoni who is a **Master’s in Public Policy and Management (MPPM)** student at Strathmore University Business School, admission number MPPM 123746/19. As part of our MPPM Program, Linda is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MPPM course. To this effect, she would like to request appropriate data from your organization.

Linda is undertaking a research paper on “**Appraisal of the Employment Tax Rebate in Kenya: Identifying Gaps, Challenges and Policy Alternatives.**” The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

Our MPPM Program seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours Faithfully,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

**Njoki Kiagiri**  
Manager – Graduate Programmes

## Appendix II- Ethical Approval



15<sup>th</sup> May 2024

Ms Muthoni Linda,  
muthoni.linda@strathmore.edu

Dear Ms Muthoni,

**RE: Appraisal of the Employment Tax Rebate in Kenya: Identifying Gaps, Challenges and Policy Alternatives**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC2233/24**. The approval period is from **15<sup>th</sup> May 2024 to 14<sup>th</sup> May 2025**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

**Mr Ambrose Rachier,**  
**Chairperson; SU-ISERC**

**Appendix III- Nacosti License**



**REPUBLIC OF KENYA**

**Ref No: 129171**



**NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY & INNOVATION**

**Date of Issue: 23/May/2024**

**RESEARCH LICENSE**



**This is to Certify that Ms.. Linda Josline Muthoni of, Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Baringo, Bomet, Bungoma, Busia, Elgeyo-Marakwet, Embu, Garissa, Homabay, Isiolo, Kajiado, Kakamega, Kericho, Kiambu, Kilifi, Kirinyaga, Kisii, Kisumu, Kitui, Kwale, Laikipia, Lamu, Machakos, Makueni, Mandera, Marsabit, Meru, Migori, Mombasa, Muranga, Nairobi, Nakuru, Nandi, Narok, Nyamira, Nyandarua, Nyeri, Samburu, Siaya, Taita-Taveta, Tanariver, Tharaka-Nithi, Transzoia, Turkana, Uasin-Gishu, Vihiga, Wajir, Westpokit on the topic: APPRAISAL OF THE EMPLOYMENT TAX REBATE IN KENYA: IDENTIFYING GAPS, CHALLENGES AND POLICY ALTERNATIVES for the period ending : 23/May/2025.**

**License No: NACOSTLP/24/36022**

**Applicant Identification Number**  
**129171**



**Director General**  
**NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY &  
INNOVATION**

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**See overleaf for conditions**

## **Appendix IV: Participant Information and Consent Form**

### **Section 1: Information Sheet**

Institutional affiliation: Strathmore Business School (SBS)

### **Section 2: Information Sheet–The Study**

#### **2.1: Why is this study being carried out?**

The aim of the study is to collect views from select firms registered under the Kenya Association of Manufacturers on their experience with the tax incentive scheme implemented to encourage hiring of fresh graduates in Kenya.

#### **2.2: Do I have to take part?**

No. Taking part in this study is entirely optional and the decision rests only with you. If you decide to take part, you will be contacted and an interview will be scheduled, whether virtually or in person. You are free to decline to take part in the study from this study at any time without giving any reasons.

#### **2.3: Who is eligible to take part in this study?**

The target respondents are human resource managers involved in hiring of fresh graduates drawn from universities or TVET institutions and who are in a firm which is registered under the Kenya Association of Manufacturers.

#### **2.4: What will taking part in this study involve me?**

You will be approached by the researcher and requested to take part in the study. If you are satisfied that you fully understand the goals behind this study, you will be asked to sign the informed consent form (this form) and then take the interview which will take about 45 minutes.

#### **2.5: Are there any risks or dangers in taking part in this study?**

There are no risks in taking part in this study. All the information you provide will be treated as confidential and will not be used in any way without your express permission.

#### **2.6: Are there any benefits of taking part in this study?**

The information will be used to propose measures to enhance the effectiveness of the tax incentive implemented to promote hiring of fresh graduates in Kenya.

#### **2.7: What will happen to me if I refuse to take part in this study?**

Participation in this study is entirely voluntary. Even if you decide to take part at first but later change your mind, you are free to withdraw at any time without explanation.

#### **2.8: Who will have access to my information during this research?**

All research records will be stored in securely locked cabinets. That information may be transcribed into our database, but this will be sufficiently encrypted and password protected. Only the people who are closely concerned with this study will have access to your information. All your information will be kept confidential.

#### **2.9: Who can I contact in case I have further questions?**

You can contact me, Linda Josline Muthoni at SBS, or by e-mail, [Muthoni.linda@strathmore.edu](mailto:Muthoni.linda@strathmore.edu) or by phone 0725921513. You can also contact my supervisor, Dr. Thomas Kibua at the Strathmore Business School, Nairobi, or by e-mail, [tkibua@strathmore.edu](mailto:tkibua@strathmore.edu).

#### **If you want to ask someone independent about this research, please contact:**

The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email [ethicsreview@strathmore.edu](mailto:ethicsreview@strathmore.edu) Tel number: +254 703 034418

I, ....., have had the study explained to me. I have understood all that I have read and have had explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Please tick the boxes that apply to you.

**Participation in the research study**

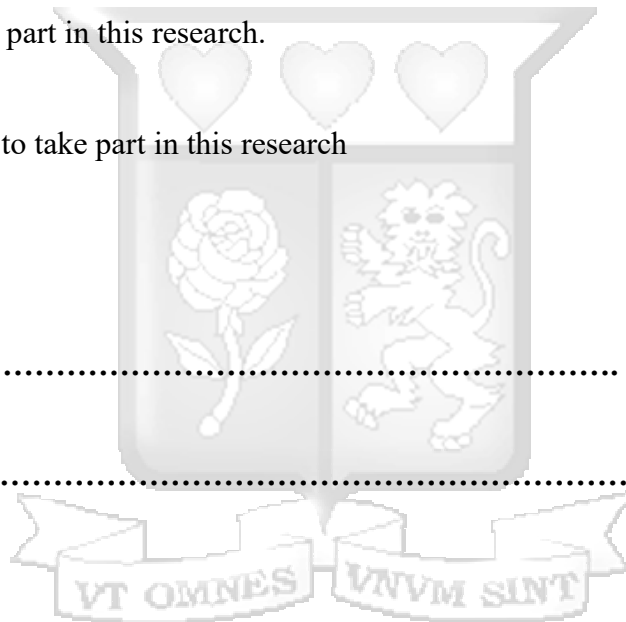
- I agree to take part in this research.
- I do not agree to take part in this research

**Participants**

**signature**

.....

**Date:** .....



**Investigators' Name:** *Linda Josline Muthoni.*

**Investigators' signature:**

**Date:** 22<sup>nd</sup> April 2024

## **Appendix V: Interview Questions**

### **Questions To Human Resource Managers**

**Interview code:**

**Date:**

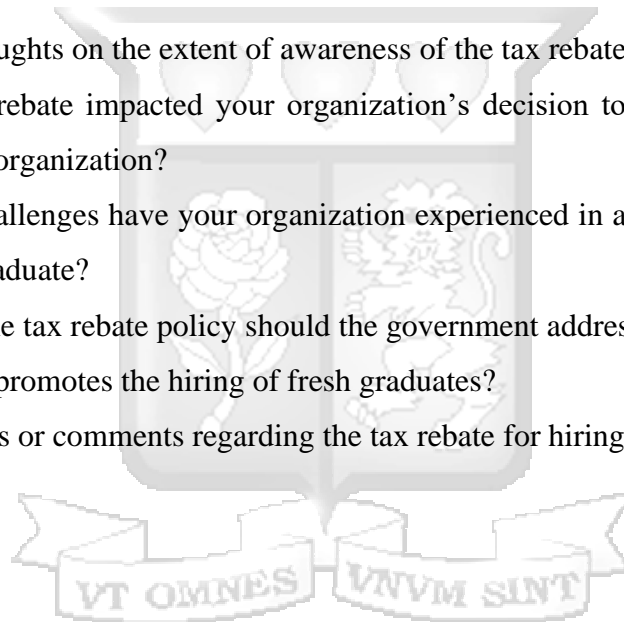
**Sector:**

**Years of operation:**

**Location:**

**Total number of employees at the date of the interview:**

1. What are your thoughts on the extent of awareness of the tax rebate among employers?
2. How has the tax rebate impacted your organization's decision to hire or not hire fresh graduates in your organization?
3. What gaps and challenges have your organization experienced in accessing the tax rebate for hiring fresh graduate?
4. What aspects of the tax rebate policy should the government address to ensure that the tax rebate effectively promotes the hiring of fresh graduates?
5. Any other thoughts or comments regarding the tax rebate for hiring fresh graduates?



## Appendix VI Research Budget

<b>Budget</b>	
	<b>KES</b>
Printing	5,000.00
Transport to conduct interviews	10,000.00
Airtime/ internet	2,000.00
Research Assistant (note taker)	12,000.00
miscellaneous	5,000.00
	<b>34,000.00</b>

