Investigating entrepreneurship as the nexus to mainstreaming the micro enterprise informal sector:

A case study of blue chip companies in the Nairobi Securities Exchange and government organizations tasked with mainstreaming the micro enterprise *jua kali* sector in Kenya

A Dissertation presented
by
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DEDICATION

To my loving and supportive family
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ABSTRACT

Background

The process of mainstreaming the informal sector into the formal sector in Kenya has been considered and evaluated from as early as the 1970s as a means of poverty reduction and job creation. Information available on mainstreaming from the formal sector and government in Kenya indicates that both these sectors appreciate the value of mainstreaming the informal sector, however both parties have been unable to successfully mainstream the informal sector into the formal sector more than 40 years on. The relationship between the three sectors has also been reviewed and both the formal and government sector are cognizant of the need to create an enabling environment that would foster the mainstreaming process through an appropriate legal and regulatory framework.

Methods

The study follows a case study approach underpinned by an interpretive foundation. An extensive published literature, secondary data on the informal sector and grey-literature search on mainstreaming was conducted between 2006 and 2010. Between 2007 and 2008 a survey was conducted a three-pronged approach to allow independent surveys of the informal sector as represented by the three largest jua kali (Kiswahili words for ‘hot sun’ which signifies outdoor exposure characterising the informal sector trade) markets in Kenya, namely Gikomba, Kariobangi and Kawangware. The government institutions mandated with various responsibilities for the informal sector as represented by blue chip companies on the Nairobi Stock Exchange (NSE), today known as The Nairobi Securities Exchange and the government sector represents the formal sector. Stringent criteria were applied to select the sample data where random sampling was used for the informal sector in the three named markets. Survey sample size for the informal sector was 539. The survey was
conducted between 2007-2008. The survey for the selected blue chip companies was conducted in 2008.

The findings from the survey precipitated the need to conduct a survey within the government sector, specifically with the government bodies and ministries with the mandate to facilitate the development of the *jua kali* sector. Face to face interviews using open-ended questionnaires was used to collect the data and identify opportunities for mainstreaming and integration amongst the three sectors. The effects of this association was interrogated and evaluated in order to identify opportunities that can establish a sustainable and long-term mainstreaming process for the informal sector in Kenya.

**Results**

The formal and government sectors are both aware of the potential impact that mainstreaming the informal sector can have on the Kenyan economy. They are also aware of the need to establish an institutional mechanism that is geared towards skills development, capacity building and micro credit facilitation for the informal sector, which would accelerate the mainstreaming process. However, over the years there has not been a clear articulation of where the responsibility for ensuring the mainstreaming process should be and hence both the formal and government sectors have not taken responsibility and ownership for the required interventions. Each of the sectors have instead interfaced with the informal sector on a project-by-project basis. This approach has not built incremental and sustainable capacity for the sector.

The respondents sample from the informal sector indicated that 47% of the sample has attained secondary school level education, which indicates a literacy level that can enable the nurturing of entrepreneurial ability and skills. However, the mind-set within the sector is one of expectation that the government and formal sector should take full responsibility for the future growth of their businesses and facilitation of the mainstreaming process. This in turn leads to
the vicious cycle of subsistence income, non-compliance of licensing and regulations, inability to access services such as electricity, water and retail channels to sell their wares. This stifles capacity building and the mainstreaming process for the sector.

The study indicates that the formal sector perceives the informal sector to be unstructured, disorganised and unreliable and, as such, prefers to deal with the sector only in non-core services and areas of their businesses. Technology continues to be unexploited by the informal sector, partly due to accessibility but mostly due to poor focus on the ability of technology to build scale for their businesses in identifying new markets, forecasting market trends and managing business intelligence in areas of pricing, stock, interaction with the formal sector and general development and expansion of micro enterprises.

The government, for its part, acknowledges the interventions required in legislation, regulation, trade facilitation, skills development and capacity building. However, the challenge remains in the ability of the government to fully own the process of mainstreaming. Long-term sustainable structure with clear ownership, that continually evaluates the facilitation required by the informal sector in the mainstreaming process, should be identified through the development of consortia that would eventually see the successful mainstreaming of the informal sector.

Conclusions

Micro credit facilitation, skills development and capacity building continue to be important drivers towards the mainstreaming of the informal sector into the formal and government sectors. The government role will be crucial to the success of the mainstreaming process. Responsibility and ownership of stakeholder engagement and consortia formation needs to be championed by the government as both the scale and scope required to impact the mainstreaming process of the informal sector can only be achieved by the government.
Initiatives from the informal sector will continue to be essential in ensuring that the sector is able to take ownership and responsibility for adhering to regulation and legislation as a means of ensuring that the government is able to, in turn, implement the strategies and interventions already articulated in government policies.
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<td>CBK</td>
<td>Central Banks of Kenya</td>
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<td>CBO</td>
<td>Community Based Organizations</td>
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<td>CBD</td>
<td>Central Business District</td>
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<td>CDF</td>
<td>Constituency Development Fund</td>
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<td>COMESA</td>
<td>Common Markets for East and Southern Africa</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DMSED</td>
<td>Department of Micro and Small Enterprise Development</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EPZ</td>
<td>Export Processing Zone</td>
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<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GOK</td>
<td>Government of Kenya</td>
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<td>ICT</td>
<td>Information Communication and Technology</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ISO</td>
<td>International Standardization Organization</td>
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<td>KEBS</td>
<td>Kenya Bureau of Standards</td>
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<td>KIE</td>
<td>Kenya Industrial Estates</td>
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<td>KIPPRA</td>
<td>Kenya Institute of Public Policy Research and Analysis</td>
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<td>KIPRI</td>
<td>Kenya Intellectual Property Rights Institute</td>
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<td>Kenya Revenue Authority</td>
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<td>Micro Enterprise Support Programme Trust</td>
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<td>MNC</td>
<td>Multinational Corporations</td>
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<td>SME</td>
<td>Small and micro enterprises</td>
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<td>National Chamber of Commerce and Industry</td>
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<td>National Council of Science and Technology</td>
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<td>Non-governmental organization</td>
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<td>NPEP</td>
<td>National Poverty Eradication Plan</td>
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<td>NSE</td>
<td>Nairobi Stock Exchange</td>
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<td>National Youth Fund</td>
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<td>NYS</td>
<td>National Youth Service</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Plan</td>
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<td>QMS</td>
<td>Quality Management Systems</td>
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<tr>
<td>SACCO</td>
<td>Savings and Credit Cooperative Society</td>
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<td>SBP</td>
<td>Single Business Permit</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>SMME</td>
<td>Small, Medium and Micro Enterprises</td>
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<td>SWOT</td>
<td>Strength, Weakness, Opportunities and Threats</td>
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<tr>
<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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CHAPTER 1

CONTEXT OF THE INFORMAL TRADE

1.1 Background

The history of entrepreneurship in Sub Saharan Africa dates as far back as the 11th century, where records show a beehive of trade activity along the trans-African caravan route (World Bank 1989). This has resulted in a network of practices linking cities and towns across the continent. Many markets selling various kinds of goods and services have been created over the years. Today, small and informal enterprises dominate the economies of developing countries (Prahalad 2005).

Several scholars have cited barriers to informal enterprise growth. Goedhuys and Sleuwaegan (2002) point out reluctance on the part of informal enterprises to grow their businesses in order to create consideration for mainstreaming with the formal sector. This is interpreted as a means for informal enterprises to continually evade taxation and regulation. Collier and Gunning (1999), as well as Fishman (2001) cite market failures in credit provision, insurance and financial facilitation as a major barrier to mainstreaming. McPherson (1996) and Mengistae (2006) cite that a relationship exists between the informal sector, enterprise growth and the educational level of
entrepreneurs, and therefore argue that education should be a primary focus of developing countries.

In Kenya the term *jua kali* is the Kiswahili word for ‘hot’ or harsh sun has been used to refer to the informal enterprises, which were initially run as small industries in a few African homes. Traditionally, these traders mainly dealt in blacksmithing and tin smithing products (Maundu 1992). The evolution of the informal sector can be traced back to the 1960s when Kenya, as a newly independent state, introduced trade licenses, work permits and state owned monopolies (Obudho 1981; Mochache 1990). Over the years the sector has continued to grow unabated despite its informal nature (Oyugi 2001). The tradition of informal businesses carrying out their trade from temporary sheds has continued and hence the term *jua kali* is still used today.

The informal sector has continued to be unregulated and hence marginalized in the provision of services and infrastructure (Riley and Steel 2000). The absence of basic infrastructure means that the sector is relegated to a working environment that leaves it disadvantaged vis-à-vis the formal and public service sectors. Informal traders also find themselves in conflict with the government with regard to land use, as they often encroach on road reserves and other public land. Illegal use of resources such as electricity and water characterize the informal sector trade in Kenya. Make shift sheds and structures are often poorly serviced but still form their location of trade. As a result, the informal sector cannot achieve
optimal returns from trade, either by way of services to customers or through efficiency in production (Komollo 2010).

The informal sector has been identified as a crucial sector for most developing countries. However, the informal sector continues to be viewed as unstructured, unregulated, illegal and constantly evading government regulations. Low capital inputs, intensive semi skilled and unskilled labour form the profile of the informal sector. This labour consists of unpaid family members augmented with a few hired employees (Amenya 2007).

Kenya’s *jua kali* sector has the potential to become a competitive player in the East Africa community through the ability to achieve competitive provision of goods and services. However, productivity continues to be low with the major challenges including inadequate infrastructure development, unconducive business and regulatory environment and poor access to finance. The *jua kali* sector continues to be associated with ambiguity of operation (Amenya 2007; International Journal of Economics, Commerce and Management 2015)

**Context of informal trade in Kenya**

In Kenya there continues to be a growing number of job seekers that the government cannot absorb into employment. The formal sectors’ participation in employment is limited as the sector is characterised by large-scale, capital intensive, mostly foreign-owned industries
that prefer to use imported technology or certified local raw material and technology providers. They are therefore unable to absorb the growing numbers of semi skilled unemployed persons (Meier and Rauch 2000).

The majority of semi skilled persons are therefore relegated to the informal sector and micro enterprise employment. The growth of the informal sector is further exacerbated by people in formal employment that have been retrenched or retired and have not accumulated enough savings to sustain themselves or their families. Hence they start up informal businesses, as they are unable to get alternative employment or join existing family business in the informal sector as a means of generating income for their livelihood. These previously formally employed individuals become jua kali entrepreneurs and continue to contribute to the growing number of jua kali artisans and the informal sector in Kenya (Meier and Rauch 2000).

The International Labour organization (ILO) has sponsored a number of studies on developing economies from as early as the 1970s, the findings of which has helped governments in developing countries’ acknowledge the viability of mainstreaming the informal sector into the economy as a significant contributor to the country’s GDP and national development goals that relate to employment (Kenya National Development Plan 1997). The World Bank report of 2008 points out the inability of Kenya to maintain a consistent growth rate. Kenya implemented the Economic Recovery Strategy for Wealth
Creation in 2002. This led to some improvement in the growth of the Kenyan economy where in 2003 a 2.9 percent growth was registered. By 2004 this had grown to 5.1% in 2005, this grew further to 5.8% and finally to 6.4% in 2006. The post election violence of 2008 unfortunately curtailed this growth trajectory and Kenya’s GDP dipped to 1.7 percent only recovering slightly in 2009 to 2.9 percent (Institute of Economic Affairs 2010).

Quality education and training especially in technical skills and entrepreneurship is a priority evidenced by the Kenya Government in early policy documents. In the sessional paper no. 10 of 1965 the Government committed itself to eradicating ignorance, poverty and disease (GOK 1965). This paper advocated for much greater emphasis and focus on practical skills for orientation to self employment (Oketch 1993).

A review of the general policy reforms that the government initiated towards the informal sector indicates that despite the Governments’ good intentions towards improving the technical skills of the informal sector, they still have not been able to go beyond these intentions to achieve the mainstreaming process. (Assuancao 1993) The Kenya Government has also realised that they can no longer ignore the potential of the *jua kali* sector if they are to meet the targets of employment and income generation. The Government further acknowledges that apprenticeship training is the key to unlocking and up skilling the *jua kali* sector (GOK 1989).
The Government completed the framework for the Small and Medium sized Enterprises (SME) in early 2004. The goal being to develop a viable *jua kali* sector that is capable of decent and productive employment opportunities, promoting and stimulating sustainable economic growth. The government also realised that the *jua kali* sector can be a viable asset to the economy provided they are trained in business skills (ILO 2001). However, the government acknowledges that training programmes meant for the informal sector have not focused on business skills as a means of preparing the *jua kali* sector to participate productively and profitably in the Kenyan economy (World Bank 1991). In the 1970s in India (Psachaaropolous and Woodhall 1995) identify that primary schooling increased worker’s productivity by 20%. This would indicate a correlation between basic education and the productivity of workers. However, when formal sector, government or NGOS make reference to training of the informal sector it is largely focused on the training that is run at a formal technical training institution or agency. Where passive attention is paid to the technical training skill component of the *jua kali* sector, the assumption is that informal sector training can be developed independently and function effectively without support (King 1996). It is evident that technical skills alone are not enough for an entrepreneur to manage a *jua kali* enterprise, this has to be augmented with business skills in order to prepare the *jua kali* artisan and entrepreneur to be ready for business. Vocational Education and Training (VET) is an effective and direct means of providing relevant
skills to match the evolving needs of the economy and workers (Adams and Johnson 1992)

**Statement of the research problem**

In Kenya the expansion of the informal sector has surpassed that of the formal or government sector. Structural adjustment programs initiated by government led to the laying off of many workers from the formal sector and to an increase in the informal sector as most of these workers moved into informal employment as a means to sustaining a livelihood. The growth potential of the informal sector is thought to be higher than that of the formal sector as a result it is considered one of the remedies to unemployment in Kenya’s economy. However as sighted above the training institutes that are considered the principle sources of supply for the *jua kali* sector workforce have not addressed the basic training needs and requirements of the *jua kali* sector to ensure success in their business ventures hence the sector continues to be semi skilled or unskilled with poor understanding of business structures and requirements. This results in difficulty in mainstreaming with both the formal and government sector as viable contributor to Kenya’s economy. There is need to investigate the gap and determine to what extent this gap can be bridged through training and business structure skills development of the informal *jua kali* sector, in order to mainstream them to the formal sector. There is also a need to establish the requirements of the formal sector when procuring outsourced
services and establish the role of the government in enabling the informal sector to mainstream into the formal sector and government sector as a contributor to the GDP of Kenya’s economy. The *jua kali* sector in Kenya has now been in existence for over four decades and was identified in the 1970s by ILO as a viable sector to address unemployment and contribute to the country’s GDP, provided the *jua kali* informal sector could be mainstreamed into the formal and government sectors. Inspire of the initiatives undertaken by both the formal and government sector over the years concerning the skill improvement and facilitating the ability to achieve wealth creation by the informal sector. The mainstreaming process has not been effectively achieved for over four decades. Scholars have continued to site the informal sector comprising a significant and latent sector to improvement of economic growth and GDP of Kenya and other developing countries. The studies carried out as early as 1970 by the ILO show the potential of the informal sector developing economies. The study therefore sets out to understand the factors hindering the successful mainstreaming of the informal sector; Identify and understand the initiatives, collaboration investments and partnerships required to make mainstreaming of the informal sector a reality.

Given these on-going debates, the primary objective of this dissertation is to identify the challenges the *jua kali* sector has with mainstreaming using the three largest *jua kali* markets in Kenya as the basis of gathering information from the *jua kali* sector
entrepreneurs. The study selects blue chip companies from the Nairobi Securities Exchange to provide insights into the formal sector methods for outsourcing and procuring services from third party vendors and exploring the government interventions towards mainstreaming the *jua kali* sector into the Kenyan economy both as a viable contributor to Kenya’s GDP and also address the issue of unemployment in Kenya. Identify initiatives that can elevate the informal sector from the syndrome of the ‘working poor’ and mainstream them into the formal economy in a way that is enabled by appropriate government policy.

**The objectives of the study**

The framework adopted for the study seeks to identify the gaps, challenges and barriers to interaction by both the formal and government sectors in mainstreaming the informal sector, as well as understand the informal sector expectations and perceptions concerning the mainstreaming initiatives from the formal and government sectors.

Hence the study will;

Determine the business structure of the informal sector and understand the perspective of the sector to mainstreaming with the formal sector;
Identify the expectations of the formal and government sector when interacting with the informal sector;

Understand the role of the government in enabling and providing technical skill for the informal sector through interrogation of the benefits of adjusting legislation and regulation policies to accommodate the semi skilled *jua kali* informal sector;

Review formal sector policies on procurement of outsourced services and determine the means of overcoming the barriers to mainstreaming the informal sector into the formal sector blue chip companies in Kenya;

Explore possible initiatives that can be undertaken by all three parties to accelerate the mainstreaming process and recommendations that would encourage successful mainstreaming of the informal sector into the formal and government sector;

Identify the perspective of all the three sectors namely informal, formal and government sectors as relates to mainstreaming.

**Research Questions**

The study was guided by the following research questions;
How does the *jua kali* business structure prevent the sector from mainstreaming into Kenya’s economy?

To what extent has the formal sector blue chip companies enabled outsourcing to the informal sector and what have been the barriers to mainstreaming the informal sector?

What problems does the government face in enabling the *jua kali* sector to mainstream into Kenya’s economy?

What collective role can the formal and government sector play to provide solutions and remedies to the inability to achieve successful mainstreaming of the informal sector 4 decades later?

1.2 Entrepreneurship and the Informal sector in Kenya

The understanding of entrepreneurship has evolved over the years, with a number of scholars developing divergent views. Evaluating definitions from the early 1930s, Schumpeter (1934) defined entrepreneurship as “the ability of an individual to innovate in the production of goods and services, in markets and in sources of supplies and methods of production”.

In Schumpeter (1934) view entrepreneurship is a creative discipline that relies on the individuals’ ability to be a self starter and have personal drive. Hisrich (1990) defined entrepreneurship as behaviour
where “the entrepreneur demonstrates creative thinking and initiative, and leverages social and economic mechanisms to turn opportunities and resources into practices that generate wealth”. Drucker (1993) defined the entrepreneur as an individual that exploits available opportunities whilst continuously searching and responding to changes with the aim of generating increased value or wealth and ensuring customer satisfaction. According to Drucker (1993) the entrepreneur is a self starter and has belief in his or her capacity individually or in an organization. The entrepreneur will personally motivate themselves to pursue latent opportunities for wealth creation.

Two major schools of thought have sought to explain the concept of entrepreneurship. One school explains entrepreneurship by focusing on the entrepreneur, as exemplified in the studies that take a psychological or cognitive perspective (McClelland 1965; Begley and Boyd 1987b; Shaver and Scott 1991). The other school of thought explains entrepreneurship by considering the role played by the external environment that uses coercive factors as a means of institutionalising the sector. These factors include political pressure and government intervention through regulatory oversight. This regulation is focused on promoting the role of education and encouraging institutional entrepreneurs to champion and adopt specific practices that would encourage mainstreaming of the informal sector. This is typified in the work of both economic theorists (Arrow and Debreu 1954; Kirzner 1973; Leibenstein 1979;
Schumpeter 1934; Baumol 1993) and institutional theorists (DiMaggio and Walter 1983; Hannan and Freeman 1984; Aldrich and Wiedenmayer 1993).

When these schools of thought are put in the context of formal and informal sector organizations, the insights are enlightening. For instance, all organizations, whether in the formal or informal sector, are social institutions comprising individuals who are seen as behaving in some prescribed manner. When the focus is the individual entrepreneur then the expectation is that the actions of individuals in an organization are adequate to explain the dynamics of mainstreaming. However, if the influence of the external environment on the organization applies, then the expectation is that all formal and informal organizations that are in the same environment will have the same opportunities to mainstream.

While these two traditions of thought offer significant insights, the gap is that neither explicitly articulates entrepreneurship as the dynamic interrelationship between the individual and opportunities over time. Shane and Venkataraman (2000) propose this dynamic as the distinctive nature of entrepreneurship when they argue for the dissertation of sources of opportunity, exploitation of these opportunities. The process of discovery, the evaluation and the set of individuals who discover, evaluate and exploit these factors. Perhaps their most important insight postulates that the core of entrepreneurship resides in the nexus of opportunities and individuals (Shane and Venkataraman, 2000). This approach focuses on the
individual as a member of a social institution in which the collective actions of its members will aid the dynamics of mainstreaming of the informal sector into the formal sector.

In developing countries, the informal sector continues to draw the attention of scholars, donors, development agencies and governments. These stakeholders are cognizant of the potential and ability the sector has to reduce inequality, rural to urban migration, and to create jobs, hence leading to poverty reduction and contributing to economic and national growth.

The informal sector in Kenya, as with many Sub Saharan Africa countries, has over the years expanded as a result of inadequate and stagnating employment in the formal sector. Faltering Gross Domestic Product (GDP), and to some extent the structural adjustment programmes instituted by the World Bank, led to a reduction in formal jobs and hence the growth of the informal sector. By 2010, Kenya’s informal sector was estimated to comprise 61% of the 14 million strong labour force working in non-agricultural employment. The agriculture sector absorbed 50% of new informal sector entrants and other employment seekers. The micro informal sector permeated both urban areas, at 35%, and rural areas at 59% (Ouma 2010).

In 1986 President Daniel Arap Moi visited the Kamukunji informal jua kali industrial estate. Following this, informal traders were accommodated in what became known as the ‘nyayo’ sheds, a
Swahili term for ‘following of footsteps’. These sheds provided semi-permanent structures in designated markets in Nairobi. This initiative placed the sector at the forefront of government policy, with attention to the restructuring of regulation and legislation. This new approach also marked the beginning of consideration of how to provide security of tenure for the informal sector in Kenya.

The Kenya government acknowledges that the informal sector is large and dynamic accounting for 95% of the entrepreneurial businesses in Kenya are classified within the informal sector however the sector only accounts for 37% of urban population employment and continues to exhibit low skill level (Amenya 2007). The informal sectors need for development and training has been identified as an effective way to build skill levels hence the establishment of the Ministry of Technical Training and Applied Technology (MTTAT) which is charged with developing and providing technical training in Kenya. The program however did not target entrepreneurs hence the informal *jua kali* sector has not been a beneficiary of these skills training (Amenya 2007).

The government long term goal is to develop a Micro and Small Enterprise Training and Technology Project for enterprises employing between 1 and 50 people to remove barriers to the *jua kali* informal sector increasing employment and profit making. The government is targeting both the urban and peri urban areas initially due to the rural urban migration that has precipitated the growth of the informal sector. The Kenya government acknowledges the opportunity that the
micro enterprise *jua kali* sector can contribute towards the country’s Vision 2030 industrialization goal as well as the job and wealth creation mandate (Amenya 2007)

The Government of Kenya published sessional paper No.1 of 1986, titled ‘Economic Management for Renewed Growth’ (Komollo 2010). The paper highlighted the plight of the *jua kali* sector, referring to it more favourably as the informal sector. The paper outlined the changes that would be required to kick-start the sector’s development and in 1989 the government, through its Ministry of Planning and National Development, published a policy which was the culmination of these deliberations, titled ‘A strategy for small enterprises development in Kenya: towards the year 2000’ (Komollo 2010). This paper identified the sector’s challenges in investment and finance programmes as well as the sector’s culture and the lack of an enabling environment.

Following the redesign of informal sector policies, sessional paper No. 2 of 1992 on ‘small enterprises and *jua kali* development in Kenya’ was published, with an agenda for action covering a period of 12 to 24 months. This sessional paper served as the basis for programmes directed at the informal sector over the following years (Komollo 2010). The government further evaluated the sector in 1994 through the Micro and Small Enterprises (MSE) unit in the Ministry of Planning and National Development. Two offices were created. The first was responsible for monitoring implementation, policy coordination, information dissemination and assessing the impact of
these policies on their beneficiaries. The second office was mandated to create an enabling environment for promoting the informal sector, by addressing punitive regulations that hindered the sector’s development (Oyugi 2001).

However, although there is a significant body of literature that focuses on the informal sector, there appears to be little consensus as to how integration of this sector with the formal sector can be achieved. A majority of these studies, especially within the Kenyan context, have covered a wide range of analytical issues which include the role of women in the sector, evaluation of the sector in rural and urban areas, technological capabilities, the structure of the sector, access to credit, the role of the sector in the economy and changes and developments through the years. Only a few of these studies have analysed the role of the formal and government sectors in the mainstreaming process and the integration required between the different players to successfully mainstream the informal sector into the formal economy (Livingstone 1991; Mitullah 1991; Widner 1992; King 1996a; Aspaas 1998; Daniels 1999; Kabecha 1999).

In the analysis that follows, the informal sector is taken to comprise non-agricultural activities conducted by micro entrepreneurs whose trade is characterized by ease of entry that requires little capital and uses largely local or indigenous resources and raw materials. These enterprises tend to be family owned, are small scale and labour intensive, and are conducted largely in sheds and semi-permanent
structures. They operate in unregistered and competitive markets 
International Labour Organization (ILO 1972).

1.3 Informal sector trade, blue chip companies and the

government

Informal sector perspective

Traditionally in Kenya, informal sector activities were considered to consist of urban artisans, and tinsmiths however this has grown to include manufacturing, building and construction, distributive trades, transport and communication, and community and personal services industries. However despite this evolution the primary *jua kali* activities continue to be carpentry, blacksmithing, retail shops, groceries, tailoring and kiosks, among others (Atieno, 2006). This sector remains an integral part of the Kenyan economy today employing approximately 8.3 million people who comprise both the *jua kali* entrepreneurs and their workers. The sector contributes 18% of Kenya’s GDP (Ogutu 2013)

The *jua kali* informal sector in Kenya is characterised by self generated employment by semi skilled and unskilled artisans and entrepreneurs. These entrepreneurs conduct their trade in unregistered and unrecorded sheds in the *jua kali* markets tend to have low capital, productivity and income in a labour intensive trade. The *jua kali* entrepreneurs businesses remains small scale, with little capital, virtually no profit and comparatively low productivity due to the nature of trade which is largely achieved through hand made non
automated production (Muchiri & Audi 2007)

In Kenya the micro enterprise *jua kali* sector is described based on the employment size of both paid and unpaid workers. Micro enterprises are described as having zero to 5 employees usually and no more than ten employees. Small enterprises are described as having between eleven and fifty employees whilst large enterprises have more than fifty employees (GOK 1999). This definition does not include pastoralists activities and farming.

Despite the realization that the *jua kali* informal sector has the ability to provide a solution to unemployment and participate in industrialization and GDP goals of Kenya. The initiatives to mainstream the sector have had little impact and success over the years. The Government has undertaken a number of initiatives with the world bank, formal sector organizations such as micro financing institutions, Non Governmental Bodies (NGOs) tasked with facilitation of wealth creation for persons at the bottom of the pyramid (BoP) as well as other similar institutions. More recently the Government identified seven state corporations namely the Ministry of Industrialization, the Ministry of Trade, the Ministry of Labour and Manpower Development, the Ministry of Planning and Vision 2030, the Kenya Intellectual Property Rights Institute, the Kenya institute of Public Policy Research and Analysis (KIPPRA), and the Kenya National Bureau of Statistics (KNBS) who have been mandated to address different aspects of the *jua kali* sector with the aim of addressing the barriers to mainstreaming the informal sector into the
formal and government sector. This study sets out to determine why despite all the interventions from both the formal and government sector mainstreaming the jua kali sector in Kenya continues to be illusive four decades later. Rural to urban migrations of persons in search of better livelihoods has precipitated the rapid growth of the jua kali markets especially in Nairobi

The study universe comprises three of the largest jua kali markets in Kenya namely Gikomba, Kawangware and Dagoretti for the informal sector as the basis of understanding why the mainstreaming of the informal sector to the formal sector and government has not been achieved almost 4 decades on despite all the parties appreciating the benefits that mainstreaming can contribute to the Kenyan economy.

**Formal sector perspective**

A case study approach comprising blue chip companies on the Nairobi Securities Exchange has been used to understand the formal sector perspective as relates to mainstreaming the micro enterprise jua kali sector. Government officials from state corporations mandated to address the challenges faced by the jua kali sector were interviewed to understand the government perspective as relates to mainstreaming the informal sector to government sector. The formal sector in Kenya is comprised of a number of organizations but for purposes of the study the blue chip companies selected tend to interact with the informal sector only as a means of fulfilling their corporate social responsibility mandate. Hence the jua kali informal
sector may provide crafts to be used for gifting during festive sessions or may be considered as providing services through a third party that may be a prequalified supplier for the blue chip company. This structure is the basis on which the blue chip company is able to comply with their procurement and preferred supplier selection regulations whilst perceiving that they are giving back to society through support of the *jua kali* informal sector.

In Kenya today, most of the formal sector organizations, are characterised by, reliance on overseas parent company resources, need to benefit form global procurement economies of scale, large scale operations with difficult entry criteria, large scale operations, capital intensive and mostly technology is imported, formal skills requirements with inclusion of some expatriates protected markets through tariffs, quotas and trade licenses. Despite the above trade factors, the formal and informal sector still relate and interact as some formal workers move to the informal sector after acquiring experience and skills to become entrepreneurs becoming both employers and entrepreneurs in the informal sector. As the formal sector access credit facilities both from the private sector and government there is a natural link between the two sectors with the outlier being the informal sector that is usually unable to access credit facilities easily.

The formal sector is also associated with enforcing rule of trade and legality as part of their corporate governance principles and since the
informal sector is perceived to be largely illegal as relates to compliance to regulation and legislation the formal sector associates the informal sector with risk and uncertainty

**Government sector perspective**

Government Policy Approach to Informal Economy is largely driven by the rural to urban migration of the population in search of a livelihood. By the year 2008 there was evidence of half of the world’s population living in urban areas this created a basis for government policies (UNCHS – HABITAT 2009). It is estimated that by 2050 the percentage of people living in urban areas will have risen to 70% with most growth taking place in developing countries. The changes in the social economic environment in Kenya today has been precipitated by urbanization hence the growing *jua kali* sector in Kenya (Kessides 2006). The Kenya government acknowledges that the urban informal economy despite the unfavourable regulatory and legislation neglect contributes to the development employment of unskilled and semi skilled labour (Ouma 2010). However, with the absence of suitable regulatory and legislation policies to govern the informal *jua kali* sector, the entrepreneurs are relegated to fragile working conditions and environments with little competitive advantage to leverage for their trade (Chen 2007). The informal sector can however not be ignored as they still produce basic goods and services in the unregulated competitive markets that they trade in that still continue to be outside of both the regulatory framework and the municipal and national government. Despite the challenges of the informal *jua kali*
sector the Kenya government acknowledges that it is as old as Kenya’s independence and will continue to exist. With this appreciation of the potential of this sector to provide employment and achieve poverty alleviation the government has acknowledged that the existing legislation does not address the problems of the informal *jua kali* sector effectively largely due to the lack of serious commitment by the government and political will by the policy makers (UNHSP – HABITAT 2006). Informal traders continue to trade in unlicensed contested locations characterized by lack of adequate infrastructure that are unable to accommodate the large number of trades. Hence the sector encroaches on road reserves, cemeteries, with make shift structures constructed in locations that are not designated for trade (Ouma 2010). In light of all these challenges the government has mandated a number of its state corporations to review the various aspects of the informal sector trade as a means of resolving these challenges. The seven main state parastatals and corporations include the Ministry of Industrialization, the Ministry of Trade, the Ministry of Labour and Manpower Development, the Ministry of Planning and Vision 2030, the Kenya Intellectual Property Rights Institute, the Kenya institute of Public Policy Research and Analysis (KIPPPRA), and the Kenya National Bureau of Statistics (KNBS).
1.4 Structure of the dissertation

This dissertation is based on information collected between 2005 and 2008 from the informal, formal and government sectors with the primary objective of identifying what would be required to integrate the informal sector into the formal sector in a way that is enabled by appropriate government policy. The dissertation is based on the collection of both primary and secondary data. Primary data collection focussed on the informal sector using a combination of interviews and questionnaires.

At the time the research was conducted there was little statistical data available for the informal sector in Kenya specifically related to the three jua kali markets in Nairobi namely, Gikomba, Kawangware and Kariobangi. This situation precluded the use of formal sampling techniques and statistical tests. Priority was given to conducting interviews and administering questionnaires across the three jua kali markets through an ethnographic dissertation methodology.

Primary research was also conducted for the formal and government sector. This was supported by relevant secondary data. Formal sector comprised blue chip companies listed on the Nairobi stock exchange, which underwent a name change on the 6th of July 2011 to become Nairobi Securities Exchange. The selection of the formal sector companies from the Nairobi Stock Exchange at the time of the dissertation was precipitated by the need to identify organizations
that, despite their international affiliation has a vested interest in the
Kenyan economy.

For the government sector, published reports and government policy
papers were used as the primary source of data. Where possible, the
gaps in knowledge from these documents were then augmented
through face-to-face interviews with state officials. Where this was
not possible a questionnaire was dropped off in the office of the
relevant government officials’ office for completion. During the time of
collection, a face to face interview was secured through a request
letter sent to the state official. The face to face interviews helped to
clarify and confirm the information and feedback provided in the
questionnaire.

This dissertation was timely, given the focus on the Kenyan informal
sector since the 1970s (ILO 1972). Over the years the increasingly
globalised society has contributed to a change in the dynamics of the
informal sector by creating intense competitive pressure for formal,
informal and government sector organizations to mainstream. In
Kenya however the informal sector has been slow to build capacity
and hence has not had a significant impact in mainstreaming into the
Kenyan economy. The report by ILO (1972) acknowledges the need
to make integration a priority for the Informal sector as a means of
survival. This is especially urgent in the case of developing countries
where the informal sector employs over 60% of the total workforce.
This dissertation points out that without a clear description of the barriers to mainstreaming, effective mainstreaming of the informal sector is likely to continue to be elusive. Additionally, without an articulation of the inherent economic advantages that mainstreaming could bring to the Kenyan economy, key stakeholders required to make mainstreaming a success are likely not to advocate and support the mainstreaming process.

1.5 Relevance and significance of the research outcomes

The informal sector has been a focus for most governments in developing countries for several years and mainstreaming into the formal economy has been seen as a means of poverty eradication and job creation for most economies in Sub Saharan Africa. However, the majority of the reviewed literature tends to give partial accounts of how this integration can take place, especially in the case of developing countries in Africa.

The informal sector has over the years been fuelled by economic crises. However, absorbing large sections of the labour force into the mainstream of the developing economies has been slow. As most scholars have stressed, the informal sector has the potential to temper economic crisis through job creation. The informal sector has also become a way to improve the welfare of its participants through encouraging output increase and facilitation of more efficient use of
human and physical resources (Chandavarkar 1988; Khundker 1988; Tokman 1989; Manning 1993; Maloney 1998; Dasgupta 2003).

This study highlights opportunities and considerations for mainstreaming the informal sector into the formal sector blue chip companies and the government. It offers workable solutions to Government policy makers in legislation, regulation and education with regard to the informal sector and preparing them to enable mainstreaming

The findings highlight what needs to be done to achieve technical skill improvement and self sustainability of the *jua kali* informal sector

The findings may offer a long term sustainable solution to dealing with the continuous enabling of the *jua kali* informal sector and a viable employment provider for both semi skilled and retires, retrenched workers

The findings highlight the required business structure in the informal sector and *jua kali* sector to achieve profitability, capacity building and sustainable businesses.
Limitations of the study
The study was carried out in Nairobi only. Despite the representative sample size selected from the three largest jua kali markets there may be some learning through the review of the jua kali setup at the county level as well as in smaller towns where the challenges to mainstreaming may be at a smaller scale and therefore easier to address in the short term. This could then provide information as a pilot for adaptation in the Nairobi jua kali sector.

Delimitations of the study
The findings of the study may be representative but may not be generalised for a more rural set up where jua kali artisans and entrepreneurs may be running their businesses.

Basic assumptions
Instituting technical and business skill training for the jua kali artisans would improve their performance in their business and make them more likely to be part of successful mainstreaming in to the formal blue chip companies and government.
Similarly, the formal sector and government are committed to reviewing their procurement and regulation and legislation policies respectively to ensure that they enable achievement of success in mainstreaming.
1.6 Summary of the study chapters

Chapter 1 has considered the background to entrepreneurship and the nature of the informal sector. It has explored the interventions that have been considered by scholars over the years as well as some of the barriers to mainstreaming the informal sector into the formal sector, highlighting the possible economic benefits. The chapter has also highlighted practical and theoretical contributions as well as some of the methodological issues and opportunities for new approaches to integration.

Chapter 2 provides a detailed description of secondary data concerning the mainstreaming of the informal sector in developing countries. Various definitions that have been used to describe the informal sector and entrepreneurship are reviewed. Perspectives from the informal, formal and government sectors concerning mainstreaming are given, as well as views on the impact of financial systems, telecommunication and globalization. The chapter concludes with an overview of the role of the state in the informal sector.

Chapter 3 describes the methodology used to capture the primary data in the informal sector, and the reasons why this approach was adopted. The profiles for respondents from the informal, formal and government studies are provided.

Chapter 4 examines the situation of the informal sector in relation to the possibilities of mainstreaming with the formal sector, in the
context of government policies. The scope of the informal sector dissertation is articulated. The chapter looks at banking and financial services, access to raw materials for trade, the structure of business set-ups and the involvement of families in businesses. Skills acquisition and employee remuneration are evaluated in relation to formal sector requirements. The chapter then looks at the informal sector’s potential and market opportunities, reviewing informal sector views of the support received from the formal and government sectors.

Chapter 5 explores the perspectives of the formal sector and the influences these may have on mainstreaming. Differences in formal perspectives to mainstreaming and barriers to mainstreaming are highlighted. The influence of globalization, financial sector and procurement guidelines are reviewed. The findings emphasize the need to include all stakeholders in the integration process to ensure its success.

Chapter 6 presents primary and secondary research data on government efforts in mainstreaming since the 1970s. The chapter analyses the interventions in policy, legislation and regulation for the informal sector. The chapter provides an introduction to possible government interventions relating to mainstreaming.

Chapter 7 brings together the primary strands of the dissertation. The chapter explores arguments that may address the slow progress of the mainstreaming process, evaluates the role of the informal, formal
and government sectors and evaluates and proposes interventions that could be undertaken immediately. This chapter then identifies the key findings and possible interventions that need to be undertaken for successful mainstreaming to take place. The chapter identifies weaknesses and areas that demand further investigation in order to gain a comprehensive view on the specific interventions required to ensure successful informal sector integration into the formal economy. The case of Equity Bank provides an example of the possibilities inherent in a new approach to mainstreaming.

Chapter 8, the final chapter, looks to the future. Specifically, the chapter reflects on the findings of this research from the perspective of recent reforms in local government and in the light of the possibilities offered by new technologies. To conclude, a model of regionally focused incubation centres is put forward as a practical mechanism for continuing the processes of mainstreaming into the future.
CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the literature relevant to the key objective of this dissertation, which is to achieve a deeper understanding of the opportunities for, and the barriers to, mainstreaming Kenya’s informal sector with the formal economy.

The concept of the informal sector was given prominence by the International Labour Organization (ILO) study of Kenya in 1972. This analysis highlighted economic activities that were not regarded as part of the ‘real’ economy, placing these activities on the policy agenda. The ILO’s study saw the problem of unemployment in less developed countries as one of the employed workers not earning enough money to make a living, the report refers to them as the ‘working poor’ (ILO 2004). The effect of the informal sectors’ lack of access to productive resources has seen slower traction for mainstreaming informal sector economic activities into the formal and government sector.

The ILO report highlighted that the informal sector is neither illegal nor unsustainable and hence popularized the importance of mainstreaming the informal sector. The report further highlighted that the informal sector is shackled by existing structural features of
developing economies such as poor infrastructure provision, regulation and legislation (ILO 2004) Standing et al. (1996), in acknowledging the contribution of the ILO report, argued that this re-evaluation indicates that the informal sector should be included in the economic planning of developing economies.

2.2 Concepts and definitions of the informal sector

There is no conclusive definition of the informal sector, despite the fact that the term has been in use since the 1970s. Keith (1973) was among the first to introduce the term ‘informal sector’ to describe business setups. His definition was centred on the lack of compliance by the informal sector to government regulations for taxation, licensing, registration and adherence to labour regulations. Keith (1973) further described the sector as comprising small-scale enterprises; persons with or without hired workers engaged in small and micro enterprises. The sector is further characterized by both low technology and a low level of organization systems and processes. It was initially referred to as comprising unregistered and unregulated businesses, some of which comprised service enterprises such as hairdressing, commercial transportation and auto repair. Other types of trade included vending trades such as food, clothing, and medicines. Production activities such as furniture making and metal equipment manufacturing.
In Sub Saharan Africa, people in this sector can be seen on street corners, pavements and back alleys of cities working as petty traders, street vendors, small-scale artisans and shoe shiners (Weeks 1975; Bromley 1978; ILO 1972; Castells and Alejandro 1989; Pratap and Quintin, 2006). In developing countries one may notice a thriving informal market in one section of the country where there exists less stringent legislation and regulation of informal trade. For instance, a country with high trade barriers and laws protecting its domestic market, preventing imports of foreign goods, may encourage smuggling of goods and an informal market for barred products. Activities such as these are unrecorded, unregulated and unrecognized, escaping the attention of law enforcers and regulators. Governments without strong protection for intellectual property may also encourage piracy and theft or counterfeiting of products (Misati 2007).

De Soto (2000) has argued that the basis of the distinction between the formal and the informal sectors is that the latter tend to be unstructured and do not carry proper titles. Consequently, opportunities to generate wealth through investment opportunities are left untapped, as the informal businesses cannot procure formal loans with which to take advantage of the opportunities available. Despite such non-compliance, the contribution of the informal sector to economies in Africa has drawn the attention of policy makers, the formal sector and scholars.
Higher efficiency and increased investment may be achieved where the informal sector is seen as providing the economy with a dynamic entrepreneurial spirit that may lead to competition and innovation. In some cases, the informal sector has also been viewed as a legitimate response to an over burdensome regulation and a lifeline for the poor. This implies a positive relationship may exist between the informal and formal sector. (Schneider and Klingmair, 2004).

Some writers have defined the sector as comprising businesses with fewer than ten workers (Arimah 2001; McDade and Spring 2005). Other scholars have pegged the number of workers to fewer than five (Daniels et al. 1995; Kibera 1999; Jalloh and Falola 2002). According to Mlinga and Wells (2002), the informal sector relates to micro or small enterprises without specifying the size or number of workers. Tokman (2001) sees the sector as self employed individuals who use friends and family members, domestic servants as helpers in their businesses. Some owners who may be directly involved in working in their businesses may have fewer than five workers. Other criteria used for differentiation of the formal and informal sector include level of resources, physical location of operation and workforce characteristics. Evaluation of whether the enterprise is labour or capital intensive also informs the criteria of differentiation between formal and informal sector (Ishengoma and Kappel 2006).

The contribution to GDP of the informal sector in developing countries continues to be debated because estimates of the sector’s value are still based on various hypothesis with incomplete evidence that is not
based on informal sector surveys (Loayza 1997; Djankov et al. 2002; ILO 2004; Shabaneh 2006). Mlinga and Wells (2002) observe that the informal sector plays a key role in the supply of products that are tailor made for the middle and low income sector.

Mlinga and Wells (2002) identify the differentiators between the formal and informal sectors as the ability to compete within a given market and the level of establishment of formal structures within the firm. They further cite the level of equipment investment, adherence to registration requirements and ability to compete within the formal sector as key distinctions especially when evaluating the informal sector. Ranis and Stewart (1999) in defining the formal and informal sectors, cite the level of marketing channels, human capital invested in the organization, the level of technology applied to the business, and types and number of links to buyers. According to House (1984), the criterion that determines whether a business is formal or informal is whether the business is dynamic or intermediate. House (1984) also considers what the motivation to start the business is and the average income determines the categorization of formal versus informal.

Despite there being such broad and varied definitions of the informal sector, it is widely recognized that it accounted for 40% to 60% of urban employment in sub-Saharan Africa at the end of the last century (Charmes 1999; Xaba 2002). The informal sector accounts for 70% of total employment in Sub-Saharan Africa, 60% in North Africa and Latin America respectively and 58% in Asia (Becker 2004).
2.3 Concept of mainstreaming

The role of the informal sector in providing goods and services for the domestic market can not be ignored hence governments and NGOs have attempted to formalize them by providing market spaces and industrial districts where the informal sector participants can trade their wares. Other services interventions like skills training and basic trade utility provision such as trading locations, power and water have been considered. Despite this support from donor agencies and non-governmental organizations over the past 30 years, the expected growth and transition of informal sector SMEs into medium and large-scale enterprises has not occurred (K’obonyo 1999; Spring 2002). These concerns have resulted in considerations of how mainstreaming can be conceptualized. International development banks such as the International Finance Corporation (IFC), the World Bank, NGOs like Cooperative for Assistance and Relief Everywhere (CARE) and some governments in Africa have begun to see what works for the poor and the informal sector as being more important than who controls the processes of transition (Wheeler et al. 2005).

In addition to governments, development agencies and NGOs, the approach taken by multinational corporations is significant, as this may determine whether mainstreaming is successful. Whilst multinational corporations may be looking for immediate new markets for their goods and services, it is also important that they take a long-term view that is more likely to lead to integration with the informal sector. Multinationals’ commitment to engage in the processes
required to develop skills is important, as well as engagement with reviews of policies, especially as these relate to outsourcing, partnerships and dealing with external suppliers for their businesses.

Here, consideration of the capacity and relevance of the informal sector’s existing infrastructure needs to be considered (Wheeler et al. 2005). Other factors include political and institutional vested interests that create trade disparities that may be further exacerbated by the absence of appropriate property law and a range of cultural and economic disincentives for both the formal and informal enterprises. These issues need to be addressed if sustainable growth, mediated by the informal sector, is to be achieved (Wheeler et al. 2005). There is a growing consensus on the necessity to promote the informal sector given its importance with respect to employment and poverty issues. Integrating the informal sector into the formal economy is widely seen as an alternative to fighting poverty with welfare provision (Tokman 2001).

Over the year’s microfinance has evolved and began to play an influential role in the shaping of mainstreaming concepts. Muhammed Yunus in founding the Grameen Bank pioneered the concept of microcredit in 1976. Yunus having studied the micro sector founded the Grameen Bank’s proposition based on its ability to provide micro loans to be used for start up, or grow, microbusinesses and thus enable the community to climb out of poverty. This means of unlocking microcredit as a means of poverty reduction amongst poor communities and by extension, enabling the informal sector to thrive
has been considered by many corporate organizations and governments. At the time of the State of the Microcredit Summit Campaign Report (2009), 3,552 microcredit institutions provided loans to 155 million clients. Grameen Bank alone had disbursed more than $5 billion in microloans over its first ten years and had 7.7 million borrowers by 1986. (Microcredit Summit Campaign Report, 2009)

Micro finance objectives have been closely aligned to concepts of vertical integration. According to King (1977) there has been a rapid horizontal spread of low level skills. The informal sector faces the further problem of lack of vertical integration into the next technological level, which is normally facilitated by the craft sector. Kenya’s experience has largely been shaped by the activities of Indian craftsmen and artisans. In Africa, half of the small-scale formal enterprises with more than 10 employees are owned by residents of Asian and Middle Eastern descent (Schulpen and Gibbons 2001).

Micro finance and information technology is important in the role and use information and communication technologies in advancing mainstreaming. Information Technology (IT) provides an opportunity for informal workers and businesses to engage with the formal sector in both domestic and global markets. It is the primary source of information for receiving the latest information on prices and market conditions that help enterprises adjust their production to new trends and demands. Mobile telephony helps businesses stay in touch with customers and develop distributional and informational networks.
Costs of traditional services such as fixed lines can be prohibitively high while new forms of technology help reduce costs and improve access for poor communities. Examples of overcoming this hurdle include Grameen Telecom, a subsidiary of Grameen Bank, which leases mobile phones to its bank members (Vishwanath 2001). The worldwide web also delivers opportunities for informal sector businesses to sell their products on the international market. Access to digital communication technologies by villages in Africa serves as a catalyst to rural adoption of broader technological opportunities. Kabecha (2005) has recommended that governments in Africa build capacity in microfinance institutions to promote technology in microenterprises as a means of enhancing the sustainability of these enterprises.

A different perspective on mainstreaming is represented by the ILO policy on “decent work”. For example, Schlyter (2002) contends that the task for the ILO is to assist countries, to the extent possible, to extend those aspects of ‘formality’ that aim to enhance and protect working conditions. The ILO has acknowledged that workers in the informal economy are often unprotected, unregistered and unrepresented and therefore exhibit features of poverty that include powerlessness, exclusion and vulnerability (ILO 2002). From this, it is argued that policies and interventions must address these features if the circumstances of informal workers are to improve. In this spirit, the Kenya Micro and Small Enterprise Policy aims to address the problem by setting up a mechanism to enable growth oriented
informal enterprises to graduate to medium enterprises. Micro and small enterprises are seen as straddling both the formal and the informal economy and as operating in a fluid manner across and between these two sectors. In this respect there is no neat progression from informal to formal. From this it follows that the labour rights of workers should be respected, job creation should be the overriding objective when development of policies for the informal sector are considered (Verick 2001).

2.4 Concept of Entrepreneurship

According to Karnani (2007) a person who converts vision and creativity into achieving a successful new business model and innovation can be referred to as an entrepreneur. Schumpeter (1934) saw the process of ‘creative destruction’ as the dynamic engine of entrepreneurship. He showed thriving business set up in the informal sector led by poor entrepreneurs. He noted that the limiting factors for these entrepreneurs included lack of creativity, vision, required skills and the drive needed for entrepreneurial success. Most people lack the skill, vision, persistence and creativity to be entrepreneurs (Schumpeter 1934).

These factors hindered the mainstreaming process for the informal sector by constraining the applicability of theories of entrepreneurship to the mainstreaming of the informal sector in developing economies. Consequently, there is little empirical data to support the assertion by
Prahalad (2005) that the “poor are resilient and creative entrepreneurs who just require support to realize their potential”. There is evidence of unexploited and entrepreneurial opportunities for the informal sector. Duflo et al. (2006) sighted that only a few farmers use fertilizer despite the possibility of an average return of 100% on investment. Despite the possibility of returns of up to 300% in the case of Ghana, not many farmers cultivate pineapples. Limited assets, low skills, little capital and lack of economies of scale restrict the opportunities for informal businesses to be entrepreneurial. This results in a poverty cycle for the informal sector as a result of low productivity and low earnings (Duflo et al. 2006).

In contrast, however, McDade and Spring (2005) point to a set of ‘business globalists’ who have addressed these challenges by organizing a system of business enterprise networks consisting of national, regional and Pan-African organizations, which they refer to as ‘new generation’ entrepreneurs. Despite limitations, these entrepreneurs created intra and cross-national networks that drive and strengthen private sector led economic growth in Africa. Further, these ‘new generation’ entrepreneurs embrace technology as a means of creating efficiency and generating income for their businesses (McDade and Spring 2005).

In Africa, those described as entrepreneurs range from micro-enterprises that employ between one and five people, to large corporations employing hundreds of people. Such businesses may be based in both rural and urban areas and may be both formal and
informal. However only 2% of all African businesses have ten or more employees, with most of them comprising a maximum of three employees (McDade and Spring 1998; Manu 1999). An East and Southern Africa study of 50,000 micro and small-scale enterprises, conducted between 1990 and 1998, revealed that 48% of these businesses are owned by women. This confirmed the importance of women in entrepreneurship and more importantly the informal sector (Mead 1999). In contrast the percentage of women in the formal sector was significantly smaller.

Prahalad’s (2005) model of the “bottom of the pyramid” has engendered extensive debate about the entrepreneurial potential inherent in poor communities as well as the opportunities for mainstreaming by opening new markets through which large corporations can reach informal and micro enterprises. Prahalad argued that there is much untapped purchasing power in poor communities and that private companies can make significant profits by selling to the poor, while simultaneously bringing them prosperity. Karnani (2006), however, argues that the implication that the “bottom of the pyramid” represents an attractive and robust market is at best a harmless illusion but may also be a dangerous delusion.

Karnani (2007b) argues that the poor are assumed to be fully capable and willing participants in a free market economy; this is unrealistic and significantly under emphasizes the critical role of the state in poverty reduction. This inadequate attention to the legal, regulatory and social mechanisms required to protect the poor as vulnerable
consumers is driven by the under-emphasis on the issue of poverty by the state. Thus the state must constrain the free market to prevent exploitation of the poor whilst providing for infrastructure, public health and education.

Similarly, Rajan and Zingales (2003) argue that the hand of government is necessary for the market to flourish. Banerjee and Duflo (2007) have shown most of the self employed poor have no specialized skills and tend to practice multiple occupations. They are stuck to subsistence activities and have no competitive advantage

It has also been argued that the private sector should do more than incentivise the informal sector and micro enterprises for profit generation as advocated in the bottom of the pyramid (BoP). Wheeler et al (2005) acknowledges the need to include multinational corporations or large domestic firms in considering ‘what works for the poor’ in the short term Wheeler et al (2005) argues that there is a need to widen the dimensions of engagement to include goodwill, skills, know how, and ecological and financial capital. Research has shown that where there is investment in these synergies, local enterprise networks have grown in scope and resilience. Wheeler et al (2005) argue that active interventions of the state through government policies is the most likely way to approach the mainstreaming process for the informal sector. Dependency of economic development on entrepreneurship alone is unlikely to make a significant difference.
The assumption that the poor are innately entrepreneurial further complicates assumptions about the potential for microfinance to advance mainstreaming. While Prahalad (2005) uses microcredit as an example of the BoP proposition, given its efficiencies and low default levels. The role of the government in regulating the microfinance practices and educating borrowers about their rights is seen as a significant step towards mainstreaming. The liberalization of interest rates in the 1980s, intended to incentivize the commercial banking sector, had adverse effects on microfinance and by 2011, some 40 developing countries had imposed ceilings on interest rates.

Overall, then, a careful and critical appraisal of entrepreneurship is required. In this spirit, Wheeler et al. (2005) argues that it is important to consider where the capacity for the development of entrepreneurial abilities is located. NGOs have a tendency to focus on investment in human capital and support for farmers and co-op societies members, as they feel less able to promote for profit business solutions. Governments tend to emphasize short-term gains as opposed to longer-term sustainability. Hence the need for holistic thinking by all actors is important for the success of the mainstreaming process (Wheeler et al. 2005).

2.5 The role of the state and international agencies

According to Prahalad (2005) the key actor in the mainstreaming process should be the state and not the private sector. De Soto (1989) argues that informality is a popular response to a rigid state
favouring a small elite as being the key participants in the economy. The government should adapt itself to the realities of the informal sector rather than expect the informal sector to adopt itself to the current government legislation (USAID 2005). When the state is unable to provide basic services, it may be futile to attempt to mainstream the informal sector (Kenyon 2007b).

A basic requirement for mainstreaming by governments is to understand the scope of the economic activity within its borders even if it refrains from taxing it all. A viable revenue base is likely to encourage mainstreaming. Secondly the formal sector, whether for inputs such as finance and technology or raw materials and products, depends on arm’s length transactions between individuals, the informal sector and independent formal or informal firms. The social benefits of mainstreaming are greatest when the persistence of informality as a means of competitive advantage serves to prevent a complicit relationship between the state and the formal sector (Kenyon 2007a).

Successful mainstreaming requires information about its benefits to be made obvious by the government. According to a survey of informal firms in Sierra Leone by the International Finance Corporation (IFC), lack of information is the single most important deterrent to the informal sector in acquiring a business license according to the Foreign Investment Advisory Service (FIAS 2006: 40). Similarly, in Tanzania ‘a government tax simplification programme failed because the authorities did not inform the
entrepreneurs about the change’ (USAID 2005: 31). A study in Kenya concluded that only ‘a fraction of jua kali workers know anything about the number of projects designed by the state to assist them (King 1996b). In South Africa, the government established training authorities, incorporated into existing informal sector associations, to encourage mainstreaming and development. The results were inadequate because government authorities continued to prioritize the needs of formal firms and because facilitators regard informal employees as not trainable because of their low levels of education and literacy (Lund and Skinner 2005).

It may therefore be difficult to mainstream the informal sector if required processes are viewed as merely requiring a simplification of regulation, rather than the promotion of collaboration between the parties involved. For example, the success of new initiatives to improve financial systems may depend on informal they are a transient response to government policy distortions or whether they are a solution to structural constraints that prevent job and wealth creation within the informal sector (Steel 1997).

Continuing with the role of the state in enabling effective financial institutions, inadequate infrastructure that makes it difficult for formal financial institutions to reach the informal sector may require intermediaries to provide this financial link to the bulk of the population. Financial systems in Africa have been widely fragmented as the link between the informal and formal sector is weak and attempts at risk adjustment to accommodate the informal sector have
resulted in wide differences in requirements and expectations. There may be little connection between formal banks and informal agents, and little clientele overlap (Siebel and Marx 1987; Nissanke 1992). Financial institutions have identified comparative advantages in some market segments and have enhanced efficiency of resource allocation by mobilizing household savings and financing small business activities that are beyond the reach of the formal sector.

In contrast, Adams (1992), McKinnon (1973) and Fry (1982, 1988) all emphasize that government interventions may lead to inefficient and underdeveloped financial systems due to the interest rate ceilings that tend to raise the demand for funds and depress the supply, forcing intermediaries to ration credit by means other than interest rates. Repressive policies may cause further fragmentation and uncontrolled interest rates in response to unsatisfied demand (Roe 1990).

Turning now to Kenya, as the area of focus of this research project, 1986 was a turning point when then President Daniel Arap Moi visited the Kamukunji informal *jua kali* industrial estate in Nairobi. His objective was to improve conditions for the sector through what became known as the nyayo sheds, a Swahili word for ‘following of footsteps’. These sheds were to provide semi-permanent structures in designated markets for the informal sector to conduct its trade. This new approach also marked the beginning of consideration of security of tenure for the sector in Nairobi. This visit brought the
sector to the fore within President Moi’s Government, leading to the restructuring of regulation, policy and legislation.

Following this intervention, the Government of Kenya published Sessional Paper No.1 of 1986, titled ‘Economic Management for Renewed Growth’ (Komollo 2010). This paper highlighted the plight of the jua kali sector. The paper identified the changes required to kick start the sector’s development and in 1989 the government, through the Ministry of Planning and National Development, published a document which was the culmination of the interventions and deliberations about the sector titled ‘A Strategy for Small Enterprises Development in Kenya: Towards the Year 2000’ (Komollo 2010). This paper identified the sector’s challenges in investment and finance programmes as well as culture and the lack of an enabling environment.

Following this redesign of informal sector policies, Sessional paper No. 2 of 1992 ‘Small Enterprises and jua kali Development in Kenya’ was published, with an agenda for action covering a period of 12 to 24 months. This sessional paper has served as the basis for programmes directed at the informal sector since then (Komollo 2010). The government further evaluated the sector in 1994 through the Micro and Small Enterprises (MSE) unit in the Ministry of Planning and National Development. Two administrative sections were created. The first was responsible for monitoring implementation, policy coordination, information dissemination and
assessing the impact of these policies to the beneficiaries. The second section was mandated to create an enabling environment for promoting the informal sector, by addressing punitive regulations that did not enable the sector’s developments (Oyugi 2001).

International agencies and globalization

The internal role of the state in enabling or constraining the development of a mutually beneficial relationship between the informal and formal sectors of the economy. This is mediated by the state’s relationship with its region and with the rest of the world.

Globalization comprises new patterns of international trade, foreign direct investment, capital flows, diffusion of technology and migration of workers. All these processes may have substantial implications for the structure of an economy and allocation of its resources. Most literature addresses trade liberalization and associated reforms in general terms of trade and does not concentrate on the informal sector or on mainstreaming. Nevertheless, it is important for policy makers to appreciate the potential impact of globalization on labour markets and the informal economy, especially as these effects are likely to increase (UNECA 2004).

For countries such as Kenya, these outward looking relationships have been shaped by structural adjustment programmes and their lasting consequences. Ikiara and Ndung’u (1999) note that Kenya was one of the countries in Africa that turned to the International Monetary Fund (IMF) and the World Bank in the 1980s after a period
of economic crisis following the two oil shocks. The impact of the IMF mandated structural adjustment programmes on the Kenya labour market is evident, with the size of the informal sector increasing rapidly from 10.3% in 1980 to 15.2% in 1985, to 39.1% in 1990 and to 53.4% by 1994. However, this significant increase was also due to the definition of the informal sector having been broadened. Regression results presented in this study imply that growth in domestic output, growth in formal sector employment and the size of the import surplus all contributed to the growth of informal sector employment. Growth in public expenditure is the only variable with a negative impact on employment in the informal sector (Ikiara and Ndung’u 1999).

*The international agencies such as World Bank, United Nations and the International Labour Organization reinforced the assumption that they influence the what and how of informal sector structuring should be implemented. Such assumptions, however, can result in extensive alienation. A more critical research perspective highlights oppositions, conflicts and contributions within developing societies, seeking to eliminate the causes of alienation and domination. The inhibitions around which social and economic life is woven form the basis of the emancipation from which informal sector individuals seek to free themselves.

In this regard, Easterly (2006) has developed an extensive and influential critique of the role of international development and aid
agencies in addressing poverty eradication. He considers the interrelationship between such agencies and the formal and informal sectors from the perspective of ‘searchers’ and ‘planners’. He argues that, in order to have an impact, interventions must be approached with a clear understanding of the informal sector’s circumstances and programmes must be designed to achieve appropriate impacts.

Globalization through Foreign Direct Investment (FDI), as well as trade, technology and migration flows can stimulate demand and productivity, resulting in higher incomes and job creation that reduce poverty. Empirical data from the 1990s indicated that openness to trade has a positive effect on economic growth (Winters 2004). This implies that the labour market plays an essential role in the link between globalization, growth and poverty alleviation. However, understanding these linkages has proven to be challenging. There have been few empirical studies on the effects of globalization on the informal sector in Africa. These studies that have been conducted tend to demonstrate negative outcomes. For example, Southeast Asian imitations of Kenyan sisal bags have resulted in loss of income and development opportunities for the informal sector (Carr and Chen 2002). A second example is the Lake Victoria fishing industry, where long-established sources of income from selling smoked fish at the lakeside have been lost as a result of global competition (Carr and Chen 2002). These case studies are illustrative of new and changing economic patterns; additional research will be required to quantify the
full impact of globalization on the informal sector in Africa (Verick 2006).

For decades the Heckscher-Ohlin model of trade has provided a theoretical framework that explains how trade affects employment and wages. The basic prediction of this model is that trade leads to an increase in the demand for capital-intensive goods in the developed world. This in turn pushes up the real return to labour through wages and decreases the return to capital. In most developing countries the abundant resource is unskilled labour and therefore trade liberalization is expected to increase the returns to these workers, leading to a reduction in inequality. These predictions, however, rely on a set of strict assumptions and once any of these is dropped the predictions of the model become more ambiguous.

With regards to foreign direct investment, Africa continues to be viewed as a developing continent with little impact on the rest of the world. In 2004, FDI flows into Africa only accounted for 3% of total world flows (UNECA 2004). Verick (2006), however, notes that the ratio of trade to GDP in African countries is high, suggesting that these economies are nonetheless dependent on, and integrated with, the world economy. As a result, globalization plays a role in African labour markets, including the informal economy. Considering how FDI, migration and immigration affect the informal sector, were investment to be effectively channeled to this labour intensive sector the potential for increased production could be realized.
The investment focus for FDI has been in the capital intensive sector (UNECA 2004). As a result, this form of investment has had comparatively low impact on the labour intensive informal sector. Nevertheless, there are indirect economic returns for this sort of FDI in the form of low operations costs, offering the opportunity for the integration of the informal sector into the supply chain to the benefit of the economy as a whole (Verick 2006). There do, though, remain challenges in guaranteeing quality when subcontracting to the informal sector. As a result, investors and foreign companies may choose only to sub-contract to the formal sector in order to reduce risks to quality, capacity and skills availability, which they consider the informal sector to be lacking (Aryeeetey 2008).

2.6 Theoretical review on perspectives of mainstreaming

This section endeavours to explore and review the existing theories that have been undertaken to concerning the mainstreaming process of the informal sector.

The inherent nature of informal business is such that it should not necessarily be performed with the deliberate intention of flouting regulation, taxation or infringing on individual labour rights. The informal sector trading circumstances is such that the revenue generated from the business is both low and irregular and hence does not encourage compliance in taxation and stipulated basic wage levels. The involvement of the government in provision of the needs required by the informal sector is unstructured and lacks the means and ability to reinforce the enacted regulations and legislations (ILO
2012)
In Kenya government interventions and actions dominates the literature on the underlying driving force for the informal economy notably in the areas of taxation and regulation. Failure in the government interventions possibly due to a consistent and structured approach to operationalizing the mandates set by the state corporations tasked with responsibility for the informal sector. Strength of the rule of law and the institutional failures precipitated by corruption explain these shortcomings (Johnson et al 1998 & Friedman et al 2000)

The past 50 years have seen a fundamental growth in the conceptualization of issues relating to the growth Micro and Small Enterprises (MSE) referred to as *jua kali* in Kenya. The labour surplus theory dating back to the seminal works of Lewis (1955) argues that the motivating force behind *jua kali* enterprises is the excess labour that cannot be mainstreamed into either the formal or government sectors and therefore continue to remain in the *jua kali* sector where in essence they are the ‘working poor’ where the *jua kali* continue to be entrepreneurs in the informal sector despite the poor pay and low productivity. *Jua Kali* in Kenya and most other developing countries has been a place of ‘last resort’ for people who are unable to find formal employment especially due to the influx of rural urban migration and the limited employment opportunities in the formal sector. With the development of the formal sector it is assumed that the MSE *jua kali* sector would contract however scholars have noted
the lack of continuous skill development as being fundamental to the inability to mainstream the informal sector. Schumpeter (1934) theory of innovative profits review the impact innovation and value generating activities as supporting the theory of innovative profits and contributing to activities that could transform and expand the flow of income to the *jua kali* sector. The Schumperian theory on MSE growth Schumpeter (1934) further cites that the proactive risk taking by the *jua kali* entrepreneurs aimed at nurturing opportunities through intellectual capital to exploit the potential profit development could unlock the vicious cycle of the informal sector and the challenge of continually managing enterprises that do not yield profit. Innovation in development or generating products from new processes that are able to provide competitive advantage especially in the *jua kali* trade who tend to have similar products from stall to stall. Schumpeter (1934) argues that skill and technological progress can be precipitated by the *jua kali* entrepreneur engaging in innovations as a means of achieving profits derived from the competitive advantage that the innovations provide. According to Schumpeter’s view on ‘creative destruction ‘innovation becomes a continuous process that provides competitive advantage by rendering obsolete previous innovations. Schumpeter (1934) views entrepreneurs as motivated by both independence and the desire for power and success as the basis on which they are able to gain the satisfaction of getting things done (Swedberg 2000). The growing size of the informal sector has been attributed to the effects of government actions specifically on taxation and regulation and concludes that the informal sector
existence is as a result of the failure of the political institutions tasked with promoting the working market economy. This mandate largely sits with the government (De Soto 1989). International Labour Conference refers to economic activities by workers and economic units that are not sufficiently covered through formal arrangements as the informal sector (ILO 2012). It should be noted that despite the assumption that the informal sector is keen on avoiding tax regulation and legislation there should be a distinction between jua kali business that already have a high enough income to able compliance with legislation and regulation.

The jua kali sector in Kenya may be seen as having been a resilient sector considering that 4 decades later the sector continues to grow without significant intervention or specific programmes to change the narrative of the ‘working poor’ that is associated with the sector. Neither the informal sector nor government and the various government bodies that have the mandate to make the jua kali sector a significant contributor to Kenya’s GDP have had an impact on the mainstreaming of the informal sector. Giddens’ Structuration Theory (1984) is a useful tool for exploring the workplace dynamics and learnings, as it was developed to explain the cyclic nature of broader societal relations. The informal sector in Kenya today is significantly influenced by societal relations and pressures and due to the nature of most jua kali enterprises set up there is usually a fine line between the business aspect and the family aspect of the enterprise. Most jua kali business tends to begin
their trade with immediate and extended family members as the primary workers in the business. According to Giddens (1984) the informal and formal trade interaction have evolved the shared meaning of production, subjectivity and individual capability.

(Olsen & Pedersen 2003 :165) cite the notion of jua kali and the sector as part of a social construct. The participants and agents in the sector have been accustomed to the distinction between the formal and informal sector therefore this gives a basis to analyse and understand the agents and the social-economic reality of both sectors, as relates to the real world consequences of the informal economy.

A number of scholars have cited theories, models and concepts concerning the informal sector. The notion that the informal economy is comprises of informal entrepreneurs who volunteer or choose to work informally has been the mainstream economist view (Maloney 2004) Observations of other economists also indicate that informal employment tends to expand during downturns and economic crises suggesting that a lack of choice as well as necessity that is precipitated by the both economic and social factors lead to the growth of the informal sector (Maloney 2004). Using the theory of structure and agency as presented by (Giddens 1984) serves as a basis to review the operational and analytical focus of informality on agency and institution or structures of the informal, formal and government sectors. “agency is referred to as individualistic, voluntaristic or action sociology, and is contrasted with holistic, deterministic or structuralist sociology” (Awortwe-Abban, 2009:7)
Giddens cites that human societies and the process of structuration are an ongoing phenomenon where social agent’s role becomes transformational in relation to the structures within a society. The society are therefore continuously reconstructed by human beings who are also the building blocks of the society (Giddens 2006 in Awortwe- Abban 2009). Hence the jua kali informal sector is shaped by the formal regulatory and legislative structure as well as the societal structure that determine how they are socialized towards entrepreneurship and their means of livelihood based on Giddens outlook. This position acts as the lens to determine the interaction towards mainstreaming of the informal sector with the formal and government sectors.

Human social activities are continually recreated as the social environment influences them. This is the basis on which the structure that the jua kali have and the attendant activities are made possible (Giddens 1984). Through the structuration theory the learning and exploration and analysis through the focus on individual experiences in terms of social changes and cultures makes the learning of the workplace possible. Structuration furthers enabled the theoretical framework to analyse the jua kali trade at a micro business level and identify the socialization and culture that has influenced the informal sector over the past 4 decades. Scholars over the years have identified a relationship between the migration of labour and the informal jua kali sector as the unemployed tend to move form rural to urban areas in search of employment opportunities and a livelihood in order to facilitate remittances to their families who remain in the rural
areas. This is usually a conscious decision by the families where the women remain in the rural area and engage in subsistence farming, chicken rearing, bee keeping, zero grazing and other such activities. This is a means for the family spread their assets geographically and ensure financial stability. The initial objective is usually to join formal employment in blue collar work. Their relatives house them until they are able to fend for themselves and they in turn help with the household chores. In most cases the dream of formal employment is not fulfilled and hence they end up joining the informal sector.

2.7 Empirical review on perspectives of mainstreaming

The Micro and Small Enterprises plays a significant role in the global economy constituting 99% of the world’s small enterprises (Capital Markets Authority 2010). In Kenya the MSE popularly referred to as the jua kali sector contributes over 80% of the countries employment and over 40% of Kenya’s Gross Domestic Product (KNBS 2012). The growth of the MSE in Kenya have been an important aspect basis for the breeding ground for entrepreneurship, employment and sustainable job creation as well as an income generator towards the reduction of poverty. (Kathure 2005) the MSE baseline survey of 1999 indicated that the number of enterprises in the MSE informal sector had grown form 910,000 in 1993 to approximately 1.3 million six years later in 1999 (GOK 1999). This sector is estimated to contribute up to 30% of total employment in Kenya and 3% of GDP (KIPRA 2002). Scholars have also noted that the MSE sector
provides significant advantage and potential for employment at low capital cost. According to (GOK 2004) the MSE sector was employing an estimated 31 million people spread over 12.8 million enterprises. This is usually precipitated by retrenchments in both public and private sectors.

The sector growth has been slow and inundated with a number of challenges especially relating to access to financial resources and sustainable capacity building in skills and its workforce (Capital Markets Authority 2010) Most jua kali enterprises lack creditworthiness and management capacity due to the standard regulations that govern financial institutions in the assessment of creditworthiness. Financial institutions accessing the jua kali enterprises classify them as high credit risk due to the lack of proper financial records, weak management structures and lack of the collateral required. The jua kali enterprises are therefore unable to access the much needed funds. Stringent loan conditions the lengthy loan approval processes as well as the high transaction cost for loans create added constraints for their access to funds (Kariuki 1995).

In Kenya the general view of the informal sector has been described as any activity generating income and in some cases a modest profit on a small scale using simple skills. These micro businesses are referred to as jug kali and the artisans tend to be dynamic and enterprising but do not adhere to legislation and regulation. They engage in petty trade activities that include tinsmithing, woodwork, Kisii soapstone sculpturing, masonry, carpentry, selling of second
hand clothes, food selling shoe shining, repair and construction, among other similar petty trading. Such activities include: vegetable selling, street vendors, masonry, carpentry, etc.

The informal sectors’ *jua kali* name is borne from the working conditions of this micro enterprises which is usually under the sun beating on their heads and backs while working on metal, wood or selling wares on the streets. The work involved is done under these hard harsh conditions which tend to be unsafe, unregulated and unsuitable for labour.

Most of these enterprises are home based, small scale and at a subsistence level. They comprise few employees have poor access to most amenities including electricity, water and trading locations. Have few usually unskilled or semi skilled employees who also tend to be family members. May run their businesses for short periods especially if they do not have a ready market for their wares as few sell outside the establishments where they trade and live (World Bank 2006, p.32)

The Kenyan government has acknowledged the importance of the *jua kali* sector and sees the potential and ability of the micro enterprises in the informal sector to contribute towards creation of decent jobs, wealth and industrialization. With micro enterprise sector comprising 95% of the countries’ business and entrepreneurs hence the government recognizes that the sector is large and dynamic.
However only 37% of the employment for the urban population is found within the micro enterprises sector hence the low level of skill.

In the past there have been public programs aimed at providing technical training for the micro entrepreneurs however the vast majority of this training failed to train the entrepreneurs on how to develop their own businesses or find employment in the informal sector. Efforts have also been made by the Kenya government to engage the formal sector in training people without success, with training programs established through the local youth polytechnics. The funds allocated to the programme were embezzles and the intended skill development and training was not achieved (King 1996, pg.296). The Kenyan government subsequently established a Ministry of Technical Training and Applied Technology (MTTAT) mandated to develop training programs for the informal sector. The World Bank in now aiding the government in collaborating with the private sector to identify programmes aimed at improving both the technical and entrepreneurial skills of the micro enterprise *jua kali* sector in an ever changing and competitive market.

The partnership between the Kenyan government and The World Bank has the long term goal of ensuring the micro and small enterprise training and technology project removes obstacles and increases employment and profit making in the informal sector, but also enhances private sector development interaction with the informal sector. This could form the basis of the beginning of the mainstreaming process for the micro enterprise informal sector as the
projects target enterprises with between one to fifty workers in major peri urban and urban areas. Provision of incentives to increase women’s representation in a largely male dominated field is seen as a means of empowering women in income generation and productivity.

The review of legislation and policies showed that limitations in informal sector development and mainstreaming could be attributed to inappropriate policy design, a weak implementation framework and failure to institute and effectively monitor policy implementation. In the past, the policy formulation process and design were not consultative and were largely driven by government. As a result, the policies failed to address the specific needs of the target group and lacked ownership by key stakeholders (GOK 2003). These shortcomings had led, in some cases, to insurmountable difficulties in the operations of the jua kali informal sector, resulting in many of the entrepreneurs in the sector closing their businesses or not achieving the capacity required for mainstreaming with the formal sector blue chip companies (GOK 2008).

From the desk research it was apparent that there was no policy provision for an institutional mechanism to promote consultation and coordination of stakeholders in the informal sector with the formal blue chip companies and government sector. Earlier policy documents had failed to address the critical areas of delegation of responsibility and follow-up of implementation to identify who was responsible for the various tasks listed in the policies. In some
instances, the lack of clarity of the roles and responsibilities of various stakeholders had led to conflicting signals. At the operational level, poor coordination had led to duplication of efforts and sub-optimal utilization of scarce resources. The lack of a coherent monitoring and evaluation mechanism had hindered the follow up of progress on policy implementation in order to identify policy gaps, take corrective measures, develop a feedback mechanism, or assess the impact of these policies (GOK 2005).

It has been reported that government policy makers have a low exposure and awareness of, the nature of businesses in the *jua kali* informal sector. The traditional approach to vocational and technical training has not addressed the required skills set needed by the *jua kali* informal sector for business start-up, survival and growth stages. Most of the institutions providing entrepreneurship and business development training suffer from inadequate capacity. They are therefore unable to offer training for the wide range of *jua kali* informal sector trade requirements. Consequently, potential entrepreneurs enter the sector unprepared, while existing traders continue to underperform in their operations as evidenced by the Head of MSME project secretariat in the Ministry of Industrialization (Njeru, J 2009, pers. comm., January 2009).

It has also been acknowledged that as long as the informal sector in the economy remains small and is denied necessary services such as infrastructure provision, microfinance, and concessions in taxation, the dichotomy between the formal blue chip companies and the *jua
*kali* informal sectors cannot be meaningfully addressed. It has been recognized that the government sector economic recovery strategy must seek to provide infrastructure and financial services as a priority to micro enterprises in order to facilitate wealth creation and therefore progressively eliminate the dichotomy between the formal blue chip companies and the *jua kali* informal sectors (GOK 2003).

However, there has been no provision in government policies for an institutional mechanism to promote consultation and coordination between stakeholders in the government and *jua kali* entrepreneurs in the informal sector. In some instances, the lack of clarity of roles and responsibilities of various stakeholders has led to conflicting signals being passed to the informal sector at an operational level. Poor coordination has led to duplication of efforts and sub-optimal utilization of scarce resources. It is acknowledged that little success has been achieved in the mainstreaming process due to the failure to follow up on the progress of policy implementation, take corrective measures, or develop feedback mechanisms (GOK 2005).

These problems have been exacerbated by inadequacies in education and training. According to the interview with the head of the Micro Small and Medium Enterprises (MSME) Project Secretariat in the Ministry of Industrialization, conducted in January 2009, the slow integration of technical entrepreneurial training into the country’s educational system has slowed down the mainstreaming of the informal sector. The traditional curriculum for vocational and technical training does not address the required skills in the informal sector at
the business start-up, survival and growth stages. Despite the availability of vocational and technical schools, the informal sector continues to remain unprepared. Most of the vocational and technical institutions providing entrepreneurship and business development training suffer from inadequate capacity and are therefore unable to offer appropriate training as evidenced by the Head of MSMS project secretariat in the Ministry of Industrialization (Njeru, J 2009, pers. comm., January 2009). The enactment of the Micro and Small Enterprise Act in 2006 was meant to improve the situation of MSMEs however, at the time that the study impact of this legislation was still low.

Over the years, the Government of Kenya has recognised the need to remove or reduce unnecessary regulatory barriers affecting MSMEs. In an effort to address the restrictive environment there have been a number of interventions by both the government and formal sector partners. The United Kingdoms’ Department for International Development (DFID) supported the government in setting up the Deregulation Section (DS) within the Ministry of Planning and National Development as a means of removing restrictive regulations which inhibit economic activity (K’Obonyo et al. 1999).

The initiative of the single business permit and the Registration of Business Names Act (Cap 499, Laws of Kenya) is clear about registration requirements. However, less than half of respondents from the informal sector knew about the single business permit and even fewer knew that they should register with the Attorney Generals’
Chambers. Other *jua kali* informal sector respondents believed that they had to register with the Ministry of Social Services, the Ministry of Health or the Fisheries Department, none of which have any role in this regard. The study also showed that non-compliance fuelled the payment of ‘kitu kidogo’ (street slang for a bribe). Non-payment of bribes resulted in Council authorities either confiscating traders’ goods or closing their businesses and evicting them from their stalls.

In an earlier benchmark study K’Obonyo et al. (1999) assessed the perceptions of the public and policy makers on the importance and benefits of a regulated and de-regulated environment for MSMEs as well as the governments’ ability and commitment to put de-regulation in place. Members of the public, suppliers, consumers and those staying near the markets felt that there were a number of problems for MSMEs. However, despite the positives of employment opportunities and income generation from MSMEs, interviewees had mixed views about the importance and benefits of regulations, with the majority pointing out that regulations encouraged corruption and only large businesses should be subjected to registration and licensing. Evidence from government officials supported the general need for making the regulatory framework simpler and fairer. The main concern was in the area of public health, where members of the public wanted strict and well-enforced regulations to ensure that the informal sector were encouraged to conduct legitimate business (K’Obonyo 1999)
K’Obonyo et al. (1999) benchmark study also found that enterprises could benefit substantially from the simplification of the regulation process. Time was found to be the largest single cost of complying with the registration of business names act. This was because all registration was carried out in Nairobi, forcing business owners located in various Kenyan towns to take considerable travel time to travel to Nairobi to apply for the license. Decentralising the registration process would substantially reduce the costs to the jua kali entrepreneurs without diminishing government revenue. The study found that non-compliance is also costly, especially the jua kali businesses suffered from punitive measures taken by the central government or by local authorities such as closing down of business premises or confiscation of goods that the business was selling. It is not surprising; therefore, that many businesses choose to facilitate the non-compliance process through financial facilitation of government officials to avoid these consequences (K’Obonyo et al.1999).

In reviewing secondary data on government policies as well as the discussions conducted with the government sector respondents, it was evident that policy makers were aware of the local government circular about the need for deregulation. They acknowledged the fact that procedures of licensing are cumbersome and that deregulation is necessary. Some county councils had begun re-organising departments involved in licensing in preparation for the de-regulation programme requirement of a one stop office for handling all matters
of licensing. However, policy makers at the Ministry of Trade were concerned that the implementation of the one-stop licensing policy would create unemployment for the many officers who had been dealing with issuing licenses (K’Obonyo 1999).

Comparison between the K’Obonyo et al. (1999) benchmark study of government sector actions and perceptions regarding mainstreaming and the results of the research study carried out a decade later, show that there have been few beneficial developments in the previous years.

**Policy development**

Earlier studies and this study show the evolution of government policies for mainstreaming the *jua kali* informal sector into Kenya’s economy. The findings indicate that the government regulatory environment, as it relates to the *jua kali*, can be broadly categorized into two phases. The earlier policy environment covers the period from 1992–2005, while the later policy environment covers the period from 2006 to 2009, when this research study was conducted.

Government policies use three categories of enterprises for policy and regulatory purposes namely, micro-firms include enterprises employing between 1-10 employees, small firms employing 11-50 employees and medium size firms employing 51-100 people. Firms with more than 100 employees are considered to be large firms and in most cases are within the formal sector category (GOK 2008). Following from this *jua kali* sector discussed in Chapter 4 would be
considered in government policy terms as the micro enterprise sector. Indeed, the survey found that most of the entrepreneurs in the *jua kali* sector employ between 1 and 3 people, and usually on a temporary basis. Government policies recognize that this micro enterprise sector is of considerable importance. According to the 2003 national economic survey commissioned by the Kenyan government, employment within this sector increased from 4.2 million in 2000 to 5.1 million in 2002 and accounted for 74.2% of total employment in Kenya, contributing up to 18.4% of the country’s GDP Nyanjwa (2008). Sessional Paper No. 2 of 2005. Ouma et al. (2007) estimate that the informal sector accounts for 34.3% of the population. Over 60% of those working in the informal sector are aged between 18 and 35, and 50% are women.

Given the acknowledged importance of the informal sector, the government has put in place policies and regulations geared towards its development. Sessional Paper No. 2 of 1992 on Small Enterprise and *Jua Kali* Development in Kenya highlights the policy interventions that the government has considered. This paper followed from the recommendations of Sessional Paper No. 1 of 1986 on economic management for renewed growth as the initial policy initiative to give explicit recognition to the sector’s role in economic growth and development. Sessional Paper No. 2 of 1992 emphasized the need to create an enabling environment through an appropriate legal and regulatory framework and put in place facilitative measures to promote the growth of the sector.
These earlier policy documents and sessional papers from the period between 1970 to 2000 demonstrate that the government has acknowledged the potential of the informal sector to create employment and reduce poverty. The weakness rather lies in the implementation, monitoring and evaluation phase of the policy development. There is evidence of the lack of policy implementation from the findings of the informal sector survey, where there is little evidence or understanding of government interventions that have been implemented in the past towards the mainstreaming process. From the government policy perspective, the lack of a coherent monitoring and evaluation mechanism further hinders the follow up of progress on policy implementation. This makes it difficult to determine policy gaps, take corrective measures, develop feedback mechanisms and assess the impact of the policies on the ground as evidenced by Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)

These issues have not been conclusively addressed in government policy documents.

Poverty and its effects on the population, therefore, have been a fundamental focus for the development of government policies in Kenya. Nationwide poverty levels rose from 43.8% in 1994 to 52.3% in 1997. A similar trend was noted in the rural areas, which had seen an increase from 46.8% to 52.9%. In urban areas poverty levels during the same period (1994-1997) rose from just under 29% to just over 49% changing the previously held perception that poverty was
predominantly a rural phenomenon (GOK 2003). A review conducted in 2000 estimated that 56% of Kenyans lived below the poverty line, 17 million of Kenya’s population of 30 million people, Kenya Agency for Development of Enterprise and Technology (KADET 2005). The government reiterated its commitment to addressing this situation through its Poverty Reduction Strategy Paper. In this strategy paper, food expenditure by households, evaluation of food energy intake and the allowance made for non-food expenditure were reviewed. From this, the poverty line was placed at approximately $14.9 per month per adult in rural areas and approximately $39.9 in urban areas (GOK 1998).

The policy making process in Kenya has faced criticism due to its seemingly unrelated processes. This led to the development of the medium term expenditure framework and the poverty reduction strategy paper, which focussed on short term interventions. In contrast, the National Development Plan and the National Poverty Eradication Plan were developed to cater for the medium and long term (GOK 2002).

The Interim Poverty Reduction Strategy, put in place in 2000, comprised five basic components: facilitating sustained rapid economic growth; improved governance and security; improved quality of life for the poor; enhanced participation of the poor in the economy and facilitation of the ability to generate sustainable income (Mule et al. 2003). The Poverty Reduction Strategy Paper was then built up, in 2001, from nine sectorial working groups: information
technology; human resource development; agriculture and rural development; public administration and safety; law and order; physical infrastructure; trade tourism and industry; national security; and macro-economic policy. This was intended to both reduce poverty and create economic growth, especially for small enterprises and for the poor (GOK 2003). Despite the development of this policy and a monitoring system for the strategy, the government’s commitment to implementation was still unclear.

In parallel, the Economic Recovery Strategy for Wealth and Employment Creation for the period 2003-2007, developed by the Ministry of Planning in 2003, recognised the need to mainstream the informal sector as part of the Macro Economic Framework. The policy emphasized the importance of the government’s ability to create 500,000 jobs annually as this would achieve poverty reduction, economic recovery and growth in Kenya (GOK 2003). The government acknowledged that the informal sector and small enterprises would continue to comprise the bulk of job creation opportunities. This influenced the government to focus on small business enterprises during the recovery period. The expectation was that, over the planned period, a total of 2.6m jobs would be created, with 88% coming from small business and the remainder from the formal sector (GOK 2003).

The challenges of developing coherent policies and ensuring their effective implementation characterized the 24 years of government under the Kenya African National Union (KANU). With the ascension
to power of the National Rainbow Coalition (NARC) in 2007 it was reasonable to hope that the government would focus on issues related to poverty. However, the challenge has been in matching the pre–election manifesto of NARC to subsequent policy implementation. The first step was the development of the Medium Term Expenditure Framework (MTEF) that was intended to outline priorities for the allocation of resources and to devise measures for the most effective implementation of policies and expenditure programmes. This was intended, in turn, to determine the extent of the financial resources needed in the planning of financial policy commitments and goals that would be considered and approved by the government over the following three to five years. Focus areas included setting fiscal targets, estimating costs of existing policies, establishing an institutional mechanism for evaluating trade-offs to be made, and enhancing predictability and transparency.

Policies under the NARC government have been guided by Kenya’s developmental blueprint, Vision 2030, by Sessional Paper No. 2 of 2005 on the development of small and micro enterprises for wealth and employment creation for poverty reduction, and by the Micro Finance Act of 2006. Vision 2030 aims at making the informal sector efficient, multi-tiered, diversified in product range and innovative. In Sessional Paper No. 2 of 2005 the government undertook to address the issues affecting the development and mainstreaming of the informal sector into the national economic framework in line with
Vision 2030, resulting in a ‘globally competitive and prosperous Kenya’ (GOK. 2007d).

Vision 2030 was implemented through a five-year rolling plan, with performance evaluation and monitoring against a set of benchmarks. The following issues were prioritised: informal sector linkages with large formal sector enterprises; the legal and regulatory environment; policy environment; business skills; taxation systems; access to financial services; gender issues affecting the informal sector; and health and safety standards in work places (GOK. 2007d).

In an interview carried out as part of this research, the Director of Industrial Relations in the Ministry of Labour commented that, through Vision 2030, the government was aiming to promote a strong Kenyan economy into which informal sector organizations are effectively integrated and are therefore able to make a significant contribution in the production of goods and services. Policies emphasized the role of markets, seeking to make them more accessible. The government objective for the sector was to promote the number and competitiveness of informal sector enterprises by reducing the cost of doing business and generally creating a more favourable environment for business to thrive, while improving the quality of employment in the sector in order to integrate informal sector traders into the national economic grid as evidenced by Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)
To achieve this integration, policies were aimed at promoting medium and small enterprises in the formal and informal economies, including commercial small-scale agriculture, in a framework that would encourage all forms of linkages. Consequently, the definition of the MSE sector was expanded to include all enterprises across the agricultural and non-agricultural sectors that employ fewer than 50 persons. The government also took the initiative to improve the effectiveness of existing institutions and associations through the establishment of a national council for small enterprises and in December 2008, through operationalizing the provisions of the Micro and Small Enterprises Act of 2006. This was intended to strengthen policy coordination, the MSE institutions’ legal framework, as well as to oversee the implementation, monitoring and evaluation of policies. Other interventions that the Government undertook to implement through Vision 2030 included establishing partnerships between key stakeholders, including MSE entrepreneurs, the private sector, civil society, NGOs and development partners. Here, the intention was to promote dialogue amongst groups as a forum for sharing learning and harnessing synergy in resource mobilization as evidenced by Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)

2.8 Summary on barriers to mainstreaming

Evidently, the challenges of integrating the informal sector of developing economies with the formal sector have been seen from a range of perspectives. The literature on these perspectives has
revealed a number of barriers that will need to be overcome before mainstreaming can be achieved.

Firstly, there may often be suspicion of, or active resistance to, measures proposed or imposed by the state (Luiz 2002; Collier 2008). The OECD (2006), for example, lists these barriers as regulatory, administrative, and financial and those occasioned by social or cultural attitudes. Corruption in public administration, lack of key business services and criminality create additional challenges and are all aspects that may inhibit or prevent mainstreaming. The OECD (2006) sees the initiation of dialogue through town hall meetings, talk shows, focus groups and community gatherings as beneficial in assisting with understanding, and in eliminating, barriers to mainstreaming. These approaches may also serve to demonstrate the value of entrepreneurship, and may result in an intimate understanding of the enabling environment that is required to achieve the required outcomes (OECD, 2006).

Secondly, there may be a range of more specific financial barriers to mainstreaming. Atieno (2001) has argued that the informal sector’s access to finance and microcredit is hindered by a range of factors: unrealistic parameters set by lenders for the informal sector; lack of flexibility in banking and financial loan requirements; the inability of the informal sector to provide collateral or security against loans; and long lead times in repayment terms, which in turn result in an escalation in interest rates and high default rate.
The Grameen Bank’s experience has shown that most of the conditions imposed by formal credit institutions, such as collateral requirements, need not stand in the way of small traders and the poor in obtaining credit. The poor can use loans and repay them if effective and relevant procedures for disbursement, supervision and repayment are established. However, formal financial institutions have not adequately addressed conditions for extending credit to the informal sector. In such circumstances of imperfect information and uncertainty, informal financial agents may have comparative advantages in serving a large share of Africa’s population. In the medium term, expanding the role of informal institutions appears to be an efficient way to reduce financial polarity and increase access of the informal sector to financial services (Steele 1997).

Evaluating informal finance through social networks provides insights that, in turn, may inform innovation and the policies that may be required in order to empower the poor and improve their access to financial services. The relationship, characteristics, and structure of such social networks, and the nature of the relationship between the provider and recipient of informal finance, may determine the level of economic transfer that takes place (Hogset 2005).

Data collected in 2003–2004 in Kenya’s Embu and Vihiga districts showed that transfers can be provided in three forms: cash, kind or exchange of labour. Cash providers tend to be in occupations with steady income (teachers, civil servants and military officers, for example) whilst the recipients of this form of finance may be priests,
missionaries or preachers who would be representing or acting as middlemen for charitable causes. Other considerations in the provision of these forms of informal finance are the physical distance between provider and recipient, family relations and gender with men tending to receive higher loans than women (Hogset 2005). Transfers in kind tend to be low in value and common amongst women farmers, comprising farm inputs and implements. Labour exchange tends to be amongst families, with women being the main recipients, and occurs amongst older persons (Hogset 2005). Insights from studies such as these suggest ways in which barriers to mainstreaming may be overcome.

Thirdly, there is a set of practical barriers to mainstreaming. For example, firms may have the opportunity of outsourcing non-core activities to the informal sector, but may remain reluctant to do so because of the belief that the informal sector cannot guarantee consistent quality or ensure their workers have the discipline required to meet deadlines. The informal sector also tends to have long learning cycles and requires continuous support during such attempts at integration. Formal sector business reward systems are based on short delivery timing, which does not lend itself to informal sector approaches to business (Luiz 2002). Payment terms may need to be changed from credit of up to 120 days to cash on delivery, as the informal sector may often not have credit or overdraft facilities. Storage and warehousing facilities may also not be available, therefore requiring smaller and more regular contracts instead of less
frequent bulk orders (Luiz 2002). All of these factors may act as practical constraints on the development of entrepreneurship and of mainstreaming.

Contrary to the expectation of much of the early development literature, the informal sector has not only persisted but has also grown in many developing countries, particularly in Africa. This growth has occurred in conjunction with increased globalization, liberalization and the opening up of economies. In turn, these trends have provoked debate about the link between such processes and the informal sector.

In these debates, it is often argued that the poor, the majority of whom comprise women, lose out in a globalized world as multinationals seek to exploit low labour costs in developing countries. The empirical evidence, though incomplete, suggests that both winners and losers exist as a consequence of these forces. The debate stimulated by the “bottom on the pyramid” model further highlights the wealth that multinational companies can seek to exploit from targeting the informal sector.

In seeking to mainstream the informal sector into formal economies it has been argued that the primary goal for policy makers in Africa should be to remove barriers that prevent the reallocation of resources and the mobility of labour between the formal and informal sectors. These barriers include labour market rigidities caused by the
regulation of businesses, by inappropriate taxation, by lack of appropriate or sufficient training and by poor facilitation for the provision of credit facilities.

In addition, it has been argued that governments should realize that the onus is on them to provide policies, infrastructure, education and health care that can support effective mainstreaming. By removing these constraints, the informal/formal dualism in the labour market will be diminished. This will serve to move the debate from one about the differences between the sectors, to consideration of the need to promote economic growth and job creation in the economy through mainstreaming whilst extending worker protection, social security and benefits to mitigate any short-term unemployment and earning volatility.

A key component of this agenda for Africa is to improve the collection of accurate data and the analysis of such data for the informal sector in its most basic form. Given that the informal sector is so heterogeneous in nature, the objective is to identify those segments within the labour market that will be fundamental to the mainstreaming process. Contributing to this understanding is a primary objective of this thesis, and is the focus of the chapters that follow.
CHAPTER 3

METHODOLOGY

3.1 Introduction

The primary objective of the research reported in this thesis is to identify what would be required to integrate the informal sector into the formal sector, in a way that is enabled by appropriate government policy. The area of focus is Kenya, a country which exemplifies many of the challenges of developing economies in Africa, and which offers a rich potential for collecting primary data that can contribute a deeper understanding of the processes of mainstreaming. This chapter sets out the methodology that was adopted in working with the informal sector – the primary area of emphasis – and also in collecting evidence from the formal sector and from key government agencies in Kenya.

As the review of the relevant literature has shown, there is a long history of consideration and debate about the challenges of economic development and the ways of improving economic integration. At the same time, though, both external developments and internal forces can stimulate rapid and unexpected changes, particularly for the lives and livelihoods of vulnerable communities. Consequently, it is important to note that the primary research described in this dissertation was carried out over a specific period of time. Interviews
with informal sector practitioners and the administration of associated questionnaires took place in 2008. The collection of additional information from firms in Nairobi and from government officials took place later in the same year. Consequently, the conclusions drawn from these sources of evidence represent the stage of mainstreaming that had been achieved in Kenya in the first decade of the new millennium.

The focus for understanding the informal factor was on the informal sector that operates in three of the largest jua kali markets in Nairobi - Gikomba, Kawangware and Kariobangi. The nature of the informal jua kali sector meant that it was necessary for me to immerse myself in the daily lives and struggles of these traders in order to understand their key issues and, by extension, the barriers they faced in integrating with the formal economy. This required a methodology that combined description and collection of narrative accounts with the administration of questionnaires. As there are no reliable measures of the overall size and composition of the jua kali markets, most forms of random sampling and statistical inference were inappropriate. At the same time, though, a methodology that was limited to ethnographic-style observation and narrative would have risked the restriction of this research to a small group of traders that was unrepresentative of the diversity of the jua kali economy. The methodology adopted here avoids these pitfalls.

In order to achieve these objectives, I had to spend a lot of time with these traders over a number of weeks. I interacted with as many
traders as possible as a means of ensuring they became comfortable talking to me, as they would see me in the market repeatedly and would observe me engaged with other traders and sitting around in their sheds as they served their customers. This approach also helped me understand how traders interacted with their clients and were able to gain their clients’ loyalty once they began making items for them. This methodology required the collection of a large amount of data to avoid false assumptions based on initial interactions and impressions (Iacono et al. 2009; Hancock et al. 2007).

Responses by traders to this approach varied. Some were open when I first met them whilst others were guarded and were only able to open up after I had spent time with them, answering questions they asked as well as enabling them to be comfortable and to be forthcoming with information once they accepted that we were indeed collecting data for a university project. Often, they then felt that it was to their advantage to have someone document their plight. They felt this would also help reach the ‘authorities’, as they referred to them, to make government aware of the seriousness of their trade. In light of this I selected an ethnography research approach was suited to the environment in which I had to collect the data in the markets. The jua kali traders were apprehensive initially and required me and my male companion who acted as my escort to spend a lot of time in the market both observing the jua kali traders at work. Listening in on their interactions with their potential customers in order for them to be at ease with engaging us in answering the questionnaire for the
study. The interaction with the traders required patience, as the *jua kali* artisans were only willing to respond to the questions when they were not busy with customers or when they took a break. The casual approach and interaction with the *jua kali* artisans sitting in their sheds speaking to them in ‘sheng’ which is street Swahili language made them comfortable that I was vested in understanding and documenting their challenges and plight as a means of giving them a voice.

In total, I collected data from 539 traders operating at Gikomba, Kawangware and Kariobangi. These markets are characterised by crowding, large numbers of people and a comparatively high degree of personal insecurity. In order to conduct the research, I had to be accompanied by a male colleague who was conversant with the alleys within the market, as this provided both protection as well as a sense of belonging which put the traders at ease when we identified ourselves as carrying out a research study for a university programme.

This information from the *jua kali* informal sector was complemented by interviews with staff occupying key positions in companies prominent in Nairobi’s formal business sector. The methodology for these interviews, and the rationale for the selection of the companies, is set out below. In essence, their purpose was to test propositions about mainstreaming, identified in the literature review in Chapter 2, with the experiences and perceptions of informal traders that had been revealed by the fieldwork. In addition, and where required,
interviews were conducted with key officials in Kenyan government agencies, complementing the desk review of legislation and government policy positions. Taken together, this corpus of new information has provided a rich source of insight into the state of integration of the informal and formal sectors of Kenya’s economy at this particular point in the country’s history.

3.2 Data Collection

Primary research in the informal sector depended on an in-depth interview guide. This formed the basis of the conversations with traders. Willingness to provide information depended on the time of day and how busy trade was. Where possible, I collected any information that was offered about the sector, as well as observations about the formal sector and the government. I also noted innovations made by some jua kali to gain competitive advantage. At the end of each day the data that had been collected was summarised, paying attention to both gaps and new insights in order to refine the on-going process of interviews.

The overall sample population was not predetermined but was rather informed by respondent feedback as the research project evolved. In the initial stages of the study respondents tended to be cautious about revealing information. This required that I interview a large number of traders within each of the three markets to begin to identify significant patterns.
A second set of interviews was then carried out for the formal sector, where face-to-face meetings were set up with both procurement and marketing officials as the personnel tasked with the selection of suppliers for the outsourcing of services. These interviews were drawn from blue-chip companies listed on the Nairobi securities exchange that already sourced services from the informal sector, either as part of their Corporate Social Responsibility activities or as sub-contracts through registered suppliers for non-core services. Where possible, desk research was also carried out to discern past activities with the informal sector.

A third set of interviews was carried out with state officials to verify the desk research that had been conducted on legislation, government circulars on informal sector trade in Kenya, and on government sessional papers on strategies to manage and mainstream the informal sector.

3.3 Study area selection

This study was based in Nairobi, the capital city of Kenya. Nairobi provides robust examples of all three sectors engaged in mainstreaming; formal, informal and government. This choice of study area has ensured that each of these sectors is adequately represented in their contribution to achieving the research objectives.
The informal sector study was carried out in the three largest jua kali market centres in Nairobi; Gikomba, Kariobangi and Kawangware (Diagram 3.1).

Gikomba jua kali market is situated in the central business district of Nairobi and is located near the Machakos bus terminus, the busiest bus terminus in Kenya, that spreads out to the east of Nairobi in the Kayole, Dandora and Jericho areas. Gikomba is also referred to as ‘Eastlands’ and houses about 720 stalls (Akoten et al. 2006).

Eastlands was the African quarters during the colonial period. Like most large jua kali markets, Gikomba was established after Kenya’s
independence in 1963 as a means of livelihood by the unemployed and landless African populace that emerged during this period. The original traders started trading in the 1980s and today the market has more than 4000 traders and continues to grow. Gikomba market also includes Nairobi’s largest second-hand clothes market, with clothes trading stalls stretching some four kilometers of stalls through the market.

Diagram 3.2: Gikomba market

The second market studied was Kawangware, which borders one of the largest slums in Nairobi. Kawangware is situated approximately 12km to the west of the CBD and spans about two kilometers. As with Gikomba, Kawangware originated in settlement by the poor around the Dagoretti area, which is next to Kawangware, and the subsequent
establishment of informal trade within the surrounding area as a means of a livelihood for the slum dwellers living here.

Diagram 3.3 Kawangware jua kali market

Diagram 3.4 Kawangware jua kali artisans
The third market, Kariobangi, is located on the north eastern side of the Nairobi CBD. Kariobangi is split into Kariobangi north and Kariobangi south. Slum settlements and structures in Kariobangi north were set up as early as 1961. However, Kariobangi south has emerged as the faster growing residential and industrial dwelling area and hence the *jua kali* market has spread to this area as well. The Kariobangi *jua kali* market as a whole comprised about 2000 stalls by the late 1990s (McCormick 1998) and has continued to expand since then.

*Diagram 3.5: Kariobangi aerial view*

All the three markets have high densities, as each of them is adjacent to a slum area. These markets are comprised of traders from the three largest ethnic groups in Kenya. Kawangware, bordering the
Dagoretti and Kawangware slum areas, comprises mainly Kikuyu traders. Kariobangi - bordering the Kariobangi, Umoja, Outer ring, and Mukuru kwa Njenga slums - comprises mainly Luhya and Luo traders. Gikomba, which is in close proximity to the CBD, tends to have traders from most Kenyan tribes represented and includes Kamba (11% of Kenya’s population), Luo (13%), Luyha (14%) and Kikuyu (22%) (CIA World Fact Book, 2006).

Diagram 3.6 Ethnic dispersion in Kenya.

These jua kali markets are located in areas that are commonly referred to as downtown, in old and poorly planned parts of the city. They mainly comprise semi-permanent structures and shacks made
out of tin, wood and cardboard (Diagram 3.7). Due to the crowding and dense population security is usually poor. In conducting the research, I had to adopt an inconspicuous dress code comprising sneakers, headscarf and simple shirt and trousers with no accessories in order to ‘blend’ into the environment and put the traders at ease during the interview process. I was also accompanied by a man for the interviews with the micro-entrepreneurs, most of who were men. Most of the traders do not comply with government regulations and were initially suspicious about the study. I had to ensure that they were comfortable that the interview was not being conducted by a government official looking to gather evidence on their status on tax and trade regulation compliance.

*Diagram 3.7: Bird’s eye-view of the city stadium jua kali trading site (Field Survey 2009)*
3.4 Engaging with the informal sector

The field research had to be conducted during working hours on weekdays, as this was when traders had time to talk whilst they were manufacturing their wares. Periods such as lunchtime, evenings and weekends comprised their peak selling periods, as this was when their customers would visit the sheds, making it difficult to find willing respondents for my research. The occasional female was also in trading in these markets, providing food for the traders. This food was cooked on site in makeshift kitchens, usually under a tree or at the corner of a permanent structure close to the market (Figure 3.8). Food vendors provided breakfast, which comprised ‘githeri’, boiled maize and beans, ‘chapati’ wheat based naan bread, maize cobs and tea or porridge. Lunch comprised the same meal options with the addition of ‘sukuma wiki’ kale and ‘ugali’ maize meal.
Most of the traders in the markets communicate using Swahili, the national language in Kenya. I was brought up in Nairobi and Swahili is taught throughout the education system in Kenya as a compulsory subject. Hence, like the majority of Kenyans, I can speak Kiswahili, which is the appropriate language of communication especially when interacting with informal sector, blue collar workers and the general public. Kiswahili language is also the second official language in all government offices after English.

Interview sessions comprised visits to the markets and a walk through the stalls, looking out for traders who were in their sheds working and were therefore ideal to approach as they were able to talk and continue working. Traders who were seated inside their
sheds taking a break also formed part of the sample. If the trader was already in conversation with a potential customer in their shed they typically would ask us to come ‘baadaye ama kesho’, ‘later or tomorrow’.

Interviews typically started with us approaching a shed and greeting the trader. If there was a bench or a crate or stone, which would act as a seat, we sat down and exchanged a few more pleasantries before stating our objective. We had to explain that we were students from the university studying aspects of the informal sector trade and specifically their jua kali trade to determine the difficulties they were facing.

The interviewing process had the added complexity of handwriting the respondents’ feedback, as attempts to record the interviewees were viewed with hostility; due to their non-compliance with regulatory requirements, traders did not want to risk being implicated with recorded evidence. At the same time, though, most universities in Kenya are part of the government public education system. Hence traders felt that, through these interviews, we would provide a forum to sensitize the government about their plight as traders. This encouraged them to talk to us.

Interviews also had to be carried out when it was not raining because the structures in the markets are semi-permanent sheds. When it rains, traders either have to shelter in neighbouring permanent structures or they have to find sections within their sheds that do not
leak (Diagram 3.9). It was therefore not possible to carry out interviews when it was raining.

*Diagram 3.9: Jua Kali shed structure in the background*

Some of the perspectives expressed by the respondents are reflected in the following comment:

‘Unajua serekali hawaangalii masilahi ya maskini. Sisi tuna fanya tu kazi na bidii na mapato yetu ni ndogo na bei za vitu zinazidi kupanda. Sijui kama wanafikiria wananchi’; ‘you know the government is not concerned about the plight of the poor. We put a lot of effort into our work, yet we make so little money and the prices of basic necessities
continue to rise. I do not know if the government thinks about the common man’.

These sentiments were echoed by many traders, indicating that they believe the government may not be fully aware of their struggles and the ‘poverty trap’ in which they are forced to remain.

The interview guide for the informal sector (Appendix 2) was designed to cover a respondent’s profile in terms of gender, age, level of education and family associations within the trade. The questionnaire then explored the structure of the business in terms of the number of employees, banking habits and reasons for going into informal trade for those who had previously been employed in the formal sector. There were further questions about goods produced, the number of years in business and the genesis of the enterprise. The questionnaire also explored sources of income and raw materials, interaction with suppliers of raw materials, where these materials were sourced, tools of the trade and how these had been acquired, and how and where traders had learned their skills.

Where a trader had employees working with him we sought to understand the recruitment criteria and remuneration structures. Respondents’ markets and customers were explored, along with the seasonality of their trade and any interaction they had with the formal sector, both through trade or provision of services. Lastly, arrangements for credit, terms of payments, sources of finance and interactions with formal financial institutions were recorded.
In the interviews, we also sought the perspectives of traders on how they could improve their businesses as well as their views on the possibilities for mainstreaming. Here, respondents were able to tell us which interventions by the formal sector they considered appropriate. These views are represented in the comments from a trader in Gikomba market:

‘Inafaa watujengee mahali yakuuza bidhaa zetu. Hawa watu wa City Council huwa wanatusumbua tukitaka kwenda kuuza kule town’; The government should build or find us a place to sell our products instead of letting the City Council people disturb us when we go to sell our wares in the central business district’.

trader from Kwangware market commented:

‘Kama tungeweza kuungana na serekali na hawa wadosi tuwe na mahali tuna weza kuwauzia bidhaa zetu hata waweze kuona kazi yetu ingekuwa poa’; ‘It would be good if government and rich business people would help traders find somewhere to sell their goods, so that they can see what the traders do and sell it would help grow our trade and businesses’.

A trader from Kariobangi market expressed the following concerns:

‘Na sasa serekali badala yakuambiya watu wanunue vitu zimetengenezwa hapa hi mambo wameachilia yamitumba ina tuumiza sana inafaa wapunguze hizi vitu za second hand’; ‘Now the government instead of encouraging Kenyans to buy locally produced
goods they have just ignored this task and have let second hand and cheap imports from abroad permeate our markets and this hurts our trade it is about time they reduced ease of entry for these goods that are available in the market’.

Respondents’ feedback was analysed at the end of each day and we captured any additional information that we gathered so that we could also discuss and compare the sentiments and views from traders from the different markets for similarities and differences. This data was then collated into an Excel sheet segmented by the primary profile data of all the respondents using codes for each of the questions (Appendix 5). All the responses recorded were then listed in the spreadsheet within the separate subtopics. Actual responses, frequency and a percentage of respondents and responses were recorded for all the collected data.

The subsections pertaining to the primary data were then grouped together and expressed as diagrams to reflect important findings pertaining to each of the sectors, and to highlight the key findings. These were consolidated into summary diagrams to represent groups of related data. For instance, the first round of interviews with the sector was treated as a single grouping of related data, which produced a single summary diagram. A high level diagram of the key emergent theme was produced to highlight the key findings within each sector.
3.5 Methodology for the formal sector

The study adopted a case study approach for the formal sector. Yin (1994) notes that the methodology of a case study enables in-depth understanding within a real life context. Darke et al. (1998) give three uses of case studies: providing descriptions of phenomena, developing propositions and testing theory. This approach has proved to be particularly useful in newer, less well-developed research areas, particularly where examination of the context and the dynamics of a situation are important.

For this research, a case study of blue chip companies listed on the Nairobi Securities Exchange (NSE) was used to evaluate the opportunities and constraints for mainstreaming the informal sector. The decision to select blue chip companies was based on the assumption that the size and capacity of a firm are important in determining the potential for interaction with the informal sector.

Following the selection of companies to be covered in the study, a contact list of the business and marketing directors within the organizations was generated. As I worked in the advertising industry and at the time of this study most of the selected companies were my clients, I was able to set up the initial interviews through my business relations. In developing the case study, an open-ended questionnaire was designed to guide the face-to-face discussions with respondents from each formal sector company (Appendix 3).
As the informal sector study was carried out before the formal sector research it was apparent that there was a need to conduct interviews with procurement managers in order to understand the role they play in the mainstreaming process. Appointments were made via telephone calls and followed up by a letter articulating the background and objectives of the study. Both formal and informal meetings were set up. Formal appointments were held in the respective organizations’ offices whilst the informal meetings were held in social settings. Respondents’ feedback was captured through recordings, which were later transcribed, and through hand written recording of the responses to the questionnaire during the interviews.

Procurement structures within several of the selected companies are complex, requiring lengthy processes and in some cases the approval of procurement committees. Procurement departments tend not to have a direct relationship with suppliers used by the marketing teams. This posed challenges for our research in the form of long lead times in setting up appointments with procurement managers and teams. Furthermore, most procurement departments proved to be risk averse, as they had primarily been set up to ensure stringent procurement processes to deter fraud and corruption within the organization.

Cancellation of appointments and reluctance by some organizations to divulge information on procurement related issues posed additional challenges in obtaining information on procurement structures and policies. Problems in accessing procurement and tendering records
for review coupled with bureaucracy made it difficult to access all the available respondents in the procurement department. The questionnaire was exhaustive and open ended and most of the respondents did not have adequate time to respond to all the questions. We therefore used a combined approach of telephone interviews and of leaving questionnaires behind for three to four days for review and completion by the respondents, followed by a face-to-face interview at the time of collection. This ensured we were able to collect the required information and data.

Literature on each organization’s procurement policies was reviewed to verify the collected information. Other corporate organizations’ procurement documents were also used to verify the collected data. Additionally, in some cases a second round of in-depth interviews was conducted for those questions that had a poor response rate.

At the onset of this research it had been assumed that the role of the government sector could be deduced from the formal and available documentation of legislation, regulations and policies. However, the collection of data from both the informal and the formal sector made it clear that important areas of government practice were not covered in the formal documentation. Because the literature review had shown that the state plays a significant and pivotal role in mainstreaming, it was decided to extend the data collection process to include interviews with key officials.
Informal sector responsibilities are distributed between seven government bodies in Kenya, comprising both ministries and institutes. These include the ministries of industrialization, trade, labour and manpower, planning and Vision 2030, the Kenya Institute of Public Policy Research and Analysis, the Kenya Intellectual Property Rights Institute and the Kenya National Bureau of Statistics.

Qualitative information was required from all of these ministries and institutes. An introductory letter was therefore sent to each government body, articulating the study’s objectives and providing details of the researcher and the required information for this thesis. An in-depth interview questionnaire for the government sector was designed, that probed the specific job roles of the respondents (Appendix 4). Clarification on key documents was obtained through informal discussions with the responsible government officials at their offices in the various ministries and state parastatals. In-depth interviews were then carried out with senior government officials from the key ministries listed as well as from opinion leaders in major parastatal organizations. This approach, as well as the review of the documentation from the government archives and libraries, gave a deeper insight into the government policies and regulations that have affected the mainstreaming of the informal sector.
3.6 Methodology for the government sector

Field and library research were used to collect information on the Government Sector. A review of government documents which included sessional papers, government gazette documents and government institutions research documents as a basis of analysing the Government sector objectives as relates to the informal sector was used. Personal interviews and mail questionnaires, which was always followed up with a personal interview for verification of the information provided was used. The study targeted state corporations and institutions that were mandated with development, regulation and any form of interaction with the informal sector.

The government had previously set a number of priorities for ministries tasked with understanding the different aspects of the informal sector in order to determine how to best ensure compliance with the relevant legislation and regulation. The study targeted these ministries. Face to face interviews were prescheduled through the delivery of a request letter (Appendix 7) explaining the purpose of the requested appointment. A guide (Appendix 4) was used to frame and structure the interviews. In depth interviews were then conducted with senior officials in major ministries and parastatal organizations. These institutions included the Ministry of Industrialization, the Ministry of Trade, the Ministry of Labour and Manpower Development, the Ministry of Planning and Vision 2030, the Kenya Intellectual Property Rights Institute, the Kenya institute of Public
Policy Research and Analysis (KIPPRA), and the Kenya National Bureau of Statistics (KNBS).

Where the government representative was unavailable, a leave-behind questionnaire was completed by the officer after which I had brief face-to-face interview upon collection of the questionnaire. During these sessions I was able to provide any clarification that the state officials needed on the objectives of the data collection and where the data was to be used. Documents and records on government policy were analysed with the research objectives in mind. Clarification on the documents and records were obtained through informal discussions with the government officers at the various ministries and government bodies where the desk research material was obtained.

The consideration of the government sector study was precipitated by the role and impact the government would have in accelerating the mainstreaming of the informal sector through legislation, regulation and policy adjustment as relates to the informal trade in Kenya. Following the collection of data from the informal sector the need to understand the possible role, existing policies and existing initiatives that the government has already put in place as relates to the informal sector in Kenya as a means of identifying the required interventions to enable effective mainstreaming of the sector was apparent.
Despite the informal sector having been in existence in Kenya for over three decades, and the acknowledgement by a number of scholars that mainstreaming the informal sector is able to provide a significant impact on GDP and unemployment in a country it is baffling that the pace of achieving the mainstreaming process in Kenya has been relatively slow.

3.7 Summary

This chapter has provided a detailed account of the methodologies used to collect primary evidence for the analysis of the mainstreaming of the informal sector into the formal Kenyan economy. The evidence that was collected has proved to be a rich source of information on the state of the mainstreaming process by the end of the first decade of the millennium – the subject of the chapters that follow.

From the outset, it was clear that the kinds of sampling that enable rigorous statistical testing would not be applicable. Nairobi’s *jua kali* markets - Gikomba, Kawangware and Kariobangi – are in a constant state of flux. They are unregulated and for the most part beyond the regulatory reach of the state. As a result, there are no reliable measures of size and composition upon which formal statistical analyses can be based. The approach adopted – and described in this chapter – was therefore informed by ethnographic techniques of exploration, interviews and data collection. This approach proved successful, resulting in a large set of original data and a range of
insights into informal trade in this context that have not been available before.

This primary corpus of interview data for the informal sector was complemented by the case study of blue chip companies in Nairobi and by interviews with key officials. Again, these sources of information have broken new ground, providing key insights into the constraints and opportunities for mainstreaming. These, too, are discussed in the chapters that follow.
CHAPTER 4

PERSPECTIVES FROM INFORMAL SECTOR TRADE IN KENYA

4.1 Introduction

As described in the previous chapter, informal sector interviews were conducted in the three main markets in Nairobi, namely Gikomba, Kawangware and Kariobangi. This chapter explores in detail the trends and patterns that emerged from the large sample of questionnaires as well as from discussions with traders and observations made during fieldwork. The analysis covers the profile of the respondents, their banking preferences and nature of their businesses. It also looks at the source of supplies of their raw materials, the origin of trade opportunities, skills acquisition and the profile of the employees. The analysis then reviews the jua kali entrepreneur perceptions and attitudes to government regulation.

The data collected in the survey also provides valuable insights into the nature of customers visiting the markets as well as the informal sector entrepreneurs’ interactions with formal sector clients. This provides an essential foundation for understanding the constraints and opportunities for mainstreaming Kenya’s economy.

4.2 Respondent profile

Figure 4.1 represents the sample of informal sector traders by gender. Gender disparities reflect the dominance of men in the subsector. Women in informal
trade are mainly middle-aged and are involved in buying finished goods in bulk for resale in other parts of the country. Other women participate in the informal trade as part of the family business, to support their spouses or other family members and relatives, rather than as primary or sole owners.

Diagram 4.1 Respondent gender

The research sample comprised 95 female and 444 male respondents. Education levels varied as shown Figure 4.2. Nearly half (47%) of all the respondents interviewed had attained secondary level education, 21% had primary level education only and 19% of those interviewed had attained college level education. Of the entrepreneurs interviewed, 13% did not respond to this question. Most respondents did not learn their trade in college but rather through mentorship from a family member or through on-the-job training.
Most of those who had attended college were in the *jua kali* trade because they lacked alternative employment in their respective areas of expertise. As expressed by one of the respondents who had attended a polytechnic:

‘Hata tukiwa na hiyo ujuzi ya polytechnic na kazi hakuna, na serekali wenyewe hawaja angalia mambo yakujenga uchumi ndiyo tupate kufanya hizo kazi, inabidii utafute vile uta pata kaunga’; ‘Even if we have the skills from the polytechnics there is no formal employment, and the government has not considered improving the economy so that we can get employment. You must find a way to feed yourself and your family’.
Most such respondents were of the opinion that the *jua kali* trade is the employment of last resort when one cannot find formal employment, as expressed by this comment:

‘Ukishapiga lami na badoo una kosa kazi basi unaingia kwa *jua kali* atadhali upate chakukula’; ‘When you have been looking for work for a while with no joy then you get into *jua kali* to make ends meet’. A look at the dispersion of education levels across the genders indicates that more women entrepreneurs (59%) had attained secondary level education than compared to men (45%). Most of the female respondents were married women who managed the businesses on behalf of their spouses or families. They got married after attaining their secondary education and, as is the case in many developing economies, after marriage most did not continue with their education due to the increased responsibilities they faced at the family level. Instead, the women opt for informal employment options that give them the flexibility to look after their families and earn an income without the restrictions of formal employment.

Most of those interviewed said they were not formally employed before starting their own businesses. However, several respondents had worked as casual workers in the formal sector and opted to seek alternative employment due to poor remuneration and unfavourable working conditions, or in order to learn a skill and subsequently start their own businesses. Other respondents opted for informal employment after losing their jobs in the formal sector, either through retrenchment or dismissal. Others were forced to take up on-going businesses in the informal sector after a parent died and there was no close relation to continue managing the family business.

Some of the respondents were blue collar workers, mainly builders, who went to construction sites every morning to look for work. This meant that they did not trade in the market on some days. Most of them were the breadwinners in their
families and this uncertainty meant that on some days they had to rely on credit from their local ‘kiosks’ - corner stores where they had established an informal credit arrangement. Respondents tended to feel that setting up in the jua kali trade provided them with a stable and more predictable source of income as they could better plan for their needs based on the income from orders for products or the sales that they made. As a respondent said: ‘Lazima utafute kazi ambayo unaweza kujitegemea na yale una jua matarajio’; ‘You must look for work that can sustain you and that subsequently allows you to determine your monthly income’.

4.3 Banking preferences

Of the 539 respondents interviewed, 66% operated commercial bank accounts. 80% of the female entrepreneurs interviewed operated bank accounts as compared to 63% of their male counterparts. The largest proportion of the respondents who operated bank accounts were those who had attained secondary level education (74%), followed by those with university and college level qualifications (65%), with a modest 34% of those who had attained primary level education operating bank accounts (Diagram 4.3).
Diagram 4.3 Banking tendencies across gender and education levels

During the interviews women said their main motivation for having a bank account was to be able to access cheap sources of finance and short-term capital when they needed it. Others believed that, through banking, they could benefit from interest income. 34% of respondents interviewed did not have bank accounts. This may be attributed to the perception of high cost and low value of commercial banking services. Some of those interviewed said they preferred not to bank since the money they earn from their enterprises was in small amounts that made banking unnecessary. Respondents also said that they did not use banking services since their businesses required regular purchases of raw materials, payment of daily wages and other overheads. They therefore preferred to always have their money easily accessible to them.
The fact that over a third of respondents, despite their education level, did not bank their proceeds suggests that they did not perceive the financial services available to be suitable to their business needs. It may also be because banks apply stringent regulations for opening and managing a bank account especially for individuals in informal employment. Overall, the evidence suggests that those in the informal sector may not be fully optimizing the financial services available to them and hence are limiting their ability to build capacity within their businesses.

4.4 Business profile

Of the respondents interviewed, 36% had been in the jua kali business for between three and five years (Diagram 4.4). One respondent in this category commented:

‘Nilipofika mahali hata kupata kazi yamujengo kila siku ikawa ni shida nikaamua kujaribu jua kali’; ‘When it got to a point when getting regular work at construction sites became difficult I decided to go into jua kali’.

These respondents tended to start off the jua kali trade with trade items that they felt had a high demand, such as cooking implements, utensils, metal cooking pots, wooden spoons, rolling pins and chopping boards. Wood as a raw material is also much more readily available. A further 33% of respondents said they had been in the jua kali business for between six and ten years. Many had established networks upcountry that enabled them to have access to scrap metal, soapstone and tin. Over time these entrepreneurs also applied some innovation into the types of products they produce, for example insulated cooking stoves. They also sought to improve the craftsmanship of their products as a means of increasing the income from their wares. Others had different reasons for entering, and staying in, informal trade. Some of the comments that respondents shared included: ‘I inherited the business from my father so we have always been in this business’; ‘I started this business to supplement my income
from the contract work I was getting which was mainly in construction, factory shop floor packing, hawking and petty trade’. Others had set up the business to take advantage of the growing demand for the tinsmith and blacksmith products in their localities. Many interviewees had known no other form of work. One of the respondents commented; ‘Hii jua kali ndiyo kazi nimewahi kujua na ndiyo nimekuwa niki fanya’; ‘Jua kali is the only business experience I have and is what I have been doing’.

Typically those who had started work in jua kali usually took over the business from their parents or from another family member. In most instances they did not have formal training, either at college or through some form of apprenticeship to acquire the technical skills required in their trade. Most of what they knew they had learned from experience on the job. The economic downturn in Kenya after 1998 seemed to have led to the growth of the informal sector as most respondents interviewed opted to set up their own businesses once they were retrenched.

Diagram 4.4 Length of time in informal trade
The data collected showed that the respondents were the owners of their businesses. They mainly traded in the wares they made, comprising mostly steel products for domestic use. Some of these products included cooking and household items; utensils such as the ‘sufuria’ (steel cooking pot), wooden and metal spoons, ‘jiko’ (metal stove), basins, beds, door frames, and tin suitcases. They also made agricultural and farming implements such as ‘jembes’ (hoes), milking cans, feeding troughs, and fencing. What the traders manufactured largely depended on their apprenticeship or their competencies acquired on the job.

Those informal traders who have attended college tend to manufacture a wider variety of goods than those who have learned their skill through apprenticeship. This is shown through innovative improvement to products. A case in point is the modification of the basic cooking stove, or ‘jiko’, to provide insulation using a clay lining on the inside to help retain heat and burn the charcoal more slowly (Diagram 4.7). This makes the stove more cost efficient. The addition of value to this product through innovation was reflected in returns to the trader. The insulated cooking stoves cost up to 40% more than the un-insulated cooking stoves.

Diagrams 4.5 to 4.11 show the array of items found in the markets.
Diagram 4.5 ‘Sufurias and birikas’, metal cooking pots, kettles and water jugs

Diagram 4.6 ‘Jiko’ metal ovens/ stoves and water heaters
Diagram 4.7 ‘Jiko’ basic model and improved clay insulated charcoal stove

Diagram 4.8 Metal suitcases, watering cans, milking cans, cooking stoves
Diagram 4.9 Chopping board

Diagram 4.10 Rolling pin, mortar and pestle
4.5 Supply of Raw Materials

Raw materials used by artisans included wood, tin, scrap metal and soapstone. These are readily available in most towns in Kenya from hardware stores, sales people, scrap metal dealers as well as upcountry traders. Only 7% of the respondents said they sourced their raw materials directly from outside the country. When they did import raw materials, this was mostly from Egypt and Dubai, or from Asia. A further 15% sourced some raw materials from dealers who had in turn imported raw materials from outside Kenya, from countries such as Dubai, South Africa, Tanzania and Uganda.

Raw materials are readily available in Kenya and most of the jua kali entrepreneurs said they would often receive their supplies from a selected source person upcountry or through a family member. Alternatively, they collected the raw materials themselves from up-country. Western and Nyanza provinces are popular for metal, rubber and soapstone, while the Central and Rift Valley
Provinces were often given as sources for timber. The income structure of the informal sector means that purchases must be made in small quantities, with 18% of the respondents obtaining their supplies weekly.

Figure 4.6 (on page 66) illustrates the frequency of raw material purchase whilst table 4.5 illustrates the reason for raw material supplier selection. Choices of supplier were based on loyalty (23%), reliability (19%), on the supplier providing favourable pricing (18%), and on the quality of materials (14%). The research did not indicate that traders leveraged existing relationships in raw material supply to benefit from any credit terms that could have helped their cash flows and most of the respondents said that the raw materials they used were paid for on a cash on delivery basis. Only 4% of the respondents cited credit provision as a reason for raw material supplier selection. A respondent commented: ‘Hiyo mambo ya credit inategemea yule anakuuzia na vile munajuwana’; ‘This issue of credit depends on the relationship you have with your supplier’.

<table>
<thead>
<tr>
<th>Reason for raw material supplier selection</th>
<th>Response percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer loyalty</td>
<td>23</td>
</tr>
<tr>
<td>Reliable</td>
<td>19</td>
</tr>
<tr>
<td>Cheaper in sales</td>
<td>18</td>
</tr>
<tr>
<td>Quality</td>
<td>14</td>
</tr>
<tr>
<td>Availability</td>
<td>9</td>
</tr>
<tr>
<td>Affordable</td>
<td>8</td>
</tr>
<tr>
<td>Price factor</td>
<td>5</td>
</tr>
<tr>
<td>Credit provision and Convenience</td>
<td>4</td>
</tr>
</tbody>
</table>

Figure 4.5 Reasons for raw material supplier selection

When not constrained by cash flows and the unavailability of credit facilities, traders took a variety of factors into account when considering frequency of raw material purchase. Traders looked at how fast finished goods were sold, the
availability of capital to purchase the goods, room for storage of raw materials, and the season and time of the year. Although 36% of traders said that they purchased materials regularly, their purchases declined when the volume of business went down, suggesting that they do not enjoy economies of scale from their purchases.

Chapter 2 outlined the benefits of group collaboration through the successes of the Grameen Bank, which was able to provide financial services and enable thirty five thousand villages and two million customers to access loans, goods and services to enable the growth of their businesses (CIA 2006). The data collected here on the acquisition of materials suggests that a similar approach to collaboration could be adopted within the jua kali sector in Kenya to enable entrepreneurs to benefit from microcredit. This could help change their purchase cycles and could lead to economies of scale, thus enhancing the value and financial returns for the informal businesses. However, there was no evidence from the interviews conducted in this study to show that such innovations were being considered at this time.

Figure 4.6 Frequency of raw materials purchase
4.6 Business genesis

The Nairobi survey showed that informal sector businesses tend to be passed down through generations, with 35% of those interviewed having acquired their businesses through inheritance, and a further 7% from family members. 7% of respondents took over their businesses as part of an immediate family venture, whereas 6% had the businesses handed down to them through a hierarchy as part of an immediate or extended family. Individual family members interest and level of skills acquisition in the business is also used to determine which of the family members are selected to inherit the business. This suggests that technical skills in business and financial management, which would be valuable for the growth of the business, may not be the primary factor of consideration in business succession decisions.

![Figure 4.7 Business genesis](image-url)
Some respondents interviewed said that they only inherited the business shed or location and had to raise the capital to start up their trade. 33% started their business in partnership with either a relative or friend whilst 7% set up businesses with a family member. 18% started the informal sector business on their own as an individual start up which in some cases they managed on behalf of their immediate families. In the case where there were many family members in the business, others were paid regular wages and did not have a shareholding. Payment was largely dependent on how well the business was doing and wages would only be given when the business had generated cash. Only 26% of the respondents who operated as sole proprietors mentioned having acquired their business through ‘hard work’. They had worked as employees of those who had already established themselves in the business and saved enough money to start their businesses.

The ability to access sources of capital is an important factor in business genesis. From the study it was evident that those in the informal sector perceive their savings to be money that they accumulate for use in their business. The respondents had used their savings as start-up capital for their business. Other sources of business start-up loans that the respondents mentioned included savings from Savings and Credit Cooperative Organizations (SACCOs) as well as borrowed money from community self-help groups, community based NGOs, and loans from relatives and friends.

From the study, it is evident that the informal sector in Kenya has not leveraged microcredit sources for business start-up capital. Instead, the sector tends to use either personal or family savings, or consider short-term, high interest loans as sources of finance. This may be indicative of the sector’s limited interaction with, and knowledge of, microcredit systems and how such facilities can be leveraged through banks. It may also mean that the banks on which the informal sector respondents were dependent did not have the infrastructure to set up microcredit
facilities. Where respondents sought a loan to set up their businesses, they were often able to build a relationship with the banks and continue to benefit from other banking products. Chapter 2 discusses the lack of flexibility in banking and financial loan opportunities, and the inability of the informal sector to provide collateral or security against loans, as a major barrier to micro credit access (Atieno 2001). The Nairobi survey results may indicate that, despite the informal sector’s need for microcredit, this has not been an area of focus for commercial banks. Symptomatic of this problem is the decision of Kenyan commercial banks to cease serving account holders with deposits of less than $132.45. Referring to them as ‘unbankable’ and a credit risk (Coates et al. 2007). This issue is discussed further in Chapter 5.

The analysis of responses to the survey questionnaire shows that the family plays an important role in business genesis in Nairobi’s informal sector. Businesses had often been set up with support from family members. Individual family members were often tasked with leading the enterprise and managing day-to-day aspects of the business. Results from the study indicate that, when major decisions that were likely to have an impact on expenditure or income had to be made, the family as a whole was involved, as the proceeds from the business often comprised their livelihood.

When respondents were asked to evaluate the extent to which business affairs were independent or inter-linked with personal affairs, 50% said their family and business affairs were interlinked ‘to some extent’. 27% said business and personal affairs were connected ‘to a large extent’, implying that their families’ involvement in their businesses affairs was greatly felt and included active management and a share in the business returns. A modest 9% of the respondents said the relationship was to a very large extent intertwined and 1% felt there was no interrelationship at all, as depicted in Figure 4.8. In overall terms, the combined responses of ‘to some extent’ and ‘to a large’ extent,
amounting to 77% of those interviewed, suggests significant family involvement in the management of, and decision making for, informal sector businesses.

<table>
<thead>
<tr>
<th>To what extent are business affairs independent or interlinked with personal affairs?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>To some extent</td>
<td>268</td>
<td>50</td>
</tr>
<tr>
<td>Large extent</td>
<td>145</td>
<td>27</td>
</tr>
<tr>
<td>Low extent</td>
<td>61</td>
<td>11</td>
</tr>
<tr>
<td>Very large extent</td>
<td>51</td>
<td>9</td>
</tr>
<tr>
<td>Not at all</td>
<td>14</td>
<td>3</td>
</tr>
</tbody>
</table>

*Figure 4.8 Extent to which business affairs are independent or interlinked with personal affairs*

Some of the ways that families were involved included assisting each other in trading and selling finished products by bringing in more customers through referrals and word of mouth, supporting employees in the business by mentoring them and encouraging them, and by giving entrepreneurs financial support through ‘soft’ loans and lending them money which they would pay back over time as the business developed. Stepping in to manage the business when the owner was away and incidences of siblings joining the business as partners were also mentioned.
<table>
<thead>
<tr>
<th>Other relatives with same business</th>
<th>% Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cousin</td>
<td>19</td>
</tr>
<tr>
<td>Brother</td>
<td>46</td>
</tr>
<tr>
<td>Wife</td>
<td>6</td>
</tr>
<tr>
<td>Son</td>
<td>4</td>
</tr>
<tr>
<td>Father</td>
<td>4</td>
</tr>
<tr>
<td>Step brother</td>
<td>2</td>
</tr>
<tr>
<td>Sister</td>
<td>13</td>
</tr>
<tr>
<td>Aunt</td>
<td>2</td>
</tr>
<tr>
<td>Family members</td>
<td>4</td>
</tr>
</tbody>
</table>

*Figure 4.9 Other relatives with same business*

### 4.7 Skills acquisition and employee profile

As will be noted in Chapter 5, skill sets play a fundamental role in mainstreaming the informal sector. From the research, we see that 40% of those interviewed learnt their respective skills through apprenticeship or on-the-job training. 32% of the respondents interviewed learnt their skills through formal education at polytechnics and other tertiary institutions. Those who learnt their skills from family members constituted 21% of those interviewed (Figure 4.10). This pattern may suggest that those in the informal sector are unaware of required skill levels and hence do not appreciate the importance of continuous skills improvement. Alternatively, this may mean that opportunities for skills improvement are not made available to those in the informal sector despite their interest in upgrading their skills.
Challenges posed by the skill sets found in the informal sector are compounded by the recruitment methods used by entrepreneurs which tend to be driven by their social settings. Most of the entrepreneurs’ employ relatives and friends as opposed to identifying individuals with the relevant skills needed in their businesses.

From the respondent’s feedback 43% of them employed between one and three people, mainly on a temporary basis. Figure 4.11 shows a fairly balanced composition between temporary and permanent employees. The study results indicate that the person’s entrepreneurs considered to be permanent employees tended to be family members who had a stake in the business. Temporary employment tended to coincide with specific business orders that the entrepreneur needed to fulfil within a specified deadline. 20% of respondents did not specify whether they had temporary or permanent employees. This was because, within the informal sector, there are those who recruit either friends or
share workers with their colleagues, depending on the level of business they have for a specific period. When an entrepreneur gets a sizeable order he may request his colleagues to have their workers help him fulfil the order. Due to this uncertainty of regular business, some of the entrepreneurs in the informal sector did not consider the people who worked with them as permanent employees they associated them with temporary workers dictated by the orders for supplies or goods that they had.

![Employee Profile Chart](image)

**Figure 4.11 Employee profile**

Although the Ministry of Labour and Manpower Development has specified wage guidelines for the informal sector, the research reported here found that such guidelines are not adhered to. Wage payments are rather pegged to business volumes and expertise. 20% of the entrepreneurs interviewed did not disclose how much they paid their employees but were able to discuss how often they paid them.
Of the entrepreneurs interviewed in the informal sector 35% were paid at the end of the month whilst 21% were paid at the end of the week and 20% did not specify the payment pattern of their employees. This further suggests the unstructured nature of the informal sector (Figure 4.12)

Figure 4.12 Employee remuneration

4.8 Regulation

Government had acknowledged that the tax regime in place when the survey was conducted was cumbersome and a deterrent to the growth of microenterprise. Despite this barrier the respondents interviewed claimed to have paid license fees to the relevant authorities before setting up their businesses.

The respondents who declined to disclose whether they had paid license fees to the government acknowledged that they were aware that in order to operate a business some licensing was required by law.
Some of the services interviewees expected from both local and central government included improving security within their premises, building permanent sheds, fencing premises to prevent destruction from riots such as those witnessed during the 2008 post-election skirmishes, building parking bays for their customers and making provision for microfinance services to provide them with capital to build capacity and expand their businesses. A respondent commented:

‘Kama serekali yetu ilikuwa intaka kutusaidia wange tupa mahali hata kama ni inje ya town kidogo ambayo tuna weza ku endeleza biashara yetu bila kusumbuliwa’; ‘If our government wanted to help us they would have given us a designated area to set up our trade even if it is not in the CBD where we will not be harassed and where we can conduct our businesses peacefully’.

Figure 4.13 illustrates the role of government in informal sector trade regulation. When asked what kind of support they were currently receiving from the government, 29% said they received loans and grants from government agencies through the Ministry of Labour or donors allied to the government. 22% said the government had allocated the land on which their business sheds were set up to them. 11% said they had received training in entrepreneurship skills, especially through the National Chamber of Commerce and Industry (NCCI) and that the government also started projects to put up stalls for jua kali artisans using the Constituency Development Fund (CDF).
Although the government had made these provisions, the micro entrepreneurs interviewed generally felt neglected by the authorities. Traders saw the formal sector as better enabled by the government through the provision of a superior business environment and by means of tax incentives. For example, after the post-election violence that affected the business community in early 2008, the Kenya Revenue Authority (KRA) offered tax relief to the manufacturing sector in the Export Processing Zone (EPZ). However, the Nairobi City Council continued to levy daily dues on the informal sector despite the fact that businesses in the sector had also been destroyed.

In addition, the government had planned to develop infrastructure for the formal sector. Those in the informal sector believed that the government had not enabled their businesses through the infrastructure provision crucial for their trade. Most of the entrepreneurs felt that integration and cooperation between the informal sector and government would address these kinds of major challenges. The informal sector argued that access to effective infrastructure for the sale of
their wares could help them realise benefits of mainstreaming such as increased demand for their goods and services, as they would be likely to tap into the broader formal market. The informal sector also felt that if mainstreaming was achieved it would reduce tax evasion and avoidance among the traders, provide training opportunities and improved skills for the *jua kali* traders. Mainstreaming may also provide access to sources of short and long-term finance, as more financial institutions are likely to recognize them.

Some of the entrepreneurs interviewed were of the opinion that government intervention creates barriers and hinders their business practices. They identified issues such as harassment from policemen and Nairobi City Council officials tasked with ensuring licensed trading in the CBD, high licence fees and stringent trade rules, and the banning imports of raw materials. The lack of clear policy on the management of scrap metal and the requirement on traders to pay a daily levy to the council pose challenges in achieving profitable trade, a consequence of government intervention.

In this study, 67% of the traders interviewed felt they had not been protected by government legislation and copyright laws; problems that are largely due to the informal nature of their businesses. The informal sector does not have, by definition, certification mechanisms in place that would ensure that they are able to produce their products with consistency, which may make the argument for patenting of their products and innovations viable.

Companies in the formal sector and more established entrepreneurs exacerbated this shortcoming further, as they often do not patent their goods despite the product certification processes that may be in place. The formal sector therefore continues to produce trade items similar to those produced in the informal sector and selling these wares for profit through the formal infrastructure available. The informal traders who may own these innovations do not benefit from any royalty payments. Despite their lack of documentation, those interviewed in the informal
sector still feel that the government should enact some legislation to protect their intellectual property and copyrights. Most of the respondents interviewed suggested that this would be pivotal in mainstreaming the informal sector since it would provide a clear legislative framework. In Chapter 6 we will see that the government has implemented interventions in regulation and policy development for the informal sector through instituting the *jua kali* associations to represent the rights and welfare of the informal sector. With the implementation of the single business permit the government sought to ease the regulatory requirements for informal traders.

### 4.9 Sales and the use of proceeds

The study results showed that the informal sector has not settled into serving a distinct customer segment with which it identifies. Consequently, traders are unable to determine how to increase demand for their trade and wares in an informed and systematic way. The results of the survey also showed that walk-in customers comprised over 60% of buyers of *jua kali* products. Regular customers were often those who lived in the neighbourhood where the businesses operated. Other buyers included students, tourists, workers from construction companies and farmers. In addition, the survey showed that middlemen comprised, 27% of the buyers of the *jua kali* traders’ wares resulting in traders being unaware of the final destination of their goods. Traders tended to wait for an order for their products to come through, rather than actively seeking to market to potential customers.
The survey showed it was middlemen or agents who, on most occasions, looked for markets and also priced the products. Some of the common destinations for goods included Seychelles, South Africa, Tanzania, Uganda and a range of Asian countries. Some of the traders who exported through middlemen were not aware of the destination of their wares, as the middlemen do not disclose this information. In turn, though, some of the middlemen and agents appeared to have little knowledge about the foreign markets and trade for which they purported to provide intermediary services. Most of the traders had little knowledge about the potential value of their goods in overseas markets. As a result, middlemen were in some cases able to take advantage of the entrepreneur by under pricing products relative to what they were able to sell these products for in the neighbouring markets. The middlemen therefore tended to benefit more from the informal sector trade. The survey showed that middlemen handled 25% of exports, while 15% of the market traders exported their goods without the support of other parties (Figure 4.15). This may be
because of constraints in cash flow or because traders rather focus on one-off purchasers

**Figure 4.15 Customers Exports management**

From the study 44\% of the proceeds from the *jua kali* trade are most frequently used for family support (Figure 4.16). Education of children constituted 25\%. Other uses included expanding businesses, building on a piece of land purchased previously, purchasing land, savings, and subsistence farming.
### Investment of profits

<table>
<thead>
<tr>
<th>Investment of profits</th>
<th>Frequency</th>
<th>% Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-upkeep/family upkeep</td>
<td>302</td>
<td>44</td>
</tr>
<tr>
<td>Educating my children</td>
<td>173</td>
<td>25</td>
</tr>
<tr>
<td>Rural home support/parent support</td>
<td>78</td>
<td>11</td>
</tr>
<tr>
<td>Expanding our businesses</td>
<td>61</td>
<td>9</td>
</tr>
<tr>
<td>Building of a plot bought/building home</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>To buy a piece of land</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>Growth and expansion</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Just saving</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>For farming</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Buying shares at the NSE</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Permanent investment</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

*Figure 4.16 Investment of profits*

### 4.10 Interaction with formal sector organizations

The results of the survey showed little initiative by informal traders to build the links with the formal sector required for the mainstreaming process. Only 38% of the respondents had ever considered approaching a large-scale company to discuss any joint business opportunities, such as supplying them with finished products or raw materials. Only 18% had approached formal companies for business opportunities. Despite this, of the micro entrepreneurs who had approached organizations in the formal sector, about 54% had received favourable feedback.

Nevertheless, the survey showed that most traders in the informal sector were of the opinion that mainstreaming the sector holds the key to the growth and success of their businesses and that there should be involvement of all
stakeholders if any success is to be realized. Membership of trade and professional associations can be instrumental in addressing some of the issues faced by the informal sector. However, only 29% of the respondents had held membership in associations set up to support and lobby on behalf of the informal sector. This would suggest that the value of holding membership, as relates to the mandate given to these associations, as the voice of the informal sector is not perceived to offer significant benefits to the mainstreaming process by the informal sector.

<table>
<thead>
<tr>
<th>Responses from business enquiry</th>
<th>Frequency</th>
<th>Percent%</th>
</tr>
</thead>
<tbody>
<tr>
<td>The outcome was positive and promising</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Was okay and I sell to them</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>They demand for so many requirements such that a common businessman I can't afford</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>They make me improve my product</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>No response</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Told to wait</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>I am able to sell in large capacity</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Outcome was good and I am waiting to strike a deal with them</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>I was given a tender of supplying them with gutter for their new building they are constructing</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>They disappointed me to some extent</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Still in the process of evaluating</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>They permitted me to visit them frequently or contact where necessary</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>I was able to see how lucrative it is to deal with the government</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Has introduced me to other business people</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>They treat customers with due respect</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

*Figure 4.17 Formal sector views on informal sector interactions*
4.11 Summary

The results of the survey carried out with a large sample of informal traders in Nairobi’s *jua kali* markets has identified a range of factors that impede the integration of the informal sector with the formal sector. Formal sector traders acknowledge that the informal sector can be a significant creator of employment opportunities and economic empowerment for marginalized groups in Kenya. As will be shown in the following chapter, this is supported by findings from informal traders that revealed an increased willingness by formal sector organizations to integrate with the informal sector. However, informal sector respondents exhibited low levels of initiative in driving this process forward, rather assuming that the government would facilitate this process.

If any mainstreaming initiatives are to succeed, both government and the formal sector need to understand and appreciate the characteristics of the informal sector. From the study the informal sector and *jua kali* trade is characterized by low entry barriers and little capital. Businesses are largely owned by individual entrepreneurs and their families and tend to be labour intensive. Most informal sector entrepreneurs have had a basic level of education that, in some cases, is enhanced by additional skills obtained from the polytechnics. However, these skills are not always leveraged by the informal sector to their advantage.

The study also showed that most traders have the same skill sets and produce similar products, further hindering their ability to create value from their manufactured products. The sector is faced with the added costs of acquiring raw material from different parts of the country and often has to obtain these materials through middlemen. This serves to inflate the costs of raw materials. While some traders were able to export their products they did not have access to external markets, forcing them to use middlemen. This resulted in further
erosion of profits and middlemen continue to control the trade, as the jua kali entrepreneurs do not have direct access to their customers in these external markets. Economies of scale and benefits from bulk purchase are lost as the traders are faced with a scenario in which their business barely breaks even.

Most of the jua kali businesses remain small and tend to be the sole means of livelihood for the traders’ families. This means that the families face constant financial crisis and are unable to make profits from their businesses that would help in expansion or growth of their trade. This keeps the sector in a ‘poverty trap’. Some entrepreneurs have bank accounts but are unable to leverage the commercial banking facilities available to them due to the prohibitive regulations and collateral requirements for loan approval. On its part, the government has punitive regulations and policies that result in the sector being non-compliant, with little access to basic services such as sanitation, electricity and market support. At the time that this research was conducted, the government had yet to establish an integrative mechanism to address these barriers and mainstream the sector in order to leverage its potential in contributing to GDP, creating jobs, and thus reducing poverty.

In light of these findings, there is an apparent need to support the sector in the mainstreaming process. There is also a need to enjoin the informal sector in the responsibility for addressing barriers to mainstreaming such as skill level, business structure, a better understanding of the customer base and of the factors driving demand for their goods and services in order to possibly begin to make mainstreaming a viable reality for the informal sector.
CHAPTER 5

PERSPECTIVES FROM BLUE CHIP COMPANIES ON THE
NAIROBI SECURITIES EXCHANGE

5.1 Introduction

This chapter presents the principal findings from the study of leading companies that are the mainstay of the formal economy, and the blue chip companies that have a primary role in the mainstreaming process in Kenya. This chapter also presents information on the business practices within these companies that are likely to affect their integration with informal sector organization. The chapter reviews the companies’ general approach to procurement and outsourcing, on respondents’ perceptions, attitudes and experiences with informal sector services and their current approaches towards doing business with informal sector organizations in Kenya. Drivers and barriers to mainstreaming with informal sector organizations are also explored.

An analysis is also given of the strengths and weaknesses of the informal sector from the perspective of corporate organizations. The opportunities they have in the current business atmosphere are explored, as are threats they are facing or are likely to face. The analysis is based on findings obtained through telephone interviews, emailed questionnaires and face-to-face interviews with a total of 20 respondents, comprising chief executive officers, corporate affairs directors or managers, as well as marketing and procurement managers. This group represented blue chip organizations from different market segments listed on the Nairobi Securities Exchange and headquartered in Nairobi. The companies that
participated in the study were grouped into three main market segments: i.e. services, trading and manufacturing. All organizations had a workforce of more than 20 personnel and had been in operation in Kenya for more than 10 years. Figure 5.1 summarizes the profile of the interviewees.

Areas of the services segment included banking, telecommunications and insurance. Manufacturing included beer brewing, tobacco, foods and personal care companies. Trading companies included in the survey were in business with the manufacturing and service sectors, providing furniture, office supplies and building requirements.
5.2 Procurement and outsourcing

Interviews showed that companies’ supply chain played a significant role in determining their relationship with the informal sector, a pattern confirmed in the interviews with informal sector traders as described in the previous chapter. This is because of the stringent procurement policies of blue chip companies. Consequently, the relationships between the formal and informal sectors tended to centre on the provision of raw materials or the procurement of components for the production process. Within the blue chip companies, supply chain represented the most viable starting point for the mainstreaming process.

The procurement policies and guidelines of the participating companies were explored, with the aim of establishing the critical parts of the process of incorporating informal sector traders in tendering procedures. Amongst blue chip companies, procurement departments are responsible for the process of identifying and shortlisting preferred suppliers. The rationale used in procurement varies in each organization and is determined, and dependent on, factors such as corporate policy, budgetary allocation, the nature of the service or product needed and risk implications. Procurement processes are meant to prevent forms of abuse such as embezzlement, fraud and hiring of services from friends and family members. Benefits sought from the procurement system include the management of the central provision of goods and services, enabling the benefits of economies of scale, purchase order tracking from acceptance through to fulfilment, managing the revenue cycle from invoice through to cash receipt, managing interdependencies of complex bills of materials, and tracking the match between purchase orders, inventory receipts, and accounting for all these tasks.

A large majority of the companies that participated in this study procured external services and outsourced professional services to other organizations, especially for non-core services and activities. When asked about the rationale they
considered in tendering, service quality was ranked highest at 20% of all the responses, while expertise of the parties involved constituted 16% (Figure 5.2).

**Figure 5.2 Procurement prequalification by formal sector organizations**

The use of Enterprise Resource Planning (ERP) systems, strategic appraisal systems and requirements for the prequalification of suppliers were also
mentioned by respondents. The use of ERP systems in companies' supply chain management processes implies a professional and efficient procurement system. However, these systems tend to be restrictive in not allowing much flexibility in their implementation and usage, especially in establishing business relationships with informal sector traders, who are unlikely to have the structure and systems required within their businesses that are necessary to include them as preferred suppliers in an ERP system. Consequently, such systems may lock out potential bidders from the informal sector who cannot meet the minimum requirements for prequalification.

Luiz (2002) notes that working with the informal sector cannot follow the philosophy of ‘business as usual’. Payment terms may have to be changed from 120 days to cash on delivery, as informal traders do not have overdraft facilities, and neither can they sustain long credit periods. Storage and warehousing facilities may also not be available, so engaging the informal sector may require specification of smaller, more regular contracts instead of infrequent bulk orders. Studies on the barriers to formalization continue to pinpoint regulatory and administrative barriers as being a key area of concern (Collier 2008).

Other factors mentioned in interviews included assessing the safety records and cost factors as cited by 8% of respondents. The concerns of committees and boards in charge of the procurement process tend to be the reliability and risk profile of the supplier as well as the capacity and ability of the supplier to deliver to agreed timelines.

Respondents within the informal sector were also asked about the specific policies and guidelines they considered when procuring, and when outsourcing non-core services to a third party. Most of the companies had a prequalification criterion that they went through to vet a vendor. This would include a tender request published in the national newspaper. Prequalification requirements were mentioned by 17% of respondents. Quality standards and ISO certification were
also mentioned by 17% of respondents, as were legal compliance and government regulations. Other guidelines mentioned included assessment of technical and human resource capability and approval by respective boards. These responses are summarized in Figure 5.3

<table>
<thead>
<tr>
<th>Supplier prequalification guideline</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prequalification of suppliers must be done</td>
<td>16.9</td>
</tr>
<tr>
<td>Quality standards must be met/ISO certified/KBS</td>
<td>16.8</td>
</tr>
<tr>
<td>Legal compliance/government regulations compliance.</td>
<td>13.5</td>
</tr>
<tr>
<td>Sound fiscal management/proven human resource &amp; technical capability</td>
<td>12.5</td>
</tr>
<tr>
<td>Value &amp; Technicality of goods to be procured</td>
<td>9.4</td>
</tr>
<tr>
<td>Asses competence/reliability</td>
<td>8.3</td>
</tr>
<tr>
<td>Supplier must adhere to stipulated timelines</td>
<td>7.3</td>
</tr>
<tr>
<td>Very transparent bidding &amp; selection process</td>
<td>6.4</td>
</tr>
<tr>
<td>Anything to be procured must be approved by board</td>
<td>4.8</td>
</tr>
<tr>
<td>Only directors make decisions</td>
<td>4.1</td>
</tr>
</tbody>
</table>

*Figure 5.3 Guidelines for procurement*

Of the blue chip companies interviewed, 75% attested to involving smaller organizations and enterprises in their procurement processes, while 15% did not involve them at any level. This implies that, however stringent procurement procedures may be, three quarters of blue chip companies still use the services of the informal sector. Specific areas of consideration when dealing with informal sector organizations included capability and expertise in the procured service. This was mentioned by 28.6% of the respondents. Business factors including value, pricing levels and quality, this was mentioned by 14.3% of respondents, and certification by KEBS or any other accreditation bodies by 14.3% of the respondents. 10.7% of respondents cited flexibility of services, track record and capacity to handle work. Other areas of interest mentioned included service
delivery timelines and the impacts of projects on the environment or community at large. 7.1% of the companies did not have any interest in procurement, as they were part of an international organization that stipulated stringent terms for procurement that could not be met by informal sector entrepreneurs.

The research findings showed that, of those that responded, 80% of companies outsourced services to existing or new suppliers (Figure 5.4). From the research, 15% of companies outsourced to midsize and professionally managed organizations, 25% outsourced to any organization that complied with government regulations, and 15% outsourced to any organization regardless of whether it was informal or formal.

![Figure 5.4 Outsourcing](image)

Findings from the organizations interviewed showed that 19% considered informal sector companies that met their minimum procurement requirements in the outsourcing process. 16% outsourced all non-core business functions. Most organizations had stringent outsourcing guidelines that took account of the...
professionalism and expertise of the bidding organizations in the selection and shortlist process. As part of the vendor prequalification process the organizations advertise annually in the local press, for available opportunities for suppliers to become pre-qualified vendors for the blue chip companies. This is considered an important aspect for selection of suppliers, as shown in Figure 5.5

<table>
<thead>
<tr>
<th>Factors considered in outsourcing</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best available supplier that meets our terms.</td>
<td>19</td>
</tr>
<tr>
<td>Only outsource non-core business operations</td>
<td>16</td>
</tr>
<tr>
<td>Only to experts/professionally managed companies</td>
<td>15</td>
</tr>
<tr>
<td>No response</td>
<td>11</td>
</tr>
<tr>
<td>Prequalify every financial year</td>
<td>9</td>
</tr>
<tr>
<td>Advertise every financial year/quarter</td>
<td>9</td>
</tr>
<tr>
<td>Prequalify every 2 years</td>
<td>8</td>
</tr>
<tr>
<td>Highly dependent on what we need</td>
<td>7</td>
</tr>
<tr>
<td>Directors make the decision</td>
<td>6</td>
</tr>
</tbody>
</table>

*Figure 5.5 Factors influencing outsourcing*

### 5.3 Blue chip companies’ perspectives of the informal sector

The results of the interviews showed that blue chip companies felt that the informal sector was cost effective and flexible but also perceived its production quality to be substandard. This information is important for deducing attitudes towards the services of the informal sector. From the study, the main drivers for involvement with informal sector organizations included cost effectiveness as emphasised by 32% of respondents. Of this group, 20% gave flexibility in costs as the main reason for cost effectiveness, while 12% cited timely deliveries with average quality.

Other companies surveyed would only consider giving the informal sector small tenders. Past experiences of acquiring these services was an important
determinant of present and future relations with informal sector traders. Services included non-core activities such as printing of signage, stationery, t-shirts and promotional items.

Positive experiences mentioned by the respondents included creativity 17.2%, whilst 5% of those completing the questionnaire mentioned highly diversified product ranges and variety as positive factors. However, many of the experiences mentioned were negative. Some of the negative experiences included over reliance on proprietors and therefore vulnerability to external factors on the business as claimed by 15.2% of the respondents. 13.8% of respondents claimed that the micro-entrepreneurs did not honour their time commitments. 10.3% of respondents claimed that when some entrepreneurs were paid deposits for work they failed to deliver. In some cases, informal sector contractors could not guarantee prices quoted for services or products. This set of responses is summarized in Figure 5.6.

Interactions between companies and informal sector traders tended to be tentative and short term. Many saw these relationships as based on good will and mutual trust, since the informal sector rarely meets the minimum requirements needed in company procurement policies. Consequently, past experiences are important in evaluating the potential for future performance and relationships. The informal traders however felt that whatever their education level, the formal sector persons tasked with evaluating their skills which usually tended to be the procurement department do not believe that the informal sector have the opportunity to improve and gain additional skills in production methods associated with their trade. Consequently, many traders in the informal sector found themselves in circumstances that made it difficult for them to adhere to the standards set by some of the blue chip companies.
Respondents were also asked to evaluate the services of informal sector businesses in terms of the shortcomings in their products and possible solutions. Key shortcomings cited included business practices, issues of basic management, quality standards and other factors of production. Skills development and training were identified to be key factors in addressing barriers to mainstreaming. Suggested areas of focus included basic entrepreneurship training, the central objective ought to encourage women to participate in the informal sector. Other areas of focus were the importance and the merits of partnership for business growth, and equipping traders with the necessary knowledge in customer relations. Respondents felt that informal sector traders should be encouraged to develop marketing, sales skills and receive training in identification of business ventures, in fundamental business management and
bookkeeping with a focus on facilitation for proper costing and pricing by the entrepreneur, in storekeeping, and in personnel management.

Company respondents believed that further training in business development and expansion, with emphasis on how to access and exploit opportunities for production, would enable the informal sector to exploit existing incentives by both government and the formal sector. Respondents felt that informal sector artisans should also be encouraged to adopt a participatory ‘bottom up’ approach to problem solving issues. Respondents felt that such an approach would contribute to successful mainstreaming. 18% of the respondents claimed that the informal sector did not meet minimum tender requirements. Additional challenges in dealing with the sector included lack of standards of measurement or marks of quality (16.9%) poor workmanship resulting in breakages after work was complete (15.3%), poor presentation of work (13.3%) and overdependence on proprietors who are highly susceptible to financial and manpower resource mismanagement (10.1%).

<table>
<thead>
<tr>
<th>Response</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inability to meet minimum procurement requirements</td>
<td>18.9</td>
</tr>
<tr>
<td>No measure of standards/mark of quality</td>
<td>16.9</td>
</tr>
<tr>
<td>Inability to sustain their quality standards/breakages after work</td>
<td>15.3</td>
</tr>
<tr>
<td>Poor presentation of work/output</td>
<td>13.3</td>
</tr>
<tr>
<td>Too dependent on proprietors/highly susceptible to financial and manpower mismanagement</td>
<td>10.1</td>
</tr>
<tr>
<td>Need constant/regular supervision</td>
<td>8.1</td>
</tr>
<tr>
<td>Poor contract sustainability</td>
<td>7.1</td>
</tr>
<tr>
<td>Under quote and don’t deliver on same quotes</td>
<td>6.1</td>
</tr>
<tr>
<td>Designs not patented/no brands</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Figure 5.7 Challenges encountered as a result of partnerships with informal sector.
Despite these issues, the companies interviewed still believed in the capabilities of Kenya’s informal sector. This was manifest in the proportion of blue chip companies that were willing to do business with informal companies in spite of all the challenges faced.

5.4 Impediments to mainstreaming

Formal sector respondents saw quality standards and guarantees as the most prominent impediment to mainstreaming the informal sector, with 19.4% stressing this aspect. Lack of well-defined price structures and controls was the second most mentioned impediment at 16.1%. Uncertainty in business future and poor marketing was mentioned by 12.9% of the respondents.

Other impediments included capital and management constraints and lack of political goodwill which scored 9.7% each, lack of clear policy framework on legislation at 6.5% and bad infrastructure and locational disadvantages cited by 6.5% of respondents as an impediment to working with the informal sector (Figure 5.8).
Figure 5.8 Impediments to mainstreaming
Most respondents were of the opinion that measures should be taken to mitigate the effects of these impediments to informal sector integration. This, they argued, would help minimize the challenges faced in implementing integration. Proposals by respondents included flexible financial options for the micro entrepreneurs, with 17.9% mentioning this. 15.3% argued that this should take the form of financial facilities tailor made to fit informal sector needs and minimize collateral requirements. 15.3% of respondents suggested that mobilization of informal sector players to help them appreciate the importance of integration would be important. Additional factors were education to foster a positive attitude towards the informal sector, and the implementation of a supportive legislation and policy framework by government (10.7% of respondents). From the study, 6.1% of those participating felt that formalization of price structures should be adopted as a means of fostering a positive attitude to mainstreaming. These possible mitigation measures are summarized in Figure 5.6.

**POSSIBLE MITIGATION MEASURES**

- Flexible financial options for SME’s by banks: 17.9%
- Mobilization of informal & informal sector players: 15.3%
- Education to foster positive perception: 11.3%
- Supportive policies & legislation by govt: 10.7%
- Address capital & other entrepreneurial needs: 8.1%
- Active artisans participation / ‘bottoms up’ approach: 7.1%
- Formalize price structures: 6.1%
- Zero rate import of informal sector raw materials: 6.1%
- Fastracking of integration initiatives: 5.6%
- Legislation for quality controls: 4.3%
- They should have active associations to help set: 4.1%
- Explore new markets / aggressive marketing: 3.6%

*Figure 5.9 Possible mitigation measures*
In order to fast track integration, the corporate organizations interviewed felt that the following issues should be addressed. *Jua kali* products should be branded and patented to help in marketing and safeguarding against copyright infringement, and consultations should be carried out with the Kenya Intellectual Property Rights Institute (KIPRI) on how to implement this. There should be a consolidation of integration efforts through associations and formal organizations, and these informal sector associations should be encouraged to come up with a specific agenda to present to the formal sector. Of the corporate representatives interviewed, 28.6% believed the government should be the lead facilitator in addressing the challenges to doing business with the informal sector. Just under a quarter (23.8%) believed that micro entrepreneurs, through *jua kali* associations, should be responsible for implementing these solutions. On the other hand, 14% were of the opinion that the private sector should tackle these challenges, and a similar proportion felt that all parties should come together to address the challenges. 9.5% of respondents believed the challenges should be addressed by NGOs, CBOs and civil society as a whole. These responses are summarized in Figure 5.10.
All the formal sector organizations that participated in this study are affiliated to professional and business associations. 46% of the companies attested to these associations having some influence in their interactions with the informal sector. On the other hand, 53.3% said these affiliations did not affect or have any influence on their interactions with the informal sector, as shown in Figure 5.11. The general approach that some professional associations have used in assisting the informal sector is to integrate them into their organizations through their Corporate Social Responsibility activities.

Figure 5.10 Stakeholders to address challenges
5.5 Interaction between informal and formal sectors

Of those taking part in this research exercise, 20% of the formal sector respondents did not have any existing policies for interacting with traders in the informal sector. This suggests a limited understanding of the structure of the informal sector and hence the inability to develop realistic policies for interacting with them. As has been shown, additional responses indicated that respondents applied the same business principles used in the formal sector to the informal sector. This included compliance requirements pertaining to legal records; 15% of formal sector respondents required audited financial records a 9% required evidence for rate of turnover.
Respondents were also asked about specific issues of concern with informal sector organizations. While only 45% replied to this question, 33.3% who did respond mentioned costing structure, 26.7% were concerned about quality, time and service delivery, 26.7% with past records and performance in similar assignments, and 13.3% with technical as well as human resource capability (Figure 5.12).

![Figure 5.12 Issues of importance to formal sector organizations](image)

This study also revealed a lack of legislation to facilitate interaction between the formal and informal sectors. As a consequence of existing legislation and policies, the informal sector is mostly seen as a supplier of non-core services due to assumptions about the unpredictable ability of traders to meet formal sector specifications for quality, on-time delivery and cost control.
An additional, and primary, barrier to integration that was identified is access to micro credit, resulting in financing issues and limitations on the ability of the informal sector to interact seamlessly with both the formal and government sectors. Organizations that interact closely with informal sector traders are mainly from the non-governmental (NGO) or community based or (CBO) sectors. While these organizations seek to enable traders to conduct their businesses as a means of generating a livelihood to educate their families and meet their basic needs, they can provide only limited help in building capacity for mainstreaming.

Microfinance institutions do have some input in the informal sector. Some areas of assistance include guidance on how the informal sector can market their products, and on joining SACCOs in order to provide alternative sources of finance. The focus is usually geared towards sustainability and the provision of affordable financing options. Other areas of support include providing training for micro entrepreneurs in the areas of business and technical skill development. In some instances, SACCOs act as intermediaries between the informal sector and the formal and government sectors, educating traders on how they can benefit from government support, especially through the community development fund (CDF), the National Women’s Fund (NWF) and the Youth Enterprise Fund (YEF).

Other institutions, such as the National Chamber of Commerce and Industry (NCCI), have also been involved in training micro entrepreneurs in the informal sector. However, the challenge for the mainstreaming process is the limited interaction that the informal sector has with the formal sector, resulting in a general lack of trust on both sides. Informal sector respondents who took part in this research often believed that the formal sector was mostly interested in exploiting them by either reproducing their innovations and skills through the much more developed manufacturing infrastructure of the formal sector, or by working through the middlemen who served as gatekeepers, allowing little or no interaction between their formal sector clients and the informal sector, to whom
they sub contract for projects. Some of the informal sector respondents gave examples of losses suffered in the past when middlemen fleeced them of their profits.

Because there was a general feeling among the market traders that the formal sector seeks to exploit them, they felt the need to have any interaction with the formal sector supported by legislation or in government policy. Most of the entrepreneurs trust the government more than they trust support from the private sector. This is because the traders felt that only the government, through the Ministry of Labour, could protect them from large-scale producers whose aim was to take over their livelihood by producing similar goods and products, benefiting from economies of scale, hence producing similar goods at a much lower cost. In the study reported here, 85% of informal sector respondents claimed that formal companies are already producing similar products, threatening their livelihood as almost all of them do not have any linkage with these companies or supply them with products.

5.6 Government policy and legislation for the informal sector

Research showed that the level of awareness in formal sector about government policies and legislation set up for the informal sector is low. Most respondents believed that there was no clear and comprehensive policy regarding the development of the jua kali and the informal sector as a whole in Kenya. Those who were aware of policies believed there was little impetus to implement them for the benefit of informal traders. This was evident in responses to relevant questions in the survey. 40% of the respondents did not reply to this question, 20% were not aware of any government policy or legislation, 15% said there are no policies or legislation by the government concerning mainstreaming, and 15% believed the major influence is through annual Ministry of Finance budgets insetting taxation levels and seeking to steer the economy (Figure 5.13).
Other legislation mentioned by respondents included the Tobacco Bill of 2008, which has to a large extent curtailed the involvement of companies in the tobacco industry with informal sector activities. There was a general perception among the formal sector companies that, to facilitate integration with the informal sector and address the diverse training needs of *jua kali* artisans and of the entire informal sector, the government must develop a comprehensive policy approach. Respondents felt that the government must also review or overhaul existing legislation to remove unnecessary regulations and restrictions and inject new, positive, requirements and guidelines. This they felt could be achieved through collaborative efforts between beneficiaries. Respondents felt such a policy review should be geared towards creating an enabling environment that facilitates improved informal sector operations. Additional actions to create an enabling environment could include incentives by government to the companies supporting the informal sector, low customs duty for raw materials used by artisans, relaxed collateral arrangements by financial institutions to facilitate access to credit, easier licensing procedures, cheaper licenses and reduced income tax rates.
18% of the formal organizations were willing to participate in the training of informal sector leaders and ordinary entrepreneurs in areas of leadership and skills acquisition. 16.7% were willing to mobilize the stakeholders from the formal sector towards the integration process, 16.4% would assist in fund-raising to support the initiative, 8.1% said they were willing to assist in marketing, and 10% would participate in training on how to appreciate technology (Figure 5.14).
Figure 5.14 Proposed roles

- Giving tenders when doing procurements: 5.6%
- Role in establishing and exploring new markets: 8.1%
- Training on applications of Technology: 10.0%
- Role to be played will depend on government and company: 11.1%
- Active players: 14.1%
- Assist in fundraising: 16.4%
- Mobilisation of all players in the private sector: 16.7%
- Training their leaders/Selected artisans: 18.0%

% OF RESPONDENTS
5.7 Perceptions of opportunities for mainstreaming

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Flexibility in services/products</td>
<td>• Lack of access to credit/Low turnover/capital base</td>
</tr>
<tr>
<td>• Have a lot of interest/input in their job</td>
<td>• Inability to access organized markets</td>
</tr>
<tr>
<td>• Are cost effective/cost factor</td>
<td>• Gender bias in areas such as metal fabrication</td>
</tr>
<tr>
<td>• Manufacture in small scale</td>
<td>• Poor specialization</td>
</tr>
<tr>
<td>• Large supply/product range/one-stop market</td>
<td>• Lack of expertise in new technology</td>
</tr>
<tr>
<td>• Very close with their customers/personalized services</td>
<td>• Limited knowledge in financial management</td>
</tr>
<tr>
<td>• Employ many people</td>
<td>• Poor marketing strategies</td>
</tr>
<tr>
<td>• Are cost effective/cost factor</td>
<td>• Poor safety records</td>
</tr>
<tr>
<td>• Small scale</td>
<td>• Not favourable for physically challenged</td>
</tr>
<tr>
<td>• Large supply/product range/one-stop market</td>
<td>• No price guides/structures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Goodwill from formal organizations</td>
<td>• Unstable global and local economy</td>
</tr>
<tr>
<td>• Enabling environment funds from government</td>
<td>• Corruption affects competitiveness of people</td>
</tr>
<tr>
<td>• Financial facilities easily available/liberalized banking</td>
<td>• HIV aids pandemic-affecting productivity of human labour</td>
</tr>
<tr>
<td>• Improving political goodwill/governance</td>
<td>• Patenting of their products by other countries</td>
</tr>
<tr>
<td>• Expanding economy</td>
<td>• Possible political unrest, e.g. post-poll violence.</td>
</tr>
<tr>
<td>• Demand growing</td>
<td>• Supernormal competition from countries with good marketing</td>
</tr>
<tr>
<td>• Opening up of EAC and COMESA regions</td>
<td>• Lack of political goodwill</td>
</tr>
<tr>
<td>• Sustained growth in ICT</td>
<td>• Poor quality improvement strategies/marketing</td>
</tr>
<tr>
<td>• Technological advancements</td>
<td>• Formal sector consolidating clientele zone</td>
</tr>
<tr>
<td></td>
<td>• Bureaucracy in government and formal sector-discourages people from seeking government service.</td>
</tr>
</tbody>
</table>

*Figure 5.15 Strengths, Weaknesses, Opportunities and Threats*
In order to draw together and summarize their views of mainstreaming, executives from the formal sector were asked their opinions on the strengths and weaknesses that SMEs in the informal sector have in relation to the formal sector in Kenya. Respondents were also asked to identify the opportunities, and areas of strength, that micro entrepreneurs in the informal sector can exploit in order to better their relationship and enhance integration with corporate and formal organizations. Table 5.4 summarizes these viewpoints.

Despite the evident weaknesses and threats facing the informal sector, 66.7% of the respondents from blue chip companies believed that their markets and clientele had similar characteristics to those of the SMEs. This overall indication of confidence suggests that, in general, terms, mainstreaming has the potential to succeed.

Research on the informal sector, reported in Chapter 4, established that most entrepreneurs and artisans acquire their *jua kali* skills through apprenticeship and on-the-job training. A major factor coming out from this phase of the study was the need to sustain quality standards in the informal sector through training in technical fields, quality standards, and entrepreneurial and managerial fields. The formal sector participants who were interviewed were of the opinion that all relevant stakeholders should address these issues: government, NGOs, *jua kali* associations and civil society. Respondents stressed that the government should play a facilitative role in the development and integration of informal sector organizations in Kenya. There should be appropriate statutory and physical infrastructure, and adequate technical, entrepreneurial and management training for informal sector traders.

Formal sector respondents also thought that studies should be undertaken to understand the impact of integration on the informal sector, as well as legislative, policy requirements and funding requirements. They felt that *jua kali* artisans should also be advised on how they can register and patent their products to protect them from being copied and patented by others in foreign markets and to
ensure that they are able to optimize the income from their trade. Formal sector respondents saw a need for *jua kali* entrepreneurs to develop strong brands to help them penetrate and establish a niche in the global economy.

Further findings from the formal sector on the mainstreaming study also revealed gaps that impede the mainstreaming process. These include procurement and outsourcing policies and guidelines, which dictate the extent of involvement of micro entrepreneurs from the informal sector in the business cycles of formal companies. The research indicated that, in most cases, micro enterprises were incapable of meeting these stringent procurement and tendering policies and guidelines such as legal and statutory compliance, financial records assessment, human resource records and past performance appraisal based on quality and safety records. These are some key obstacles to the involvement of informal sector organizations in the outsourcing processes of formal sector institutions.

At the same time, survey results showed that 75% of formal sector organizations nevertheless involve informal sector organizations in their procurement and tendering processes. The key drivers for such involvement included cost effectiveness (32%), flexibility in production (20%) and timeliness of deliveries with average quality (12%). Past business experiences with the services of SMEs was a core determinant of present and future relations with the formal organizations. Negative experiences mentioned by respondents, however, outweighed the positive experiences.

Major weaknesses of the informal sector included lack of access to credit, low turnover and capital base, lack of price guides and structures, inability to access organized markets, gender bias, poor specialization, and lack of expertise in new technology. These issues, coupled with limited knowledge of financial management, poor marketing strategies and safety records, mean that the informal sector remains in the ‘poverty trap’.
Professional associations and forums have had a limited influence on interactions. 46% of the companies with memberships to such societies attested to a positive influence. Just over half (53.3%) of the companies said these affiliations have not had any influence on their associations with the micro entrepreneurs from the informal sector. In some cases, professional associations have a policy of assisting the informal sector, thereby encouraging integration. Other associations set safety, quality standards and regulations which should be adhered to by their affiliates and members as a means of improving quality; these tended to preclude working with the informal sector.

Formal organizations were willing to support integration initiatives but with divergent approaches. 80% of the respondents in the study claimed they were willing to support initiatives that encourage training of artisans in areas such as basic entrepreneurship, leadership and technical skills acquisition. Others were willing to participate in mobilization of stakeholders from the formal sector for fund-raising, marketing and training on how to appreciate new technology. The awareness in the formal sector of levels of government policies and legislation for the informal sector is low. Most of the respondents felt that there was no clear and comprehensive policy regarding the development of the informal sector at large in Kenya. Those who were aware of the policies believed there was no goodwill to implement them for the benefit of micro entrepreneurs.

Overall, formal sector interviewees saw strengths in areas such as personalized services and customer care, flexibility in products and services, ability to deliver small-scale manufacture, and large product ranges providing a one-stop market. Opportunities cited include the opening up of the Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC) regions, goodwill from formal organizations enabling a better business environment, as well as funding from government, liberalized banking services, continued and projected economic growth, and growth in Information and Communication Technologies.
Formal sector perceptions of threats facing the informal sector included the unstable global and local economy, and corruption, which affects competitiveness and participation of people in public affairs and government initiatives such as the National Youth Fund and the Women’s Fund. Additional threats included: the HIV/AIDS pandemic, which affects the productivity of human labour; other countries’ patenting *juana kali* products produced by the informal sector before the sector is able to secure copyrights and patents for their created goods; political unrest similar to the post-poll violence witnessed in early 2008; increased competition from countries with good marketing strategies for their informal sector; and bureaucracy in government and corporate organizations, discouraging them from seeking services from the informal sector institutions.

Formal sector organizations participating in this study expressed the view that government should address issues such as access to credit, promotion of regional trade through the minimization of required tariff and non-tariff barriers, setting up of a legislative policy framework and skills enhancement. Traders need to be enlightened on how they can utilize the services of existing regulatory government institutions like the Kenya Bureau of Standards (KEBS) and the Kenya Industrial Property Rights Institute (KIPRI). This would reduce the risk of copyright infringements by local entrepreneurs and other traders and by manufacturers in the developed markets. It would also foster and encourage the spirit of innovation in the informal sector.

**5.8 Summary**

In general terms, interviews with the formal sector demonstrated goodwill to the subject of mainstreaming informal sector organizations. These blue chip companies have an overall belief in the potential abilities and performance of the Kenyan informal sector despite low ratings based on their current performance. This suggests that, with support from the government and relevant stakeholders,
and focused informal formal sector partnerships, the general objective of mainstreaming can be achieved.
CHAPTER 6

PERSPECTIVES FROM THE GOVERNMENT SECTOR IN KENYA

6.1 Introduction

Following the primary research conducted for the informal and formal sectors, it became evident that the government was considered a primary agent in the mainstreaming process. The formal sector study revealed that the government had not engaged with blue chip companies as key players in the mainstreaming process of the informal sector into the Kenyan economy. This created a disconnect in the both the formal and informal sector as there was no commitment by ether party to mainstream with each other. The informal sector was primarily looking to government for more favourable regulation and legislation as the formal sector blue chip companies continued to follow stringent procurement guidelines in contracting suppliers and third party service providers, requiring that informal traders be compliant with legislation that is not appropriate to the stricture of the jua kali sector. Consequently, the study was expanded to cover relevant areas in the government sector that could promote and encourage the mainstreaming process both amongst the blue chip companies in the formal sector and the various government ministries.

The outcomes of this research are covered in this chapter. This part of the study comprised a combination of desk research, government document reviews, augmented with face-to-face interviews with relevant state officials from central government, parastatals and bodies mandated with responsibility for the informal sector. The aim was to determine the appropriate policies and interventions
necessary to enable the mainstreaming of the *jua kali* informal sector into the Kenyan economy.

The government had previously set a number of priorities for ministries tasked with understanding the different aspects of the informal sector in order to determine how to best ensure compliance with the relevant legislation and regulation. The study targeted these ministries. Face to face interviews were prescheduled through the delivery of a request letter (Appendix 5) explaining the purpose of the requested appointment. A guide (Appendix 6) was used to frame and structure the interviews. In depth interviews were then conducted with senior officials in major ministries and parastatal organizations. These institutions included the Ministry of Industrialization, the Ministry of Trade, the Ministry of Labour and Manpower Development, the Ministry of Planning and Vision 2030, the Kenya Intellectual Property Rights Institute, the Kenya Institute of Public Policy Research and Analysis (KIPPRA), and the Kenya National Bureau of Statistics (KNBS).

Where the government representative was unavailable, a leave-behind questionnaire was completed by the officer after which I had brief face-to-face interview upon collection of the questionnaire. During these sessions I was able to provide any clarification that the state officials needed on the objectives of the data collection and where the data was to be used. Documents and records on government policy were analysed with the research objectives in mind. Clarification on the documents and records were obtained through informal discussions with the government officers at the various ministries and government bodies where the desk research material was obtained.

### 6.2 Perspective of the government sector to mainstreaming

The review of legislation and policies showed that limitations in informal sector development and mainstreaming could be attributed to inappropriate policy design, a weak implementation framework and failure to institute and effectively
monitor policy implementation. In the past, the policy formulation process and design were not consultative and were largely driven by government. As a result, the policies failed to address the specific needs of the target group and lacked ownership by key stakeholders (GOK 2003). These shortcomings led, in some cases, to insurmountable difficulties in the operations of the *jua kali* informal sector, resulting in many of the entrepreneurs in the sector closing their businesses or not achieving the capacity required for mainstreaming with the formal sector blue chip companies (GOK 2008).

From the desk research it was apparent that there was no policy provision for an institutional mechanism to promote consultation and coordination of stakeholders in the informal sector with the formal blue chip companies and government sector. Earlier policy documents had failed to address the critical areas of delegation of responsibility and follow-up of implementation to identify who was responsible for the various tasks listed in the policies. In some instances, the lack of clarity of the roles and responsibilities of various stakeholders had led to conflicting signals. At the operational level, poor coordination had led to duplication of efforts and sub-optimal utilization of scarce resources. The lack of a coherent monitoring and evaluation mechanism had hindered the follow up of progress on policy implementation in order to identify policy gaps, take corrective measures, develop a feedback mechanism, or assess the impact of these policies (GOK 2005).

It has been reported that government policy makers have a low exposure and awareness of, the nature of businesses in the *jua kali* informal sector. The traditional approach to vocational and technical training has not addressed the required skills set needed by the *jua kali* informal sector for business startup, survival and growth stages. Most of the institutions providing entrepreneurship and business development training suffer from inadequate capacity. They are therefore unable to offer training for the wide range of *jua kali* informal sector trade requirements. Consequently, potential entrepreneurs enter the sector
unprepared, while existing traders continue to underperform in their operations as evidenced by the Head of MSME project secretariat in the Ministry of Industrialization (Njeru, J 2009, pers. comm., January 2009).

It has also been acknowledged that as long as the informal sector in the economy remains small and is denied necessary services such as infrastructure provision, microfinance, and concessions in taxation, the dichotomy between the formal blue chip companies and the *jua kali* informal sectors cannot be meaningfully addressed. It has been recognized that the government sector economic recovery strategy must seek to provide infrastructure and financial services as a priority to micro enterprises in order to facilitate wealth creation and therefore progressively eliminate the dichotomy between the formal blue chip companies and the *jua kali* informal sectors (GOK 2003).

However, there has been no provision in government policies for an institutional mechanism to promote consultation and coordination between stakeholders in the government and *jua kali* entrepreneurs in the informal sector. In some instances, the lack of clarity of roles and responsibilities of various stakeholders has led to conflicting signals being passed to the informal sector at an operational level. Poor coordination has led to duplication of efforts and sub-optimal utilization of scarce resources. It is acknowledged that little success has been achieved in the mainstreaming process due to the failure to follow up on the progress of policy implementation, take corrective measures, or develop feedback mechanisms (GOK 2005).

These problems have been exacerbated by inadequacies in education and training. According to the interview with the head of the Micro Small and Medium Enterprises (MSME) Project Secretariat in the Ministry of Industrialization, conducted in January 2009, the slow integration of technical entrepreneurial training into the country’s’ educational system has slowed down the mainstreaming of the informal sector. The traditional curriculum for vocational
and technical training does not address the required skills in the informal sector at the business start-up, survival and growth stages. Despite the availability of vocational and technical schools, the informal sector continues to remain unprepared. Most of the vocational and technical institutions providing entrepreneurship and business development training suffer from inadequate capacity and are therefore unable to offer appropriate training as evidenced by the Head of MSMS project secretariat in the Ministry of Industrialization (Njeru, J 2009, pers. comm., January 2009). The enactment of the Micro and Small Enterprise Act in 2006 was meant to improve the situation of MSMEs however, at the time that the study impact of this legislation was still low.

Over the years, the Government of Kenya has recognised the need to remove or reduce unnecessary regulatory barriers affecting MSMEs. In an effort to address the restrictive environment there have been a number of interventions by both the government and formal sector partners. The United Kingdoms’ Department for International Development (DFID) supported the government in setting up the Deregulation Section (DS) within the Ministry of Planning and National Development as a means of removing restrictive regulations, which inhibit economic activity (K’Obonyo et al. 1999).

The initiative of the single business permit and the Registration of Business Names Act (Cap 499, Laws of Kenya) is clear about registration requirements. However, less than half of respondents from the informal sector knew about the single business permit and even fewer knew that they should register with the Attorney Generals’ Chambers. Other jua kali informal sector respondents believed that they had to register with the Ministry of Social Services, the Ministry of Health or the Fisheries Department, none of which have any role in this regard. The study also showed that non-compliance fuelled the payment of ‘kitu kidogo’ (street slang for a bribe). Non-payment of bribes resulted in Council
authorities either confiscating traders’ goods or closing their businesses and evicting them from their stalls.

In an earlier benchmark study K’Obonyo et al. (1999) assessed the perceptions of the public and policy makers on the importance and benefits of a regulated and de-regulated environment for MSMEs as well as the governments’ ability and commitment to put de-regulation in place. Members of the public, suppliers, consumers and those staying near the markets felt that there were a number of problems for MSMEs. However, despite the positives of employment opportunities and income generation from MSMEs, interviewees had mixed views about the importance and benefits of regulations, with the majority pointing out that regulations encouraged corruption and only large businesses should be subjected to registration and licensing. Evidence from government officials supported the general need for making the regulatory framework simpler and fairer. The main concern was in the area of public health, where members of the public wanted strict and well-enforced regulations to ensure that the informal sector were encouraged to conduct legitimate business (K’Obonyo 1999)

K’Obonyo et al. (1999) benchmark study also found that enterprises could benefit substantially from the simplification of the regulation process. Time was found to be the largest single cost of complying with the registration of business names act. This was because all registration was carried out in Nairobi, forcing business owners located in various Kenyan towns to take considerable travel time to travel to Nairobi to apply for the license. Decentralising the registration process would substantially reduce the costs to the jua kali entrepreneurs without diminishing government revenue. The study found that non-compliance is also costly, especially the jua kali businesses suffered from punitive measures taken by the central government or by local authorities such as closing down of business premises or confiscation of goods that the business was selling. It is not surprising, therefore, that many businesses choose to facilitate the non
compliance process through financial facilitation of government officials to avoid these consequences (K’Obonyo et al.1999).

In reviewing secondary data on government policies as well as the discussions conducted with the government sector respondents, it was evident that policy makers were aware of the local government circular about the need for deregulation. They acknowledged the fact that procedures of licensing are cumbersome and that deregulation is necessary. Some county councils had begun re-organising departments involved in licensing in preparation for the deregulation programme requirement of a one stop office for handling all matters of licensing. However, policy makers at the Ministry of Trade were concerned that the implementation of the one-stop licensing policy would create unemployment for the many officers who had been dealing with issuing licences (K’Obonyo 1999).

Comparison between the K’Obonyo et al. (1999) benchmark study of government sector actions and perceptions regarding mainstreaming and the results of the research study carried out a decade later, show that there have been few beneficial developments in the previous years.

6.3 Policy development

Earlier studies and this study show the evolution of government policies for mainstreaming the jua kali informal sector into Kenya’s economy. The findings indicate that the government regulatory environment, as it relates to the jua kali, can be broadly categorized into two phases. The earlier policy environment covers the period from 1992–2005, while the later policy environment covers the period from 2006 to 2009, when this research study was undertaken.
Government policies use three categories of enterprises for policy and regulatory purposes namely, micro-firms include enterprises employing between 1-10 employees, small firms employing 11-50 employees and medium size firms employing 51-100 people. Firms with more than 100 employees are considered to be large firms and in most cases are within the formal sector category (GOK 2008). Following from this, the *jua kali* sector discussed in Chapter 4 would be considered in government policy terms as the micro enterprise sector. Indeed, the survey found that most of the entrepreneurs in the *jua kali* sector employ between 1 and 3 people, and usually on a temporary basis. Government policies recognize that this micro enterprise sector is of considerable importance. According to the 2003 national economic survey commissioned by the Kenyan government, employment within this sector increased from 4.2 million in 2000 to 5.1 million in 2002 and accounted for 74.2% of total employment in Kenya, contributing up to 18.4% of the country’s GDP Nyanjwa (2008). Sessional Paper No. 2 of 2005. Ouma et al. (2007) estimate that the informal sector accounts for 34.3% of the population. Over 60% of those working in the informal sector are aged between 18 and 35, and 50% are women.

Given the acknowledged importance of the informal sector, the government has put in place policies and regulations geared towards its development. Sessional Paper No. 2 of 1992 on Small Enterprise and *Jua Kali* Development in Kenya highlights the policy interventions that the government has considered. This paper followed from the recommendations of Sessional Paper No. 1 of 1986 on economic management for renewed growth as the initial policy initiative to give explicit recognition to the sector’s role in economic growth and development. Sessional Paper No. 2 of 1992 emphasized the need to create an enabling environment through an appropriate legal and regulatory framework and put in place facilitative measures to promote the growth of the sector.

These earlier policy documents and sessional papers from the period between 1970 to 2000 demonstrate that the government has acknowledged the potential
of the informal sector to create employment and reduce poverty. The weakness rather lies in the implementation, monitoring and evaluation phase of the policy development. There is evidence of the lack of policy implementation as indicated in the findings of the informal sector survey, where there is little evidence or understanding of government interventions that have been implemented in the past towards the mainstreaming process. From the government policy perspective, the lack of a coherent monitoring and evaluation mechanism further hinders the follow up of progress on policy implementation. This makes it difficult to determine policy gaps, take corrective measures, develop feedback mechanisms and assess the impact of the policies on the ground as evidenced by Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)

These issues have not been conclusively addressed in government policy documents.

Poverty and its effects on the population, therefore, have been a fundamental focus for the development of government policies in Kenya. Nationwide poverty levels rose from 43.8% in 1994 to 52.3% in 1997. A similar trend was noted in the rural areas recording an increase from 46.8% to 52.9%. In urban areas poverty levels during the same period (1994-1997) rose from just under 29% to just over 49% changing the previously held perception that poverty was predominantly a rural phenomenon (GOK 2003). A review conducted in 2000 estimated that 56% of Kenyans lived below the poverty line, 17 out of 30 million of Kenya’s population of 30 million people, Kenya Agency for Development of Enterprise and Technology (KADET 2005). The government reiterated its commitment to addressing this situation through its Poverty Reduction Strategy Paper. In this strategy paper, food expenditure by households, evaluation of food energy intake and the allowance made for non-food expenditure were reviewed. From this, the poverty line was placed at approximately $14.9 per month per adult in rural areas and approximately $ 39.9 in urban areas (GOK 1998).
The policy making process in Kenya has faced criticism due to its seemingly unrelated processes. This led to the development of the medium term expenditure framework and the poverty reduction strategy paper, which focussed on short term interventions. In contrast, the National Development Plan and the National Poverty Eradication Plan were developed to cater for the medium and long term (GOK 2002).

The Interim Poverty Reduction Strategy, put in place in 2000, comprised five basic components: facilitating sustained rapid economic growth; improved governance and security; improved quality of life for the poor; enhanced participation of the poor in the economy and facilitation of the ability to generate sustainable income (Mule et al. 2003). The Poverty Reduction Strategy Paper was then built up, in 2001, from nine sectorial working groups: information technology; human resource development; agriculture and rural development; public administration and safety; law and order; physical infrastructure; trade tourism and industry; national security; and macro-economic policy. This was intended to both reduce poverty and create economic growth, especially for small enterprises and for the poor (GOK 2003). Despite the development of this policy and a monitoring system for the strategy, the government’s commitment to implementation was still unclear.

In parallel, the Economic Recovery Strategy for Wealth and Employment Creation for the period 2003-2007, developed by the Ministry of Planning in 2003, recognised the need to mainstream the informal sector as part of the Macro Economic Framework. The policy emphasized the importance of the government’s ability to create 500,000 jobs annually as this would achieve poverty reduction, economic recovery and growth in Kenya (GOK 2003). The government acknowledged that the informal sector and small enterprises would continue to comprise the bulk of job creation opportunities. This influenced the government to focus on small business enterprises during the recovery period.
The expectation was that, over the planned period, a total of 2.6m jobs would be created, with 88% coming from small business and the remainder from the formal sector (GOK 2003).

The challenges of developing coherent policies and ensuring their effective implementation characterized the 24 years of government under the Kenya African National Union (KANU). With the ascension to power of the National Rainbow Coalition (NARC) in 2007 it was reasonable to hope that the government would focus on issues related to poverty. However, the challenge has been in matching the pre–election manifesto of NARC to subsequent policy implementation. The first step was the development of the Medium Term Expenditure Framework (MTEF) that was intended to outline priorities for the allocation of resources and to devise measures for the most effective implementation of policies and expenditure programmes. This was intended, in turn, to determine the extent of the financial resources needed in the planning of financial policy commitments and goals that would be considered and approved by the government over the following three to five years. Focus areas included setting fiscal targets, estimating costs of existing policies, establishing an institutional mechanism for evaluating trade-offs to be made, and enhancing predictability and transparency.

Policies under the NARC government have been guided by Kenya’s developmental blueprint, Vision 2030, by Sessional Paper No. 2 of 2005 on the development of small and micro enterprises for wealth and employment creation for poverty reduction, and by the Micro Finance Act of 2006. Vision 2030 aims at making the informal sector efficient, multi-tiered, diversified in product range and innovative. In Sessional Paper No. 2 of 2005 the government undertook to address the issues affecting the development and mainstreaming of the informal sector into the national economic framework in line with Vision 2030, resulting in a 'globally competitive and prosperous Kenya' (GOK. 2007d).
Vision 2030 was implemented through a five-year rolling plan, with performance evaluation and monitoring against a set of benchmarks. The following issues were prioritised: informal sector linkages with large formal sector enterprises; the legal and regulatory environment; policy environment; business skills; taxation systems; access to financial services; gender issues affecting the informal sector; and health and safety standards in workplaces (GOK. 2007d).

In an interview carried out as part of this research, the Director of Industrial Relations in the Ministry of Labour commented that, through Vision 2030, the government was aiming to promote a strong Kenyan economy into which informal sector organizations are effectively integrated and are therefore able to make a significant contribution in the production of goods and services. Policies emphasized the role of markets, seeking to make them more accessible. The government objective for the sector was to promote the number and competitiveness of informal sector enterprises by reducing the cost of doing business and generally creating a more favourable environment for business to thrive, while improving the quality of employment in the sector in order to integrate informal sector traders into the national economic grid as evidenced by Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)

To achieve this integration, policies were aimed at promoting medium and small enterprises in the formal and informal economies, including commercial small-scale agriculture, in a framework that would encourage all forms of linkages. Consequently, the definition of the MSE sector was expanded to include all enterprises across the agricultural and non-agricultural sectors that employ fewer than 50 persons. The government also took the initiative to improve the effectiveness of existing institutions and associations through the establishment of a national council for small enterprises and in December 2008, through
operationalizing the provisions of the Micro and Small Enterprises Act of 2006. This was intended to strengthen policy coordination, the MSE institutions’ legal framework, as well as to oversee the implementation, monitoring and evaluation of policies. Other interventions that the Government undertook to implement through Vision 2030 included establishing partnerships between key stakeholders, including MSE entrepreneurs, the private sector, civil society, NGOs and development partners. Here, the intention was to promote dialogue amongst groups as a forum for sharing learning and harnessing synergy in resource mobilization as evidenced by Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)

6.4 Legal and regulatory environment

Policy directions cannot be effective without an appropriate and supportive legal and regulatory environment, that encompasses the taxation regime, credit facilities and banking, legal and regulatory provisions and the coordination of these diverse aspects of day-by-day government activities at both the national and the local levels.

Formal sector organizations regard tax compliance as an important step towards mainstreaming, as highlighted in Chapter 5. However, the Kenyan tax system has been cumbersome and has not fully enabled the growth of small enterprises. The head of the Central Bank of Kenya’s supervision, regulation and licensing for financial institutions confirmed in a media interview that the tax regime has not encouraged SMEs to either register or pay taxes (Detho 2008). Instead, taxation requirements served as a formidable barrier to the integration of SMEs into the formal sector. The tax regime also increased costs of compliance and restricted the upward mobility of informal sector organizations. Value Added Tax (VAT), applicable to most products and services, was costly for small businesses to
administer, increased transaction costs and inhibited cash flow for all categories of enterprises.

The Director further commented that there was lack of vigilance by customs administrators with regards to the dumping of subsidized imported goods. This posed unfair competition to *jua kali* products. It was recognized that lack of access to credit had been a major constraint to the growth of the MSE sector, especially for women entrepreneurs. Issues and problems limiting MSE access to financial services could be grouped into three broad categories: lack of collateral for SMEs to put up to secure borrowed funds; inappropriate legal and regulatory frameworks that did not recognize innovative strategies for lending to MSEs; and insufficient capacity and experience by financial organizations to deliver financial services to small and medium enterprises (Detho 2008).

Over the five years before government officials were interviewed as part of this project, access to credit was reported as improved through the investment groups popularly known as ‘*chamas*’; investment groups that pool funds through their members’ monthly contributions. However, financial institutions with formal and structured institutional mechanisms to facilitate the flow of credit through microfinance institutions to small enterprises were still limited. This in turn led to the increase of the cost of credit for both the entrepreneur and the financial institutions. The operations of financial institutions were rather tailored to offer credit services to formally registered businesses that met the banks’ ‘know your customer’ criteria such as proper maintenance of books of accounts and a verifiable asset base. Most MSEs had not been able to meet these criteria (GOK 1986; 1989).

The establishment of smaller banking institutions in Kenya had improved the situation, but nevertheless most micro entrepreneurs still complained that even these smaller banks had changed over time and their requirements had become as stringent as in the past. This is because some of these institutions had
attained their set growth targets and were no longer as accommodating of the micro entrepreneurs.

Where collateral existed in the form of land, which tended to be the most common collateral for MSEs, commercial banks were reluctant to accept this as they were not confident that the legal system would allow them to realize the value of the land in cases of default. These parcels of land tended to be ancestral and hence could be restricted for auction. Formal and well established financial institutions perceived informal sector organizations as high risk and commercially unviable. As a result, only a few MSEs accessed credit from formal financial institutions. The problem was greater in rural areas, where bank branches were even fewer. Limited competition between the banks accentuated this problem (Njiraini & Moyi 2006).

The legal and policy framework for financial services has not served to counter these tendencies. The Banking Act prohibits microfinance institutions from mobilizing savings by taking deposits for re-investment. As a result, microfinance institutions have faced problems in building a sustainable funding base for small and medium enterprises. The Post Office Act prohibits the Post Bank from lending and the Cooperatives Act does not provide for effective supervision of SACCOs. Despite the increased number of microfinance institutions, their outreach has remained constrained, especially in the rural areas, because of their lack of institutional capacity to provide a wide range of financial services. Currently, their outreach is mostly through group lending schemes, ‘chamas’, which have limited capacity to build the pool of money available for lending. Commercial banks, in contrast, have a strong capital base and wider outreach but lack the expertise and “best practice” capabilities for microfinance to the MSE sector (Njiraini & Moyi 2006).

Policies and strategies designed to boost credit and finance to the MSE sector had been formulated in the absence of information on reliable methodologies,
data on the magnitude of the MSE sector, detailed characteristics of MSE operators on the ground, or factors influencing the growth and dynamics of the sector. As a result, transaction costs for collecting and verifying available information on the credit worthiness of MSE borrowers were high (Njiraini & Moyi 2006). More generally, and from the interviews and the desk study carried out as part of this research, it is clear that the coordination of government interventions is a priority. The need for coordination is emphasized in the government’s two major blueprints: Kenya Vision 2030 - Towards a Globally Competitive and Prosperous Kenya and Sessional Paper No 2 of 2005 for employment and wealth creation. These set out a policy framework that will support research and development to boost informal sector access to appropriate technologies, encourage innovation and promote product design, development and quality control within the sector as a means of significantly assimilating the sector into the Kenyan economy.

Vision 2030 is intended to enable MSEs to increase their share of both the domestic and export markets through increased linkages with large enterprises in the formal sector, both nationally and internationally. Small organizations will, in this regard, play a significant role in contributing to the national goal of wealth and employment creation, and the vision of making Kenya an industrialized country.

These objectives were emphasised by government interviewees as evidenced by the Head of MSMS project secretariat in the Ministry of Industrialization (Njeru, J 2009, pers. comm., January 2009). The government mapped out the regulatory and legislative amendments that were intended to enable it to implement key policies. Priorities were the achievement of a favourable legal and regulatory environment through consolidation and harmonization of trade licensing and regulation services. In this respect the single business permit, launched in 1999, had been aimed at simplifying and speeding up the business licensing, although progress had been slow as highlighted by the Head of MSMS project secretariat
in the Ministry of Industrialization (Njeru, J 2009, pers. comm., January 2009). As far as tax reforms are concerned, interviewees pointed out that the 2003 policy paper had acknowledged that Kenyan taxation, in relation to GDP, was higher than other low income countries. The taxation regime also continued to remain cumbersome and complex, further hindering the ease of business operations in Kenya. Other issues were uneven and unfair taxes, rate disparities with respect to trade, and a narrow tax base with high rates and low compliance. Interviewees noted that tax reforms aimed to reduce the tax burden, particularly on business, as the initial measure to deepen the reforms and subsequently to broaden the tax base in the business sector.

Proposed actions to achieve the tax reforms included consolidation of all tax collection through the Kenya Revenue Authority (KRA), through the optimal use of Personal Identification Numbers (PIN) and Value Added Tax (VAT). Other measures were the removal of the suspended import duties and all discretionary duty exemptions as a means of reducing the scope for tax evasion, and targeting the informal sector to expand the tax base, which in turn should create an opportunity for the Government to reduce some of the tax rates. Other reforms included harmonizing the taxation regime in Kenya with that of other East African Community (EAC) member states, and raising the tax threshold to rationalize personal income tax and reduce the number of tax brackets. The government was also putting in place technological measures to modernize the tax administration infrastructure in order to effectively enforce tax collection and strengthen the KRAs’ capacity. This was aimed at ensuring greater compliance, improving administrative efficiency and collection of tax, and reducing costs incurred by businesses for non-compliance (Detho 2008).

6.5 Government Reforms

The increasing realization by government of the need for effective policies and practices to encourage and enable economic mainstreaming is manifested in
specific sets of reforms. In this review, these can be understood as reforms to overall regulation and local government legislation, to labour legislation, labour practices and skills development, to provisions for the development of effective and appropriate financial services and to improved business linkages.

In terms of overall regulation, a major hindrance to the development of MSEs has been the significant costs of complying with the existing framework. The government, through the proposed Micro and Small Enterprise Bill, has sought to give the sector legislative recognition and to provide an appropriate legal framework supportive to its growth. Consequently, the government has formulated MSE specific legislation in the Micro and Small Enterprises Act (GOK 2012). This provides the legal and institutional framework for the implementation of MSE policies, making provision for the establishment of a National Council for Small Enterprises (NCSE) to advise and follow up the implementation of MSE specific policies and programs (GOK 2012).

The government has also undertaken to develop Institutional capacity to ensure a level playing field by means of new enabling regulations where these are required. Other aspects that the Micro and Small Enterprises Act addresses include simplification and rationalization of existing regulation, the removal of unnecessary regulations and, where a gap exists in present regulation, the review and if necessary creation of the appropriate regulation.

For the informal sector, on a day-by-day basis, the regulatory requirements of local authorities often have a greater immediate impact on the nation-level legislation; the wider implications of local government reforms for mainstreaming are considered further in Chapter 8. The Local Authority Act (cap 256) of 1998 was amended and a revised edition published in 2010 to address the challenge of implementation by local authorities as a consequence of their limited power to enforce compliance standards for security, preservation of environments, public health and safety, allowing local authority by-laws to be standardized (GOK
2010). The government also undertook to continually review its laws governing land ownership in order to simplify and harmonize them with other relevant legislation (GOK 2008). The Physical Planning Act of 1996 encouraged local authorities to earmark land for MSE development. Such land would be registered, and titles issued, in the name of the Permanent Secretary to the Treasury while the government put in place capacity building measures that would ensure effective management of this land for MSE development programs (GOK 1996).

Labour legislation is critical for all economic sectors, and particularly so for the informal sector and for the attainment of mainstreaming. The government has reviewed labour legislation, with the intention of making laws supportive and responsive to the needs of both employers and employees. Specifically, the Employment Act (cap 226) and the regulation of wages and conditions of Employment Act (cap 229) have been reviewed. The minimum statutory standards prescribed in the legislations recognize the compliance constraints of MSEs. In addition, the Factories and Other Places of Work Act (cap 514) has been reviewed to make it sensitive and accommodative to the operations of MSEs (GOK 2007).

Arbitration and Dispute Resolution continues to impact on the ease of conducting business for MSE. In all the policy documents reviewed as part of this research, the government has recognized the need for MSEs to have access to justice and to have their disputes resolved conveniently and at reasonable cost. Plans had been proposed by the Ministry of Justice and Constitutional Affairs to establish a MSE court to dispense justice and deal with small but non-trivial claims emanating from the sector as relates to the Kenya Constitution Labour Act (GOK 2007).

Laws promoting safety standards and protecting workers from occupational hazards have been enforced by implementing hygiene audits and by surveillance of work places Factories and other places of work act Cap 514. This legislation
has extended occupational health services to cover, in addition to factories, other workplaces that include agriculture and workplaces employing more than two persons, including the informal sector. However, over the years only minimal occupational health services have been offered to small enterprises and the informal sector due to limited resources and funding.

The government has, in addition, established the National Productivity Centre (NPC) to institutionalize a productivity measurement process and to extended this concept to the labour policy formulation process, especially as relates to wage setting. This is intended to improve labour-employer relationships as well as government interaction and understanding of policy through the National Economic and Social Council (GOK. 2003). In addition, the National Economic and Social Council (NESC), which was set up in 2004, provides for worker and employees’ representation alongside the representatives of the state, to provide advice to the government on polices needed to accelerate Kenya’s economic and social development (ILO 2010).

Governmental reforms have also addressed gender inequality. Promotion of equality in opportunity, and elimination of all forms of discrimination based on gender, is regarded as fundamental to effective development. Empirical studies have shown that women are more vulnerable to chronic poverty because of gender inequities in the distribution of income, access to productive inputs such as credit, access to and control of property and earned income, inadequate access to education and training and gender biases in labour markets, exacerbated by multiple roles women play. Research has shown that critical factors in gender inequality are limited access to formal education and training and high dropout rates for girls (Ronge et al. 2002). In the research reported here, 18% of the micro entrepreneurs interviewed were women and 22% had attained the secondary level of education. This is an impressive achievement but
the gains in education levels have not eased the difficulties women face in the informal sector.

More women are today concentrated in unskilled and semi-skilled categories of the informal sector labour market and also in the trade and service sub-sector of medium and small enterprises in general. This heightens poverty levels amongst women as the majority of them hold low paying jobs and operate enterprises with low value addition. According to the MSE baseline survey of 1999 commissioned by the Kenya Institute of Public Policy, Research and Analysis (KIPPRA), 13.7% of women have no formal education as compared to 6.8% of men. Women account for 47.4% of small and medium enterprises. Women are traditionally associated with hairdressing salons, restaurants, wholesale and retail shops. These enterprises also tend to be small with the average number of employees for female entrepreneurs being 1.54 as compared to 2.1 for their male counterparts. Women also tend to make a lower average gross income at $57.5 per month as compared to their male counterparts, who make and average gross income of $101.01 per month.

The continuing development of the informal sector, and mainstreaming with the formal sector, requires appropriate and effective policies and practices for skills acquisition and the capacity to use new technologies. Kenya’s policy framework for the development of the skills and technological capacity of medium and small enterprises seeks to enhance their ability to adopt and adapt new technology, improve the capacity of institutions that support technology development, and increase overall access to information on available technology and acquisition of new technological skills (GOK 2005). However, unemployment in Kenya remains high, with the majority comprising youth who tend to have no skills. In addition, productivity issues abound amongst the labour force, precipitated by low education levels and low skills development.
To address the problem of weak technology transfer mechanisms, the government - through relevant institutions such as the Kenya Industrial Research Development Institute (KIRDI), the National Council of Science and Technology (NCST) and the Kenya Industrial Estate (KIE) - has undertaken to review current modes of technology acquisition and transfer. The government has recognized the need to define laws and provide legislation that will regulate and promote local and international technology transfer, encourage partnerships through sub-contracting franchising and licensing, vet and register imported technologies to discourage dumping of obsolete and or dangerous technologies which hinder innovation.

To promote skills acquisition, and development within the MSE sector, programmes will be developed to encourage private sector participation in skills upgrading within the MSE sector. Further the government, in collaboration with the formal sector, has been developing mechanisms to facilitate university, industrial, technical and business attachments. Measures have been put in place to enhance the capacity of technical training institutions, MSE training and demonstration centres, youth polytechnics and national youth service (NYS) skills development centres to offer appropriate skills to the informal sector. Further, measures have been planned to develop the capacity of rural technology development centres to promote the development of simple technologies for farmers through the Kenya Institute of Public Policy and Research Analysis (KIPPPRA 1999).

Overall, the further development of skills and technological capacity for MSEs will enhance their ability to adopt and adapt new technology, and will improve the capacity of institutions that support technology development whilst increasing overall access to information on available technology and acquisition of new technological skills. The research findings from this project show that it is
necessary for government, informal sector and private sector to play a role in policy implementation as follows:

Government: some of the common areas where government ministries will play a role include provision of research and development services, training and education, infrastructure development and protection of the intellectual capital of informal sector entrepreneurs. The government has also undertaken to build partnerships with the private sector and create a legal and regulatory framework in support of these partnerships through the Vision 2030 (GOK 2007).

Informal sector: informal sector associations were established to lobby the government on behalf of the sector and to create a forum for dialogue with the government, whilst supplementing government efforts in training, marketing, technological development and transfer, information collection and dissemination, environmental management and provision of other support services. The *jua kali* associations are expected to channel support services to entrepreneurs, securing property rights and credit for members, safeguarding quality and safety standards of products and premises for members and entering into sub-contracting and supply contracts. The government also plans to give incentives to informal sector entrepreneurs who operate in a socially responsible manner, as evidenced by the Director of Industrial Relations, Ministry of Labour (Odhiambo, N 2008, pers. comm., November 2008)

Private Sector: the private sector does not have a clear role in the implementation of the policies as relates to the mainstreaming of the informal sector. This may suggest that neither the government nor the private sector has made a concerted effort to ensure that the private sector plays a pivotal role in the mainstreaming process. The major role specified in the reviewed documents is the provision of investment capital for the sector’s growth, wealth creation and policy implementation (GOK 2007d). However, Chapter 5 has identified a role for
training, skills enablement, mentoring and business development skills that the private sector is able to provide to the informal sector.

Government policies and practices need to create a favourable environment for the development of strong and effective financial services. Access to credit and financial services is important to the growth and development of any enterprise, especially informal sector enterprises. The government has proposed promoting the development of the financial services sector by providing incentives to attract savings, investments, and the development of venture capital. Through the Micro Finance Bill, launched in 2006, the government put in place a Micro Finance Trust Fund (MFTF) from which micro finance institutions can borrow at affordable interest rates. A negligible number of established financial institutions had been wholesaling to micro finance institutions, because of the perceived risk from the micro finance institutions' clients. Consequently, more resources have been provided through the Micro Enterprise Support Programme Trust (MESPT) along with an associated insurance scheme Microfinance Act (GOK 2008).

The government has encouraged commercial banks to develop an appropriate risk classification system governing loan collateral, documentation and inspection risks for the MSE sector. This is aimed at encouraging commercial banks to open up lending to MSEs. The Central Bank of Kenya has developed the appropriate performance standards and regulations that recognize the special nature of microfinance. In line with this undertaking, the government has strengthened the Micro Finance Unit of the Central Bank of Kenya through the Micro Finance Act. This move was intended to harmonize the operations of micro finance institutions, incorporate micro finance into the country’s financial system and synchronize operations of the institutions with the operations of the mainstream financial establishments (Detho 2008).

The Micro Finance Bill provides a legal framework for the operations of micro finance institutions. This is aimed at making them sustainable and encouraging
them to operate commercially. The sustainability of micro finance institutions and other MSE financial service providers will be enhanced through legal and regulatory reforms including institutional oversight through the Central Bank of Kenya. Capacity building in the sector will be ensured through appropriate policy interventions and risk mitigation measures.

Finally, aspects such as labour market conditions, the provision of skills development and training and available financial services need to be enhanced by a favourable ecosystem for business linkages. The research reported here clearly indicates that weak business linkages are a major cause of poor market access and an impediment to mainstreaming informal sector organizations. The government - through the key ministries of Youth, Trade and Industrialization – has undertaken to provide incentives to the private sector to invest in areas that enhance the development of business linkages between MSEs and large enterprises.

These measures include the establishment of trade information centres to improve the quality of MSE products. In addition, the Ministry of Finance has undertaken to provide appropriate fiscal incentives to both large and small firms to encourage market and supply linkages with MSEs. Furthermore, the Department of Medium and Small Enterprise Development initiated studies on the feasibility of sub-contracting between large firms and MSEs, as well as franchising and the development of business clusters. To enhance linkages, the government has identified suitable zones with basic infrastructure that will serve as incubators (these are considered further in Chapter 8). To address the phenomenon of the “missing middle”, mechanisms will be put in place to enable growth-oriented MSEs to graduate to medium enterprises and for start-up micro enterprises to thrive (GOK 2007d).

Linkages for the agriculture sector will encourage the establishment of agro-processing enterprises, especially in food production, processing and packaging.
These enterprises will create forward and backward linkages through provision of inputs to the agriculture sector, raw materials for micro and small industries and marketing of agricultural products (GOK 2008). The Ministry of Industrialization has also embarked on an informal sector competitiveness project funded by the World Bank, aimed at catalysing the competitiveness and growth of the sector.

6.6 Summary

The government policy documents that have been reviewed are principally intended to address common challenges facing the informal sector. Some of these challenges include lack of coordination with the formal sector, unfavourable policy, legal and regulatory environments and poor access to markets and financial services. The government has yet to create a specific department to facilitate mainstreaming of informal sector organizations. Instead, the government aims to strengthen the Department of Micro and Small Enterprise Development (DMSED) to provide a more effective institutional structure for the coordination and monitoring of stakeholder roles and activities.

The government also has plans to establish an independent National Council for Small Enterprises (NCSE), to feed into the National Economic and Social Council (NESC). The council will have the mandate of monitoring government policy and implementation and advice on the appropriate courses of action to be taken, and to advise on mobilization of resources for the informal sector. Membership to this council is drawn from informal sector stakeholders including associations, development partners, private sector, government, micro finance institutions and other jua kali support organizations.

The policies reviewed in this chapter, reveal the government commitment to facilitating partnership building among the key stakeholders in the informal sector and between the informal-formal sectors. The major areas of government involvement include maintenance of essential infrastructure, capital formation
and investment in human resource development and basic welfare and safeguarding against human exploitation and environmental degradation.

From the review it is evident that the underpinning objective of the government is to facilitate the participation of informal sector organizations in economic activities. This is a long-term mainstreaming objective that can be achieved by creating a favourable legal and policy framework for private sector operations to enable the integration of the informal sector business within the formal sector through collaborations that encourage both backward and forward integration for the two sectors.

The general assumption here is that integration of informal sectors into the mainstream economy will self-achieve if these policies are implemented to their entirety. These aims will be achieved only if there is a cognizance that the needs of micro entrepreneurs are different and that their capabilities are also different. Policies that consider the appropriate structures necessary to mainstream micro entrepreneurs at different stages, size and capacity of their businesses are necessary in order to begin to achieve success in the mainstreaming process.

Tailor made solutions should be considered to address the different sizes and skill levels of micro enterprises and the specific issues facing them, rather than for the informal sector at large. Long-term resourcing of the informal sector should be included in the Government Vision 2030 strategy and those in the informal sector should be approached as both consumers and producers within the Kenyan economy. Focus on the realization of the sector’s potential should be planned for in the economic development strategy.

To promote skills acquisition and development within the MSE sector, programmes will be required that encourage private sector participation in skills upgrading within the MSE sector (KIPPRA 1999). Further the government, in collaboration with the formal sector, has been developing mechanisms to facilitate university, industrial, technical and business attachments. Measures
will be put in place to enhance the capacity of technical training institutions, MSE training and demonstration centres, youth polytechnics and national youth service (NYS) skills development centres to offer appropriate skills to MSEs. Further measures will be put in place to develop capacity of rural technology development centres in order to promote development of simple technologies for farmers. These technologies will be transferred to MSEs for commercial production (KIPPRA 1999). The potential of these initiatives will be considered further in Chapter 8.
CHAPTER 7

DISCUSSION: BROADER IMPLICATIONS

7.1 Introduction

This study has sought to understand what would be required to integrate the informal sector into the formal sector as represented by selected blue chip companies listed on the Nairobi Securities Exchange. The research described here aimed to get a good understanding of the opportunities and barriers that have prevented the informal sector from mainstreaming into the formal sector despite the efforts and interventions from government, non-government organizations and associations with the mandate to develop and support the *jua kali* sector.

From the *jua kali* informal sector study it was apparent that the government sector was pivotal to the mainstreaming process and hence was included as part of the study. Primary and secondary research data was collected from the government sector. The existing interventions that the government had been making in the mainstreaming process, relating to both the formal and informal sectors, were evaluated through findings from both primary and secondary data. Selected case studies from the interviews with *jua kali* entrepreneurs, using the self administered semi-structured questionnaire, have been presented verbatim in this report to capture the intensity of the entrepreneurs’ views as relates to mainstreaming.

From the study, it was clear that all three sectors recognized the benefits and challenges inherent in the mainstreaming process, contrary to assumptions and objectives outlined by the researcher before the study. This chapter considers the broader implications of these findings.
Mainstreaming in Kenya has been an agenda for government, the private sector, NGOs and related bodies for over 40 years (ILO, 1972). As identified at the beginning of this study, the importance of enabling the micro enterprise sector was evident in Kenya as early as the 1970s, following from the International Labour Organization report titled ‘Employment, Income and Equity in Kenya’ (ILO 1972). Since the 1990s there has been heightened interest in the informal sector. The government of Kenya has continued to expand and put in place a number of interventions to engage the informal sector in economic and revenue generating activities.

In 1991 the education system, one of the fundamentals identified as a requirement for the integration of the economy, became a focus area for the government. There was an emphasis on the rapid expansion and development of technical training within the growing number of schools. The increasing awareness of the size, diversity and tenacity of the informal sector has prompted growing interest in planning for vocational training within the national education system and the syllabus now includes technical training skills along with traditional, formal sector focused, education (Abuodha & King 1991).

According to the African Economic Outlook report (2011), the SME subsector plays a significant role in Kenya’s economic structure and the sector accounted for close to 80% of Kenya’s total workforce by 2011, despite the constraints of the regulatory framework. However, studies have shown that a significant number of new SMEs fail within the first five years of launching their business operations (Zimmerer & Scarborough 1998; Kuratko, & Hodgetts 2004). In Kenya, Sessional Paper No.2 of 2005 (GOK 2005) and the Ministry of Economic Planning report on SMEs (GOK 2007) indicates three out of five SMEs fail within their first three years of operation. Given this, it is evident that more work is needed to improve the performance of this key sector in Kenya’s economy.
As shown in Chapter 4, both development agencies and the donor community work with Kenya’s informal sector, particularly with programmes intended to develop entrepreneurial abilities through working with microfinance institutions, SACCOs and the government to identify areas of intervention that can address the needs of the sector. However, as in most developing countries, donor organizations and development agencies work on a project-by-project basis.

Development agencies and the donor community will, by the nature of their engagement in programs with developing countries, be looking for situations in which all parties involved can meet their objectives. For development agencies and donors, primary interests are poverty eradication and the development aspects of mainstreaming which, if properly structured with the government as the primary owner, are likely to have sustainable impact. Easterly (2006) criticizes the classic ‘planner’ approach as applying simplistic external answers from developed countries to complex internal problems of developing countries, rendering them ineffectual. He instead argues for a ‘searcher’ approach that asks the right questions and looks for relevant opportunities with a clear understanding of the different challenges of the developing countries. This enables the ‘searchers’ to identify specific needs and focus on practical interventions to address them, rather than emphasizing the implementation of a predetermined plan.

With this model in mind, the task of government in considering the role of NGOs and development agencies in mainstreaming should be to focus on sustainability, enablement, scale and impact. The government should encourage agencies to partner in adopting the ‘searcher’ approach to achieve the desired intervention impact. In this regard, Atieno and Teal (2006) note that one of the first studies, as early as 1972 that emphasized the importance of understanding employment creation within the informal sector was a study of Kenya (ILO 1972). This study estimated 45% of employment comprised informal and miscellaneous employment. The study further highlighted that the sector was particularly
important for women due to its potentially productive role in the economy. With this in mind, one would argue that the identification of this potential, specifically for Kenya, would mean that, since the development agencies and donor community have had a number of projects targeting the informal sector, there should have been more impact in mainstreaming this sector. The Kenya Government and development agencies should have devised programs that would serve as mainstreaming case studies over 40 years later.

Other models for development have also influenced the approach taken to economic development in Kenya. As elsewhere in the world, one of these has been Prahalad’s (2005) analysis of the informal sector, which he refers to as “the bottom of the pyramid”. Prahalad argues that the sector presents a wealth of untapped purchasing power and that private companies can make significant profits by selling to the poor. Prahalad sees this as a ‘win win’ situation, as companies can bring prosperity to the poor and help eradicate poverty by selling to them. In this, he looks at the informal sector as consumers rather than as producers.

However, this approach could militate against mainstreaming. The alternative perspective, promoted by Karnani (2006) and others, advocates the need to view the poor as producers rather than consumers as this is the only way to alleviate poverty and help raise real income through trading their wares. Karnani’s point is that, often, formal sector legislation and regulatory policies restrict interaction between the formal and informal sectors to one where the formal sector has a latent and sizeable market for the sale of its goods and services. These products are often packed in smaller sales units to enable purchase based on the limited daily or weekly disposable income of low income households. As a result, mainstreaming becomes a secondary agenda for the formal sector and the informal sector is not viewed as having the potential to have a significant impact on the economy (Karnani 2006).
7.3 Perspectives from three sectors

The initial fieldwork for this project, carried out between 2005 and 2008, was set in this broader context of debate about Kenya’s economic development. In contrast to theoretically driven, top-down, approaches, an understanding of the informal sector was built up from interviews and personal observations. Following this, desk research was used to understand the impact of policy changes. This has been augmented by considering reforms that have followed from the promulgation of the Constitution of Kenya in 2010.

In this research, micro, medium and small enterprises in Kenya are represented by the *jua kali* sector. Perceptions by the blue chip companies in the formal sector, described in detail in Chapter 4, are that *jua kali* employment is, and should be, considered as a last resort. For example, it was suggested that, after completing a career and retiring, or wishing to slow down, a person should go into what formal sector employees mean by *jua kali*; a side business established while in formal employment to augment income. This suggests that respondents from the formal sector did not fully appreciate the potential of the *jua kali*’s ability to impact the economy as a means of job creation and poverty eradication.

This set of assumptions and practices results in poorly defined business policies and structures, and informal businesses therefore tend to remain small and subsistence-oriented in nature, handed over from one generation to another. As highlighted in Chapter 4, inheritance of *jua kali* businesses from parents, relatives or friends still comprises 50% of start-ups in this sector. Enterprises remain small family affairs, with poor capacity.

Slow growth is further exacerbated by the primary source of capital that the informal sector uses for business start-ups. In the study, 86% of respondents said that they had derived their start-up capital from personal savings, saved over several years because of their modest interactions with formal financial institutions. In most cases this lump sum saving had not been used to generate
additional interest income before being invested in the business, as the sector saw banks as merely a depository for keeping their earned money safe. This would imply that these businesses were likely to start off with poor cash flows. It may also mean that if the business has a slow start, as most businesses do, *juu kali* entrepreneurs cannot further fund their businesses during the inception stages. Disposable income that may have been available for use to take advantage of business benefits such as discounts for bulk purchase of raw material, early payment for supplies, or for other trading advantages does not exist due to the lack of additional savings.

Skills enhancement and development within the sector is achieved through interacting and working with members of the family that are already in the business. The father may mentor and teach the son about the business, as seen in Chapter 4. In this scenario the quality of skills within the business is limited to the mentor’s skill, hindering adoption of new technology and new innovative ways to trade.

Other non-enabling business practices that this sector adopts include an approach to finance and banking in which 80% of the female respondents operated a bank (as compared to 63% of males) but for the most part use the bank only to deposit funds. Respondents rarely leveraged the financial system for credit or for the interest earnings that may be achieved through the group deposit schemes to which the sector already has access. Financial advice, which the banks would be obligated to offer considering the volume of business this sector might collectively command, is also not forthcoming, as the banks are not resourced to cater for this sector.

Such poor leverage of formal resources could explain the poor expansion of businesses, as evidenced by the results set out in Chapter 4. Of the respondents interviewed, 36% had been in *juu kali* for 3–5 years, 33% between 6–10 years
and 12% for more than 10 years, yet their businesses had not expanded commensurate with the number of years they had been in business.

Micro entrepreneurs did not seem to leverage trading opportunities that could have been available to them. The results described in Chapter 4 indicate that respondents sourced their raw materials from outside the country and yet did not leverage this channel to develop a retail market for their goods in these countries. Instead, 27% of the respondents used agents to sell their goods in external markets. Despite the use of agents being a common practice, entrepreneurs did not seem to have an interest in whether the margins the traders were making on their wares were fair or whether they were inflated. Consequently, *jua kali* traders in most cases were missing the opportunity to link directly with these markets and customers as a means of growing and expanding their trade. Such linkages could be the chance the *jua kali* entrepreneurs need to begin the mainstreaming process for their business, through better understanding the expectations of the formal sector in procuring services and in setting the criteria for preferred suppliers.

We could ask the question: is the informal sector just lazy and uninterested in capitalizing on opportunities available to them in interacting with the formal sector? On the contrary: it would seem that a combination of lack of expertise, limited exposure to information and the effects of what the sector has come to view as unfair government regulation and legislation may explain the current attitude.

In Chapter 4 we saw that, despite 69% of the respondents interviewed paying licence fees to the relevant authorities before setting up their businesses, 89% of this number said they had not received any government support. The sector is already disadvantaged in identifying an effective mechanism of lobbying the government, considering that the associations and institutions that have been set up in the past have not been effective.
Such barriers and challenges in setting up and managing trade within the informal sector have ensured that it has remained burdened by underhand and illegal arrangements in order to achieve any significant returns. This study has shown that 31% of the respondents did not pay any license fees although they were aware that some licensing was required by law for their trade and operations. Similarly, 49% admitted to not remitting any taxes. It is evident, therefore, that this sector is not compliant and, since the government is aware of this, provision of services for the sector has not been prioritized.

Informal enterprises continue to encounter harassment from Nairobi City Council and other local authorities and government officials. Conflicts are about unused land, non-designated trading and hawking areas and for the lack of remittance of the daily licence fees.

Take, for example, a hawker in any of the major town centres in Kenya. He or she will be hawking in the Central Business District (CBD) illegally, as the government requires him/her to have a license. However, obtaining the licence requires the hawker to visit a government office. This means either having an insider, who may be a relative or a school friend, to facilitate acquiring the license without providing the regulatory requirements stipulated by the government, or it requires the hawker to bribe several people in the document processing chain to get a license which in some cases will be fake. This license does not guarantee ease and unhindered hawking in the CBD, as the government laws ban hawking in the high traffic areas. Therefore, this hawker will still face harassment from the authorities depending on which location of the CBD he or she may be hawking in on a given day.

The research reported here has shown that informal sector artisans therefore feel that they are unlikely to ‘win’ whether or not they comply, and hence would rather continue conducting their trade unlicensed. Thus the ‘poverty trap’ continues.
A hawker who is streetwise and entrepreneurial often opts to bribe the traffic police controlling traffic on highways during rush hour to hold the traffic slightly longer than necessary to provide the hawker with a latent market of motorists. This is a cheaper means to achieve a return on his or her trade than undergoing the difficulties of compliance through licences.

In the rural areas the situation is similar, as the trader, who is probably a farmer, will rely on the community-based trading centre run by the government to sell his or her wares. Trading centres are open only on certain days and here the micro entrepreneur faces similar requirements to bribe officials. This is not an enabling trading environment; should the entrepreneur decide to trade directly with end customers, issues of licences, poor infrastructure and transport and possibly zonal regulations that may be in play requiring licenses might mean that the trader does not realize any profit.

This unfavourable environment is acknowledged by the government sector, as reported in Chapter 6, where the officials interviewed cited major shortcomings in informal sector development that have resulted in a weak implementation framework and a failure to institute and effectively monitor informal sector policies and regulation. The Kenyan tax system has also been cumbersome and a deterrent to growth of the informal sector, as well as to compliance and to integration into the formal sector.

The informal sector has, on its part, neither exploited market opportunities that may be available nor expanded markets to exploit neighbouring or overseas markets. The results set out in Chapter 4 indicate that middlemen further exploit the sector through their trade practices and profiteering, whereby they purchase the traders’ wares at a fraction of the sale price. Despite this imbalance in trade practices by the agents, only 38% of the informal sector entrepreneurs had considered approaching blue chip companies in the formal sector directly.
Middlemen still comprise 20% of buyers from the informal sector whilst the *jua kali* entrepreneurs mainly rely on individual walk-in customers, tourists, students or motorists.

These agents may be in formal sector employment, with the *jua kali* as a side ‘hustle’ (an informal businesses undertaken by workers in the formal sector) to augment income from formal sector jobs. These middlemen may also be backed by wealthy entrepreneurs or by a medium-sized ‘semi- formal’ entrepreneur; someone who has the basic licences but is influential enough to get away with doing businesses without full compliance. This lack of structure further exacerbates the lack of growth of informal sector business and keeps traders in the cycle of subsistence activities and, by extension, in the ‘poverty trap’.

When asked about what would be required to upgrade the *jua kali* sector, the informal sector sees the government as pivotal to its ability to mainstream. Respondents articulated some of the interventions that they perceived the government should undertake to enable them to mainstream with the informal sector. These include the government giving the *jua kali* artisans support by providing capital to purchase machines and encouraging customers to buy *jua kali* products rather than imported ones. In terms of the ‘buy Kenya build Kenya’ principles, most local entrepreneurs believe that the government should make concessions on locally produced products in order to make them more attractive to consumers. Respondents also wanted government to ensure that *jua kali* traders have knowledge of which financial institutions and bodies support microfinance. The expectation was also that the government would provide advisory services to informal sector entrepreneurs.

These views suggest a perception by the informal sector that the government has a duty to make the sector successful in its trade and to ensure the artisans are able to make a decent livelihood from their trade. Whilst this sentiment is understandable, it can also be expected that the informal sector should be
proactive and exhaust the opportunities currently available to grow enterprises. This would encourage the government and other stakeholders to accelerate the mainstreaming interventions that have already been initiated, such as the review of legislation and regulation, the facilitation of skills development and the identification of locations at which to base the informal sector trade.

Empirical studies have identified mainstreaming as a solution for poverty reduction and job creation and the results of this study indicate these opportunities are not lost on the Kenya Government, the formal sector or informal sector traders. The fundamental challenges that create barriers to, or slow down, mainstreaming in Kenya are of interest to a number of stakeholders and mechanisms of eliminating them have been articulated through government sessional papers as well as through the legislation and regulation changes as identified in Chapter 6. Nevertheless, implementation has been slow at best.

From the findings set out in Chapter 4, there is evidence that the level of education has a significant bearing on the skill sets of the entrepreneurs in the *jua kali* sector and by extension affects their ability to break through from micro entrepreneurship and create small and medium businesses. Such a breakthrough would mean that the level of production quality for goods would be improved, in turn facilitating and encouraging the possibility for mainstreaming. However, the tradition of skills development through apprenticeship means that most of the respondents used the same manufacturing and trade techniques that their unskilled parents, relatives, mentors and friends use. Hence new entrants do not improve the level of skill and expertise within the sector.

As the government has put in place a number of interventions to facilitate subsidised education through technical institutions around Kenya it could be argued that the informal sector has not made the effort at improving the skill levels within their trade. However, despite the subsidized fees in these institutions, the pressure on disposable income for the informal sector means that
they do not prioritise formal skill development through technical training. There may also be a level of ignorance within the informal sector about the competitive advantage an improvement in skills could bring to business. This may indicate a lack of information dissemination and understanding of the interventions required to successfully mainstream the informal sector. The notion that the Government should initiate and lead the key stakeholders as part of a mainstreaming consortium is likely to result in better impact of the mainstreaming process.

Formal sector interviews, reported in Chapter 5, showed that 80% of the organizations interviewed were willing to support integration initiatives with the informal sector, acknowledging the impact of the sector on the economy. This viewpoint was further reinforced in interviews with the Central Bank of Kenya Director of Bank Supervision, where there was emphasis on the need to create an enabling environment through an appropriate legal and regulatory framework and to develop facilitative measures to promote the growth of the sector (GOK 2008). The general assumption is that the integration of the informal sector into the mainstream economy will self-achieve if the proposed government policies are implemented in their entirety.

The government further acknowledges that major interventions should include maintenance of essential infrastructure, capital formation and articulation and implementation, investment in human resource development measures and structures. There should also be an effort to safeguard the basic welfare of the sector against human exploitation and environmental degradation. Both the government and the formal sectors are aware that, despite the weak implementation of the measures that have been put in place, there is potential in the informal sector for employment creation and poverty reduction. This begs the question why, given that research and policy development started as early as 1972, the mainstreaming of the informal sector still has not been achieved.
A closer look at the views of the three sectors and the existing structure, revealed as outcomes of the research reported here, may explain some of these mainstreaming barriers.

For its part, the formal sector identified the informal sector as an opportunity to create wealth, as seen in Chapter 5. However, their approach comes from the premise of viewing the sector as consumers rather than producers or partners. Formal sector actors realized that it would require a paradigm shift in their business structures and procurement policies in order to successfully integrate with the informal sector. Research showed that procurement, as well as supply chain outsourcing policies and guidelines, dictated stringent tendering policies. These policies tended to be inflexible, as they had been designed as a mechanism to deter fraud. They required from trading partners audited accounts, confirmation of compliance with trade regulations, tax and various licences (Chapter 5). In order for informal sector businesses to be considered in the mainstreaming process they would be required to demonstrate adherence to these existing and stringent requirements.

Therefore, the main focus for formal, blue chip businesses is to exploit market and economic opportunities in order build shareholder value. They aim to do this whilst observing the policies, legislation and regulations of the country or the government of the day. Their approach to the informal sector is based on acknowledging the potential of the sector because of the sheer volume of its trade, while seeking opportunities that have minimal risk.

For its part, the Government sector acknowledges that there has been no clear private sector policy or role articulated in relation to mainstreaming the informal sector (Chapter 6). Therefore, to some extent, blue chip companies can argue that they can determine their own rules to approaching the informal sector and that approaches should be within the guidelines of their corporate rules and regulations.
In addition, the formal sector study revealed that health and safety standards in the workplace were an important prerequisite for the formal sector due to the risk and legal consequences of lack of adherence. Hence, from the perspective of the formal sector, its interaction and participation in the market is preceded by prohibitive regulations that largely discounts mainstreaming. Conversely from this research study (Chapter 5) we saw that 75% of these organizations were still involved with informal sector organizations in their procurement and tendering processes. After further probing through the qualitative study, we found that blue chip companies’ involvement with the *jua kali* comprised outsourcing of non-core, low skill activities that may be recorded as meeting Corporate Social Responsibility (CSR) requirements.

The formal sector cites personalized service as a key benefit when interacting with the informal sector (Chapter 5). This is because the informal sector tends to have few formal sector customers; hence the occasional customer from this sector is given priority and attention. Areas in which the informal sector provides competitive services include flexibility in production, cost efficiency and ability to achieve small-scale production, as the micro enterprise is not constrained by the high fixed costs of equipment, as may be the case for a formal sector factory. The benefits of a one-stop service are also achieved, as the micro entrepreneur is willing to outsource services to meet the demands of this customer.

Through such minimal and occasional interactions with the informal sector, blue chip companies in the formal sector achieve their objectives of ensuring compliance with legislation, licensing and quality, with minimal delivery risk, whilst fulfilling CSR mandates. This may explain why, despite the formal sector citing a myriad reasons and risks in dealing with the informal sector, the empirical evidence cited in Chapter 5 shows that 75% of the respondents still do business with the informal sector.
The views set out in Chapter 5 further revealed that 18% of organizations were willing to participate in training informal sector leaders as well as ordinary entrepreneurs in areas that would be relevant to mainstreaming such as leadership and skill acquisition. Up to 16.7% were willing to mobilize stakeholders from the formal sector, 16.4% were willing to assist in fundraising to support such initiatives, 8.1% would assist in marketing and 10% in training in technology. The formal sector is willing to do this as part of a consortium of development agencies, donors, government and community development bodies that are part of specific projects that encourage mainstreaming. The formal sector perceived its role in such a process as being a supportive rather than as taking a lead role.

One could argue that, for the benefits that the formal sector accrues from the informal sector, it should play a pivotal role in assisting the government with the project management of mainstreaming. Considering the potential and impact the informal sector can have to the economy, the onus should be on all parties with a vested interest in the growth and development of the Kenyan economy to participate in the process.

The government, for its part, has undertaken numerous studies and has developed community bodies, associations, task forces, and commissions, as well as other interventions to address the mainstreaming of the informal sector. Government is clearly aware of the importance of the informal sector to the economy and to the people of Kenya as a whole. In Chapter 6 we reviewed sessional papers and parliamentary acts instituted in order to strengthen the Department of Micro and Small Enterprise Development (DMSED) and other MSE associations. The government also established the National Council for Small Enterprises through the Micro and Small Enterprises Act, 2006, and amended the Local Authority Act (cap 256) to reflect limited regulatory powers by local authorities. These measures were intended to ensure that compliance to standards relating to security, public health safety and environment are
preserved. The government has reviewed labour laws to make them more dynamic and responsive to the needs of both employers and employees, specifically through the Employment Act (cap 226) and the Wage Regulation Act (cap 229), which provide for the implementation of minimum wage earnings.

However, despite the implementation of such acts and amendments to legislation and regulation to enable the informal sector, the policy framework for financial services continues to be less supportive of small-scale borrowers. The Banking Act prohibits microfinance institutions from mobilizing savings and taking deposits for re-investments. Consequently, microfinance institutions are faced with the dilemma of being unable to build a sustainable funding base for small enterprises. The Post Office Act prohibits the Post Bank, which ought to be catering for the informal sector, from lending in this area and the Cooperatives Act does not provide for effective supervision of SACCOs. This demonstrates poor alignment with the mainstreaming process.

The government has, through its focus on the improvement of the macroeconomic environment, indirectly incorporated the informal sector into Kenya’s development strategy, Vision 2030, covering the period 2008–2030 and advocating for a globally competitive and prosperous Kenya by 2030. In Chapter 6 we noted that the government has also, through relevant institutions such as the Kenya Industrial Research Development Institute (KIRDI), the Kenya Industrial Estate (KIE), the National Council of Science and Technology (NCST) and the Kenya Bureau of Standards (KEBS), attempted to address the problem of weak technology transfer mechanisms.

In addition, the government has tasked seven state government bodies, comprising ministries and state parastatals, with various aspects of informal sector development. In Chapter 6 respondents from the government ably articulated the barriers that need to be addressed to facilitate the sector as follows: informal sector linkages with large formal sector enterprises; the legal
and regulatory environment; policy environment and business skills; taxation systems and access to financial services; gender issues affecting the informal sector; and health and safety standards in workplaces.

The research reported here showed that the government recognizes weak business linkages as a major cause of poor market access and an impediment to mainstreaming (Chapter 6). Through the Youth, Trade and Industrialization Ministries the government has undertaken to provide incentives to the private sector to invest in areas that enhance development of business linkages between MSEs and large enterprises.

The government has, over the last decade, instituted SME jua kali associations to act as representatives for the sector. However, research findings indicate that professional associations and forums have had only a minor influence on the interactions of the formal sector with the informal sector (Chapter 5). Just over half (53.3%) of the formal sector respondents said that such affiliations did not have an influence on their linkages with micro entrepreneurs from the informal sector. The jua kali associations were expected to channel support services to the entrepreneurs, secure property rights and credit for their members whilst safeguarding quality and safety standards of products and premises for members. The associations were also supposed to enter into sub-contracting and supply contacts on behalf of the informal sector. However, the associations have not had a significant impact in any of the areas where they have been established.

The government has continued to embrace these associations, providing them with an audience with government permanent secretaries to allow the associations to articulate the grievances of the informal sector. Yet, according to Orwa (2007) regional associations, such as the Mchanganyiko Craft Association of Kakamega and the Kamukunji Association, were formed as early as 1987 but have yet to provide significant benefits to their members. Instead, informal
traders have continued to strive for changes in government engagement through their community efforts. Consequently, an opportunity exists for government to champion a consortium that combines the formal sector, development agencies and other stakeholders towards achieving the mainstream objectives.

The government also acknowledged (as reported in Chapter 6) that access to credit has improved over the last five years through the MSE investment groups popularly known as *chamas*; a ‘merry-go-round’ of members who pool funds to provide credit to group members. The government has also admitted that, in contrast to such popular initiatives, the country has had no institutional mechanism to facilitate the flow of financial resources from the formal financial sector through microfinance institutions to small enterprises. This has led to an increase in the cost of credit to both the entrepreneur and to the financial institutions.

Whereas the establishment of smaller banking institutions with a specific focus on the MSE sector seems like a logical approach to addressing the issue of credit, the informal sector is faced with another barrier, which is that the requirements for credit have become more stringent, including the requirement for collateral as a precondition. Even where this collateral exists in the form of land, some commercial banks are not confident that changes to the Land Act will allow them to use the collateral in cases of default, since these parcels of land are of high ancestral value to the entrepreneurs. Despite significant achievements on reforming the legal and regulatory framework, a number of laws and regulations directly targeted at the *jua kali* sector remain cumbersome and out of step with the realities of the informal sector.

### 7.4 Towards a new approach

There is, then, a clear need for a different approach. This would allow for leniency in procurement regulation and structure to facilitate incorporation of the informal sector into its supply chain through non-core competence activities that
require low level labour skills and low risk. These would include, for example, the supply of raw material, manual labour on the factory shop floor, construction sites, farming, and in road works. Incorporation into the formal sector supply chain may include provision of products that the informal sector already manufactures such as wire fencing, troughs, drains, wheelbarrows, tin packaging, cages, and fencing amongst other wood and metal products.

As formal sector firms already have existing business structures geared towards efficiently managing and delivering projects with developed and robust measurement and evaluation systems, the formal sector could play a significant role in the mainstreaming process. In Chapter 2 we have seen the impact the formal sector can have in mainstreaming through adopting and managing specific projects such as the Anglo/De Beers initiatives in South Africa (Luiz 2002) and the Grameen Bank and Shakti initiatives in Bangladesh (Bornstein 2004; Kabir and Renteria-Guerro 1997; Wheeler et al. 2005). Initiatives similar to these are possible in Kenya but require an appropriate level of commitment from the formal sector in order to achieve the desired impact.

On-going initiatives between the formal and informal sectors exist and these provide examples of good practice for mainstreaming. One such initiative is the Narok Maasai Women Community that develops crafts and traditional Maasai jewellery for export. Exporting is facilitated by the Maasai Education Discovery (MED) Project (a CSR initiative of Cisco Systems, 1992–2007). Another example is the Kikuyu Community Women Development Project, making the ciondo sisal hand-woven basket indigenous to Kikuyu and Kamba communities in Kenya for export (Bocedi 2010). In a further initiative, East African Breweries Limited has facilitated barley farmers through financing improvements in the quality of their yield and setting up a value chain that enables direct absorption of produce by the brewery (East African Breweries Annual Report and Financial Statement, 2008).
These initiatives suggest that the formal sector already has the infrastructure and ability with which to undertake sustainable commercial initiatives. However, the formal sector’s primary approach remains one of association largely under the CSR banner, making these interventions an annual exercise, or at best an outsource of non-core competence. This addresses a short-term business objective in the formal sector and not long-term and sustainable mainstreaming that could address the real challenges keeping the informal sector in the ‘poverty trap’.

A contrast with such short term, CSR-motivated initiatives is the ‘Fanikisha’ joint project between the United Nations Development Programme (UNDP) Kenya and the Ministry of Trade in collaboration with Equity Bank. This project was set up to empower women to engage in economic activity and enterprise as a means of addressing gender marginalization and to help eradicate poverty (Patterson 2010). Through this example we begin to see mainstreaming possibilities, with clear identification of roles for all the three sectors.

Despite the Fanikisha initiative being targeted at a select group of women, the structure of this project demonstrates the possibilities that can be realized through collaboration between the informal, formal and government sectors. Capacity enablement is achieved using the expertise of UNDP, private sector institutions and business firms to deliver training workshops, in partnership with Equity Bank, which has majority of account holders in the informal sector. The main products offered to participants in the project include tailor-made debt financing that is made easily accessible and affordable for women-run enterprises (Patterson 2010).

Evidence of the success of this joint venture is exemplified by the story of a graduate of the 10-day Fanikisha training workshop. With a history of mobilizing women under a catholic mission, the graduate has been able to establish a transport enterprise offering secure personalized transport services for children
attending three different schools in her area of residence. The entrepreneur received a loan in 2008 to purchase an additional school bus from her Fanikisha bank account with Equity.

More broadly, the case of Equity Bank demonstrates the wider possibilities in a new approach to key aspects of mainstreaming. This case highlights the importance of appreciating that standard, blue chip companies' procurement procedures are not likely to successfully mainstream the informal sector and that a paradigm shift in mentality will be required to successfully overcome barriers and achieve mainstreaming objectives.

The Equity Building Society (EBS) was founded in October 1984 by a group of local entrepreneurs to provide mortgage financing to low income Kenyans, most of who had historically been excluded from formal sources of capital by banks, building societies and other regulated and formal financial institutions. This meant that the low income populace remained ignorant of the resources provided by the financial sector (Wright and Cracknell 2007). The Equity Building Society was therefore seen as an enabler and the society’s logo, which comprised a brown roof signifying a home, was viewed by the target market as empathetic with their desire for steady growth and gains towards a better life in the future (Wright and Cracknell 2007).

However, during the early 1990s EBS faced a significant downturn in its business. This was primarily self-inflicted as EBS was operated as a family business with the board and most employees comprising friends and family of the founders. Poor systems and structures and the downturn in the Kenyan banking industry at the time served to create a crisis situation for EBS. By 1993 non-performing loans made up 54% of the EBS portfolio. Accumulated losses totalled KES 33 million (approximately $ 388 000) and the liquidity ratio stood at 5.8%, well below the 20% required by law (Wright and Cracknell 2007).
Following this crisis, the board began a turnaround effort believing, like Mohammed Yunus of Grameen Bank, that the poor were indeed reliable and could pay their loans with interest and use the profits to successfully grow their businesses (Coates et al. 2007). In 2004 the board made James Mwangi the CEO for the bank. Mwangi shared a passion for micro entrepreneurship and was able to shift the bank’s focus to micro loans, spearheading the creation of a new culture that focused on modesty, accessibility and passion for customer service (Coates et al. 2007). He restructured the organization and recruited new senior managers in a bid to turn the company around.

This began a dramatic shift in the organization. The bank shifted its focus to micro-loans, focusing on creating a new culture and brand that had a passion for customer service and for enabling micro entrepreneurs. This led to Equity’s rapid transformation into a fast-growing retail bank. By 2006 Equity Bank served over 1 million customers, which is over 31% of all Kenyan bank accounts. Equity Bank focused on the bank’s main goal, which is to be the preferred microfinance service provider contributing to the economic prosperity of Africa (Market Intelligence Banking Survey, 2006). The changes the bank undertook from 2000 to 2006 paid off in the bank’s profit, leading to a pre-tax profit growth at a compound annual rate of 79% from KES 33.6 million (approximately $400 000) to KES 1,103 million (almost $13m)

Equity Bank demonstrates the success of an organization that focused throughout its evolution from insolvency to success on economically marginalized Kenyans who had been referred to as ‘unbankable’ by other commercial banks. Equity Bank instead approached the sector with an emphasis on customer service (Coates et al. 2007).

Equity bank realised that there was a larger community of unbanked micro and small enterprise traders who probably only had primary education, had never owned a bank account and did not perceive banks as being structured to
accommodate their needs. These micro traders tended to have a daily income and needed to have regular access to this income without paying the withdrawal or deposit fees that was levied by most banks as the sums of money they deposited or withdrew tended to be low.

Equity Bank became the first bank to open branches within the vicinity of informal sector markets as a means of demonstrating that they embraced the informal sector traders but also through products like *Jijenge* (Kiswahili term for ‘build oneself’) Equity Bank offered the micro entrepreneurs small, unsecured loans to invest in their trade.

Equity Bank hosted financial training and education days and engagements on the merits of microfinance for entrepreneurs, especially in rural areas, and established a presence at the agricultural trade fairs in the major urban centres of business in Kenya. The bank also provided systematic in-house training to equip staff with the required technical skills and boost their confidence in dealing with micro entrepreneurs.

To help customers plan and realise their personal goals, Equity Bank provided deposit products that included personal, business, church and institutional savings accounts, current, call and fixed deposit accounts. Equity created a current account product that did not have a minimum deposit requirement which had been a barrier to banking for micro enterprises, which often needed to access all their money; in contrast, the banking fraternity in Kenya all levied a minimum deposit requirement on their account holders.

The *jijenge* account was used as an entry level product for micro entrepreneurs to help them understand the importance of banking and also as a means of introducing them to the formal financial sector. For these facilities Equity levied a service charge that was just 10% of what other commercial banks charged, and opened these products to all their account holders (Coates et al. 2007). Equity Bank also provided loans to all account holders for household, medical and
education emergencies, farm development, animal feed, veterinary services, livestock, working capital and business growth, all at an average lending rate of 17.5% (Coates et al. 2007). Equity Bank ensured scale-through provision of mobile branches in the form of armoured vans that were driven and parked in rural locations serving as bank branches to help broader accessibility and decongesting of banking halls (Figure 7.1).

Diagram 7.1: Village Mobile Bank. Source: Equity Bank

Equity Bank further availed access to funds through a network of over 500 ATMs spread throughout Kenya and accounting for 40% of withdrawals. Equity Bank also introduced alternative banking methods such as mobile phone banking and Internet banking (Coates et al. 2007). Equity Bank invested in motivating its staff to become leaders in their sector, expanding distribution channels and visiting rural areas to interact and educate potential clients about their services.

With this restructuring and new leadership, Equity Bank evolved from a technically insolvent rural based lending company to a dynamic, financial
services bank that is internationally recognized and has won awards for its innovations in the microfinance sector (Satchu 2010)

In reviewing the Equity Bank case as a demonstration of effectively mainstreaming the informal sector, key interventions can be identified, that contributed to the successful and profitable mainstreaming process. These include the ability of Equity Bank to build an internal culture that embraced the company’s mission of serving the poor in a cost effective way (Coates et al. 2007), as well as the ability to scale and connect with disadvantaged Kenyans inspiring them to do business with financial institutions again, following from the early 1990s, when commercial banks shed account holders with deposits of less than KES10,000 claiming they were ‘unbankable’ and a credit risk.

7.5 Summary

The Equity Bank intervention demonstrates the opportunities and possibilities available for formal sector organizations to break out of the constraints that have restricted the mainstreaming of the informal sector into Kenya’s overall economy. Its success supports the view that traders in the informal sector have the potential to be producers as well as consumers of goods, creating a mutually beneficial relationship between the formal and informal sector that will contribute to poverty eradication and job creation. The Equity Bank case further demonstrates the importance of understanding the sector’s setup and structure and of tailor-making products and solutions to suit them. This further echoes the importance of evaluating the organizational policies and the regulation of the formal sector as a means of unlocking the success of the mainstreaming process.

More generally, this chapter has shown how, despite the longstanding identification of the challenges that need to be overcome to achieve effective mainstreaming, each of the three sectors has failed to implement the conditions required to make mainstreaming a reality. Despite a series of legislative and
policy initiatives, the government sector has failed to remove significant regulatory constraints. The formal sector, represented here by blue chip companies, has been unimaginative in reforming procurement and supply chain requirements, despite the demonstration of what is possible by Equity Bank. As a result, mainstreaming has been for the most part limited to Corporate Social Responsibility Projects. For their part, informal *jua kali* traders have failed to make the most of resources available to them, such as the better use of microfinance and export opportunities.
CHAPTER 8

CONCLUSIONS: LOOKING TO THE FUTURE

8.1 Introduction

The example of the Equity Bank demonstrates clearly the potential for mainstreaming informal traders into the formal economy when new approaches are adopted. Despite the difficulties that the government, blue chip companies and *jua kali* traders have experienced, over many years, in realizing the entrepreneurial potential of the large number of microenterprises that characterize Kenya’s economy and society, it is clear that these circumstances are not irredeemable. This, final, chapter looks to the possibilities for the future that can be built on previous initiatives and existing assets.

In particular, and by way of conclusion, the focus will be on the opportunities in concentrating on local government reforms, on the effective use of new technology, and on the development of incubation centres to provide the concentrated support that will be required if mainstreaming is to be successful.

In essence, the approach taken here is consistent with Karnani’s critique of the “bottom of the pyramid” model (Karnani 2007a). Rather than seeing the informal sector merely as potential consumers, whose purpose is to expand the market share of formal sector companies, the argument here is that the only way to alleviate poverty and help raise the real income of the poor is through mainstreaming informal sector trade. Contrary to prejudice, the informal sector does not comprise lazy, unmotivated and uneducated individuals. From the 539 informal sector sample interviewed as part of this study, 47% of the respondents had secondary school level education and 19% had college level education (Chapter 4). This indicates that respondents have at least a basic level of skills
that enable them to effectively interact and trade in the economy both in Kenya, the rest of Africa.

8.2 The importance of governance

The investigation reported here, then, demonstrates that, while the ‘poverty trap’ exists, it cannot be attributed to a lazy informal sector lacking initiative. From this study it is apparent that appropriate financial systems and micro credit structures are fundamental to the ability of the informal sector to break away from the cycle of poverty and that sustainable economic and financial systems remain crucial to the mainstreaming process. In evaluating the ways in which the government, informal jua kali sector and the formal sector can respond to this challenge, it is apparent that government must be the catalyst for this process.

The relationship between the informal and government sectors has the potential for mutually beneficial results. Government has the scope, scale and mandate to own and implement the required legislative and regulatory processes, provided that it reviews legislation and regulation with the jua kali entrepreneurs in mind. In evaluating the current position and impact that mainstreaming has had in the Kenyan economy, policy, legislation and regulations, interventions must be supported by a paradigm shift in how the government measures and evaluates itself when it interacts with the jua kali informal sector. This evaluation should also extend to how the government internalizes the apparent economic, social and political benefits that a successful mainstreaming process is likely to afford. Hence the need to articulate mutual benefits, such as the broadening of the tax base and, by extension, the country’s GDP.

This study has shown that the government has recognized that both the informal and formal sectors are fundamental to economic growth and recovery of Kenya. The government has further realized that the facilitation of the state in defining of the role of the informal and formal sectors in the mainstreaming process is crucial. Policies aimed at fostering growth that have an impact on
macroeconomic stability and that promote investment in basic services such as infrastructure, technology, housing and electricity must also be considered. The government, having effected a number of regulatory and legislation policy measures towards the mainstreaming process, appreciates that the task will be to identify a suitable integration mechanism that allows the *jua kali* to appreciate the importance of adherence to regulation and legislation in order to achieve mainstreaming (GOK 2003).

The study reported in the preceding chapters suggests that all three sectors can realize benefits from this process. Interventions in the informal sector would be directed at the stranglehold of the poverty trap, enabling traders to take advantage of skills and economic facilities that drive the sustainability and growth of enterprises. The formal sector, in order to mainstream with the informal sector, must broaden its local supply chain to formalise existing initiatives that are already benefiting from involving the *jua kali* sector. In this, the formal sector will also benefit economically from the broadening of markets.

The findings of this study also suggest that poor traction in mainstreaming is the consequence of several factors that include the absence of a ‘champion’, or owner, to drive the mainstreaming process, and the failure to find a viable integrating mechanism for the interventions in legislation, policy and regulation that the government has already put in place. Reviewing procurement policies of blue chip companies, and addressing poor adherence to legislation and regulation by the *jua kali*, may be a basis of beginning the mainstreaming process. However, in the absence of a single sector owning the role of mainstreaming and the integration process all parties will continue to be aware of the requirements for successful mainstreaming but none of them will own and successfully undertake the implementation.

The bureaucratic and lengthy processes of transacting business with government agencies have an adverse impact on the operation of small enterprises by
diverting their scarce resources away from production and into housekeeping requirements. Here, the example of mainstreaming in Tanzania is instructive (Nelson & de Bruijn 2005).

In Tanzania, the informal sector had developed a negative attitude towards government regulation, viewing it as exacerbating the poverty situation. The government on its part had evolved a quasi-permitted set of rules of conduct that enabled it to respond to the failures of the informal institutions. Research was carried out, focusing on this situation from the perspective of the owner-managers of informal enterprises. This identified a small number of enterprises that had started informally and whose owners had first-hand knowledge of the formalization process. They ranged from cross-border traders, soap production and chemical processing companies to experimental agriculturalists and informal part-time credit providers (Nelson & de Bruijn 2005).

As with informal operators in other developing countries, Tanzanian entrepreneurs did not comply with the licensing regulation. For example, Milly Zukia, one of the entrepreneurs had begun with an informal cross-border smuggling enterprise and had progressed to establishing a registered export-import business. Similarly, Dan Himba, who was engaged in a series of informal part-time activities, was able to progress to setting up a wholly owned computer company and a joint venture financial services company (Nelson & de Bruijn 2005). These Tanzania cases suggest that formalization is possible if the informal sector is able to obtain operating licences from local authorities with simpler procedures and lower costs that afford them a semi-formal legal status without the difficulty of the more stringent state authority registration.

With this approach in mind, the Kenya Government launched the Single Business Permit (SBP) system in 1999 as an enabling intervention for the informal sector. However, the system has yet to become fully operational and the
fees charged are considered by many entrepreneurs in the informal sector to be prohibitive, hence compliance remains low.

This again shows the ways in which the three sectors are interlinked, and the importance of there being a primary owner to undertake responsibility for the process of mainstreaming. The results reported in Chapter 6 indicated that the government, with links to both sectors, was the best placed to create partnerships between key stakeholders including the citizenry, micro and medium size entrepreneurs, community organisations, the private sector, civil society, NGOs and development partners. The government is also best placed to promote these partnerships through appropriate policies and dialogue for effective resource mobilization, utilization and overall development of the sector. The government is the primary stakeholder in mainstreaming because of its ability to scale, and because it is the primary custodian of legislation and regulation. Consequently, government is a mandatory partner for all other parties.

8.3 Local government reform

Scholars have considered the concept of decentralization over the years. The idea and anticipated benefits of better local economic policy is based on the ‘decentralization theorem’ (Oates 1972; 1999). This argues that local or devolved governance enables a clearer and more focused articulation of required local services that directly impact the populace and electorate in the various counties. It further argues that the efficiency of these services will be improved with the locally elected political representatives being more directly accountable (Tybout, 2000). This approach has been adopted and applied in Kenya since 2010.

Kenya experienced many years of centralized, authoritarian government before the promulgation of the new constitution of Kenya in 2010. This event ushered in a new path for participation and for sustainable development, and for a democratic, devolved state that embraced inclusion. This deepening of
democratic local government became the basis for building a more cohesive country. It also led to using legal means for tackling issues such as crime, youth unemployment, economic exclusion and gender disparities. Devolution grants limited autonomy to counties, especially as relates to the economic development and enactment of legislation contained within the administrative boundary of each of the counties, subject to the approval of the state government (HM Treasury, 2003)

The devolution of aspects of government has allowed the opportunity of building an effective local democracy and an economy that can promote dialogue and local ownership, with emerging development groups that include ‘Katiba, Ugantuzi, Maisha Mapya Bora’ associations. The sustainability and success of such local institutions will be dependent on their ability to change the lives of ordinary people, including the jua kali sector. The efficiency with which these local institutions enable the informal sector will enable formal sector companies and the government to mainstream the informal sector (Wainaina 2015).

County-level governance that gains a reputation for successful delivery creates hope, provides economic freedom and enhances the rule of law and local democracy. With the onset of devolution, the challenge for Kenya is to build inspiring county democratic institutions, active citizens, and responsible political governance systems. These have to deepen and sustain county democratic governance practices. County governments will need to improve their economic and political governance through better management of resources and by creating an enabling environment for sustainable and inclusive local economic development (Wainaina 2015).

More particularly, there is the opportunity for the county governments to reform the funding of small and micro scale farmers and strengthen their productivity through the value chain. The evaluation of the outcomes of such reforms can be used as case studies for mainstreaming the informal jua kali sector into the
formal sector. Considerations will include linking the *jua kali* sector with technical institutes for skills development and improved productivity support mechanisms (Wainaina 2015).

Further considerations should include mechanisms for supporting farmers' savings and credit cooperatives, for enhancing local, agricultural-based processing industries, and for creating quality jobs for young people. In this, county governments have an opportunity to play a pivotal, regulatory role in transforming the informal *jua kali* sector into a sector that contributes to a modern and prospering local economy. Micro enterprises, as well as the small and medium businesses, could be given appropriate tax credits to facilitate their growth and expansion (Wainaina 2015).

A review of these developments, in relation to both Kenya's Vision 2030 and the mainstreaming of the informal *jua kali* sector, indicates that the devolved counties are in the initial stages of establishing structures that should begin to realize the benefits of local autonomy. A Council of Governors has been established to develop a collaborative framework between the *jua kali* and local government. The aim of this collaboration is to develop thriving, county-level enterprises through the utilization of the innovative and resilient *jua kali* skilled labour force.

The Council of Governors has engaged with both the Jomo Kenyatta University of Agriculture and Technology (JCUAT) and the Kenya National Federation of Jua Kali Associations (KNFJKA) as part of the JCUAT *Mashinani* (Grassroot) Initiative. This partnership is aimed at mainstreaming the *jua kali* sector by having them provide services to local, small-scale industries by providing value addition to raw materials and technologies for agro-processing.

The potential benefits of local economic development have been recognised in reviews and research. Benefits include an increase in the incentives and capacity for the poor to actively participate in decision making processes, and to lobby in support of their interests, empowering them to contribute to pro-poor policies. It
is expected that local officials will have better knowledge of local needs and preferences resulting in efficiency gains, especially on service delivery. The outcome should be a participatory framework that enhances inclusive policy development and progress towards local economic development (Mugure & Gachung’a 2014)

8.4 The potential of technology for mainstreaming

Bill Gates, the former CEO and then chairman of Microsoft visited Kenya in December 2010. He observed the concept of M-PESA (derived from Mobile Pesa, ‘pesa’ being the Swahili word for money) that had been established in March 2007 by Safaricom, part of the Vodafone group and the largest mobile network in Kenya. Using this system, 13 million people had access to financial services. Of the 2.5 billion people considered to be the poor and living on $2 per day only 10% have had access to financial services of any kind. Initiatives such as M-PESA may enable focus on a specific area of need and rapid scaling (Gates 2011).

Examples such as these show how technology may be a basis for accelerating the mainstreaming process. Kabecha (2005) cites the role technology plays in the transformation of enterprise activities and acknowledges the ability for technology to improve productivity, production and profitability. Through the adoption of technology, micro enterprises may access new markets, grow their businesses, create employment and generate wealth. In Kenya today the mobile phone provides this vehicle and has become an essential tool of trade for the informal sector, allowing them to make payments, send, receive and save money. They may also reach customers in new markets, better understand the drivers and pricing of their trade and enable them to integrate with the mainstream economy.

Technology should therefore be a primary and fundamental part of the process of mainstreaming; despite the low attention to technology from the Kenyan
government, technology has the potential to unlock latent markets and enhance trade. My experience in Uganda demonstrates this. The lady I purchased my vegetables from in the market was both resourceful and innovative, in that she was able to engage me in conversation every weekend as I selected my groceries from her stall and, over time, felt sufficiently confident to give me her number to enable me to alert her of my requirements before I got to the market to ensure she had my order of groceries in stock. The power of technology and mainstreaming was soon evident when I stopped going to the market and instead sent my order to her on her cell phone, allowing her to prepare my order ready for collection by anyone I sent to her. A mobile phone money transfer service such as M-PESA would enable me to complete the loop of payment for this transaction by sending the payment for my order to her phone.

Similarly, in a remote market in Côte d’Ivoire, I was able to engage by mobile phone with a hair stylist who, due to my time constraint, was innovative enough to suggest that she prepare a wig for me to save me taking the time to sit at her stall to have my hair plaited. These seemingly crude experiences attest to the entrepreneurial nature of the informal sector in developing relationships, appreciating their target audience lifestyle and needs, providing solutions for barriers to purchase and ensuring a level of customer service that guarantees them business and customers that could last a lifetime. In these two incidents the micro entrepreneur had access to the purchasing decision makers and was able to build a relationship with them. This is facilitated by mobile technology.

Equity Bank lore tells the tale of the 80-year-old man who travelled 450 km by bus to meet the CEO without an appointment and waited hours to narrate to him how the bank had changed the fortunes of his family. This story again demonstrates the ability of the micro entrepreneur to build a profitable sustainable business with the assistance of new technology. The man and his wife had opened an account when Equity Bank had used the power of new digital technology to set up a branch in their home area. The couple had borrowed
$132.4 to buy a heifer, which was about to calve. The heifer calved and the man’s wife was able to milk the cow and, like other women in the village, sell the milk to the factory. Three years later, from the returns of this trade, the couple was self-reliant, able to meet their personal expenses and buy a piece of land to build a home. This example again shows how Equity Bank has used new technology to make microcredit available and, in just over a decade, has been able to create an enabling environment for micro enterprises (Coates et al. 2007).

8.5 Incubation centres: a priority for development

As this study has demonstrated, the importance of mainstreaming is not in question. However, the development of an integrating mechanism to realize the benefits highlighted in studies of mainstreaming over the last four decades is still required. Earlier chapters have highlighted the perceptions and realities of the informal, formal and government sectors as they relate to mainstreaming and identified the barriers, both perceived and real, to the mainstreaming process. There is a clear opportunity to align the proposed interventions cited by government (Chapter 6) with the interests of other stakeholders.

It is clear that the mainstreaming process can be capital intensive, requiring the participation of a large number of stakeholders and long-term interventions. The approach to mainstreaming needs to be realistic, adopting a measurable and manageable approach. This study has indicated that there is goodwill amongst all three parties but also that the risks inherent in the scale and scope and the required investment are deterrents. With this in mind, the concept of incubation centres presents a practical and potentially sustainable solution to the implementation of the mainstreaming process.

The viability of establishing incubation centres will be determined by the existing availability of economic and the physical infrastructure, raw materials, latent markets and the potential customer base in a given location. This potential has
been identified in Kenya’s Vision 2030, which sets out government plans to initiate a set of flagship projects (Figure 8.1).

In this model, locations would comprise the key trading towns in Kenya. Nairobi, the capital, provides easy access to key local and global markets. Nairobi’s infrastructure means that, whereas the city may not boast of being a centre for a specific raw material, the developed infrastructure between Nairobi and most rural town centres allows for access to resources. Other towns that are ideal for incubation centres based on these criteria include Nakuru, for agricultural produce as well as being home to the hospitality industry famous for the flamingos found on Lake Nakuru, and Kericho and Eldoret with their dominance in tea, and other agricultural produce. Eldoret, which has an airport, also lends itself to import-export trade for the neighbouring towns in western Kenya and global markets (Figure 8.1).
Kisumu, the lakeside city, affords cross-border trade opportunities with Uganda, fishing and sugar industries, limestone as well as other agricultural produce and is ideal for the establishment of an agro-processing centre. The lakeside city is also home to the branch offices of several corporate companies. Meru, in the highland area, provides a variety of agricultural produce. The town is in close proximity to several tourist lodges; hence an incubation centre at this location would benefit from the hospitality industry. The coastal town of Mombasa, with an established port, hospitality industry, and agriculture and fishing sector, would be an ideal incubation centre to cover the coastal region. This seaside town with its abundance of limestone is also home to the largest cement manufacturing company in East and Central Africa, the Lafarge group.
These six towns, along with Nairobi, could form the initial set of pilot incubation centres for the mainstreaming process, presenting the opportunity for a controlled and defined environment that aids learning, measurement and evaluation of economic integration and provides a basis for shared learning. This controlled environment would provide a basis for monitoring and evaluation and for eventually incorporating the entire informal sector of Kenya into the mainstreaming process.

In this pilot phase the government could assign responsibilities to specific ministries already associated with the informal sector. Government agencies could be assigned to locations based on their mandates, such as assigning the trade ministry to a location like Mombasa or Kisumu, labour and manpower development to an emerging town like Eldoret or Kericho, and regional cooperation to the lake and border town of Kisumu, with the mandate of expansion into the East Africa Community. Multifaceted ministries and institutions, such as Planning and Vision 2030, the property rights institute, the institute of public policy, research and analysis and the jua kali associations and other related informal sector associations could be centralized in Nairobi to enable them to engage with all the incubation centres in policy development. The overall incubation centre project could be incorporated into the responsibilities of the Planning and Vision 2030 ministry.

8.6 Summary

This study has provided insights into the perceptions and expectations of the informal, formal and government sectors relating to the mainstreaming process. The broad understanding of these challenges, including more recently the adoption of devolution by the government, is apparent, and demonstrates the acknowledgment of the importance of mainstreaming. The realization of the existence of poverty traps in the informal sector sharpens understanding of the urgency of these interventions. While this study is by no means conclusive, it is a
beginning. It is hoped that areas requiring improvement and validation can be addressed by future studies.

This study has shown that there is wide scope for the informal, formal and government sectors in developing viable models to begin the mainstreaming process and to have the required impact on the economy. Investment in mainstreaming should be earmarked as part of the budgeting process to realize the recommendations made in the numerous studies and sessional papers already developed by government (Chapter 6). The government should evaluate the post-secondary education investment in polytechnics and identify a mechanism to incorporate students who have the opportunity to be trained in these polytechnics into the mainstream. In Chapter 4 we saw that, despite informal traders attending polytechnics, they were not able to put the skills learnt into use, as there is no structure to absorb them into the mainstream economy. As a result, they end up in informal trade. This constitutes a drain on government resources.

This study has shown that education can make artisans and traders more innovative and entrepreneurial in their approach to their trade. This suggests that exposure to education is fundamental to the mainstreaming process, driving innovation and alternative ways of product development by the informal sector within the formal sector. The informal sector also tends to form a number of relationship links in their daily trading through raw material procurement, outsourcing of services and links with agents of their different products. The formal sector could further benefit from the linkages already established by the informal sector traders to broaden their markets.

How does one decide what should be prioritized? It is suggested that the roll-out of incubation centres will enable and accelerate mainstreaming. First-hand knowledge and information on the most significant interventions needed to sustain economic intervention would be achieved through such centres.
Challenges can be identified on an on-going basis and this can form the foundation for determining new and emerging priorities.

What could be the direction of future work, building on the research reported here?

Firstly, there is a need to expand research beyond Nairobi. Whilst Nairobi has the highest population of a single town in Kenya it still presents limitations in providing a holistic view of the informal sector countrywide. Similar in-depth studies should be conducted in all the major towns in Kenya to augment the views from the Nairobi study. There is also an opportunity to compare characteristics of smaller micro enterprise market centres in other towns in Kenya for insights into opportunities and challenges of small-scale trading centres. In-depth understanding of the similarities in the procurement policies amongst the formal sector and government would enable a conclusive approach to identifying and prioritizing the policy changes required to enable the informal sector mainstreaming.

Secondly, the definition of the informal sector in government circles will be critical to the success and attainment of the mainstreaming process. The largest proportion of jua kali entrepreneurs comprises the micro enterprise category. These are firms with a small capital base and their business size ranges from one person (usually the entrepreneur) to three or five employees. Therefore, there should be consideration for a bottom up approach to implementation by the government to ensure that, whatever integration and structure is adopted for the mainstreaming process, it is relevant to the micro enterprise that form the majority of the informal sector. The assumed ‘trickle down’ effect of the flow of capital resources, infrastructure and human resource capacity may not apply favourably in this context, since it is a sector that has no formal structures.

Third, current government policies target the micro, small and medium enterprises as a whole. It is evident that these organizations have different
capacities and capabilities and their needs are distinctly different. This calls for clear policy interventions that will enable all these levels and categories of the informal sector to be competitive in the national economic grid. The government should therefore conduct a comprehensive audit of the informal sector with the aim of articulating the characteristics of the specific categories for purposes of resource allocation. This will enable the policies to be more market oriented and have impact against the various segments of the informal sector. The area of the specific skills and abilities of the informal sector remains a challenge. There is a need for further research to evaluate the skill set inherent in the informal sector to determine the skill gap. Risks inherent in the mainstreaming process should be identified in order to inform the process and investment into mainstreaming.

Fourth, the secondary data used to understand the impact of devolution on mainstreaming may not be sufficient to evaluate the potential of the devolved county governments on the mainstreaming process for the jua kali sector. Further national primary research on the effects of the devolution on the mainstreaming process would help evaluate the proposed incubation parks and the implementation of these at a county level. The primary research on the jua kali sector was carried out in markets based in Nairobi. A national study of jua kali markets would provide an in-depth view of the interventions that are likely to have the most impact on mainstreaming in the short term given the over 40 year discussions that scholars have had over the importance of mainstreaming.

This study has reviewed understanding of the mainstreaming process, the barriers to the process and the interventions that have been undertaken in Kenya. It is apparent that scale and scope are a hindrance to the process. Recommendations that develop scaled down interventions and consolidated efforts and strategies over a period of time may provide the breakthrough that enables the process to begin. This is by no means comprehensive, but it is a beginning. It is hoped that areas requiring improvement and validation can be addressed by future studies.
APPENDICES

APPENDIX 1

Study Limitations.

The limitations encountered in this study were:
The questionnaire was exhaustive and open ended hence in some cases most of
the respondents did not have adequate time to respond to all the questions.
There were also challenges accessing procurement and tendering records from
both government and the blue chip companies for review as most of the
organizations treat this as confidential data.
Some organizations have a policy of not divulging any kind of information on
procurement and related issues; they therefore declined to participate in the
study.
Many of the companies had a lot of bureaucracy, which made it extremely
difficult to access the right respondents. The study was conducted amongst 20
organizations within Nairobi; further research may be required to verify
representation to the rest of the country. There may be scenarios of interactions
with the informal sector that differ depending on the rural, urban and peri-urban
settings.
The respondents targeted in this study have extremely busy daily schedules and
accessing their premises for face to face interviews required repeated visits and
rescheduling of cancelled appointments.

Delimitations of the Study
There is a deliberate and purposeful narrowing down of the scope of the study to
blue chip companies to ensure the study is manageable. The delimitations
included
Logistics inherent in a nationwide survey hence the narrowing down of the study to Nairobi Area. The proposed face to face interview method were not 100% achieved because of the busy schedules and lifestyle of the target respondents, in this situation the questionnaires were dropped at the premises of the respondents and picked up two to three days later during which time a verification interview was conducted as such 20% of the interviews were conducted using this approach. In some cases, additional in-depth interviews had to be conducted to obtain more information on the questions, which had a poor response rate and give more insight into the emerging issues.
APPENDIX 2

In-depth Interview guide for the Informal sector

Introduction
1. Warm up to respondent, introduce self, and explain purpose of study.

2. Explain use of the questionnaire and / or recorder

Gender composition
3. What are the specific roles of women and men in the sector? Look at Rural versus Urban set ups if the respondent can compare and probe whether the gender landscape (composition) is the same.

4. Why do you think this industry is male dominated? Probe further for specific issues.

5. How did you acquire this business? Probe: At what age, how did you acquire the skills etc.?

Business set up/ Ownership
6. Note we are interested in the respondents ‘soft’ lifestyle issues and how these are influencing their business

7. Specific issues of interest: Is there indication that the business passes down from family, did they buy it in their adulthood or is it a skill they learnt in their youth by virtue.
of their upbringing and are now applying it in their business ventures? Look at how the structure of their family life upbringing and surroundings influence their views of business.

8. What (overall) role does your family have in the overall decisions that you make as pertains to your business, do they influence the decisions you make? Do you feel you are responsible to them?

9. Do you have a bank account? How do you keep your money? Have you ever had a bank account in the past? Probe for reasons behind lapsed banking. If female; Interrogate why they think banking is important, how come they opened an account; do their husbands / partners also have bank accounts, how often do they bank?

10. Before you started this business, what profession were you in? How/ what were the gross monthly/Annual returns etc., why did you quit? Probe for formal employment, level of training for the previous job and current employment etc.

11. Why did you choose this trade and not any other? Probe for the prime deciding factor for choice of trade, is it what they think they are good at or is it a market / demand driven phenomenon?
Mainstreaming

12. Do you currently interact with the formal sector if so how? Can they identify any initiative(s) that have been established in the past to integrate the formal & informal sector?

13. What is your role in integrating the informal sector organizations into the formal sector? What roles are you intending to play if such initiatives were established?

14. How have mainstreaming opportunities presented themselves to you in the past? Have you ever taken any initiatives to mainstream? What were the barriers? Did you overcome them, if yes how?

15. What are some of the issues you would consider as important in making the decisions on whether or not to integrate with the informal sector? Do you feel there are important issues that this initiative is likely to address? Probe: Do they have any associations [that formulate policies, codes of conduct etc.] that are likely to have a role in their integration with the private sector?

16. If there are such groupings then ask whether they have addressed any issues on mainstreaming within the sector.

17. What has in the past hindered the initiative to integrate with the private sector? Do you perceive that there is any crisis and that you actually need to integrate?
18. Can you identify any opportunities to mainstream that have arisen in the course of their running their business? What are your motivations on integrating with the informal sector / mainstreaming?

19. What are your major sources of finance for this business? Probe; how do friendship / family / socialization play a role in this area?

20. What are your ambitions for a better life? / For the informal sector?

21. How do you see the future of your business, the *jua kali* sector etc.?

22. Thank respondent and close interview.
APPENDIX 3

Questionnaire coding sheet

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<td>Other(Specify)</td>
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APPENDIX 4

Open ended questionnaire for the formal sector

Section A: Background
My name is ________________, we are doing a study on issues affecting the integration of informal sector organizations, and may I ask you a few questions concerning this issue and sector?

Section B: Business Practices
1. What kind of goods/services does your organization specialize in (general business type)?

________________________________________________________________
________________________________________________________________
___________________________

2. How do you obtain your raw materials?

________________________________________________________________
________________________________________________________________
____________________________

3. Do you generally undertake procurement for some of your goods/services?

________________________________________________________________
________________________________________________________________
____________________________

4. What rationale(s) do you take into account when tendering?

________________________________________________________________
________________________________________________________________
5. What are some of the general policies/guidelines that your organization subscribes to in procurement?

________________________________________________________________
________________________________________________________________
________________________________________________________________

6. Please specify the channels/ guidelines you follow when doing your procurement.

________________________________________________________________
________________________________________________________________
________________________________________________________________

7. Do you involve smaller organizations/individuals/informal sector organizations in your procurement?

________________________________________________________________
________________________________________________________________
________________________________________________________________

8. If informal ask: Any specific areas of interest when dealing with these organizations?

________________________________________________________________
________________________________________________________________
________________________________________________________________

9. What are some of the guidelines/policies when outsourcing?

When:
Policies:

10. Which type of organizations do you outsource to?

Are they large organizations? Informal sector? What general relationships do you have with them?

11. Have you ever considered involving informal sector organizations in outsourcing?

12. What is your general perception about outsourcing to the informal sector / smaller organizations?
13. Do you have any experiences with their services?

Perception________________________________________________________
________________________________________________________________
________________________________________________________________
________________________________________________________________
Experiences_______________________________________________________
________________________________________________________________
________________________________________________________________
________________________________________________________________

13. What are some of the shortcomings about the services of informal sector organizations?

________________________________________________________________
________________________________________________________________
________________________________________________________________
________________________________________________________________

14. What are some of the main challenges you encounter as a result of doing business with them? What solutions would you suggest in addressing these challenges?

________________________________________________________________
________________________________________________________________
________________________________________________________________
________________________________________________________________

Section C: Policy issues / legislation on mainstreaming

15. Does your organization have any set policies/guidelines when dealing with
other smaller organizations? What are the factors you consider?

________________________________________________________________________
________________________________________________________________________

16. What are some of the common issues that larger organizations take into consideration when dealing with the informal sector/small and medium enterprises?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

17. In your opinion, please tell me some of the common impediments to mainstreaming the informal sector organizations.

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

18. What remedies do you suggest for these problems?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

19. Are there any government guidelines/policies that regulate interactions between the formal and informal sector? Please specify if any.

________________________________________________________________________
________________________________________________________________________

20 a) Have these policies influenced in any way your opinion and view on mainstreaming the informal sector? In what specific way? Please mention
b) What are some of the clauses in this [these] legislation that favour mainstreaming Initiatives?

c) Please tell me the clauses, which you think do not favour the integration of the informal sector.
d) What are the shortcomings in these policies?

________________________________________________________________

________________________________________________________________

________________________________________________________________

21. In your opinion, please tell me what you think are some of the common causes of the inadequacies in integration of the informal sector organizations into the mainstream.

________________________________________________________________

________________________________________________________________

________________________________________________________________

22. Do you have any forums, business associations etc., which influence the interactions between the formal and informal sector organizations?

________________________________________________________________

________________________________________________________________

________________________________________________________________

b). What is their influence on the way you interact/ do business with the informal sector?

________________________________________________________________

________________________________________________________________

________________________________________________________________
23. Do you currently have any business links with the informal sector organizations? How would you describe your association with the Informal Sector organizations?
________________________________________________________________
________________________________________________________________
________________________________________________________________

24. What are some of the barriers that hinder you from doing business with the informal sector?
________________________________________________________________
________________________________________________________________
________________________________________________________________

25. How do you address/overcome these challenges
________________________________________________________________
________________________________________________________________
________________________________________________________________

26. What are some of the issues you feel should be addressed to facilitate mainstreaming of the informal sector?
________________________________________________________________
________________________________________________________________
________________________________________________________________

b) Who are the stakeholders you think have the responsibility to address these challenges?
________________________________________________________________
________________________________________________________________
________________________________________________________________
27. As an organization, have you ever been approached by small entrepreneurs to do business with you?
   If Yes: What were the main areas of interest?
   ____________________________________________
   ____________________________________________
   ____________________________________________

28. What are some of the weaknesses of the Kenyan informal sector organizations that may hinder their interactions with the formal sector?
   ____________________________________________
   ____________________________________________
   ____________________________________________

29. Do they have any advantages/ strengths over the formal sector organizations?
   ____________________________________________
   ____________________________________________
   ____________________________________________

30. In your type of business do you think you share the same clientele with other informal organizations? Are there any common characteristics of your clientele/markets?
   ____________________________________________
   ____________________________________________
   ____________________________________________

31. What do you feel about mainstreaming these informal sector organizations?
   ____________________________________________
   ____________________________________________
   ____________________________________________
32. As an organization, would you be willing to support any initiatives aimed at mainstreaming the informal sector?

________________________________________________________________
________________________________________________________________
________________________________________________________________

33. What role are you willing to play in such initiatives?

________________________________________________________________
________________________________________________________________
________________________________________________________________

34. What companies or institutions in the informal sector do you have partnerships with? What benefits do you derive from such partnerships?

________________________________________________________________
________________________________________________________________
________________________________________________________________

b) Do you have any linkage with this [these] company [companies]?

________________________________________________________________
________________________________________________________________
________________________________________________________________

35. What do you think is the future of the Kenyan informal sector? What opportunities are there in the Kenyan economy that they can tap? What threats are they facing?

________________________________________________________________
________________________________________________________________
________________________________________________________________
Opportunities

Threats

Any other comments?

Thank Respondent and close interview.
APPENDIX 5

Interview request letter to government organizations

June 16th 2008
To Whom It May Concern
Dear Sir/Madam,

RE: Research on the perspectives of corporate organizations on mainstreaming the informal sector.

The above topic refers. I am a PhD Student in the Faculty of Commerce at the University of Cape Town South Africa pursuing my doctorate through the Graduate School of Business. I am currently conducting a research on the Kenya informal sector, the research thesis titles: Investigating Entrepreneurship as the Nexus to Mainstreaming the Informal Sector- Perspectives from the Formal Sector Organizations in Kenya.

It is in this light that I humbly request for your assistance in sharing with me your organizations' opinions on the above topic. Attached to this letter is an open ended questionnaire, which I would prefer to administer face to face.

I undertake that the findings from this study will be used for academic purposes only and at no time will your name or that of your organization be mentioned in the final report.

Any assistance given will be highly appreciated.

Yours Faithfully,

(Signed)

Betty Radier
Tel +254 722 515 019
Email: radierbetty@yahoo.com
Student Number- RDRBEA001
Class No & Course Code 85013/ GSB 6000W 267
APPENDIX 6

In-depth interview guide for government organizations

- Interviewer introduces self, topic, and start interview.
- What is your understanding of the Informal sector, formal sector?
- What is your ministry’s definition of the same?
- What role do you think they have in the Kenyan economy?
- What role do you as a stakeholder play in the development of the informal sector?
- What is your perception towards their services?
- Are there any standards set/expected of the informal sector?
- Introduce concept of mainstreaming and ask: Does the government have any set policy guidelines to facilitate this initiative?
- Who are tasked with the responsibility of ensuring these policies are achieved? What are some of the common challenges they face?
- Any specific department in the ministry for dealing with mainstreaming issues? Who is in charge of legal affairs and compliance issues of the informal sector?
- Do you have any set targets as far as mainstreaming and compliance?
• What are the set targets by what timelines? What are some of the performance indicators?
• What are the common constraints to the achievement of these goals?
• Have you/ your department developed any strategic plans to facilitate the achievement of these goals? Ask for relevant documentation.
• What has been achieved so far in these strategic plans?
• How does the government/ you as an opinion leader intend to facilitate these initiatives? Probe for Infrastructure, personnel, budgetary allocation etc.
• Are there any specific institutions established/ tasked with the responsibility of ensuring these policies are implemented and targets achieved?
• What are some of the measurers you have taken to ensure that these initiatives aimed at mainstreaming are self-sustaining in the short and long run?
• What are the roles of each of the parties in these initiatives? Probe for: Entrepreneurs, Jua kali associations, formal sector representatives, and government etc.
• Were these policies developed/ formulated with all stakeholders input/ involvement? (Formal & informal sector representatives?)
• At what point do you involve the formal and informal sectors in these initiatives?
• Any studies to gauge the perception of the informal sector towards these policies? What is their perception?
• Do you think the other players in these sectors have any strategies/policies to ensuring that mainstreaming is achieved?
• Have these been discussed at any level with you? What are some of the common action points that have surfaced in these discussions? If possible ask for documentation.
• Have you noticed any shortcomings/overlap in policy between the strategies of these sectors?
• What government departments are in charge of legal affairs and compliance of the informal sector at large?
• What are the weak points in these policies? Weaknesses of the stakeholders?
• What are your suggestions to the achievement of the mainstreaming targets?
• Open up discussion for any other comments.
• Close Interview and Thank Respondent
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