

The informal sector in Kenya  
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The informal sector is a crucial sector of most of the developing countries. The liberalisation and privatisation processes have resulted to the states' failure to be the employer. The private sector is left to take up this role. The organised private sector has been unable to absorb the growing numbers of jobseekers, and the informal sector stepped in to fill in the gap. This indeed is the reason why informal sector should be supported and encouraged.

In most cases, the informal sector is viewed as illegal and its activities barred by the government as well as the people working in the formal sector. Urbanisation in Kenya on the other end has been occurring in the context of weak economic growth resulting in poor infrastructure, housing and services especially in the slums.

Kenya like any other developing country follows an import substituting industrialization strategy for industrial development. This is usually concentrated on large-scale, capital intensive industry, mostly foreign-owned and uses imported technology. There is also duty-free import of capital goods (but micro enterprises are taxed on importation of capital goods), assistance to the large-scale enterprises by the governments to compete with the small scale enterprises (micro enterprises), subsidized interest rates and access to finances, and direct support measures all by the government.

However, there is ambiguity of operation associated with the informal sector especially in Kenya. The sector has both activities which are associated with the formal sector as well as other activities which are considered purely as informal sector activities. In Kenya, just as Meier and Rauch argue "low-income consumers do not simply consume less: they consume goods and services which serve similar purposes but at a much lower price..." (Meier & Rauch, 2000, pg.317) leading issues in economic development, Oxford University press, 2000, pg.317, 7th edition). Such activities associated with the informal sector include:

- Selling fruits and vegetables
- Food operation, sale and processing,
- Selling clothes and shoes (both second-hand and new)
- Kiosk selling various items
- Water kiosks
- Small retailers or hawkers who sell cereals, home suppliers, fuels and other goods.
- Small manufacturing, production, construction and repair of goods.

(World Bank, 2006, p.32-33)

According to the comprehensive report of the World Bank in 2006 of the Kenyan informal sector, housing, social services provision and slums, there is a tremendous increase in the activities and involvement of the population in the sector. This has been largely due to the privatisation of the public sector as well as rise in the unemployment rate especially among the youth.

Poverty is increasing especially in the urban areas. This has resulted into the mushrooming of informal housing-slums, which house the vast majority of the urban poor. Approximately 73% of the urban slum dwellers are poor with very poor living conditions. In the slums, although the housing is of very poor quality (mainly low quality material and non-cemented), the rents are often high. The landlords often build these shelters in an unplanned manner, using poor materials (mud, timber, iron sheets) and without the necessary basic amenities such as toilet, piped water and garbage disposal system. The general view is that the slums provide low-cost and low-quality shelter to the poor dwellers who can not afford better housing. The tenants have no permanent or formal contracts with the landlords and face eviction anytime. The slum dwellers are stuck in what is referred to as "high-cost low quality trap"<sup>1</sup>. However, for the report this has been reputed. The landlords in the slums normally do

<sup>1</sup> World Bank, 2006,p.43

not live in the slums but rather collect the rent from the tenants at the end of the month; it's a business for them. The money is then used to develop them economically at the expense of the poor urban dwellers. Poverty in the urban areas (29%) has increased than that in the rural areas (48%).<sup>2</sup>  
2 World Bank, 2006, p.13)

Among the urban poor, engaging in informal sector activity is negatively associated with poverty as well as having an unemployed member in the household. Poverty is measured not only in terms of low income, but also in terms of lack of basic amenities such as piped water, low education levels, access to electricity, access roads, sanitation facilities, length of stay in the settlement and ownership of a household outside Nairobi. Households lead by people with poor education tends to be poor since the individual has few chances of landing a formal and well-paying job. The staying of an individual in the slums is an indication of poverty since once the economic situation of the slum dwellers increases; they tend to move to better housing facilities. Ownership of property outside the slums is a security to poverty especially those with land in the rural areas and have come to the urban areas to work and supplement the income from the rural subsistence farming.

The per capita income is low in the slums compared to the resident areas occupied by the rich such as in Westlands, Runda and Loresho. This is got by dividing the monthly household income by the total number of household members. In the wealthy residential areas, there exists few individuals per household unlike in the slums where crowding is the norm. This directly affects the per capita expenditure in the slums. It is calculated by dividing the total basic expenditure of the household in a month by the number of individuals in the household. The presence of an unemployed person directly increases the per capita expenditure of the household. On the contrary, for the slums dwellers, the per capita expenditure and per capita income decrease with an increase in the number of employed individuals per household.

Educationally, the women-headed households are mostly affected in comparison with men. 99% of the men-headed households have attained standard eight or above level of education compared to 77% women-headed households. 43% male-headed households compared to 30% of women-headed households have attained secondary school education. The women have restricted mobility compared to men. They tend to establish social links which enable their economic and social survival in the slums.

The most prominent informal sector activity done by more women in the slums is the selling of vegetables and fruits. This uses the family labour and also provides the household with food. Women establish social connections which enable them maintain a chain of customers and trust building, ensuring staying in business. Slum dwellers spent most of their income on food and housing. Availability of water, electricity and waste disposal is poor and the residents have to share or invent their own ways. The famous "flying toilets" are common in the slums and residents have to buy water. The garbage is not well disposed and the dumping places are breeding areas of diseases such as cholera and malarial mosquitoes.

The slum dwellers engage in the varied activities in the informal sector as the only way of coming out of the poverty. However small the activity, it helps in one way or the other in generating income for the poor in the urban areas in Kenya and Africa. The governments should embark on ways of developing and improving the livelihood of these poor urban dwellers. The basic and priority needs should be identified: water, housing, electricity and waste disposal as well as access roads so as to reduce the insecurity and enable informal activities develop. Financial support should be extended as well as encouraging the people to save and open bank accounts since without a bank account it proved hard to access any loan in Kenya. Diversification of the economic activities should be promoted to avoid duplication of efforts in one place, e.g. many women selling vegetables and fruits at the same place.

#### Theoretical approach of the informal sector

According to the migration of labour (1991), Stark argues that there is a relationship between the migration of labour and the informal sector. The decision to migrate to the urban areas is directly influenced by family needs for

a better economic stability. The family members who migrate to the urban centres send remittances to their families back in the rural areas. This involves the family locating their labour assets in different geographical regions to ensure financial stability. The family in this way pulls together its resource to help it cover risks and ensure financial stability.

Earlier research has shown that the immigrants to the urban areas first put up with relatives or friends as they look for jobs in the formal sector. They on the other hand help in preparing meals and other household chores. With time, they find a job such as messengers, clerks, and move out to start their own lives and rent a house where they can accommodate other new-comers. However, sometimes they don't find a job in the formal sector and they end up joining the informal sector, where they sell second-hand clothes (mitumba), peas, shoes and other activities all found in the informal sector. The informal sector work may also include helping selling in the family kiosk, selling of newspapers, curios, shoe shining on the street corner.

This pattern is found in Kenya. There is increased rural-urban migration especially of the school leavers who still believe that the cities offer a kind of income and it's much far better than in the rural areas. This has however, changed in the past years with increased unemployment and retrenchment of the formal workers who in turn have got into the informal sector to fend for themselves and their families. Long gone are the so called "white-collar" jobs which acted as a magnet to the big cities in Kenya.

#### Relationship between formal and informal sectors

The economic transformation process in Kenya has resulted in the unequal distribution of wealth; hence the social stratification as demonstrated in Kenya. There is inter-sectoral dynamism in the Kenyan economy. There is accumulation of wealth in a small part of the modern sector which is supported by the politicians on one hand; while on the other hand, there is a development of an impoverished and economically deprived modern sub-sector. The slums are a modern phenomenon in Kenya, such as in Nairobi, Mombasa and the other urban centres and are as a result of the increased wealth disparity and income differences between the different economic sectors. The urban areas attract the rural migration as they are seen to offer jobs. However, there is a slow growth of high-wage employment while the migration of job-seekers continues to rise, leading to emergence of a low-income periphery. This low-income periphery is established just outside the wealthy urban zone where it provides goods and services to the wealthy population and also the low-income population.

The two sectors –informal and formal can be categorically differentiated according to Meier & Rauch as follows:

#### Informal sector characteristics

- Ease of entry
- Reliance on indigenous resources
- Family ownership of enterprises
- Small-scale of operation
- Labour-intensive and adapted technology
- Skills acquisition outside the formal school sector
- Unregulated and competitivemarkets

#### Formal sector characteristics

- Difficult entry
- Frequent reliance on overseas resources
- Corporate ownership of enterprises
- Operation on large-scale
- Capital intensive and mostly technology is imported
- Skill acquired formally, mostly expatriate
- Protected markets -through tarrifs, quotas and trade licences.

Contrary to the above categorisation, the formal and the informal sectors relate and their activities interact. Some of the workers from the formal sector move to the informal sector after acquiring skill and experience to start their own enterprises as well as employing more people in the informal sector.

The formal sector is closely linked to the government in that there is access to credit facilities more than in the informal sector. The government still harasses the informal sector workers by denying those operating, licences as well as a physical eviction of hawkers from the streets of Nairobi. The government has also imposed tariffs and quotas, all aimed at protecting the formal sector from competition of the informal sector. On the other hand, the formal sector is associated with legality while the informal sector is perceived as illegal. Since the informal sector is illegal, it is associated with risk and uncertainty. The people involved in it carry out business in low prices and sometimes involve risky undertakings. A good example is the use of a taxi which is a ramshackle to travel from Nairobi to Embu, a distance of over 200 km, which is the same amount, charged for a short trip across the city of Nairobi.

The informal sector workers are there by choice and even though they earn little in comparison with those in the formal sector; they are self-employed and are not covered by insurance or social benefits. Although the sector is perceived to be characterised with ease entry, in reality it is faced with obstacles to guarantee any ease of entry.

What is an informal sector?

The general view of the informal sector is that it comprises of activities primarily of petty traders involved in such activities as selling of second-hand clothes, shoe shinning, food selling and repair and construction; operating mainly from the streets of the main urban centres.

It can also be described as any activity generating income and profits, though on a small scale, uses simple skills, is dynamic and not tied to regulation of the activities. Such activities include: vegetable selling, street vendors, masonry, carpentry, etc.

In Kenya, the informal sector is referred to as jua kali, which literally means fierce sun in Swahili. The name stems from the fact that the workers in the informal sector work under the hot sun beating on their heads and backs, while working on metal, wood or selling wares on the streets. The work involved is harsh and hard usually done under harsh conditions unsuitable for labour-neither regulated nor safe.

The Kenyan informal sector usually operates on small-scale, locally and at a subsistence level. They have fewer employees (especially home-based enterprises), they operate for a shorter period, and have poor access to water and electricity and few sell outside the establishments where the entrepreneurs live. (World Bank, 2006, p.32).

Kenya's informal sector is large and dynamic. 95 % of the countries' businesses and entrepreneur are found here but only 37% of the employment for the urban population; hence there is low level of skill. The Kenyan government has therefore established a Ministry of Technical Training and Applied Technology (MTTAT) which is charged with developing training programs for the informal sector.

Previous efforts had been made to improve the formal sector without success. There were public programs aimed at providing the vast majority of technical training in Kenya, but failed to train people in how to develop their own businesses or to find employment in the informal sector. There was the programme aimed at developing skill through the local youth polytechnics. The funds allocated to the programme were embezzled and the imparting of skill was a total failure. (King Kenneth, 1996, pg.296). On the other hand, the public programmes do not provide the required skill in the competitive and changing market. The government is now aided by the World Bank concentrating on the private sector where it aims at advancing the worker's knowledge and improving the entrepreneurial and technological skills.

The long-term goal is that, the Micro- and Small Enterprise Training and Technology Project will enhance private sector development and remove obstacles so as to increase employment and profit-making in the informal sector.

The project targets manufacturing enterprises with one to fifty workers, in major urban and peri-urban areas and offers incentives to help increase women's representation in traditionally male environments.

In the past, these small enterprises were seen as competitors with larger companies. But the Kenyan government now sees them as an opportunity to enable micro enterprises in the informal sector to contribute towards industrialization and the creation of decent jobs and wealth.

Informal sector in Kenya, Uganda and Tanzania

Before the structural adjustment (SAPs), the three East African countries had different approaches to the micro enterprises sector/informal sector:

a) Kenya

ILO (1972) had carried out research in Kenya and suggested various papers outlining the policies to improve the micro enterprise sector, the jua kali sector. Throughout the 1970s, the small-scale development was viewed to correspond with the capitalist economy adapted by the Kenyan government and as a way of indigenizing the economy. With this goal, the Kenya Industrial Estates (KIE) was established.

b) Tanzania

There was a rapid development of the micro-enterprises after independence, but after the Arusha Declaration (1967), the private entrepreneurship was contradicting the socialist policies. Lerise (1991) concludes that there was little development of the small-scale enterprises in Tanzania in the 1970s under the ujamaa system. However, there were efforts under the Small Industries Development Organisation (SIDO) to establish modern small-scale enterprises aided by the Swedish SIDA. This however, focused more on the technology transfer and indigenization than on entrepreneurship and failed.

c) Uganda

The official approach of the government on small-scale enterprises was harsh and this was culminated with the expulsion of the Asians from Uganda (1972) followed by the general collapse of the economy due to the series of civil wars of 1970s till the first half of the 1980s. This changed the governments approach to the micro-enterprises and supported it.

However, despite the differences in the three countries, Tanzania and Uganda have more developed informal sector than Kenya. This is due to the fact that the definition of the informal sector in these countries is narrowed as consisting of only the parastatals and large private enterprises, giving more chance for the large informal enterprises development.

From the 1990s, the East African countries have been forced to focus on the micro-enterprises (now referred to as micro-and small enterprises-MSEs). The effects caused by the structural adjustment have led to changes both positive and negative on the development of the MSEs. On the positive side, access to finance, services and training has increased although not well distributed to all MSEs. Liberalisation has enabled MSEs accessibility to credit and inputs, all of which used to be a priority for the large enterprises. The privatisation of government enterprises has led to opening up of more market opportunities for the MSEs such as in commerce and tourism. (Alila & Pedersen, 2001, pg 5).

On the negative structural adjustment effects, the falling incomes due to retrenchment and price hikes have resulted in shrinking of markets of the low-income goods which are produced mainly in the MSEs. Increased import taxes and interest rates have hindered the accessibility of credit facilities by the MSEs, while at the same time being faced with competition from cheap imports, especially from China and Asia following the liberalisation of markets. SAPs were meant to correct state failure in Africa and in other developing countries as well so as to pave way for the markets to work. There has been a market failure where the process leads to collapse of the market. There is government failure such as over estimation of taxes, destruction of enterprises, which leads to the failure of the private or informal sector in most African countries. Market failure is also experienced in Kenya and

Africa as a whole. Here the concept of externalities is closely linked to market and government failures. Goods in the market are expensive to the disadvantage of the consumers. Following retrenchments and unemployment, the population has low income and those living below the poverty lines are on the increase. The locally produced goods are highly priced such that the population can not afford them and are forced to turn to the cheap imports from mainly Asia led by China which have infiltrated the African domestic markets. The local manufacturers and producers find themselves faced with stiff competition from these cheap imported products and eventually lock these producers out of business.

There are changes facing the education especially in Kenya where the people's opinion concerning the formal sector has dramatically changed. Kenya boasts of having a higher education rate than any other East African country, but faced with a very high rate of unemployment. This results in a high number of higher educated entrepreneurs with a high education and expectations in the market. These people then venture into the informal sector.

The liberalisation and privatisation resulted in the loss of jobs, retrenchment and falling salaries in the formal sector (public). This leads to the emergence of a middle-class entrepreneurs capable of creating niches in the market which were not accessible before for the MSEs. As Lugalla argues, this has been more pronounced in Tanzania than in Kenya and Uganda. This is because the effects of structural adjustment were more dramatic in Uganda and Tanzania than in Kenya. The invasion by the middle-class entrepreneurs, with better qualification, has resulted in increased competition among the MSEs, differentiation and competition for the available resources. This has led to the lobbying of the MSEs into large groups for advancement and development while neglecting the very small and underdeveloped MSEs. In Kenya, the jua kali entrepreneurs organise themselves in more modern sectors neglecting the small traders and hawkers. (Pedersen, 2001, p.7-8).

The government has also infiltrated so much into the trade unions with the aim of acquiring the donor funding in the name of advancing the informal sector as well as gaining political influence. This was so as from the 1990s and increased development of the MSEs aimed at competing or rallying or being affiliated to the ruling party or the opposition party. This has led to the MSEs not gaining technologically as well as in the markets.

In Kenya the government has been out harassing the SMEs workers especially the street vendors, although the policies state clearly support for the SMEs. Sometimes the SMEs entrepreneurs are denied the licences to operate as well as taxed highly and this discourages the establishment and development of the informal sector.

#### New theories and the MSEs

New theories have developed on MSEs, whereby they view that the organisation should focus more on the interrelation of the formal and informal sectors development. This is aimed at promoting dynamism, technological advancements and changes within the MSEs as well as social and institutional changes which in turn affect the performance of the MSEs in the market.

On the labour relations level, there exist more complex relations. The entrepreneurs are formally educated with technological skill. They acquire skills and capital from the formal sector, while the workers come from the formal education system or have skill acquired from the work-experience in the MSEs. Unlike in the past where informal workers were unskilled and uneducated, today's MSE workers are highly educated and skilled. Although the labour relations can not be compared to the formal one, sometimes hierarchical organisation is manifested (especially in bigger enterprises) as well as simple relations where the enterprise is run by one person with the help of one or two workers.

In Kenya, married women enter the MSEs to help their husbands in boosting the family's income. The husbands provide in most cases the capital for starting the business. However, sometimes the husbands feel threatened by the success of such businesses and withdraw the financial support or bar the women from operating the business. This is the biggest problem facing the MSEs in Kenya. The government should protect these women from the

jealous of their husbands to enable them develop economically as well as promote the advancement of the MSEs generally.

Women on the other hand have diversified ways of advancing economically by forming rotating saving clubs (ROSCAS) which is not common with the men. This assures their economic independence and development. The women have managed to group and establish themselves using the savings from these ROSCAS affirming their economic thriftiness in the otherwise male-dominated environment.

What should Kenyan SMEs do to succeed?

a) Risk management

To overcome risks in carrying out the operations, the SMEs should promote collaboration. There should be linking and joint operation of the different MSEs in Kenya to achieve a better and bigger effort in marketing their products. This creates not only competition among the MSEs themselves but also promotes technological exchange and advancement of skill. This leads to the production of better quality goods for the market. The trust should be built to promote markets. Such linkage should be developed and enhanced especially in the potatoes production, where the farmers should be able to trust and be willing to trade their potatoes in a wider market; hence fetch more profit rather than relying on middlemen who usually exploit them.

(Fafchaps M,2004; Pedersen ,2001,p.19-20)

b) Re-ordering environment and infrastructure

There have been efforts by the Kenyan government to provide shades for the various juakali artisans in the different urban centres of Kenya. However, the project has been a total failure since it is provided in piecemeal. The donor funding extended to the informal sector in Kenya has been mismanaged. The jua kali workers remain isolated and marginalised at the end while the funds benefit a few in the government. The biggest challenge now facing this project is promoting and advancing the SMEs without causing islands of privileges in the urban areas in Kenya.

The availability of operating space for the SMEs workers especially the hawkers and street vendors in Kenya is a big problem. The hawkers have been encroaching every available space on the pavements of the urban centres where they display their wares to the population and passer-by. The government should identify possible market places where the hawkers can trade from. Building of shades and stalls for the hawkers should also be done. Recently, the Kenyan government identified and allocated the hawkers Ngara and Makadara grounds as possible places of building their stalls and selling their wares. The process of building stalls and upgrading the market is being done.

The problem of the exact number of those carrying out the trade should be established. Although it is on the increase daily, registration should be done of any new entry into the business and records should be kept up to date. Bearing in mind the availability of space and the number of the entrepreneurs, the government should clearly specify and define the SMEs and who should be allocated the stalls. The small hawkers such as those selling sweets, cigarettes and small wares should not be put in the same category with another hawker specialising in selling imported clothes and products.

The government is at pains to convince the donors to avail funds for the promotion of the jua kali sector. The issue of corruption has to be tackled before the funds are availed for the sector. This has reduced the trust of the donors on the government on provision of infrastructural structures for the development of the SMEs in Kenya. The culprits should be dealt with by the law as they divert the funds to individual gains leaving the intended beneficiaries marginalised.

On the other hand, the trader's voice and opinions should be put into consideration when making any decision on the SMEs. There should be more freedom of the labour unions and associations without government interference. The labour unions should be left to identify the appropriate way of improving and running the MSEs since they are very much aware of the needs of the stakeholders.

The provision of the very basic necessities for the entrepreneurs is lacking. In the recent research carried out in the Kenyan slums, the lack of piped water, sanitary and waste disposal facilities, tarmacked roads, electricity and access to public facilities such as schools are all a hindrance to the establishment and development of the SMEs. The people are poor and have no access to credit; have no bank accounts and don't get loans from banks. They basically rely on friends and relatives for small loans for starting or restocking their businesses. (World Bank, 2006, p.33-34).

c) Re-orienting education, training and skill

Kenya has followed the World Bank requirement of restructuring the education system to focus more on the vocational and explicitly related to self-employment and business development. In 2003, the Kenyan government introduced free primary education aimed at ensuring a basic education to all. This however, is faced with problems and is deemed to fail. The explosion of the number of enrolment in the schools especially the public schools (following the introduction of free primary education since 2003) has resulted to lowered quality of education. The infrastructure for the learning has not been expanded nor increased the number of teaching staff, leading to overstretching of the facilities. It may be a good goal but without the supporting infrastructural development, the project is deemed to fail.

The focus should be on the secondary education where technical and vocational training should be done to develop artisans, entrepreneurs and managers for the informal sector in both rural and urban centres. More nurturing, focus and development of the talents of the young Kenyans and the youth generally should be done by the government.

Training policies should be developed to help the workers in the SMEs advance technologically and improve their skills without discrimination from the government. Technology should be renewed and skill advanced for better and improved quality goods which will be able to compete in the world markets. Focus should be on the specific skill needed by the SME entrepreneurs.

The jua kali entrepreneurs have different and varied levels of skill. Each level should be trained separately to improve and upgrade their skill instead of lumping them together and assuming that all have equal skill. The incorporation of the local expertise should be used to the training programmes aimed at upgrading the jua kali skills. Such expertise should come from the Universities –University of Nairobi, Jomo Kenyatta University of Agric. & Technology, Moi University, Kenya Polytechnic or Mombasa Polytechnic).

Alternatively, the entrepreneurs can be asked to pay part of the expenses in training so as to ensure a sense of commitment on the part of the entrepreneurs. There can also be freedom for the entrepreneurs to choose the kind of skills they need to be trained in so as to analyse and know the exact training and skills they need. Some of the skills which have been imparted have no benefit at all such as book keeping which is only needed when calculating the taxes. For the small-scale operator, the skill to produce high quality good and services should be the priority.

Since the availability of the entrepreneurs for training is a challenge, the training can be taken near them since the time is the most precious thing to them; they can not leave their businesses to attend training for long periods. New ways should be devised to train the entrepreneurs at their local areas through the local administration using extension officers.

Demonstration centres can be established where the training skills exist and are applied so as the entrepreneurs can see for themselves the benefits for the training. This will influence them to pay and train to advance their skills and produce high quality goods.

d) Credit provision

The government should devise ways of providing credit to the SMEs to start operating. The various banks should lower the interest rates on the loans as well as remove the requirements for securing a loan to levels which the jua kali artisans and hawkers can access funds. The repayment of the loans can be done in piece meal where the entrepreneur pays a small amount each month at very low interest rates.

Fund schemes for the small-scale artisans and business entrepreneurs should be established to avail funds to them especially the youth who find themselves unemployed after many years in school. The government should also allocate in the annual budget finances for the jua kali sector. These funds should be used wisely and any misappropriations be punished severely.

The red tape policies should be removed to enable the informal sector entrepreneurs access the services and finances needed for the establishment and running of the SMEs. The government needs to change its policy on the informal sector. Harassment of the hawkers, street vendors and denial of operating licences should be dealt away with. The government harassment leads to market failure for the SMEs.

e) Information

Those involved should have the relevant information on the markets and their operation. Availability of information on foreign markets should be made available to all players and at low costs to ensure uniform development of the SMEs. A level playing field to all entrepreneurs should be maintained irrespective of the level of education or the stage of operation of the SME. All should be treated equally in accessing of services to establish SMEs. Legal facilities should be made available for all entrepreneurs to enable easy follow-up of cases, legal procedures and business transactions. The legal system should be streamlined to root out any corruption and injustices. Labour Unions should be encouraged and supported to take up cases of the SMEs entrepreneurs and provide legal advice.

f) Linkages and coordinated effort of the SMEs

Linkages between the SMEs should be developed to enable better operation, coordination and collective benefits. The collective efforts will help in enjoying the volume discounts which are reserved for the large enterprises. This action reduces the cost of production for the MSEs. The MSEs can also be linked with the formal sector to help them benefit for the large enterprises. Recently, the General Motors (GM) in Kenya has been using the informal sector to supply spare parts which had been previously been imported. The Jua Kali artisans on the other hand gain technologically since the GM engineers train them as well as undertake sub-contracts with them. On the other hand, the government should encourage competition among the MSEs themselves by either offering incentives or by promoting the export of certain goods produced so as to encourage the MSEs to produce high quality goods and products for the local market as well as for export. Targets can be set by the government where by certain offers are extended to those SMEs which attain it. This will inspire the MSEs to produce and attain better results.

g) Government protection of the SMEs and coordinated action The governments should protect the SMEs from external competition especially the cheap Asian and Chinese imports. For the textile industry, the biggest challenge is the Chinese textiles which are cheap as well as the second-hand clothes imports. This can be done by increasing the taxes on the imports, quotas and tariffs, while encouraging the local producers to supply the domestic market with low-priced but good quality products so as to make them stay in business. Extension of low interest capital loans and raw materials will lead to these cheap domestic products, a prerequisite which the government should strive to attain.

The governments can also help the MSEs by providing them with the technical and foreign expertise they need just as it does with the formal sector. Foreign expertise should be imported to train the local producers and

entrepreneurs and if possible set up demonstration centres which will be run for some time by these expertise and MSE entrepreneurs can visit to acquaint themselves technologically.

The government should ease the process of registering and opening a business so as to facilitate and encourage many small business establishments. The bureaucratic procedures should be removed to allow quick processing of business documents and legal certificates. Although these processes can not just be scrapped off with a stroke of the pen, certain procedures can be removed to ease the business establishment process.

Role played by MSEs in Kenya

1. Due to the MSEs ability to adapt to changing demands, trade and microeconomic conditions, they increase industrial flexibility.

2. SMEs have the capacity of developing technologically and develop new products and at the long run develop national technology and competitiveness.

3. MSEs provide employment opportunities to the many youths and those losing jobs due to the retrenchments and privatisation process as well as substituting incomes from the formal sector.

4. MSEs also provide the setting in which skill and assets can be accumulated. This brings about better economies for the individual workers and improved skills and a better life for the households.

Socially the MSEs:

1) Contribute to the general development of a place especially if they act collectively. This leads to the development of certain physical and infrastructural structures which are used by the MSEs in their production as well as benefiting the society at large.

2) SMEs also help create a social change. There is development of social responsibility by participation in running of the firms and involvement or participation in governance.

3) SMEs help in institutionalising democracy and increase social stability by creating structures which depict the people's real needs and objectives.

Some examples of Kenyan informal sector activities.

Source: <http://www.geography.org.uk/events/studytours/kenya2006/> (accessed on 12.12.2006)

This is an open-air market in one of the towns in Kenya (Machakos). It is dominated by women who display their wares on the open space basically farm produce.

Car-washing is common in Kenya with ease of entry. This is common with the matatu industry.

Source: <http://www.geography.org.uk/events/studytours/kenya2006/> (accessed on 12.12.2006)

The second-hand clothes (mitumba) business found commonly in Kenyan urban centres as well as the rural areas. The business provides cheap clothes for the low-income earners.

Of interest here is the fact that the workers just display their wares on the pavement, in front of the shops for the passers-by /customers. They can come and leave anytime they wish and move to another place with better chances of getting customers.

The woman sells her wares in the wheelbarrow and can come and leave at her own pleasure or even sell outside her house; a typical characteristic of the Kenyan MSEs especially in the slums such as Kibera and Mathare.

Source: <http://www.sln.org.uk/geography/images/Uganda/7.Street%20market%20Kampala%20suburb.JPG>  
(accessed on 2.1.2007)

Of interest is the selling of goods by the road side, especially in the rural areas to travellers and passers-by.

Source: <http://travel.webshots.com/photo/1153358855055459212fJpSvx> (accessed on 2.1.2007)

Jua kali artisans working in a workshop in Kenya. This is common in the urban areas. Some skill is needed to start the business. Most youth are involved in this enterprise.

The artisans are using their skill collectively to produce goods for the market. This is mainly the case with the traditional ornaments, beaded clothing as well as soapstone carvings e.g. in Kisii, and Wamunyu (Machakos) in Kenya.

Source: <http://www.ilo.org/public/english/protection/safework/sectors/informal/patris/patristrg.htm>  
(accessed on 2.1.2007)

Source: <http://www.sln.org.uk/geography/images/Uganda/8.Kampala%20market.jpg>  
(accessed on 2.1.2007)

Selling of vegetables and fruits near residential areas. This business is dominated by women, and may sometimes employ the labour of family members.

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