POVERTY IN THE INFORMAL SECTOR:

THE CASE OF TOI MARKET IN KIBERA, NAIROBI

BY

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DECLARATION

This research paper is my original work and has not been presented for a degree in another university

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This research paper has been submitted for examination with our approval as university supervisors

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DEDICATION

This work is dedicated to my parents, brothers and sisters

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ABSTRACT

This study set out to examine poverty in the informal sector. The study used descriptive and analytical techniques on data from 60 entrepreneurs differentiated by five business types, namely metal works, wood works, textiles, leather works and hawking in Kibera, Nairobi.

The study used descriptive and analytical techniques on primary data collected using the interview and questionnaire method from 60 entrepreneurs of Toi market in Kibera, Nairobi

The main findings of this study are that more than half of the entrepreneurs in the informal sector live below the absolute poverty line of Kshs 2,646. There is also evidence that poverty is more pronounced among male than female entrepreneurs in the sector.

The study also found out that one of the major limitations this sector is facing is the limited access to credit and this hinders the expansion and profitability of the business and consequently a reduction in poverty within the sector.

This paper has therefore recommended more support and formulation of policies that will provide an enabling environment for the growth of the sector, bring about order in the sector and eventual integration into the formal sector.

CHAPTER ONE

BACKGROUND

1.1 The informal sector

The International Labor Organization (ILO) first used the term "informal sector" in the early 1970s to refer to informal activities (ILO 1972 p.5). The traditional definition of the informal sector focuses mainly on the size of the firm, the type of technology and the occupation of the worker.

The Kenyan informal sector is defined to cover all semi-organized and unregulated activities that are small in terms of employment. The activities are largely undertaken by, self-employed people or employers of few workers in open-air markets and in market stalls. The legal feature is that these household sector businesses are not registered or legally bound to register with the government.

Informal sector enterprises share similar characteristics. Two main features are their small scale of operation and labor-intensive mode of production. Other common characteristics include low fixed costs, reliance on family labor, use of personal or informal sources of credit, recycling of goods and lack of wage employment. Table 1.1 compares formal and informal businesses.

Table1.1 CHARACTERISTICS OF FORMAL AND INFORMAL SECTOR ENTERPRISES		
Characteristics	**Formal sector**	**Informal sector**
Entry barriers	High	Low
Technology	Capital-intensive	Labor-intensive
Management	Bureaucratic	Family-based
Capital	Abundant	Scarce
Work hours	Regular	Irregular
Inventories	Large	Small
Price	Often fixed	Often negotiable
Financial services	Banks	Personal, informal
Customer relations	Impersonal	Personal
Fixed costs	Large	Negligible
Advertising	Necessary	Little to none
Government subsidy	Often large	None
Markets	Often export	Rarely export

Source: Santos 1997

Medium and large firms typically attract most attention from governments and donors but most workers and enterprises are located in the informal sector. Diversity is its trademark and it includes survivalists (very poor people who work part time in various non-farm income generating activities); self-employed people who produce goods for resale, purchase goods for resale, or offer services and very small businesses (micro-enterprises) that usually operate from a fixed location more or less regular hours. Participants include very poor marginal people as well as members of the working class. This sector houses an especially large share of people in Kenya.

An early (and for some still current) view is that the existence of an informal sector is a symptom dysfunction. From this perspective the presence of street vendors and home workshop producers signals that the structure and growth rate of the economy are inadequate to absorb the national labor force. Accordingly, the formal economy must be managed better so that it can better integrate low income and unemployed people and in essence absorb the informal sector (Webster and Fidler 1996).

Macroeconomic management has improved in many developing countries including Kenya but the informal sector continues to grow. Development specialists have emphasized the informal sector's importance as a creator of jobs and an incubator of small and medium enterprises. In this view, the informal sector is a giant sponge, absorbing much of the stock of periodic economic contraction by soaking up excess labor and by providing a second source of income to those whose real incomes have been eroded by inflation and public spending cutbacks. In addition, very small enterprises often are viewed as training grounds for prospective formal business owners, who are in notably short supply in Kenya.

Current thinking looks to micro-enterprises development as a major tool with which to reduce poverty. In Kenya poverty remains a pervasive national problem presenting formidable challenges that call for urgent action. In this paradigm, graduating informal micro-enterprises to medium enterprises is less critical than generating income by creating jobs for the poor. Very small enterprises can be seen as vehicles with which the poor can increase their income, as impact analysis of borrowers from several micro-finance programs confirms that recipients of micro-loans have been able to increase and stabilize their incomes

In the current debate regarding the importance of the informal sector, two counter arguments emerge. The first asserts that the informal sectors create a large number of jobs but these are of such poor quality that many micro-enterprises workers would be better off as employees of medium and large companies. Firm level surveys in Africa, found that manual and non-manual wage employees of large firms with more than 250 workers earn significantly more than manual and non-manual wage employees of micro-enterprises with fewer than ten workers (Mazunder 1994 p.19). Casual observation shows that working conditions in many micro-enterprises are physically uncomfortable and sometimes dangerous; the work is tedious and reliable wages, pensions and job security are usually lacking.

A second counter argument says that although micro-enterprise support programs do raise incomes of the poor, only individuals who are at or near the poverty line are positioned to benefit from them. Hulme (1995) argues that micro-enterprise promotion programs are unlikely to benefit the very poor and that the poorest of the poor might actually be ill served by credit programs that create debt among persons who can least afford. The study argues that services that aim to protect rather than to promote income are better suited for the poorest. Such services would avoid enterprise-related loans and include savings services, consumption and emergency loans.

Debates about the informal sector continue, but in the meantime, many donors have chosen to support informal sector and micro-enterprise development for highly pragmatic reasons. Urban migration and high population growth rates have made unemployment a critical problem for developing country governments (including Kenya) and donors have responded by financing the programs that develop micro-enterprises, which are meant to absorb a portion of this excess labor. More recently the failure of the structural adjustment programs to shift economic benefits down fully to the poor has alarmed the governments and development experts. Again the remedy has been to create enterprises with an emphasis on increasing and stabilizing incomes particularly among the self employed poor. The small but growing number of micro-finance institutions that have proved capable of both reaching large numbers of poor people and attaining a high level of financial sustainability (K.I.E in Kenya) has fed hopes that micro-enterprises development can make a substantial difference in the fight against poverty (Government of Kenya 1997).

1.2 Macroeconomic and social context of the informal sector in Kenya

Over the post independence era 1964-2000 Kenya has transited from a high growth path in the 1960s (6.6 percent average annual growth over1964 – 1972) to a declining path of 5.2 percent over 1974-1979, 4.0 percent over 1980-1989 and 2.4 percent over 1990-2000.

To improve the living standards of Kenyans and create employment opportunities for the rapidly increasing labor force there is need not only for a rapid and sustained economic growth over a long period of time but also for a rapid sustained reduction in population growth. Even though some progress towards this end was made during the first decade of independence as evidenced by per capita incomes growing at 2.6 percent per year, performance in later years has been disappointing. Between 1980 and 1987 the average growth rate per capita income was 0.4 percent and between 1990 and 1995 the rate was negative 0.3 percent. Rapid and sustained per capita income growth has remained an elusive target.

The past decade witnessed the worst economic performance ever. This is mainly due to various events such as the agitation for and introduction of multi-party in 1992, the subsequent eruption of ethnic clashes, the endemic corruption, withholding of foreign aid by donor countries, poor delivery of public services and expensive and inadequate power.

Furthermore over the last two decades the economy has been unable to create jobs at a rate to match that of the growth of the nation's labor force. Since 1980 there has been virtually no improvement in the living standards of Kenyans. If anything, the welfare of a majority of the people has declined as evidenced by the increase in the number of Kenyans living below the absolute poverty line. In addition the number of the unemployed has risen during the same period and has accumulated over the years (Republic of Kenya 1997-2001).

Table 1.2 Average annual growth rates of real domestic product 1964-1995 (percentage)

Sector	**1964**	**1974**	**1980**	**1990**
Agriculture	4.6	3.3	3.3	0.4
Manufacturing	9.1	10	4.8	3
Private Households	3.5	144.5	10	10.5
Government service	16.9	6.5	4.9	2.6
Finance sector	9.8	12.4	6.7	6.6
Others	2.8	3.3	4.2	19
GDP	**6.66**	**5.2**	**4.1**	**2.5**

Source: National Development Plan 1997-2001

During the last decade informal sector employment growth slackened, while informal sector employment recorded a dramatic and sustained expansion. The expansion of the informal employment has seen its share of employment excluding employment in small-scale farming activities rise form 63.5 percent in 1997 to 70.4 percent in 2000. The large number of persons engaged in the informal sector underscores its important role in absorbing large proportions of the unemployed labor force.

1.3 Poverty in Kenya

There seems to be unanimous acceptance in Kenya that persistent poverty characterizes the everyday life of the vast majority of the populace.Poverty is multi-dimensional. It includes inadequacy of income and deprivation of basic needs and rights, and lack of access to productive assets as well as to social infrastructure and markets. The quantitative approach of measuring poverty defines the poor as those who cannot afford basic food and nonfood items. In 1997 the absolute poverty line was estimated at Ksh. 1,239 per person per month and Ksh. 2,648 respectively for rural and urban areas according to the (Government of Kenya 1997).

According to qualitative approach to poverty assessment people, define and experience poverty in different ways. In 2001 people mainly viewed poverty as the inability to meet their basic needs. Poverty was associated with features such as lack of land, unemployment, and inability to feed oneself and family, lack of proper housing, poor health, inability to educate children and pay medical bills. While different people and communities defined poverty differently, poverty was invariably associated with the inability to afford basic needs.

The World Bank seeks to broaden the concept of poverty beyond that of lack of income by identifying poverty as related to high dependency ratios (high proportions of households being the youth and the old), female headship and illiteracy. On this background the Bank points to the following groups as particularly poor and vulnerable; orphans, displaced and abandoned children; the handicapped; female headed households; older people and their dependants; and landless peasants (World Bank ch2.) Features such as intra-household inequality, implications of AIDS, high workloads and low levels of literacy make women particularly prone to be poor.

The Welfare Monitoring Survey (III) data indicates that three quarters of the poor live in rural areas. The prevalence of overall poverty in 1994 was highest in North Eastern Province with poverty rates of 58 percent followed by Eastern and Coast each with 57 percent while the lowest rates were in Nyanza (42 percent) and Central (32 percent). However by 1997 poverty had increased rapidly and its distribution had changed, with Nyanza recording a headcount index of 63 percent the highest, followed by Coast with 62 percent. Nearly all the other provinces had prevalence levels above 50 percent except Central, which had the lowest incidence (31 percent). Based on the 1997 Welfare Monitoring Survey the incidence of rural food poverty was 51 percent while the overall poverty reached 53 percent of the rural population. In urban areas, food poverty was 38 percent and overall poverty was 49 percent. The overall national incidence of poverty stood at

52 percent based on second Welfare Monitoring Survey of 1997. The number of the poor increased from 3.7 million in 1972-1973 to 11.5 million in 1994 and is now estimated to have some 1.5 million (Republic of Kenya 2000)

The majority of Kenya's urban poor live in per-urban and slum settlements which are characterized by inadequate/low quality basic services like inadequate water, limited access to quality schools and health services and unhygienic living conditions. The urban poor do not have a regular job and therefore lack regular income, which leads to their inability to afford decent and adequate housing. Urban dwellers spend about 25 percent of their incomes on rent. Lack of access to credit and housing coupled with tenure, insecurity, evictions and inappropriate policy and regulatory frameworks contribute to the vulnerability of the urban poor.

1.4 Statement of the Problem

Lately poverty reduction has been placed among the current lead issues in international development co-operation. The challenge facing Kenya today is to reduce poverty and achieve sustained economic growth for a healthy national development.

The magnitude of the poverty problem in Kenya is enormous with more than half the population living below the absolute poverty line. The formal sector has largely failed to meet the employment creation challenges of the country. For example, over 1995-1999 formal sector employment growth averaged 1.8 percent while the labor force grew by an average of 3.5 percent. This poor performance was due to increased competition encountered by Kenyan producers, high production cost, the contraction of the manufacturing sector and the downsizing of the public sector. The informal sector bore the burden of absorbing the increased labor force with employment growth averaging over 10 percent annually (Republic of Kenya 2000)

The observation that a large number of people in African countries including Kenya depend on the informal sector for their income has generated interest in promoting it as a source of labor absorption especially when both the state and the private sector are downsizing.

Indeed when the economy and real wages are declining, self-employment in the informal sector, which generates income, provides a buffer, in systems that lack social safety nets. For many people, the informal sector represents the primary economic survival strategy for the long term in good and bad times. The informal sector has greatly contributed to economic development since independence. The sector has been (and still is) an important activity in the economy. It has over 900,000 enterprises nationwide employing nearly 4,150,900 people making its share of employment excluding employment in small scale farming activities rise from 63.6 percent in 1997 to 70.4 percent in 2000. It accounts for over 14 percent of the total GNP and is a major source of income for two thirds of Kenyans. It is estimated that the sector has an annual growth rate of 13 percent, which is believed to be much lower than the real potential of the sector.

This study is motivated by the increasing importance of the informal sector in income generation through employment creation. A lot of research has been undertaken on the various aspect of the informal sector but not much of it has dealt with poverty within the sector. Thus this study seeks to fill this gap by exploring poverty measures profiles and inequality within the sector.

1.5 Objectives of Study

The main objectives of the study are to evaluate the magnitude of poverty within the informal sector. Its specific objectives are:

a) To examine the characteristics of the people who derive their livelihood from the informal sector activities

b) To investigate poverty profile of individuals in specific informal sector activities

c) To make policy recommendations based on the findings of the objectives.

1.6 Significance of the Study

The most critical challenges facing Kenya today are enhancement of economic growth and reduction of poverty. The informal sector suffers from a negative public image yet it possesses many positive characteristics and has vital role to play in contributing to renewed economic growth.

It is this recognition and the need to assess the poverty situation within the informal sector that led me to undertake this study. The study will attempt to come up with the specific linkages between income generation through employment creation in the informal sector and poverty.

The findings of the study will be important in making policy recommendations that will enhance productivity within the sector thus further reducing poverty. It will also be useful in contributing to literature on the informal sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Since the ILO in 1972 published its study on the informal sector in Kenya, a large number of empirical studies have been carried out on the informal in both rural and urban areas in many different countries. The results of these studies have sometimes differed, partly because the structure of the informal sector varies from area to area, but also because the studies have focused on different aspects and parts of the informal sector. This literature mainly focuses on income generation, employment, poverty within the sector and other characteristics

2.2 Characteristics of the informal sector

The low level of industrialization relative to the level of urbanization has meant that formal wage employment has been seen to grow much slower than it did in the developed countries and to a large extent has been in public administration and services. It has also led to large unemployment and underemployment and a rapid growth of the informal sector (e.g. Kongstad 1985; ILO 1972, 1984; Sethuraman 1981

The informal sector is not a homogeneous sector. It consists of many different types of activities and it has no generally agreed upon definition. Often the sector is defined by size as small enterprises with less than 5-20 employees (e.g. Little 1987; Lopez-Castano 1987). The delimitation in some countries depends on the legislation and registration practices (e.g. India). In some cases the informal sector is seen as consisting of clandestine enterprises which evade taxation and /or labor legislation, but may be quite large (e.g. Wilson 1988: Roldan 1988). In other cases, it is seen as consisting of unregistered enterprises which may not be legal. Casual and outworking workers are also often seen as part of the informal sector.

Rempel (1974) addresses himself to the perennial problem of categorizing the informal sector activities. In this respect he argues that the informal sector can be classified into two distinct categories. These are the "intermediate sector" and the "community of the poor". The community of the poor comprises people who migrated to the city in order to gain entrance to the formal sector. They view their current plight as temporary and still have hope of admission into the formal sector. The intermediate sector activities despite their typically small size provide a better than average income to their owners. Also the rate of return on invested capital exceeds that of the formal sector by substantial margin. Furthermore both the capital output ratios are low and capital infested in the sector creates more employment than does an equivalent amount of capital in the formal sector. In addition wages in this sector exceed wages in commercial agriculture. This group of people considers their current situation as permanent and therefore consciously strives to build for the future. It is the group seen by Rampel as having the potential to develop, since it is the group, which had rejected wage labor in the formal sector. Collectively this group has been termed as, the "intermediate sector" by Child (1973) and it is the group identified by ILO (1972), House (1981, 1984) and Steel (1977), as having great potential for employment generation and economic development.

Rempel concluded that it is the "intermediate sector' of the informal sector and not he "community of the poor" that plays a vital role in the economy because it has development potential. The goal of development strategy should be to facilitate the development of the "intermediate sector" and to reduce the size of the "community of the poor. Since the members of this group take their activities as a ladder out of poverty and decided to invest permanently all they need for development is a favorable environment where they are protected and allowed to expand.

The informal sector consists of trade, services and production. However enterprises engaged in production are usually considered more important than enterprises engaged in services and trade (e.g. Chuta and Suthuraman (1984); and policies to support small enterprises in many cases are concerned with production.

The informal enterprises may be based on very different technologies and have different relations to the rest of the economy. They may be subcontracting enterprises, either relatively large enterprises employing cheap, often-female labor or individual women or small family enterprises doing outwork for larger formal or informal enterprises (e.g. Wilson 1988).
They may also be small petty trade or production enterprises operating on the local market, typically with no or only a single employee outside the family, and with very small investments (e.g. Kongstad and Monsted 1980). They may be small, but relatively capital-intensive enterprises operating

often on a large/or high-income consumer market or on a producer market. Or they may even be very small part time enterprises supplementing the entrepreneur's agricultural incomes or formal sector wage (e.g. Islam 1984; Lieldhom and Mead 1987; Muller 1980; Kjaerby, Harnevik and Mothander 1987; Freeman and Norcliffe 1985).

Some informal enterprises may be exploiting specific (sometimes-illegal sources of inputs e.g. waste products from the formal industries or goods bought on the black market.

Mazumdar (1976) made a basic distinction between formal sector and the informal sector in suggesting, that "employment in the informal sector is in some sense or senses protected, so that the wage level and working conditions in the sector are not available in general, to the job seekers in the market unless they manage to cross the barrier of entry somehow"

In his mathematical model he hypothesized the major determinants of the rate of the informal sector employment are marginal propensities of the informal sector and formal sector to consume informal sector goods, the relative level of income in the two sectors, and the rate of growth of employment and productivity in the formal sector. This study considers that marginal propensities to consume are not easy to measure and therefore, will not be included in the employment function.

House (1977) argues that the informal sector has sprung up as a response to the lack of formal employment opportunities in the urban centers. It is the protected wage structure in the formal sector that explains the rationale for the large numbers of unemployed engaged in searching for formal sector jobs and it is to friends and relatives as well as part of the informal sector migrants turn to for subsistence while engaging in the process of job search.

It appears form the above argument that the informal sector acts as a transition zone, as those who work there, are just temporary, awaiting to enter into the formal sector. Here House has argued along with Rempel (1974) who hypothesized that there is a "community of the poor" who view their current situation as temporary and lack motivation to invest.

However, Ndua and Ngethe (1984) findings showed that none of the respondents had changed his/her occupation in the six months proceeding their survey. The survey contradicts House's and Rempel's hypothesis that the informal sector is transitory and a springboard into the formal sector. According to Ndua, most of the informal sector operators are there to stay, Small informal enterprises are usually found to be less capital intensive than formal enterprises in the same sector and are usually seen as less productive, even though they usually serve other markets and often markets which the formal enterprises are unable to serve satisfactorily. For many developing countries it has been found that entrepreneurs prefer to spread their investments on many small projects in different sectors. In part of the literature on Africa this investment behavior is said to be characteristic for "the African entrepreneur". Such an investment behavior is, claimed to be different from that of European entrepreneurs who are supposed to concentrate their investments on a single or a few large projects, such as to be able to exploit scale economies better than African entrepreneurs (e.g. Kongstad and Monsted 1980).

In many parts of the developing world, the incomes of many households are generated not by one single mode of reproduction, but by a frequently changing combination of agricultural income, formal sector wage employment, and informal sector activities (e.g. Kongstad 1986; Islam 1984).

Many theoretical studies of the informal sector look at it as a low income sector, even though most empirical studies of the incomes earned by self-employed in the informal sector seem to show that, on the average, incomes are in fact higher than in both agriculture and formal sector wage employment. One of the reasons for this apparent contradiction is that the spread of income is wide, and for many in the informal sector, incomes are likely to be lower than in the formal sector. This is especially likely to be the case for family labor and for people with wage employment in the informal sector. Also working conditions are often poor and the working day long (Peattie 1987).

2.3 Overview of the literature

The discussion on whether or not the informal sector should be used as a main engine of development is a very controversial one. There are researchers on both sides of argument who have very strong views. The informal sector may be viewed as the driving force in job creation process since it typically includes many small and micro-enterprises. Many researchers however, believe that this sector is for the workers who are unskilled and poorly paid, owing to the fact that the jobs created in this context are not very productive (Saavedra and Chong, 1996; Cole and Fayissa, 1991; Tokman, 1989), It could be argued that the productivity of workers in the urban informal sector is not zero.

There has been very little research done on poverty within the informal sector in Kenya. Most of the studies deal with income generation, capital, employment generation and problems within the sector but little has been done on poverty within the sector. My study is to fill in this gap and contributes to literature on poverty within the informal sector.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

In general the study will focus on poverty measures, profiles and inequality within the informal sector. Descriptive statistics are first used to present and discuss the characteristics of the people who derive their livelihood form the informal sector.

3.2 Poverty measures

To come up with poverty measures we need an aggregation formula that covers all relevant dimensions of poverty for a given population. The most commonly used measures of poverty are the Foster Greer and Thorbecke group of poverty measures. This study uses the FGT index to come up with poverty measures within the informal sector.

The FGT poverty measure is given as

$$P\propto = \frac{1}{n} \sum_{i=1}^{q} \frac{(Z - Y_i)}{Z}^{\propto} \quad \text{--} \quad 1$$

Where

Z is the poverty line

q is the number of individuals below the line

N is total sample population

Y_i is the income of the Ith household

$\propto$ is the 'aversion to poverty' parameter

The aversion parameter $\propto$ takes the values 0,1 and 2 depending on the degree of concern about poverty. The quantity in parenthesis is the proportionate shortfall of the income below the poverty line. By increasing the value the value of $\propto$ the "aversion" to poverty as measured by the index is increased

For example where there is no aversion to poverty, $\propto = 0$ and the index is the head count ratio. The headcount ratio has been criticized for focusing only on the number of the poor being insensitive to the severity of poverty and to changes below the poverty line. If the degree of aversion is increased so that $\propto=1$ we have poverty gap, which measures the depth of poverty. P1 is superior to Po because it reflects the average distance of the poor below the poverty line. Although superior to Po, P1 still implies uniform concern about the depth of poverty, in that it weights the various income gaps of the poor equally. P2 or the Foster Greer Thorbecke (FGT) index or income gap squared index, allows for concern about the poorest of the poor by, attaching greater weight to the poverty of the poorest than to those just below the line. Squaring the income gap to capture the severity of poverty does this.

3.3 Poverty profile

The p-alpha allows for decomposability of poverty where the overall poverty can be expressed as the sum of groups' poverty weighted by the population share of each group as in equation (2)

$$P\propto = \Sigma\ k_j p\propto_j \qquad \ldots\ldots 2$$

Where j=1,2,3,….m groups. k_j is the population share of each group and P_j is the poverty measure of each group. The contribution of each group, C_j to overall poverty can be calculated.

$$C_j = \frac{k_j p\propto_j}{P\propto} \qquad \ldots\ldots 3$$

The contribution to overall poverty as in the case of decomposable measures of inequality will provide a guide to where poverty is concentrated within the informal sector and where policy interventions should be targeted. This study uses the p-alpha index discussed above. It calculates the incidence, depth and severity of poverty in each of the subgroups of the informal sector.

3.4 Welfare measure

In this study income rather than consumption expenditure will be used. This is in-spite of the conceptual problems that arise when using it as an indicator of welfare and despite the measurement error involved (especially under reporting of income). Underestimation of income as compared with expenditure results in undue overestimation of poverty. Income data will be used because the study is only interested in income generated from the informal sector (consumption expenditure may include income that is not from the informal sector).

The errors inherent in income as a measure of welfare are addressed through consistency checks and through the use of a structured questionnaire for both the owners of the business and the employees to collect income. In this study we did not estimate the poverty line but used the Welfare Monitoring Survey poverty line of Kshs, 2648.

3.5 Data types and sources

The fieldwork took place at Toi market in Kibera, a slum area with a high incidence of informal activities and poverty. The study used the questionnaire and interview method to collect primary data from the informal sector businesses. Because of the absence of a sampling frame, sixty enterprises clustered into five different types were selected. The market was also divided into four sections to ensure the entire market was covered. Twelve owners of each business type were selected randomly from the four sections of the market. The business types selected included metal works, wood works, textiles, leather works and hawking.

CHAPTER FOUR

RESULTS FROM THE SURVEY

4.1 Introduction

This chapter discusses the empirical results of the study. The chapter is divided into two sections. The first section presents a descriptive data on the characteristics of people who derive their livelihood from the informal sector. General observations are presented on the particulars about the entrepreneurs and their enterprises.

In the second part and in line with one of the objectives of the study, information was sought with respect to characteristics of the people who derive their livelihood form the informal sector, including educational back ground, training, capital stock income, age, place of birth and employment. In the third section poverty profiles are presented while the fourth and fifth sections present the results and policy implications from the study respectively.

4.1.1 Educational Background

The education background of the people in the informal sector in Toi market is summarized in table 4.1. The results show that a high percentage of the entrepreneurs have primary education. Only 5.0% of the entrepreneurs had no formal education. 50% of the entrepreneurs had primary education, 18.3% had secondary education while 11.7% had attained university education.

TABLE 4.1 Education levels of entrepreneurs

Education level	Number	Percent
University level	7	11.7
Secondary level	11	18.3
Primary level	30	50.0
Drop outs	9	15.0
No education	3	5.0
Total	**60**	**100**

4.1.2 Age and Place of Birth

The survey also sought to know the entrepreneur's age and place of birth. Table 4.2 below shows the age of the entrepreneurs, which ranged from 20 years to 60 years. The age distribution shows that, those between 30-39 years were the dominant group (62%) followed by those in the age bracket 40-49 (20%). The age bracket 20-29 comprised 15% of the sample, while 50-59 made up 3% of the sample.

This shows that the entrepreneurs are relatively young people, who reflect the age distribution of the labor force in the country. Estimates showed that 77% of the entrepreneurs were below 40 years.

The survey collected data on the migratory patterns of the entrepreneurs. Table 4.3 shows that large proportions of the respondents (97%) were migrants. Questions on their origins were asked, but the respondents were reluctant to respond, probably as a result of recent clashes in the area.

TABLE 4.2 Age of entrepreneurs

Age (years)	Number	Percent
20-29	9	15
30-39	37	62
40-49	12	20
50-59	2	3
Total	**60**	**100**

TABLE 4.3 Place of birth of entrepreneurs

Location	Frequency	Percentage
Nairobi	58	97
Other	2	3
Total	**60**	**100**

4.1.3 Sources of finance and ownership structure

The study sought to determine the sources of finance used by the owners of specific informal enterprises covered in the survey. The results are presented in the table below. The table shows that personal savings were the highest source of investment in the informal sector, which accounted for 60% of the initial capital. This was followed by loans from friends and relatives, which made up 38.3% of the investment while 1.7% of entrepreneurs got their finances from Roscas. As noted by House (1977) "It is friends and relatives that those who fail to get formal jobs turned to for help".

TABLE 4.4 Sources of funds for initial investment

Sources	**Number**	**Percentage**
Own savings	36	60.0
Friends and relatives	23	38.3
Roscas	1	1.7
Total	**60**	**100.0**

Table 4.5 below shows that most of the ownership structure in the informal structure is sole proprietorship (75%), while 25% are operated as joint ventures or partnerships.

TABLE 4.5 Types of ownership

Types	**Number**	**Percent**
Sole proprietorship	45	75
Partnerships	15	25
Total	**60**	**100**

4.2.1 Problems faced by entrepreneurs

Table 4.6 below shows the problems the entrepreneurs in the informal sector face. Lack of capital was cited as the biggest problem in the informal sector. Other problems included lack of loans and lack of managerial and accounting skills.

TABLE 4.6 Business problems within the informal sector

Type of problem	Percent
Lack of capital	94.7
Lack of market	28.3
Lack of loans	88.0
Difficulty in obtaining licenses	44.0
Harassment by local authorities	65.0
Lack of business skills	86.0
Others	26.7

4.2.2 Records

The surveys also sought to know whether the entrepreneurs kept records. This was necessary, as it was it was felt that in addition to formal education and training, keeping of records is important in proper running of a business. From table 4.7 below we note that 60% of all the respondents kept some form of records.

TABLE 4.7 Record keeping

Record keeping	Frequency	Percent
Kept record	36	60
No record kept	24	40
Total	**60**	**100**

The survey also sought information on the reasons for keeping the records. The most important reason was for the evaluation of the performance of business. This was followed by the need to keep note of the debtors and creditors. A majority of those interviewed kept records for purposes of keeping track of creditors and debtors (33.3%) while the rest (26.7%) kept records for purposes of evaluating the business as shown in table 4.8 below.

TABLE 4.8 Reasons for keeping records

Reason	Number	Percent
Keep records to evaluate business	16	26.7
Keep records on creditors/debtors	20	33.3
No need to keep record	24	40.0
Total	**60**	**100**

4.2.3 Training

The study noted that high percentage of the informal sector entrepreneurs had not acquired professional training in their particular fields of business (table 4.9). About 80% of all the respondents had not acquired formal training. The textile and metal works industry recorded the highest percentage of those who had formal training (33.00% each). The wood works industry had 25% of its entrepreneurs trained while the hawkers had 8%. The leather works industry did not have anyone who had received formal trained.

TABLE 4.9 Training of informal sector entrepreneurs

Sector	Number Informally Trained	Number formally trained	Percent	
Metal works	8	4	67	33
Leather works	12	0	100	0
Wood works	9	3	75	25
Textile	8	4	67	33
Other sectors	11	1	92	8
Total	48	12	80	20

4.2.4 Income

In line with popular expectations incomes for entrepreneurs in the informal sector were low. On average, the entrepreneur's income within the informal sector was Kshs. 6,268 monthly which is higher than the absolute poverty line of Kshs. 2,648. The lowest income was Kshs. 2,000, which was recorded in all the sectors under study. The highest monthly income of Kshs 40,000 was recorded in the woodworks industry.

55% of the entrepreneurs in the informal sector had incomes ranging from Kshs 2,000 to Kshs 2,647. A larger percentage of the entrepreneurs were therefore below the poverty line.

TABLE 4.10 Monthly incomes

Income	Respondents by Sector				
Range	Metal Works	Wood Works	Textile Works	Leather Works	Hawkers
0-2,647	4	5	7	8	9
2648-5,000	2	2	3	4	2
5,001-10,000	2	1	1	0	1
10,000 and above	4	4	2	0	0
Total	**12**	**12**	**12**	**12**	**12**

4.3.1 Poverty measures

This section presents and discusses the results of the estimates of poverty within the informal sector. The p-alpha measure of poverty index was used to calculate the various estimates of poverty using income data collected from the respondents.

First, the poverty profiles are presented in tables 4.11 to 4.12 report estimates of the poverty profile within the informal sector. Income poverty as measured by the head-count index is 55% in the informal sector. In other words, 55% of the entrepreneurs in the informal sector were living in absolute poverty in 2002. Hawkers recorded the highest level of absolute poverty at 75% followed by entrepreneurs in leather works, textiles, metal works and wood works with 67%, 58%, 42% and 33% respectively. One important observation is that, in general there was extensive poverty in all the sectors of the informal sector in the study area.

Poverty was higher among female than male entrepreneurs. In the other sectors income poverty by head-count index was 50% among females as compared to 25% among males while in textiles it was 42% and 17%

respectively. The other sectors (wood works, metal works and leather works) had no female entrepreneurs. This is probably due to their technical nature. The estimates for other dimensions of poverty showed the same pattern by gender.

TABLE 4.11 Poverty by sector

Sector	**FGT index**		
	P_0 (%)	**P_1 (%)**	**P_2 (%)**
All sectors	55	26	12
Metal works	33	07	09
Wood works	42	12	15
Textiles	58	10	10
Leather works	67	18	11
Hawkers	75	21	14
Sample size	**60**		

TABLE 4.12 Poverty by sector and gender

Sectors	**Male (percent)**			**Female (percent)**		
	P_0	**P_1**	**P_2**	**P_0**	**P_1**	**P_2**
All sectors	37	96	75	18	17	09
Metal works	33	17	09	00	00	00
Wood works	42	32	25	00	00	00
Textiles	17	05	02	42	18	08
Leather works	67	50	38	00	00	00
Hawkers	25	06	02	50	26	14
Sample size	**60**					

4.3.2 Poverty decomposition

Decomposition of poverty within the informal sector into different sectors throws further light on the salient features of the poverty profile, and for the purpose of informing policy, it identifies the sectors where poverty tends to be high. Using equation 4, estimate in table 5.3 show that contribution to poverty is highest among hawkers with over 27% in all the three measures of poverty, being accounted for by the hawkers. The metal works industry contributes the least to poverty with between 6% and 12% in all the three measures. In terms of gender, males contributed more to poverty than females with over 31% and 18% in all the three measures of poverty respectively, though females were only represented in two sectors and accounted for 36.7 % of poverty in the study area.

TABLE 4.13 Decomposition of poverty by sector

Sector	**FGT index**		
	P_0 (%)	**P_1 (%)**	**P_2 (%)**
Metal works	12	09	06
Wood works	15	16	17
Textiles	21	21	21
Leather works	24	25	26
Hawkers	27	29	30
Sample size	**60**		

CHAPTER FIVE

CONCLUSION

5.1 Main findings

This chapter summarizes the observations and conclusions that have been drawn from this study. Using both descriptive and analytical techniques this study has estimated poverty rates within the informal sector.

Using the head count index it was found that 55% of the entrepreneurs were poor in 2002. That is they were living below the absolute poverty line of Kshs 2648. There is also evidence that poverty is more pronounced among female than male entrepreneurs in the textile and hawkers sub-sectors, which were the poorest and the only sectors with females. Overall, male entrepreneurs accounted for the bulk of poverty in the informal sector because of their relatively large number (63% of the sample).

The education level of the entrepreneurs is much higher as compared to earlier studies. This could be attributed to the rising unemployment levels among the educated in the country, a finding consistent with earlier findings by (Mwangi 2001). Although more than half of the respondents kept records the reason for doing this differed greatly.

The study also found that the entrepreneurs have limited access to credit from the formal institutions. This may be a hindrance to the expansion and profitability of their business and consequently a reduction in poverty within the informal sector. Pooling of resources within the sector was non-existent as the sole proprietorship was the dominant form of ownership of the businesses.

An overwhelming majority (80%) of the entrepreneurs are informally trained which could perhaps be used to explain among other factors the poor performance of the informal sector businesses. Lack of capital was cited as the biggest problem faced by the entrepreneurs which explains the on and off nature of some of the business and their size (small). Other problems included lack of business skills and harassment by local authorities

The study also found out that most of the entrepreneurs are young people with 77% of them being 40 years and below. This reflects the age distribution of the labor force in the country. The study also noted that the entrepreneurs in the informal sector have poor business management practices, which goes to explain their low profits and rates of expansion.

5.2 Policy recommendations

The emergence of the informal sector as a major source of employment and thus income generation in the country cannot be downplayed. It should be seen as a manifestation of the economic downturn as well as pressure of population growth. As such, it is important that policy makers recognize that the sector is playing an important role and thus formulate policies that will enhance its development.

Findings in this study call for policies that will provide an enabling environment for the growth of the sector and bring about order in the sector. The restrictive policy, which seeks to eliminate or reduce the number of informal businesses either through eviction or denial of the basic services, should be dealt away with especially now when we are registering no economic growth in our country. Supportive policies that will integrate the informal sector into the mainstream economic activities should be formulated and implemented as a matter of urgency.

In order to reduce poverty among the informal sector entrepreneurs the findings suggest areas where attention needs to be focused. Policies should protect main assets owned by the informal sector entrepreneurs especially their premises, which are regularly demolished or are under constant threat of demolition by the provincial administration and the local government.

The cost and accessibility of capital to the entrepreneurs in the informal sector is a big problem that needs to be solved. High interest rates create increased debt repayment burdens that make the survival of the entrepreneurs business difficult and as such financial institutions set up to assist the upcoming entrepreneurs should ensure that capital is easily accessible.

Though the licensing requirements have been made easier (by one-stop facilities) its cost is still prohibitive to some of the entrepreneurs. The government (Republic of Kenya, 1989) noted that women are excellent entrepreneurs if they get training, enough chances and space to start up and operate small enterprises. The imbalances that exist between men and women should be addressed to ensure women entrepreneurs engage in the more rewarding and technical businesses like metal and woodworks.

Good management skills are a prerequisite to the profitability of any business and as such the informal sector is no exception. Lack of managerial know-how has contributed to low incomes and failure of most businesses in the informal sector. To solve this problem, training programs should be encouraged so as to equip entrepreneurs with business knowledge needed to initiate and successfully manage a business. For those in the technical fields and with primary education, emphasis should be laid on equipping workers with practical skills.

A major constraint facing the informal sector is the lack of adequate infrastructure. Here infrastructure relates to adequate electrical power access to roads, water and sewerage and telecommunications. Adequate infrastructure has the effect of promoting competitive private sector growth by lowering the cost of doing business while easy access to utilities is important in all business activities, it is particularly important in the manufacturing sub-sector within the sector where access to utilities may determine the type of technical processes to be used.

Given that access to markets is a major problem, attempts should be made to improve product/service quality in order to effectively compete with formal businesses and that possibly support intervention could include selective extension services.

The capacity of the different segments or sub-sectors to contribute to poverty reduction varies substantially. To increase that capacity and to raise workers in various sub-sectors above the poverty line of Kshs 2468 requires the identification and removal of the above and other constraints that block the enhancement of the productivity of entrepreneurs.

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QUESTIONNAIRE ADMNISTERED TO THE INFORMAL SECTOR ENTERPRENUARS IN TOI MARKET KIBERA (NAIROBI)

Introduction

My name is Mr, X. Iam a student at the University of Nairobi. Iam carrying out research on the informal sector and poverty for academic purposes and would welcome the opportunity to interview the owner.

Interviewer: Fill Q1-6 by observation

1. Activity group.
   Metal works ( )
   Wood works ( )
   Textile ( )
   Leather works ( )
   Other ( )

2. Site
   Permanent structure
   Shed
   Semi-permanent
   Jua-kali

3. Location. ________________________

1. PERSONAL DATA

1.1 Name of respondent

1.11 Position
Business owner
Other (specify)

1.2 If business owner, indicate
Sole proprietor
Partner
Other

Interviewer: Continue with interview only if you are talking to the business owner.

1.3 Sex Male Female

1.4 Age ____________________________________

1.5 Where were you born?
Nairobi
Other ____

1.6 If not born in Nairobi, when did you come here?____year_____month

1.7 Why did you come here?___________________________________

1.8 Where in Nairobi do you stay?____________________________

1.9 Do you own land or have any expectation of inheriting land in your home area or elsewhere?

1.10 Are you married? Yes No

If married ask question 1.11-1.14 if not skip to question 1.15.

1.11 Does your wife/husband have a job?

1.12 If yes, where does he/she work?
Works in this business
Works on the farm back at home
Works part-time elsewhere
Works full-time elsewhere
Works in another family business
Other______________________

1.13 Does your wife/husband stay in Nairobi?

1.14 If no, where does she stay? ______________________________

1.15 Are there any persons who depend on you for support? Y N

1.16 If yes, how many people excluding yourself are you the major or sole? source of support ____

1.17 Are there any persons who provide money to help support you and/or your family? Y N

1.18 If yes, what is the average amount per month that these persons provide? ______________________

1.19 What amount of formal educational have you had?
(indicate level reached in each case)
None
Primary school
Secondary
Other ______________________________________

1.20 Have you had any other education or training since leaving school?
Y N

1.21 If yes, what kind?
Adult education
Technical training
Apprenticeship
On the job training
Other ____

1.22 Have you done any kind of work other than this business?

1.23 If yes, please describe the work____

1.24 For how long did you do this other kind of work? _______________

1.25 Do you currently do any kind of work other than this business?
Y N

1.26 If yes what is the other work?
Full-time paid employment
Part-time paid employment
Own another business

Full/part-time farming

1.27 If she/he owns another business, what is the nature of the business?

____

1.28 Do you ever move money back and forth between the two businesses?

1.29 If yes, do you record this as a transaction on the books of the businesses?

1.30 Would you prefer to have two small businesses or one large one?

1.31 Why? ____

2 History

2.1 Who began this business?
Self
Other (specify)

2.3 When did it begin? ________ Year _______ Month

2.4 What were the biggest problems when starting the business?

____
____
____

2.5 How much capital did you use to start the business? Kshs. _________

2.6 In addition to the money, what other resources did you require to start the business?

____
____

2.7 What was the value of the resources? ________________________

2.8 Where did you get the money and other resources to start the business?

____

2.9 Did you have a partner working with you when you started the business? Y N

2.10 If yes is the partner still working with you?

2.11 If not, do you have a partner now?

3 Labor

3.1 How many people work regularly in this place, counting yourself but not counting casual laborers?

Full-time production Workers	Part-time workers	Trainees or Apprentices	Total

3.2 Do you employ casual labor? Y N

Interviewer: if the answer to Q3.2 is yes ask Q3.3 and Q3.4.

3.3 How many casual laborers did you hire last week? ___________

3.4 How many days did each one work?

Laborers	Days worked	Total

Interviewer: Ask Q3.5 –Q3.15 only if there are regular employees or the regular use of casual labor. For businesses in which the owner works alone, skip to Q4.1

3.5 Does one worker make the product from start to finish? Y N

3.6 If no describe how the work is divided.

____

____

____

3.7 Are any of these workers members of your family? Y N

3.8 If yes how many family members are full-time production workers, part-time workers, Trainees or apprentices?

Number of family members		
Full-time Production Workers	Part-time workers	Trainees or Apprentices

3.9 Do you pay a salary to everyone who works here?

3.91	Family members	Y	N
	Regular employees	Y	N
	Trainees, apprentices	Y	N
	Casual labor	Y	N

3.10 Does anyone who works here stay with you?
Y N

3.11 If yes do they share the rent and/or other household expenses?
Y N

3.12 How much are your workers paid?

3.121	Regular full-time	Kshs__________	per__________
3.122	Regular part-time	Kshs__________	per__________
3.123	Trainees, apprentices	Kshs__________	per__________
3.124	Casual labor	Kshs__________	per__________

Specify per day, per week, per month, per piece. Give further information, if needed.

____

____

____

3.13 How would you rate the technical skills of those who work here?

0 = None
1 = Rudimentary (basic) skills
2 = Good skills

3.14 How much formal education have they had?

0 = None
1 = Some primary education
2 = Completed primary education
3 = Some secondary school
4 = Completed form four
5 = Completed form six
6 = some university
7 = Completed university
8 = College

3.15 Do you expect workers to have technical skills before they are hired or do you train them?

4 Products

4.1 How do you decide what to charge for your products?

What others are charging for the same product?
Calculate cost of raw materials and add profit
Calculate cost of raw materials and add labor, then figure profit
Calculate cost of raw materials, labor, and overheads and then add profit
Other

4.2 Do you sell at fixed prices or do you bargain with customers?

Sell at fixed prices
Have fixed prices, but give discounts to some people
Bargain with customers

4.3 If you bargain or sell at a discount, how do you decide your minimum price?

Materials cost
Cost of materials and labor
Materials, labor and profit
What I think the person will pay

Other____

4.4 How many of each of your products did you sell last week?

4.5 How many of each do you usually sell in a week?

4.7 What is the selling price of each one?

4.8 How many of each of your products do you make in a typical week?

4.9 How many did you make last week?

Table

4.10 What machinery or tools do you use in making your products?
When did you acquire the item?
What is its value? (when bought or now)
If you rent it, what is the monthly rent?

Table

5 Expenses

5.1 Do you use electricity in this business?

5.2 What is electricity used for?
Lighting only
Lighting and operation of machinery
Operation of machinery

5.3 If electricity is used to operate machinery, state which machines____

5.4 what is the cost of electricity per month? Kshs ________

5.5 If electricity is not used, why not?
It is not necessary for making my product.
It is not available in this place
It is too expensive
Other ____

5.6 Does your business have access to piped water?

5.7 If yes, is it
In this business's establishment?
Outside, but easily accessible?

5.8 If there is water inside, how much does it cost per month? Kshs _____

5.9 If yes, approximately how much does it cost you per week? Kshs____

5.10 Does your business have a license?

5.11 If yes, how much does it cost? Kshs _______________

5.12 How frequently must you renew it?

5.13 Have you ever been "harassed" by any government representatative?

5.14 If yes, please describe the circumstances.______________________
____

5.15 Do you own, rent, or just use the space in which your business is located?
Own
Rent
Just use

5.16 If you own, how much did it cost to buy? Kshs ___________________

5.17 If you rent, to whom do you pay rent?
Nairobi city council
Private space/structure owner
Other____

5.18 How much rent do you pay each month? Kshs ____________________

5.19 Has the rent increased significantly in the recent past?

5.20 Do you incur expenses connected with the premises other than rent?

5.21 If yes, what are they?

____

____

5.22 If you just use, do you have any expenses connected to the premises?

5.23 If yes what are they? ____

____

5.24 What would you like to have in your workplace that you do not have now?

Permanent structure
Roof or partial roof
Power
Running water
Security
More and/or better security
Other ____

6 Credit

6.1 Have you ever applied for a loan for the business? Y N

6.2 If no, why not?

6.3 If yes, what was the loan for?

6.4 If you got the loan, where/or whom did you get it from?

6.5 Did you get the loan?

6.6 If no, what were the reasons for being denied the loan/

6.7 How did you utilize the loan?

6.8 Have you repaid the loan?

Yes
Partly paid

Not paid

7 Markets

7.1 Who buys your products?

7.2 Do you get a far price for your products?

7.3 If no, why do you continue to sell?

____

____

7.4 Do your customers always pay cash or do you give credit?

7.5 If you give credit, who is eligible for credit?

7.6 How long a period is the credit extended?

7.7 Do you charge interest on credit sales?

7.8 If you make things on order, do customers pay in advance?

7.9 How much does it cost you to operate this business in a month?
1. Don't know
2. It varies from Kshs. __________ to Kshs. _________
3. On average, approximately Kshs. ________________

7.10 Do you maintain written records of your business transactions?

7.11 How much does it cost you to take care of your personal and family responsibilities each month?
1. Don't know
2. It varies from Kshs. _________ to Kshs. ___________
3. On average, approximately Kshs. _________________

7.12 How do you get the money that you need to cover your personal and family expenses?

1. Pay myself a set salary from the business
2. Take money from the business as needed

7.13 If 1. How much? Kshs. __________ per _____________

7.14 If you take money as needed, do you keep records?

7.15 Do you bank your money?

7.16 Do you belong to any kind of business organization?

7.17 If you do, what is the name of the organization?

7.18 What are the benefits of membership?

____

____

____

7.19 Has your business at any time benefited from a development project or been the recipient of funds, materials, training or consulting assistance from a development organization?

7.20 If yes, what is/was the name of the organization?

7.21 What kind of assistance did you get?

1. Technical training
2. Management training
3. Monetary assistance
4. Loan
5. Other

8 **Income**

8.1 What is your gross income in a month from your business?

1) Less than Kshs 1,000
2) Kshs 1,000-2,000
3) Kshs 2,000-3,000
4) Kshs 3,000-5,000
5) Kshs 5,000-10,000
6) Over Kshs 10,000

8.2 What is approximate net profit in a

a) Day
b) Week
c) Month
d) I have no idea

8.3 Do you own any other business apart from this? Y N

8.4 If yes, what is the nature of the business?

8.5 Approximately how much do you earn from this business/s in a

a) Day
b) Week
c) Month
d) Don't know