

**THE IMPACT OF INFORMAL ECONOMY ON EMPLOYMENT
CREATION:
The Case of Kamukunji Jua Kali Artisans in Nairobi**

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DECLARATION

This research report is my original work and it has not been presented in any university for examination.

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This research report was written and presented for examination by the candidate under our supervision.

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DEDICATION

This research work is dedicated to my parents Benson Marwanga and Mrs. Mary Mokeria for their invaluable investment in my life and planting a seed of success in me.

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ABSTRACT

The study's intent was to investigate the impact of the informal economy on employment creation using the case of *Jua Kali* in Nairobi's Kamukunji cluster. Specifically, the study related government policy, stakeholder involvement, incentives to urban informality and skill diversity with employment creation. Descriptive research design was adopted targeting Kamukunji *Jua Kali* unit managers/owners, association officials, and Ministry of labor officers for the purpose of gathering the required information. Data was collected from 80 artisans by use of questionnaires and data analysis was done using descriptive statistics and was fit into a regression model. The study found out that, government policy approach, stakeholder involvement, incentives to informal economy entry, and diversity of skills embodied in the economy helped create employment opportunities for people with different knowledge and skills. By regression, government policy approach had the lowest impact followed by stakeholder involvement. Skill diversity was rated highest factor above incentives to entry in the informal business activities. Components of skill diversity which enabled its heightened impact included learning and skill development opportunities, accumulation of skills over time, no need for basic qualifications to join the industry, numerous options in the industry to take up, and easy diversification into other skill fields. The incentives to informal economy entry included attraction due to wider investment opportunities, personal drive for *Jua Kali* business, joining *Jua Kali* a result of missing formal employment, unlimited investment freedom in *Jua Kali* business and partner support opens up more opportunities. To a large extent the government policy failed in ensuring interdependence with the formal economy, provision of adequate financial assistance, capacity building, fair input taxation, and in making appropriate business interventions. Moreover, stakeholder involvement sparingly failed in providing appropriate support like making tailor-made credit facilities from financial institutions, marketing of the products, and availing working knowledge and skills in the cluster. Based on the findings, the study recommended sensitization of relevant government institutions in embracing informal economy within an appropriate strategy. Also, there is need for a workable framework on maximizing synergy through a complete participatory approach between informal and formal economies.

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ACRONYMS AND ABBREVIATIONS

GDP:	Gross Domestic Product
GNP:	Gross National Product
ILO:	International Labour Organization
NGO:	Non-Governmental Organization
SME:	Small & Medium Enterprises
SPSS:	Statistical Package for Social Sciences
SSA:	Sub-Saharan Africa
UK:	United Kingdom
UNCHS:	United Nations Centre for Human Settlements
UN:	United Nations
WEF:	Women Enterprise Fund
WIEGO:	Women in Informal Employment: Globalizing and Organizing
YEF:	Youth Enterprise Fund

DEFINITIONS OF KEY TERMS

Employment Creation:

Means ability of the informal economy to accommodate more people as a result of policy incentives, stakeholder involvement, entry incentives, and skill applications

Incentives:

Means a characteristic that has the ability to attract or induce an individual's interest to engage in an informal economy activity

Informal Economy:

Means an economy or sector that is not formally structured and regulated so that it attracts anybody with the ability to work

Policy Approach:

Means a formalized initiative by the government agencies towards sustaining employment creation in the informal sector

Skill Diversity:

Means a variation of skills attracted and serving in the informal economy

Stakeholders:

Means anybody of organization with intent of boosting individuals involved in informal economic activities so that employment created is sustained

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

“The informal sector has dominated in many debates since the International Labour Organization (ILO) sponsored several studies of labour markets in developing economies in the early 1970s”. “The debates on informal sector have gained momentum, especially in Sub-Saharan Africa (SSA) countries, where the majority of the population (slightly over half of the populations) lives on less than a dollar per day and where there is enough evidence to indicating that the majority of the population derives their livelihood from the informal economy. In this study, the following topical issues will be discussed that relates to informal economy, unemployment situation in Kenya, employment in informal economy, linkage between formal and informal economy and the Kamukunji Jua Kali grounds”.

1.1.1 Informal Economy

Globally, most economies consist of **both** formal and informal sectors. “Whereas the formal economy is an economic zone that is legally sanctioned, regulated through state intervention, and marked by regular work, the informal economy consists of activities that are characterized essentially by unregulated markets, low capital inputs, intensive labour, self-employed workers with the possibly the help of unpaid family members and a few hired employees” . “The concept of the informal economy has dominated in debates and gained popularity since the commissioning of a well-known study by International Labour Organisation [ILO], 1972 in Kenya”. The first ILO employment mission of 1972 to Kenya, did recognize that, the widely practised traditional sector referred to as “informal sector”, had not just continued to exist but had grown and expanded in most countries. The mission also observed that the informal sector also included profitable enterprises and not only marginal activities. Since the concept came to international limelight, many academicians have subjected the concept to deeper discussions concerning its heterogeneous nature, how to measure the segment and its different

definitions. For instance, Ferman et al in 1973 referred it as irregular economy, Guttman in 1977, called it a subterranean economy and Simon in 1982, called it the underground economy and shadow economy by Abumere in 1989 (Habib-Mintz, 2009).

According to Lawson (2011), the informal economy is generally viewed as system outside the normal organized formal sector that provides employment and sustenance through engaging in a variety of activities, such as street trading, hawking, vulcanizing, local manufacturing and cobbling to mention but a few. "It is further characterized by small scale operations, labour intensive techniques, low-income families, private and indigenous ownership of enterprises that are largely unprotected by government". In developing countries, the informal economy has experienced rapid growth and has consequently attracted increasing attention among academics, researchers, social development activists, and policy planners. Generally, it is believed that the rapid growth of the sector has been influenced by increasing unemployment in developing countries. According to ILO (2009), the lack of jobs in the formal sector of the economy as well as the lack of skills in a large part of the labour force has resulted in the growth of a substantial informal economy in which most workers are in low-paid employment under unregulated and poor working conditions.

Yet another perspective by Shrinivas (2004) describes the informal economy as essentially covering the unorganized spectrum of economic activities in commerce, agriculture, construction, manufacturing, transportation and services, which absorbs as much as 60 percent of the labour force in urban areas of developing countries. Comprising the largest part of the economies of developing countries, the economy depends on small scale individual entrepreneurship, almost always without the benefit of official support or services. Suharto, (2003) argues that in the urban context, the informal sector includes small enterprise operators selling food and goods or offering services and thereby involving the cash economy and market transactions.

Singh, (2006) describes the informal economy by a large number of small-scale production and service activities that are individually or family owned and labour-intensive, which do not fall under the purview of organized economic activities. Most workers entering this sector are recent migrants unable to find employment in the formal sector. The motivating factor is usually to obtain sufficient income to survive, relying on own indigenous resources to create work. Many household members, including women and children, are involved in income generating activities, and they often work very long hours.

Therefore, the exact magnitude of the informal economy is difficult to estimate due to its elusive nature. Nevertheless, there is general agreement that the informal sector comprises a growing proposition of economic activity, particularly in less developed countries Gottdiener and Budd, (2005). A study carried out of nine different cities in developing countries estimated that at least 50 percent of the labour force is engaged in the informal economy. Even in most developed countries' economies, there are widely ranging estimates of the size of the informal economy that is 5-10 percent of GDP in the UK and US, 30 percent in Italy and 50 percent in Russia (Gottdiener and Budd, 2005). One of the ILO research concludes that the size and contribution of the informal economy to trade is significant having the informal economy's share of total trade employment is 96 percent in India, 93 percent Indonesia and 73 percent in the Philippines, Bhowmik (2005).

In both developed and developing countries, the informal sector is connected to the formal sector of the national and global economy through subcontracting networks and commodity chains. For instance, street vendors sell goods such as cigarette, clothes, newspapers, electronic goods and other branded products obtained from the formal sector. Gottdiener and Budd (2005) in this regard add that around the world, formal sector firms cut labour costs by using home workers, sweatshops, and others in the informal sector that are devoid of the benefits or safeguards of formal employment.

In Africa, the informal economy is growing at a faster rate than the formal economy. The economy proves to be the major mechanism for economic growth and development. In most countries, the informal economy is the largest source of employment, investment and government revenue. This is because it offers the best opportunity for the upward mobility in lifeline of the poor people and their children, Brown (2005). Charmes (2000) argues that, the informal economy continues to grow as the bulk of new employment in recent years, particularly in developing countries and transition countries, has been in the informal economy. Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. Moreover, there is growing agreement that these activities are not declining, but continue to represent a resilient element of these economies.

1.1.2 Informal Employment

The informal sector currently accounts for over half the global employment, involving an estimated 1.8 billion people as compared to the 1.2 billion of the formal sector, (ILO, 2002). In developed countries, the informal economy is a main source of livelihood activity for poorer people, whereas in developing economies, the informal economy predominates for all but the richer, urban populations (International Institute for Environment and Development, 2011). The impressive growth of the informal economy and informal employment in modern societies, in particular the developing economies, have been widely studied and analyzed over the last ten years from a wide range of theoretical and empirical perspectives. Nevertheless, there is no general agreement regarding the causes and impact of labor informality or about the best public policies to deal with the problems and challenges it creates. Even the definitions of informal employment and of the informal sector are the subject of continuous discussion, (Bhowmik, 2005).

Some academicians and analysts define labor market informality in terms of the size and characteristics of the informal economy that comprises productive units and sharing specific characteristics, such as being small in scale, low level of organization, little or no

division between labor and capital, and labor relations that is based on casual employment, kinship, or personal and social relations rather than on contractual arrangements with formal guarantees. On the other hand, others prefer to focus on informal employment, which is defined in reference to characteristics of individual participants in the labor force (ILO, 2002).

According to ILO (2002), informal wage employment is comprised of employees of informal enterprises as well as various types of informal wage workers who work for formal enterprises, households, or who have no fixed employer. These include casual day laborers, domestic workers, industrial outworkers (notably home workers), undeclared workers, and part-time or temporary workers without secure contracts, worker benefits, or social protection. Also included among the informally employed do street vendors as well as self-employed individuals own microenterprises, their salaried employees and unpaid relatives. Domestic employees are also part of the informal labor market.

The concept of informal employment refers to the significant part of the global workforce that remains outside the world of full-time, stable, and protected jobs, *Women in Informal Employment: Globalizing and Organizing*(2007), regardless of whether they work in the formal or informal sector. The specific operationalization of informal employment utilized in this research includes elements from both “the informal sector” and “informal employment” perspectives and will be presented below.

In recent years, according to the ILO (2002), in developing countries, informal jobs have reached 50–75% of all nonagricultural employment. For Africa, the ILO estimates that, in 2002, nonagricultural informal jobs were 55% of the total employment. When including the agricultural sector, this figure rises to 62%. Given that the majority of jobs generated in since 2002 are within the informal labor market, today’s figures are actually higher. It should also be noted that developed economies could be having a significant informal economy, (ILO, 2002).

1.1.3 Unemployment Situation in Kenya

The performance of the Kenyan economy since independence has been mixed. In the post-independence era, Kenya transited from a high economic growth path in the 1960s (6.6 percent average annual growth over 1964-72) to a declining path (5.2 percent over 1974-79, 4.0 percent over 1980-1989, and 2.4 percent over 1990-2002). However, following the implementation of prudent policies spelt out in the Economic Recovery Strategy for Wealth and Employment Creation, the economy began to recover after 2002, registering 2.9 percent growth in 2003, 5.1 percent in 2004, 5.8 percent in 2005, 6.4 percent in 2006, and 7.0 percent in 2007. The GDP growth then dipped to 1.7 percent in 2008 and regained slightly to 2.9 percent in 2009, (IEA, 2010). The World Bank (2008), documents that it has been difficult for Kenya to attain and sustain a high economic growth rate. Whenever the country attained a relatively high economic growth rate, the same has not been sustained over time. The growth rates recorded and their non-sustainability are out-rightly incompatible with the at least 7 percent annual growth rates sustained over decades required for growth driven employment.

According to Omolo (2010), Kenya faces five key employment challenges, namely: high youth unemployment, rapidly growing labour force, under-employment, the problem of the working poor, and gender inequality in employment. Unemployment is highest within the age groups of 15-19 and 20-24 at about 25 per cent. This is largely explained by the inability of the country to register a high and sustained economic growth rate compatible with meaningful employment creation, (World Bank, 2008). According to the, (World Bank, 2008), meaningful GDP growth-targeted employment creation can only be achieved if an economy registers at least a 7 percent growth rate and sustains it over decades.

In the period 1990-2005, the country's average annual labour force growth was about 3.0 per cent, with the labour force standing at about 14.6 million in 2007, which was largely youthful, about 58 per cent being within the 15-34 years' age bracket. In 2006, unemployment rate was estimated at about 12.7 per cent, which was an improvement

over the 14.6 per cent recorded during the 1998/99 labour force survey. In the year 2011, the labour market recorded 520.1 thousand new jobs compared to 498.6 thousand new jobs in 2010, representing an increase of 4.7 per cent. Annual average nominal earnings increased by 5.3 per cent in 2011 while the real average earnings declined by 8.1 per cent due to inflation. In total, 74.2 thousand new jobs were created in the modern sector in 2011 compared to 61.3 thousand in 2010, contributing 14.3 per cent of total jobs created. Most of the modern sector jobs created were in building and construction, energy, tourism, Transport and financial services. The informal sector which constituted 80.8 per cent of total employment created an additional 445.9 thousand jobs. Urban unemployment has been consistently higher than rural unemployment, and in 2012 it stood at 19.9 per cent and 9.8 per cent respectively, (Economic Survey, 2012).

1.1.4 Informal Economy and Employment in Kenya

Among the most important challenges facing governments in developing countries, including Kenya, is the task of identifying development strategies that can generate new employment and income opportunities, and reduce under-employment and unemployment. The urgent need to create employment opportunities is underscored by the higher rate of labour force growth than population growth. Persistent slow economic growth, particularly in the public sector, has forced many people, notably school leavers and college graduates, into marginal activities in small-scale agriculture and the urban informal economy. In recent years, the economy has experienced transformations in their labour market structures resulting from such trends as globalization and economic restructuring, (Republic of Kenya, 2006).

Heightened liberalization and privatization processes have resulted to the states' failure to be the employer, leaving the private sector to take up this role. Unfortunately, however, the organized private sector has been unable to absorb the growing numbers of jobseekers, and the informal sector has stepped in to fill in the gap. The private sector 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. The informal economy has both activities which are associated with the formal sector as well as other activities which are considered purely as informal economic activities, (Meier and Rauch, 2000).

According to the comprehensive report of the World Bank (2006) on the Kenyan informal economy, housing, social services provision and slums, there is a tremendous increase in the activities and involvement of the population in the informal economy. This has been largely due to the privatization 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 cannot afford better housing. The tenants have no permanent or formal contracts with the landlords and face eviction anytime. 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 led by people with poor education tend 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 (World Bank, 2006).

The informal economy is quite large, estimated at 34.3% and accounting for 77% of employment statistics .Over 60% of those working in the informal sector are the youth, aged between 18-35 years, 50% being women, (Ouma et al, 2009). The First Small & Medium Enterprises, (SME of 1993, baseline survey revealed that there were approximately 910,000 SMEs employing up to 2 million people. The second SME baseline survey (1995), estimated the size of the SME sector at 708,000 enterprises employing up to 1.2 million people. Compared to the other sectors of the economy, the contribution of the SME sector to the country’s Gross Domestic Product (GDP) increased from 13.8% in 1993 to over 18% in 1999, (Sessional Paper No. 2 of 2005). Currently, it is estimated that the contribution to the GDP by this sector stands at over 25%, (Economic Survey, 2012).

Table: 1.1: Employment Trend in Kenya between 2001 - 2010

Year	Total Employment (Millions)	Proportion of Total (%)		Employment Growth (%)		Real GDP Growth (%)
		Formal	Informal	Formal	Informal	
2001	6.367	26.3	73.7	-1.06	11.22	1.2
2002	6.852	24.8	75.2	1.37	9.85	0.5
2003	7.330	23.6	76.4	1.65	8.73	2.9
2004	7.999	22.1	77.9	2.14	11.28	5.1
2005	8.505	21.3	78.7	2.66	7.36	5.7
2006	8.993	20.7	79.3	2.54	6.60	6.1
2007	9.479	20.1	79.9	2.80	6.08	7.1

2008	9.946	19.5	80.5	1.78	5.72	1.8
2009	10.479	20.7	79.3	1.80	5.88	5.4
2010	10.926	22.5	77.5	2.58	7.82	5.8

Source: IEA (2010) and KNBS (2012)

1.1.5 Relationship between Informal and Formal Economy

The informal economy consists of both self and wage employment. For some people, self employment in the informal economy is the primary source of income. However, income from self employment is sometimes combined with regular wage or salary employment, public benefits such as transfer payments, private investments or savings (Raijman, 2001)

Informal work arrangements can also be a strategy employed by large firms in economic restructuring in order to reduce costs and increase flexibility by shifting production to subcontractors. Informal work activities act as a buffer for the unemployed or provide an additional income in a low- wage labor market (Tienda and Raijman, 2000). For Ligthelm and Lamb, 2004, in Mpho A. N, 2010, p31 summarized the linkages between the informal and formal economy in the following ways;

1. The informal marketing chain. This is used by big firms in an effort to reduce costs associated with having sales department in a company. Thus what appears as disorganized street mass of vendors and merchants is actually a well coordinated activity by a group of middlemen dependent on formal firms
2. The informal supply chain. The informal workers serve as suppliers of inputs to formal firms through local traders and wholesalers
3. Sub-contracting arrangements particularly in construction and repair/maintenance services. Formal firms use informal workers in executing their contracts hence allowing formal firms to maintain a lean staffing structure

4. Manufacturing. Subcontracting in manufacturing relies on individuals defined as industrial outworkers and who are under the illusion of self employment. They actually work in the large firms

1.1.6 The Kamukunji Jua Kali cluster

Kamukunji Jua Kali ground is a collection of informal sector workers and is mapped the largest informal manufacturing site in Nairobi. The “Jua Kali” means “under the hot sun” in Kiswahili. It refers to the millions of Kenyans working in small businesses as artisans, mechanics, and vendors under trying conditions, even without shelter from the elements. Other than these, the jua kali workers face extreme vulnerability to ill health, economic dislocation, and natural disasters. This Jua kali sector encompasses small-scale entrepreneurs and workers who lack access to credit, property rights, training, and good working conditions. Their workshops and stands frequently lack electricity and running water. The health care facilities available to them are inadequate, especially for a population with a high percentage of HIV infection, King (2006).

Kamukunji Jua Kali cluster has several metal work sub-sectors. The first consists of business support services, which include scrap metal dealers, metal cutters and folders, gas and electrical welders, welding rod suppliers, polish and paint traders. The second sub-sector constitutes the metal engineering producers who make folding and pressing machines and other metal handling accessories for use within the cluster or elsewhere. Metal products manufacturers are the most important category and are classified on the basis of the products they make. They are classified as; Agriculture-chicken feeder, jembe, rake, fork jembe, chaff cutter and water cans, Building supplies-wheelbarrow, mattock, steel windows/doors, trolley, spade, gutters, rough cast and cross bars, Cooking-jikos, energy saving jikos, ovens, sufurias, food warmers, fry pans, cooking pots, chapati pans, deep friers, large stoves, barbecue grill, popcorn machines, kettle, potato cutters, cooking basins, baking tins, spoons, Domestic-tin laps, boilers, metal basins, parrifn beakers, buckets, parrot cage, Others-wheel alignment machine and storage boxes, (Kinyanjui, 2006).

Kinyanjui (2006) found that the cluster serves as a springboard of new entrepreneurs not only in the cluster but also in other parts of the country. Entry to the cluster depends on social networks and this determines the knowledge and technology networks in the cluster. Once in the cluster, the entrepreneurs are socialized on how to become jua kali entrepreneurs as well as join the jua kali learning society. The fraternity of jua kali learning society imbues on individuals the value for self-development, self-initiatives, hard work and co-existing together with other entrepreneurs despite being competitors. It is because of these values that low levels of education do not deter the entrepreneurs from being creative. In addition, the entrepreneurs conform to the heritage of doing business through interdependencies. The cluster is dominated by micro (1-3 workers) and small (4-10 workers) enterprises that are located close to each other with some even sharing the same shed. A shed can house as many as three different entrepreneurs, Kinyanjui (2005).

In 1994, the first micro-finance institution (K-Rep) was introduced to Kamukunji jua kali for financial support and later other microfinance institutions followed in the year 1996-97, such as Faulu Kenya. Quite a number of Jua Kali business people were much helped by these organizations.

Geographically, the Kamukunji Jua Kali enterprise cluster is situated to the east of the Nairobi Central District and occupies about 10 hectares. The ground's history started when the colonial government designated the area as a business centre for Africans. In the early days it evolved as part of the colonial urban policy that segregated space on the basis of race. Business activities carried out in the cluster were restricted to micro and small businesses that served African consumption patterns. Trade licenses were issued to businesses engaged in the sale of indigenous foodstuffs, repair and artisan manufacturing activities including the production of cooking pans and hand tools to meet African household demands. During this period, the cluster served as the economic nerve point for the burgeoning African settlements such as Majengo, Muthurwa, Burma and Shauri Moyo. It also served the needs of customers and traders from rural areas since it was

located in close proximity to Machakos Bus Station, which was the destination of all buses from the countryside, Kinyanjui (2005).

In the first two decades of independence, government support to the cluster was largely absent. Moreover, like most of the informal settlement, the Kamukunji Jua Kali cluster was subjected to harassment by city authorities to control its expansion. The city authorities used the health act to demolish buildings that were put up by the entrepreneurs in the site. The thinking among academics, planners and politicians during this period was that modernization and import substitution industrialization would replace the indigenous modes of production and business organizations. Policy targeted medium and large-scale firms rather than jua kali businesses. Unfortunately, modernization of jua kali clusters did not take place and indigenous forms of production and negative perception of jua kali businesses in such places as Kamukunji persists up to today. Notwithstanding, this exclusion from the official government policies, the jua kali economy in Kenya in general and Kamukunji in particular, has evolved over time, Kinyanjui (2005). At independence, there were less than 150 business units at the cluster which compares lowly with the current concentration of more than 7,000, (Kamukunji Jua Kali Association, 2012). This shift partly explains the increase in the informal sector from 44.3% in 1992 to 72.3% in 2001. Evidently, the labour market significantly shifted from the formal to the informal economy, confirming that the informal economy is a valuable alternative for retrenched formal economy employees as well as for youth entering the labour market.

1.2 Statement of the Problem

With the increased contribution of the informal economy to Kenya's employment compared to the modern economy and in order to accelerate sustainable economic growth as envisioned in Vision 2030, it was important that the informal economy was supported by the government and other key stakeholders so as to create productive employment. There were still numerous challenges facing the informal economy in terms of lack of supportive government policy, in appropriate financing mechanisms and lack of adequate

space for doing business among others which translated into impediments to labour productivity and employment creation. There was thus need to strengthen the informal economy in order to supplement the role of the formal economy.

Previous studies had explained differently on issues as far the informal economy was concerned in Kenya. Omolo (2010) attributes youth preference in the informal economy to lack of requisite knowledge and skills for the formal engagement, while Semboja (2005) established that many enterprises remain informal because the administrative procedures for business registration are too cumbersome, long-winded and/or costly. Okojie (2003) acknowledges that inequity among Kenyan women and men provided a direct leeway to engaging in informal economic activities. These studies only provided details on reasons of entry into the informal economy and hardly explained informal employment creation. Based on this gap, this study was set out in order to generate a comprehensive picture on the country's commitment to Vision 2030 through employment creation.

1.3 Research Objectives

The general objective of the study was to analyze the impact of urban informal economy on employment creation using the case of the Kamukunji jua kali artisans in Nairobi.

Specifically, the study sought to:

- (i) Examine government policy approach to urban informal economy and subsequent impact on employment creation;
- (ii) Explore the extent to which external stakeholders' intervention in the informal economy influence employment creation;
- (iii) Analyze incentives inherent in the urban informal economy and their influence on employment creation; and
- (iv) Establish extent of skill diversity in the informal economy and how it contributes to employment creation.

1.5 Significance of the Study

The problem of unemployment in Kenya made the informal economy a very important segment to be discussed. While the government formulated and implemented policies to support employment creation and absorbed most of the labor force, in most cases this did not take into account the need to gather information about the contribution of the informal economy in urban areas. Understanding the holistic determinants of the informal economy through this study could thus give a clear pointer of what needed to be done to support the economy. It would also enhance better policy formulation/design and implementation. Students and scholars interested in studying and understanding the informal economy would find the results and findings of this study valuable. In addition, the study findings about the impact of urban informal economy in employment creation would be useful to policy makers, scholars, students and other interested stakeholders in understanding the dynamics of the urban informal economy. Also, this would be indispensable to labor statisticians and economists interested in labor welfare policy making and national accountants for accurate statistics and policy generation.

1.6 The scope of the Study

The study was intended to establish the correlation between the urban informal economy and sustainable employment using a purposively selected case of the Kamukunji *Jua Kali* cluster, situated 5km to the East of Nairobi city. The 600 registered artisans at the grounds specialized in labour-intensive manufacturing of commonly used metal products such as boxes, wheelbarrows, jikos, gutters, and washing basins. Using primary data from the artisans/unit owners and selected stakeholders, the study focused specifically on the impact of government policy, stakeholder participation, informal economy incentives, and skill diversity on employment creation within the informal economy context.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents reviewed literature on the study's thematic and related areas. The critical areas considered include relationship between informal economy and employment, impact of informal economy, theoretical literature, and empirical literature.

2.2 Theoretical Literature

2.2.1 Underlying Theory: Structuralism Theory of Informal Economy

There are various studies that confirm the persistence and growing tendency of informality in many countries and other developing countries (ILO, 2008). Scholars have subsequently developed different theorizations on the existence of informality in developing economies. These include modernization, dependency, neo-liberalism, and structuralism. This study is, however, based on the structuralism theory of informal economy.

Structuralists insist that informality is not simply the result of excess labour supply, or over-regulation. Instead, the central element of the structuralism approach is its insistence that informality is in essence an alternate form of labour utilization (and often exploitation) by capital. Maloney (2004) succinctly stated that informal labour relations (like informal workers) are not “just there” by some accident or flaw in capitalist development. Instead, these relations (and workers) are actively “informalized” by capital under the logic of peripheral capitalist accumulation. Arguing along the same line was Rakowski (2004) that the “novelty” of the informal sector is largely illusory. What is new in the production process is not informality, but formal labour relations themselves. Labour relations in the late 19th century were characterized by paltry or nonexistent protections and benefits for workers. Informality only came into existence as a distinct category in the production process after its antithesis, the formal, relatively protected worker, was created through years of struggle by labour unions. What is a “new”

phenomenon is the active recreation and intensive utilization of informal labour relations by formal capitalist firms. This is identified by structuralists as a novel strategy in the economic restructuring of global capitalism in reaction to the structural crisis that began in the early 1970s.

The structuralists made two main contributions to the informal economy discourse. First, the informal economy's function according to Castells et al, (2003) is to support capitalist structure, which is supported by globalization, to maintain market competitiveness as producers strive to reduce production costs, especially wages. For example, he stated that research on Guatemala shows how several US clothing companies provide local contractors with cloth, design patterns and occasionally with loans, but with no social security. These informal contractors use the manual labour of Indian women who sew for wages, which are significantly below the market price. Similar case studies on different industrial sectors reveal that subcontracted informal activities are concealed in official formal sector documents.

A second major contribution by the structuralists Roberts (2006) and Centeno et al, (2003) is a multiplicity of reasons why the informal economy is growing and crucial for development. The informal economy employs and retains a higher number of workers than the formal economy because individual's rational utility of income is higher in the informal economy since there is a huge market of cheaper and available goods and services. In addition, most firms also employ informal labor to reduce costs as compared to employing formal labour. As the development of globalization takes place in developing countries, outsourcing in the informal sector creates a highly dynamic source of informal producers who take advantage of growing demand of their labour (e.g., in the textile, and shoe making industries). A critical shortcoming of this theory is that while industrial subcontracting is a central feature of informal activity, it is a comparatively insignificant feature of informal activity in developing countries (Aeroe, 2002). The common feature in African informality is what Capechi (2008) refers to as the

‘subsistence’ informal economy in which economic actors are occupied on informal means of income generation.

2.2.2 Government Policy Approach to Informal Economy

According to UNCHS-HABITAT (2009), the year 2008 saw over half of the world’s population living in urban areas creating a basis for government policies. In addition, current projections estimate it to rise to 70% by 2050 with almost all the growth taking place in developing regions. Kessides (2006) argues that the outcome of increased urbanization has been, and increases to be, a fundamental change in the socio-economic environment of human activities, as it involves new forms of employment, economic activity and lifestyle. In many economies across the world over time, the level of urban growth is strongly correlated to the level of economic development, but the annual growth rates of each are not closely linked since the growth of urban areas often proceeds apace even in periods of economic meltdown (Fay and Opal, 2000).

One defining feature though is that increasing poverty levels in the developing countries and environmental challenge continue to affect urbanization whose transition cannot be halted or indeed reversed. But in the face of the emerging economic challenges based on increasing urbanization, informal economy continues to stand tall (Kessides, 2006). Despite the lack of a proper definition, the urban informal economy accounts for a big part of urban employment (20-60%) in many primal cities in the developing world. It offers various outputs and services to the formal sector, sometimes through sub-contracting arrangements and also to the general population (Fukuchi, 1998). Despite the constant regulatory neglect of the informal economy, its contribution to development is fast increasing. Specifically, the dominant story of production and growth in Africa, as in many low income developing and transition region is in the informal economy (Kessides, 2006)

Owing to its diverse advantages, regulation of the informal economy is necessary not only for the purposes of raising tax revenues, but also for ensuring compliance with

minimum labour, health, environmental and product quality standards. However, where regulation is excessive and inadequately enforced, it will effectively increase the cost of entry and operation, and contribute to the growth of the informal economy (Bannock et al., 2003). Chen (2007) provides that policy focus in the formal economy has overshadowed the informal economy. The absence of clear policies has relegated the informal economy to fragile working environments and competitive disadvantage vis-a-vis larger formal firms in capital and product markets.

UNHSP-HABITAT (2006) present that the informal economy can hardly be ignored in Kenya: 61 percent of the 14-million labour force work in non-agricultural employment, while 35 percent of urban and 59 percent of rural households respectively are involved in small businesses. Whether rural or urban, the informal economy is comprised of MSEs which produce and distribute basic goods and services in unregulated competitive markets that lie outside the regulatory framework of either national or municipal government. This economy is a permanent fixture of the country's development and is as old as Kenya's independence, although it continues to experience all sorts of challenges. This is due to lack of effective policy implementation and, ultimately, of appreciation by policy-makers of the role this informal economy continues to play in job creation, poverty alleviation and economic growth. Existing legislation does not effectively address the problems of Kenya's informal economy, largely for lack of political will and serious commitment by policy-makers (UNHSP-HABITAT, 2006).

In the city of Nairobi, Ouma (2010) found that informal trading activities have not been incorporated adequately in the land use framework of the city. Traders trade from insecure contested spaces. In many occasions, the trading spaces utilized by informal traders lack adequate infrastructure facilities, and are often inadequate to accommodate the high demand from traders. A major problem associated with informal activities is the conflict of use of space, between these activities and designated uses, which largely results from lack of regulation. These include encroaching on the road reserves, cemeteries etc. The resultant developments reflect a state of fear for these people as to

when, not if, they will be evicted. This has made the traders to construct make-shift structures that are poorly serviced, aesthetically unfriendly and environmentally unstable, from where they cannot reap the maximum economic benefits of their trade. The thinking behind this is the fact that, some city dwellers look these structures where the informal enterprises operate as a nuisance, and therefore do not need to be associated with them (Ouma, 2010).

2.2.3 External Stakeholders Intervene in Informal Economy

The dynamics of globalization and trade liberalization has resulted into new opportunities as well as challenges for informal economy. Currently, only a small part of the economy is able to identify and exploit these opportunities and deal with these challenges. The majority of business people in developing and transition economies, however, have been unable to exploit the benefits of globalization and, to add to the situation, they are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition. The main goal of promoting the development of the informal economy is therefore to better meet the challenges of globalization and to benefit from its opportunities (Adams et al., 2007).

Becker (2004) views the informal economy as too constrained by non-competitiveness, limited access to finance, cumbersome bureaucratic procedures in setting up, operating and growing a business, poor state of infrastructure and lack of effective institutional structures. The elimination of these constraints is a huge task that, calls for holistic support from institutions such as government, financial institutions, Non-Governmental Organization (NGOs), and the private sector so as to create an enabling environment for the development of the informal economy. Entrepreneurs in the informal economy must be in a position to respond quickly and efficiently to international market signals in-order to take advantage of trade and investment opportunities and reap the benefits of the international trading system. This implies that, they need to be competitive and productive (Becker, 2004). Hussmanns (2004) concurs that development of an effective business support system is also a key condition for the success of both trade and

investment capacity building. It requires business support agencies which are customer-oriented and which have a demonstrated capability of penetrating this segment of the economy.

Obviously, policy coherence and a joined-up government on the transition and developing country side are essential for the successful implementation of informal economy development strategies. Development partners need also to understand that trade and investment capacity building has to go hand in hand with market access and that improved coordination among donors, better attention to local conditions and further capacity building on their side are building blocks to success, if the world is going to adopt new approaches and invent new ways of working together to foster competitiveness of the informal economy in transition and developing countries (Becker, 2004).

Implementation of an informal economic growth/development strategy needs the participation and collaboration of numerous stakeholders. Getting the fundamentals right in the legal, regulatory and administrative frameworks have the greatest impact on informal economy development in most contexts. Without proper administrative capacities, especially at local levels, where the entrepreneurs have their contact with the improved frameworks, it would be difficult to achieve the intended results. Therefore, more and additional donor resources should be channeled to capacity building for implementation at central and local levels (Roubaud and Merielle, 2007). In addition, functioning public-private dialogue mechanisms contribute a great deal to trust and consensus building among stakeholders, as well as ownership. Although so useful, it is difficult to build such relationships; they take time. Therefore, unrealistically tight schedules are bound to fail and cause discouragement all around. Having both national and international facilitators to backstop these processes, and facilitating study visits abroad to observe both “good” and “not-so-good” practices usually add value to the process (Niser, 2007).

Partnership to informal economic development is not an answer to all the challenges, and due to significant amounts of institution/capacity building involved, it is a long term and

costly investment. Unless sufficient resources are allowed, expected results will not be achieved. Furthermore, supply side capacity building should go hand in hand with market access (Becker, 2004). According to Haan (2006), churches and international agencies play an important role in this capacity along with national and local community-based organizations. NGOs include local branches of strong international NGOs and national NGOs with wide coverage and smaller community-based organizations (Haan, 2006).

2.2.4 Incentives Inherent in Urban Informal Economy

As per the conventional model of labour markets, informal employment is as a result of labor market segmentation which implies that those working informally do so against their will. This implies, given the chance, they would have preferred to be in formal employment. New evidence, however, suggests that a share of informal employment is voluntarily chosen and may offer specific benefits and opportunities to certain individuals. In particular, depending on their characteristics, some individuals may have a comparative advantage to work in the informal economy. Moreover, many individuals and households may engage in innovative combinations of informal and formal work as risk-coping and income generating strategies (Günther and Launov, 2006). In addition, Perry et al. (2007) allude that the conventional way of thinking about informal employment does not seem to fit the emerging evidence and a revised, more complex model, is needed.

Depending on the availability of the job, workers choose the sector and type of employment in which they are able to maximize their utility. This utility depends on the individuals' characteristics and their preferences, where preferences can be broadly defined to include both monetary and non monetary aspects of work. In fact, pay and job security, although they are important determinants of utility, are not the only ones. Other factors such as autonomy, flexibility, working hours, distance to work and opportunities offered in the informal economy also determine job satisfaction and may lead workers to choose informal employment (Saavedra and Chong, 1999). Overall, as in developed

countries, well-being considerations may be very important in shaping employment strategies and individual choices (Mulinge and Mueller, 1998).

Individual preferences with regard to pay and non monetary job characteristics vary in important ways and are often shaped by family constraints as well as individual tastes (Maloney 1999). A review by Perry et al. (2007) sees the informal economy as the one where workers are self selected voluntarily because of the various benefits and advantages that it can offer, or because of the comparative advantage they may have in informal employment. According to this view workers weigh the costs and benefits from working informally versus working in the formal economy and choose the first based on their characteristics and preferences. However, individuals who are voluntarily informal, are not necessarily well off or not poor. Their choice of informality over formal work reveals that, for some reason, they are better off in that position. Maloney (2004) uses data from Latin American countries and provides evidence that about 60 per cent of people in informal self-employment left their previous jobs and engaged in self-employment in a voluntary manner. However, it is important to note that not all people in the informal economy are there by choice. Many are found in informal employment because this is their only chance of a paid job. These people are often excluded from all types of social protection and are also over represented among the poor (Malony, 2004).

Literature in developing countries reveals some contrasting features of informal workers. Women are over-represented in the informal labour market, both as salaried workers and self-employed. This may be linked to the limited opportunities women in some countries have or, for example, to the downsizing, in many countries, of public employment, which traditionally has been the main destination of women in the labour market (Maloney 2004). On top of that, and in line with premise that non-pecuniary job characteristics matter, it may be that women value the flexibility and autonomy that informal work offers as it allows them to combine more easily work and family responsibilities (Cunningham, 2001).

Perry et al. (2007) shows that single women are the most likely group to be in formal employment relative to married women and men. However, among married women, those with more young children are more likely to be self-employed in the informal economy, which also suggests a link between family responsibilities and the choice of informal work, in particular self-employment. Maloney (2004) shows evidence from Argentina, Mexico, Costa Rica and Brazil that women with young children are more likely to be self-employed than formal sector employees. Household composition seems to play an important role in choosing the informal sector. Gonzalez de la Rocha and Gantt (1995) show that heads of young families are more likely to be in manufacturing (formal sector) whereas heads of older families can move to riskier but better rewarded jobs as other household members can hedge against risk.

Young workers are mostly found to work as informal paid workers. This is especially true for the less educated ones who have no chance of getting a job in the formal economy. Older workers are often self-employed in the informal economy. They may be more willing to switch to the informal economy as the trade-offs may be less difficult for them. For example, heads of older households, with sons and daughters already working in the formal economy may have to worry less about the benefits of formal coverage, as their children's coverage is often extended to the entire family. The picture in the formal economy is quite mixed, with both young and middle aged individuals working informally (Saavedra and Chong, 1999).

2.2.5 Skill Diversity in Informal Economy

Informal employment refers to many different types of workers and activities, ranging from marginal self-employed own-account workers, to well-off entrepreneurs who employ others, and from informal employees of informal or formal firms to contributing family workers. The diversity in the informal economy is also apparent when one looks at the phenomenon of multiple job-holding. In particular, for some people an informal job is the only source of income, while for other informal work can be a complement to formal

job earnings. In such a case, most people combine both formal job and business with a small informal business or informal wage work (Chen, 2007).

Studies show that a non-negligible share of the labour force over time moves between the formal and informal sectors and unemployment, and the other way around. This phenomenon is often studied in relationship to business cycles. From the economic theory, there is a prediction in the movement of workers into informal employment in times of recession, and a decrease once the economy recovers and formal employment picks up (Bosch and Maloney, 2006). Although most evidence indeed shows a growth of informal employment when the economy contracts/shrinks, there is also surprising evidence of movements to the informal economy during booms. In such a case, tight labour markets lead workers to look for better jobs and to take the risk of starting a (informal) business and for some this means a move into informal employment, mainly as self-employed. Indeed, these moves from formal to informal self-employment can very well go hand in hand with increases in earnings (Packard, 2007).

Education is an important factor determining selection into formal or informal employment. Individuals with no, or minimum education are mostly informal wage employees. Some of the highly educated find formal employment whereas others become self-employed in the informal economy (Packard, 2007). This last group may be choosing to move to informal business for various reasons that we will discuss later. The evidence on age, education and other individual and household characteristics supports the idea of a life cycle model at the individual level. Individuals start with some years of work in the formal economy or the informal economy (as wage workers), until they accumulate the necessary physical and human capital to move to the informal economy (Maloney, 2004). This idea is indeed consistent with the finding that older and middle-aged individuals constitute the majority of self-employed in the informal economy. On the other side, young workers, who have the necessary human capital, get a formal job. However, for unskilled and disadvantaged young individuals, the main entry point into the labour market remains an informal job. They stay there, often changing employers, until they

accumulate the necessary savings, and possibly human capital, to move to self-employment (Packard, 2007).

2.3 Relationship between Informal Economy and Employment

The meaning of informality in economic context has been subject to competing views, numerous debates and frequent transformations in recent decades. According to Schneider and Enste (2000), informal activity is defined as all economic activities in unregistered enterprises that contribute to gross national product (GNP). Others measure informality according to the location of the activity (such as home-based, street-based) or the level of organization. Still others have defined informal workers as those who do not benefit from social security (such as health insurance) and are not protected by labour regulation (like hiring and firing regulation, minimum wage) (WTO, 2009).

The ILO (2009) describes informal economy as all remunerative work – both self employment and wage employment – that is not recognized, regulated or protected by existing legal or regulatory frameworks and non-remunerative work undertaken in an income-producing enterprise. By this criterion, the informal economy includes informal employment in informal enterprises (including employers, employees, own-account operators and unpaid family workers) and informal employment in formal enterprises (including domestic workers, casual or day laborers, temporary or part-time workers, industrial outworkers and unregistered or undeclared workers).

It important to take note that, the informal economy comprises a variety of workers. Whereas ILO takes a dualist approach in distinguishing employment either as formal or informal, other scholars assert that more refined segmentations are needed. For instance, Fields (2009) draws the distinction between two different forms of informal employment: free entry, low-wage employment that is less desirable than formal economy employment; and limited entry, high-wage employment that is more desirable than formal economy employment. The second category refers to workers with enough human

and financial capital to leave the formal sector and set up a small freelance business (such as a repairmen or a small manufacturer).

Another classification of employment commonly referred to in the literature is a model developed by WIEGO. Similar to Fields' approach, the WIEGO framework recognizes heterogeneity within the informal economy. Accordingly, informal employment is broken down across a spectrum according to the type and degree of economic risk (of losing job and/or earnings) and authority (over establishment and other workers) (Chen, 2007).

2.5 Empirical Literature

The high levels of unemployment in the modern/formal economy were seen as the most important causes of informal sector employment growth in both developed and developing economies (Pradhan and Van Soest, 1995). As the number of more skilled workers in the formal sector increases, some firms switch to "skill-biased" technology, and employ only skilled workers, thus increasing the skill premium. This skill biased technology has left much unskilled labour force with no job as a result of retrenchment from the formal sectors. Unlike formal economy employment, the growth of informal sector employment is largely due to productivity not being dependent on a match between jobs and skills available. The analysis by education status advocates that people with no basic education are the ones affected by unemployment (Chandra and Nganou, 2001). However, many skilled workers have been pushed into taking relatively inferior jobs in the informal sector as a result of shrinking formal employment. Pradhan and Van Soest (1995) further noted that, the informal sector is viewed as an intermediary sector between not working (being unemployed) and the formal sector. They concluded that, the informal sector employment acts as an economic shield while a person is unemployed or such person may earn supplementary wages in the informal economy.

When the informal economy phenomenon was accepted and broadly investigated, more and more empirical work appeared. This empirical work has used several methods to measure the informal economy, which is dependent on the way this economy is defined.

Starting with Packard (2007), it was found and concluded that education is an important factor determining selection into formal or informal employment. Individuals with no, or minimum education are mostly informal wage employees. Some of the highly educated find formal employment whereas others become self-employed in the informal sector.

The evidence on age, education and other individual and household characteristics supports the idea of a life cycle model at the individual level. Individuals start with some years of work in the formal sector or the informal sector (as wage workers), until they accumulate the necessary physical and human capital to move to the informal sector (Packard 2007). This idea is indeed consistent with the finding that older and middle-aged individuals constitute the majority of self-employed in the informal sector. On the other side, young workers, who have the necessary human capital, get a formal job. However, for unskilled and disadvantaged young individuals, the main entry point into the labour market remains an informal job. They stay there, often changing employers, until they accumulate the necessary savings, and possibly human capital, to move to self-employment (Maloney 2004).

Inefficiencies in the formal economy protection and low levels of labour productivity may make informal employment a better option for some people (Perry *et al* 2007). Evidence from Mexico (Maloney, 2004) shows that movement from self-employment or contract work into formal salaried employment is associated with a decline in wages whereas movement from formal salaried to self-employment or contract work leads to a significant increase. Furthermore, movement from formal salaried and informal salaried work into self employment is associated with a substantial and significant increase in wages. Individuals working in the informal sector benefit from flexibility in terms of working hours and in some cases choice of work location. This aspect may be especially valued by women with children who need to combine work and family (Cunningham, 2001). Working from home may be very interesting for women in some countries when their physical mobility is constrained by social norms (World Bank, 2004).

Friedman et al. (2000) suggests that the unofficial economy tends to be larger, not where taxes are higher, but in countries where the regulatory burden is higher, corruption is more wide-spread, and where the rule of law is weaker. Loayza et al. (2005) use a sample of about 70 countries to analyze the effect of business regulation and the quality of governance on economic growth and the size of the informal economy. They find that the level of business regulation is, on its own, correlated positively with informality. But when quality of governance is interacted with the level of regulation, regulation is instead negatively related with informality.

Torgler and Schneider (2009) extend the empirical literature on institutional determinants of informality by adding tax morale to the set of explanatory factors for cross-country variation in informality. Besides showing that various indicators of good governance relate negatively to the size of the shadow economy, they also show that the willingness among citizens to pay taxes is related negatively with the size of the shadow economy. Chaudhuri et al. (2006) study the development of the shadow economy in 14 major states of India over two decades. They find evidence that the expansion of the shadow economy has been less pronounced in states where the press is relatively free and independent where the economy is more liberalized.

At the micro level, few studies analyze the effect of institutional factors on the propensity of workers or businesses to participate in the informal economy. Empirical studies at the micro level otherwise tend to be concerned primarily with worker characteristics as explanatory factors of informal employment. These studies generally conclude that the probability of working in the informal economy decreases with human capital endowment measured by years of education, job tenure, and experience (Gong et al., 2004).

Manyara (2008), in his study on rural-urban migration and urban unemployment in Kenya, concluded that the intermediate sector of the informal economy and not the community of the poor play a vital role in the economy because of its development

potential. This conclusion was reached after hypothesizing that the informal economy incorporates two different groups of people in terms of attitudes and motivation. The “community” of the “poor” consists of those engaged in formal economy jobs. The other lot includes those who have made up their mind to invest energy and other resources in enterprise development and have rejected formal wage employment.

Ngethe and Ndua (1987), in their paper in rural informal economy in Kenya, argued that, the informal economic activities are a consequence of the inability of the modern economy to provide gainful and productive employment opportunities for the urban workforce, a labor force that is increasing daily due to influx of rural migrants. They concluded that, the informal economy has low potential of employment creation in Kenya. However, Wangui (2001) in determining the contribution of the informal economy found out that the segment plays a significant contribution in employment creation in the City of Nairobi. From the study she found out that, the informal economy plays a significant role of contributing to creation of employment in the city. She used the following model in analyzing the results of the study. From the theoretical literature, relevant factors/variables includes; experiences in the informal economy in years, number of years of formal education, informal trainings, business management practices, income, sex and family size.

$$L=F(EX, ED, ITR, BMP, Y, S, FS)$$

Where L-Employment by informal sector

EX- Relevant experience in years

ED- Education level

ITR- Informal sector training

BMP- Business management practices

Y- Income level

S- Sex

FS- Family size

Thus the model is formulated as;

$$L = \beta_0 + \beta_1 EX + \beta_2 ED + \beta_3 ITR + \beta_4 BMP + \beta_5 Y + \beta_6 S + \beta_7 FS + \epsilon$$

β_i 's are parameters to be estimated. In this specification, the coefficient of the variable measuring years of schooling can be interpreted as the private rate of return to schooling. It provides an estimate of the percentage increase in income due to one year's increase in schooling. β_3 , the coefficient of experience is expected having negative sign to prove the concavity of the experience-earnings profile. The dummy variable for on the job training assumes a value of zero for yes and one for no. Later, the interaction term has also been included in earnings functions

2.6 Overview of Empirical Literature

The importance of the informal economy has been increasingly realized in recent years and various aspects of the activities studied around the world probably because it became clear that the formal (modern) economy employment was structurally incapable of absorbing all job seekers. While Wangui (2001) acknowledged that informal sector in Kenya was the leading employment destination, her study did not feature variables related to government policy and stakeholder involvement. Notably, however, dearth of formal employment was emphasized as the leading incentive to entry. Obviously, this ignored another cluster of investors who willingly ventured in the economy.

In terms of employment which is one of the major problem areas of developing economies, the contribution of micro-enterprises in the informal economy of the Third World is impressive. It is therefore necessary to continue creating awareness of the potential of the economy, especially in the role of helping to reduce the problem of unemployment. The unemployment situation would indeed be very explosive without the economy. It therefore deserves to be accorded recognition by economic and political decision makers. However, Ngethe and Ndua (1997) acknowledged that the economy had been a neglected sector with very little attention and government assistance.

Apart from its employment role, the informal economy provides numerous products and services it generates which form the major supply base for consumption especially to the poor majority of the population, at relatively cheap prices. It is also a major raw material supplier to the formal economy such as finished and intermediate products like furniture, and metal wares. The future lies in consciously strengthening the informal economy particularly through modernizing its management modes and techniques. Despite all these, Starting with Packard (2007) decry dearth of policy intent by policy-makers especially in developing countries. This negates the efforts towards recognizing the vital role of the informal economy as a mainspring of vitality and diversity in the urban economy; as a leading provider of jobs for first-time job seekers, low-skill workers and migrants from the rural areas; as a proving ground for entrepreneurial talent and as a source of skill development. Wangui (2001) also found glaring gaps on how the Kenyan government documented and made use of benefits of informality towards employment creation. There was an observed scanty emphasis from the government in encouraging the youth to venture in informal undertakings.

There is thus need to start providing this economy with necessary support by carrying out further and more comprehensive studies of the economic segment and by mapping out ways and means of enhancing the growth prospects of the informal economy within the context of the national planning effort. For instance, the economy should be considered for stable regulatory framework, inclusion as the recipients of credits, technology, innovations, workshops and equipment under a special government sponsored rehabilitation scheme to compensate it for the many years of total neglect in spite of its usefulness to the third world economies. Despite the aforementioned gaps and significance that the informal economy has empirically played in the Kenyan job market, none of the existing scholarly pieces has wholly covered on the four objective areas this study was designed to examine. By having undertaken this study, additional literature materials for future referencing has been availed for easy comparative studies and basis for advanced investigations.

2.7 Operational Framework

The study will be operationalized using indicators as summarized in Fig.2.1, showing a functional relationship between the study variables.

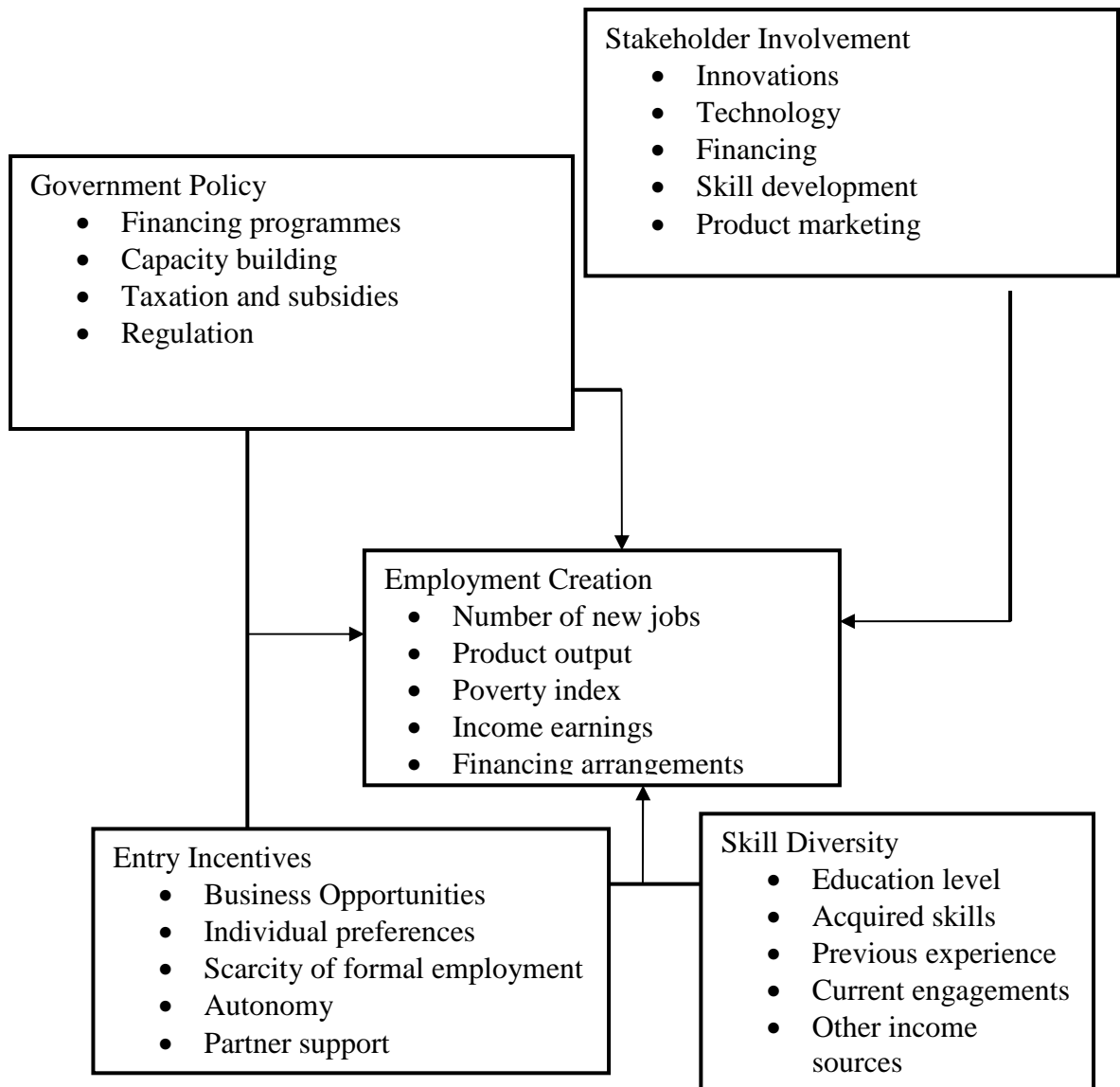


Fig.2.1: Operational Framework
Source: Self-Conceptualization

In examining the impact of government policy approach to informal economy on employment creation, the study was to measure the relevant agency's involvement in financing, capacity building, taxation and provision of subsidies, and adopted regulatory framework. Stakeholders' involvement and extent of influence on employment will be determined by new innovations, technologies, financing and Sub-contracting, skill development, and marketing of products. Regarding incentives to informal economy entry, business opportunities, individual preferences, autonomy, scarcity of formal employment, and partner supports was used as study indicators. Finally, skill diversity objective was achieved by using indicators such as the level of education, skills attained, previous experience, current engagements in the informal economy, and other income sources. The dependent variable (employment creation) was quantified using annual new jobs created, output capacity, income earnings and poverty index in the Kamukunji neighborhood.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the research methodology to be adopted in meeting intended study objectives. In particular, it identifies the research design, target population, sampling procedure, research instruments, research validity and reliability, and data analysis.

3.2 Research Design

The study adopted a descriptive research design which, according to Yin (2003), is structured to examine a number of logical sub-units or units of analysis. Morris and Wood (2001) acknowledge the importance of descriptive design especially when the intent is gaining broader understanding of the context of the research and processes being enacted. Moreover, they argue that the design has considerable ability to generate answers to the questions of ‘why?’ as well as ‘what?’ and ‘how?’ questions.

3.3 Target Population

The study targeted all the 600 registered metal *Jua Kali* artisans at the Kamukunji grounds, 5km East of Nairobi city. From each registered jua kali entity, only the owner or the individual (putative head) charged with day-to-day shed operations were identified as respondents for the study. Other than this primary cluster, the study also relied on four key informants drawn from the Kamukunji *Jua Kali* association, and the coordinator of informal manufacturing in the Ministry of Trade and Industrialization.

3.4 Sampling Procedure

Due to impracticability of covering the entire target and accessible population, the researcher administered instruments on sample units which were objectively constituted. The choice of sample size for this study was governed by the level of certainty that the characteristics of the data collected represented the characteristics of the total population;

the accuracy required for estimates made from the sample; the types of analyses to be undertaken; and the size of the total population from which the sample was being drawn.

The model, $n_a = (n \times 100)/re\%$, advocated by Saunder, Lewis and Thornhill (2007), was used to estimate the actual sample size for the study, where:

- n_a - the actual sample size
- n - the minimum estimated sample size
- $re\%$ - the estimated response rate expressed as a percentage.

Bell (2005) advises that a minimum number equivalent to a tenth of entire population for statistical analyzes provides a useful rule of thumb for each study category. Based on this, and with an estimated 75% response rate the actual sample size was obtained as:

$$n_a = \{(1/10 \times 600) \times 100\}/75$$

80 respondents

This sample size ascertained its rationale also from Hatch and Lazaraton (1991) who give a basic requirement that a sample should include 30 or more people. This is because this sample size gives adequate degree of freedom to make inferences

Respondent inclusion to the sample was determined by simple random sampling on the basis of registered artisans which was obtained from the office of the Kamukunji *Jua Kali* Association.

3.5 Research Instruments

The study incorporated merits of secondary data to form a basis for comparison with findings and as a building block to meeting research objectives. The secondary piece was ascertained by desk review. According to Robson (2002), desk review technique involves critical assessment of documentations without necessarily or if need be prior to going to the field of study. Three subgroups of secondary data as classified by Robson (2002)

were adopted during the review. These were documentary data, survey-based data, and those compiled from multiple sources.

The primary data were obtained using questionnaires. According to Dillman (2000), within business and management research, the greatest use of questionnaires is made in the survey strategy. This is because each person (respondent) is asked to respond to the same set of questions and it provides an efficient way of collecting responses from a large sample prior to quantitative analysis. On the other hand, Saunders, Lewis and Thornhill (2007), who define an interview as a purposeful discussion between two or more people, inform that use of interviews can help a study to gather valid and reliable data that are relevant to research question(s) and objectives. They recommend interviews on the basis of their in-depth understanding of situations and quality of output through real-time clarifications. Based on this, the study used the questionnaires with predetermined and standardized or identical set of questions but only for the Association and Ministry official.

3.5 Reliability and Validity of the Instruments

Dornyei (2003) argues that research instruments are measurement devices that must possess adequate reliability and validity. He defines reliability of an instrument as the extent to which scores on the instrument are free from errors of measurement, while validity is the extent to which an instrument measures what it has been actually designed to measure. Further, he identifies pre-testing as one comprehensive procedure towards enhancing instrument validity and reliability. This underlies the intent of this study to conducting a rigorous instrument validation exercise through pre-testing. The pilot units, equivalent to one-tenth of the proposed sample size, were obtained from comparable members of the population from which the sample for the full study was taken. This size was informed by Mugenda & Mugenda (1999) who regard the proportion as sufficient for pilot testing.

3.6 Model Specification and tests

From the literature review, a number of factors have been identified as being responsible for influencing creation of employment in the informal economy. In this study, the following factors were considered: government policy, stakeholder participation, skills diversity, and incentives to entry into the informal economy.

The researcher developed own conceptualization model in studying the influence of the above mentioned variables on employment creation in the informal economy. The study utilized the OLS model in estimating the variables.

The basic econometric model is described as;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \dots + \beta_n X_n + \epsilon$$

Where;

Y	Employment creation in the informal economy
$X_1 \dots X_n$	Variables to be tested
β_{is}	Coefficients of X_{is}

Thus the above model will take the form of the following equation in estimating the above aforementioned variables.

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \mu$$

Y	Employment creation in the informal economy being measured as Number of workers in the informal economy/Total Labour Force
β_0	Constant term
x_1	Government Policy Approach
x_2	Stakeholder Participation
x_3	Informal Economy Incentives
x_4	Skill Diversity and

μ Is the error term, covering other determinants not specified in the model

The $\beta_1, \beta_2, \beta_3$, and β_4 are coefficients of x_1, x_2, x_3 , and x_4 respectively

Then t-test was used to test whether the coefficients were statistically significant. The *t*-tests for the variables were to confirm the level of impact of the independent variables on the independent variable

3.7 Research Hypotheses

The study's objectives were attained based on the following pairs of hypotheses:

- (i) H_0 : The Kenyan government policy approach to informal economic activities has no significant impact on employment creation;
 H_A : The Kenyan government's policy approach to informal economic activities positive influences employment creation.
- (ii) H_0 : Interventions from external stakeholders into the informal economy has no significant influence on employment creation;
 H_A : Interventions from external stakeholders into the informal economy induce employment creation.
- (iii) H_0 : There are no significant incentives inherent in the informal economy to influence employment creation;
 H_A : Incentives inherent in the informal economy leads to fewer employment opportunities compared to increasing labour supply.
- (iv) H_0 : Diversity of skills in the informal economy does not significantly influence employment creation;
 H_A : Diversity of skills in the informal sector positively influences employment creation.

Table 3.1 presents the expected signs of the estimated coefficients.

Table 3.1: Expected signs of the Estimated Coefficients

Variable	Predicted sign(s)
Government policy	+/-
External stakeholders participation	+
Incentives for participation	+
Skills diversity	+

From the economic theory, the expected sign(s) between employment and **government policy** is either negative/positive (-/+). This is because; good government policies will encourage integration of the formal and informal economies for better growth and creation of sustainable and productive employment. However, with no policy framework in place or inappropriate policies, there are always precarious jobs created in the informal economy. **Skills diversity** increases chances of getting jobs in various informal economic activities. This has a positive bearing on employment creation, as skills diversity increases employability. **Stakeholders' participation** leads to increased chances of creating more employment in an economy. For instance appropriate financial support to micro-entrepreneurs will enable them expand business and therefore need more workforce. Hence this variable has a positive impact in the model. Also, there are various barriers that hinder people from doing formal businesses in the formal economy. These barriers like capital requirements, strict entry requirements among others have become motivating factors/**incentives to entry** into the informal economic activities. As such

these barriers become incentives for entry and as such increases employments in the informal economy

3.8 Estimation Techniques of the Model/Data and Variables

Each variable was estimated using different parameters in measuring its impact on the employment creation in the informal economy. The various measurement criteria used were as presented in Table 3.2.

Table 3.2: Variable Estimation

Variable	Measurement Criteria
Government Policy	This variable was measured by assessing its overall impact in terms of establishing the linkages between the formal and informal economy, adequate financial support from the government, capacity building programmes, enabling environment especially on space for business and tax regimes for the government.
Stakeholders' Participation	This was measured by gathering information on innovations developed to attract the unemployed into the sector, attractive and tailor-made financial products from financial institutions and marketing opportunities created by various stakeholders for the artisans.
Incentives to Entry	This was measured in terms of looking at the personal drive in doing Jua Kali businesses, unlimited investment freedom in Jua Kali businesses, wider investment opportunities in Jua Kali sub-sector and family support.
Skills Diversity	Skills diversity was measured in terms of learning and skills development opportunities in the Sub-sector, accumulation of skills over time and the qualifications needed to join the industry.

Employment Creation

Measured in terms of the number of persons employed in the sector over a particular period of time. However, the conventional nature of measuring employment in the informal sector is difficult due to its nature of free entry and exit.

3.9 Data Analysis

The refined and organized quantitative data were analyzed using descriptive statistics involving percentages and mean scores to determine varying degrees of response-concentration. Descriptive statistics (mainly frequencies and mean values), correlation, and linear regression analysis (OLS) were the main statistical and econometric tools employed to analyze the data.

The descriptive and regression statistics were generated with aid of the computer software, Statistical Package for Social Sciences (SPSS) Version 20.0.

CHAPTER FOUR

DATA ANALYSIS

4.1 Introduction

The chapter presents the study's findings under each of the proposed and researched thematic category. The findings are statistically disseminated based on processed field responses which were found responsive. Other than thematic areas of the study, preliminary findings relating to respondents' demographic information and business characteristics were also analyzed and presented.

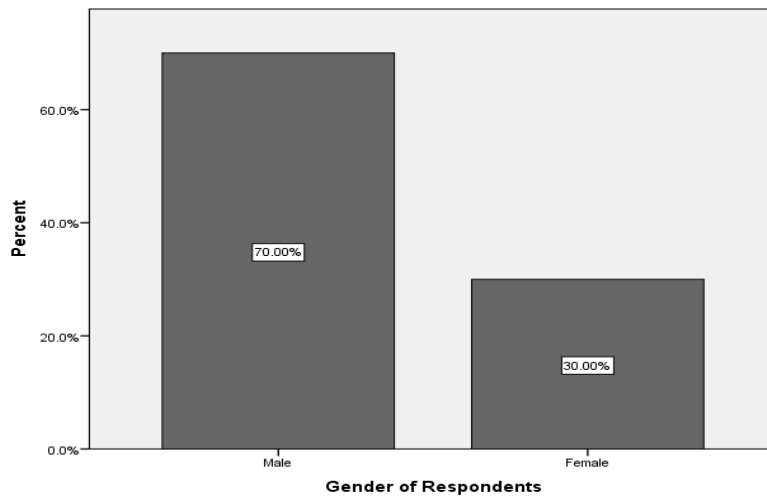
4.2 Analysis of Demographic Data

The study purposively considered three demographic characteristics of the study participants. These were in relation to gender, age and highest education level obtained prior to entry in the Kamukunji *Jua Kali* cluster.

4.2.1 Gender of Respondents

The study responses were obtained from both male and female participants who, at the time of data collection, had active *Jua Kali* units in the metal sub-cluster at the Kamukunji cluster. Most of the entrepreneurial units/shed were family-owned and managed by either one of the spouses or both. This presented the possibility of recruiting members of both gender-groups in the study. Fig. 4.1 shows participatory proportions among the male and female respondents.

Fig. 4.1: Gender of Study Respondents



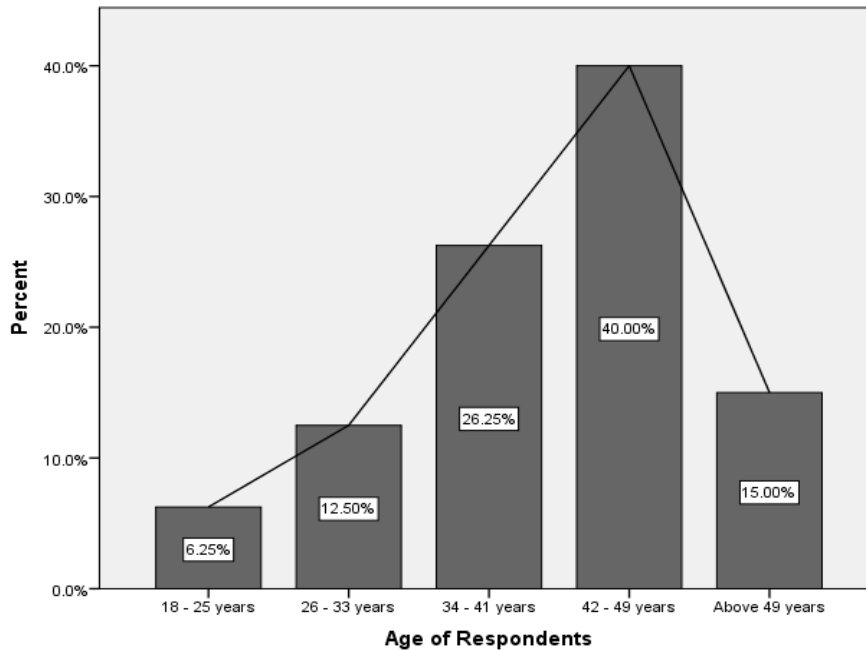
Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Fig. 4.1 shows that 70% of the study feedbacks were obtained from male participants who operated *Jua Kali* sheds/units at the cluster. The female counterparts contributed to the study at a lower proportion of 30%. This composition was occasioned by the small number of women players compared to men in the metal sub-cluster. Information obtained from the Kamukunji *Jua Kali* Association indicated that the ratio of men to female membership approximately stood at 7:3, thus matching with the study's response blend. Nevertheless, the fact that data was accessible from both gender participants ensured a relatively balanced view and possible mitigation of gender-based bias.

4.2.2 Age of Respondents

The age factor was also considered to determine predominant age-brackets dealing within the informal economy. Individual observations were classified and presented using frequency polygon in Fig. 4.2.

Fig. 4.2: Age of the Study Respondents



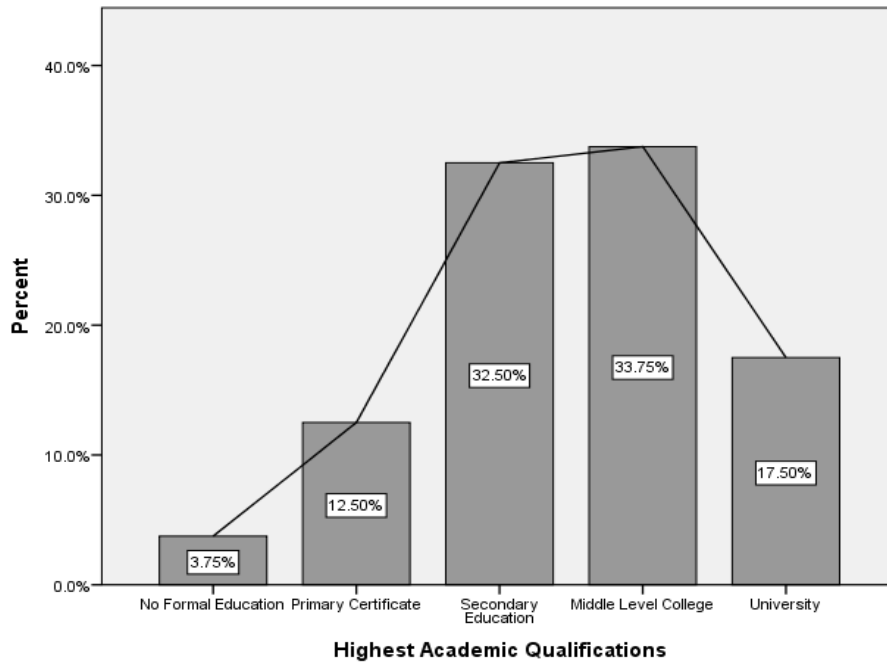
Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Fig. 4.2 shows that 40% of the Kamukunji artisans were aged between 42 – 49 years, which was found to be the modal age class. Less than these, 26.25% were aged between 34 – 41 years, while those who were above 49 years of age were 15% of the total. In addition, 12.5% were aged 26 – 33 years old, and a paltry 6.25% were between 18 – 25 years of age. Cumulatively, therefore, a cohort of 85% actively involved at the *Jua Kali* cluster was aged below 50 years of age. This significantly meant that, other than attracting deployment of skill from a wider age bracket, the informal sector was largely dominated by a youthful population.

4.2.3 Highest Academic Qualifications

According to Williams (2010), education has a marked effect on operators of informal businesses; those with no or less education are more likely to run an informal economy business. However, in this study other than their metal artistry skills, varying levels of highest education qualifications were observed. These variations were ascertained as presented in Fig. 4.3.

Fig. 4.3: Respondent's Academic Qualifications



Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Fig. 4.3 shows that majority of the *Jua Kali* unit operators (33.75%) had middle-level college qualifications. These were closely followed by another segment of 32.5% whose highest academic qualification was secondary school certification. At the higher extreme, 17.5% of the cluster dealers were university graduates. Those with primary certificates were equivalent to 12.5% while 3.75% did not have any formal education. This statistical distribution was sufficient evidence that the informal sector was not a predomination of the less-educated. Rather, it has indiscriminately created employment opportunities to all those with informal artistic intent and potential.

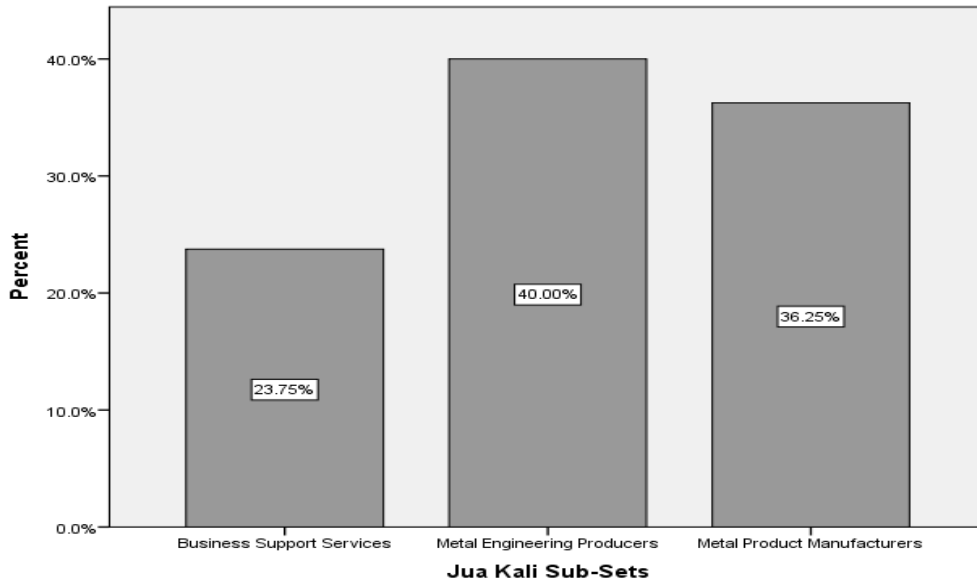
4.3 Informal Economy Business Details

The specific business details sought in the study included *Jua Kali* metal sub-clusters, time length of business operations, investment capital appreciation, employment history, and monthly wage bills shouldered by the entrepreneurs.

4.3.1 Jua Kali Sub-Clusters

Within the targeted metal sub-cluster, the study established three interdependent categories of informal economic activities as detailed in Fig. 4.4.

Fig. 4.4: Kamukunji Jua Kali Sub-Clusters



Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Fig. 4.4 shows that 40% of the metal-work sub-cluster activities were undertaken by metal engineering producers. These artisans were engaged in making folding or pressing machines, and other metal handling accessories to be used within the larger Kamukunji *Jua Kali* cluster. The metal product manufacturing constituted 36.25% and dealt with wide variety final processing of items such as wheelbarrows, jembes, metal containers, boxes, chains, plough tools and water cans. Another group of 23.75% of the artisans dealt with business support services like scrap metals, metal cutting, and welding, polishing and painting. This wide existence of metal-related economic activities required differential skill levels which broadened legibility of people from different skill orientations to participate as workers or investors. This also explains different levels of specialization and skills diversity in the Jua Kali sub-sector

4.3.2 Length of Business Operation

The respective lengths in which entrepreneurs had managed to operate their business units were significant in estimating the potential of the informal economy in sustaining employment. The study findings showed that time lengths varied from less than 5 years to more than 25 years as further explained in Table 4.1 below.

Table 4.1: Length of Business Operation

Time Length (Years)	Frequency	Percent	Valid	Cumulative
			Percent	Percent
Less than 5 years	3	3.8	3.8	3.8
5 - 10 years	13	16.3	16.3	20.0
10 - 15 years	23	28.8	28.8	48.8
15 - 20 years	26	32.5	32.5	81.3
20 - 25 years	11	13.8	13.8	95.0
More than 25 years	4	5.0	5.0	100.0
Total	80	100.0	100.0	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The study found that majority of informal enterprises (32.5%) had been in the *Jua Kali* operation at the cluster for a time-length of 15 – 20 years. This was followed by another set of 28.8% enterprises with informality spans ranging between 10 to 15 years. Yet another class of 16.3% business units had survived for 5 to 10 years. Relatively longer than all these, 13.8% of the units had 20 – 25 years of entrepreneurial existence, while the remaining 5% had the top-end operation-length of more than 25 years. Aggregately, it was determined that at least 80% of the entrepreneurial units had remained in operation for at least 10 years. On this realization, therefore, it was deduced that most of the employment opportunities created through the informal sector were long term in nature and had the potential of keeping workers for longer time periods.

4.3.3 Informal Sector Capital Appreciation

In addition to the long-term depiction inherent in the informal economy, it was determined that the entrepreneurial units' investment capacities at the Kamukunji *Jua Kali* cluster were generally on the rise based on the ascertained mean scores shown in the table below:

Table 4.2 : Comparison between Start-up and Current Capital

Description	Mean	Std. Deviation	N
Start-Up Capital	25571.25	18375.666	80
Cumulative Business Capital	337036.25	187629.608	80

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

In average, the entrepreneurial start-up capital for the informal units at Kamukunji was estimated at Ksh. 25,571.25. *Ceteris paribus*, this amount appreciated to Ksh. 337,037.25 within an averaged time period of 15 years. There was an observed near-constant standard deviation which significantly suggested that the longer an informal entrepreneurial unit remained in existence, the higher the chances of capital appreciation. Deductively, therefore, capital appreciation was a significant tool implicitly adopted to sustain employment creation in the informal economy. Further, it was noted that the higher the start-up capital outlay, the more the accumulated business capital over time as further explained in Table 4.3 below.

Table 4.3: Business Capital Correlations

		Start-Up Capital	Current Business Capital
Start-Up Capital	Pearson Correlation	1	.808**
	Sig. (2-tailed)		.000
	N	80	80
Current Business Capital	Pearson Correlation	.808**	1
	Sig. (2-tailed)	.000	
	N	80	80

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Table 4.3 shows the Karl Pearson's Correlation co-efficient between entrepreneurial start-up and accumulated capital as 0.808 (that is, $r = 0.808$). This suggested a strong direct relationship between investable outlays and business productivity. However, the longer time taken for the capital to grow was attributable to the small amounts invested at start-up phases. This result coincided with Ademu (2006), who found that the lack of capital makes it difficult for the disadvantaged to become self-employed. Consequently, the informal sector's productive base and contributions remain small due to inaccessibility to credit (Ademu, 2006). It would be more meaningful, therefore, for stakeholder intervention to be effected at the start-up phase.

4.3.4 Level of Employment and Wage

The existing and historical employment levels were a necessary estimator to employment creation and sustainability in the informal economy. Other than demonstrating variations in informal worker recruitment, the employment observations were adopted as a dependent variable in regression model estimation. The wage assessment was used to infer on employment attraction and sustainability. Table 4.4 shows the pattern of employment opportunities created between calendar years 2008 and 2013.

Table 4.4: Informal Sector Employment Creation

Year	Total	Min.	Max.	Mean	Std. Dev.
Number of People Employed in 2008	312	1	11	3.91	2.014
Number of People Employed in 2009	351	1	12	4.39	1.717
Number of People Employed in 2010	579	1	12	7.24	1.781
Number of People Employed in 2011	602	1	13	7.53	1.764
Number of People Employed in 2012	585	1	9	7.31	2.168
Number of People Employed in 2013	614	1	14	7.67	2.314

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The above distribution shows that between the calendar years 2008 and 2013, the number of individuals engaged as workers at the selected informal entrepreneurial units was on a gradual rise. While in 2008 there were 312 workers attached to the study units, this figure grew significantly to 351 in 2009, 579 in 2010, and 602 in 2011. In 2012, however, the

number of workers declined to 585 before another phased upsurge to 614 in 2013. Cumulatively, there was an increase in employment creation between 2008 and 2013 by 97% or 16.13% per annum. This implied that the Kenyan informal economy had a significant contributive impact in the general economy by conversion of formally-idle labour to informal sector productivity. These findings duplicated those by World Bank (2006) of the *Kenyan informal sector, housing, social services provision and slums*, which confirmed a tremendous increase in the activities and involvement of the population in the informal economy, largely due to the privatization of the public sector as well as rise in the unemployment rate especially among the youth.

Having established that the informal economy was a highly preferred labour destination for many Kenyans, the study sought to further investigate associated labour output (in form of wages) and how it affected employment creation. Table 4.5 provides an analysis of the prevailing wage bill among the studied units.

Table 4.5: Wage Bill Analysis

	No. Employees	Wage Bill	Mean Wage	Std. Dev.
Monthly Wage Bill	614	3,303,688	5,380.60	3,339.071

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The gross wage bill per month was estimated to be Ksh. 3,303,688 for the 614 workers assuming whole-month retention. This translated into Ksh. 5,380.60 payable to an individual worker with standard deviation of Ksh. 3,339. The rationale behind this low pay was explained by the informants to be a result of poor and erratic business performance which would not guarantee sustainable and high labour compensation. This was found to be an entrepreneurial dysfunction with a higher propensity of discouraging labour inflow. A reversal of this would, therefore, enrich the informal economy and in turn create more opportunities.

4.3 Government Policy Approach

According to Hussmanns (2004), rather than discrediting the informal economy, governments need to ask how to capture the informal economy's potential to accelerate

its transition to a low-informal economy. Ideally, governments need to build infrastructure and institutions around an informal economy that define the reality on the ground. Hussmanns (2004: 89) continues that “if we give a voice to informal players and provide strong institutional structures to influence the big players, the higher are our chances to move towards a more sustainable economy and the closer we are to operating in a socially just system that reflects the limits of the planet while providing opportunities for all”. Based on this idealism, the study sought to establish the Kenyan government’s input in bolstering informal employment creation. This was achieved by firstly determining government initiatives at Kamukunji *Jua Kali* cluster and secondly on dedicated policy approach.

Frequency Table 4.6 shows the various Government initiatives advanced to informal entrepreneurs at the target cluster.

Table 4.6: Government Initiatives to the Informal Sector

Description	Frequency	Percent	Valid Percent	Cumulative Percent
None	30	37.5	37.5	37.5
Cheap Enterprise Funding	12	15.0	15.0	52.5
Skill Upgrading	22	27.5	27.5	80.0
Input Subsidies	4	5.0	5.0	85.0
Negotiated Loaning	5	6.3	6.3	91.3
Product Marketing	5	6.3	6.3	97.5
Sponsored Exhibitions	2	2.5	2.5	100.0
Total	80	100.0	100.0	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The results indicated that 37.5%, constituting the majority of the targeted study groups had not directly benefited from any dedicated State-driven initiatives that would be attributed to informal employment creation. The highest beneficiary proportion of 27.5% had been hosted at least once by a State agency for entrepreneurial skill upgrading, while

15% of the artisans had accessed subsidized enterprise funding through programmes such as Women Enterprise Fund (WEF) and Youth Enterprise Fund (YEP). Moreover, there were 6.3% apiece of artisans who had benefitted from negotiated loan facilities, and product marketing thanks to State intervention. The impact of input subsidies was felt by only 5% of the informal economy investors, leaving a smaller group of 2.5% deriving State support through sponsored exhibitions. These findings suggested that the national government was partly a player, albeit at a low level, in bolstering informal business environment. However, for the sake of stabilizing the informal economy as an alternative source of employment and subsequently alleviating poverty, much more policy effort by the State was required especially in technical and financial capacity building. The functionality of the much anticipated MSE funding will be instrumental in the transformation of the sub sector. Above all the government should gear towards providing land and build Jua Kali sheds for their artisans to ensure that, businesses run uninterrupted.

Further assessment on government interventions in informal economy established the extent of influence of policy approach on informal employment creation using an ascending ordinal scale of 1 – 5 points. The magnitude of influence was measured using mean scores and standard deviations as presented in Table 4.7.

Table 4.7: Measures of Government Policy Approach

Descriptions	N	Mean	Std. Deviation
Inter-dependability with the formal economy	80	2.24	.799
Adequate financial assistance from the government	80	2.04	.770
Remarkable effort by government in capacity building	80	2.31	.894
Fair Government taxation that encourages investment	80	1.60	.587
Good business environment due to state intervention	80	2.28	.914
Average Mean Score		2.09	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The measures adopted in establishing impact of government policy approach were all rated below the moderate mark, cumulatively resulting to an average score of 2.09. Further, there was noticeable response uniformity by the artisans which demonstrated inadequacy of meaningful policy interventions from the side of Government. The highest ranked measure of government policy approach at 2.28 mean score and 0.914σ was 'conducive business environment due to State intervention', followed by 'inter-economy dependability' at 2.24 mean score and 0.799σ . Capacity building sponsorships by State was ranked third with 2.31 mean score (0.894σ), while financial support was fourth with 2.24 mean score and 0.770σ . Government policy on taxing informal economy was least attractive to the artisans with a mean score of 1.60 and having the highest degree of agreement (0.587σ). In view of these findings (minimal scoring and high response agreement), it was inferred that government policy approach to informal economy in Kenya was not popular among the economy investors and would significantly compromise informal employment creation for the majority formally unemployed citizens. These findings concur with the Africa Development Bank (ADB, 2013) report that despite the informal sector contributing about 55 per cent of Sub-Saharan Africa's GDP and 80 per cent of the labour force, most government and affiliated agencies pay little attention to the role of informal economy in fostering growth and creating jobs. The report urges advanced policy interventions giving further justification that the informal economy in these African economies offers opportunities to the most vulnerable populations such as the poorest, women and youth.

4.4 Stakeholder Involvement

Dimova et al. (2008) acknowledge that there is a range of different stakeholders with interests in how the informal economy operates, and how workers are organized within it. These stakeholders are instrumental in advocacy and promoting informal employment creation. Under this objective area, the study sought to establish the respondents' perceptions on stakeholder significance, and their practical contributions in creating employment spaces in the informal economy.

Based on their informal economy experiences, respondents rated various stakeholders on an ordinal scale in terms of their actual contributions. The observations were ascertained and summarized as in Table 4.8.

Table 4.8: Perception on Stakeholder Significance

Respondent Perceptions	N	Mean	Std. Dev.
Perceived Significance of Government Agencies	80	2.44	1.095
Perceived Significance of Banking Institutions	80	3.42	.854
Perceived Significance of Training Institutions	80	2.53	.871
Perceived Significance of NGOs	80	3.40	.976
Perceived Significance of <i>Jua Kali</i> Welfare Association	80	2.79	.867

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The study found that banking institutions and Non-Governmental Institutions (NGOs) were two stakeholder entities which were highly rated but with moderate mean scores of 3.42 and 3.40 respectively. The *Jua Kali* Welfare Association was third with a mean score of 2.79, while government as a stakeholder was fourth with 2.44 mean score but associated with highest degree of response disparity (1.095 σ). Training institutions were the least rated at 2.53 mean score. The general view from the distribution, dominated by low ratings, was a sufficient pointer that the Kenyan informal economy had not fully given space for unhindered participation of contributing stakeholders towards employment creation.

Other than mere informal investor perception on stakeholder significance, the study measured the practical implications of involvement by various entities in the economy. Detailed analysis is as presented in Table 4.9.

Table 4.9: Measures of Stakeholder Involvement

Measures	N	Mean	Std. Dev.
Diverse innovations from partners attract the unemployed	80	2.99	.961

Benefitting technologies by private and public institutions	78	2.44	1.014
Tailor-made lending from banking institutions	77	2.21	.922
Work skills from individuals and institutions in the cluster	80	2.78	.941
Marketing of the products is efficient due to partnerships	80	2.58	.978
Average Mean Score		2.60	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Similar to government policy approach, stakeholder involvement in informal employment creation was ranked dismally at an aggregate of 2.60 mean score. The study established that diverse innovations introduced by partners helped attract the formally unemployed citizens at 2.99 mean score and 0.961σ . In addition, *Jua Kali* players benefitted from skills and knowledge sourcing from within the cluster at a rate of 2.78 mean score and 0.941σ while marketing efficiency due to partnerships was rated at 2.58 mean score with 0.978σ . At the lower extent, incorporation of technologies from both private and public stakeholders was only placed at 2.44 mean score (1.014σ), but above tailor-made lending facilities by banks at 2.21 mean score (0.922σ). By inference, therefore, the Kamukunji *Jua Kali* cluster did not tap significant gains from existing stakeholders whose contributions would be reasonable if appropriate participatory mechanisms were embraced.

The failure by various stakeholders to participate in the informal economy could partly be explained by Amenity (2007) who found that the Kenyan government was at pains to convince the donors to avail funds for the promotion of the *Jua Kali* sector but there were issues of governance which had to be tackled before the funds were availed to the economy. This reduced the trust of the donors on government performance on provision of infrastructural structures for the development of the economy. Moreover, the trader's voice and opinion was not put into consideration when making any decisions.

4.5 Incentives/barriers for Industry Entry

Chong et al (2007) contend that the informal economy has been increasing over time and that far from moving in opposite ways economic development and informality seem to have developed parallel to the modern economy. The authors link this increase to informal entry incentives which are a barrier in the formal economy. In studying the entry incentives/barriers at Kamukunji *Jua Kali* cluster, focus was placed on barriers to entry into formal economy and the extent to which this becomes an incentive to enter into the informal economic activities.

Table 4.10 shows the various barriers to entry in the formal economy which possibly triggered investments in the alternative economy.

Table 4.10: Barriers to Formal Entry

Barriers	Frequency	Percent	Valid	Cumulative
			Percent	Percent
Lack of Capital	28	35.0	35.0	35.0
Limited Space for Expansion	26	32.5	32.5	67.5
Limited Investment Opportunities	7	8.8	8.8	76.3
Strict Entry Regulations	8	10.0	10.0	86.3
Fear of Competition	11	13.8	13.8	100.0
Total	80	100.0	100.0	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The study found that 35% of the registered artisans at the grounds lacked sufficient capital to invest in more rewarding formal economic activities. Also, limited operation space for expansion barred 32.5% of the artisans while 13.8% cited fear of competition. From the study findings, there were 10% who saw strict entry regulation as a barrier for diversification of opportunities, and 8.8% who hinted to limited investment opportunities in the formal economy. Research informants mentioned strict regulatory framework and competition as leading bottlenecks in the formal economy which dissuaded many people from entry thus encouraging shifts to the more *laissez faire* informal setups. There was an

evident inability of the majority to meet high compliance requirements in the formal economy and this was turned into an attraction tool to investing or seeking employment in the informal sector. This gave a marker that employment in the informal economy was partly an alternative to scarcity of opportunities in the formal economy.

The extent to which barriers to entry into the formal economy become incentives to entry and influenced informal employment creation was measured using indicators such as attractive investment opportunities, personal drive, investment freedom, and partner support. Individual ratings were ascertained as summarized in table below

Table 4.11: Measures of Incentives to Entry

Descriptions	N	Mean	Std. Dev.
Attraction due to wider investment opportunities	80	4.05	.745
Personal drive for <i>Jua Kali</i> business	80	4.02	.779
Joining <i>Jua Kali</i> not a result of missing formal employment	80	3.22	.886
There is unlimited investment freedom in <i>Jua Kali</i> business	80	3.71	.944
Huge partner support opens up more opportunities	80	2.81	.797
Average Mean Score		3.56	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

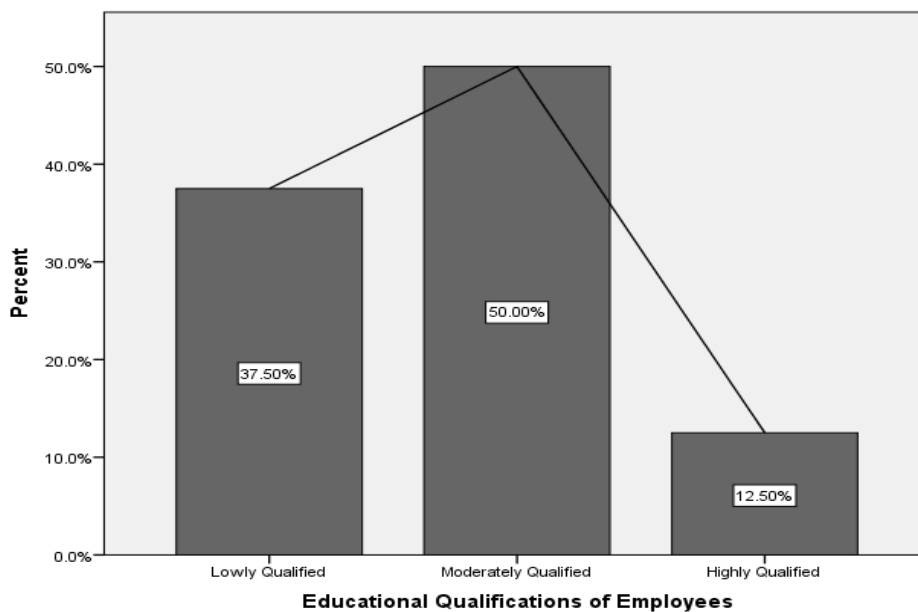
At a higher extent, attractive and wider investment opportunities (4.05 mean score and 0.745σ) and personal drive for *Jua Kali* businesses (4.02 mean score and 0.779σ) removed entry barriers, thus leading to a possible influx of workers in the informal economy. At the moderate extent, the creation of informal employment opportunities was influenced by joining *Jua Kali* business due to limited formal engagements (3.22 mean score and 0.886σ) and perceived unlimited nature of investment freedom (3.71 mean score and 0.944σ). The least of influence in this category originated from partner support which was rated at 2.81 mean score and 0.797σ . Aggregately, entry incentives played a significant role in creating employment opportunities in the informal economy at 3.56 mean score which was above average.

4.6 Diversity of Skills

Williams (2010) argues that workers and economic units in the informal economy can have a large entrepreneurial potential. Workers in the informal economy also have a reservoir of skills. Many people working in the informal economy have real business acumen, creativity, dynamism and innovation, and such potential could flourish if certain obstacles could be removed. The informal economy could also serve as an incubator for business potential and an opportunity for on-the-job skills acquisition. In this sense, it can be a transitional base for accessibility and graduation to the formal economy, if effective strategies are put in place. The ultimate effect for all these is enhanced ability of the economy to creating employment opportunities. In this study, the workers' education levels were established followed by an assessment of the extent to which diversity of skills created employment opportunities.

The employees' education levels were assessed to establish the knowledge breadth within which the economy attracted workers. Obtained feedback was analyzed and presented as given in Fig. 4.5.

Fig. 4.5: Informal Employee's Education Levels



Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The study found that at least half of the workers in the metal sub-cluster had a moderate level of education (secondary certificate), while 37.5% were categorized as lowly qualified. The remaining 12.5% of the workers were highly qualified. This implied that the informal economy in Kenya had the potential of attracting workers with a blend of knowledge and skill. Therefore, the increasing graduate unemployment in the country would partly be redressed if appropriate facilitation challenges were tackled. However of great focus is to ensure that, technical trainings are pursued for those interested in participating in the sub-sector. Additionally new skills would be acquired through on jobs training and apprenticeship since this outside the formal institutions

The existence of skill diversity in the economy significantly influenced employment creation in a number of ways as presented in the table below

Table 4.12: Measures of Skill Diversity

Descriptions	N	Mean	Std. Dev.
Learning and skill development opportunities	79	4.27	.655
Edge through accumulation of skills over time	79	4.09	.737
No need for basic qualifications to join the industry	80	4.00	.857
There are numerous options in the industry to take up	80	4.29	.620
Diversification into other skill fields	78	4.33	.677
Average Mean Score		4.20	

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

The fact that Kamukunji *Jua Kali* cluster provided opportunities for a vast range of knowledge and skills made skill diversity to be the leading contributor to employment creation at an accumulated mean score of 4.20. This was possible through availability of learning and skill development opportunities (4.27 mean score and 0.655σ), continual accumulation of work precision (4.09 mean score and 0.737σ), non-requirement for basic qualifications (4.00 mean score and 0.857σ), numerous working options at the worker's disposal (4.29 mean score and 0.62σ), and easy diversification to other fields within the

informal economy (4.33 mean score and 0.677σ). We can therefore conclude that, skills development will be achieved through on-job training and apprenticeship programmes in various sections within the sub-sector.

4.7 Regression Modeling

The OLS model adopted all the four predictor variables simultaneously which included government policy approach, stakeholder involvement, incentives to industry entry, and diversity of skills. The average number of employees in the informal sector was used as the dependent variable as shown in the model below.

$$Y = \alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \mu$$

Table 4.13 shows that Adjusted R Square, 83.8% explains the creation of productive employment in the informal economy. This implies that, other variables accounts for 16.2% of the informal economy impact in employment creation

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923 ^a	.852	.838	9.6377

a. Predictors: (Constant), Diversity of Skills, Government Policy Approach, Stakeholder Involvement, Incentives to Industry Entry

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

Table 4.14 reports on ANOVA which assesses the model’s overall significance. Given that $F \geq 2.0$ and $p \leq 0.05$, the model is significant. Therefore, all the study’s null hypotheses were rejected.

Table 4.14: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.429	4	5.357	2.223	.000 ^b
	Residual	180.771	75	2.410		
	Total	202.200	79			

a. Dependent Variable: Number of Employees

b. Predictors: (Constant), Diversity of Skills, Government Policy Approach, Stakeholder Involvement, Incentives to Industry Entry

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

In Table 4.15, the standardized beta coefficients give a measure of the contribution of each variable to the model. A large value indicates that a unit change in the predictor variable has a large effect on the criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable; a bigger absolute t value and smaller p value suggests that a predictor variable is having a large impact on the criterion variable.

Table 4.15: Co-Efficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	6.701	1.421	4.715	.000	
	Government Policy Approach	.043	.219	.023	1.197	.004
	Stakeholder Involvement	.388	.246	.176	1.577	.003
	Incentives to Industry Entry	.457	.250	.205	2.831	.000
	Diversity of Skills	.545	.286	.217	2.906	.000

a. Dependent Variable: Number of Employees

Source: Kamukunji Jua Kali Cluster, Nairobi (2013)

From the regression analysis of the variables, the econometric model is estimated as follows:

$$Y = 6.701 + 0.043x_1 + 0.338x_2 + 0.457x_3 + 0.545x_4 + \mu$$

The model shows that diversity of skills was the leading contributor to informal employment creation at 0.0545 per unitary variation. This was followed by entry incentives at 0.457 increases per unit change, while stakeholder involvement and government policy injected influence at 0.043 and 0.388 per unit change respectively.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the study's summary of major findings, conclusions derived from topical issues under study, recommendations of the study, observed limitations, and suggestions for further studies.

5.2 Summary of Findings

The study was designed to investigate the impact of the informal economy on employment creation using the case of *Jua Kali* in Nairobi's Kamukunji cluster. The thematic focus was on influence of government policy, stakeholder involvement, incentives to urban informality, and skill diversity on employment creation. Descriptive research design was adopted targeting Kamukunji *Jua Kali* unit managers/owners, association officials, and Ministry of labor officers for the purpose of gathering the required information. Data was collected from 80 artisans by use of questionnaires and data analysis was done using descriptive statistics and was fit into a regression model. The study found that government policy approach, stakeholder involvement, incentives to informal economy entry, and diversity of skills embodied in the economy helped create employment opportunities for people with different knowledge and skills.

The Kamukunji *Jua Kali* sub-cluster was composed of three interdependent categories of informal economic activities which were metal engineering production, metal product manufacturing and business support services. This wide existence of metal-related economic activities required differential skill levels which broadened recruitment of people from different skill orientations to participate as workers or investors. Majority of informal enterprises (32.5%) had been in the *Jua Kali* operation at the cluster for a time-length of 15 – 20 years. This was followed by another set of 28.8% enterprises with informality spans ranging between 10 to 15 years. A class of 16.3% business units had

survived for 5 to 10 years. Relatively longer than all these, 13.8% of the units had 20 – 25 years of entrepreneurial existence, while the remaining 5% had the top-end operation-length of more than 25 years. Aggregately, it was determined that at least 80% of the entrepreneurial units had remained in operation for at least 10 years. Moreover, it was determined that the entrepreneurial units' investment capacities at the Kamukunji *Jua Kali* cluster were generally on the rise. In an average period of 15 years the average investment capital grew from Ksh. 25,571.25 to Ksh. 337,037.25 with a near-constant standard deviation which significantly suggested that the longer an informal entrepreneurial unit remained in existence, the higher the chances of capital appreciation. The correlation of 0.808 between initial capital and cumulative capital suggested a strong direct relationship between investable outlays and business productivity.

Between the calendar years 2008 and 2013, the number of individuals engaged as workers at the selected informal entrepreneurial units was on a gradual rise. While in 2008 there were 312 workers attached to the study units, this figure grew significantly to 614 in 2013. This was an increase of 97%, implying that the Kenyan informal economy had a significant contributive impact in the general economy by conversion of formally-idle labour to informal sector productivity. The gross wage bill per month was estimated to be Ksh. 3,303,688 for the 614 workers. This translated into Ksh. 5,380.60 payable to an individual worker with standard deviation of Ksh. 3,339. The low pay was as a result of poor and erratic business performance which would not guarantee sustainable and high labour compensation. However, this was found to be an entrepreneurial dysfunction with a higher propensity of discouraging labour inflow.

The study found that 37.5%, constituting the majority of the targeted study groups had not directly benefited from any dedicated State-driven initiatives that would be attributed to informal employment creation. The highest beneficiary proportion of 27.5% had been hosted at least once by a State agency for entrepreneurial skill upgrading, while 15% of the artisans had accessed subsidized enterprise funding through programmes such as Women Enterprise Fund (WEF) and Youth Enterprise Fund (YEP). Moreover, there were

6.3% apiece of artisans who had benefitted from negotiated loan facilities, and product marketing thanks to State intervention. The impact of input subsidies was felt by only 5% of the informal economy investors, leaving a smaller group of 2.5% deriving State support through sponsored exhibitions. The measures adopted in establishing impact of government policy approach were all rated below the moderate mark, cumulatively resulting to an average score of 2.09. The highest ranked measure of government policy approach at 2.28 mean score was ‘conducive business environment due to State intervention’, followed by ‘inter-economy dependability’ at 2.24 mean score. Capacity building sponsorships by State was ranked third with 2.31 mean score, while financial support was fourth with 2.24 mean score. Government policy on taxing informal economy was least attractive to the artisans with a mean score of 1.60. In view of these findings, it was inferred that government policy approach to informal economy in Kenya was not popular among the economy investors and would significantly compromise informal employment creation for the majority formally unemployed citizens.

Under stakeholder involvement, the study found that banking institutions and Non-Governmental organizations (NGOs) were two stakeholder entities which were highly rated but with moderate mean scores of 3.42 and 3.40 respectively. The *Jua Kali* Welfare Association was third with a mean score of 2.79, while government as a stakeholder was fourth with 2.44 mean score. Training institutions were the least rated at 2.53 mean score. The general view from the distribution, dominated by low ratings, was a sufficient pointer that the Kenyan informal economy had not fully given space for unhindered participation of contributing stakeholders towards employment creation. In terms of impact on employment creation, stakeholder involvement in informal employment creation was ranked dismally at an aggregate of 2.60 mean score. The study established that diverse innovations introduced by partners helped attract the formally unemployed citizens at 2.99 mean score. In addition, *Jua Kali* players benefitted from skills and knowledge sourcing from within the cluster at a rate of 2.78 mean score while marketing efficiency due to partnerships was rated at 2.58 mean score. At the lower extent,

incorporation of technologies from both private and public stakeholders was only placed at 2.44 mean score, but above tailor-made lending facilities by banks at 2.21 mean score.

There were 35% of the registered artisans at the grounds who lacked sufficient capital to invest in more rewarding formal economic activities. Also, limited operation space for expansion barred 32.5% of the artisans while 13.8% cited fear of competition. At the lower extreme, there were 10% who saw strict entry regulation as a barrier for diversification of opportunities, and 8.8% who hinted to limited investment opportunities in the formal economy. The informants mentioned strict regulatory framework and competition as leading bottlenecks in the formal economy which dissuaded many people from entry thus encouraging shifts to the more *laissez-faire* informal setups. There was an evident inability for the majority to meet high compliance requirements in the formal economy and this was turned into an attraction tool to investing or seeking employment in the informal sector. At a higher extent, attractive and wider investment opportunities and personal drive for *Jua Kali* businesses removed entry barriers, thus leading to a possible influx of workers in the informal economy. At the moderate extent, the creation of informal employment opportunities was influenced by joining *Jua Kali* business due to limited formal engagements and perceived unlimited nature of investment freedom. The least of influence in this category originated from partner support. Aggregately, entry incentives played a significant role in creating employment opportunities in the informal economy at 3.56 mean score which was above average.

Further, the workers' education levels and an assessment of the extent to which diversity of skills created employment opportunities were investigated. The employees' education levels were assessed to establish the knowledge breadth within which the economy attracted workers. The study found that at least half of the workers in the metal sub-cluster had a moderate level of education (secondary certificate), while 37.5% were categorized as lowly qualified. The remaining 12.5% of the workers were highly qualified. The fact that Kamukunji *Jua Kali* cluster provided opportunities for a vast range of knowledge and skills made skill diversity to be the leading contributor to

employment creation at an accumulated mean score of 4.20. This was possible through availability of learning and skill development opportunities (4.27 mean score and 0.655σ), continual accumulation of work precision (4.09 mean score and 0.737σ), non-requirement for basic qualifications (4.00 mean score and 0.857σ), numerous working options at the worker's disposal (4.29 mean score and 0.62σ), and easy diversification to other fields within the informal economy (4.33 mean score and 0.677σ).

Finally, it was determined that government policy approach, stakeholder involvement, incentives to entry, and skill diversity had significant impact on informal employment creation. The derived regression relationship was found to be as follows:

$$Y = 6.701 + 0.043X_1 + 0.338X_2 + 0.457X_3 + 0.545X_4 + \mu$$

This model adopted all the four predictor variables simultaneously and used the average number of employees in the informal sector as the criterion variable. The model explained 83.8% of the variation in number of employment opportunities created. The model showed that diversity of skills was the leading contributor to informal employment creation at 0.0545 per unit variation. This was followed by entry incentives at 0.457 increases per unit change, while stakeholder involvement and government policy injected influence at 0.043 and 0.388 units per unit change respectively.

5.3 Conclusion of the Study

Based on the findings, the study concludes that government policy approach, stakeholder involvement, incentives to informal economy entry, and diversity of skills embodied in the economy helped create employment opportunities for people with different knowledge and skills. By regression, government policy approach had the lowest impact followed by stakeholder involvement. All these were ranked below average mark in influencing employment creation. On the other hand, skill diversity was rated highest factor above incentives to entry in the informal business activities. Components of skill diversity which enabled its heightened impact included learning and skill development

opportunities, edge through accumulation of skills over time, no need for basic qualifications to join the industry, numerous options in the industry to take up, and easy diversification into other skill fields. The incentives to informal economy entry included attraction due to wider investment opportunities, personal drive for *Jua Kali* business, joining *Jua Kali* a result of missing formal employment, unlimited investment freedom in *Jua Kali* business and partner support opens up more opportunities. To a large extent the government policy failed in ensuring inter-dependability with the formal economy, provision of adequate financial assistance, capacity building, fair input taxation, and in making appropriate business interventions. Finally, stakeholder involvement sparingly failed in introducing innovations, benefitting technologies, making tailor-made lending (from banking institutions), marketing of the products, and availing working knowledge and skills in the cluster.

5.4 Recommendations of the Study

Organizing the informal sector and recognizing its role as a profitable activity may contribute to economic development. This can also improve the capacity of informal workers to meet their basic needs by increasing their incomes and strengthening their legal status. This could be achieved by raising government awareness, allowing better access to financing, and fostering the availability of information on the sector. Public policy-makers in Kenya should recognize the important role informal sector companies play in the economy. There is a need for the government to coordinate their policies and strategies in order to support the formalization of the sector. Effective regulatory framework, good governance, better government services, improved business environment, and improving access to financing, technology and infrastructure are essential in this process. In that regard, development partners need to be given space to pledge and execute their commitment to support the informal business institutions. This should extent to promotion of social protection to workers in the informal sector and support to small and medium-sized companies, which account for the bulk of the country's informal economy.

Limited access to funds was found to be one of the major factors explaining the development of the informal economy. Facilitating access to formal financing channels such as micro-credit could be an overriding step to encourage informal entrepreneurs to shift toward more formal economic activities. However, raising the awareness of large conventional commercial banks of the potential of the informal sector is also essential. The fact that the informal economy has for a long time been neglected by policy-makers has not helped in generating knowledge on this sector; hence training institutions should be provided space for the purpose of capacity building the entrepreneurs. Also, in order to enhance contribution of the informal sector in the economy, it is important to expand their scope through widening of entry incentives but within a well structured platform.

5.5 Limitations of the Study

The study was based on data obtained from the metal sub-cluster at the wider Kamukunji *Jua Kali* cluster with a myriad of informal economic activities. Such a purposive selection of participants left out participants who would have probably presented other empirical dimensions. This possibly restricted the study's generalization to similar and smaller contexts. Moreover, the study's primary participants were drawn from the *Jua Kali* dealers who most-likely would not view institutions such as government and formal entities like banks from a more rational perspective. These subject biases could not be segregated from the obtained responses, hence a possibility of their influence in making deductions.

5.6 Suggestions for Further Studies

For a comprehensive scholarly dissemination, this study recommends a detailed cross-sectional analysis involving a wider scope of study variables and other sub-clusters, including non-fixed entrepreneurial units. This is because there are numerous factors that influence participation and sustainability of populations in the informal economy other than the ones studies. In addition, there is need to research, using cases of other economies, on the most appropriate models in engaging a wide scope of stakeholders towards promoting supportive informal economy operations.

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APPENDIX QUESTIONNAIRE

Questionnaire Code:..... Date:.....

Dear Respondent,

This questionnaire has specifically been designed to assist in studying the “*impact of informal economy on employment creation at the Kamukunji Grounds in Nairobi*”. You have been selected as one of the participants and hereby requested to complete it. Whatever information provided will only be used for the purpose of this study. Your name will not be divulged to anybody or any institution.

Personal details

Gender of Respondent		Age of Respondent		Highest Academic Qualification	
Male	1	18 – 25 years	1	None	1
Female	2	26 – 33 years	2	Primary	2
		34 – 41 years	3	Secondary	3
		42 – 49 years	4	College	4
		Above 49 years	5	University	5

Business details

1. In which jua kali cluster do you belong?
.....
2. For how long have you operated a jua kali shed/business at Kamukunji grounds?
 01. Less than 5 years []
 02. 5 – 10 years []
 03. 10 – 15 years []
 04. 15 – 20 years []
 05. More than 20 years []
3. What was your initial capital/asset for the business? Ksh.....
4. What is your current capital/asset base? Ksh.....

5. How many persons have you retained on the average, each year as employees in the last five years?

Year	2008	2009	2010	2011	2012
No. of employees					

6. What is your average monthly wage bill? Ksh.....

In the last five years what initiatives undertaken by the Government have directly benefited you?

- 01. Cheap enterprise funding
- 02. Skill upgrading
- 03. Input subsidies
- 04. Negotiated loan facilities
- 05. Product marketing
- 06. Sponsored exhibitions
- 07. Any other (Specify):.....

7. How would you rate the significance of the following institutional partners to your business? (1-Extremely Insignificant, 2-Insignificant, 3-Moderate, 4-Significant, 5-Extremely Significant)

	1	2	3	4	5
01. Government and its agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
02. Banking institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
03. Training institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
03. Non-Governmental Institutions/Donors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
04, Jua Kali welfare association	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. What are key barriers to accessing space for applying skills acquired at Kamukunji jua kali grounds?

- 01. Lack of capital/finances []
- 02. Limited space for expansion []
- 03. Limited investments []
- 04. Strict regulations []
- 05. Any other (Specify):.....

9. How would you generally describe the average educational qualifications of your employees?

- 01. Lowly qualified []
- 02. Moderately qualified []
- 03. Highly qualified []

10. The following classified statements relate to some of the factors affecting Kamukunji *jua kali* operations. To what extent do you agree or disagree with each of them? (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree).

Government Policy		1	2	3	4	5
a	There is a harsh policy approach to informal business operations which discourages individual investment interests.					
b	Financial assistance originating from Government initiatives to boost <i>jua kali</i> businesses is adequate.					
c	There is a remarkable effort from Government agencies in capacity building artisans and investors in the <i>jua kali</i> industry.					
d	Government taxation approach to the <i>jua kali</i> industry is punitive, hence discouraging investment.					
e	There are no strict rules at the grounds relating to shed/space ownership, hence uncontrolled influx of people.					
Stakeholder Involvement		1	2	3	4	5
a	There are diverse innovations from partners which attract many formally unemployed individuals					
b	I have personally benefitted from technologies introduced by both private and public institution partners					
c	I always benefit from tailor-made lending terms from banks which have partnered with the <i>jua kali</i> industry.					
d	I have learnt most of the work-related skills from individuals/institutions not directly involved in <i>jua kali</i> .					
e	Marketing of <i>jua kali</i> products is not efficient due to lack professional partnership					
Entry Incentives		1	2	3	4	5
a	I am attracted to the <i>jua kali</i> business because of its wider investment opportunities and capital growth potential					
b	I have a personal drive for the <i>jua kali</i> business which persistently motivate me					
c	I opted for the <i>jua kali</i> since I could not secure a job in the formal sector					
d	I engage in the <i>jua kali</i> business because of unlimited investment freedom towards achieving my goals					
e	There is huge partner support in the <i>jua kali</i> business that opens up opportunities for me					
Skill Diversity		1	2	3	4	5

a	I am in the <i>jua kali</i> business temporarily while awaiting opportunities that suit my academic qualifications					
b	Over time, I have gained essential artisan skills which give me an edge over the rest in the <i>jua kali</i> industry					
c	Prior to joining the <i>jua kali</i> industry, I had acquired requisite technical skills from related previous engagements					
d	There are numerous options within the <i>jua kali</i> industry to take up, given the opportunity and resource base					
e	I am in <i>jua kali</i> business because I don't have other sources of income					

Thank you for your time.