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THE PROMOTION OF SELF-EMPLOYMENT AND SMALL-SCALE ENTERPRISES IN URBAN KENYA: A CASE STUDY

by

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Preface

Self-employment — encompassing own-account workers and employers (working proprietors of unincorporated enterprises) — has been an increasing focus of attention in many countries. With slower growth, economic crisis, unemployment and the pursuit of structural adjustment accompanied by a disillusionment with centralised planning and the public sector as instruments for promoting growth and full employment, hopes are raised for self-employment as a means of injecting new vitality into economies while creating employment, income and wealth. There is a growing ascendency of free market philosophies emphasising private initiative and enterprise as the mainspring of economic progress. This new wave in the 1980s represents a reversal — perhaps temporary perhaps enduring — in the long-term trend where non-agricultural self-employment has declined with modernisation and development and the urban labour force has become increasingly occupied in regular protected wage employment. The implications of this tendency for the structure and nature of employment may be substantial.

In the past the ILO devoted relatively little attention to urban self-employment. Its major thrust has been in support of workers who are wage or salaried employees, where labour can be organised and protected. There has been little general analysis on the self-employed and their role in employment creation, investment and economic growth. When the Governing Body of the ILO decided to place the subject of self-employment promotion on the agenda of the annual International Labour Conference for a general discussion in 1990, it was therefore necessary to commission some background studies to provide more detailed information and analysis on the characteristics of the self-employed, their motivation, earnings and social protection as well as the overall institutional, policy and regulatory framework affecting self-employment. The studies have covered industrialised market economies in addition to Hungary, Ecuador, Mexico, Algeria, Senegal, Kenya and China.

The present study — on Kenya, by William House, Gerrishon Ikiara and Dorothy McCormick — provides a wealth of information on the urban self-employed and on small-scale enterprises as well as on programmes and policies affecting their development. The employment challenge facing Kenya is daunting, given its continuing rapid population growth and already significant unemployment. The Government has recently given high priority to the promotion of rural non-agricultural self-employment, especially to stem migration, and to self-employment in the urban informal sector. That multifaceted and multi-level programme, if successful, will not only create an enabling environment but will also equip and motivate larger numbers of Kenyan men and women to succeed in self-employment. Thus Kenya stands out for its innovative and comprehensive policy. It is an experiment to be followed and from which others can draw lessons.

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I. Introduction

The current and future challenge to development planners in Kenya has been unambiguously presented in recent government policy statements. Set against a background of unprecedented population increase, with the annual growth rate approaching 4 per cent, and where opportunities to open up new land to accommodate this increase on traditional small-scale farms are severely restricted, Kenya must embark on a very new strategy of development. Between 1984 and the year 2000 the country's population is projected to grow from 19.5 million to a minimum of 35 million; the labour force will grow from 7.5 million to 14 million. To maintain the prevailing rate of unemployment it will be necessary to double the number of available jobs over this 15-year period. With current patterns of rural-urban migration flows, the urban population will rise from 3 million (15 per cent) to 10 million (over 25 per cent of the total), exerting tremendous pressures on the absorptive capacity of urban labour markets and the ability of the country's limited resources to provide basic social services.

The Government's medium-term strategy to meet this challenge aims to propel the country along a path of development which will guarantee the provision of basic human needs for all citizens. The foundation of this approach has been stated in Sessional Paper No. 1 of 1986 on Economic management for renewed growth (Kenya, 1986) and in the Development Plan, 1989-1993 (Kenya, 1989a). It relies on eight inter-related targets:

- renewed rapid economic growth (5.6 per cent per annum between 1984 and the year 2000);
- rapid job creation to absorb the larger workforce;
- increased productivity in agriculture to ensure food security for the nation;
- widespread rural non-farm activity to provide jobs outside the central cities;
- a dynamic informal sector creating jobs at low cost and catering to people's needs at all income levels;
- a restructured industrial sector, employing more workers at higher productivity and creating exports in manufactured goods;
- an improved distribution of income; and
- meeting the basic human needs of all Kenyans including: food, shelter and clothing, which is dependent on growing employment and incomes at the level of the individual household; and education, health and water, where Government plays a greater role and which requires a growing revenue base (Kenya, 1986, p. 1).

Major emphasis is given to the need to generate greater employment opportunities "on small farms, in very small-scale industry and services, or in self-employment" (Kenya, 1986, p. 1) where the capital requirements to create a new job are only a fraction of the K.£16,000 of the modern sector.

The focus of this paper is on prospects for urban employment growth, particularly in small-scale operations and activities by means of self-employment. It should be emphasised, however, that a principal concern
of the government is with expanding rural non-farm self-employment, where success depends crucially on achieving a viable and prosperous farm economy. Urban growth is accepted as inevitable, however, and a necessary consequence of past and present migration to the capital city of Nairobi. Hence, there is still need to foster the growth of self-employment opportunities, especially in the urban informal sector (which, of course, includes wage- as well as self-employment). Success in attaining the overall objectives of the development strategy, however, would reduce the growth of population in Nairobi and Mombasa and so reduce the need to generate urban self-employment.

What is the rationale for the government's strategy which relies so heavily on stimulating self-employment opportunities in rural areas and in the urban informal sector? The main reason offered in many countries for promoting small-scale enterprises is that the demand for otherwise surplus labour is increased, which raises the income of the poorest groups in society. This is a result of the employment that the self-employed (own-account workers and working proprietors) create for themselves and for others (casual and regular wage employees, apprentices and unpaid family workers). However, small enterprises must be shown to employ both labour and capital more efficiently than larger units, given their real social costs, so that national output grows faster from their encouragement.

1. The rationale for promoting self-employment and small-scale enterprises

What is the justification for the Kenyan Government's heavy reliance on the promotion of those attached to the informal sector and the small-scale enterprise sector (of which some of the latter may belong to the formal sector in the sense that they are registered, licensed, housed in permanent buildings and use a more capital-intensive technology than those found in the informal sector)?3 And what general evidence is there that reliance on informal sector expansion will generate higher economic growth, via more appropriate technologies and an improved distribution of income, from employment expansion and income generation for poor and vulnerable groups of the population? What general lessons can be learned by Kenyan planners from the experiences of various policies and programmes to promote self-employment and the informal sector around the world? It is thus useful to briefly review findings with respect to analyses of micro enterprises, as well as interventions in other countries and regions, as an introduction to our analysis of the situation in Kenya.

The main reason offered for promoting small-scale (micro) enterprises as against larger enterprises is that the demand for unskilled and otherwise surplus or underutilised labour is increased, which promotes income and employment growth amongst the poor and so reduces poverty. To be accepted, proponents of this policy must also show that aggregate output will not fall as a result, since this might offset the promised income redistribution effect. The most convincing evidence would be if small enterprises employ both labour and capital more efficiently than larger production units, given their real social or opportunity costs, so that national output would rise as well as being distributed more equally (Little, Mazumdar and Page, 1987, p. 5). The static case for promoting such smaller units is that they use factors of production more efficiently, given their social costs. However, if they use both more labour and more capital to produce a unit of output then their promotion cannot be justified on efficiency grounds.
Even if small enterprises are more socially efficient and they employ more labour per unit of output, additional evidence on the extent of their competitiveness with the output of larger enterprises should be examined before their promotion can be justified economically. If their products do not compete with those of larger enterprises, then a reduction in the costs of production of small-scale units would lead to only a limited increase in their sales as demand would not switch from the output of larger to smaller units. A greater increase in their markets and a rise in the demand for labour by micro enterprises would result from a reallocation of the pattern of overall demand in favour of their products. This might be accomplished by a redistribution of income, if indeed it is established that their goods and services are purchased largely by the poor.  

Alternatively, in some productive sectors, the output of micro and large enterprises may be highly competitive such that a small change in the relative costs of production would lead consumers to switch their demand towards the more labour-intensive small plants, so that the demand for labour would be correspondingly increased.

To know whether there is much to be gained by a policy of favouring small-scale enterprises (or ceasing to disfavour them) requires disaggregated inquiry into the nature of markets because the degree of competitiveness between small-scale enterprises and large-scale enterprises will vary a great deal with the production sector ... many of the failures of targeted approaches to aiding small enterprises, including the training of handicraft workers, seem to be attributable to a failure to ask whether an increased output - of products or of skilled workers - would find a market (Little, Mazumdar and Page, 1987, p. 6.)

From their empirical study of narrowly-defined manufacturing sectors in India, Little, Mazumdar and Page (1987, pp. 313-314) found that the employment size of an enterprise is a very poor indicator of its capital intensity and productivity as well as of total factor productivity and technical efficiency. They found that many small enterprises with less than ten workers were not the most labour intensive, while their capital productivity and technical efficiency were very rarely the highest among size classes in their industry. They found that differences in labour intensity between industries were much greater than differences existing between enterprises within an industry. Therefore, they conclude that policies should be favoured which alter the patterns of demand in favour of labour-intensive industries. To this end, measures to promote exports, farm output, particularly that of small farmers who have been found to be more efficient, and income redistribution would help to raise the overall rate of growth of employment.

In addition, they argue that banks should be permitted to charge higher rates of interest for loans to small firms, since they are both more risky and more costly to administer. On the other hand, the authors claim that while very small manufacturing firms with less than ten workers should not be relied upon for the efficient employment of factors of production, they must also not be discriminated against. The overall objective of supply-side intervention in favour of such small firms must be to identify individual winners and to provide them with the necessary inducements. Positive intervention is more likely to be successful at a stage when evidence already exists of some initial individual success. While these findings are based on Indian data, they likely have broader relevance, and are at least a basis for plausible hypotheses.
By its very nature, self-employment income, particularly that arising from the informal sector, is notoriously difficult to define conceptually and to measure correctly. The self-employed receive the rewards of their labour, either in kind or from the profits of the sale of their output. Differentiating between the returns to labour, land, capital and entrepreneurship is an almost impossible task (van Ginneken, 1988, p. 94). Notwithstanding these difficulties, many investigations into the functioning of the urban informal sector have compared the earnings levels of the self-employed with rewards in the rest of the economy. The general impression is that the self-employed in the informal sector perform as well as or better than many in formal sector jobs as revealed in surveys from Kumasi, Nouakchott, Freetown, Calcutta and Bangkok (Kahnert, 1987). In urban Juba, southern Sudan, House (1987) found that the great majority of self-employed proprietors of informal enterprises earn more than the minimum wage in government service, although this was true of only one-third of wage employees in the sector. Particularly low earnings of employees in the informal sector in Africa are reported in the ILO's African Employment Report 1989 (p. 74).

Vijverberg (1988a, 1988b) concluded from his study of non-agricultural family enterprises in the Côte d'Ivoire that self-employment was often the outcome of an adverse selection process: self-employed workers had poorer wage employment alternatives than the average wage worker. Yet, they received a bonus in the form of returns to capital that may help to compensate for the lower marginal returns to labour such that they may still view work in the family enterprise as the most attractive employment alternative. Indeed, he found monthly rates of return to capital to vary significantly, but to be generally very high, indicating the relative scarcity of capital. He concludes that a public policy to make capital more widely available would be beneficial for the smallest enterprises as well as being economically efficient.

Other research in various geographic settings has confirmed that the self-employed in small-scale enterprises obtain higher rewards than if they were in wage employment in the formal sector. In Mogadishu, Aboagye (1988) found that informal artisans receive incomes far above those of senior government officials while the wages of employees in the informal sector are greater than incomes in the modern sector. Teilhet-Waldorf and Waldorf (1983) considered the self-employed in the three occupational groups of vendors, brick-haulers and carriers, and shopkeepers in the informal sector of Bangkok. They found that average earnings were significantly higher than those of unskilled workers in formal employment, both within government and in private industry. About one-third of their sample had moved to self-employment from being wage earners in the formal sector.

It must be repeated that what is beneficial for the self-employed in the informal sector is not necessarily to the advantage of their employees. Leys (1973), in his review of the ILO report on Kenya which first gave wide publicity to the informal sector (ILO, 1972), claimed that the informal sector is exploited by the formal sector which is enabled to pay low wages to its employees because of the cheap goods and services produced by small enterprises and purchased by formal sector employees. Kashyap and Singh (1987) examined the urban informal sector in Gujarat and found wages and working conditions to be dismal and concluded that the degree of exploitation is higher than in the formal sector. "Various studies indicate that informal sector enterprises resist modernisation, exploit labour, and are not amenable to control. It is, therefore, unlikely that any special effort to nurse this sector would serve any socially desirable purpose." (Kashyap and Singh, 1987,
In Egypt, also, Abdel-Fadil (1983) found small-scale enterprises to pay wages substantially below those received by employees in the modern sector.

Growth of flexible, "atypical" employment patterns, such as putting out work also found in the urban informal sector is seen by some commentators to represent an open challenge to all the basic principles which have previously determined the development of labour law. The consequences of the present trends in both developed and developing countries towards widespread informal employment contracts and growing self-employment are felt by Cordova (1986) to be enormous, even potentially disastrous, both with respect to protective labour legislation and the balance of labour relations. While accepting that the self-employed in the informal sector often earn more than formal sector employees, and that they are not necessarily more vulnerable than other workers, the ILO (1988) is concerned about their lack of social protection and the non-regulation of working conditions. Work is often highly irregular, with earnings and employment directly dependent on current sales of goods and services, and for some, the lack of legal status can mean periodic harassment by overzealous policemen. This is often the case for street vendors of food and vegetables, and for those selling many other goods and services.

2. General policy lessons from programmes to promote self-employment and the informal sector

The emergence of self-employment and wage employment in the urban informal sector in developing countries can be viewed as a reflection of the failure of development planning to create adequate job opportunities in the formal or modern sector (ILO, 1987, p. 9). Its growth might be viewed as a corrective response to the lack of employment creation in the capital-intensive sector so that the urban economy's human resources are utilised more fully. The co-existence of the dualistic formal and informal sectors is sometimes thought to reflect the prevalence of certain market imperfections and barriers to entry to the capital-intensive, high-productivity sector.

The emergence of the informal sector can therefore be interpreted as a manifestation of the adjustment process. To the extent that this process is muted by market imperfections, it is evident that the object of research and action in this field should be to examine the pervasiveness of such imperfections and their consequences and, in the light of the findings, suggest remedial measures. The need for intervention cannot be overemphasised given the misallocation of resources that the process entails besides equity implications. (ILO, 1987, p.10.)

This short section examines some of the broad implications and general lessons derived from various programmes and policy interventions to promote urban self-employment and the growth of small-scale enterprises in various parts of the world. In turn, they can be used later as guidelines and standards against which to assess prevailing and proposed programmes and policies for the sector in Kenya.

Many of the most common constraints faced by would-be self-employed entrepreneurs have been identified in numerous surveys of the informal sector conducted around the world in recent years. They include the lack of capital, both finance and physical equipment, technical know-how, lack of suitable working premises and the relatively high cost in both time and fees of
becoming registered and licensed. Other related problems often mentioned include shortages of raw materials, difficulties of obtaining credit from financial institutions and the absence of institutional support. Once started they face problems relating to the limited size of the market, perhaps because of competition from other informal sector operators as well as from the formal sector, lack of working capital, inadequate managerial and technical skills, including skilled workers, poor infrastructure, and insecurity of tenure because of the often negative attitude of the authorities.

In her review of over 20 micro-enterprise promotion programmes from various countries, Stearns (1985) used four important criteria to evaluate their impact: the degree of employment created; the extent to which incomes were raised; the level of financial self-sufficiency attained; and the number of people who benefited. She concludes that the most effective programme design is one which targets very poor entrepreneurial clients, emphasises credit rather than business education, relies on client self-selection rather than programme staff for assessing creditworthiness, and initially extends very small loans with the proviso that larger sums will be forthcoming if repayment is full and prompt. A programme with these characteristics lends itself to institutionalisation and helps to empower the poor via community-level organisations. Programmes which create links between the informal and formal sectors are to be encouraged when, if institutionalised, they create greater opportunities for micro enterprises. More traditional programmes which stress business education as well as credit are found to be the least successful. They are expensive, teach very few clients, and do not raise incomes any more than programmes which alone focus on credit.

From his review of the USAID-funded PISCES project (Programme for Investment in the Small Capital Enterprise Sector), Ashe (1981, 1985) found that, within the category of small urban enterprises, there are distinct levels of potential beneficiaries that correspond closely with the most appropriate type of project assistance. At the lowest level (Level One) are persons not conceiving of themselves as entrepreneurs but undertaking some meagre activity - often petty trade - for mere subsistence. At Level Two are people with a good comprehension of business practices and with a viable going concern. They invest whatever limited resources they have in their businesses. At the highest level (Level Three) the entrepreneurs have better business skills, they understand their markets and can be flexible enough to expand when the occasion arises.

Marginal workers in Level One are often assisted by community-based programmes whose concern is with such basic services as health, education, nutrition and sanitation as well as with enterprise development and income generation. The process of creating new individual and group businesses is usually undertaken as part of an integrated community development effort which promotes collective solutions to problems. At Level Two, programmes often attempt to create small informal groups of business owners from the community where loans are collectively guaranteed. Level Three micro-entrepreneurs have an acceptable inventory, a credit history and someone to co-sign a loan for them so that they can often be reached by innovative bank programmes.

The enterprise development programmes of PISCES provide credit and sometimes organisational and simple management assistance to already existing businesses. Group programmes are aimed at Level Two and individual programmes are aimed at Level Three clients. The emphasis on the solidarity group and loan payback has several redeeming features. Funding from outside sources is
assured by a low default rate which ensures the continuity of the loan fund. Group cohesion is reinforced by ensuring that the loan repayments are made on schedule.

Experiences in individual programmes aiming to reach slightly larger businesses were also encouraging. The projects directly administered by banks share three characteristics: a separate unit in the bank is established to serve micro-enterprises; simple procedures for administering loans; and formalised contractual relationships with formalities held to a minimum. Ashe found that these businesses were able to grow without written records or formal management skills. Credit is often the binding constraint and by keeping loans small – from $200 to $1,000 – and by ensuring frequent loan repayments and tight supervision, the projects avoided the high rates of default of so many other credit schemes.

Two of the integrated projects considered by Ashe were based in Kenya and they are reviewed later in this paper. Apart from a concern to create new individual and collective enterprises and to provide training in management, marketing and skills, this type of programme attempts to improve overall socio-economic conditions in the community.

In the most effective projects, programme inputs reflect the plans and desires of the clients and stay close to the level of skills and knowledge existing in the community. Programmes following this precept tend to be simple and low cost, and closely involve the community groups in planning and execution. The following specific attributes were present in successful projects:

(i) Design: most projects were developed only after the problems of the poor were identified. Programme modifications were made via the daily interaction with the beneficiaries;

(ii) Staffing: field staff need not be trained in business while their most important skill is the ability to relate to the people in poor communities;

(iii) Outreach: to reach the target group project staff must obtain acceptance in the community for themselves and the programme;

(iv) Selection: to help the very needy, the most important selection criterion is the individual client's reputation for credit-worthiness among community residents before acceptance into the group;

(v) Loans: loans should be initially small and should be for a maximum of six months. Interest charges should fully cover loan costs while the payback periods should reflect the cash flow cycle of the business, perhaps daily in the case of hawkers and vendors and monthly in other cases.

(vi) Job skills training: programmes should combine job skills training with business training and intensive follow-up.

(vii) Marketing: the demand for skills and products within local communities must be identified as a prerequisite to initiating training and enterprise promotion. Where potential markets lie outside the community, direct intervention may be required to establish marketing channels for client enterprises.
Ashe concludes that owners of urban micro-businesses can use small loans and other assistance productively and effective mechanisms exist for delivering help. Donors need to find ways to work with a multitude of implementing agencies including small local and national non-governmental organisations, larger co-operatives, national development agencies, banks and government agencies.

Some of these conclusions are endorsed by Hill (1983) in his overview of A.T. International's role in the development of the small-scale enterprise sector, based on case studies of urban informal sector promotion programmes in Brazil and the Philippines. Credit emerges as the service offered of greatest utility. Testing a first-time client with a very small loan enables the client to display his credit-worthiness while building his self-confidence and familiarity with the credit institution. Subsequent loans of increasingly larger amounts, dependent on the repayment of the last, keeps risks manageable and ensures that the credit is utilised effectively. Credit-worthiness was confirmed with realised repayment rates of over 90 per cent. Hill asserts that universal administration of management training is not cost-effective and believes that the most widely appreciated training comes in the form of practical tips on an informal, on-site basis, e.g. how to open a bank account, where to purchase supplies, how to avoid official harassment, etc. In terms of technical advice, it was revealed that training in equipment maintenance and repair is often lacking and should be an important aspect of programming.

Sethuraman (1985) assesses policies for the informal sector in Indonesia but some of the ingredients of his strategy for employment promotion have universal applicability. He accepts that, while the sector has been deprived of credit, training and technical advice, the availability of resources is not the only problem. The general policy environment, particularly in large urban centres, has not been conducive to the development of the informal sector. In addition, a suitable institutional network is required to communicate with, and channel assistance to, the sector. Activities should be promoted which display growth potential and scope for productivity increase through technological change, capital accumulation and skill development. In this case, policies should favour the promotion of manufacturing, construction and transport sectors, as opposed to trade and service activities where growth is largely involutionary via the multiplication of enterprises, rather than evolutionary or productivity enhancing.

Financial and trade policies at the macro level can significantly influence the evolution of opportunities in the urban small-scale enterprise sector. The allocation of investment within the formal sector is an important instrument for promoting or dampening employment generation in the informal sector. The strengthening of links to the formal sector is viewed as an important way to widen the market for informal sector goods and services. Tariff and exchange rate policies can significantly influence the extent to which the small-scale self-employed can acquire strategic imported raw materials and tools and equipment. Yet a weak aspect of government policy arises from the fact that no single agency is made responsible for the execution, monitoring and evaluation of the policy's impact.

3. The study

Having identified a broad consensus of opinion on the shape and form that a programme of assistance for the urban self-employed should take we now focus explicitly on the Kenyan situation in the remainder of the paper. Section III considers the relative importance and the nature of self-employment and the
informal sector in urban Kenya at the present time and that projected by government planners for the year 2000. Evidence is presented on the conditions of work, the level and determinants of incomes being generated, and the types of technology employed in the Kenyan urban informal sector from a limited number of recent sample surveys. It is suspected that the small-scale sector employs between 40 to 60 per cent of the Kenyan urban labour force of which perhaps a third is self-employed, and the sector contributes between one-quarter and one-third of total urban incomes. Several surveys of Nairobi's self-employed are reported which show that their young age structure is partly a reflection of the failure of the modern sector to create adequate employment opportunities. Despite high turnover of small-scale businesses, earnings are often nevertheless relatively high compared with those in low-skilled wage jobs in the modern sector.

Section III documents prevailing obstacles to entry and growth into major types of urban self-employment and the problems involved in expanding operations. A survey of the various constraints on entry and expansion is made and includes those relating to management and technical skills, capital and physical resources, and market limitations. An important addition here is that which examines legal barriers to self-employment in Kenya and the obstacles faced by self-employed professionals. Section IV surveys the various kinds of programmes currently employed in Kenya to promote small-scale enterprises and considers some necessary changes to facilitate the success of these policies. It also reviews the government's latest proposals to promote self-employment on a more rational basis. Income-generating group-based projects and community-level programmes are reviewed and some policy implications are drawn. Institutional programmes for promoting investment and the supply of finance to the small-scale sector are reviewed and suggestions are made for policy reform. Finally, non-financial promotional programmes are surveyed together with the way the labour market regulatory framework and industrial and commercial policies interact with these policies. Section IV also examines the latest stated intentions of the Kenyan Government to improve the general enabling environment for promoting self-employment. Major conclusions of this study are briefly summarised in Section V.

II. The size and nature of self-employment in the Kenyan economy

1. Overall employment

Table 1 portrays the level and relative distribution of estimated employment in the whole of Kenya in 1987 and that projected for 1993. Rural employment, defined as the sum of non-wage agriculture, farm and rural non-farm wage employment, accounts for over three-quarters of the total during the whole period. The anticipated moderate growth of employment in the modern wage sector indicates the need for an increasing number of Kenyans to seek employment in the urban informal sector, whose share of the total is projected to rise from 4.9 per cent in 1987 to 7.1 per cent in 1993. Success in raising farm productivity and agricultural incomes, according to the Development Plan's overall strategy, might also be expected to raise off-farm self-employment in rural Kenya, the consequences of which are encompassed in row (i) of table 1, where the share of rural employment in the total declines from 78.7 to 76.4 per cent. The projected fall in the share of traditional agriculture, therefore, would be nearly offset by a rise in the share of rural non-farm employment.
Table 1. Employment in Kenya by sector, 1987-93

<table>
<thead>
<tr>
<th>Sector</th>
<th>Actual (000s) 1987</th>
<th>Targeted (000s) 1993</th>
<th>% growth p.a. 1987-93</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Rural employment</td>
<td>6 252.4 (78.7)</td>
<td>7 803.0 (76.4)</td>
<td>3.8</td>
</tr>
<tr>
<td>(ii) Urban informal sector (wage and self-employment and unpaid family workers combined)</td>
<td>393.0 (4.9)</td>
<td>730.2 (7.1)</td>
<td>10.6</td>
</tr>
<tr>
<td>(iii) Modern sector:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage employment</td>
<td>1 263.3 (15.9)</td>
<td>1 620.9 (15.9)</td>
<td>4.1</td>
</tr>
<tr>
<td>Self-employment and unpaid family workers</td>
<td>38.1 (0.5)</td>
<td>61.0 (0.6)</td>
<td>8.3</td>
</tr>
<tr>
<td>(iv) Total economy</td>
<td>7 946.8 (100.0)</td>
<td>10 215.0 (100.0)</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Note. No breakdown of the informal sector into wage and self-employment is available from the Development Plan 1989-1993. The percentage share of total employment is in parentheses.


Table 2 takes a longer term view of the labour market to the year 2000. Past population growth has already determined the size of the labour force in the year 2000; potential workers at that time are already born such that the labour force will have risen to about 14 million, representing an annual growth rate of 3.9 per cent. If the economy's annual rate of job creation were to improve slightly over the recent past to 3.4 per cent during the projection period, those without work in the residual would still increase substantially. Projection A shows that this residual, which includes unenumerated urban wage and casual workers and self-employed in the informal sector, as well as the unemployed, will rise from 13 per cent of the labour force to over 20 per cent by the end of the century. If this residual is to fall below its 1984 level, say to 10 per cent as portrayed in projection B in table 2, an additional 1.5 million jobs will need to be created. The implied employment growth rate of 4.2 per cent per annum over the whole period is unprecedented in Kenya.

Given the projected GDP growth of 5.6 per cent p.a., projection A of table 2 implies labour productivity rises by 2.1 per cent p.a. By maintaining the same GDP growth rate, but lowering the residual to only 10 per cent of the labour force by the year 2000, implies that productivity grows by only 1.3 per cent per year in projection B. In this case the job creation rate would be even greater; 3.8 per cent per year on small farms, 4.5 per cent per year in the modern and urban informal sectors and 5 per cent per year in the rural
<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>2000¹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Labour force</td>
<td>7 500</td>
<td>14 000²</td>
<td>14 000²</td>
</tr>
<tr>
<td>(100.0)</td>
<td>(100.0)</td>
<td>(100.0)</td>
<td></td>
</tr>
<tr>
<td>Employment³</td>
<td>6 520</td>
<td>11 150</td>
<td>12 600</td>
</tr>
<tr>
<td>(87.0)</td>
<td>(79.6)</td>
<td>(90.0)</td>
<td></td>
</tr>
<tr>
<td>(i) Modern wage sector</td>
<td>1 150</td>
<td>2 060</td>
<td>2 330</td>
</tr>
<tr>
<td>(15.3)</td>
<td>(14.7)</td>
<td>(16.6)</td>
<td></td>
</tr>
<tr>
<td>(ii) Non-wage agriculture</td>
<td>3 860</td>
<td>6 490</td>
<td>7 030</td>
</tr>
<tr>
<td>(51.5)</td>
<td>(46.4)</td>
<td>(50.2)</td>
<td></td>
</tr>
<tr>
<td>(iii) Rural non-farm⁴</td>
<td>1 310</td>
<td>2 250</td>
<td>2 840</td>
</tr>
<tr>
<td>(17.5)</td>
<td>(16.1)</td>
<td>(20.3)</td>
<td></td>
</tr>
<tr>
<td>(iv) Urban informal sector</td>
<td>200</td>
<td>350</td>
<td>400</td>
</tr>
<tr>
<td>(2.7)</td>
<td>(2.5)</td>
<td>(2.9)</td>
<td></td>
</tr>
<tr>
<td>Residual⁵ (row 1 minus row 2)</td>
<td>980</td>
<td>2 850</td>
<td>1 400</td>
</tr>
<tr>
<td>(13.0)</td>
<td>(20.4)</td>
<td>(10.0)</td>
<td></td>
</tr>
<tr>
<td>Implied productivity growth (per cent p.a.)</td>
<td></td>
<td>2.16</td>
<td>1.36</td>
</tr>
</tbody>
</table>

¹ Projections for the year 2000: A: approximate historical levels of employment growth in each category; B: sufficient acceleration of employment growth to reduce the "residual" to 10 per cent of the labour force.

² Based on demographic projections in the Development Plan 1984-88, table 6.4, p. 144, plus an assumed reduction in the participation rate of the working-age population (15-59 years) from 85 to 82 per cent.

³ Including the self-employed as well as wage employees and unpaid family workers.

⁴ Most rural non-farm jobs are part-time work performed by family farm workers.

⁵ Calculated as a residual between rows 1 and 2. The residual includes urban wage earners not enumerated in the annual surveys; casual workers; and the unemployed, including some of those not seeking work. The residual gives an upper limit estimate of the level of unemployment, for which direct estimates are not available.

⁶ Based on 1984-2000 projected GDP growth rate of 5.6 per cent per annum.

off-farm sector. The challenge is clearly stated in Sessional Paper No. 1 of 1986:

"One of Government's major development tasks is to find ways to help the rural and urban informal sectors take on additional workers equal to 116 per cent of their current numbers, without sacrificing productivity gains (Kenya, 1986, p. 9)."

To the extent that this can be achieved, the realised growth of GDP may well exceed the projected rate such that overall employment is boosted while the size of the residual in the labour force is reduced.

The concern of the remainder of this paper is largely with the urban self-employed, including those in the informal sector, particularly in Nairobi. We begin by assessing the size of the sector in the urban economy, the state of technology used and the level of incomes generated.

2. Urban employment

A small number of data sources are available on numbers engaged as self-employed and unpaid family workers, for urban areas and for the national economy. One series derives from the publication *Employment and earnings in the modern sector* for the period 1980 to 1985. For the urban economy the series covers enterprises in the formal sector as well as small-scale, informal enterprises. In the rural economy it covers the formal sector, including farm and non-firm activities, but excludes the subsistence and the small-scale enterprises sector. Table 3 shows the relative growth of wage employment and of self-employment in both Nairobi and nationally and measures changes in Nairobi's shares over time. Self-employed professionals are included in the series.

Table 3 shows a growth between 1980 and 1985 in the share of employment of the self-employed and unpaid family workers in both Nairobi, 15 per cent to almost 18 per cent, and in Kenya from almost 16 per cent to nearly 18 per cent. As for the relative size of the small-scale enterprise sector in the urban economy, which contains most of the urban self-employed, it is suspected that it employs between 40 to 60 per cent of the labour force, including wage earners in the informal sector and unenumerated self-employed, and contributes between one-quarter and one-third of total urban incomes (Kenya, 1989a, p. 201).

Evidently, the government's attempt to diversify employment growth in order to attain a better rural-urban balance, one of the key components of its planned economic strategy, was not very successful in this period since the growth rate of wage employment and self-employment was greater in Nairobi. The capital's share of both forms of employment rose marginally over the first half of the decade.

3. The nature of self-employment in urban Kenya

What is the nature of activities undertaken by the self-employed compared with wage employees in Kenya's urban economy? While data are not separately available for Nairobi, table 4 presents the most recent information available, generated from the 1986 Urban Labour Force Survey conducted by the Central Bureau of Statistics.
Table 3. Numbers employed as wage earners and as self-employed and unpaid family workers (UFW), Nairobi and all Kenya, 1980-85 (000s)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1983-85</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1980-85</td>
</tr>
<tr>
<td>Nairobi</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage employment</td>
<td>274.2</td>
<td>309.8</td>
<td>327.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Self-employed and UFW</td>
<td>48.6</td>
<td>55.5</td>
<td>69.7</td>
<td>12.1</td>
</tr>
<tr>
<td>Total</td>
<td>322.8</td>
<td>365.3</td>
<td>396.9</td>
<td>4.2</td>
</tr>
<tr>
<td>% share, self-employed</td>
<td>15.1</td>
<td>15.2</td>
<td>17.6</td>
<td></td>
</tr>
<tr>
<td>All Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage employment</td>
<td>1005.7</td>
<td>1093.3</td>
<td>1174.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Self-employed and UFW</td>
<td>185.0</td>
<td>246.1</td>
<td>249.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td>1190.8</td>
<td>1339.4</td>
<td>1423.4</td>
<td>3.1</td>
</tr>
<tr>
<td>% share, self-employed</td>
<td>15.5</td>
<td>18.4</td>
<td>17.5</td>
<td></td>
</tr>
<tr>
<td>Nairobi's share of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage employment</td>
<td>27.3</td>
<td>28.3</td>
<td>27.9</td>
<td></td>
</tr>
<tr>
<td>Self-employment</td>
<td>26.3</td>
<td>22.5</td>
<td>28.0</td>
<td></td>
</tr>
<tr>
<td>Total employment</td>
<td>27.1</td>
<td>27.3</td>
<td>27.9</td>
<td></td>
</tr>
</tbody>
</table>


For paid employees in table 4, three occupational groups are dominant: professional and technical; administrative, managerial and clerical; and service workers. There are significant differences by sex in that large numbers of men are found in construction and packing, loading and transport occupations. Females are largely absent from these categories and more concentrated in the three dominant occupation groups. Two groups, sales workers and agriculture, forestry and related workers dominate the distribution of the self-employed. Almost 20 per cent of the urban self-employed labour force are engaged in agricultural activities reflecting peri-urban areas located within municipal boundaries. The distribution of the female self-employed is much more concentrated than either for the male self-employed or for female paid employees. Over 80 per cent of the female self-employed are found as sales and agricultural workers. Evidently, males, and especially females, have many fewer opportunities to enter the
professional and administrative occupations as self-employed rather than as paid employees.

Table 4. Distribution of the employed urban labour force by employment status, occupation and sex

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Paid employees</th>
<th></th>
<th>Self-employed and UFW</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
<td>Total</td>
<td>Males</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Females</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Professionals and technical</td>
<td>17.7</td>
<td>26.2</td>
<td>20.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Administrative, managerial, clerical</td>
<td>20.2</td>
<td>29.1</td>
<td>22.9</td>
<td>9.6</td>
</tr>
<tr>
<td>Sales workers</td>
<td>4.2</td>
<td>0.9</td>
<td>3.2</td>
<td>37.7</td>
</tr>
<tr>
<td>Service workers</td>
<td>20.8</td>
<td>33.7</td>
<td>24.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Agriculture, forestry</td>
<td>2.4</td>
<td>5.9</td>
<td>3.4</td>
<td>13.0</td>
</tr>
<tr>
<td>Production, manufacturing</td>
<td>6.2</td>
<td>2.4</td>
<td>5.0</td>
<td>9.2</td>
</tr>
<tr>
<td>Smiths, welders and sheet metal</td>
<td>17.3</td>
<td>0.6</td>
<td>12.2</td>
<td>14.6</td>
</tr>
<tr>
<td>Packing, loading and transport</td>
<td>11.3</td>
<td>1.2</td>
<td>8.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


In the urban informal sector, which excludes self-employed professionals, 80 per cent of the self-employed in Nairobi work full-time compared with 70 per cent in all of urban Kenya (Ritter and Robicheau, 1988, table 7, pp. 18-19). Of the paid employees, 44 per cent are regular full-time and 36 per cent are casual workers. Casual work is more widespread in Nairobi than elsewhere in urban Kenya. Table 5 shows that, in general, paid employees work longer hours than the urban self-employed (average of own-account workers and employers), regardless of sex. Women work slightly less than men in both employment statuses. However, the distribution of hours worked per day is positively skewed and the mean is a poor reflection of this measure. The modal number of hours worked per day for both sexes is eight.

Table 6 shows the number of registered self-employed professionals working in Nairobi in 1988. It should be noted, however, that these numbers grossly underestimate the actual number of self-employed professionals working in the city. Estimates by officials of professional bodies indicate that as many as 50 per cent of Kenyan professionals currently operating are not registered with the relevant professional bodies for various reasons. The most important category of professionals is that of accountants, who accounted for 40 per cent of all the registered in the city in 1988. This was followed by medical practitioners, lawyers, architects and estate managers, surveyors and veterinary practitioners, in that order. The table shows that a large proportion of self-employed professionals working in Nairobi are non-Kenyan,
Table 5. Mean hours of work daily by sex and employment status

<table>
<thead>
<tr>
<th>Employment status</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid employees</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Self-employed</td>
<td>8.4</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>8.9</td>
<td>8.4</td>
</tr>
</tbody>
</table>


Table 6. Registered self-employed professionals operating in Nairobi, 1988

<table>
<thead>
<tr>
<th>Profession</th>
<th>Total number registered</th>
<th>Of which Kenyans:</th>
<th>Kenyans as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified public accountants</td>
<td>1 090</td>
<td>50</td>
<td>4.6</td>
</tr>
<tr>
<td>Management accountants</td>
<td>12</td>
<td>8</td>
<td>66.6</td>
</tr>
<tr>
<td>Clerks of works</td>
<td>55</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Secretaries and administrators</td>
<td>89</td>
<td>13</td>
<td>14.6</td>
</tr>
<tr>
<td>Town planners</td>
<td>19</td>
<td>4</td>
<td>21.1</td>
</tr>
<tr>
<td>Architects</td>
<td>112</td>
<td>29</td>
<td>25.9</td>
</tr>
<tr>
<td>Quantity surveyors</td>
<td>85</td>
<td>45</td>
<td>52.9</td>
</tr>
<tr>
<td>Engineers</td>
<td>41</td>
<td>11</td>
<td>26.8</td>
</tr>
<tr>
<td>Land surveyors</td>
<td>26</td>
<td>2</td>
<td>11.5</td>
</tr>
<tr>
<td>Building surveyors</td>
<td>30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Estate management surveyors</td>
<td>110</td>
<td>22</td>
<td>20.0</td>
</tr>
<tr>
<td>Builders</td>
<td>57</td>
<td>1</td>
<td>1.8</td>
</tr>
<tr>
<td>Geologists</td>
<td>76</td>
<td>2</td>
<td>2.6</td>
</tr>
<tr>
<td>Medical practitioners</td>
<td>290</td>
<td>31</td>
<td>10.7</td>
</tr>
<tr>
<td>Dentists</td>
<td>63</td>
<td>7</td>
<td>11.1</td>
</tr>
<tr>
<td>Physiotherapists</td>
<td>83</td>
<td>3</td>
<td>3.6</td>
</tr>
<tr>
<td>Radiographers</td>
<td>32</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Radiologists</td>
<td>12</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Food technologists</td>
<td>31</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Surgeons</td>
<td>26</td>
<td>8</td>
<td>30.8</td>
</tr>
<tr>
<td>Veterinary practitioners</td>
<td>110</td>
<td>7</td>
<td>6.4</td>
</tr>
<tr>
<td>Advocates</td>
<td>178</td>
<td>45</td>
<td>25.3</td>
</tr>
<tr>
<td>Arbitrators</td>
<td>44</td>
<td>14</td>
<td>31.8</td>
</tr>
<tr>
<td>Pharmacists</td>
<td>92</td>
<td>6</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2 763</strong></td>
<td><strong>309</strong></td>
<td><strong>11.2</strong></td>
</tr>
</tbody>
</table>

with Kenyans constituting only 11.2 per cent of the total. The most Kenyanised professional categories were management accountants, quantity surveyors, arbitrators, surgeons, architects and advocates.

The majority of professionals are in public sector employment, due to the fact that the government is the major provider of professional training. Most of the professionals are initially bonded to work for the government for a specific period. Another reason which has been given to explain why most of the professionals work for the government is that the start-up capital may be too high for young professionals who need to be employed for a number of years, initially with either the government or the private sector, to acquire resources, experience and business contacts.

The concentration of the professional self-employed in Nairobi is explained by the fact that the demand for professional services is largely generated from the capital city. A large proportion of the country's wage employees with effective demand for various professional services such as real estate, accounting, auditing, medical, insurance, banking, management and others, are to be found in Nairobi.

As a result of the rapid post-independence expansion of schooling the urban labour force in Kenya has become increasingly better educated and the gap between male and female attainments has diminished. Ritter and Robicheau (1988) report that the level of education of those employed in the informal sector shows considerable variety - a not surprising result, especially in view of the fact that it includes both the self-employed and employees. In table 7 some 24 per cent had no education; about 63 per cent had completed primary school; 25 per cent had some secondary schooling; and about 2.7 per cent had finished secondary school or had been to a post-secondary college or university.

Table 7. Distribution of educational attainments of the total urban labour force and the urban informal sector

<table>
<thead>
<tr>
<th>Urban informal sector</th>
<th>Urban labour force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>Urban Kenya</td>
</tr>
<tr>
<td>No schooling</td>
<td>18.3</td>
</tr>
<tr>
<td>Standard 1-4</td>
<td>10.4</td>
</tr>
<tr>
<td>Standard 5-8</td>
<td>37.4</td>
</tr>
<tr>
<td>Form 1-2</td>
<td>11.3</td>
</tr>
<tr>
<td>Form 3-4</td>
<td>18.3</td>
</tr>
<tr>
<td>Form 5-6 and above</td>
<td>4.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Sources. Columns (a) and (b) from Ritter and Robicheau (1988), table 8, pp. 22-23; column (c) from Kenya (1988), table 6-1, p. 36.
Apart from formal schooling there are other opportunities for skill development via the training activities undertaken by employers in the private sector and obtainable in various vocational institutions. In the 1986 Urban Labour Force Survey a distinction was made between "private" and "public" sources of job training. The former includes skill development obtainable from friends and relatives, apprenticeship programmes, on-the-job as well as formal course training by employers, and private schools and institutions such as driving schools and secretarial colleges. Public training activities include vocational schools, polytechnics, the National Youth Service (NYS) programme, institutes of technology and colleges and universities.12

The types of training received by the urban labour force, for each occupation group, are portrayed in table 8. About 60 per cent of males and nearly 75 per cent of females in the urban labour force have no formal private training. Apprenticeship programmes and on-the-job training by employers appear more common for male than female employees. In contrast, training received from private colleges and institutes is much more important for female employees. Training from relatives and friends is the most common form of private training for the self-employed. This is followed by training from private colleges and schools, while only a small proportion have received training from a previous employer.

Table 8. Percentage receiving job training of the urban employed labour force by source, employment status and sex

<table>
<thead>
<tr>
<th>Type of training</th>
<th>Paid employees</th>
<th>Self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>Private training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>61.6</td>
<td>74.0</td>
</tr>
<tr>
<td>Friend/relative</td>
<td>4.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Apprentice</td>
<td>1.6</td>
<td>0.0</td>
</tr>
<tr>
<td>By employer:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-the-job</td>
<td>15.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Courses</td>
<td>7.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Colleges/schools</td>
<td>9.3</td>
<td>15.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Public training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>66.6</td>
<td>65.6</td>
</tr>
<tr>
<td>Vocational schools</td>
<td>3.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Village polytechnic</td>
<td>2.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Institute of technology</td>
<td>2.4</td>
<td>0.4</td>
</tr>
<tr>
<td>National Youth Service</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>3.8</td>
<td>2.6</td>
</tr>
<tr>
<td>College</td>
<td>15.0</td>
<td>23.6</td>
</tr>
<tr>
<td>University</td>
<td>6.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Most respondents cited no specific public sources of training, especially amongst the self-employed. Colleges and universities are important sources of training for white-collar employees and polytechnics and institutions of technology cater for blue-collar employees. The self-employed are distinguished by the almost total absence of public sources of training. Apart from university and college training received by those in professional occupations, the minority of self-employed who have acquired some skills have done so through informal sources, apprenticeships and on-the-job.

If the government's ambitious targets for increasing productivity and job creation in the small-scale enterprise sector are to be realised then a more active promotional role in training activities must be taken. As the current Development Plan admits, most of the public training institutions in the country concentrate on school-leavers with the aim of developing technical and managerial skills for modern sector employment. Therefore:

To cater for the vast majority who are expected to be involved in self-employment activities, it is necessary to devise a training system through which the youth can be trained on apprenticeship basis in the appropriate market and technological environments... Government will institutionalise an informal training system through which youth can be trained on an apprenticeship basis to facilitate the transferring of certain skills traditionally practised within particular industries and communities. (Kenya, 1989, pp. 223-224.)

From the Urban Labour Force Survey it proved possible to examine the characteristics of small-scale enterprises in the informal sector. Respondents who claimed to be usually self-employed and whose businesses were not officially registered were classified as belonging to the informal sector. Self-employed professionals were also purposively excluded from this concept of the informal sector, so that these data are not comparable with the information on the self-employed contained in table 3 above. Since self-employed professionals, such as lawyers, engineers and doctors, who are engaged in small-scale enterprises are likely to be "formal" in character they were excluded from this definition of the informal sector. Thus, the informal sector here is composed of self-employed and non-professionals, working in unregistered businesses and whose average net pay is less than K.sh.20,000 ($1,000) per month; and employees of such enterprises (Ritter and Robicheau, 1988, p. 4).

A number of revealing characteristics of the informal sector are portrayed in table 9, although readers must be alerted to the small number of observations available, particularly for Nairobi. Together, one-third of all those employed in the urban informal sector are engaged in agriculture, the proportion being greater for employees. This result confirms the importance of agriculture revealed in table 4 and reflects the continuing expansion of city boundaries such that some farm areas lie within the municipalities. Over 52 per cent of the self-employed and 30 per cent of employees are engaged in wholesale and retail trade, hotels and restaurants. Community, social and personal services account for 12 per cent of entrepreneurs and almost 11 per cent of employees.

The structure of self-employment in Nairobi is different from that in other urban areas. Agriculture is much less important in the capital while the significance of manufacturing, trade and financial services is greater. Evidently, wage employment is much greater than self-employment in the informal construction sector, particularly in Nairobi.
Table 9. Percentage distribution of self-employed and paid employees in the informal sector in Nairobi and in urban Kenya by economic branch, 1986

<table>
<thead>
<tr>
<th>Sector</th>
<th>Self-employed</th>
<th>Employees</th>
<th>Persons engaged</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nairobi</td>
<td>All urban</td>
<td>Nairobi</td>
</tr>
<tr>
<td>Agriculture</td>
<td>13.0</td>
<td>23.7</td>
<td>37.6</td>
</tr>
<tr>
<td>Mining</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.0</td>
<td>4.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Electricity, water</td>
<td>0.0</td>
<td>1.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Construction</td>
<td>3.5</td>
<td>3.8</td>
<td>19.8</td>
</tr>
<tr>
<td>Trade</td>
<td>60.0</td>
<td>52.8</td>
<td>19.8</td>
</tr>
<tr>
<td>Transport/communications</td>
<td>1.7</td>
<td>1.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Financial services</td>
<td>2.6</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Personal services</td>
<td>12.2</td>
<td>12.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Sample size</td>
<td>115</td>
<td>557</td>
<td>101</td>
</tr>
</tbody>
</table>


From the complete Urban Labour Force sample just over one-third of total urban employment in Kenya, including both the self-employed and their employees, is engaged in this rather limited conceptualisation of the informal sector. From total urban employment, 22.7 per cent are engaged in non-agricultural small-scale enterprises, 13.2 per cent as self-employed and 9.5 per cent as employees. This proportion indicates that 301.6 thousand from an employed urban labour force of 1328.3 thousand are involved in the non-farm small-scale enterprise sector, with approximately 175.4 thousand self-employed (13.2 per cent) and 126.2 thousand employees (9.5 per cent). This estimate is high relative to the annual headcount of the Central Bureau of Statistics. It may be more accurate than the latter because it is based on a household survey rather than a headcount from identifiable enterprises in certain types of location only (Ritter and Robicheau, 1988, p. 26).

In addition, the Urban Labour Force Survey revealed that women constitute about 49 per cent of small-scale entrepreneurs which exceeds their 40 per cent share of the total urban labour force. However, women tend to concentrate in just a few sectors and account for 53 per cent of the self-employed in trade and 58 per cent of those in agriculture. Most of the other sectors are dominated by men. The proportion of women who are own-account workers vs. employers is not available.

It is interesting to observe that 56 per cent of small-scale enterprises in Nairobi, and 43 per cent in urban Kenya, operate from the home of the
owner, perhaps tending to confirm the comparative cost advantages of such 
home-based activities claimed by Straussman (1987).

Because the Urban Labour Force Survey excluded self-employed professionals 
and excluded other self-employed earning more than K.sh.20,000 per month, 
estimated earnings of the self-employed in the urban informal sector in table 
10 are necessarily biased and underestimated as a measure of self-employment 
earnings. Nevertheless, compared with the average monthly wage earnings of 
K.sh.1,902 in the modern sector in 1986, the earnings of the self-employed in 
the informal sector are relatively high. Indeed, the mean earnings of these 
entrepreneurs is only exceeded by the mean wages of employees in the modern 
sector in the finance and transport and communications sectors (Kenya, 1989b, 
table 4.9, p. 45). This high average remuneration of small-scale 
entrepreneurs perhaps helps to explain why over two-thirds of them claimed not 
to be interested in changing their jobs.

Table 10. Self-employed earnings in small-scale 
enterprises by economic sector, Nairobi 
and all urban Kenya (K.sh.)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Nairobi</th>
<th>Urban Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hour</td>
<td>Month</td>
</tr>
<tr>
<td>Agriculture</td>
<td>17</td>
<td>4 022</td>
</tr>
<tr>
<td>Mining</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9</td>
<td>2 190</td>
</tr>
<tr>
<td>Electricity, water</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td>11</td>
<td>2 614</td>
</tr>
<tr>
<td>Trade</td>
<td>9</td>
<td>2 079</td>
</tr>
<tr>
<td>Transport/communications</td>
<td>16</td>
<td>3 817</td>
</tr>
<tr>
<td>Financial services</td>
<td>15</td>
<td>3 703</td>
</tr>
<tr>
<td>Personal services</td>
<td>13</td>
<td>3 053</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10</td>
<td>2 547</td>
</tr>
</tbody>
</table>


4. Ad hoc surveys of the self-employed 
in Nairobi and other urban areas

Several additional ad hoc surveys of Nairobi's informal sector, including 
the self-employed in the informal sector, have been conducted by individual 
researchers over the years and it is worthwhile to examine briefly some of 
their conclusions. House (1981b, 1984) explored the nature of operations of a 
sample of Nairobi's informal enterprises in 1977. Those located in temporary 
structures, or no structures at all, and operating in the city's major 
concentrations of such activities were liable to be sampled. The survey
revealed significant internal differentiation and a continuum of rates of success as measured by net earnings of the head of the enterprise. The "community of the poor" receive low incomes and are concentrated in petty trade, services and repair activities, where skills and capital requirements are low and entry is relatively easy. The distinct better-off group of "dynamic entrepreneurs" receive high incomes compared with what they might earn in the formal sector and are protected from competition by capital and skill requirements necessary to enter certain manufacturing and auto repair activities. Indicators of the technology employed by the small-scale self-employed suggest that many sub-sectors utilise lower capital to output and higher output to labour ratios than that found in comparable activities in the formal sector, thus confirming their relative efficiency according to the criteria set by Little, Mazumdar and Page (1987) and reviewed earlier. The survey identified the lack of access to infrastructure, premises and working capital to be major impediments to their operations.

Hosier (1987) conducted a survey of informal sector manufacturers in 1981 in both Nairobi and Meru, a secondary city to the north of the capital with a 1979 population of 70,000. Over 70 per cent of the enterprises covered were found to hire labour, over one-half hiring full-time workers and one-third using family and casual workers.

Minimum monthly wages at the time of the survey for the two cities were K.sh.456 in Nairobi and K.sh.418 in Meru and senior employees reported in table 11 earned significantly more than this. Higher revenues in Meru than Nairobi are attributed to the greater competitiveness of the informal sector in the latter which is regarded as being overpopulated:

It seems that informal establishments in both cities encounter a difficult if not an impossible path to the formal sector ... Some may experience internal growth, changing into larger, more formalised establishments, but with few scale economies the informal sector will largely expand through a proliferation of numbers, rather than through an increase in the size of firms ... underpopulated informal sectors will experience involuntary growth, and overpopulated informal sectors are liable to operate as predicted by the evolutionists (Hosier, 1987).

### Table 11. Informal producers' revenues and wages paid in Nairobi and Meru

<table>
<thead>
<tr>
<th>Measure</th>
<th>Unit</th>
<th>Nairobi</th>
<th>Meru</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean wage for senior employee</td>
<td>K.sh./month</td>
<td>740</td>
<td>970</td>
<td>780</td>
</tr>
<tr>
<td>Gross revenue of establishment</td>
<td>K.sh./month</td>
<td>5,560</td>
<td>16,970</td>
<td>8,010</td>
</tr>
<tr>
<td>Gross revenue per paid worker</td>
<td>K.sh./month</td>
<td>1,833</td>
<td>2,583</td>
<td>1,944</td>
</tr>
</tbody>
</table>


From a policy perspective it was concluded that providing stalls, training or credit may serve to encourage too much competition in certain urban
locations and certain types of activities. A city with an underpopulated informal sector might do well to provide support in order to raise employment opportunities. Policies must be designed in such a way to be more sensitive to site-specific and time-specific concerns. Nairobi's informal sector population can be anticipated to fluctuate around an equilibrium and to maintain a consistently high turnover rate, according to Hosier.

Aboagye (1986) conducted a survey of informal sector operators in 1985 in Kenya's three major towns of Nairobi, Mombasa and Kisumu. The coverage was limited to artisanal activities such as carpentry, tailoring, metal fabrication, garages and miscellaneous services, but failed to include trading activities, a major part of the informal sector. The findings confirm that not only does the informal sector provide employment at a much lower cost than similar activities in the formal sector, but that it provides incomes, basic needs and practical skills to a growing proportion of the urban labour force.

In table 12 employment per informal sector enterprise is shown to lie between two and three persons with the average for garages (5.7) exceeding that for services (1.8). Working proprietors dominate the food and services activities and are indicative of the extent of self-employment in these categories. However, they make up only one-quarter of persons engaged in garages where 60 per cent of proprietors continue to maintain employment in formal sector establishments. The highest proportion of paid employees, about 50 per cent, was found in woodworking, metal fabrication and construction. Skill acquisition through apprenticeship training was greatest in vehicle repairing where this type of labour formed 41 per cent of total employment. The extent of family labour was not as extensive as expected and appeared to be important only in food processing.

The survey revealed that the role of women in the informal sector is small, largely because the study excluded petty trade and hawking activities, where women constitute over 90 per cent of the labour force in urban Kenya. The survey found them to be active in food processing and services where they made up over 50 per cent of the labour force.

Table 12 illustrates the age distribution of proprietors in the informal sector, where the overall mean is 34 years, reflecting the young age distribution of the underlying population of Kenya. Seventy-two per cent of the self-employed in the sector are under 40 years.

The information on the length of operation of the enterprises provides some indication on their average life span, their stability, as well as the rate of entry of new establishments into the sector. The average number of years of operation is just under six, with the more highly urbanised centres of Nairobi and Mombasa having a relatively younger age structure. The oldest enterprises are found in metal fabrication, garages and construction, perhaps reflecting the difficulties of entering these activities because of the relatively high capital and skill barriers. The first four years of operation are critical for survival and the overcoming of problems relating to competition, management and skill acquisition. Instability of employment is perhaps the major problem facing the small-scale self-employed and any policy to promote employment must place considerable emphasis on the problems faced by newly established enterprises (Aboagye, 1986, p. 48).

Those with less than five years of operation account for one-half the sample while nearly one-third have been in existence for less than three years. Mean years in existence was lowest in food and wood processing,
Table 12. Characteristics of informal sector enterprises in Nairobi, Kisumu and Mombasa

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Nairobi</th>
<th>Kisumu</th>
<th>Mombasa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean employment per informal sector enterprise (numbers)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working proprietors</td>
<td>1.1</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Paid employees</td>
<td>1.5</td>
<td>1.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Unpaid family workers</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Apprentices</td>
<td>0.6</td>
<td>0.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Employment per establishment</td>
<td>3.4</td>
<td>3.5</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Age of proprietor (years, % distribution)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 20</td>
<td>1.0</td>
<td>-</td>
<td>1.0</td>
</tr>
<tr>
<td>20-29</td>
<td>45.6</td>
<td>40.0</td>
<td>36.3</td>
</tr>
<tr>
<td>30-39</td>
<td>27.3</td>
<td>34.0</td>
<td>32.4</td>
</tr>
<tr>
<td>40-49</td>
<td>18.1</td>
<td>16.0</td>
<td>18.6</td>
</tr>
<tr>
<td>50-54</td>
<td>5.0</td>
<td>5.0</td>
<td>7.8</td>
</tr>
<tr>
<td>55+</td>
<td>3.0</td>
<td>5.0</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Age distribution of enterprises (years)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1</td>
<td>17.3</td>
<td>8.0</td>
<td>19.8</td>
</tr>
<tr>
<td>1-2</td>
<td>14.3</td>
<td>8.0</td>
<td>18.8</td>
</tr>
<tr>
<td>3-4</td>
<td>22.8</td>
<td>14.0</td>
<td>20.8</td>
</tr>
<tr>
<td>5-9</td>
<td>26.8</td>
<td>32.0</td>
<td>18.8</td>
</tr>
<tr>
<td>10+</td>
<td>18.8</td>
<td>38.0</td>
<td>21.8</td>
</tr>
<tr>
<td>Mean age</td>
<td>5.0</td>
<td>7.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Capital and earnings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of initial capital (K.sh.)</td>
<td>4 046</td>
<td>5 279</td>
<td>4 503</td>
</tr>
<tr>
<td>Current value of equipment (K.sh.)</td>
<td>8 389</td>
<td>10 384</td>
<td>9 676</td>
</tr>
<tr>
<td>Value added (K.sh.)</td>
<td>9 177</td>
<td>5 960</td>
<td>10 295</td>
</tr>
<tr>
<td>Output/capital ratio</td>
<td>10.6</td>
<td>6.8</td>
<td>12.4</td>
</tr>
<tr>
<td>Output/worker per month (K.sh.)</td>
<td>2 590</td>
<td>1 788</td>
<td>4 602</td>
</tr>
<tr>
<td>Capital/labour (K.sh.)</td>
<td>2 933</td>
<td>3 155</td>
<td>4 454</td>
</tr>
<tr>
<td>Proprietors' earnings (K.sh.)</td>
<td>1 183</td>
<td>1 148</td>
<td>1 110</td>
</tr>
<tr>
<td>Employees' wages</td>
<td>567</td>
<td>630</td>
<td>657</td>
</tr>
<tr>
<td><strong>Sample size</strong></td>
<td>276</td>
<td>100</td>
<td>102</td>
</tr>
</tbody>
</table>

Source. Aboagye (1986), extracted from various tables and the text.
textiles and services at 4.4, 4.8, 4.5 and 5.5 respectively, partly reflecting easier entry. Where barriers to entry are greater, in garages, construction and metal fabrication, mean enterprise ages were higher at 7.0, 6.3 and 8.8, respectively.

Capital has often been identified as a major constraint on the ability of a potential self-employed entrepreneur to enter and expand operations. In Aboagye's survey it was confirmed that personal savings was the principal source of investment, accounting for 70 per cent of initial outlays, followed by loans from friends and relatives at 18 per cent. Financial institutions, including banks and government lending agencies contributed only 2 per cent towards initial investments, confirming the failure of formal financial institutions to promote self-employment in the small-scale sector. The limited sources of finance are reflected in the relatively low initial capital outlays, with an overall mean of K.sh.4,415 ($274). The highest requirements were in metal fabrication (K.sh.6,323), garages (K.sh.6,312) and construction (K.sh.5,200), serving as an important barrier to entry. Initial capital outlays were under K.sh.2,000 for about two-thirds of the sample.

It is clear ... that the heavy dependence on internal sources of financing, i.e. financing obtained from within informal sources, presents enormous problems for the informal sector in breaking the vicious cycle of low savings, low investment, low production hence low saving. Two main problems arise out of this over-reliance on internal sources of financing. First, the employment status of the persons already engaged in the sector becomes quite precarious in terms of their stability. Secondly, new entrants into the sector face severe constraints in creating employment for themselves (Aboagye, 1986, p. 36).

Compared with the formal sector one supposed virtue of the informal sector is the use of labour-intensive methods of production, and table 12 confirms that the informal sector uses only a fraction of that used in the formal sector. The mean current value of equipment in place was estimated to be K.sh.9,090, ranging from K.sh.6,114 in services to K.sh.15,405 in garages.

Given these low capital values, the estimates of monthly value added, ranging between K.sh.2,300 in textiles/leather to K.sh.8,500 in woodworking, indicate a relatively high degree of efficiency in the sector. The weighted mean for the capital-labour ratio is only K.sh.2,933 ($183) in Nairobi, K.sh.3,155 ($197) in Kisumu and K.sh.4,454 ($278) in Mombasa. It was lowest in food processing (K.sh.1,700) in Nairobi and highest in garages in Mombasa (K.sh.5,780). Yet the mean cost of creating a job in the formal sector is estimated to be K.sh.320,000, or more than 100 times the mean for small-scale enterprises (Kenya, 1986, p. 2).

Significant variation is observed in the estimates of mean monthly labour productivity between locations and activities from a low of K.sh.853 in garages in Nairobi to K.sh.5,670 in metal fabrication in Mombasa. Similarly, capital productivity as reflected in the output-capital ratio ranged between 3.6 in textiles/leather in Kisumu to 17.3 in food processing in Nairobi.

Mean monthly earnings of proprietors in table 12 are quite respectable, particularly when compared with the prevailing minimum wage of K.sh.576. However, earnings vary markedly between the different activities reflecting differences in skill and capital requirements, product and service quality,
monopoly power and freedom from competition. Garages, metal fabrication and wood processing offer the highest rewards to the proprietors. The pattern of wage payments to employees is similar across activities as that found for proprietors, with construction workers being the highest paid. Average monthly wages were lower in Nairobi than in urban Mombasa and Kisumu suggesting that Nairobi's abundant supply of labour depresses wages in the informal sector. Overall, employees received about one-half the mean earnings of proprietors.

Aboagye's informal sector survey reiterated the lack of infrastructure available to the enterprises (although to some extent this may result from the definition of the informal sector). Almost one-half operated from the open air and a quarter were located in wooden structures. The result is that the authorities find it relatively difficult to bring water and electricity to the workshops which are not located in permanent structures. Only 8 per cent of enterprises had access to electricity and water, 8 per cent had water only and 16 per cent had electricity on their premises. Two-thirds of them had neither water nor electricity which imposes a severe constraint on the level of technology which can be adopted by the manufacturers. In some cases the level of demand faced by the individual enterprise does not warrant the adoption of techniques which use electricity. The ability to utilise electrically-powered machinery and to adopt innovations is crucially dependent on a rising demand for production.

The great majority of respondents indicated a willingness to move from their existing premises in order to gain access to infrastructural facilities and to obtain more secure and guaranteed locations where they would not be subjected to frequent harassment by city council askaris and inspectors. However, almost one-third feared a move would lead to a loss of their market and might bring with it a requirement to pay taxes and licence fees.

Aboagye (1986, pp. 115-116) concludes that, with the necessary official support to counteract various bottlenecks and problems, the sector could fulfil the role assigned to it in the current Kenya Development Plan and make a significant contribution to the absorption of the rapidly growing urban labour force.

Finally, McCormick (1987, 1988, 1989) has reported on a survey of micro manufacturing establishments employing ten or fewer workers conducted in 1986 in the Eastlands area of Nairobi. This size of enterprise is more typically found in the informal sector. Beginning with a complete census of manufacturers she enumerated almost 3,000 establishments of which 60 per cent were operated by a single self-employed person and a further 28 per cent employed a further two or three persons. The general category of textile work, including tailoring, dressmaking, knitting and sewing formed the largest category with 39 per cent of the total. Metal fabrication formed the second largest group (23 per cent) producing cooking utensils, charcoal cooking stoves, metal furniture and metal doors, window frames and iron gates. Carpentry, involving the manufacture of wooden furniture, doors and window frames for the construction industry was the third largest group (16 per cent). A miscellaneous category of shoemakers, basket makers and wood carvers formed the residual. In 23 per cent of cases a woman headed the enterprise and these were largely found in textiles where they achieved an equal representation with men; over 90 per cent of the enterprise heads were sole proprietors, operating without partners.
McCormick (1989) tested an hypothesis concerned with enterprise survival which assumes that small businesses need to be flexible in the face of the high risks generated by an uncertain environment in order to ensure survival. Amongst Nairobi's small-scale manufacturers three flexibility tactics are employed: working in rent-free quarters, adopted by almost a quarter of her respondents; following a family organisational pattern; and keeping capital investment low. These practices enable business owners to reduce risk by lowering fixed costs and increasing opportunities for additional income.

A family organisational structure contributes to flexibility by reducing wage costs and allowing business owners to diversify by taking on other work. A single-person activity employing family members as casual workers may not pay a wage; the self-employed owner of a firm can hire himself out when business is slack and use family and non-family casual labour at peak periods. In larger firms familial organisation enhances flexibility by allowing the owner to leave the business to purchase raw materials, to contact potential customers and perhaps to return to the rural household to make strategic farm management decisions.

The third component of flexibility relates to the level of capital. The use of simple, low-cost technology reduces the fixed cost of capital, including costs of maintenance, protection and the opportunity cost of the invested funds. Having less capital brings greater flexibility. Subcontracting and manipulating the apprenticeship system may also increase flexibility since the revenue received from fee-paying trainees can be crucial for survival when orders are slack.

McCormick (1989) also hypothesised that the formality of the business is a determinant of its success. An index of formality was based on seven characteristics: the business site, defined by the nature of the workspace, its access to public transport and security of tenure; the size of the business as measured by the full-time equivalent number of workers and the depreciated value of fixed capital; relationship to civil authority, as reflected in the possession of a business licence, payment of taxes and incidence of police harassment; technology, as determined by the use of electrical and manual machines and the division of labour; education level and skills of the owner and employees; management practices, a measure based mainly on whether written records were kept and a bank account possessed; and lack of bargaining power as reflected in relative strength in dealing with larger organisations such as suppliers, customers or lenders. The seven dimensions were combined to represent a firm's formality.

Lacking a reliable net income figure McCormick (1989, p. 46) constructed a dichotomous variable to represent profitability based on the satisfaction of at least one or two conditions: the longevity of the business, and the profit or loss during the survey month. A business was considered profitable if its net income for the last month was non-negative or if the business had been the primary support of its owner for at least four years. By this test, which admittedly has many drawbacks and conceptual deficiencies, two-thirds of the sampled businesses were profitable.

A simple analysis of mean values indicated that profitable firms are both smaller and more flexible than unprofitable ones. This emerging "small-and-flexible model" was further tested by comparing the actual classification of firms into profitable and unprofitable with the classification obtained via discriminant analysis with size, flexibility and business age as discriminating variables.18
The model points to a dilemma facing business owners and policy-makers. To grow, a business must accumulate capital, increasing fixed costs and often introducing more advanced technology. Yet risk of loss is least when a business is highly flexible. The fact that small, flexible firms are most likely to succeed has serious implications, not only for the business owners themselves, but also for Kenya's economic development (McCormick, 1989, p. 24.)

Yet, 16 per cent of the sample of small manufacturers take a different route to success. They have more employees and capital, they are more formal but, except for size, no single aspect consistently explains their greater formality. Having accumulated capital, which is growing on average by 28 per cent annually, they are becoming genuinely capitalist. Evidently, those who are profitable without conforming to the small-and-flexible model, or accumulate capital without having a clear advantage in social class, testify to the power of individual creativity.

By identifying a strong incentive for firms to remain small, McCormick's research supports the contention of some that small-scale urban enterprises will only grow in an involuntary manner, not in an evolutionary and capitalist way. The risky environment contributes to the proliferation of firms without capital accumulation. The author fears that many of the policies and programmes most frequently recommended to assist small enterprises could be counterproductive since loans requiring regular monthly repayments or infrastructural provision needing rental payments would reduce their flexibility.

In section III we shall now document in some detail the various kinds of obstacles and constraints which prevent the entry into and growth of urban self-employment in Kenya.

III. Obstacles to the entry and growth of self-employment

Many types of self-employment appear easy to enter (ILO, 1972, p. 6). The shoe-shiner or vegetable vendor needs only a spot on the pavement and a little stock; the wood carver, a chisel, some wood, and talent. Yet barriers to entry and difficulties in continuing or expanding a business plague even these simple occupations. Larger businesses face similar problems. Resources are frequently lacking, markets are weak, saturated and/or distorted, legal restrictions must be tackled or avoided, and general economic and social conditions constrain business activity.

1. Resources

Human, financial and physical resources are necessary to any self-employment endeavour. In addition to their own skills and entrepreneurship, the self-employed need initial and on-going capital, tools and equipment, suitable business or trading premises and, in some cases, skilled workers.

(a) Human resources

From the point of view of potential business success, the most important human factors are the natural talents and acquired skills of the owner and,
for activities requiring more than one person, the availability of workers with relevant skills. Deficits in these areas could close off self-employment opportunities or inhibit business expansion. Yet the ability to surmount each obstacle varies according to the social class, ethnic affiliation and sex of the entrepreneur.

Although every level of business activity includes owners with considerable formal education and others who have never been to school, owners of even the smallest businesses have most often had some formal education. Marris and Somerset (1971, p. 206) are undoubtedly correct in asserting that it is hard to do business without minimal competence in reading, writing and arithmetic. Beyond such rudimentary skills, however, years of formal education often seem to have little effect on an entrepreneur's likelihood of success. Education is, however, related both to the size of the business and the amount of profit. While possession of technical skills is sometimes necessary for the smallest businesses, its importance changes with size of firm.

Although more educated business owners tend to have larger businesses, education very often appears unrelated to business success. Marris and Somerset (1971, p. 212) found successful and unsuccessful entrepreneurs at every level of education. Similarly, McCormick (1988a, p. 157) reports no correlation between the level of an entrepreneur's combined education and skills and the firm's profitability. Separation of Marris and Somerset's (1971) businesses into high- and low-profit groups, however, revealed a positive relationship between the owners' level of education and profit size. House (1981, p. 362) similarly found that the respondents in the intermediate sector had marginally higher educational levels than those in the less formal occupations. Further research on the relationship of formal education to business performance is needed, especially as the overall Kenyan educational level continues to rise. At this stage, however, we can tentatively concur with the conclusions reached nearly 20 years ago by Marris and Somerset. For self-employment on a very small scale, formal education beyond basic literacy and quantitative skills makes little difference. The complexities of developing a larger enterprise, on the other hand, require attitudes and skills associated with formal education: self-confidence, fluency in English and Kiswahili, ease in dealing with written materials, more sophisticated quantitative skills, and ability to plan and organise.

The importance of technical skills varies with the nature and size of the enterprise (Marris and Somerset, 1971, pp. 206-224). Manufacturing and some services require more skills than do most trading activities. Skills needed to run a large business are different from those needed for a small one. Possession of technical skills can assure entry into self-employment, at least on a very small scale (Williams, 1980, p. 24). Businesses of one or two persons must rely on the skills of the owners. Often these skills are learned on-the-job or in apprenticeships (King, 1977, pp. 26-65; Ndua and Ng'ethe, 1984, pp. 40-45; McCormick, 1988a, p. 127). On the other hand, self-taught technical skills that suffice for the very small enterprise are inadequate for large businesses with more complex machinery and narrowly defined markets (Marris and Somerset, 1971, pp. 217-218).

In businesses of all sizes, having skills is more important than having credentials. King (1977, p. 61) noted a general disregard for paper qualifications and schooling credentials in both Asian and African artisans. Even today business owners looking for workers are more interested in demonstrated skills than in government trade certificates.
Entrepreneurship may be more crucial than either formal education or technical skill. Success depends on having a good business idea and the drive to make the idea a reality. For a small business, creativity and energy are the main ingredients for success. Running a larger enterprise, however, demands management skills. Commitment to carrying out a business idea seems the key to success. And the idea should be the entrepreneur's own. Experience has shown that the practice of offering ready-made projects to potential entrepreneurs does not work. Marris and Somerset (1971, p. 203) noted that nearly all of the businesses with an idea initiated by the government had failed. The Rural Industrial Development Programme (RIDP) and Kenya Industrial Estates (KIE) have had similar negative experiences with staff-developed projects (Kilby, 1982, pp. 59-60, 69-70). As a result, KIE has discontinued its former practice of advertising "open projects".21

Business success seems to be helped by the combination of previous employment and a desire for self-employment's freedom and autonomy. Marris and Somerset (1971, pp. 60-61) note that before entering business, entrepreneurs were twice as likely as other Kenyans to have been employed, usually at work requiring education or technical skill. Although the employment of these early entrepreneurs was in both government and the private sector, some now argue that previous exposure to business is a better predictor of success than other types of employment.22

Very small businesses can be managed informally, but larger ones require more sophisticated management. Gaps in management skill may be blocking expansion of African enterprise. Practices generally associated with good business management have little bearing on the success of very small firms (McCormick, 1988a, p. 157). In larger businesses, however, banking money, keeping accounts, planning and supervising employees are essential (Marris and Somerset, 1971, pp. 218-224).

Evidence suggests that management may be a major obstacle to the expansion of African business. Most African businesses are small. Enterprises with fewer than 19 workers dominate the Kenyan economy. Most of these are headed by African entrepreneurs, yet such firms account for only 9 per cent of recorded value added in Kenya (Kilby, 1988, pp. 7-8). The paucity of indigenous firms in the next size category may be related to management style.23 Marris and Somerset (1971, p. 116) observed a pattern of management that depends on close supervision by the owner-managers. They point out that this management style has led most entrepreneurs to favour a multiplicity of small businesses over development of larger, more complex organisations. Kilby (1988, p. 37) cites a related problem: the absentee entrepreneur. Either because of other business interests or full-time employment, many entrepreneurs are frequently absent from their businesses. Yet few have capable hired managers (Marris and Somerset, 1971, pp. 107-116; Kilby, 1988, p. 37).

While Africans do not lack perception of market demand, the ability to make investment decisions or the willingness to bear risk, they seem less skilled at the routinised managerial functions that allow firms to expand into more complex activities (Marris and Somerset, 1971, p. 116; Iliffe, 1983, pp. 70-75; Kilby, 1988, p. 40). Overcoming this entrepreneurial hurdle will undoubtedly require developing a management style appropriate to African cultures (Iliffe, 1983, p. 71). This task is all the more challenging since it must be done in an economy dominated by established Asian and expatriate firms. Although some business owners complain of a shortage of skilled workers, Nairobi's continuing high unemployment rate ensures a steady supply
of labour. Furthermore, most activities currently undertaken by small businesses require skills that can be easily and quickly obtained. On the other hand, any move into technologically advanced activities would require expensive training programmes.

Many service and trade activities require few skills beyond those already present in the typical primary-school leaver. Entrepreneurs needing such workers can easily recruit them. Metalworking, carpentry and motor mechanics have training and apprenticeship programmes that ensure a steady supply of trained labourers and new entrepreneurs (King, 1977; Allen, 1977; Ndua and Ng'ethe, 1984). Training in tailoring and dressmaking is also provided in a variety of formal and informal settings. Businesses requiring more sophisticated skills—for example, ability to repair electronic equipment or to run a computer—will have more difficulty in meeting their labour needs. Since such training is available in only a few institutions and often at a high cost to the student or sponsor, the business needing such skills must be prepared to pay.

Class analysis of human resource obstacles leads to the not surprising conclusion that those of higher social classes will more easily enter business, and that their businesses will tend to be larger than average. For the present, at least, Asian businesses are in the best position to succeed. African women, while having less access to education, technical skills or business experience than African or Asian men, are overcoming obstacles and entering business. Asian women, on the other hand, most often go into business in partnership with men.

In Kenya, higher social class ensures greater access to education and thereby to business opportunity. Although the educational system's emphasis on examination performance appears equitable, upper class children have superior access to education and training. Wealthy families can send their children to private schools in Kenya and to universities abroad. Children not continuing academic work can enrol in secretarial courses, computer training, or other privately-run technical programmes. Although education does not guarantee success in business, it appears to make entry easier and to facilitate the running of a larger enterprise.

Asians, by virtue of their class, their early exposure to business and the family organisational style of their businesses, seem well placed for success. Asians share with upper class Africans the benefits of greater access to education. Many trace their ancestry to Indian commercial classes. Furthermore, in Kenya, participation in family business begins at an early age and continues with increasing responsibility (Marris and Somerset, 1971, p. 144). Asian business has also developed a style of organisation that allows enterprises to expand.

More Kenyan women than men lack the basic skills needed for business (World Bank, 1989, p. xii). Even those who have been to school find their self-employment options limited by sex-stereotyping in vocational training (McCormick, 1988b). The amount of exposure to business seems to vary from one ethnic group to another. For example, Kikuyu women have developed income-generating self-help groups that may provide a training ground for business activity (Stamp, 1986). Asian women participate in business, though, perhaps for cultural reasons, they seem less likely than Africans to enter business alone or with other women (McCormick, 1989).
(b) Capital

Shortages of capital are almost universally cited as a major problem for small enterprise. Allen (1977, p. 5) argues that the main constraints preventing development of the informal sector in Kenya have their roots in capital shortages. Yet not only do requirements and availability of capital vary considerably from business to business, but attributing difficulties to capital shortage may mask more fundamental business problems.

Business owners generally claim to need more capital. More than two-thirds of the businesses interviewed by Marris and Somerset (1971, p. 179) said lack of capital was their greatest difficulty. Similarly, McCormick (1988a, p. 264) reports that nearly half (48.2 per cent) of the entrepreneurs in her survey said that small businesses need working capital loans to survive, and one-third (31.6 per cent) saw equipment loans as essential.

How formidable an obstacle to small business success is capital shortage? To answer this question we need to understand what capital businesses need and where they now get it. Even among very small businesses, the amount of capital needed to start a business varies considerably from activity to activity. Services like shoeshining and haircutting need little initial capital (House, 1981; Elkan, Ryan and Mukui, 1982). Furniture making, garment making and vehicle repairs require substantially more (Allen, 1977; House, 1981; McCormick, 1988a). In general, the larger and more technically sophisticated the business, the higher the requirement for initial capital.

Capital for the smallest businesses comes mostly from personal and family sources. Ndua and Ng'ethe (1984, p. 29) report that 81.1 per cent of their respondents relied on past savings to finance their businesses. Even those larger businesses singled out for government loan support usually got their initial capital from personal savings or the resources of partners (Marris and Somerset, 1971, p. 189). Continuing finance most often comes from reinvested profits (Marris and Somerset, 1971, p. 202). Very few entrepreneurs avail themselves of the loan schemes targeted to small businesses for initial or on-going capital. Only 2 per cent of the small-scale manufacturers surveyed by McCormick (1988a, p. 134) and 1 per cent of the informal businesses studied by Ndua and Ng'ethe (1984, p. 29) tapped institutional sources of capital.

Still it is not clear that capital shortages have impeded entry or progress in self-employment. Allen (1977, p. 5) argues that the competitive nature of markets for products of informal businesses inhibits profit-making and, therefore, capital accumulation. McCormick (1988a, pp. 175–190) also found little capital accumulation, but attributes it, not to excessive competition, but rather to the tendency of most business owners to minimise their risks by keeping their businesses small and flexible. The close rural-urban linkages of many of these entrepreneurs suggests that profits not reinvested in the urban business may be channelled to needs in the rural area. Many of those who did accumulate were married women whose husbands were employed in Nairobi. Their weaker rural ties made them less likely to send money out of Nairobi. Their husband's assistance with family expenses presumably allowed them to reinvest some or all of their profits in their businesses (McCormick, 1988b).

One of the difficulties in assessing the finances of small enterprises is the frequent practice of mixing business and personal funds, exacerbated by the lack of formal books of account. Thus, in citing shortages of capital, some business owners may simply mean that they do not have enough money to
take care of their family obligations and operate their businesses. They may not necessarily mean that the business itself is short of capital. Although Lee (1977) speculated that business owners, equating capital with income, might not use an injection of money for business purposes, the vast majority (80.7 per cent) of small-scale manufacturers say that they would use unexpected profits to buy additional materials or equipment for their businesses (McCormick, 1988a, p. 262). Despite this verbal commitment to using extra money for the business, conversations with business owners suggest that diversion of funds to meet family emergencies is not unusual.

Marris and Somerset (1971, pp. 204-205), observing that rural savings and commercial credit seem plentiful, believe lack of capital to be an illusion. They ascribe the problem to the businesses themselves. Obvious management problems make private finance reluctant to invest and obtaining private loan funds almost always requires pledging one's most precious asset - land. Combined with what they argue is African business owners' conscious or unconscious preference for small businesses, these factors result in smaller rather than larger businesses.

By definition those in higher social classes have greater access to capital resources than other business owners. Their money, property and education enable them to start a business without outside capital. Even if their project requires additional capital, they can often obtain it from or through friends and associates.

An Asian wanting to start or expand a business probably has easier access to capital than his African counterparts for two reasons. First, Asian commercial and industrial capital is well established in Kenya, ensuring availability of resources for investment (Murray, 1978; Swainson, 1980, pp. 51-57, 123-130). Second, Asian family loyalties mean that most who want capital will get it.

Women's access to capital varies with ethnicity and class. Some African women are developing their own capital resources, but most women's access to capital appears to come through their husbands and relatives. Poor women have the most difficulty in obtaining capital. The very limited data on Asian women suggest that they have little independent access to capital. Rather, when they go into business, it is usually in partnership with men (McCormick, 1989). African women are more likely than their Asian sisters to be independent entrepreneurs, but many have obtained at least part of their initial capital from their husbands or male relatives. The fact that women's business accumulates capital to a greater extent than men's suggests that women's capital resources will be greater in the future. Whether these resources will be available to other women wishing to start or expand businesses remains to be seen.

Poor women - many of whom are single mothers - have the least access to capital. They have little or no education and must often make their living through petty trade, prostitution and beer brewing (Bujra, 1979; Adagala, 1986; White, 1988). Although in the past some accumulated enough to invest in houses and other assets, most today appear locked into poverty (Bujra, 1979; McCormick, 1988b; White, 1988).

(c) Physical resources

Lack of suitable premises and necessary tools and equipment are frequently cited as problems by business owners, especially very small ones. Here again,
activity subsectors vary widely. For street vendors, hawkers, shoeshiners and many barbers, neither premises nor equipment pose much of a problem. Their main difficulty stems from the occasional police harassment. Some other activities, formerly conducted mainly out of doors, now have government-provided sheds or other simple work premises. The auto mechanics in Gikomba and the metalworkers in Shauri Moyo are examples of this. Many manufacturing and retailing activities ranging from furniture making to retailing of fruits and vegetables take place in city council markets, which are generally composed of permanent buildings. Other activities are conducted in free-standing sheds: "convenience" food dukas, tea kiosks, semi-permanent manufacturing workshops. Still others are housed in permanent shops or workshops, such as woodcarving co-operatives in Gikomba or various repair and manufacturing operations along Kirinyaga Road.

The type of activity and available resources dictate choice of premises. More than half of the businesses surveyed by McCormick (1988a, p. 264) indicated that they would like better places to work. Many of these were businesses currently operating out of doors. Business premises are available for those with resources to rent or to buy. What appears to be in short supply and consequently now very expensive, are stalls in city council markets. Business owners in a survey of the garment industry currently underway tell of paying up to K.sh.60,000 for a single stall.

Equipment is a problem, not so much because it is unavailable as because there are few local alternatives to costly imports. Kenya has an indigenous machinery industry that could be further exploited and many Jua Kali metalworkers have fabricated simple machines that, while lacking style, are quite functional (King, 1977, p. 127; Matthews, 1987; McCormick, 1988a, pp. 111-112, 1987, p. 171). On the other hand, lack of sophisticated equipment forces many informal entrepreneurs to subcontract certain repairs to the formal sector (Allen, 1977, p. 5). This sets up an unequal relationship that works against the informal entrepreneur.

Obtaining physical resources is in theory at least a function of information about their availability, the money to pay for them, and forces constraining their transfer. The issue of money has been analysed in the preceding section. Neither information nor constraints to resource transfer have received much scholarly attention. It is possible, however, to infer that ethnicity plays a significant role in both information about productive resources and overcoming obstacles to their transfer. The operating style of Asian businesses and Asian's relative isolation as a cultural minority suggest that information about available equipment or business premises would go first to family members and other Asian business before being circulated to the general public. Macharia's (1988) analysis of social networks in Nairobi's small businesses suggests that a similar tendency to share information and resources first among co-ethnics may prevail in African business circles. Such segmentation of information resources works against those outside the ethnic networks and, ultimately, against rationalisation of the economy. Much more research is needed to verify these tentative conclusions and to assess their impact on business performance.

2. Markets

Successful self-employment requires access to well-functioning product and supply markets. The markets themselves may present obstacles to business, or certain entrepreneurs may find that they lack access. Markets are product- or service-specific and it is impossible in the space of this paper to analyse
all the markets affecting self-employed entrepreneurs. The most that can be attempted here is a survey of major issues illustrated with pertinent examples.

Kenyan markets are neither perfect nor completely free. Significant differences of quality and type of goods exists. Information about competing products is often lacking and transport to find substitutes expensive. Government-imposed price controls on many essential commodities distort internal markets, periodically creating artificial shortages or surpluses in anticipation of prices changes or, as in the recent case of sugar, in response to unregulated markets in neighbouring countries. Yet at the same time, cheap imported substitutes destroy or transform some markets. Licensing requirements, by limiting supplies of certain goods and services, introduce additional distortions. Tariff barriers and fluctuating currency markets distort trade in many imports. Access to markets may be blocked by capital shortages, discrimination or dominance of larger businesses.

(a) Demand for goods and services

Entrepreneurs, analysing demand for their products, must assess price and income elasticities, the nature and strength of the competition and cyclical and seasonal variations in demand.

The ILO's (1972, p. 6) description of markets for informal activities' products as highly competitive implies price sensitivity. The widespread use of bargaining and the nature of many products suggest that the relationship between demand and price in most types of small-scale manufacturing follows the normal pattern represented by a downward sloping demand curve (McCormick, 1988a, p. 248). The same appears true for other goods and services offered by self-employed persons and small firms, though elasticities vary considerably.

Pricing is key to influencing demand. Haggling prevails in the markets around the city, but most shops in town have adopted fixed prices. Producers of some goods and services can segment their markets according to price elasticities of different consumers. For example, shoeshiners view their customers as falling into three quite distinct categories: city dwellers, those from the country, and foreign tourists, each charged a different price (Elkan, Ryan and Mukui, 1982, p. 250). Casual observation suggests that similar price discrimination exists in markets for other personal services and many foodstuffs and manufactured goods.

Income elasticities of demand vary. Many informal sector products follow the expected relationship of consumption increasing with income. Others, like tin-can lamps or rubber tyre sandals, may be inferior goods for which demand will fall as incomes rise (McCormick, 1988a, p. 249). Some personal services, like shoeshining, exhibit a complex pattern of demand rising, then levelling off at middle incomes, and finally falling among those whose incomes permit servants to perform the services at home (Elkan, Ryan and Mukui, 1982, p. 250).

Entrepreneurs must also assess the competition. The overall size of the market, type and availability of substitutes, possibilities for product differentiation, the prevailing pricing behaviour and the nature and strength of competing firms determine a firm's ability to compete successfully. Steady population increase ensures the growth of certain markets in Nairobi. Those for basic foodstuffs, household goods and clothing appear to expand daily. Yet demand for any particular service or commodity depends also on substitutes. The current market for new clothing, for example, seems to be adversely affected by the availability of good quality, imported second-hand
Entrepreneurs must also evaluate possibilities for product differentiation. Kaplinsky (1977, p. 114), for example, pointed out how one bakery was able to charge more for its bread by sprinkling it with caraway seeds. Hyman (1987, p. 381), on the other hand, underlines the difficulty of getting people to try the "improved", but unfamiliar, energy-efficient, charcoal-burning cooking stove or jiko.

African businesses are often unable to compete with more established firms (Marris and Somerset, 1971, p. 174). The size of these firms and the social and business networks of their owners make both multinationals and large firms owned by Kenyan Asians formidable obstacles. Sometimes the issue is economies of scale; sometimes, name or prestige. Allen (1977, pp. 11-12), for example, observes that informal motor mechanics left repair of electrical systems to the formal sector because the specialised equipment and training required, and the high cost of maintaining the necessary inventory of spare parts, make such work uneconomical. Matthews (1987, pp. 72-73) points to the joint problems of minimum market size for efficient production and low demand for specialised products. Some large companies have so penetrated the market that entry of smaller firms is nearly impossible. Odera (1989) argues that, because Bata is almost synonymous with shoes in Kenya, small-scale shoemakers can hardly compete, especially at the low end of the price range. Yet the existence of the indigenously owned Tiger Shoe Company demonstrates that, at some levels, even the giants can be challenged (Swainson, 1980, pp. 270-273).

The social and business networks of large firms also make them formidable competitors. Access to cheap capital, to supplies at factory prices, or to the professional services of friends and relatives may reduce the operating costs and, therefore, the prices, of larger businesses. Small traders and manufacturers are an insignificant link in a chain of distribution. Because they are socially as well as economically marginal, they pay full price for inputs and, when they cannot afford to pay, they do without (Marris and Somerset, 1971, pp. 174-175).

Entrepreneurs generally have no trouble naming their high and low seasons and can usually explain the factors underlying seasonal variations (McCormick, 1988a, p. 212). Such information is crucial to business and personal planning. Businesses also accept as normal the effects of swings in the business cycle on their sales. More difficult to cope with are those unpredictable changes in demand that result from the sudden appearance of a new substitute, the forced relocation of a business or its customers, or the opening of a competitor.

Guiding a business through demand problems requires a grasp of the many forces determining demand and enough capital to ride out its waves. Experience is probably the key to analysing demand. If so, the Asian businessmen, because of their long exposure to commerce, are probably most capable of making sound judgements, though this may change as more Africans accumulate business experience. Having enough capital to continue through business slumps is, as we have already seen, a function of class, ethnic affiliation and sex.

(b) Supply markets

Analysis of markets for supplies of raw materials involves considering sources and availability of usual inputs, prices and methods of payment, substitutes and alternative sources. Each of these, in turn, depends on quantities needed and willingness of large businesses to deal with smaller customers.
Input requirements vary with the type, size and particular product line of the business. Shoeshiners need only a stool, a seat, brushes, a storage box and a few tins of polish and cream (Ryan, Elkan and Mukui, 1982, p. 251). A furniture maker needs wood, screws, nails, varnish, sandpaper, a variety of tools and perhaps materials for upholstery. Even businesses of the same type and size may have different input requirements depending on the diversity of their product line. A small furniture maker mass producing simple stools or school desks buys fairly large quantities of one type of wood and nails, while another making a variety of products needs small quantities of many items.

Locally-produced inputs should be more available than imports. Whether they are depends on the nature of the item and the way it is produced in Kenya. Widely produced primary products, such as sisal for basket-making or wood for carving, are usually available. Other inputs are highly processed and subject to delays and inefficiencies in production and distribution. Metalworkers reported problems in obtaining metal sheet and fasteners from domestic steel firms (McCormick, 1988a, p. 252). Nairobi has recently experienced shortages of sugar and home baking flour - both popularly attributed to advantages of selling such price-controlled items in neighbouring countries. Many such basic supplies, though nominally local, have a high import content. Polyester fabric, for example, is made in Kenya from imported polymer pellets (Coughlin, 1987, p. 4). Pellet shortages result eventually in short fabric supplies. That key inputs are locally made, therefore, is no guarantee of their availability. Even those using scrap materials risk shortages of inputs. If makers of chemicals currently bought by industries in Nairobi's industrial area were to switch from metal to plastic containers, a large segment of the metalworking industry would find itself out of business for lack of materials.

Prices and payment terms, no less than availability, affect producer supplies. Those using imported inputs or those with high import content are especially vulnerable to price rises because their prices are affected not only by domestic inflation, but also by the slow but steady depreciation of the Kenya shilling against major world currencies. Related to price is the issue of credit from suppliers. Marris and Somerset (1971, p. 259) report that half of the African and three-quarters of the Asian businesses surveyed received credit from suppliers. Credit is often, though not always, available to very small businesses. A tailor with two sewing machines who was interviewed in 1989, is probably typical: he can take materials on credit from his regular wholesaler provided he can show firm orders for the finished goods. A major difference between Asian and African entrepreneurs appears to be in the duration of available credit. Whereas only 29 per cent of Africans who got credit from suppliers had more than one month to pay, 84 per cent of Asians had credit of more than a month (Marris and Somerset, 1971, p. 259).

When supplies are uncertain, entrepreneurs must look at the possibility of substitutes. Can mandazis (doughnut-like snacks) be made with Attamark instead of white flour? Can alternative ways of securing metal boxes be found when the usual fasteners disappear from the market? Similarly, the channels of supply must be examined. When Kenyan cloth is not available in the colours and patterns desired, or becomes too expensive, some small-scale dressmakers resort to the black market, buying material brought illegally from neighbouring countries.

A frequently discussed supply issue is small producers' access to factory and wholesale purchases. Many small producers buy key inputs from retail
shops (McCormick, 1988a, p. 253). Others, who presently buy from wholesalers, might prefer to deal directly with factories, but cannot because of the wholesalers' grip on the market (Coughlin, 1987). The relationship between factories, wholesalers and retailers needs industry-by-industry examination.

Businesses faced with supply problems have three main strategies available to them. They can maintain sufficient supply inventories to cover most anticipated supply variations, buy from different suppliers, or diversify their product line, so that if they lack inputs for one item, production can continue in the others.

Maintaining larger inventories and diversifying the product line both require additional working capital. But obtaining working capital, as we have already seen, is easier for some than for others. The problems associated with changing or adding suppliers are best understood through the example of the tailor mentioned above. As a small producer, he buys in limited quantities from a particular wholesaler with whom he has an established relationship. From that wholesaler he can buy on credit. Buying from any other would probably mean paying cash, at least initially. But he has very little working capital. So, if his regular wholesaler does not have the material he needs, he must either delay purchasing until he does or try to extract from his customer a deposit large enough to cover the cash purchase of material. Even if he decides to go to a different supplier, he is faced with an information problem. Finding out what wholesaler has what he needs may involve considerable detective work.

The advantages of class apply to supply markets as well. The educated entrepreneur with resources and connections will succeed in getting supplies at a good price when others fail. Asians undoubtedly have easier access to supply markets than other business people. The variety of Asian business interests almost guarantees the presence of family members and/or co-ethnics in key places along the chain of production and distribution (Marris and Somerset, 1971, p. 144; Leys, 1975, p. 119; Swainson, 1980, p. 198). Thus, the Asian retailer is much more likely to be buying from an Asian wholesaler or an Asian-owned factory than an African to buy from an African wholesaler or factory. For the Asian, the welfare of the community is bound to commerce. This and the cultural patterns of family living groups creates an obligation to assist relatives in business (Marris and Somerset, 1971, pp. 145-146).

Evidence suggesting that ethnicity makes a difference to access to markets among Africans is less clear. Macharia (1988, p. 9) found that food sellers trusted members of their ethnic groups more than customers from other groups and were more likely to advance them credit.

3. The law

Legal barriers to self-employment have long been recognised as important. Yet most studies have been undertaken by social scientists without legal training who could do little more than identify the problems. Furthermore, because the specifics of laws differ from place to place, scholars tend to discuss legal issues only in general terms. A welcome addition to the literature, therefore, is Kibwana's (1989) review of legal regulations affecting Kenyan small enterprises. Legal concerns that block entry into self-employment or constraint firms' growth fall into seven broad categories: licensing and registration; regulation of premises; labour laws; taxes; debt collection; lack of legal protection for product innovations; and foreign trade restrictions (Kibwana, 1989; Juma, 1989).
(a) Licensing and registration

Kenya's Trade Licensing Act serves not only as a permit to operate a business, but also as permission to locate in a particular place. The Trade Licensing Act establishes general business areas. In Nairobi the only general business area is the Industrial Area. Location of other businesses is controlled by the licensing process. Each licence gives a business the right to carry out a particular activity in a specified location. Licences are renewed annually. Although unlicensed businesses always run the risk of being closed down, those in residential areas are especially vulnerable. Despite currently more favourable public policy, a business that becomes a nuisance to a neighbourhood or a problem to any resident, is risking having its lack of legal status used against it. The Registration of Business Names Act requires any business that operates under a name other than the surnames of all its partners to register its name. The business name need be registered only once.

(b) Premises

Business owners may just use, rent or own their business premises. Many of the smallest businesses operate on shop pavements, roadsides or on unused public or private land. Because they have no legal right to their premises, they live with the constant threat of police harassment and eviction (Ross, 1973, p. 52; Nelson, 1979, p. 293). Although recent changes in government attitudes towards small businesses have reduced harassment, they have not eliminated it (McCormick, 1988a, pp. 122-123; Daily Nation, 20 Apr. 1989, p. 24).

Kiwana (1989, p. 17) points out that private landowners can grant licences to small businesses, giving them legal access to the land they occupy. Since most would probably do so only for a fee, this arrangement is similar to renting. Renting a shop or market stall, or operating from a rented residence does not necessarily give a business full security. For example, a number of tailors and dressmakers interviewed in 1986 have had to move their businesses because the owners of the premises terminated the rental arrangements in order to go into business themselves.32 Since few such arrangements seem to be protected by leases, the renter has no recourse.

As noted above, both renters and owners may be operating outside the law by conducting an unlicensed business. In practice, authorities tend to overlook food kiosks, carpenters, and even motor mechanics serving local residents, yet such businesses operate with the constant threat of closure. Recent regulations concerning the size and construction of kiosks and small workshops introduce another reason for small businesses being closed down.

(c) Employees

The Regulation of Wages and Conditions of Employment Act governs minimum wages, statutory benefits, and the employment of juveniles. The Factories Act provides for the health, safety and welfare of persons employed in factories. The smallest businesses, while not formally exempted from these laws, are usually not forced to comply. A business that starts by paying low wages and no benefits may be reluctant to expand beyond a certain size, lest they become too visible and the authorities begin to enforce higher rates, thus reducing or eliminating profits. Although there is no evidence that child labour is a major problem, Kiwana (1989, p. 23) correctly points out that it may become more prominent as more young Standard 8-leavers move into the job market. The law allows such youngsters to be apprentices, indentured learners, or helpers
in a family enterprise. They may not, however, work in factories, construction or transportation.

(d) Taxation

Kenya's basic tax laws date back to colonial times and, theoretically, apply to all businesses and individuals. In practice, income tax laws are not enforced on small businesses. For example, over 90 per cent of the small-scale manufacturers in Nairobi's Eastlands pay no taxes (McCormick, 1988a, p. 122).

(e) Debt collection

Marris and Somerset (1971, pp. 154-161) note that although most African businessmen felt that extending credit was a necessary part of doing business, few used legal remedies to recover bad debts. They often felt that the amounts were so small that prosecution would take more time and money than it was worth and, perhaps more importantly, that using the legal system turns a friend into an enemy. Asian businessmen, while less likely to give credit in the first place, more often take legal action on bad debts (Marris and Somerset, 1971, pp. 257-258).

When debts are large and suppliers or lenders can wait no longer, a business owner may have to declare bankruptcy. In Kenya, however, bankruptcy is a last resort because not only does it deprive the individual of all but essential personal effects and tools of trade, but makes credit nearly impossible to obtain in the future and carries the social stigma of irresponsibility. All assets, including house, furniture, vehicle and cash in excess of K.sh.500, may be taken to discharge debts. Furthermore, the bankrupt cannot vote, make a contract or discharge other civil duties. Clearly, the impact of bankruptcy extends far beyond the business. If all assets are needed to satisfy the debts, children may have to drop out of school and the family may have to move. Furthermore, without resources for starting over again, future prospects are bleak.

(f) Protection for innovations

The role of patents in technology transfer to developing countries has been the subject of controversy for some time (Juma, 1989, pp. 124-125; Kibwana, 1989, pp. 29-31). Developing countries want freedom from restrictions limiting their ability to "pirate" Western technological innovations. At the same time, however, there is growing recognition that local inventors need the incentive of an appropriate patent law. The international patent system largely affects innovations at the frontiers of technological advancement. Yet local innovations are rarely of this sort. Rather, they are the adaptations of imported technology to local circumstances, or variants of older indigenous technologies.

The Kenyan patent law provides only for registration of patents already granted in the United Kingdom. Any Kenyan invention, therefore, must be first patented in the United Kingdom. The problem is that many technological adaptations needing protection in Kenya would not be patentable in the United Kingdom. Juma (1989, pp. 128-138) uses the case of the Kenya Ceramic Jiko (KCJ), or cooking stove (so-called "energy jikos") to illustrate the practical difficulties with existing law. The KCJ is a basic metal charcoal stove with a ceramic liner to prevent heat loss. It is, therefore, an adaptation of an older technology, rather than an innovation. Since it is unlikely that such a
technological adaptation would be patentable in the United Kingdom, the stove has no Kenyan patent. Juma (1989, pp. 138-139) argues that the lack of patent protection has deterred investors initially interested in commercialising the stove and some of its variants. He believes that Kenya could upgrade its innovative capacity by introducing a system of utility certificates or "petty patents" like those used by the Federal Republic of Germany and Japan.

(g) Trade restrictions

In an effort to conserve scarce foreign currency and to develop local enterprise, the Kenyan Government has adopted a policy of discouraging imports and encouraging exports (Kenya, 1989a, p. 53). While limitations of imports seem reasonable in theory, the long, bureaucratic procedures discourage even essential imports. The import and tariff regime restructuring announced in the new Development Plan (Kenya, 1989a, pp. 148-149) are a welcome step in the right direction.

The 1989–93 Development Plan (Kenya, 1989a, pp. 154–158) lists seven programmes designed to widen the scope for manufacturers and other entrepreneurs to expand into the export market. Many of these have been in place for some time, though informal conversations with entrepreneurs indicate that they have not worked as well in practice as on paper. One businessman interviewed in the recent survey of garment manufacturers recounted that his request for a licence under the manufacturing-under-bond scheme took eight years to be approved.

Higher social class, which for many obstacles offers a clear advantage, is less surely helpful in matters of law. As in most situations, higher class entrepreneurs can negotiate an overt legal problem, because of their superior education and professional associates. They also have the resources to smooth legal processes with business. On the other hand, the smallest businesses get around legal obstacles by being invisible. This strategy is more difficult for the upper class individual who has a fixed residence, is on the tax rolls, and otherwise known to the authorities.

Before the law, the Asian advantage disappears. All citizens of Kenya are, in theory at least, equal. Whether indigenous African entrepreneurs receive preference in licensing and the allocation of business sites is a subject for further study. The laws affecting entry into business do not discriminate on the basis of ethnicity or sex.

Many of the more onerous legal requirements - licensing, taxation, employment regulations - are often not enforced against small business. Yet because such businesses are not specifically exempted, they operate with the constant spectre of enforcement and closure. The hostile environment inhibits business expansion.

4. Constraints to growth of self-employment among professionals

One of the constraints facing self-employed professionals is relative neglect by policy-makers. Self-employment in urban areas has not been given adequate attention as a method of alleviating the country's unemployment problem. Both the Wanjigi Report and the Sessional Paper No. 2 of 1985 on unemployment hardly looked at the role of professional self-employment. As a result, there have been hardly any recommendations or specific incentives to enable the sector to play a more significant role.
The relative neglect of the self-employment sector is illustrated in the area of training:

The most notable characteristic of the self-employed is the virtually complete absence of public sources of training. Apart from university and college training received by those in professional occupations, the self-employed seem to have acquired their skills through informal sources, apprenticeships and on the job. (Kenya, 1988, p. 41.)

Inadequate training in the management of business enterprises is one of the factors which has had an adverse impact on the performance of Nairobi professionals. Lack of experience or management expertise outside their professional training, insufficient market information with regard to the nature of clients, the level of competition and financing have all contributed to a high failure rate of enterprises started by self-employed professionals. The Secretary of the Association of Professional Societies in East Africa estimated, in an interview with one of the authors, that over 40 per cent of professional businesses fail within the first year of operation.

This inadequacy is especially reflected in the weak accounting systems to be found in professional firms in Nairobi. The problem is especially acute among lawyers. The legal profession has been at loggerheads with the government in the last few years due to the rising frequency of cases of poor management of clients' money by their lawyers which has led to the prosecution of many of these lawyers. The Secretary of the Association of Professional Societies estimates that about 90 per cent of self-employed professionals do not have qualified personnel to carry out the accounting work required. Poor accounting systems was cited as one of the reasons why a large number of self-employed professionals in Nairobi are unable to get credit facilities from banks and financial institutions.

High start-up capital is generally identified as a major obstacle in initiating self-employment enterprises by professionals. Although start-up capital requirements vary considerably from one professional service to another, the majority of professionals regard initial capital requirements as generally high. Dentists and a number of other specialised medical practitioners require expensive equipment before they can commence operations.

High rents for office space in the city, due to the existing scarcity of offices in Nairobi, have contributed to the high start-up capital requirements for such professional services as legal and real estate firms. Landlords in Nairobi have been demanding excessive "good will" payments for renting or leasing their premises.

Limited physical space is also hindering the development of small-scale manufacturing and trading enterprises in Nairobi and the rest of the country and the problem is aggravated by the government's existing policies, which have increased regulations and restrictions on premises for business enterprises (Kilby, 1982). The constraint posed by high rents and shortages of business premises in Nairobi and other urban areas has not been given adequate attention by the government in their formulation of policy measures to ensure affordability and availability of office space for self-employed professionals.

The demand for the services of some Kenyan consultants has been adversely affected by the country's dependence on external sources of finance and
professional and productive services. Often, consultancy services and other professional services required in connection with externally-funded projects are given to professionals from the donor countries, in the form of a "technical assistance" component of the loans or grants.

Other identified problems facing local consultant engineers include the lack of a clear strategy for developing local rather than expatriate construction capacity, lack of national building codes and regulations which lead to indiscriminate use of policies prevailing in developed economies, and a lack of co-ordination of institutional arrangements for managing public sector demand and awarding of tenders and contracts.

The present stage of the country's development and its level of income has resulted in concentrated demand for professional services in the hands of a small number of firms, especially in the areas of accounting, the law, real estate, building and construction, and medical services. The demand for some other professional services remains extremely low. This is especially so for artists and authors of non-school books.

According to some of the interviewed professionals, obtaining licences from both the central government and local governments seems to be still riddled with bureaucracy. The requirements are seen by the professionals as unnecessarily cumbersome.

Self-employed professionals in Nairobi are licensed by the government and sometimes by the city commission. Professional self-employment is regulated by certain legal provisions, usually within the Companies Act. Most of the professionals are also registered under various associations which oversee the conduct of the professionals. To be allowed to practise, professionals are usually required to pass examinations in their fields and fulfil other conditions set out by the government bodies responsible for registration of professional businesses.

Expansion of self-employed professional employment is to some extent hindered by the conduct of professional associations which apply highly restrictive admission requirements for new members with the argument that such preconditions are necessary to ensure high professional standards and integrity.

In accounting, a large number of examination (Certified Public Accountants - CPA) failure witnessed every year has become a great source of anxiety to candidates, especially at the higher level (CPA II and III) who feel that the Kenya Accountancy and Secretaries Examinations Board (KASNEB) has over time made the examinations deliberately too difficult in order to limit the number of qualified accountants. Recent provisions in the Insurance and Banking Acts are similarly seen as having made it difficult for Kenyans to enter into these fields due to the high share capital and other requirements.

Because of the small number of qualified doctors, and the high demand for practitioners in government service, the government has placed tough conditions on their terms of service. For example, government doctors are not allowed to operate private firms. The paramedical staff (clinical officers) are not allowed to practise privately. For a long time, they have been lobbying to be granted certificates to practise medicine when they retire but, to date, they have not been successful.
Training a pharmacist in Kenya requires four years of university education at the School of Pharmacy of the University of Nairobi and one year pre-registration internship. There are two categories of licences for a practising pharmacist - a licence to handle drugs classified under Type II poisons, and a licence to handle Type I (more dangerous) poisons. Every pharmaceutical outlet must be under the control of a pharmacist who ensures that all legislation relating to the storage and supply of drugs is complied with and proper ethical standards are maintained. A recent study on the pharmaceutical industry in Kenya found that less than 25 per cent of installed capacity in this sector is being utilised (Owino, 1985). The study found that stiff competition from imports of pharmaceutical products that are already being produced in the country was one of the bottlenecks in the growth of local pharmaceutical firms.

Marketing and sales promotion problems are quite serious for beginning, self-employed persons. It usually takes more than a year to acquire a sizeable enough share of the market to become viable. The problem is to some extent attributable to inadequate feasibility or marketing studies before businesses are established. Government control of fees charged in some of the cases is also identified as a problem. A number of professionals argue that there are cases when government-controlled prices were established at too low levels for profitable operations.

5. Conclusions

Individuals seeking self-employment in Nairobi must overcome resource, market and legal obstacles. Education and social networks enable both Asians and Africans of higher social classes to surmount most obstacles. Asians have the advantage of long experience in business and family patterns of business organisation well adapted to larger firms. Early work by Marris and Somerset (1971) indicates that this is precisely where African entrepreneurs fail. Their management style, while appropriate to small businesses, does not work well for large. Whether this has changed in the 20 years since Marris and Somerset's research is a matter for further research.

Women are disadvantaged by their lower levels of education and lack of independent access to capital. African women are appearing in business in significant numbers. Asian women, on the other hand, seem to enter business mainly in partnership with men. For all entrepreneurs - men and women, African and Asian - economic uncertainties, lengthy bureaucratic procedures and selective enforcement of the law create an inhospitable environment that discourages business expansion. Changes in any of these obstacles would undoubtedly lead to greater capital accumulation and higher levels of self-employment.

IV. Programmes and policies for raising productivity and incomes of the urban self-employed

The Government of Kenya has long played a major direct interventionist role in promoting self-employment in the small-scale enterprise sector. Some ministerial agencies sponsor various kinds of assistance programmes while government parastatals are also involved. Over 600 non-governmental organisations (NGOs) and private voluntary organisations (PVOs) operate in Kenya, perhaps 45 of which are involved in programmes to promote micro enterprises. In addition to the 100 or more private training consultancy...
firms in the country, the Kenya Institute of Management provides courses to develop managerial and entrepreneurial skills while the Kenya Management Assistance Programme (K-MAP) maintains a list of experts who advise entrepreneurs on a one-to-one basis on specific business problems.

In general, therefore, there has been considerable support for small-scale entrepreneurs from a variety of government and non-government sources. However, there has been little integration between these activities and the cumulative effects for small enterprise development, while perhaps important in the longer term, has been minimal over the short term (Kenya, 1989b, p. 19).

1. Problems of special groups:
   Urban youth and women

While the problem of unemployment affects virtually all age groups in Kenya's urban areas, it is much more acute for the young between ages 15 and 29, for both males and females (see table 13). The most affected ages are those between 20 and 24. While the precise reasons for this predicament of youth are not very well known, the problem is sometimes attributed to discrimination against youth or due to underestimation of the productivity of the young by employers.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-19</td>
<td>14.9</td>
<td>15.9</td>
<td>15.4</td>
</tr>
<tr>
<td>20-24</td>
<td>42.4</td>
<td>36.0</td>
<td>39.0</td>
</tr>
<tr>
<td>25-29</td>
<td>22.1</td>
<td>28.6</td>
<td>25.8</td>
</tr>
<tr>
<td>30-34</td>
<td>7.8</td>
<td>9.8</td>
<td>8.9</td>
</tr>
<tr>
<td>35-39</td>
<td>3.9</td>
<td>5.8</td>
<td>4.9</td>
</tr>
<tr>
<td>40-44</td>
<td>2.0</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>45-49</td>
<td>3.5</td>
<td>1.2</td>
<td>2.3</td>
</tr>
<tr>
<td>50-54</td>
<td>1.6</td>
<td>0.8</td>
<td>1.2</td>
</tr>
<tr>
<td>55-59</td>
<td>1.9</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>60-64</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Table 14 shows that the relationship between level of education and the rate of unemployment among both males and females in Kenyan urban areas has an inverted U-shape, and it is clear that for virtually all levels of education, except university, there are higher rates of unemployment among females.

There is strong evidence, therefore, that youth and women in Kenya are much more vulnerable to the unemployment problem in the country. There is need for special programmes to stimulate and facilitate self-employment among
the two groups as a way of alleviating the unemployment problem affecting them. The non-governmental organisations (NGOs) have responded to this need in Nairobi and other parts of the country.

Table 14. Unemployment and education
(percentages)

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
</tr>
<tr>
<td>None</td>
<td>6.5</td>
</tr>
<tr>
<td>Standard 1-4</td>
<td>11.7</td>
</tr>
<tr>
<td>Standard 5-8</td>
<td>10.9</td>
</tr>
<tr>
<td>Form 1-2</td>
<td>13.4</td>
</tr>
<tr>
<td>Form 3-4</td>
<td>17.4</td>
</tr>
<tr>
<td>Form 5-6</td>
<td>9.5</td>
</tr>
<tr>
<td>College</td>
<td>3.4</td>
</tr>
<tr>
<td>University</td>
<td>1.2</td>
</tr>
<tr>
<td>All</td>
<td>11.7</td>
</tr>
</tbody>
</table>


2. Income-generating group projects

There have been a number of initiatives taken by non-governmental organisations to generate employment through group-based projects. Some of the NGOs which have been particularly active in this area include the Undugu Society, the National Christian Council of Kenya (NCCK) and the Kenya Women's Finance Trust (KWFT).

The Undugu Society was created mainly to assist destitute children in Nairobi by providing training which would enable them to be self-employed in various trades. The Society is currently actively involved in informal sector development in slum areas of the city, especially in Kibera, Mathare Valley and Pumwani. Currently the Society has workshops for motor mechanics and metal works. The Society provides one to two years of training through established Jua Kali artisan enterprises, with those successfully completing the programme sitting for government trade tests. The Society's Business Development Section offers advisory services and carries out external contracts and consultancies, especially those involving training for Jua Kali entrepreneurs.

An important initiative to facilitate self-employment among women in Kenya has been that of the Kenya Women's Finance Trust. The Trust, an affiliate of Women's World Banking, attempts to enhance and promote direct participation of women and their families in the country; to promote research and the collection of data on the participation of women in development; to assist
women in understanding and obtaining credit facilities; and to train women in business management, record keeping, marketing, planning, legal awareness, and leadership skills for women's groups.

The Trust has assisted women in Nairobi and other parts of the country through the provision of credit and training to small-scale entrepreneurs engaged in tailoring, hair salons, vegetable vending, hawking and running of kiosks. The Trust has improved women's access to credit facilities through a revolving loan fund and loan guarantee scheme in which KWFT guarantees 25 per cent, Women's World Banking guarantees 50 per cent and Barclays Bank Kenya Ltd., 25 per cent. The maximum credit from the Trust is K.sh.20,000 at a subsidised interest rate of 12.5 per cent. One of the main features of the KWFT loans is that no collateral is required. This has been highly significant for Kenyan women, the majority of whom have no title deeds or other form of collateral.

Participating donors in the programme include the Ford Foundation and NORAD. The management of KWFT estimates that currently about six loans are approved every month for Nairobi alone.

As a recent World Bank report says, one of the major lessons from the operations of the KWFT has been the realisation of the crucial role of training: "A number of the KWFT clients have found that what they most needed was the training in business skills that accompanies the loan review process ... Thus, while credit remains a real constraint for many small-scale entrepreneurs, its use is often most effective when accompanied by complementary technical assistance" (World Bank, 1988, p. 47). This lesson is supported by increasing evidence that the failure of many government credit programmes designed for small-scale business enterprises can be attributed, to a large extent, to insufficient attention given to "entrepreneurial development in programme design and management" (World Bank, 1988, p. 47).

The National Christian Council of Kenya (NCCK) is another NGO which has attempted to assist group income-generating self-employment. The NCCK programme involves provision of working places for some of Nairobi's low-income population - especially from Mathare Valley; provision of security for purchase of tools, inventory and customers' goods; the marketing of goods through displays; and identifying customers in the middle income surrounding areas. In addition to the above, NCCK is currently providing 107 sheds for small-scale industries. NCCK is closely associated with the development of informal sector entrepreneurs including carpenters, mechanics, food processors, screen painters, paint makers and refrigerator and TV repairers.

3. Community-level programmes:
Some examples

(a) The Urban Community Improvement Programme (UCIP) of the National Christian Council of Kenya (NCCK)

The goal of NCCK's activities in its UCIP is to upgrade the quality of life in urban squatter communities through the delivery of services in the areas of housing, health, education and literacy, nutrition, child-care and employment. It is a social programme with economic spin-offs. Our focus will be on the latter and its programme to promote income and employment growth in Mathare Valley in Nairobi, an extremely poor shanty town devoid of basic services and infrastructure, where perhaps 80 per cent of the adult population is female and where child dependency is very high.
The general approach of NCCK is to involve the target community in defining and prioritising their problems to organise the community in order to work for their solution, to institutionalise both decision-making and action capabilities within the community, and to deliver services and funds to support these efforts. Meanwhile, NCCK continues to advocate the need for funding, services and policy support to the government and the general public. Many of these activities revolve around NCCK's social workers and community organisers.

The Small Business Scheme (SBS) under UCIP was established in 1975 and is designed to provide management and financial assistance to small-scale enterprises in Nairobi's informal sector. In 1980 the scheme was expanded to the towns of Mombasa, Kisumu, Kakamega, Nakuru and Eldoret. Potential clients and borrowers are recommended by social workers for the SBS programme on the basis of need, reliability and accessibility to NCCK staff. The would-be client is interviewed and asked to provide background information on his or her domestic and employment status, income, assets, current operations of the business and the amount of loan required and details on how the loan would be utilised. Where no security can be offered the names of three guarantors who may include established persons in business, politics, the church, law and other acceptable professions. The application is then assessed by a committee of experts in business and enterprise development and, if it is accepted, the client must open a bank account to obtain the loan.

Management assistance is offered on a case-by-case basis by NCCK's full-time, small business administrator who works in collaboration with officers from the Government's Co-operative Development Department. Primary focus is on teaching the clients how to record sales and purchases, to cost inputs including their own labour, and to mark up their goods to produce a surplus. Advice is also offered on marketing, the bulk and joint purchasing of materials from wholesalers, and licensing and co-operative registration.

In 1978 SBS financial assistance moved from an individual to a group orientation which offers cost-savings in training and greater financial discipline. Success with group and co-operative lending has seen the programme expand from its initial concern with charcoal selling, butchery, secondhand clothes marketing and patchwork sewing, into woodworking, leather work, metal work, bicycle repairs and the retailing of fruit and vegetables.

A sample survey of client enterprises revealed that most SBS loans were used to buy raw materials or stock. Clients identified the lack of sufficient capital, tools, materials, markets and secure physical space as their greatest problem areas. They noted improved management and bookkeeping as well as tools, stock and raw materials, as the major advances resulting from NCCK assistance. Increases in sales were reported, ranging from 30 to 500 per cent.

Although limited in scope and technical personnel, the SBS in Nairobi has produced moderate but significant results. The programme is clearly reaching the poorest and least skilled segment of the population and, within this difficult context, has managed to register some important gains in the areas of group enterprise formation, credit extension and the upgrading of management and bookkeeping capacities among clients. New enterprises and jobs have been created and, in most cases, have survived. The viability of enterprises is demonstrated by the fact that 20 loans, totalling $8,590, have been made with only one recorded default. Only one enterprise (the butchers' co-op) has failed, its members citing lack of capital as the reason (O'Regan and Hellinger, 1981, p. 76).
The one missing element is in the area of marketing assistance, deriving from NCCK's lack of technical personnel. Otherwise, the UCIP social and community workers are largely responsible for the programme's success which serves as a complement to NCCK's social and community development work in Mathare Valley.

The shifting emphasis of the SBS towards group enterprise formation is revealing and is a reflection of the view that most clients are not entrepreneurs by choice and would probably resort to steady wage employment if it were available. Collective enterprises allow clients to share knowledge and skills and to provide group guarantees for credit in addition to purchasing and marketing in bulk. The low quality of the goods and services produced, together with the marketing problems inherent to all informal sector activities, poses the problem of enterprise stagnation in the future. Evidently, to counter this problem, intensive assistance in marketing must be provided.

An addition to the NCCK's SBS was a Credit Management Programme (CMP) for the disbursement of loans in the urban areas of Nairobi, Kisumu and Mombasa. A donor grant of K.sh.11.7 million was made available in 1986 for lending to small-scale enterprise over the period 1987-89. A recent evaluation of the project, however, has shown that implementation has run far short of the targets set (Mathenge, 1988).

The CMP was meant to be decentralised so that approval and disbursement would be faster; loans were expected to average K.sh.30,000 for individuals, K.sh.50,000 for groups and K.sh.200,000 for community projects. Every borrower was expected to open a bank account with a branch of the Kenya Commercial Bank (KCB) through which loan disbursements and repayments would be made. Staffing of the scheme in the field was to be made through business extension officers in the three towns, consisting of a business promoter, community organiser and an assistant accountant, who were expected to select and train prospective borrowers in business management skills, to give follow-up technical advice and to ensure collection of loan repayments when they were due.

Response to the scheme, as judged by the number of potential client enquiries, has run into the thousands such that funds availability, or the capacity of staff to screen applications has been a constraint rather than the lack of prospective borrowers.

Client selection procedures have been cumbersome involving numerous interview steps to establish the need for assistance, the type required, the total assets of the business to be assisted and the viability and business prospects during the loan period. For businesses without reliable records, technical assistance is offered on various aspects of business management, including record keeping.

The project review revealed that from the selected sample of 32 loan recipients, 16 were women or women's groups. However, the average age of borrowers was relatively high, indicating that the youth unemployment problem revealed in table 13 above has been largely ignored by the scheme's administrators.

The impact of the project has been quite limited, partly because no funds were disbursed in 1987 and, by October 1988, only 100 borrowers had been identified and only K.sh.2 million (17 per cent of the total available) had
been lent. Of the 32 projects reviewed in detail only 14 additional employees had been engaged. The number of direct beneficiaries of the borrowed funds was much greater in Kisumu (1,165) than in either Mombasa (260) or Nakuru (82) indicating a much wider distribution of benefits in Kisumu.

The review is critical of the abnormally long period between the approval of loans and the disbursement of funds, averaging four months, delays which jeopardise the potential success of projects that loans are intended to assist. It is acknowledged that part of the delay is attributable to the time it takes for borrowers to open bank accounts, a delay which could be eliminated if bank accounts were opened at the time of making a loan application. Once loan repayments commenced, however, they were made punctually, since only three of 21 loans reviewed were in arrears.

The review concludes, therefore, that the project is unlikely to be implemented on schedule. Here is an example of a project where the responsible agency, NCCK, has not performed as well as its earlier and larger project in Nairobi's Mathare Valley, largely because of administrative failures relating to lack of vehicles, office congestion and staff misallocation. Evidently, the project's goal of promoting income and employment generation in some parts of urban Kenya has not been met.

(b) The Kawangware Community Upgrading Project

In contrast to Mathare Valley, which lies close to Nairobi's centre, Kawangware is much more isolated physically, economically, politically and socially. However, both are shanty towns housing many recent migrants to the capital. The Kawangware project commenced in 1975 on the initiative of the Institute for Cultural Affairs (ICA), an American PVO. Community upgrading is viewed as an integral and comprehensive goal and there are a number of distinct programmes which include low-cost housing, pre-school education, community health services and employment and income generation. The latter are accomplished through small business and urban agriculture projects.

Four industries have been established including a construction co-operative employing 18 people to construct low-cost houses and market stalls in Kawangware; a privately-run metal fabricating enterprise employing 20 people; a handicrafts co-operative employing 30 women in the production of banana leaf baskets and other artifacts; and a sewing co-operative which employs 10 people.

A central finance office manages ICA finances and serves as a funding channel. It pays salaries to enterprise employees and reinvests any profits in materials and equipment. A central equipment pool lends tools to the various industries, together with a wholesaling unit which provides lower priced consumer goods to local retailers. Loans are channelled through the finance unit and are made in kind and do not entail any interest charges.

In addition, a highly labour-intensive agricultural project has been initiated to generate employment and to capitalise on the large amount of unused land in the community and the rural orientation of the in-migrants to the settlement. The scheme is based on single-acre units worked by five-person teams, each having a team leader. The major crop is French beans, which are harvested throughout the year so that employment is continuous. The beans are boxed on site, sold for export in Nairobi and flown to Europe for sale.
The project is divided into "farms", each composed of five single-acre units with 25 people, overseen by a salaried manager working with a paid team leader and team members. Efforts are made to integrate the sexes and ethnic groups in each team. All farms benefit from the use of a centrally-managed equipment pool, a central supply service and a share irrigation scheme. Credits are extended on an in-kind basis for all inputs and training is provided on a demonstration farm site in management, marketing, crops, equipment, irrigation and literacy.

To expand the marketing and profit potential ICA has experimented with the raising of locally-consumable crops and with animal husbandry.

At the time of the evaluation by O'Regan and Ashe (1981) the Kawangware project had created 70 jobs in the small enterprises. The reviewers are understanding of the rather low impact in job creation within the community development scheme because of the high percentage of inputs which are relegated towards citizen mobilisation and organisational development, but solid achievements in these latter areas were not in evidence either. They are critical of the central control over the development programme by ICA as well as the administration of the group industries through the central finance unit. Such control appeared to inhibit the independence and potential self-reliance of the client enterprises. However, the most interesting aspect of the programme is the urban agriculture scheme which utilises the rural-based skills of the people and the valuable arable land in a highly labour-intensive manner. The team approach in crop production is commended as is the collective approach to the acquisition and use of tools, equipment and major inputs, and the establishments of a central irrigation scheme. In this case, ICA has introduced an efficient, low-cost production and employment promotion scheme which, it is felt, could be adopted and duplicated in similar peri-urban African squatter communities.

4. Programmes for investment and finance

(a) Examples of current programmes

The main financial institutions specifically designed to assist the small and medium sized entrepreneur in Kenya are the Kenya Industrial Estates (KIE), the Joint Loan Board Scheme (JLBS), the Industrial, Commercial and Development Corporation (ICDC) and the Small Enterprise Finance Company (SEFCO), which is a private company. Table 15 indicates that K.sh.1,112 million has been loaned by development finance institutions since independence in 1963. Of ICDC's disbursements about K.sh.275 million has been distributed to 7,400 small-scale traders for both start-up and expansion. Under its "Small Industry Loan Scheme" it has distributed K.sh.97 million to manufacturers, including those in the informal sector. KIE has disbursed K.sh.500 million to about 1,600 enterprises since 1967 while the JLBS has been assisting small traders since 1955.

It is extremely difficult to determine how much has been loaned to the small enterprise sector through commercial banks and other non-bank financial institutions because they are not required to report such information to the Central Bank. One estimate is that such loans represent not more than 1 or 2 per cent of their total annual loan commitment. If so, this amounts to about K.sh.800 million annually and illustrates the much greater relative importance of the commercial banking sector and its potential impact on our target group. Their annual loans to small enterprises could be as much as ten times
greater than the annual loans of all the other development finance institutions.

Table 15. Loans to small and medium enterprises by development finance institutions since independence

<table>
<thead>
<tr>
<th>Lending institution</th>
<th>Loan amount (K.sh. millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KIE</td>
<td>500</td>
</tr>
<tr>
<td>ICDC</td>
<td>372</td>
</tr>
<tr>
<td>JLBS</td>
<td>170</td>
</tr>
<tr>
<td>SEFCO</td>
<td>70</td>
</tr>
<tr>
<td>Total</td>
<td>1 112</td>
</tr>
</tbody>
</table>


It is worthwhile to consider the assistance programmes for small-scale enterprises of four leading institutions: the KIE, the ICDC, the Kenya Commercial Bank (KCB) and the Kenya Women's Finance Trust (KWFT).

(b) **Kenya Industrial Estates (KIE)**

The KIE was established in 1967 as a subsidiary of the parastatal ICDC. Its early objective was to promote entrepreneurial development in small-scale modern industry and was initially modelled after the Indian concept, catering for the construction of sheds and the provision of loans, technical assistance, maintenance and repairs. Roughly 10 per cent of the sheds that were constructed were located in Nairobi but KIE's branch network of industrial estates was extensive throughout the country, protected behind an import substitution strategy of high tariff barriers and import licences. In 1978, KIE extended its promotion activity into lending operations, probably the only organisation at present which combines these two roles (Gichira and Aleke-Dondo, 1988, p. 38).

As a promotion agent, KIE has been responsible for planning, preparing and appraising projects, renting out industrial premises, assisting with the implementation of projects and the maintaining and repairing of equipment, and providing technical support and extension services on management, marketing and book-keeping. Apart from disbursing loans to those housed on industrial estates, KIE now fund projects outside the estates and has begun lending to the informal sector.

The number of enterprises graduating out of the KIE sheds into bigger ventures has not been impressive. KIE's "patronage and protection" has made it difficult for the occupants to grow and move out. Indeed, an assessment of the projects funded by KIE indicates that 60 per cent are considered to have
been successful, 10 per cent have required to be rehabilitated and the remaining 30 per cent have failed, with no ability to repay the loans (Gichira and Aleka-Dondo, 1988, p. 39). The main reasons for failure have involved lack of management, under-capitalisation and severe competition which squeezed out of the market the smallest enterprises. Some borrowers lacked commitment to repay the loans while others experienced problems of raw material procurement and inadequate working capital.

Projects located in Nairobi and Mombasa have generally not performed as well as in other smaller towns. Assessments of the overall programme have revealed that it has not been as successful as originally anticipated. The facilities provided have been expensive, the technology adopted has been relatively capital-intensive and the amount of employment generated has been disappointing (Aleke-Dondo et al., Vol. II, 1986, p. 79).

In keeping with the government's objective of promoting rural development, KIE is now emphasising assistance to informal artisans in Industrial Promotion Centres in rural Kenya. The marketing of informal sector products is proving to be a problem, however, and the KIE anticipates establishing Jua Kali retailing outlets in urban and rural areas to be owned by co-operatives.

(c) Industrial and Commercial Development Corporation (ICDC)

ICDC's "Small Commercial Loan Scheme" has assisted 7,000 small-scale businessmen and women to start and operate wholesale and retail shops with a disbursement of over K.sh.225 million over a 20-year period. Loans have ranged between K.sh.20,000 to K.sh.200,000 and need to be fully secured by a title deed on land or buildings, repayable over a period of five years. Interest is currently charged at a commercial rate of 16 per cent per annum on outstanding amounts. Interestingly, the scheme also caters to the needs of professionals, such as doctors, auditors and management consultants.

The "Small Industry Loan Scheme" of ICDC aims to assist small industrialists obtain start-up loans up to 70 per cent of the total project cost, including the costs of premises, machinery and initial working capital, subject to a maximum of K.sh.2 million ($100,000) per project. Loans granted under this scheme between 1965 and 1987 amounted to K.sh.74 million.

Some of the problems ICDC have encountered have included weak management and financial controls, poor infrastructure including the lack of electricity, severe competition from larger plants, particularly in bakeries and garment-making, inability to procure raw materials in bulk, so losing trade discounts, and early failure of many small projects.

(d) The Kenya Commercial Bank (KCB)

The bank accounts for over 50 per cent of the total commercial bank network in the country and is fully owned by the Government. The bank is currently operating a pilot credit scheme for Nairobi's informal sector (Jua Kali) entrepreneurs but anticipates extending it to other selected towns later. In 1986 an agreement was signed between the KCB and the Government to place K.sh.5 million in local currency funds generated by USAID programme assistance into a Jua Kali account. Eligible borrowers are entrepreneurs who must be full-time managers of their businesses, who are preferably skilled in their trade and should have not borrowed before. Those who qualify must be prepared to undergo training in basic management before funds can be
disbursed. Normal commercial interest rates are charged and loans have averaged about K.sh.20,000, both for acquired fixed assets and working capital. KCB does not necessarily insist on normal security but, instead, chattel mortgages are created over the assets acquired by the loan. The bank is guaranteed by the Government up to 98 per cent of the K.sh.2.5 million available for lending. The remaining K.sh.2.5 million is earmarked to cover the costs of implementing and administering the programme, including client selection and training, extension and advisory services, and loan supervision.

The project was designed to test the proposition that commercial banks can be used effectively to provide credit without collateral to small-scale, self-employed Nairobi businessmen provided that some incentives, such as loan guarantees and support of administrative costs, ensure a no-loss situation for the bank.

Experience has shown that the demand for the programme is enormous with 1,000 applications having been received within the first year, representing over K.sh.40 million in loan requests, whereas the project was designed to provide only 100-150 loans over a three to five year period (McGinnis and Bhatia, 1988, p. 5). Based on a comprehensive USAID evaluation, the pilot project seems to have proved successful and deserves to be expanded. Apart from the great demand that has surfaced, the repayment rate on the loans granted has been better than anticipated and compares well with normal bank loans. It was presumed in the design of the project that, because banks provide credit as a business, they would not only have better credit risk analysts, but they would also assess loans in a more cost-effective manner than other agencies. KCB's performance and caution in lending has shown this assumption to be well founded.

The rate at which accounts were in arrears at the time of the evaluation of the programme appeared comparable to normal lending at 20 per cent, and the default rate was only 2 per cent. Compared to non-bank financial institutions and non-government organisations involved in lending programmes these results are excellent (McGinnis and Bhatia, 1988, p. 6). One criticism of the programme, however, has been that the bank has been very cautious and has avoided lending to start up enterprises and those with the least security. While many worthy informal sector enterprises have been assisted very few Jua Kali self-employed have been reached who possess no shelter and machinery but who only require working capital.

In spite of this the USAID evaluation team recommended that the programme should be expanded tenfold, from K.sh.5 million to K.sh.50 million, for a period of three years; that the loan ceiling should be raised from K.sh.20,000 to K.sh.50,000; that those who successfully repay their initial loan should then be eligible for loans up to K.sh.100,000; and that the programme should expand its operations outside of Nairobi into a number of provincial capitals.

Finally, it was concluded that, although the Jua Kali Loan Programme may never be self-sustainable because of the inclusion of training and administrative costs, the expenses of running the programme are lower than anticipated and can be expected to diminish over time. Indeed, with an expanded programme, perhaps one-half of these training and administrative costs will be covered by interest receipts and, because of the design of the programme, it can be commercially viable for KCB.
(e) The Kenya Women's Finance Trust (KWFT)

The KWFT was established in 1981 with the primary objective of assisting women to participate fully in the economy by securing credit for female entrepreneurs from conventional financial institutions and by providing business training and advisory services to them. The Trust was designed to cater for women entrepreneurs who lack collateral, as compared to their male counterparts, because of traditional methods of land acquisition and ownership which favours men. The Trust has established three programmes to support self-employed women:

(i) Guarantee Loan Scheme

A loan guarantee scheme of up to Ksh.1.5 million has been established in collaboration with Barclays Bank of Kenya. Loans of between Ksh.20,000 and Ksh.100,000 are provided to women by Barclays' branches with recommendations of the Trust under the guarantee arrangement. The bank absorbs up to 25 per cent of the risk of the guaranteed loans which are provided under normal bank terms and conditions, except for the collateral. The scheme has been described by the bank and the Trust as a success, and it is hoped that similar schemes with other commercial banks can be established (Gichira and Aleka-Dondo, 1988, pp. 49-50).

(ii) Revolving Loan Fund Scheme

Through the financial support of donor agencies the Trust has established a revolving loan fund for direct lending to self-employed women in certain urban centres. Loans of between Ksh.2,000 and Ksh.20,000 are provided under the scheme. The terms and conditions of loans are close to those of conventional financial institutions except for collateral. Currently, the fund amounts to Ksh.3.5 million.

(iii) Training and Business Advisory Services Programme

Training and advisory services are considered key components of KWFT activities. A comprehensive extension services unit has been established to provide training and technical assistance to the female self-employed.

It is important to mention that, since independence, the Kenyan Government has invested heavily in the co-operative movement whose current deposits stand at over Ksh.18 billion. Savings and credit societies number about 900 while the majority of loans to members are used for consumption purposes with few loans directed towards the development of small enterprises. Evidently, under the direction of the Ministry of Co-operative Development, the bulk of these funds could be mobilised in the future to finance small-scale enterprise development.

(f) Restrictions preventing small enterprise lending

Commercial banks and non-bank finance houses in Kenya rely on the free market for mobilisation of their deposits in a regime where the Central Bank controls the minimum savings/deposit interest rates and the maximum lending rates. The maximum lending rate for non-bank financial institutions is kept
higher than for commercial banks so that the former can offer higher interest rates to depositors (Kenya, 1989b, p. 54). Bank lending to small-scale enterprises, therefore, is not attractive, particularly when the unit processing costs of lending small amounts are high. Furthermore, the procedures of the banking system require tangible collateral as a basis for lending and most small enterprises are unable to satisfy this requirement. Meanwhile, commercial banks already facing a shortage of funds, partly because of large-scale deficit financing through government borrowing from the banks, are not allowed to charge for non-financial services such as training or feasibility studies. Such services would create unrecoverable additional costs for the banks. Thus, direct commercial lending to small enterprises is not currently attractive to the banking system.

(g) Suggestions for financial policy reform

The regulatory framework of the Central Bank has resulted in a financial system catering excessively to the short-term needs of large businesses and for providing loans with minimal risks. Clearly, the small, marginal borrowing enterprise sector is squeezed out of the capital market and deprived of finance for start-up and expansion. The policy objectives of encouraging self-employment are being hampered by problems of financing which have been summarised as:

- financial institutions have insufficient funds for the high-risk, small-scale sector;
- small-scale businessmen are not able to submit operational plans that satisfy the requirements of financiers;
- collateral requirements are too stringent to allow the small-scale self-employed to qualify for loans;
- current processing costs of lending to the small-scale sector are higher than most banks can afford, resulting in low margins for this type of lending (Kenya, 1989c, p. 56).

The government's role to correct for the underdeveloped state of financial markets and to promote lending to the high-risk sector is crucial. However, its future role is anticipated to be limited to providing a positive policy and regulatory environment, and to creating an incentive structure for financial institutions to profitably make loans to small enterprises. Promised policy reforms are to include:

- allowance of commercial banks to charge for business advisory services offered to small enterprises;
- provision of selective credit lines;
- allocation of public funds for small enterprise development;
- allowance of higher interest charges on small loans;
- increase of margins between charges to borrower and average cost of funds;
- public acceptance of foreign exchange risks of loans targeted for small enterprises;
creation of more special funds, as in the case of the KCB and Barclays schemes discussed above, to encourage banks and finance houses to lend to small enterprises (Kenya, 1989b).

To increase the quantity of loanable funds available for small-scale enterprises a number of inter-related policy reforms are required. For example, a decrease in the level of deficit spending by the government would certainly increase the amount of liquidity in the financial system, thus raising the likelihood that the small borrower might gain access to a larger volume of loanable funds. Allowing interest rates on savings to seek market rates, instead of being controlled, would perhaps lead to greater savings. Currently, real interest rates on savings are very low and alternative outlets for savers, such as land speculation, is much more profitable. Elimination of the present 10 per cent tax levied on savings accounts would also encourage savers to make deposits in financial institutions. Meanwhile, the development of secondary financial markets might allow large institutional investors such as insurance companies, the Post Office Savings Bank, the National Social Security Fund and others to buy certificates of deposit at the commercial banks, who, in turn, could then be encouraged and induced to lend to small-scale entrepreneurs.

Currently, the banks insist on tangible collateral as security for loans so that small enterprises are at a distinct disadvantage since they often lack assets which could be offered as security. The only available forms of acceptable collateral are title deeds and fixed assets such as buildings, plant and machinery. Evidently, banking procedures which specify that loans must be secured should be revised with a view to relaxing them. Alternative forms of collateral, such as the credit guarantee of the Government to KCB in the Jua Kali Loan Programme, or the creation of a Credit Reference Bureau to provide credit histories on self-employed entrepreneurs, might be devised. Small enterprises might be allowed to use moveable goods as collateral, a practice which is currently not permitted. Alternatively, accounts receivable from reputable debtors might be accepted as security.

Clearly, what is required is a much more pragmatic approach to develop a more cost-effective means of providing both financial and non-financial services to the small business proprietor. It might be more cost-effective to concentrate on those enterprises which are now only just below the margin of requirements of formal lending institutions. In this case, the most disadvantaged, particularly those seeking start-up assistance, would not initially receive help, as it seems is often the case in the KCB Jua Kali loan scheme reviewed earlier.

Finally, since most commercial bankers have a sceptical attitude towards lending to small businesses and have yet to discover the potential profit in this sector, awareness-raising workshops for them are required.

5. Non-financial promotional programmes

Many institutions and agencies are involved in promoting self-employment in Kenya and only their basic features can be mentioned in the limited space available. Kenya changed its formal education system in 1985 to include eight years of primary education and four years at each of the secondary and university levels. The major emphasis of the new system is on self-reliance and practical training, with the aim of ensuring that those graduating from each level are in a position to enter self-employment (Muchene, Mwosa and
Thiongo, 1988, p. 4). For example, starting in class six, all pupils receive basic business education and are taught concepts relating to entrepreneurship. The course aims to develop an awareness and create a foundation upon which further training can take place for self-employment.

For those graduating from the primary level opportunities are available for training for self-employment in 320 youth polytechnics, which currently contain 50,000 students. The youth polytechnic has been officially identified as the means by which skilled personnel are to be created in order to become the owners and managers of small-scale enterprises. Courses are offered in carpentry, masonry, leather work, tailoring, etc., and are geared towards Government Trade Tests. Many non-governmental organisations (NGOs) are engaged in assisting youth polytechnics and have incorporated entrepreneurship training in their modules. At the higher post-secondary level there are 19 technical training institutes, 16 Harambee (community self-help) institutes of technology and three national polytechnics. A four-year technicians' apprenticeship programme is offered in the national polytechnics and a three-year craft apprenticeship course in specific trades is offered in individual training centres.

The Women's Bureau of the Ministry of Culture and Social Services offers extension services in the form of technical assistance to women's group projects. In addition, certain parastatals, such as the KIE, offer training courses in marketing and bookkeeping, as well as instruction in technical subjects to those receiving financial assistance.

(a) Problems related to promotional programmes

(i) The formal system

Studies of the formal training system continue to show that the various curricula contribute little towards preparing graduates for self-employment and entrepreneurship. For example, the youth polytechnics have become attached to formal trades certification while the trainees attend with the goal of wage rather than self-employment. Programmes at the institutes of technology do not give adequate emphasis to self-employment in their syllabuses while only 35 per cent of students reach the level at which business training is offered and most of those graduating are hired by the government or parastatals. In the national polytechnics business subjects are only taught towards the end of the technical training.

Muchene, Mwosa and Thiongo (1988) conclude that:

At the training institutions technical skills and business management skills are not integrated. The curriculum tends to teach the theoretical aspects of business but does not try to motivate students to pursue entrepreneurial activity. Without this motivational aspect, students will be even less inclined to seek self-employment ... The available materials, the trainers and the methods are not oriented towards small-scale enterprise development. Entrepreneurship skills are not offered in any institution while technical and managerial skills are oriented to large enterprises and paid employment.

Meanwhile, girls are greatly restricted in the formal education and training system. Only about one-third of the secondary school intake is
comprised of girls and two-thirds of these are in arts-based self-help schools where tuition is poor and the drop-out rate is high. Only 13 science streams for girls are provided in government secondary schools while there are 64 for boys. There are no technical schools for girls and they make up only just over one-third of enrolments in youth polytechnics. Thus, unequal access to vocational and technical opportunities greatly hinders the ability of women to start up their own business.39

A contributing cause of the lack of integration of technical and managerial training at the formal level is the lack of teaching materials relevant to the promotion of self-employment. Most of the available management training material has been adopted from professional courses geared towards large-scale enterprises.40 The teacher-centred or top-down approach in training is not conducive to promoting self-employment and case studies, games and role playing are seldom used.

(ii) Promotion efforts of NGOs, PVOs and multilateral organisations

Most of these agencies tend to be very target-specific in terms of needs, groups or sectors and, as a result, they are able to reach only a limited number of potential beneficiaries. In addition to funding limitations, most NGOs have concentrated more on social and welfare goals rather than economic and business objectives. In addition, very few programmes have been designed with women's special needs in mind.

At the start-up level many organisations assist clients with business proposals, particularly when clients are requesting credit. However, the special programme of assistance to refugee entrepreneurs of ILO/UNHCR is the only one to use a deliberate screening device to identify candidates with the potential for success in self-employment. Other organisations, including the Kenya Industrial Estates, the Kenya Small Trades Society and the Kenya Women's Finance Trust have received assistance from the ILO Improve Your Business (IYB) project in training of trainers seminars or by using the training manuals. Between 1983 and 1987, 700 trainers were trained by this project. In spite of its apparent success an evaluation of the ILO/IYB project concluded that the materials and methodology adopted have not been adapted to fit new target groups, particularly the smallest businesses, the informal sector and aspiring female entrepreneurs. The structured classroom setting where the great majority of participants are often semi-literate, self-employed, informal sector operators, suggests the need for a review of both the suitability of the material and the training methodology (Lindahl and Dainow, 1988).

(iii) Problems at enabling environment/policy level

Many of the national staff of such Ministries as Industry, Economic Planning and National Development, Commerce, Technical Training and Applied Technology, Culture and Social Services, and Co-operatives, which are mandated to offer assistance to small-scale enterprises, lack the necessary expertise. Since they are engaged in the formulation of policies to promote self-employment it is essential that they be properly trained. However, few have such training and even fewer of the staff are women, so women's concerns tend to be forgotten. Evidently, to transform well-designed policies into appropriate action requires competent and committed personnel, who, it has been claimed, are not currently in place (Muchene, Mwosa and Thiongo, 1988, pp. 4-23).
Meanwhile, both public and private organisations and institutions engaged in training and extension services operate in isolation of each other. No fora or other means of contact exist for exchanging experiences and ideas from which all could benefit.

(b) Proposals for improving extension services

Since training and extension services are frequently manned by inexperienced personnel with little exposure to the needs of small business, emphasis needs to be placed on preparing appropriate curricula and materials in the training of small-scale enterprise trainers, as well as exposing them to a practical business environment. More female trainers need to be recruited to serve as role models for female entrepreneurs.

Many extension activities are classroom-based and therefore inappropriate. More practical action-oriented methods are required in workshop settings. Therefore, training materials should be based on actual needs of specific sectors. Training programmes need different materials and methods to suit the type of enterprise and owner, the personnel of the assisting agency and the policy-makers. Women who are self-employed and their group leaders require their own special materials.

Clearly, individual counselling on a one-to-one basis is impossibly expensive. Therefore, training and extension efforts should be concentrated at the pre-start up phase, incorporating training in technical, managerial and entrepreneurial skills. In this way a large number of the potentially self-employed could be reached at an early age when they are likely to be receptive and eager to learn. To enhance effective employment creation through small-scale enterprise development, counselling might then concentrate on those showing the potential for growth but in need of specialised organisational and managerial support.

Often, organisations with social objectives do not do very well since efforts to promote business objectives are demoted. Attempts at achieving multiple objectives using the same package of staff and financial resources do not succeed. Furthermore, their objectives, experiences and achievements often remain unknown by potential and existing self-employed businessmen because of poor publicity. Programmes require mass media publicity to reach their target groups.

Co-ordination by agencies of the various programmes is frequently lacking, so that duplication and overlaps cannot be avoided. The various organisations need to be involved in the continuous upgrading of materials, procedures and methods from the initial formal programmes to informal training for specific target groups.

(c) Government proposals for improving non-financial programmes

The Kenya Government has recently published its recommendations for the future direction of such non-financial promotional programmes (Kenya, 1989c, 1989d). It focuses on nine major themes:

(i) To make government efforts to support self-employment more effective, small enterprise divisions in the various ministries are to be strengthened
and will work through private sector organisations rather than work directly with the entrepreneurs.

(ii) Private associations of small, sector-specific entrepreneurs will be encouraged to promote their special interests, to provide training for their entrepreneurs through inter-firm comparisons and action-learning workshops, to initiate research programmes to upgrade their products and services, and to collect and disseminate information on current issues and trends in their sector. The development of small-scale enterprise consultants to give more effective extension advice on a one-to-one basis is to be encouraged.

(iii) To avoid duplication of efforts an integrated approach would enable non-financial services in both government and the private sector to be more complementary and supportive. Therefore, an umbrella organisation or foundation to work with the various parties engaged in extension services will be formed together with a separate department for female entrepreneurship.

(iv) Apprenticeship programmes are to receive support. Currently, only contributors to the Industrial Training Levy Fund can draw from it for training purposes and these are mainly large, formal sector firms. Revision of the law to allow all skill training programmes in small-scale enterprises to draw on these funds would contribute to the promotion of self-employment. The small-scale entrepreneur might then be compensated by tax credits and so allow the man or woman to gain access to higher levels of technology. Curricula development for apprenticeship training in small enterprises is also promised.

(v) Training in management and other small-scale entrepreneurial skills is to be market driven and not skills driven. Skilled workers facing an effective market demand are required, who also have technical literacy, technical skills and entrepreneurial innovativeness and who can be relied upon to respond to changing market conditions. This approach will require frequent in-depth market surveys to identify the demand for skills and abilities emanating from the market place.

(vi) Training programmes are to be established to prepare teachers and trainers in both the public and private sectors for teaching a curriculum relating to self-employment and entrepreneurship. Small enterprise consultants will be trained by members of a Small Business Consultant Association whose members are to be certified.

(vii) To avoid current materials and methods which favour certification, innovative curricula, materials and methods to meet the diverse training needs relating to self-employment will be developed. Techniques involving the mass media, action-learning and distance-learning are to be promoted so meeting the needs of small enterprises which desire to improve their businesses by learning on their own.

(viii) Specific programmes are promised in the Government's action plan for target groups such as women, Jua Kali operators, the handicapped, retiring/retired civil servants and other employees, school-leavers, ex-convicts and refugees. Comprehensive skill and entrepreneurship development programmes which are target-group specific are to be developed.

(ix) To overcome those existing problems identified earlier in the formal education system, the Government reiterates in its action programme its desire to see that students at all education and training levels are receiving
instruction in subjects relating to self-employment and entrepreneurship. These subjects would help to promote an "enterprise culture" in the country and to allow the emergence of latent entrepreneurial talent. Direct instruction for becoming self-employed is to be integrated into the formal education system while a Self-employment and Entrepreneurship Section within the Ministry of Technical Training and Applied Technology is to be established to be responsible for integrating this subject matter at all training levels within institutions attached to the Ministry (Kenya, 1989c, pp. 80-87).

Thus, non-financial promotional programmes are to be revised and reformed and will depend heavily for success on the creation of an "enterprise culture" which exposes potential entrepreneurs to the rewards of starting and operating a business. The mass media can stimulate them by popularising the positive role businessmen play in society and the education system can teach managerial, technical and entrepreneurial skills. A national policy of entrepreneurship development and training can help to prepare the nation's youth for self-employment.

6. Interaction of policies and labour market regulatory framework and industrial and commercial policies

(a) General labour market regulatory framework

In spite of the change of official attitudes towards the informal sector, the activities and employment potential of the sector continue to be hindered by a highly regulatory labour market framework. There is thus considerable scepticism as to whether official statements will be translated into a genuinely enabling environment for the sector. Experience during the last two decades showed considerable unwillingness, especially by the local authorities, to allow informal sector entrepreneurs to operate freely.

After publication of the ILO's report in 1972 and until Sessional Paper No. 1 of 1986, the Government's support for the informal sector was largely rhetorical. Though all the Development Plans since 1974 included measures to support the informal sector, little was done. The 1974-78 Development Plan promised to stop the harassment of informal enterprises, so long as they met minimum sanitary and safety standards, but in a 1977 survey, 20 per cent of the informal enterprises complained that harassment by local authorities was still a major problem (House, 1981). Still, the problem continued. The 1984-88 Development Plan noted: "Too often, established urban enterprises have urged municipalities to harass (informal) sector activities."

In January 1989, three years after publication of Sessional Paper No. 1 of 1986, confrontation between local authorities and informal enterprises intensified with large spontaneous and sometimes violent demonstrations by informal sector operators in Nairobi, Kisumu, Thika and Meru.

Harassment of informal business is common, more than 16 years since the ILO mission condemned it. Harassment has been severe against non-licensed activities without legal protection. These enterprises are usually started after being unable to procure all the licences. The local authorities require a Jua Kali operator to have multiple licences for each activity on the same premises, e.g. sale of groceries and vegetables.
For informal activities to flourish, licensing procedures must be simplified. Do informal sector investors really need a licence to do business? If needed, a licence should be easy to get. One licence should be good for various activities, especially on the same premises. The small operators could thus diversify their activities, reduce risks, and better use their workers, skills and capital. Simplified licensing would ease entry to and exit from activities, thus leading to more competition. This would benefit both entrepreneurs and consumers. The latter would get better quality goods and services at lower prices.

(b) **Industrial and commercial policies**

Official policy change towards more recognition and promotion of self-employment in the informal sector has not been effectively accompanied by appropriate industrial and commercial policies or strategies of both public and private sectors. For instance, not much attention has been given to the expansion of the markets of informal sector enterprises despite the fact that low demand is a major constraint facing some of the products produced by the sector. The full potential of self-employment will not be tapped unless appropriate policies are formulated and implemented to raise the effective demand for goods and services produced by small-scale and informal sector enterprises, self-employed professionals and all other types of self-employed persons.

One area that requires attention is formulation of policies and strategies that strengthen links between the self-employed enterprises on the one hand, and the government and the large private sector on the other.

Self-employed professionals, income-generating groups, entrepreneurs in the informal sector and small-scale enterprises in general would receive a major boost if the public and private sectors would give them some preference when awarding tenders or contracts for goods and services which are currently produced in acceptable quantity and quality by these entrepreneurs. Policies which give preference to large-scale established firms and expatriate firms need to be reviewed to reduce implicit discrimination against up-coming indigenous enterprises. Unfortunately, not much tangible effort has been made in this direction.

There is also need for policies which encourage closer links between large-scale and informal, small-scale enterprises, especially in terms of the former subcontracting to the latter for supply of inputs or final goods, whenever possible. Some of the informal sector enterprises depend to a large extent on the large industrial and commercial enterprises for the supply of their inputs. These inputs may be purchased or may be in the form of discarded items which are recycled by the informal sector enterprises. Often these inputs are not readily available. A more streamlined link between the large-scale and small-scale enterprises to remove the bottlenecks of supplying inputs to the latter would be an important step towards improving the operations of the small self-employed entrepreneurs.

7. **Policies for improving the general enabling environment**

Apart from these changes needed in policies relating to investment and finance (4(g) above) and non-financial support (5(c) above), the Government has identified additional areas for policy reform relating to the "enabling environment" in which the self-employed operate. It accepts that the
prevailing general policy framework inhibits the expansion of self-employment in small-scale enterprises. Such expansion is also prevented by those factors identified in section V which include poor infrastructure, inadequate access to appropriate technology, limited markets, cumbersome laws and regulations, and insufficient research and dissemination of information. As a result the Government has promised a number of policy changes in the following areas (see Kenya, 1989c, pp. 5-23):

The Government has indicated that it will divest itself of its present direct involvement of promoting the small enterprise sector. It will become more involved in creating the infrastructure and providing networks of information in which small enterprises can thrive. For example, lending to small enterprises will be left to private financial institutions. An open and competitive business environment is seen to be more favourable for the small businessman such that industrial protection will be reduced. Where they are felt to be necessary, tariffs are to be preferred to import quotas and other restrictions. All price controls on non-essential commodities are to be removed and the exchange rate of the Kenya shilling will be adjusted to reflect its true market value. Such reforms would facilitate the competitiveness of local small-scale production in domestic and foreign markets and allow access to imported raw materials and spare parts, and perhaps to export markets.

Tax policy towards small enterprises will also be revised in anticipation of: exempting them from income tax; granting sales tax exemption to larger manufacturers on inputs and raw materials which are provided by small enterprises; allowing tax exemption for large businesses which provide training to small firms; allowing larger businesses which use smaller ones as suppliers, service agents, distributors or subcontractors, access to the Industrial Training Levy to finance training for entrepreneurs in small enterprises. In addition, to create the proper incentives for banks to lend to small businesses, the rate of interest payable on their loans should approximate the prevailing commercial market rate (Kenya, 1989c, pp. 39-40). The Government intends to continue to provide physical infrastructure to small enterprises, but much of this will be in rural Kenya, as a means of promoting its goal of rural-urban balance. However, more informal sector sheds are promised on the basis of an assessment of needs which could be erected in urban centres. In addition, a tax on idle land allocated for industrial and commercial purposes is promised in order to encourage its development (Kenya, 1989c, pp. 40-41).

In the area of dissemination and use of appropriate technology the Government plans to take a more active role, particularly in providing more information on technology options. More disaggregated data on women is to be collected by the Central Bureau of Statistics in order to facilitate better programming for self-employed women in small-scale enterprises.

The Government recognises that the future of the small enterprises sector depends on expanding markets for its goods and services and it promises that all promotional programmes will have a market orientation. To this end, preferential treatment will be given in granting government contracts to larger enterprises which extensively subcontract to small-scale enterprises. The Kenya External Trade Authority (KETA) is to be encouraged to seek overseas markets for the products of small enterprises (Kenya, 1989c, p. 42).
A number of important developments are foreseen in the institutional framework in order to ensure better effective planning and programming of small enterprise development. For example, existing policies and regulations are widely scattered and need to be synthesised with a view to developing a national comprehensive and coherent policy for small enterprise promotion. Such a policy will aim to attract more females into the sector. In addition, a cost-effective co-ordinating mechanism needs to be established in order to bring the various programmes under an umbrella body which would ensure that more funds are dispersed through NGOs. Efforts are to be made to promote and establish small enterprise associations which would be responsible for providing information and training to their members (Kenya, 1989c, pp. 43-44).

As we have noted in section III, the cumbersome regulatory framework which confronts the small-scale self-employed entrepreneur is a major obstacle to success. The Government, therefore, promises to undertake a comprehensive review of all pertinent laws to establish which pieces of legislation unduly affect small enterprises in a negative manner. Licensing requirements and building codes will be removed or relaxed, and other regulations and procedures are to be simplified. Those by-laws which are essentially neutral but which are being applied in a manner which retards the development of the small-scale sector will be withdrawn. Moreover, the Employment Act will be reviewed, particularly those parts of the legislation which restrict female employment in certain industries in order to encourage their participation in any sector where they have capability. In order to further this objective the Government promises to incorporate into its strategy for small-scale enterprises certain explicit policies for the promotion of female entrepreneurs, as well as to make explicit certain targets and performance monitoring criteria to assess the degree to which female entrepreneurs are being integrated into mainstream assistance activities. More awareness needs to be created among policy-makers and planners on the importance of female entrepreneurship and concrete plans are needed for the initiation of gender-specific approaches to enhance the growth of female participation in small businesses (Kenya, 1989c, pp. 45-46).

Evidently, the Government of Kenya is taking very seriously its role of creating an enabling environment for the growth of income and employment opportunities in the small-scale sector.

The success the country hopes to achieve in the development of small-scale and Jua Kali enterprises will be firmly rooted in policy restructuring and liberalisation covering the pricing structure, trade regime liberalisation, foreign exchange management, wages and investment policies and financial restructuring. In particular, Government will amend rules and regulations inhibiting the development of small-scale and Jua Kali enterprises, such as time-consuming administrative procedures in obtaining licences, inappropriate building codes, etc. It will also ensure that unfair trade practices on the part of large-scale firms do not jeopardise the survival and performance of this sector ... Government is convinced that its facilitative role in the development of small-scale and Jua Kali enterprises is necessary (Kenya, 1989a, pp. 165-166.)

The Government's goodwill towards the small-scale enterprise sector is unambiguous. Its major task now will be to identify in detail how it can help to promote income and employment growth in such enterprises in order that its intentions are brought to fruition.
V. Conclusions

Given the enormity of the current and prospective employment problem in Kenya, largely attributable to past and ongoing rapid population and labour force growth and the kind of economic structure which has evolved, policies and programmes which promote above-subsistence-level income and employment opportunities require the utmost priority. Despite past official policy statements of good intentions towards small-scale, self-employed businessmen, at the practical level not much was accomplished in the way of establishing positive incentives until quite recently. The publication of Sessional Paper No. 1 of 1986 on Economic management for renewed growth (Kenya, 1986) marked a turning point in that it painted a fairly comprehensive picture of the expectations placed on the small-scale, off-farm sector to absorb burgeoning numbers of new jobseekers in the near future. Together with the Development Plan 1989-1993 (Kenya, 1989a), a new medium-term strategy has been established to overcome prevailing constraints and to positively encourage more Kenyans to take up self-employment. While the Government's principal concern is to slow down rapid urbanisation through the expansion of rural non-farm job opportunities, the need to foster self-employment alternatives in the urban economy is fully recognised. An appraisal of policies and programmes in this latter sector has been the main focus of this review paper.

The most common constraints faced by small enterprises in Kenya and elsewhere include a lack of access to working capital and credit, poor infrastructure and inadequate tools and equipment, inferior managerial and technical know-how, and the high cost of becoming registered and licensed. Once operational they face shortages of raw materials and skilled labour, limited markets because of intense competition in easy-to-enter lines of business, and insecurity of tenure because of the often negative attitude of the authorities, particularly those at the local level.

A general review of projects to overcome these constraints has concluded that the most effective programme design is one which targets very poor entrepreneurial clients, emphasises credit rather than programme staff for assessing creditworthiness, and initially extends very small loans with the proviso that larger sums will be forthcoming if repayment is full and prompt. Such a programme lands itself to institutionalisation and helps to empower the poor via community-level organisations (Stearns, 1985). Other experiences have shown that loans administered by banks, with an emphasis on group solidarity and loan payback, have many positive features including a low default rate and the creation of a revolving fund of releasable credit.

However, the availability of resources is not the only problem. Financial and trade policies at the macro level can significantly influence the evolution of opportunities in the urban small-scale sector. Subsidisation of investment and other incentives offered to the formal sector can dampen opportunities in the urban small-scale sector. The promotion of linkages between the two sectors can be an important way to widen the market for informal sector goods and services. Tariff and exchange rate policies can influence the extent to which the small-scale self-employed can acquire strategic imported raw materials and tools and equipment.

In urban Kenya the small-scale enterprise sector is estimated to provide between 40-60 per cent of total urban employment and two groups, sales workers and agriculture and related workers, dominate the distribution of the self-employed. Among self-employed professionals operating in Nairobi, 90 per cent are non-Kenyans and they dominate the occupations of accountants,
surveyors, doctors, dentists, veterinarians and pharmacists. However, many Kenyan professionals do not register with the relevant bodies and do not show up in the data.

The self-employed in Nairobi are distinguished by the almost total absence of public sources of training. Apart from university and college training received by those in professional occupations, the minority who have acquired some skills have done so through informal sources, apprenticeships and on-the-job. If the government's ambitious targets for increasing productivity and job creation in the small-scale enterprise sector are to be realised then a more active promotional role in training activities evidently needs to be undertaken.

Most of the surveys of the urban informal sector stress the heterogeneity of enterprises, as reflected in a wider dispersion of income, employment structure and technology. However, a significant number of entrepreneurs and their employees are able to realise incomes at least as high as could be received in the lower eschelons of the formal sector, particularly where certain barriers to entry restrict competition. The findings confirm that not only does the informal sector provide employment at a much lower cost than similar activities in the formal sector, but that it provides incomes, basic needs and practical skills to a growing proportion of the urban labour force.

Evidence suggests that management may be a major obstacle to the expansion of small African business apart from problems relating to capital scarcity, raw material supplies, skilled labour bottlenecks and limitations of market size. Legal barriers to self-employment have long been recognised as important and our survey has documented seven broad areas which constrain entry, relating to licensing and registration, regulation of premises, labour laws, taxes, debt collection, lack of legal protection for product innovations, and foreign trade restrictions.

To meet the major restrictions and constraints on taking up urban self-employment, different kinds of promotional programmes and policies have been erected. A number of initiatives have been taken by non-governmental organisations to generate employment through group-based projects. For example, the National Christian Council of Kenya (NCCK) has erected a programme which provides working places for some of Nairobi's low-income populations including possibilities for the purchase of tools and inventory, the marketing of goods and the construction of sheds. Our review examined some examples of urban community programmes including NCCK's Urban Community Improvement Programme (UCIP) whose goal is to upgrade the quality of life in urban squatter communities through the delivery of services in the areas of housing, health, education, literacy, nutrition, child-care and employment. This is best described as a social programme with economic spin-offs.

Examples of programmes aimed to promote investment in the small-scale sector have been appraised in the paper. Since independence, over K.shs.1,000 million has been loaned by development finance institutions. This amount is overshadowed by that estimated to have been disbursed over the period to small-scale enterprises by commercial banks and other non-bank financial institutions. One recent pilot scheme offering credit through the Kenya Commercial Bank (KCB) to the very smallest enterprises in the Jua Kali sector offers great scope for emulation. The bank is guaranteed by the Government up to 98 per cent of the amount provided by USAID for lending. KCB does not insist on normal security but chattel mortgages are created over the assets acquired by the loan. Based on a comprehensive evaluation, the pilot project
is judged to be very successful and deserves to be expanded. Indeed, the report recommends that the programme should be expanded tenfold, the loan ceiling should be raised and operations ought to extend out of Nairobi into other provincial capitals.

Furthermore, to increase the quantity of loanable funds available for small-scale enterprises a number of inter-related reforms warrant consideration. For example, a decrease in the level of deficit spending by the government would raise the amount of liquidity in the financial system, and so raise the chances of the smaller borrower gaining access to credit. If interest rates were decontrolled and allowed to seek market levels, and taxation of saving accounts were abolished, savers might be induced to deposit more funds in financial institutions. Banking procedures which specify that loans must be secured need to be reviewed so that alternative forms of collateral other than title deeds and fixed assets might be acceptable. Such pragmatism would likely give greater access to credit to the smaller businessman who is currently excluded from the formal market for funds.

In the arena of non-financial promotional programmes many public and private institutions and agencies are involved. The major emphasis in the new Kenyan system of education is on self-reliance and practical training, with the aim of ensuring that graduates at each level are capable of entering self-employment. Over 300 youth polytechnics offer the full range of artisan skills with inputs from NGOs in entrepreneurship training. A technicians' apprenticeship programme is offered in the national polytechnics while craft apprenticeship courses in specific trades are offered in individual training centres.

However, the formal training system is criticised for contributing little in practice towards preparing students for self-employment. Unequal access to vocational and technical opportunities greatly hinders the chances of Kenyan women starting their own businesses.

Meanwhile, most NGOs tend to be very target-specific in their promotional efforts and are able to reach only a limited number of potential beneficiaries. Training and extension services are frequently manned by inexperienced personnel with little exposure to the needs of small business. More emphasis must be given, therefore, to the preparation of appropriate curricula and materials in the training of small-scale enterprise trainers, as well as exposing students to practical problems. Co-ordination of various NGO programmes is frequently lacking so that duplication is common. To transform policies into appropriate action, competent and committed personnel are needed but are believed to be not currently in place, especially in the public sector.

In the light of these criticisms, the Kenyan Government's recent recommendations for future non-financial promotional programmes are important. They suggest, inter alia, that small enterprise divisions in the interested ministries will be strengthened and will collaborate with private organisations to reach the target group of entrepreneurs; more effective extension advice on a one-to-one basis will be encouraged; an umbrella organisation will be created to work closely with the various public and private extension services, and a separate department for female entrepreneurs will be formed; the law will be changed to allow all skill training programmes in small enterprises to draw on the Industrial Training Levy Fund; training in management skills will be market driven which requires market surveys to identify those skill areas likely to be in greater demand; training programmes relating to entrepreneurship for teachers in both the public and
private sectors will be established; target groups, such as women, Jua Kali operators, the handicapped, retiring civil servants and other employees, school-leavers, ex-convicts and refugees will benefit from innovative programmes in skill and entrepreneurship development; and more emphasis will be given in the formal school system to promote an "enterprise culture" to facilitate the emergence of latent entrepreneurial talent. The mass media is expected to popularise the positive role businessmen play in society and contribute to this national policy of entrepreneurship development and training for self-employment.

Apart from these changes the Government has identified additional areas for policy reforms relating to improving the "enabling environment" in which the self-employed operate. It accepts that the general policy framework currently prevailing inhibits the expansion of self-employment. Therefore, it promises to divest itself of direct involvement in promoting smaller enterprises and restrict itself to creating essential infrastructure and to providing networks of information in which small entrepreneurs can prosper. For example, lending operations will be left to private financial institutions; industrial protection is to be curtailed in order to promote a more competitive environment where the small business can thrive; all price controls on non-essential commodities are to be removed and a flexible exchange rate of the Kenya shilling will reflect its market value. Such reforms will facilitate the competitiveness of small-scale production in both domestic and foreign markets and allow greater access to imported raw materials and spare parts and perhaps to export markets. Furthermore, preferential treatment in gaining government contracts is promised for those large businesses which are able to show that they extensively subcontract to smaller enterprises. A comprehensive review of all pertinent laws affecting small enterprises is to be undertaken in order that those having negative consequences will be removed or revised.

Implementation of this comprehensive package of policy reform will create far-reaching new opportunities for self-employment and small-scale business expansion in Kenya. In the foreseeable future the small-scale sector, in both rural and urban areas, must be relied upon to absorb into employment the greatest share of the rapidly growing labour force. Therefore, no time must be lost before the innovative "enabling environment" is created. Any delay will have profound adverse consequences for any chance of alleviating poverty for decades to come.

Notes

1 This projection assumes that the current total fertility rate of almost eight children per woman declines slowing by the year 2000 to 5.6 children. Should this total fertility rate remain unchanged, Kenya's population would be 38.5 million by the end of the century (Kenya, 1986, p. 6).

2 One Kenyan pound (K.£) equals 20 Kenyan shillings (K.sh.). The current exchange rate is approximately US$1 = K.sh.20.

3 It is interesting to note the way the current Development Plan (Kenya, 1989a) uses the terms "informal sector" and "Jua Kali sector" interchangeably. Literally, "Jua Kali" means "hot" or "harsh sun" in Kiswahili, implying that those working in the sector are usually engaged outdoors, a major characteristic of the informal sector as portrayed in the literature.
Some of the case studies presented in Baron and van Ginneken (1985) indeed confirm that informal sector production is efficient, labour intensive and purchased largely by the poor. The study of furniture-making in Kenya by House (1981, 1985) illustrates how the promotion of small-scale carpenters would enhance policies for employment growth and poverty reduction.

The empirical evidence from Kenya's informal sector tends to support these findings. It is reviewed in detail in section II.

"Informal service employment is one of the few (and often the only) alternative to open unemployment. The extensiveness of informal employment in Egypt's urban centres reflects the deep crisis in the urban economy as a result of the continual inflow of new jobseekers into informal service occupations." (Abdel-Fadil, 1983, p. 32).

The projects involving the National Christian Council of Kenya (NCCK) and the Village Polytechnic Programme are considered in section IV.

Much of the literature on employment problems in less developed countries does not show very explicit concern for self-employment but focuses more on small-scale enterprises and the informal sector. Since most of the employment generated in these two overlapping sectors consists of the self-employed and family workers, the bulk of the self-employed are implicitly covered. However, self-employed professional and technical workers are usually excluded from occupations and activities encompassed under the umbrella of the informal sector and, where possible, they need to be considered separately.

In 1988 the modern sector, together with the urban small-scale enterprise sector, created 86,400 new jobs, representing an increase of 5.4 per cent. Unfortunately, the breakdown is not available in the form given in table 2. Modern sector wage employment rose by 3.7 per cent nationally and by 3.3 per cent in Nairobi. However, private modern sector employment grew by only 1.5 per cent compared with 3.2 per cent in 1987 and 3.5 per cent in 1986.

Unfortunately, no comparable data are available beyond 1985 in this series. Nairobi's share of wage employment appears to have declined from 27.9 per cent in 1985 to 26.8 per cent in 1988 (Kenya, 1989b, p. 41).

The 1986 Urban Labour Force Survey comprised 2,697 households, consisting of a 15 per cent sample of 146 urban clusters. The sampling design was based on a selection of enumerated areas from the 1979 population census, with the urban clusters stratified by income, and with the seven largest cities included in the sample (Ritter and Robicheau, 1988, p. 3).

Less than 2 per cent of survey respondents indicated that they had training in both categories.

Registered businesses were accepted as belonging to the "formal" sector in the sense that they are subject to taxation, minimum wage legislation and health and safety regulations.

It will be recalled from table 3 that the Central Bureau of Statistics counted 249.0 thousand self-employed and unpaid family workers in 1985. All of these must be located in urban Kenya since the annual headcount is not undertaken in rural areas. It also includes self-employed professionals whereas our estimate of 301.6 thousand for the size of the urban non-farm, small-scale sector explicitly excludes self-employed professionals.
At the time of the survey the official exchange rate was US$1 = K.sh.16.1.

The value of the capital stock in the informal sector includes equipment, machinery and tools, but excludes the value of land and buildings. However, informal sector buildings are often non-existent so that this limitation of the comparison is not significant.

The apparent anomaly in some activities between having high capital-labour ratios and yet low output-labour ratios may be partially explained by the presence of underutilised capacity, caused by part-time operations. This is particularly the case in auto repairing where the majority of self-employed owners are full-time employees in formal sector garages (Aboagye, 1986, p. 68).

Business age was added because the high incidence of unprofitability among newer firms made age relevant for predicting the correct placement of a firm.

Surveys conducted in Nairobi suggest that more than three-quarters of business owners have had some formal education. Ndua and Ng'ethe (1984, p. 40) report that 88.9 per cent of Jua kali carpenters and metalworkers in the Eastlands area have been to school. Adagala (1986, p. 7) put the proportion of female petty traders with some schooling at 79.6 per cent. Of the owners of the small businesses studied by House (1981, p. 362), 93.5 per cent had been to school. Marris and Somerset (1971, p. 211), whose study encompasses market centres outside of Nairobi, reported that 77 per cent of the entrepreneurs had some formal education. A higher proportion (93 per cent) of loan recipients had attended school.

This conclusion is based on a cursory reading of results from a survey of garment manufacturers currently in progress. This survey, which includes all businesses manufacturing garments in Nairobi, asks business owners what qualifications or skills they expect of potential employees. Most prefer a specific skill level such as "ability to cut and sew a complete garment" rather than possession of a government trade certificate.

This information was gained from a conversation with Dr. Ralph Engelman, currently Associate Director of the Kenya Institute of Management, formerly associated with Kenya Industrial Estates.

According to Dr. Engelman, the Kenya Institute of Management, which has been involved in management training since 1954, considers previous exposure to business as a major criterion for selecting potential entrepreneurs for training in small business management.

Kilby (1988, p. 8) reports that in 1987 there were 400 firms of 20–49 workers, compared with 21,550 of fewer than 20.

The absence of Asian women from independent business ownership makes use of the male pronoun appropriate in this context.

This information is based on preliminary reading of a survey of garment manufacturers now in progress.

This estimate comes from preliminary results of a survey of garment manufacturers in Nairobi.
27 The term "secondhand clothes", popularly used to refer to clothing sold in open-air markets around Nairobi, is actually a misnomer. The goods piled on market tables often include both used and new items bearing tags from European and American stores.

28 The shilling, which traded at 7.6 to the US dollar in December 1980, now stands at approximately 20 to the dollar.

29 This informant was being interviewed in October 1989 as part of the follow-up to the 1986 survey of small-scale manufacturers.

30 Based on selected responses to a 1989 survey of garment manufacturers. Data have not yet been analysed, so the frequency of occurrence of this response is not available.

31 Conversation with Jackton B. Ojwang, Associate Professor of Law and Director of Postgraduate Studies, University of Nairobi, September 1989.

32 This information is based on a preliminary reading of responses to the follow-up survey conducted in September 1989.

33 This review is based on the case study by O'Regan and Hellinger (1981).

34 This material is based on the review by O'Regan and Ashe (1981).

35 Some of the information in this section was provided in discussions with Mr. Kikuvi of the KIE.

36 Indeed, KIE's policy is now to sell off the sheds on industrial estates to their current occupiers by providing long-term mortgages.

37 The idea of granting larger subsequent loans after a smaller initial loan has been repaid is in accord with the recommendations emanating from both the PISCES project reviewed by Ashe (1981, 1985) and from Stearns' (1985) review of various micro enterprises promotion programmes.

38 In 1988-89, total government expenditure took 39 per cent of GDP while its overall deficit was 5 per cent of GDP. Almost 50 per cent of this deficit was financed by domestic borrowing (Kenya, 1989c, p. 62).

39 Women occupy only 20 per cent of enrolments at the tertiary level of education and most at the university level are in the Faculty of Arts. The highest number in engineering was 12 in 1979, representing only 2 per cent of the Faculty's enrolment.

40 Notable exceptions are the specially prepared manuals for small-scale enterprises by the Improve Your Business/IL0 project which are used in 40 village (including urban) polytechnics (Machene, Mwosa and Thiongo, 1988).
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