The Jua Kali and the Mali-Mali: The Informal/Formal Nexus amongst Kenyan Micro Enterprises

Diane Holt, David Littlewood and Richard Harrison
Queen’s University Belfast

Queen’s University Management School,
Riddel Hall, 185 Stranmillis Road
Belfast, BT9 5EE, United Kingdom
Tel: (44) 28 9097 4538
Fax: (44) 9097 1539
Email: d.holt@qub.ac.uk

The authors would like to acknowledge the financial support of the Economic and Social Research Council (ESRC grant reference RES-061-25-0473). All views expressed are those of the authors.
ABSTRACT

This paper presents a preliminary exploration of the informal/formal economy nexus and entrepreneurial processes amongst a sample of Kenyan roadside vendors who mostly operate in the informal economy. Using semi-structured interviews, data was collected from sixty street vendors across Kenya. In particular the paper focuses on the relationship between the informal and formal economy and the factors that promote formality amongst micro and small enterprises in developing countries. The paper presents a conceptualization of a potential segmentation of the informal economy, considering the implications of this in terms of base of the pyramid initiatives and the promotion of development through enterprise.

INTRODUCTION

The Commission for Africa suggests that poverty reduction through economic growth in sub-Saharan Africa should focus on developing indigenous private enterprises (Irwin, 2011). In developing countries the majority of micro and small enterprises (MSE) are single persons working alone (Mead and Liedholm, 1998), many of whom are located within the informal economy. The Commission for Africa (2005) estimated that in Sub-Saharan Africa the informal economy contributes 75% of non-agricultural employment, 61% of urban employment and up to 92% of new jobs. Yet entrepreneurship research focusing on developing countries, and particularly on Africa, remains under developed (Kshetri, 2011), with little known about MSE growth in these environments (Nichter and Goldmark, 2009), and especially in the informal economy. Liedholm (2002) suggest that in at least 40% of households in Kenya at least one member operates an MSE. Informal economy employment in Kenya is estimated at 6 million, in contrast to the estimated 2 million working in the formal economy (Government of Kenya, 2006). The majority of the poor in Kenya earn a living in the informal economy without access to the advantages of formal financial and business support services (Kapila, 2006), yet they are arguably an integral component within formal economy dynamics. Indeed, it is suggested that the informal economy is crucial for the growth of the formal (Schaumburg-Muller et al., 2010), with 87% of Kenyans (including both individuals and firms in the formal economy) reporting that they purchase goods and services from predominantly informal economy small producers (Kapila, 2006). This informal/formal economy nexus is also noted by the wider ranging study of the informal economy in developing/low income nations conducted by SIDA and Becker (2004) who suggest the existence of a continuum from the informal to the formal ends of the economy, and interdependence between the two sides.

These informal enterprises rarely comply with all the regulations that apply to their trade, for example concerning registration, tax payment, conditions of employment and operating licenses (Becker, 2004:14). Castells and Portes (1989) describe the illicit and licit processes determining the distinction between formal, informal and criminal activities referring to the nature of the product and the distribution channels or production processes. Therefore informal economy enterprises typically trade or produce licit products but utilise either illicit distribution mechanisms or production processes (Pisani and Richardson, 2012). Typically in an African context this means that they operate unregistered enterprises in unsanctioned locations, and/or fail to declare their total income for the state to capture rents through taxation, or fail to comply with the regulations that govern the operation of an enterprises in that country.

Kshetri (2011) suggests entrepreneurial efforts in Africa are significantly hampered by the large size of this informal (typically licit) economy. Yet through microfinance and other base-of-the-pyramid (BoP) initiatives increasing effort is being focused on promoting entrepreneurial activity within the informal economy as a mechanism to alleviate poverty and facilitate economic development. Given the concept of the informal sector was first fully articulated in international policy documents after a World Employment Program Mission to Kenya in 1972 (King, 1996) we
suggest it is therefore timely to revisit the informal economy in Kenya, specifically to focus on predominantly informal own-account and micro-enterprise street vendors that produce and retail goods and services along the roadsides.

We are mindful of the diverse heterogeneity of the informal economy in developing world environments, and the fact that it is possible to define the informal economy across multiple dimensions (Becker 2004). Therefore our study specifically focuses on MSEs that work as street vendors or traders, who may not be registered or complying with regulations, may employ informal employees, and may operate in any of the segments we identify, as either growing enterprises, survivalist households or individuals supplementing income. We adopt the definition of informal entrepreneurs proposed by Pisani and Richardson (2012:109) of ‘those who are self-employed working under informal means’. Informality is defined in the context of this study on the basis of whether the business is registered with the government, pays tax, or the employment conditions it offers any staff. There is a widespread understanding of informality based on this dimension in Kenya. They even have a name for it, Jua Kali, which in Kiswahili means ‘hot sun’ (King, 1996) referring to those that work outside. This term has now common usage referring to any kind of informal business not paying tax and not registered by the state. In our interviews the term mali mali was also frequently used, referring to a particular subset of the Jua Kali, those selling many different kinds of retail products often as they walk up and down the roadside. The research utilizes two conceptual frameworks to explore the sample of Kenyan MSEs. The first is the entrepreneurial process elucidated by Shane (2003:11) which is used to examine their business activity. Secondly, building upon the suggestion of a continuum of informal/formal activity by Becker (2004), we explore the relationship each organization has with the informal economy, particularly in terms of their place of work, registration status and product sourcing. The overarching aim of this study is to explore the relationship these organizations have with the formal economy, and the potential role that relationship may play across three dimensions, what we call institutional, market and enterprise level interactions. Specifically, we consider the institutional context in which they are active particularly their relationship with the state; secondly at a market level we discuss their role in supply chains, both as producers and as customers, and as a route to market for formal economy products produced by multinationals. Thirdly we consider their engagement at an enterprise/own-account level with the services of the formal economy in terms of business support services like training and the banking system.

**METHODOLOGY**

Data was collected through semi-structured interviews with 60 individual micro-enterprises or own-account enterprises across central and western Kenya, (Nairobi central, Nairobi suburbs, Naivasha, Rift Valley escarpment and Kisumu near Lake Victoria). The sampling approach is described as purposive and convenience. Only two potential interviewees refused to take part. A semi-structured interview format was adopted for the interviews (a copy of the interview protocol is available on request). The interviews took place at the roadside or at the place of business. Only first names were collected, to ensure respondents felt unthreatened. No discussion of remuneration took place before the interview. At the close of the interview participants were offered a small token of thanks, consisting of an airtime voucher for Safaricom mobile services (typically this was 100 Kenya Shillings (Ksh) equating to approximately $1.19 or £0.76). The interviews were conducted in both English and Kiswahili, and transcribed into English for analysis. Informed consent was attained verbally after the researchers introduced themselves and explained the purpose of the interviews. No signatures were requested, as this was considered to
be more threatening. Data was transcribed after the interviews and enhanced with photographs taken at the site. Street interviews were undertaken during December 2011 and April 2012.

This paper also reflects on various observations made about a range of informal business activities seen during our work in Sub-Saharan Africa, and in particular during more than 4 months of fieldwork research across Kenya and other African nations. During this time the research team also undertook a series of in-depth case studies in Kenya mainly with social and environmental enterprises, but also with stakeholders they interact with in their communities and along their supply chains. These five case studies also inform the findings for this paper as many of these organizations interact with the informal economy as targets of their programs, or as customers for some of the products they sell\textsuperscript{iv}. However predominantly in this paper we focus on the analysis of the 60 interviews, drawing on the wider study to provide wider context and framing.Kenya has an estimated population of 42 million, a labor force of around 17.9 million, and roughly 40% of the adult population is unemployed (World Bank, 2011). Kenya’s Gross National Income (GNI) per capita is estimated at $790, with 46% of the population living below the national poverty line (World Bank, 2011). This GNI equates to 1318 Ksh\textsuperscript{iv} (per week, per person).

<table>
<thead>
<tr>
<th>Time enterprises based at site or in operation</th>
<th>Freq</th>
<th>Valid Percent</th>
<th>Household Income</th>
<th>Freq</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>4</td>
<td>7</td>
<td>No other</td>
<td>30</td>
<td>56.6</td>
</tr>
<tr>
<td>1-3 yrs</td>
<td>15</td>
<td>26.3</td>
<td>Some but this is main</td>
<td>11</td>
<td>20.8</td>
</tr>
<tr>
<td>4-5 yrs</td>
<td>7</td>
<td>12.3</td>
<td>Other income</td>
<td>12</td>
<td>22.6</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>11</td>
<td>19.3</td>
<td>Only this source of income</td>
<td>53</td>
<td>93.0</td>
</tr>
<tr>
<td>11-15 yrs</td>
<td>13</td>
<td>22.8</td>
<td>None or family</td>
<td>29</td>
<td>49.2</td>
</tr>
<tr>
<td>16-20 yrs</td>
<td>4</td>
<td>7</td>
<td>Occasional ad hoc support</td>
<td>8</td>
<td>13.6</td>
</tr>
<tr>
<td>21+ yrs</td>
<td>3</td>
<td>5.3</td>
<td>Some part-time</td>
<td>2</td>
<td>3.4</td>
</tr>
<tr>
<td>Licensed with local council</td>
<td></td>
<td></td>
<td>Full time employees</td>
<td>12</td>
<td>20.3</td>
</tr>
<tr>
<td>Has license</td>
<td>16</td>
<td>26.7</td>
<td>Shared business</td>
<td>8</td>
<td>13.6</td>
</tr>
<tr>
<td>No license</td>
<td>43</td>
<td>71.7</td>
<td>Number FT equivalent</td>
<td>1,1,1,2,3,3,3,3,4,5,5,10</td>
<td></td>
</tr>
<tr>
<td>License in past</td>
<td>1</td>
<td>1.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered formally as a business</td>
<td></td>
<td></td>
<td>Gender of owner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered</td>
<td>10</td>
<td>16.7</td>
<td>Male</td>
<td>36</td>
<td>60.0</td>
</tr>
<tr>
<td>Nonregistered</td>
<td>48</td>
<td>80</td>
<td>Female</td>
<td>22</td>
<td>36.7</td>
</tr>
<tr>
<td>No but plans to in future</td>
<td>2</td>
<td>3.3</td>
<td>Multiple members</td>
<td>2</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Table 1: Descriptive information on sampled enterprises

Whilst we obviously cannot claim Kenya to be fully representative of all developing country institutional contexts we do believe it offers a useful glimpse into informal economy entrepreneurial dynamics in a Sub-Saharan African context, and that it provides insights for other societies with similar levels of informality in their economies, and similar regulatory and institutional environments. Of the 60 enterprises studied, 60% had a male owner/founder, 16 had
a yearly license with their local administrative council, and only 10 were registered formally with the Kenyan government as businesses (see Table 1).

BACKGROUND LITERATURE

Hart’s work in amongst the Frafra migrants in Northern Ghana was the first to really discuss the informal sector, drawing upon the commercial self-employment activities he observed in Accra (Hart, 1973; King 1996). This informal sector was subsequently further articulated in the 1972 ILO Employment Mission to Kenya (ILO, 1972). Now known as the informal economy, there is increasing recognition that this cross-sectoral activity is of increasingly relevance to economic development, especially in emerging economies (Becker, 2004).

The informal economy is traditionally viewed as the survivalist “unregulated non-formal portion of the market economy that produces goods and services for sale or for other forms of remuneration” (p.11), and is often conceived from a negative perspective in terms of undeclared labor, tax evasion, unregulated enterprises, and illegal activities, but should be distinguished from the criminal economy (Becker, 2004). Often ‘unprotected’ (after Mazumdar, 1976) informal employers and employees are not protected by legislation on minimum wages, labor rights and social security. However Kapila (2006) also notes that many of Kenya’s formally registered enterprises do not adhere to labor laws or regulations on working conditions. Nichter and Goldmark (2009: 1456) describe informality as “unregistered but derive income from the production of legal goods and services”. Andrews et al. (2011) refer to economic activities and transactions that are sufficiently hidden so they are unmeasured or untaxed, but excluding illegal criminal activities and home production. Pisans and Richardson (2012) provide a useful summary of the four approaches most often adopted to the study of the informal economy and hence shaping various policy interventions; the structuralist, underground (neo-Marxist), legalist/institutional and microenterprise (see also Becker, 2004: 12-14). The microenterprise approach suggests that informal economy microenterprises in the developing world potentially play a significant role in poverty alleviation and wider macro economic development (Pisani and Patrick, 2002).

Another description used is the ‘shadow economy’ which shares many commonalities with informal economy definitions but stresses that economic activities are “deliberately concealed from public authorities” to avoid payments such as tax or meeting certain standards (Schneider et al. 2010), this has alternatively been described as the ‘underground economy’ (Pisani and Richardson, 2012) or ‘criminal economy’ (Castells and Portes, 1989: 14).

It might be suggested that the informal economy in the developed world is predominantly a shadow economy (estimated in the US as 8.4% or UK as 12.2%). However it is unclear how this definition relates to the situation in the developing world where an enterprise may operate in a ‘shadow’ manner, but may also be located openly in the informal economy. A Kenyan enterprise operating with a paid yearly council license but not formally registered sits within the informal economy, but is not avoiding paying the relevant fees and hence arguably not part of the shadow economy. It operates in the unregulated, unprotected informal economy. This distinction is also one considered extensively by Pisans and others in the study of US, Mexican and Nicaraguan informal workers (Pisani and Patrick 2002; Pisani et al., 2008; Pisani and Richardson, 2012).

The informal economy is found in both the developed and developing world, although it is commonly agreed that the formal economy dominates in the developed world where much of the informality refers to ‘off the books’ income generation. However in developing countries the informal economy is much more prevalent, and estimates suggest that self employment in own-account businesses represents 70% of informal employment in Sub-Saharan Africa (Becker, 2004: 118).
Chen et al., 2002). Actual figures on the significance of the informal economy relative to the formal economy in different countries remain difficult to calculate with various models suggested for calculated this segment (see Andrews et al. 2011). Worldwide figures also remain elusive. However it is clear that the informal economy is increasingly seen as an integral component of development strategies for emerging economies.

Figure 1 describes the relationship between the formal, informal and criminal economy, based on the illustrative figures from the Texas borderlands (Pisani and Richardson, 2012) alongside estimated figures from World Bank data on Malawi. What important here is not so much the actual figures, but the relative proportional distribution, and its implications for the targeting of entrepreneurial interventions.

![Figure 1: An indicative comparison of the economic segments in different nations.](image)

Over the last decade attention has turned to engaging with the informal economy to encourage enterprise growth. The elusive target is of course the high-growth ‘gazelles’ (see Birch, 1979) who it is hoped will emerge from the small business community employing increasing numbers of workers, and progressing into formal business status. This progression to formality is one that has been noted in the US amongst migrants in South Texas and elsewhere (Pisani et al. 2009). However Nichter and Goldmark (2009) suggest few firms in developing countries experience substantial growth, for instance Leidholm (2002) found that more than 90% of the developing country MSEs they tracked that survived past three years added less than 4 employees, and only 5% graduated to more than 10 employees. In the weak regulatory and wider institutional environments that often characterize developing countries it is also debatable if a move towards formality is actually beneficial to micro-enterprises.

Alongside the emphasis on growing small and medium enterprises, we have recently seen increasing focus on creating new businesses through BoP initiatives, especially the so-called 2.0 generation strategies encouraging enterprise development from within the poorest segments of society (London and Hart, 2010; Simanis and Hart, 2008). Increasingly microfinance initiatives are targeting business start ups amongst low income segments, and many of these start ups are in the informal economy. Again there are implications in the application of entrepreneurial models, concepts and theories developed in the predominantly formalized economic context of the developed world to one where the institutional context is so different. Thus understanding more about the informal entrepreneurial process is a crucial element in a strategy to promote economic development through entrepreneurial activity.

However, whilst some exclaim over ‘entrepreneurial Africa’ there is another viewpoint emerging. Some suggest that in African nations entrepreneurship is not a choice it is a necessity.
Previous research suggests MSEs provide all of the household income in over half of urban households in Kenya (Daniels, 1999). The lack of opportunity to gain a waged income is amongst the principal reasons for Kenyans to start a business (Kapila, 2006); suggesting many African entrepreneurs may be operating from necessity, rather than opportunity. However this polarized distinction between necessity and opportunity driven entrepreneurship, is noted by Pisani and Richardson (2012) as perhaps being too simplistic. They further suggest that the desirability of the informal economy is one that varies depending on the health of the surrounding economy (Pisani and Pagan, 2004). Weaker institutional environments give legitimacy to the informal economy. Gurtoo and Williams (2009) similarly describe both necessity and/or opportunity drivers in a sample of informal Indian MSEs.

If a society with a large informal sector and weak institutional context offers legitimacy to the informal economy entrepreneur, then for some formal economy businesses this may become their choice as a route to market for their products and services. There is also the consideration that in nations where significant growth is not occurring within the formal economy, or where medium sized enterprises are not significantly absorbing the labour pool that for many individuals setting up informal enterprises is an imperfect but necessary component of their survival, and therefore the day-to-day economic landscape of those nations. We therefore believe that exploring the formal/informal economy nexus within Kenya may offer some interesting insights and avenues for future enquiry.

THE INFORMAL ECONOMY LANDSCAPE IN KENYA

Informality through non-registration

Most of the enterprises we interviewed were firmly embedded within the informal economy, with only 16.7% formally registered. These figures bear a striking similarity to Rheault and Tortora (2008) who found that only 19% of enterprises they surveyed in Nigeria would register formally as businesses. Furthermore though some of our sample were formally registered they were located in many of the ‘Jua Kali’ informal production and retail areas (King, 1996), and there is some question as to what extent they fulfilled all their regulatory obligations in terms of employment rights, minimum wages and general behavior (also noted by Kapila (2006) in her overview of MSE enterprises in Kenya).

Registration is a burdensome issue for many firms in Africa. The ‘Ease of Doing Business’ 2011 survey rated Kenya 9th in Africa and 98th in the world overall, but 126th for starting a business and 133rd for registering property. It is estimated that it takes 33 days to register a business in Kenya (Spring and Rolfe, 2010), with a minimum outlay of 16,356 Ksh in fees (World Bank, 2011). However our interviews suggest it is not so much the difficulty in registering a business that is the main barrier to registration, but the pointlessness for many, alongside the capital outlay required for the registration fees. This supports legalist perspectives towards informal economy entrepreneurship (after de Soto, 1990), that unregistered businesses are a rational response by micro-entrepreneurs to perceived over-regulation or a lack of appropriate regulation by government bureaucracies.

There were 10 enterprises formally registered, two that planned to in the future and a further 49 who were not registered. Whilst six of these registered enterprises were amongst the 18 oldest organizations (those 11yrs+) their age is only a partial explanatory factor. Interestingly the oldest three (21+years) were unregistered. Essentially only those that needed to register to gain access to government contracts (Nbo12), supply supermarkets and hotels (Nbo13, Nai35), supply formal organizations like NGOs (the beehive manufacturer in Nai29), gain permits (like Nbo10 for pest...
control products), have additional legislative requirements enforced by the State (like taxis in case of Nai24), form a formal association like the cooperative (RV3), or want to be part of a formal association (like the Kenya Flower Association Nai34), bothered to do so.

Amongst the reasons given for non-registration, the most common was the initial outlay of capital required (quoted as 3000+ Ksh), and the perception that this was not something they needed to do as they were ‘too small’.

“I haven’t because I think it is a long process and I think it is expensive as well. And it [the business] is not big also. I might if it grows big” (Nai16 a bicycle repair business).

However we have seen Jua Kali businesses with upwards of 10 employees who were still operating in the informal sector. The other reason given was the perceived resultant barrier to competitiveness. In one case the respondent described that when competing for a job, a non-registered firm does not have to add on overheads such as VAT at 16%, making it difficult for a registered firm to match quotes. Yet the unregistered Nbo5 noted he had in the past undertaken government work and been taxed before payment.

A third reason given related to the requirement to have a permanent structure. Many of the interviewees could not register as their premises were not fixed structures, consisting as many did of wooden stalls. The threat of eviction is a constant one for Jua Kalu businesses and this also prevents registration.

“I am on the road and anytime the stall can be demolished” (Nai27 Tailor)

“I got the idea from my mother who used to sell vegetables in the market before it was destroyed (Nai42).

A number of interviewees mentioned moving to their current location as their previous stall had been demolished or they were evicted by the county council. For some the demolition was part of a strategy to move them to sanctioned areas. A clothing seller on the Buruburu estate described this.

“used to be in Mutindwa market but it was demolished... So some moved to Umoja, Embakasi, in town and some in Buruburu. So I moved here in this city council stall... I pay the city council 100 every Saturday. I don’t have a certificate as my stall is not permanent. I do pay 10,000 [Ksh] per month. It is expensive compared to where we were. That is rent.”(Nai14)

This lack of a permanent structure goes alongside the fact that many do not have rights to the land, and are in essence squatting. Hence the reason the county council can evict them or fine them, and also why they are charged a daily ‘rental’ fee by the council.

Those that purchase a container are sometimes able to register. This was part of the future vision for Nbo2, but this requires an initial outlay of 200-300,000 Ksh. However this needs to be on private land, unlike Nbo8 who had a container but was officially on public land owned by the State.

Registration is most common when there is some other form of legislative requirement as a condition of doing business for instance in the taxi business

“We registered and have a license and also have insurance though it does not help us much. We have the motor bike SACCO. We have PSV”

Some of the larger, older enterprises essentially operated as is if they were formally registered. Nbo5 could formally quote for a repair job and be paid using a business check, issuing a receipt from his receipt book. Overall he believed registering in the future might help secure government contracts.
An intermediate step to registration formally at the State level is to gain a local yearly license from the city council. Quoted rates for this license ranged from 3600-6000 Ksh. If they buy a license it means they do not (theoretically) have to pay the day/ ad hoc charge to the local council. Costs for the ad hoc day fee appeared to vary depending on site, location and administrative district. For instance in Kisumu reported rates were 30-50 Ksh per day, in Nairobi they varied from 50 Ksh 3 times per week, to 50 /day, or 100/day. Across Nairobi district these costs vary from 30Ksh/day in Kileleshwa, to Nagara (25/day), Gitanga (30/3 per week), and Kawangware 50 (3 per week): all determined by the size of the stall and the specific location. Those that were based on private land paid a fee to the landowner, not the council. Only 27% (16) of the sample had a yearly license, including nine of the ten registered businesses.

In Naivasha a license might cost 3600 Ksh for the year. Paid as a day rate at 40 Ksh twice per week the total outlay would be 4160 Ksh. In Nairobi some paid 150 per week, equating to 7800 Ksh if they paid every time the council might come by. The main reasons given for getting the license were firstly to save on the difference in fees, but secondly and more importantly, to reduce the pressure on them from the local council inspectors. The reasons for not having a license often mirrored those for not being formally registered as businesses, and were mostly associated with capital and lack of an approved structure or site.

Whilst some respondents had a yearly license some also reported they were asked for money from the council.

“I have a yearly license but they still come every week for 500 [Ksh]. I still need a medical certificate and they say I am not supposed to slaughter from here”

Others pay the daily fee and then are subsequently arrested, as this food seller noted.

“I pay on a daily basis to be given a receipt but the ones who come from town in the city council don’t care if you have receipts. Even recently I was arrested and paid 5000 shillings [fine]

Whilst interviewing in December 2011 we were present when the council inspectors started coming round the Nairobi road sellers. Even though many seemed to have a receipt for their day payment they were afraid of being arrested, with some mentioning goods might be confiscated to retrieve once the fine was paid. A number of respondents explained how they would run away and hide when the council came so they could not be charged, or arrested. This would leave their goods unattended and they would report that items would then be ‘lifted’ by the council representatives or others. Anecdotal comments suggested that the fines were in the region of 2000-5000 Ksh, or items taken to the equivalent value. This seemed to be a prevalent theme amongst the interviews conducted in Nairobi.

In other districts there were still indications that some of the informal sellers would pack up or hide when the council came. One Kisumu enterprise mentioned that if they had not had many customers that day they would close before the council arrived as they knew the approximate time.

However, confusingly some had appeared to gain licenses even though they were not in a ‘permanent structure’, as evidenced by this comment from one of our interviewees.

“They only issue licenses for those that are indoors. But …even the newspaper vendors have licenses”.

Fig 2a illustrates a family bicycle repair business. Passing trade identified the location by the sign made from a bicycle part on the tree. This is a typical example of business unable to register as it has no fixed premises. Yet this business supported three families.
All of these small transactions are very price sensitive, and all are located in the informal. In a predominantly formal economy, the state earns rents from the various fees, taxes, and payments formal businesses make. In Kenya, the State captures rents from informal economy businesses at source, through charges like import duties, VAT on products in supermarkets, fuel duties, and license fees rather than through taxation of incomes amongst these low level entrepreneurs. At present there seems little incentive for many of these low level informal economy enterprises to register or gain a license.

These observations question assumptions around encouraging all small enterprises to move towards formality, particularly in contexts where legislation may be inappropriate and institutions weak. For those who do not supply government or larger businesses there seems little point in registration in Kenya at present. In theory, there are benefits for those that work in formal sector businesses, in terms of labor rights and other workplace protections. However, even those that were registered amongst our sample, and others we have seen, often appeared not to offer these extended labor rights. Certainly, issues like health and safety, discrimination, fair pay, sick pay, maternity pay, access to water and sanitation were all issues that received limited attention. We suggest that in nations with a more formalized and regulated economy, with better oversight and greater penalties for non-compliance, these issues are more likely to be considered as part of business ‘registration’. Therefore, we would expect to see these more prevalent in say a South African context.

We question the vast administrative burden resulting from day collection of road rents for ad hoc licensing, as well as the potential for corruption and abuse (as described by some of our cases). One option is to explore the role that online cash transfer systems like M-Pesa might play in this process. Another alternative is to move not to a yearly license but to a quarterly one that requires less capital outlay. The arbitrary charges for things like ‘dumping’ an empty cardboard box outside your container store are symptomatic of the potential for abuse that comes from not having the right to buy a license due to lack of property rights or fixed premises. One respondent commented that he had been operating for three years and arrested four times.

Along the Ngong Road in Nairobi, close to the high class residential areas, there was a long stretch of street vendors, some just at the roadside, others inside shacks with electricity—much like the Jua Kali described by King (1996). So the advantage of being located here was that the wealthier customers pass by on their way to their homes and much like a market they can stop off and find many examples of what they want. However, those that are licensed here were only licensed for
the shack, not the ground they display their wares on in front. So they still remained targets for the day rate charges and possible arrest or fines.

Table 2: Benefits and disadvantages of a street license and registering a business in Kenya

<table>
<thead>
<tr>
<th></th>
<th>Benefits</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yearly License</strong></td>
<td>• Cheaper across the year</td>
<td>• Large capital outlay</td>
</tr>
<tr>
<td></td>
<td>• Reduces inspections by council and possible fines</td>
<td>• Still may be a target</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Paying for the year is not cost efficient if do not open every day</td>
</tr>
<tr>
<td><strong>Registration</strong></td>
<td>• Access to bank loans</td>
<td>• Adds costs making it hard to compete with the non-registered</td>
</tr>
<tr>
<td></td>
<td>• Can supply supermarkets and tender for government contracts</td>
<td>• Burdensome process – takes time and large capital outlay</td>
</tr>
<tr>
<td></td>
<td>• Stronger legal rights</td>
<td>• Cannot register unless you own or rent the site</td>
</tr>
<tr>
<td></td>
<td>• More able to attract investors</td>
<td>• Once registered have to pay additional costs related employment rights and tax</td>
</tr>
<tr>
<td></td>
<td>• Higher levels of trust from suppliers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• More likely to have some form of ‘credit’ rather than immediate cash for goods and services supplied to them</td>
<td></td>
</tr>
</tbody>
</table>

Until there are demonstrable benefits for the small owner/operators and micro-enterprises to register and license there will be few that do either (see Table 2 for summary of benefits for licensing and registration). For at least 50% of our interviewees licensing and registration was a moot point. Without a permanent structure (in certain districts) or the right to use the land, they could not do either.

We suggest that future research should focus on this question of the boundary conditions affecting the benefits of registration and non-registration in Kenya, but also comparative economies where there is a large informal sector but perhaps a different institutional context.

Informality and the Market

The informal economy dominates the urban and rural landscapes of Kenya. In rural areas the street vendor focus is mostly on selling agricultural goods to passing motorists and truck drivers. Many of the items sold reflect the dominant agricultural produce of that region, so potatoes would dominate in one section of the roadscape, followed by onions, or rhubarb, or rice, or tea. Many of these products (e.g. rice, tea, potatoes) occur in specific growing zones which are a function of soil, weather and altitude. Available much cheaper in these locations they are often transported by buses, trucks and private buyers generating a mark-up profit at each stage of their journey. Some examples include:

- Sugar cane, grown in local fields along the Kisumu road sold to truck drivers who pull over at the end of the climbing lane, who then resell along their routes.
- Women selling buckets of potatoes for 150 Ksh /bag at roadside junctions, sold to truck drivers, and eventually selling for 400/bucket in Nairobi.
- Rows of vegetables stands (Fig. 2b), stands displaying bags of onions (500 Ksh per pack) and oranges (200 Ksh).
- Bags of salt extracted from Lake Elementaita sold along the roadside (Fig. 2c).
- Near Nakuru hawkers selling milk and yoghurt bought from the Delamere factory shop to people on buses passing through the weighbridge area. They sell yogurt for 80Ksh (mark-up of about 10 Ksh) and milk for 30 Ksh (5 Ksh profit).

All of these small transactions are very price sensitive, and all are located in the informal economy. In all the interviews with these kinds of sellers it was clear there was a standard price in that region for these goods. So anything that squeezed margins, like VAT or a fine or indeed tax on income, would leave them unable to compete with those that had avoided these add-on costs.

**Figure 3a: A purely informal supply chain for agricultural products (e.g. potatoes)**

In these areas the informal economy dominates the MSE sectors. There are large formal employers (such as flower farms in Naivasha, and tea growers in Eldoret) who employ many in these areas, but many residents also supplement their income by selling the produce from their
farms, or selling on these regional products through informal roadside trading. Grasses from Lake Victoria, charcoal, potatoes, rice and tea make their way on the roof of buses, small ‘matatu’ minivans, with truck drivers and middlemen to the major urban areas, through supply chains such as Fig 3a

In the towns and cities we also see homogeneity in the range of businesses, again often clustered into zones of similar stalls. Good examples of this include the massive market in mitumba (second hand clothing) as illustrated in Fig. 3b, which links not only the domestic formal economy with the informal, but also adds the international formal economy through the transport of consignments of goods from second-hand markets in Europe and new consumer goods mostly from China (Fig 3c).

*Figure 3b: A formal/informal supply chain for second-hand items (e.g. clothing or used kitchen items)*

These goods make their way from the Mombasa port on the Eastern coast to Nairobi, then onto markets in towns like Kisumu, and finally to a stall under a roadside tree. New consumer goods like mobile phone chargers are not only sold in the large retailers but again bought by mali mali small traders selling on the pavement, or even like the street hawkers selling in the stalled traffic on Nairobi’s main roads.

It is clear from the supply chain models (Figs 3a-c), and the various illustrative examples presented, that far from the informal economy existing as a separate discrete entity, it is in fact an integral part of the formal economy as a source of materials, labor and customers.
Figure 3c: A typical supply chain for fast-moving consumer goods (e.g. car chargers)

Figure 4a is a good example, with a roadside entrepreneur selling sweets and cigarettes most likely bought from a registered firm operating a retail warehouse and then sold individually on the street. Typically a packet of Dunhill cigarettes retails in a roadside container store for 150 Ksh but they will also sell individual for 10 Ksh each (equating to a 50 Ksh profit). Here the street vendors act as intermediaries, reaching a customer base that the formalized large retailers cannot supply. The person, who buys one cigarette, or one sweet does so because they cannot afford the items in bulk or new. In some ways this is reminiscent of the BoP generation 1.0 strategies (London and Hart, 2010; Prahalad, 2004; Simanis and Hart, 2008) seeking to link multinationals into the low income segments as a potential marketplace.

Figure 4 (a) An example of a small street vendor stand in central Nairobi (b) Baskets, Jikos and natural fiber household items

In Fig 4a all the products sold are likely bought from warehouses. A number of our interviewees sold such goods in container stores. They would also sell perishables like eggs and bread alongside these formal products, delivered to the stand by informal producers but also the delivery person (often on a bicycle) from large scale egg producers (which may be registered). The delivery person
may be an casual employee, often without employment rights. So the informal economy also becomes a source of ad hoc labor for a registered firm.

In the cases of the market gardens across the major towns the producers will buy seeds from a major retailer, polythene to make the wrapping around the roots from a store and the clay pots from a factory. One of the major customers for the factories producing these clay pots is these market garden sellers who line the streets of every major town. The clay pots will be delivered by small transporters (often informal economy matatus or someone with a truck for a small cash payment). M-pesa\(^6\), the electronic mobile phone money transfer system, is playing a major role in facilitating these kind of formal-informal economy interactions. Now a customer can call for a part for a machine they are repairing, pay by an M-Pesa transfer, and then the item is placed on the local bus to be delivered. In the case of Nbo3 (Fig 4b) the grasses used to make the items were collected from the shores of Lake Victoria near Kisumu and then put on the local bus/matutu to be delivered to Nairobi.

In Kisumu we visited a small weaving firm, formally registered, that works in a similar manner, placing the items to be sold on consignment in Nairobi on the bus for transport. All of these small scale interactions demonstrate that the informal and formal economies are linked by a complex, often highly individualized, network of flows of goods, services, money and labor interweaving in and out of both formal and informal organizations.

Our findings support observations about the role of mobile phones in the MSE Oke clothing supply chains in southwest Nigeria, where they facilitate the flow of information and ameliorate supply chain problems associated with risk, speed and cost, along with economizing effects and travel substitution (Jagun et al., 2008). Indeed, we suggest our cases go even further and demonstrate the potentially disruptive innovation effect M-Pesa may have as a broad ranging macro innovation with the potential to reinforce, and perhaps grow, trade within the informal economy. Now M-Pesa removes the need for trust in an individual hand delivered payment system and decreases time lags associated with personal delivery. We suggest that more research is needed on the role of M-Pesa (a further exploration is excluded from this paper due to space limitations).

It is clear that in a developing world context the informal economy is inextricably linked to both the domestic and international formal economies. Indeed it does seem that growth in the informal is crucial to the growth in the formal economy (Schaumburg-Muller et al., 2010). A number of research questions emerge when considering these linkages between the formal and informal economy, especially through supply chains.

Firstly we suggest that the flow of goods and capital from the informal economy into the formal economy is relational and moderated by trust and risk, whereas the flow of goods and capital from the formal into the informal is likely to be a more of a transactional process. Essentially a firm fully embedded in the formal economy (often larger, maybe even international) will need to trust their informal economy suppliers to deliver the goods on time and to the appropriate quality, so building a two way relationship is more likely. Whereas sourcing from the formal is much more of a transactional function. We suggest that future work should explore these supply chain relationships between the formal and informal actors.

Nichter and Goldmark (2009) suggest that one of the conditions for the transition to formality is the visibility of an organization to officialdom. Kapila (2006) suggests a key criterion distinguishing most informal Kenyan MSEs is their local markets and distribution channels. Thus we suggest a
firm supplying a large formally embedded organization, such as the government or a supermarket, might move towards formality more readily than one linked by multiple intermediaries.

Indeed it does seem from our findings that one factor that promotes formality amongst our Kenyan sample is a supplier relationship with the formal economy. It seems the closer the MSE is linked through their supply chain as a supplier to large formal bodies or companies, the more likely they are to register.

Therefore the informal seller is a key component in various stages of the supply chain of a number of products in Kenya. Some large formal organizations, like the flower farms or agricultural estates, sell their goods through regional ‘factory’ shops to those who then hawk them along the street. Reject flowers, cut at an incorrect length for the UK supermarket, are sold on and then sold on street corners. Charcoal, potatoes, onions, sweet corn and many other items are produced in the rural areas and distributed by trucker drivers who are on their delivery routes for the supermarkets and other formal larger firms.

For large multinationals the informal seller can be a key component of reaching their customer base. These routes to market are too small for the organization to pursue on an individual basis but may form a significant channel for the distribution of everything from Coke Cola to cigarettes and car chargers. The informal entrepreneur exploits the opportunity offered by the ‘structural hole’ (Burt, 1992) formed outside the dense relationship of networks in the formal economy.

Often a formal firm will source from the informal economy, or a quasi-informal economy business that has a receipting system, for example the safari camp that had their lawnmower repaired from one of our respondents. One of our case studies, a full profit social and environmental enterprise is a distributor of modular solar products. Their products are distributed to NGOs and social projects run by organizations such as Christian Aid and also one of our other case studies. Individual entrepreneurs, all informal, are then given solar lights and charging kits on a rent to buy scheme and charge these during the day. Then overnight they rent these to their customers for around 20Ksh per night, and these are then used to run night-time fishing businesses, small sales kiosks or in homes. The individual entrepreneur and the customers are all based in the informal economy but the technology itself is supplied by a formal firm. Even the purely informal supply chain can often comprise of a mix of sources some of which rely on distribution networks that are linked to the formal economy like truck drivers. A vegetable and charcoal seller along the Naivasha road described their products mix and sourcing:

“we buy the charcoal from lorries, who pass through selling it to us and farms nearby. We buy the vegetables from nearby farms... We sell vegetables we do not need from our farms... We buy vegetables from the market and sell to others..” (RV2)

“We get from Eldoret from farmers or someone in stalls there. Use those trucks trailers that are coming from Uganda if they are empty. Beans from Kisii.”(Nai38 sells cereals, maize and beans in Kengemi in Nairobi)

These networks may also be linked to neighboring countries and even international supply chains; for instance our seller of perfume from Dubai, and traditional cloth (vitenge) from Tanzania (Nai41). The sellers of second hand goods are also selling on items that have perhaps been made in China or India, then used in the EU, then shipped to Africa (such as second hand clothing and used kitchen items). Within our sample of 60 businesses 17 were selling recycled or second-hand items. The influence of these distribution networks which mix formal and informal economic activity both domestically and international are also a fruitful area for future research.
An interesting phenomenon that was also observed in our interviews was the process of ‘trading up’ through different products sourced from the informal or formal economy. Many of our entrepreneurs tried out different types of business, or products lines before finding one that worked for them, all within the informal economy. Our interviews suggest that for many there is a progression from one informal business type to another, rather than from informal business status to formal registration. For instance the second hand clothes seller in Naivasha (Nav 4) started by selling cooking items in Ngong town, before then selling meats, then focusing on clothes in 2005. Whereas the bag seller in Kisumu (Kis9) started in late 1998 by selling children’s clothes, then when this did not work moved to pots and pans and household items which were also unsuccessful, before moving to bags in 2001. In both instances it was a case of trial and error moving from one retail product to another until they found one that worked and then they focused just on that. This has much in common with the generally held assertion that the majority of startups transform into a different market within two years. Our serial entrepreneurs might also be demonstrating a form of entrepreneurial learning, essentially ‘trading as learning’ in the manner described by Cressy (2006).

For our MSEs it seems that the decision to start a business and the type of business it might be, is a pragmatic mix of what they see others doing, what they can do with the capital they have and what they have the basic ability to do. A good example of an easy start up would be the bicycle taxi (a boda-boda) illustrated in Fig. 4c.

Once they have acquired some additional capital, or learnt new skills/knowledge they then trade up to a new market space. However there is some limited evidence with firms like the motorbike taxi of an individual eventually having to be registered as they then start to meet some of the other triggers for formal registration, such as police inspections for PSV licenses and supplying supermarkets. However one example we know of which does supply supermarkets remains at heart a Jua Kali business even though registered – in more of a hybrid form. We would suggest that our experience so far indicates unless there is an enforceable legal reason for becoming fully formalized most organizations born in the informal economy remain in a hybrid mode of sitting officially in the formal economy based on registration but otherwise operating in an informal manner.

![Figure 4 (c) A boda-boda taxi](image)

Capital also acts a barrier to entry and here we also see a ‘trading-up’ phenomenon, whereby small amounts of capital might be leveraged to progress through different types of products to ones where the higher mark ups are feasible. For instance if we consider the market for second hand clothes and shoes, which formed the basis of the business of Nav1, Nav2, Nav4, Nbo2, Kis4,
or other second hand items like household items or bags (Kis9, Nbo4), we see that every stage of the supply chain a small mark up occurs (typically 10-30%). When we discussed future ambitions for their business with our interviewees those in the second hand markets wished to gain enough working capital to buy a large bale, bypassing the middlemen and capturing more of the overall value in the retail chain: trading up through value chain capture. Another form of trading up will be selling a low capital item like vegetables, and then progressing to something that needs more capital investment trading up through diversification (as demonstrated by interviewees who ‘hop-scotching’ from one business to the next as their capital grew). This can also be facilitated by learning a new skill not shared by others like lawnmower repair or graphic design. If our informal economy entrepreneurs are able to strategically move into a competitive space that is less crowded for instance through acquiring ‘unique’ skills or other resources they may then be able to progress from marginality towards a more profitable business model, even if it remains in the informal economy.

We also observed another interesting phenomenon that also acts as a constraint to growth, and arguably registration. This is the unwillingness to be seen to be ‘too’ successful. A number of our interviewees during the case studies, many of whom had made the transition to higher living standards, described how they would curtail visits to their rural homes as they would find relatives waiting for them with a “shopping list of what they want”. This expectation to share their wealth links to the culture of supporting siblings and extended family, as well as the traditional harambee community fund raising. Whilst for a number of interviewees in the informal interviews funding was given from their families enabling the business start up (like Nai41 whose perfume business was funded by her brother), there is also the subsequent expectation that when successful this gets shared around. Unfortunately this hampers the capital accumulation considered so necessary for business growth and expansion.

Engaging the Formal Economy

Finally we consider the extent to which our informal economy entrepreneurs engage with the formal economy, by considering how they engage with the formal banking system and social networks, including business support.

There are some suggested benefits to registration for eligible businesses, one of which is the easier access to capital, as a trigger to facilitate growth. As a registered business access to loans is arguably made easier, although there is evidence that banks like Equity Bank are increasingly reaching out to the informal sector. A number of respondents did bank with Equity, but they also did not always access loans. Kis8 reported being turned down for a loan twice though it is not clear which bank this was. Even when registered some are scared of approaching banks. Kis9 stated she has been to the bank but had not formally asked for a loan because she feared that they would take away her stock if she was unable to pay. The beehive business (Nai29) had gained a loan; employing five people and with his own website he was amongst the most successful hybrid entrepreneurs we met.

Microfinance is also playing a role with at least three of our sample having benefited without being registered. Those that seek bank loans are increasingly able to get these once they can show six months cash flow. Loans were also given through more informal means, such as Nai35 who borrowed the money from a friend. One respondent, a displaced person from the post-election violence in 2008, was given a donation which allowed the business to start (Nai14). Kis6 also relocated after the post-election violence, and is now based on the roadside in Kisumu. He’d had a
thrusting sewing business with employees and 4 sewing machines until rioters burnt down his shop in Nakuru. The harambee system is also a more informal system of fundraising used in communities for funerals, schooling and sometimes business start ups. This is called a ‘merry-go-round’ in Kenya where each person donates and one person receives the total from the group at a set time, perhaps monthly (Nai39, Nai37 both report receiving these).

It is interesting to see how the formal banking system is responding to these more informal banking schemes and engaging with informal groups. As mentioned, Equity is very active in these communities, with a number of respondents talking explicitly about training given by Equity on savings and loans (Nai14) along with their banking with Equity (Nai39). This group saving scheme approach is gaining ground in Kenya, used by respondents like Nai37. Nai38 is part of a group of 10 saving with the Cooperative bank. These are being encouraged as a way to move away from the merry-go-round culture and foster accountability amongst the various groups.

“There is this time we were being educated by people from Cooperative Bank of Kenya. It wasn’t bad. It was about how you can plan yourself in life” (Nai17)

Microfinance groups are also reaching out offering training sessions which appear to have a wider dimension of teaching business principles, but to also offer these products to the groups they meet.

“The Faulu people organize for seminars for us on how to save, run a business, and avoiding many loans/borrowing money”Nai36

“I have a group with Jamii Bora [a microfinance group] that teaches us how to save and develop”Nai18

For the ‘gazelles’, high growth small firms, there remains benefits to registration allowing access to larger capital investment but we question the extent to which these are found amongst the Jua Kali and other informal enterprises in Kenya. It is a very rare micro enterprise that grows significantly to lift themselves out of these sectors given the barriers of access to unique business ideas, significant capital, sufficient education or the elusive entrepreneurial mindset. One of our most successful entrepreneurs is the beehive manufacturer, who is registered, but is essentially still a hybrid entrepreneur firmly embedded in the informal economy. However it is not surprising that he is also the only one with a website, had specialized training and has accessed loan facilities. It will be interesting to follow his journey over time to see how he progresses.

The only other formal networks that our respondents mentioned were amongst those that had formally registered – such as the Kenyan Flower Association’s monthly meeting (Nai34). For some of the individual informal sellers we met during our case studies it was clear that they themselves were isolated from the more formalized social networks, but that the NGO or social enterprise assisting them, facilitated visits by groups like Care Kenya, acting as an intermediary.

Two of our respondents educate themselves through the media. This was also noticed in the case study interviews, especially local indigenous and Christian radio stations.

“I just listen to media about what to consider when setting up a business and such things” (Nai25).

We believe that entrepreneurship training delivered in local languages over the radio offers a powerful medium to reach underrepresented and geographically isolated groups. This is also where social media innovations may have a powerful role to play. Only three of our respondents mentioned attending tertiary education: Nai20 who now sells ladies clothes attended Engineering College, the teacher turned hairdresser (kis5) and the agro-supply business (Nbo10). A small
number mentioned trade schools such as flowers (Nai34), carpentry (Nai22), or shoe repair (Nai17). Many of the respondents mentioned learning about their business from their own informal social networks, through friends, family, the community and mentors. Rarely did they learn through employment networks with the exception of businesses like lawnmower repair. If employment played a role in the subsequent business it was mostly as a way to accumulate capital (Nai30, Nai31), especially when retrenched (Nai24).

SEGMENTING THE INFORMAL ECONOMY?

Our interviews and wider observations suggest many of the MSEs in developing countries are ‘marginal’ in terms of employment creation and growth. Yet there are obvious examples of organizations that do create employment, and indeed there are examples to be found across Africa of the entrepreneurial high growth ‘gazelles’. Our findings suggest that rather than a two-way clustering of firms as formal or informal there are actually four distinct segments in the informal/formal economy nexus when considered in relation to institutional context, the supply chain and engagement with the formal economy, potentially leading to a segmentation of enterprises types (Figure 5).
Critically we distinguish between those marginal informal enterprises and those in the informal economy but with some aspects that might be scalable and progress them towards formality. It is important to recognize that BoP initiatives need to differentiate within the informal economy if they are to support scalable growth. In the formal economy there are a number of organizations who operate as if they are informal firms, predominantly by cherry picking which elements of formality they want (such as licenses and access to government contracts). However, these firms typically operate on a day-to-day basis as informal firms and do not report all income or indeed add VAT. This is related to the need to maintain competitiveness with other bidding for the same customers who do not have these add on costs.

We therefore would argue that the four segments within the formal/informal economy nexus range

- marginal entrepreneurs typical copy business models like vegetables and mitumba sales;
- informal economy entrepreneurs where some aspect distinguishes them such as additional skills level like mechanical skills so they operate in a less crowded market charging a higher premium;
- hybrid formal entrepreneurs who move in and out of the informal economy; and
- high growth formal economy exploiting innovative new markets

The literature on the informal economy often describes various schools of thought on the relationship between the formal and informal economy (Becker, 2004; ILO, 2002). Whilst we find some parallels with the legalist approach (de Soto, 1990), we would further argue that there is a fourth perspective that is opposed to more structuralist perspectives, where a synergistic relationship emerges where the informal sector is a necessary component of the distribution system linking the end consumer with the formal economy.

We also suggest that we need to segment the informal/formal economy divide into a more diverse range of enterprises ranging from the marginal imitative entrepreneurs through to the high growth gazelles. BoP initiatives need to be conversant of the difference between these different segments in terms of scalability, access to capital, aspiration for growth, capital flows and links with the formal economy as a customer and supplier.

There are of course limitations to the research methodology we adopt in this paper. There are thousands of street vendors in Kenya and a different selection of cases may have resulted in different themes emerging. However this work does provide some insights into a much neglected area of enquiry and provide contributions to existing theory that may help shape the direction future researchers take. We believe that the patterns we explore are likely to emerge in other similar environments where the informal economy dominates employment. The experiences described by our sixty enterprises, and over 85 additional informal entrepreneurs in our case studies were fascinating and we were privileged to be able to hear from them.

REFERENCES


---

1 Typically we did not interview hawkers, those walking along the roadside with no fixed abode. We concentrated on those who had ‘premises’ or a fixed location including shacks, stalls, street corners or specific sites like a particular tree they return to each time they open for business
Our sampling strategy, much like that of Pisani and Richardson (2012) required the research team to be conscious of safety considerations, precluding a random sampling approach. In addition we looked for as many different types, and contexts, of businesses across our fieldwork to fully explore the diversity of informal economy enterprises.

During the interviews for the case studies we also interacted with many informal entrepreneurs, for instance individual entrepreneurs renting solar lights, craft makers, artists, builders, eco-tourism guides, home stay hosts, welders and metal piece workers. All of these were located in the informal economy, some facilitated by links with our case studies. We were able to gain some insights from them on many of the topics in the interview protocol, but did not formally administer this to them and therefore have excluded them from the sample. We also met community groups, such as 32 papayas cutters harvesting in the Lake Victoria wetland and 20+ community members involved in tree seedling, ecotourism and honey production, again all earning an income through the informal economy. We estimate we met an additional 85 individuals active in the informal economy without formal employment or registered income.

To contextualize these figures the average costs for common items in Kenya Shilling are: Milk 500ml = 30; Sugar 2kg = 190; Bread 400g = 140; Maize Flour 2kg = 93; Rice 2kg = 340; Petrol Liter = 119; Kerosene Liter = 91; Diesel Liter =111 (Mulunda, 2011; Sambu, 2011)

A further summary of each respondent is excluded due to space but is available upon request


Import fees for a shipped container are $2190 (cited in Spring and Rolfe, 2011)

Taxes and levies accounted for about 31% of price of regular fuel, 26% of diesel and 14% kerosene (Sambu, 2011).

M-Pesa is the highly successful mobile telephone payment system launched in Kenya by Safaricom, in partnership with Vodafone, on 6th March-2007. By April 2011 there were 14,008,319 accounts and 27,988 agent outlets (Safaricom, 2011)

During case study interviews in Kisumu we were fortunate to observe an information and training session for a group saving scheme facilitated by Care Kenya. Here over 40 members of the community, mostly widows who harvest papayas, were part of two groups. We were able to see the record keeping and speak to the group representing the community as the officers. Each member saved 30 Ksh per week into the scheme which would be used to offer small loans, and paid out at the end of 8 months.

Faulu Kenya is a Deposit Taking Micro-Finance Company- founded as a programme of Food for the Hungry International (FHI), a Christian relief and development organization based in Phoenix Arizona in USA http://www.faulukenya.com/