THE ROLE OF THE INFORMAL SECTOR IN THE DEVELOPMENT OF SMALL AND INTERMEDIATE-SIZED CITIES

A CASE STUDY OF NAKURU

by
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Occasional Paper No. 60
1984

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First Published in 1991 by the
Institute for Development Studies (IDS)
University of Nairobi
P.O. Box 30197, Nairobi, Kenya

Copy edited by Kibisu-Kabatesi
Proof read by Catherine Gichuhi
Typeset by Access Computer Services

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Acknowledgement

We would like to thank first the Institute for Development Studies, University of Nairobi for providing the bulk of funds which financed this study, and also for providing administrative support and guidance especially from the Acting Director. The total support from the Institute made it possible for us to continue our research interests on Urbanization in Kenya. Second, we would like to thank the United Nations Centre For Regional Development (UNCRD) not only for requesting this particular study but also for the Centre's continued interest in the problems and prospects of Third World Urbanization, interest which coincides with one of I.D.S.' research priorities. Third, we would like to thank members of the Provincial Administration in Nakuru and members of the Nakuru Municipal Council for their invaluable assistance in the process of gathering the data on which this study is based and particularly data which was only available in official documents. In this connection we would also like to thank the Central Bureau of Statistics, Ministry of Finance and Planning for providing us with computer tapes containing very useful information on Nakuru. Our enumerators, Kimani, Sungura and Njeri for standing up to the heat sometimes under risky circumstances.

We would also like to thank those members of the Institute who have assisted in one way or another. Mr. Jan Vandermoortele for his assistance in processing some of the data, the I.D.S. drivers for putting up with the many journeys to Nakuru, members of the machine room for their usual efficiency and members of the typing pool for typing the report in record time. We finally are indebted to Kibisu - Kabatesi for editorial skills that have seen this work into a book.

Njuguna Ng'ethe
1990

Introduction

This book contains the final findings of a study on the role of the informal sector in Nakuru, Kenya. The study was carried out between July 1983 and June 1984. It was carried out by the authors both of whom are researchers from the Institute for Development Studies (I.D.S.), University of Nairobi. The study is part of a cross-national study on the role of the informal sector in the development of small and intermediate-sized cities.

The Institutes' past concern with the process of urbanization in Kenya and the role of the informal sector in this process is of long standing, going back to the 1972 I.L.O. Mission to Kenya during which the concept of "informal sector" was virtually coined. Since then, numerous I.D.S. - based studies on urbanization and the informal sector have been conducted. One main feature of most of these studies is that they have concentrated on Nairobi, the primate capital of Kenya. For this reason, we are certain that this study is a departure from the normal.

The Institutes' past and on - going urban research programme arises out of the conviction that urban centres, small or large, will not go away, problematic as they are. They must, therefore, be better studied, understood and consequently be made to play their role in national development. In the past, for real and sometimes nostalgic reasons, emphasis has been placed primarily on rural issues and rural planning, at the expense of asking some very fundamental questions relating to the possible contributions of urban centres to national development. One of the "fundamental questions", in this respect, has to do with the employment potential of urban centres, in this case, the potential of the urban informal sector.

This position on the rural-urban development debate should not be misunderstood. The existence of the rural-urban dichotomy in social and economic terms is not being dismissed. It is accepted that in making national investment decisions emphasis must be placed on improving conditions in the rural areas where the majority live. However, increased urbanization at this time in our national development is inevitable. Moreover, the rural-urban dichotomy is only partly real, that is to say, it is also partly conceptual. In thinking about national development therefore, one cannot afford to think of the two sectors as if there was a physical barrier separating them. Morally, one can ill-afford to think of one as legitimate and the other as illegitimate. One can, therefore over-emphasize either of them at their own peril.

For the above reasons, the I.D.S' continued initiative in looking at urbanization in relation, to national development is welcome. This in itself is innovative. But perhaps even more interesting in this case is the emphasis on the development role of small and intermediate urban centres, thus shifting the attention away from primate cities. While primate cities will no doubt continue to play a very important role in national development, there are more than enough reasons to expect, indeed to demand, that smaller urban centres play a much bigger development role in future. But before the smaller urban centres can fulfil their promise, the nature of the promise, if not the very existence of it must be ascertained. This study is an attempt in that direction.

The first chapter discusses general methodological and conceptual issues such as the concepts of informal sector", as defined in this study. The second chapter is a background chapter on Nakuru town where this study was conducted. This is followed by short concluding chapters.

CHAPTER ONE

APPROACH AND METHODS

The Research Problem, Definitions and Data Requirements

As the title of this book implies, the broad aim of the study was to assess the role of the informal sector in the development of small and intermediate-sized cities. The "broad aim" for two main reasons. First, the title of the study needed to be further analysed in order to give more operational definitions to the key words contained in the title. Second, the overall study was designed as a cross-national study and as such it was unlikely that all the countries involved would agree on a common set of definitions, let alone a common "aim" of the different studies.

The title and therefore the meaning and aim of study was the subject of communication between the different countries involved during most of 1983. This culminated in a conference in Berlin in November 1983 during which the final decisions on definitions and questions design were arrived at in an an attempt to clarify the aim and problem of the research. As can be seen from the title of the study, virtually every word included in the title cries out for definition. (1) What is meant by "informal sector" and how is the sector related to the formal sector? (2) What is meant by "role"? (3) What is meant by "development" of small and intermediate-sized cities"? We shall take a look at each of these questions and the answers agreed upon at Berlin. We accept these answers in this study.

The "Informal Sector"

After sifting through many definitions and characteristics of the informal sector, it was agreed that:

(i) The informal/formal dichotomy is difficult to sustain conceptually and empirically though perhaps intuitively obvious.

(ii) In spite of the conceptual and empirical problems inherent in the concept of informal sector, the notion of "informal" should be maintained albeit in a somewhat initiative and modified form.

(iii) The methodological problems of studying informal enterprises are enormous.

(iv) In order to reduce methodological difficulties, researchers should adopt one selection criterion rather than a multiplicity of criteria as used by the I.L.O.

(v) *"Informal" should be, therefore, operationalized to small-scale activities employing nine and less people and that other characteristics of the sector be built into the activities as they emerge in the course of the research.*

(vi) The operational definition should exclude professional activities such as doctors and dentists which are obviously formal though small in employment numbers.

(vii) The activities are operationalized, and not individual persons become the unit of analysis.

(viii) The formal/informal dichotomy, to the extent that it is meaningful and recognisable is basically descriptive and should, therefore, not be elevated into an explanatory concept.

(ix) The relationship between (explanation of) small- and large-scale enterprises must be sought in the overall socio-political set up and not in the formal/informal concepts.

(x) The researchers should be modest, given the time and finances available and therefore the more ambitious work of trying to trace the linkages between small (informal) enterprises and large (formal) enterprises, and hence the explanation of their very existence, could perhaps constitute another phase of the research project.

(xi) In light of the above, sections in the questionnaire dealing with linkages between formal and informal sectors and suggesting the hypothesis that some formally informal enterprises had graduated to be formal, were delated. However, it was urged that to the extent that the formal/informal dichotomy is meaningful, the relationship between formal/informal enterprises could be studied for a few selected enterprises using in- depth case analysis which is possible if one uses participant observation among other methods.

(xii) There was a need finally to establish whether the relationship between the small (informal) and the large (formal) sector is involutionary or evolutionary in growth, and whether a benign or exploitative relationship exists between the informal and the formal sector. Clearly this would call for both longitudinal and cross-sectional research.

The "Role" of Informal Sector

The discussions in Berlin and other previous discussions led to the definition of "role" in primarily economic terms. Thus, "role" is understood as the whole process of labour absorption into the informal sector. In order to understand this process, we need first of all to have:

(i) Total size of the informal sector in the cities to be studied.

(ii) A breakdown of the total size of the informal sector by employment size and nature of activities.

(iii) A sample of informal sector establishments for data collection through questionnaire interviews.

(iv) An understanding of the growth trends in the informal sector and how this trend is related to population growth.

(v) An idea of the changes from informal to formal sector and vice-versa where this kind of data is available.

(vi) Information on choices available to and calculations made by individuals as they enter the informal sector. This would include information on potential competition, choice of area, estimate of earnings, educational background of individuals, ideas about sources of inputs and outputs, and required investment among other factors.

The "Development" of Small and Medium-Sized Cities

In this study, as agreed in Berlin, "development" is understood as a multifaceted phenomenon which entails some understanding of the general economic structure of the city which in turn entails an understanding of:

(i) sources of employment, production and income in the city.

(ii) How the economy of the city has changed over two-time periods and how this is related to changes in population over the two-time periods. This would in turn require:

(iii) basic information on the city such as growth of population and age and sex composition of the city,

(iv) occupational shifts in population over at least two-time periods, and

(v) income and tax revenue of the city and the expenditure pattern of the city government.

"Small" and " Intermediate-Sized" Cities

In view of the fact that the definitions of "small" and "intermediate" between countries are not the same, it was agreed by researchers from the different countries covered in this research project that population size be the sole criterion for selecting the cities. It was agreed that as a rough guide "small" should mean cities falling within the population range

50,000 to 100,000 inhabitants and that "intermediate-sized" cities should mean cities with populations of between 100,000 and 200,000 inhabitants. The study would then be carried out in *two* small/intermediate-sized cities.

As a further guide, the researchers agreed that it would be necessary to select cities which have a diversified economic structure as cities with specialized economic functions such as mining or fishing were unlikely to be instructive for the research project.

The Role of the Informal Sector in the Development of Small and Intermediate-Sized Cities

What then does it mean to say that one is assessing the role of *the informal sector in the development of small and intermediate-sized cities or* towns? In summary it means first:

(i) defining the informal sector in relation to the formal sector,

(ii) defining "role", first in terms of labour absorption over time and secondly in terms of settling a socio-profile of informal sector entrepreneurs and their criteria of decision-making,

(iii) defining "development" of the city,

(iv) relating (i), (ii) and (iii). One, and by no means the only way of relating (i), (ii) and (iii) above would be to try and answer the question: Is the informal sector an asset or a liability as the city develops? This would in turn entail trying to answer the question: what are the potentials of the informal sector activities in relation to employment, income and tax revenue of the city government?

Evidently these are extremely difficult questions calling as they do for nothing short of a balance-sheet showing what the informal sector establishments give to the city in terms of revenues and services as well as what these establishments take from the city. Some of the benefits to the city could be in the form of taxes, fees, rents. Some of the costs to the city could be in the form of expenditure in such services as water, electricity, garbage collection, as well as such " social expenditures" as causing congestion, disorderly development and general social problems. While no one can promise to fully answer these questions on costs and benefits, they non-the-less should be kept in mind at all times when discussing the informal sector in Nakuru. The answers, as we shall see, are dependent on many factors, some of which are perhaps beyond the scope of this study.

Another way of assessing the role of the informal sector in the development of cities would be to ask the question: is the nature and consequently the function to the city of the informal sector in any way related to the size of the city? Clearly this is a question which calls for a comparative analysis of the informal sector we agreed to study one town, Nakuru.

Originally, the choice was between Nakuru and Machakos towns. Machakos was rejected because:

(i) it is only 40 miles from Nairobi, and thus too near,
(ii) it is too rural-based and most of the population is due to recent boundary extension (6,300 in 1969: 84,300 in 1979),
(iii) it is rather poor in informal activities. Field visits revealed about 8 types of activities. These were shoe-repair and shoe making, metal works, dress repair, furniture industry, repair garages, watch repair, basket-making, and transport industry;
(iv) the economy is mainly agricultural i.e. no major manufacturing industry and
(v) the town is dominated by one ethnic group.

Nakuru was chosen because:

(i) it is 100 miles from Nairobi and, therefore, not unduly influenced by Nairobi,

(ii) size of population fits the UNCRD criteria (47,000 in 1969: 93,000 in 1979),
(iii) has diversified economy with a good manufacturing base;
(iv) the town is multi-ethnic in composition and
(v) has a rich informal sector, as revealed by preliminary visits.

Data needs in Nakuru

For the research, three different types of data were required. First, basic background information on Nakuru. This information was inter alia, on the history of the town, the demography of the town, the general economy, and the general profile of the town. This information was gathered primarily from secondary data, interviews with town officials and in some cases computer tapes at the Central Bureau of Statistics (C.B.S), Ministry of Finance and Planning. The basic background information on Nakuru is presented in Chapter 2 and also Chapter 3.

The second data requirement was on the informal sector in Nakuru. The already existing information on the informal sector in Nakuru was not quite reliable for our purposes. Therefore it was decided to generate own basic information. This took two surveys. One a baseline survey to obtain the universe and two, sample survey using the questionnaire agreed upon at Berlin.

Baseline Survey

As already mentioned, a baseline survey was necessary in order to obtain the universe of the informal sector establishments in Nakuru. In order to carry out this initial survey we adopted the definition of the informal sector which was worked out at Berlin with one modification. In addition *to excluding professionals such as doctors and dentists who were obviously formal but had less than 9 employees, we also excluded* *such "main street" activities which Nakuru town administrators regard as obviously formal though in some cases employing less than 9 employees. The principal activities excluded by this definition were retail and wholesale shops and stores, restaurants, bars, boarding and lodgings.*

The Baseline Survey, in addition to obtaining the universe, was also meant to provide information on the type and size of enterprise as measured by the number of employees and trainees. The data on type of enterprise was necessary for sampling purposes while the data on size of enterprise was crucial to the whole research project.

In order to carry out this initial survey enumerators were recruited and trained to recognise the informal sector establishments as the first step. The enumerators were recruited in Nakuru on the basis of their knowledge of the town, among other factors. The second step was to map out Nakuru into "enumeration units". This was done by the principal researchers together with the enumerators. By literally walking every inch of the town, the town was divided into 26 enumeration units primarily named after what the local residents call the area. Sometimes the units were given a new name by the principal researchers. The enumerators were then instructed to enumerate the type and size of the informal sector establishments unit-by-unit. They were instructed to enumerate the establishments in a recognisable pattern and to label the establishments for purposes of future recognition in circumstances where the establishments had no name or any other identification. The data on types and numbers of enterprise i.e. the universe as obtained through this survey is presented in *Appendix 1*, while the data on types and size of enterprise is in Chapter 3 *Table 3.3*

Sample Survey

Having obtained the universe all, the enterprises were then grouped into specific types e.g. kiosks, shoe-shine boys, second-hand clothes' sellers the sampling was stratified on the basis of these specific types. The objective was to investigate at least a 5% sample of the universe.

Therefore a 5% sample of each specific type was randomly selected. (See *Table 1.1*). The same enumerators who had carried out the initial baseline survey were used for the sample survey. Due to their accumulated knowledge of the field, they could easily locate the sample.

Table 1.1:
Survey Sample

Enterprise Type	***Universe***	***Sample Size***
Kiosks	385	19
Fruits & Vegetables	308	14
Matatus	272	13
Clothing	97	5
Tailoring	60	3
Shoemakers	59	3
Charcoal Dealers	58	3
Others	443	25
TOTAL	1682	85

Data Analysis

The data obtained from the sample survey was analysed at two stages. The first stage dealt with what might be called "soft data". This is the data which dealt with such issues as perceptions, and attitudes. We found it unwise to subject this kind of data to statistical manipulations. Hence, only frequency distributions were calculated from this data. The second type was the "hard data" i.e. to the extent that one can obtain really hard data from an informal sector survey. This data dealt with such variables as years of formal education, years of training after school, investment and income, and number of employees, to name a few. With this type of data, we tried to calculate functional relationships using correlation and regression analysis. The results from both types of data are presented in chapter 3.

Data Limitations

Data from the informal sector is usually limited in many ways. Here are going just a few of the limitations. First the specification of the models used in the functional relationships is not the best because specifications were done with an in-built bias of a formally operating economy i.e. it was assumed that the traditional economic variables would be important in determining the growth of incomes and employment in the informal sector.

Two, the fact that the study had to cover the entire informal sector could not allow an indepth study of some major sub-sectors like kiosks or fruit and vegetable selling. Thus, in this case, the transportation sub-sector which is dominated by *matatus* unduly affects the capital component and also affects the income component. This is likely to have raised both means and the capital labour ratio,

Third, some variables such as political and administrative attitudes are impossible to quantify though they might explain a great deal of what is taking place in the informal sector income generation.

CHAPTER TWO

NAKURU TOWN

Historical Background

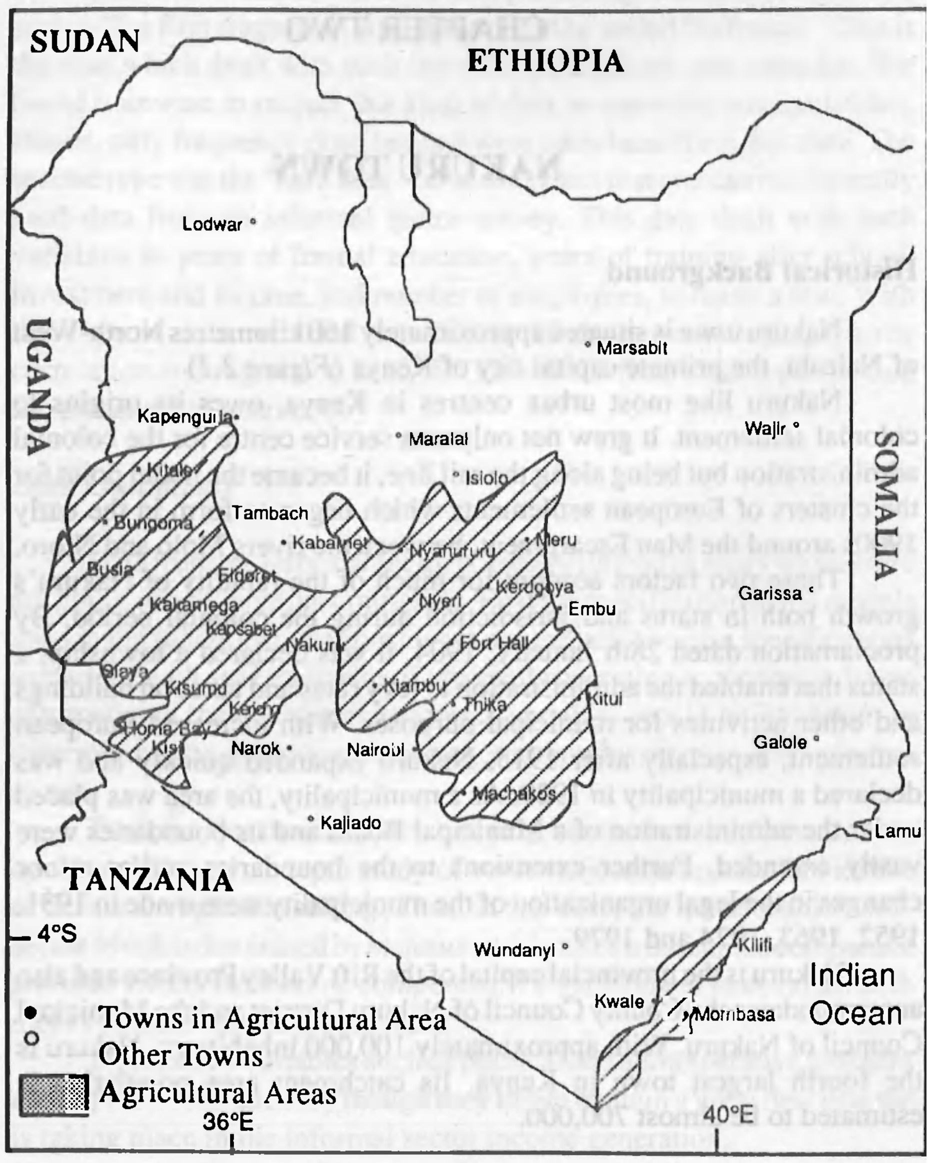
Nakuru town is situated approximately 160 kilometres North-West of Nairobi, the primate capital city of Kenya (*Figure 2.1*)

Nakuru like most urban centres in Kenya, owes its origins to colonial settlement. It grew not only as a service centre for the colonial administration but being along the rail line, it became the nodal point for the clusters of European settlements which began to form in the early 1900s around the Mau Escarpment, between the rivers Molo and Njoro.

These two factors account for much of the rapidity of Nakuru's growth both in status and jurisdiction during the colonial period. By proclamation dated 28th January, 1904, it was declared a township, a status that enabled the administration to levy rates and taxes on buildings and other activities for municipal purposes. With increased European settlement, especially after 1915, Nakuru expanded quickly and was declared a municipality in 1929. As a municipality, the area was placed under the administration of a Municipal Board and its boundaries were vastly extended. Further extensions to the boundaries and/or minor changes in the legal organization of the municipality were made in 1931, 1952, 1963, 1974 and 1979.

Nakuru is the provincial capital of the Rift Valley Province and also accommodates the County Council of Nakuru District and the Municipal Council of Nakuru. With approximately 100,000 inhabitants, Nakuru is the fourth largest town in Kenya. Its catchment area population is estimated to be almost 700,000.

FIGURE 2.1 *Kenya: Main Population Concentration.*



Nakuru Town in Kenya's Urbanization

Nakuru, as already stated, is the fourth largest town in Kenya after Nairobi, Mombasa and Kisumu. As such, Nakuru is an important urban centre since most of the urban centres in Kenya have a population of under 10,000 inhabitants. However, Table 2.1 shows these small urban centres have been growing, in absolute numbers, much faster than the larger towns of which Nakuru is one.

Table 2.1
Urbanization Trends in Kenya

	Urban Population					
Size-Group of Cities	1962*		1969*		1979*	
	Number of towns	Population	Number of towns	Population	Number of towns	Population
Less than 5,000	16	48900	26	66100	41	125300
5-10,000	11	69900	11	71200	22	156300
10-20,000	3	44000	7	90700	11	149800
20-50,000	2	61700	2	97600	9	271000
50-100,000	0	0	0	0	4	299500
100-200,000	1	179600	0	0	1	150400
200-500,000	1	266800	1	247100	1	341500
500-1,000,000	0	0	1	509300	1	834500
More than 1,000,000	0	0	0	0	0	0
Total Urban Population		670900		108200		2205000
Per cent of Total Population		7.8		9.98		14.61

****1962, 1969 and 1979 instead of 1960/61, 1970/71 and 1980/81 are used because they were the census years in Kenya. The census years shall be used whenever population figures are required unless otherwise specified.***

In the context of urbanisation trends in Kenya, Nakuru's population growth rate has been modest compared to the growth rates of other towns within the population size-group 30,000 to 200,000. In this category, only Nairobi and Mombasa have shown lower growth rates in the last ten years or so, as in *Table 2.2*

Table 2.2
Population and Population Growth Rates of all towns in Size-Group of 30,000-200,000

Name of the Towns	***Population 1979***	***% Growth Rate 1969-1979***	***Distance from the nearest largest city of the Country*** (Nairobi)
Nairobi	827775	5.0	0 Kilometres
Mombasa	341148	3.3	498 "
Kisumu	152643	16.8	372 "
Nakuru	92851	7.0	164 "
Machakos	84320	29.4	70 "
Meru	72049	31.7	280 "
Eldoret	50503	10.8	324 "
Thika	41324	8.4	40 "
Nyeri	35753	13.6	164 "
Kakamega	32025	17.8	441 "

Though Nakuru experienced considerable occupational shifts for the ten year period of 1969-1979, the shifts were not as dramatic as in a few other towns in the Size-Group 30,000 to 100,000. Such towns as Machakos, Meru and Thika experienced more occupational shifts (Table 2.3).

Table 2.3
Occupational Composition and shifts in occupations of all towns in Size-Group 30,000-100,000 in Kenya.

Name of the town	***Year***	***Primary1***	***Secondary***		***Tertiary***		***Others***
			Manufacturing	Construction	Trade & Commerce[2]	Services[3]	Electricity & Water
NAKURU	1969	368	3345	1508	2631	6606	235
	1979	62	6025	1636	5253	7427	470
	% SHIFT	(83.15)	80.12	8.49	99.66	12.43	100.00
MACHAKOS	1969	2	825	0	330	834	14
	1979	115	311	60	1822	2280	0
	%SHIFT	5650.00	(62.30)	-	452.12	173.38	-
MERU	1969	44	85	116	244	3657	0
	1979	939	178	263	2523	2997	11
	%SHIFT	2034.09	109.41	126.72	934.02	(18.05)	-
ELDORET	1969	375	3003	225	1002	5019	1505
	1979	354	5300	956	3739	4254	90
	%SHIFT	(5.60)	76.49	76.89	273.15	(15.24)	(41.94)
THIKA	1969	249	3309	207	683	1924	115
	1979	28	0638	211	·2664	2268	0
	%SHIFT	(88.76)	221.49	1.93	290.04	17.88	-
NYERI	1969	448	285	306	552	3720	85
	1979	146	638	1160	1663	3774	6
	%SHIFT	(67.41)	123.86	279.08	201.27	1.45	(92.94)
KAKAMEGA	1969	0	72	13	226	724	83
	1979	4	513	429	1292	2660	110
	%SHIFT	-	612.50	3200.00	471.68	267.40	32.53

( ): Negative growth
[1]Primary: Agriculture, forestry: Mining quorrying
[2]Trade and Comnerce: Wholesale and Retail trade, Restaurants and Hotels, Finance Insurance, Real Éstate and Business Services.
[3]Services: Transport and Communications, Community Social and Personal Services.

Sources: Republic of Kenya, Ministry of Economic Planning.

Population

In 1962, the population of Nakuru was 40,000. This increased to 47,000 in 1969 and to 94,00 in 1979, partly due to boundary extensions in 1979. Following the 1979 extensions, the town-size is currently 78 sq. kilometres.

Approximately 20% of the population live in unplanned housing areas. This average, however, obscures the high densities in specific settlements, especially Bondeni, Gilani and Lanet Hill. *Table 2.4* summarises the population and population growth rates for Nakuru Town, Nakuru District and Rift Valley Province where Nakuru is located.

Table 2.4
Population, Population Growth Rates of Both Nakuru Town and District.

Case Study City/Region	***Population***		***Annual % Growth Rate***
	1969	1979	1969 - 1979
Nakuru Town	47200	93900	7.0
Nakuru District	290853	522709	6.0
Rift Valley Province	2210289	3240402	3.9
Kenya	10942705	15327061	3.4

The estimated number of in-migrants to Nakuru during the ten year period is 25,000, comprising roughly 25% of the total population in 1979. The age and sex composition of the Nakuru population during the two time period is summarised in *Table 2.5*. The table indicates clearly that the majority of the population are of working age.

Table 2.5

Age and Sex Composition of Population: Nakuru Town

Age Group (Years)	***1969***		***1979***	
	Male	Female	Male	Female
Less than 9 years	7783	7812	14224	14547
10-14	2296	2373	4869	4358
15-49	14789	10082	30389	20951
50 and above	1248	168	2230	1147
Not stated	-		100	36
Total	26116	21035	51301	41550

Social Services.

It would appear that Nakuru is well-supplied with schools, health clinics and other community facilities. Each new housing scheme, and some of the unauthorized settlements as well, have been provided with an adjacent primary schoo! and health centres, generally located within reasonable walking distance.

Altogether there are over 30 primary schools within the Municipality with a total enrolment of 25,000 pupils, and 10 secondary schools with a total of 12,000 students. Five of the latter are privately operated and five are state schools.

The Provincial General Hospital is a large complex in the centre of Nakuru, providing specialist medical treatment for the entire province. In addition, three health centres are strategically located at the extremities of the town in Langa-Langa, Nakuru West and Lanet Centre. Several community centres, social halls, markets and other community resources are also dispersed throughout Nakuru.

Infrastructure

Water Supply

Nakuru receives its water supply from intakes on the Melewa and Mereroni Rivers, and from boreholes. The Melewa River source lies 35 kilometres south-East of Nakuru from where water flows for eight kilometres to the Gilgil treatment works before flowing by gravity the 43 kilometres to Nakuru. The scheme, constructed in 1956, has a design capacity of 1730 m^3/ day but now only delivers 980 m^3/ day because of operational difficulties. After abstraction, the raw water passes through a silt trap and then into 200mm, 225mm and 250mm diameter pipes for transmission to Gilgil treatment works where it receives conventional treatment through upward flow sedimentation tanks and filters. Chemical dosing with alum for coagulation, soda for pH correction and chlorine for disinfection is undertaken at the works. A 1250mm diameter main conveys the treated water to Nakuru.

The Mereroni River provides some 6850 m^3/ day of water to Nakuru under gravity form an intake 14 kilometres east of the town. Full treatment at the Nakuru treatment works is undertaken prior to introduction to the distribution system. Chemical dosing is also undertaken at this works.

At present, seven boreholes, producing a total of 6780 m^3 over 16 hours each day, supply Nakuru with the remainder of its water. Since the present water supply system in Nakuru is unable to meet the demands without major improvements, it is unlikely that any new housing project could be provided with the necessary reliable water supply. However, with improvements, the provision of supplies to any planned project could be undertaken without difficulties.

Sewerage

The sewerage system of Nakuru is relatively well developed. The overall level of service in the town and standard of health in low income areas could, however, be greatly improved by connecting such low income areas at Majengo, located inside the drainage area, to the municipal system.

In 1956, a separate sewerage was commissioned to serve Nakuru. This system and a conventional treatment plant, that is, the Town Treatment Plant located south-East of Nakuru, served the developed area of the town, South of the railway, with an extensive trunk sewer network and reticulation. In 1961 the treatment plant was extended by the construction of several experimental lagoons.

In the early 1970's development took place in residential and industrial areas on the western side of the town and the sewerage system was extended to serve these areas. To cope with the projected flows from this extension, a system of waste stabilisation ponds, the Njoro River treatment plant, was commissioned in 1974. However, in the late 1970's it had become apparent that development was not proceeding as planned since plot owners were not taking up their option to connect to the sewage system. As a result, the Njoro River plant was under-utilised, whereas the Town plant was overloaded. Therefore an interceptor sewer was commissioned in early 1980 to divert flows from the Town plant to the Njoro River plant, which is still operating below full capacity.

Although the greater part of Nakuru is served by the sewerage system, there are residential areas, especially north of the railway. that rely on septic tanks. In addition, none of the areas of uncontrolled housing is served by the sewage system.

Refuse Collection

The local authority operates a refuse collection service four times a week. Refuse is collected from individual plots in galvanised tin baths which are subsequently emptied into the collection vehicle for disposal in the municipal tip. Apart from isolated cases, this service appears to be operating well except in low income and newly-settled unplanned areas.

Communications and Power

The A104 Nairobi - Uganda Trans-Africa Highway passes through Nakuru forming its main distributor road. This artery and the greater part of Nakuru's extensive internal road net-work, are surfaced providing all-weather access throughout the town.

Approximately 300 *matatus** operate from the main bus station and there are extensive bus services to Nairobi, Eldoret, Kisumu and Western Kenya in general. The Rift Valley Peugeot Services also operates through the town to Kitale, Kisumu and Nairobi. Moreover Nakuru is served by the Kenya railways – Uganda and Kisumu lines have both passenger and freight service. Within the town, a co-operative bus service operates efficiently.

Nakuru is also supplied with electricity from Kenya Power and Lighting Company. It also has a good telephone service though few people actually have telephones.

* Informal Taxis

Low-Cost Housing

The housing supply record of Nakuru Municipal Council during the last ten years indicates considerable initiative with a number of successful housing schemes. In 1969 the Council sponsored several site and service schemes in Langa-Langa, with the houses constructed on a self-help basis.

Type plans and intermittent site supervision were provided by the Council at no charge, with Phase 1 of the project comprising 104 houses.

Each house accommodated four dwelling units, one for owner-occupation and three for sub-letting. A common toilet block containing three aqua - privates and two showers was also provided. This four-unit house could be built at a total cost of Kshs. 20,000.

Three years later, the council embarked on a second phase consisting of 96 units, with slightly modified standards. Each house contained three dwelling units and the toilets were connected to a septic tank. The last of these Langa-Langa schemes, consisting of 96 units, featured individual toilets with waterborne sewer connections. However, these houses became rather expensive, each costing about Kshs. 150,000. The Langa-Langa schemes were followed by a site-and-service core housing scheme in Pangani. In this project, each unit contains one room, a toilet, and an individual water connection. With the tenant expected to build a second room within 18 months, phase 1 consisting of 50 units, has been completed and 70 units for Phase 11 are under construction. The current unit cost is Kshs. 22,000 with loan repayment of Kshs. 165 per month and land rent of Ksh. 80 per year.

Finally there is the USAID tenant - purchase scheme of 120 houses in Pangani. The house type design was provided by the National Housing Corporation and the standards are slightly higher than in the previous Pangani scheme. The project comprises 40 one-room units including kitchen, toilet and shower, costing Kshs. 32,000 each, together with 80 two-room units with identical services costing Kshs. 43,000 each.

The ability of Nakuru Municipal Council to provide low costing houses seems to be hampered by an absence of good physical planning policies and plans. The most striking change with regard to physical planning has been the extension of the municipal boundary in 1974. The previous boundary, dating from 1963, covered a municipal area of 32 sq. kilometres in 1974. The town has more than doubled in geographic area. This extension has added greatly to the responsibilities of the municipality, consequently undertaken with little physical development planning.

The absence of planning has led to considerable unauthorised settlement just outside the old boundary. With the exception of Bondeni area, all 'potential upgrading areas' are located in the belt between the old and new boundary.

Some "Farming Co-operatives" have acquired land in this belt for "agricultural use", sub-divided it and issued plots to individual members. Some plot-holders converted these into *shambas* (intensive horticulture) whereas others decided that it was more profitable to erect temporary structures and let rooms, thereby supplementing their income. These sub-divisions together with the "land use" decisions were carried out without knowledge of or consultation with the municipal engineer or the planning officer. As a result, the actual living conditions in these settlements are substandard.

Land Tenure, Ownership and Availability

In general, as the municipality grew, the land ownership patterns within it began to reflect much of the system of tenure which supported the surrounding European agriculture.

Consequently, instead of a municipal area comprising mainly government land, as was generally the case during the colonial era, substantial areas of private agricultural land were drawn into the jurisdiction of the town. This land was subdivided and converted into urban uses and has since then either been sold to the Municipality or rented to private developers.

With the advent of independence and the ensuing pressures for the Africanisation of settler-farms, the extensions to Nakuru's boundaries resulted in new, more serious, tenure implications.

This was brought about primarily by the emergence of Land Purchase Co-operatives as a vehicle for the acquisition of settler-farms. A considerable area of land, particularly in Nakuru West and North, was purchased by these co-operatives, which were registered as companies and thus held the land in their corporate names, but which were in fact comprised of numerous "shareholders". Consequently, unauthorised sub-divisions have become very common in Nakuru, with parcels of land distributed to shareholders and used for mixed agricultural and urban purposes. This is the case in Ronda Estate, Gachura, Menengai and Lanet Hill, among others.

Land tenure categories within Nakuru Municipality fall roughly into three concentric zones. The municipal centre, as is usually the case with Kenyan towns, is primarily government-land held generally on 99 year leases. Much of this includes land originally held by railway authorities which has since been surrendered to the government. The boundary extensions of 1963 brought to the municipality a considerable area of land which was individually owned, and some of this has since been surrendered to the municipal authorities in exchange for land elsewhere. However, some has been sub-divided and sold to numerous other individuals, with the remainder existing as undeveloped pockets within the municipality. The result is therefore a zone of generally private land inter-mixed with public, that is central government and municipal land. Since 1974, more land has come within the municipality which technically speaking is privately held, but to which a multiplicity of individuals and families have access.

In relative terms, land availability is low in Nakuru when compared to other towns, primarily, because there is a shortage of Government land which is normally most accessible for public development. Moreover, the existence of private land in the outer zone, under multiple ownership, makes acquisition for public purposes rather difficult because these companies are generally comprised of ordinary, former landless people. This especially applies to estates such as Ronda and Gachura. In addition, due to the expansion constraints of the Municipality and the general land pressure around Nakuru district, land values have increased substantially. In fact, the 1974 and 1979 boundary extensions were accompanied by very high increases in urban land values.

The Economy

The occupational composition of Nakuru town best explains the transformation of her economy between the periods 1969 and 1980. We know that structural transformation between sectors namely traditional and modern is a good measure of economic growth. A move from traditional to modern or market economy is a measure of economic progress. In the case of Nakuru, we can argue that a move from primary production to secondary or otherwise is a step in the right direction i.e. towards development. The rate of growth (declaration) of primary sector between 1969 and 1980 is 7.56 per cent per annum. This can be explained by the growth of other sectors namely secondary and tertiary.

In urban centres and mostly so in Kenya, primary production is on the decline because urbanization has to a great extent been as a result of boundary extension, with the resultant allocation of building and recreational plots. Building plots are for residential, industrial, commercial and recreational purposes. All these are undertaken at the expense of primary production namely agriculture, forestry, mining and quarrying. An evaluation of construction equally supports this fact. We notice from table 2.6 that construction grew at a rate of 0.77 per cent per annum between the years 1969 and 1980.

Table 2.6
Occupational composition and shifts in occupations of both Nakuru town and district.

Occupational Composition	*Nakuru Town* 1969	1980/81	*Nakuru District* 1969	1980/81
PRIMARY	368	62	31885	33830
SECONDARY				
Manufacturing	3345	5525	5830	9846
Construction	1508	1636	1152	2066
TERTIARY				
Trade & Commerce	2633	5253	3404	7485
Services	6606	7437	15392	21641
Others (Electricity & Water)	235	470	263	671

Economic growth is at times seen to be synonymous with industrialization. Table 2.6 shows that the level of industrialization as proxied by the contribution of manufacturing sector in wage employment rose form 3345 to 5525 persons between 1969 and 1981. On the assumption that growth in employment is not at the expense of labour productivity, besides manufacturing firms in the formal sector are not likely to be philathropian, the rate of growth of this sector is commendable. However, most of the industries are agro-based and are concerned with the processing of agricultural commodities.

The development of the town entails both growth in physical sense and growth in the sophistication of the urban economy and population.

Between the two years trade and commerce sub-sector has more or less doubled. This is generally to service the increased population and industries. Industries will require repairs and spares notwithstanding day-to-day servicing. The services sector has equally broadened its tentacles. The lion share of the services sector is likely to be dominated by civil servants and professionals who are likely to converge in a fast growing town.

There has as well been growth in the water and electricity departments mainly to serve the increased industries together with the subsequent employees and the population at large. Though the contribution of the services sector to Gross National Product (GNP) of a developing country is likely to decline given increased industrialization, its absolute importance can not go undetected.

As for Nakuru District, the same trend though with different rats is depictable. However, the rationale might be different. For instance in primary production, the number engaged would have gone up as a result of population growth and given that under-employment or disguised-unemployment is the rule rather than the exception i.e. productivity considerations rarely prevail (recall the diminishing marginal product of labour and at time its equality to zero), even the subsequent failures in the formal job lottery will be accommodated. We can neither rule out rural-to-rural migration given the plentiful fertile land.

In short, Nakuru town has and continues to enjoy rapid rates of economic growth mainly because it is the provincial headquarters of the largest province in Kenya which is also agriculturally very rich. The province carries the "granary of Kenya" and Nakuru will thus remain to gain from "Vent for Surplus" because the resources of her hinterland were not tapped long way back. In a sense, Nakuru is a farmers Stock Exchange room. Our optimism in this regard is supported by a look at the Municipal budget of Nakuru.

In Kenya, a balanced budget is tantamount to wishful thinking on the part of most municipalities and town councils. Nakuru, however, has had more or less balanced budgets. In 1972 expenditures stood at K£ 810129. Thus expenditures was 112 per cent of the revenue. Ten years later in 1982, the expenditure figure stood at 97.98 per cent, implying a surplus for the Municipality. The surplus budget can be explained by good policing, increased efficiency on the part of revenue collectors and increased incomes resulting from expansion and growth of new businesses.

The surplus, however, is not reflected in all areas. This is certainly true of education and health. Between 1972 and 1982, revenue accruing from education fell by 9.46 per cent per annum while expenditure rose by 30 per cent per annum. This is as a result of abolition of payment of school fees and building fund while the municipality has continued to build more schools and to pay more teachers not to mention the maintenance of other facilities. In other words the Council has continued to face increasing development and recurrent expenditures. Public health had a similar picture in the ten-year period because revenue rose by 14.91 per cent per annum while expenditure rose by 31 per cent per annum. A net deficit of 16 per annum was therefore experienced by the Municipality in this area of public expenditure.

In summary then, between 1972 and 1982, revenue rose by 35.21 per cent per annum while expenditure rose by 30.80 per cent per annum. If this trend continues, Nakuru town will remain one of the few towns operating with a surplus budget; a commendable achievements in the context of urban financial affairs in Kenya.

Conclusion

Nakuru is a medium - sized town by the definition used in this study. However, going by Kenya's extent of urbanization, Nakuru is a large town, being the fourth largest town in the country after Nairobi, Mombasa and Kisumu. Her population is fairly heterogeneous and has been growing at a fairly moderate rate compared to other towns in her size-group. In spite of the fairly common problems of urbanization, such as paucity of good low-costing housing and good future-oriented plans,' Nakuru can be described as being in a fairly good state of health which is more than can be said about other urban centres of her size in the country. In this respect, the Municipality seems well managed particularly financially as reflected by the budget figures. The economy, though "young" and originally agro-based is showing signs of sophistication and has recently been growing at a commendable rate. This is mainly due to Nakuru's agriculturally rich hinterland and the town's administrative status as a provincial headquarters.

CHAPTER THREE

THE INFORMAL SECTOR IN NAKURU

Secondary Data

The role of the informal sector in most urban centres is of doubtless contribution as far as employment and income generation are concerned. However, both of these variables, though easily quantifiable, are rarely known at all because this sector generally exists outside the government statistics. Besides, some of the informal sector activities are risky from the enumerators' and the respondents' point of view. In some cases, some of the informal sector activities are often socially inadmissible and morally degrading. For example wheel-cart pushing, shoe shining, not to mention prostitution, are activities that have been branded as "dirty". They nevertheless ease pressure on the existing formal sector by offering some kind of alternative means of livelihood. We simply need to note that the expansion of formal wage employment has not provided adequate earning opportunities for the existing adult population. For example in Nakuru the government, through the Kenya Industrial Estates, has started an estate composed of 25 factory sheds which, if fully utilized, are capable of creating 650 employment opportunities. Metal, Paper, wood and food processing together with tailoring have been established through the Kenyan Industrial Estates. However, a large part of the labour force is still unemployed. We should note here that a significant proportion classified as unemployed are engaged in the informal sector, though practising, often without government protection and encouragement. Though information is lacking, the number engaged in the informal sector due to lack of jobs in the formal sector has been increasing rapidly. This is probably the largest group which operates tea kiosks, shines shoes, serves as *matatu* turn boys, newspaper vendors, and street hawkers of other goods. While it is difficult to determine accurately their exact earnings, it is likely that the groups in town tend to make more money than those in the rural areas.

Shoe-shine boys and *matatu* turnboys are school drop-outs from low class squatter workers or runaway kids (from home) who want to be independent and earn their own livelihood. Some of them, when adults, become proud owners of food kiosks. Some become drivers and others get some kind of employment. Some innevitably fall to crime.

The importance of the informal sector, is, however, underlined by the government when it noted in the *National Development Plan 1978/83* that according to the National Survey, the informal sector in the urban areas should absorb 195,000 people by 1983 from 140,000 - a growth rate of 4.9 per cent i.e. eleven thousand places are to be created each year. It is against this expectation that we examine how far Nakuru has gone towards the achievement of this targeted rate.

In Nakuru, informal sector undertakings were not recorded in the Primary sub-sector, mainly because this is mostly a traditional sector related to mining, quarrying, agriculture and forestry. Thus there is no possibility of conducting primary informal activities in that land is held by individuals with valid title deeds. There is of course the additional problems of scarcity of land and the Municipal by-laws which may restrain activities like quarrying. Furthermore, mining would be mineral- and land-specific and this falls exclusively in the ambit of the Ministry of Natural Resources.

Table 3.1 shows that in 1979, the manufacturing sector had one hundred enterprises employing 277 persons in the informal sector compared to 82 formal enterprises engaging 5748 persons. The employment per enterprise in the informal sector is therefore small, no doubt reflecting the smallness of the enterprises. The table also shows that construction has a per enterprise employment of ten persons. We are therefore tempted to conclude that employment is a function of the capital outlay.

Table 3.1.
Nakuru town: Size of the formal and informal sectors by nature of activities in 1979

Nature of Activities	*Total*		*Formal Sector*		*Informal Sector*[1]	
	Number of Estab-lishments	Employ-ment	Number of Formal Establish-ments employing	Employ-ment	Number of Informal Establish-ments employing	Employ-ment
PRIMARY	10	62	10	53	N/A	9
SECONDARY						
Manufacturing industry	182	6025	82	5748	100	277
Construction	40	1636	37	1605	3	31
TERTIARY						
Trade & Commerce	961	5253	310	3315	651	1938
Services	299	7437	111	6671	188	766
Others (Electricity & Water	4	470		469	N/A	1
Total	554	20883		17861	942	3021

[1]According to Central Bureau of Statistics, Informal Sector Survey is confined to open air activities together with activities carried out in market stalls and temporary premises. They further say that most of the activities associated with informal sector are "foot lose" in the sense that they do not have permanent address or work place.
These figures include self-employed and unpaid family workers.
NA: Not applicable or not available.

This is because, loosely speaking, construction is a capital intensive industry. In the formal sector construction, the figure stands at 43.38 compared with a figure of 70.10 persons in manufacturing. The somewhat paradoxical observation in the informal sector's construction industry can perhaps be explained by labour intensity to go with the huge capital outlay so that capital-labour ratio goes down. Given this situation the above conclusion can be amended to read that employment in the informal sector is a function of capital outlay i.e. capital-using technologies are more labour intensive so that they can exploit labour more extensively given its cheapness.

In the tertiary sub-sector, the informal sector has 651 in trade and commerce and has engaged 1938 persons giving an average employment figure per unit of 2.98 while the counter figure in the formal sector stands at 10.69. As for the services industry, the unit mean for the two sectors was 4.07 and 60.10 for the formal and informal sectors respectively. Given the definition applied by the Central Bureau of Statistics these figures need to be interpreted with caution.

In short, the informal sector provided 14.47 per cent of total employment in Nakuru town in 1979. However, the average employment figure per firm was 3.21 persons. Given these observations from secondary data, we now turn to our own survey data. First we discuss data which does not present any functional relationships before turning to the more "solid" data, i.e to the extent, as already pointed out, that one can talk of "solid" data from the informal sector.

The Baseline Survey

The enumeration exercise revealed that 1682 informal establishments are currently operating in Nakuru town. The distribution of these enterprises by the type of activity is presented in *Table 3.2*

Table 3.2
Distribution of enterprises by type of activity

Type of Activity	*Number*	*Percentage of the total*
Manufacturing	187	11.11
Trade and Commerce	1043	61.95
Services	452	26.87
Total	1682	100.00

Table 3.2 shows manufacturing is not significant. This suggests that economic sophistication plays a role in the determination of employment potential. Thus there is a possibility that a positive correlation exists between the degree of economic sophistication and the size of the informal sector. Essentially, we expect interdependence between the two sectors and given that the formal sector is the bigger of the two, its share of income is an important variable in shaping the informal sector.

The services sector ranks second, but this exclude house servants and squatters. This sector includes a big proportion of *matatus* which provide the transport services to commuters. Trade and Commerce heads the list because of its "simple" nature and besides, it does not call for much skill. Furthermore it is also possible to venture into the business with very small amounts of investment as will be shown later in the chapter. We note in advance that most of the businesses in this category are single-owner, single-operated businesses. *Table 3.3* presents the distribution of enterprises by sex and type of business.

Table 3.3
Distribution of ownership/operation of businesses by type of activity and sex.

Type of Activity	*Number of Enterprises Owned/Operated by Sex*		*Total*	*Percentage of the total*
	Male	Female		
Manufacturing	175	12	187	11.11
Trade & Commerce	582	461	1043	61.95
Services	451	1	452	26.87
Total	1033	474	1682	100.00

Out of 187 enterprises in manufacturing, women managed or owned 12 enterprises. The figure shot up to 461 i.e. 44.20 per cent in trade and commerce. This may support our earlier assertion on the "pettiness" and "littleness" of investment capital in trade and commerce because generally women are not propertied and as such do not have sources for large investments. This fact is propped up further by the realization that no female respondent in the sample survey owned any business in the services sector. This sector, as pointed earlier, is unduly dominated by *matatus* which require heavy capital expenditure. In the entire universe, women comprised a meagre 28.18 per cent.

How about employment? *Table 3.4.* shows the distribution of enterprises on the basis of employment.

Table 3.4
Distribution of enterprises on the basis of employment i.e. number of people engaged

Number of Employees	***Number of Establishments***	***Percentage***
1. Person	1155	68.67
2. Persons	416	24.73
3. Persons	49	3.0
4. Persons	19	1.13
5. Persons	19	1.13
6. Persons	5	
7. Persons	5	1.55
8. Persons	2	
9. Persons	12	
Total	1682	

Out of 1682 enterprises, 1155 i.e. 68.67 per cent are one-man enterprises which supports the argument that employment potential can in most cases be viewed on the basis of new (more) enterprises rather than on the basis of expansion of the existing enterprises. In this respect, none of the respondents had more than one firm i.e. no enterprise was or had another branch elsewhere. It is equally possible that most of the operators (who in most cases are the owners) started the activity because they had no other alternative in the formal wage market. As indicated in *Table 3.4* employees come in a poor second with 24.73 per cent and as pointed earlier, this figure owes a lot to the *matatus*. Enterprises with three employees formed 3 per cent of the universe while 4 and 5 employees per enterprise constituted 1.13 per cent each. Enterprises engaging 6 and above persons added a mere 1.55 per cent. However, the initial survey further revealed that 5 enterprises had trainees while 21 enterprises had both trainees and employees. In short then, 31.45 per cent of the enterprises had more than one person engaged.

From the foregoing, it emerges that the number of people engaged in the informal sector activities were 2474 giving an average of 1.53 persons per enterprise. However, in most enterprises there was one respondent at the time of the baseline survey and a different one at the time of administering the questionnaire. In addition, note that use of family labour is prevalent in the informal sector - in fact most of the businesses were a family affair. As regards *matatus*, one generally encountered a driver and a "turnboy", plus some other people who help in organising the commuters and in loading their luggage (They are refered to as *manambas* - these are actually the turnboys while the other "turnboys" are actually the conductors).

We can therefore conclude that matatus in general engage more than two people per vehicle even when overlooking the owner. In general, therefore, other than in trades like shoe-shining where one operator seems to be the norm, we can with little reservation double the number of people engaged in each enterprise which would push our mean figure to 2.94 persons per enterprise. Besides, underestimation of enterprises cannot be strictly ruled out. For instance, all informal sector activities which are illicit by their very nature e.g. brewing of local liquor, prostitution, drug trafficking etc., were neither enumerated nor sampled out. Nonetheless, given this low average figure, it is permissible to point out that potential for growth (in terms of employment resulting from division of labour within the firm) in the informal sector activities (i.e. those with nine persons and less) is generally low. Furthermore, these businesses are usually family affairs and as such the driving force behind them is not always the traditional profit-maximization motive. In addition to, and sometimes in place of profit-maximization, a host of other considerations are involved as will be shown elsewhere in the study.

Finally, something about the open air market in Nakuru as an important aspect of the informal sector in the town. This market is a typical market in an African setting. The study of this market is, however, very problematic in that it is virtually impossible to justifiably sample the actors in this market in that people involved are not always the same and besides nobody has any definite location i.e. definition of location depends on the commodity one is selling in a particular day. Secondly the operators are not likely to be residents of Nakuru town. Most of them come from the near-by suburbs while others come from as far as Naivasha (about 75 kilometres from Nakuru town). A third problem is that this market deals specifically with perishable agricultural commodities. This means that attendants acquire rights to use it on a daily basis. They therefore pay a market cess on a daily basis.

The market, though not as organised as the "municipal markets" which we included in both surveys generates both income and employment to both the operators and the Municipal Council. Interviews with the Market Inspector revealed that individuals are charged Kshs. 5 per day and that on average the market generates Kshs. 1750 per day to the Municipality, i.e. taking an average figure of number of people attending the market to be 350 per day. There are some bigger units which come to the market such as lorry owners and mini-lorries (pick-ups). On average two lorries per week come to the market yielding Kshs. 240 plus two pick-ups per week yielding Kshs. 80. There is also an additional Kshs. 120 from big market entrepreneurs who provide goods in bulk. This group generates Kshs. 440 per week giving a total monthly income of Kshs. 1760. The big operators are likely to engage 30 persons (if we assume a low average of three persons per vehicle though most of them usually engage four to five people, and accept an average of 4 vehicles plus those who supply the bulk of tomatoes, vegetables and potatoes).

This raises our employment figure to 380. The market generates a monthly income of Ksh. 55000. When we add the big operator's income of Kshs. 1760, we get a total figure of roughly Kshs. 56760 per month which yields K£ 34056 per annum to the Municipal treasury and consumes next to nothing from the Municipal Council. We note, in this respect, that the more "unorganised" the informal activities are in Nakuru the more likely that they will pay more in terms of "charges" per year. Thus a single attendant to the market pays Kshs. 1825 per year while a licensed kiosk operator pays Ksh. 200 per annum. This may be due to the volatility and lack of bargaining power of the "unorganised" activities.

Sample Survey: Frequency Discussion

Our sample size was 5.08 per cent of the universe. As earlier noted, it was systematically stratified and randomly selected on the basis of activity. Some of the major activities are thus accorded eminence because of their contribution (absolute number) to the universe. They will nonetheless be discussed together with their sectors though they are mentioned on their own where necessary in order to help substantiate peculiar observations.

As far as identification was concerned, it was observed that 11.76 per cent of our sample had formal names for their businesses. The rest had no formal names for their businesses which suggests the fragmentary nature of the businesses. It was however noted that 96.5 per cent had a permanent work place or location. This figure is perhaps a bit high given the common tendency to assume that informal sector enterprises are largely itinerant. Regarding postal address, 72.94 per cent reported having a postal address. This would imply that a definition of informal sector constructed on the basis of "No-postal-address" (as by the Central Bureau of Statistics in Kenya) would leave quite a sizeable proportion which inevitably is informal as will be revealed later in the analysis. However, in saying this we should keep in mind that virtually every respondent will claim to have a way and means of receiving his mail regardless of whether that "Box" serves him alone or the whole town. So in the real sense, the business may not own a postal address as it does not exist by any legal name. Rather the entrepreneur derives some utility from claiming that he has a post-office box. After all he can receive his mail from a friend's post office box!

Table 3.5.
Identification features

Type of Activity	No.	Enterprise Has Name	Enterprise Has Permanent Location	Enterprise Has Postal Address	Enterprise Operates Full Time	Entrepreneur Owns Tools	Nature of Equipment
Manufacturing							
Tailoring	3	0	3	2	3	3	3p
Shoe-Making	3	1	3	3	3	3	3p
Trade & Commerce							
Kiosks	19	0	19	16	19	15	19p
Fruit & Vgetable Selling	14	0	14	11	12	14	10p;4M
Charcoal selling	3	1	3	3	3	3	2P; 1Ø
Cloth selling	5	0	5	4	5	5	4P; 1Ø
Services Transportation (matatus)	13	0	13	5	13	13	5M; 7P; 1Ø
Others	25	8	22	18	24	24	22P; 3Ø
Total	85	10	82	62	82	80	70P; 9M 6Ø

P: Partly modern
M: Modern
Ø: Old

Informal sector activities are thought to be part-time (moonlighting business) i.e. they do not operate all the time. However, our findings suggest the contrary because 96.5 per cent of all the sample enterprises operated all the time. Regarding ownership of tools and equipment, 94.2 per cent of the respondents owned *all* the tools. Here we note that it was just in kiosks where we had the biggest number (4 out of 19) of respondents who did not own all the tools. Another interesting observation is that 82.35, 10.59 and 7.06 per cent of the respondents claimed that their equipments were partly modern, modern and old respectively in that order of descending importance. This may suggest that they are not new in the business, that is, their equipments have depreciated, or that even though not old in business, they expect to be there for some time. Alternatively and more likely, it may suggest that they did not have resources to buy new equipment and were thus relegated into the second-hand market where the formal sector disposes the near obsolete technology; an area which requires further examination. *Table 3.5* summarises the data discussed above.

A question that students of the formal-informal sector usually debate concerns the type of relationship that exists between the two sectors. We contend that the two are inter-dependent but assuming an input-output table, we would like to know the value of their technical coefficients so that we can safely say who is favoured by the terms of trade ensuing between them. To put it differently, is the relationship benign or exploitative? *Table 3.6* and *3.7* roughly depict the type of relationship that exists between the two sectors. For example at the macro-level, the informal sector purchased 47.76 per cent of their input requirements from the formal sector while the high income group (in this case usually synonymous with the formal sector) consumed 16.75 per cent of the informal sector goods and services. At the sub-sectoral level, the manufacturing sector is the worst hit with tailoring, in particular suffering the most. Tailoring acquires 80 per cent of inputs from the formal sector and sells nothing to the high-income group formal sector. Thus the bulk of the output 79.3 per cent is sold to the low-income group and area. Note too that their product is complementary and substitutable to what is sold by cloth-sellers and this is where the low-income group excels -consuming 75.4 per cent while the middle-income claims a 24.6 per cent share. As for cloth-sellers, their main supplier is the informal sector which accounts for 75.7 per cent of their total inputs. Cloth-selling is thus an informal sector activity per excellence.

In general, the informal sector consumes 44.10 per cent from itself in terms of inputs and sells 30.64 per cent to itself for final-use purposes. This shows a bit of symmetry as the figure is not as skewed as in the case of formal versus informal sectors.

Table 3.6
Sources of Informal Sector inputs

	No.	Formal	% of Total	Informal	%	House-hold	%
Manufacturing							
Tailoring	3	600	80.0	150	20.0	0	0
Shoe Making	3	1100	52.34	1000	47.66	0	0
Trade & Commerce							
Kiosks	19	2560	24.48	7105	67.96	790	7.56
Fruit & Vegetable selling	14	0	0	6060	77.89	1720	22.11
Charcoal Selling	3	0	0	17200	100.00	0	0
Cloth selling	5	3000	14.6	15600	75.7	2000	9.7
Services							
Transportation (Matatus)	13	95,300	78.6	26,000	21.4	0	0
Others	25	20,650	26.20	41076	52.12	17080	21.67
Total	85	123210.00	47.76	114191.00	44.10	21590.00	8.34

Table 3.7
Final use of Informal Sector output

	No.	HIGH Income Group	%	MEDIUM Income Group	%	LOW Income Group	%
Manufacturing							
Tailoring	3	0	0	600	20.7	2300	79.3
Shoe-making	3	0	0	520	82.54	110	17.46
Trade & Commerce							
Kiosks	13	740	4.96	6425	43.06	7755	51.98
Fruit & Vegetable selling	14	2942	22.81	5127	39.76	4827	37.43
Charcoal Selling	3	3600	15.0	4500	18.8	15900	66.3
Cloth selling	5	3000	8.2	9050	24.6	27750	75.4
Services							
Transportation (Matatus)	13	2500	29.7	4062	48.3	1842	21.9
Others	25	16735	23.02	23722.50	32.64	32226.50	44.34
Total	85	29517	16.75	54006.50	30.64	92710.50	52.61

But while the informal sector acquires 8.34 per cent of her inputs from the household sector, she sells 52.60 per cent of her output to the household (low-income) sector. It would then appear that the informal sector caters for the poor and medium-income groups (83.24 per cent of the output goes to these two groups). The most symmetrical category is that one of "other" which buys 26.20 and sells 23.02 per cent.

A look at consumption of transportation services is interesting. The high-income group which is expected to be owning personal means of transportation consumed 29.7 per cent of services while the middle-income group who are mainly the workers with no personal means of transportation consumed 48.3 per cent. The low income group does not travel much and if they do, they either walk or use other means of transportation (bicycles). However, an evaluation of acquisition of transportation inputs is heavily lopsided towards the formal sector with the household/low-income group contributing zero per cent. The informal sector contributes a smallish 21.4 per cent while the formal sector contributes the bulk of the inputs with a 78.6 per cent contribution. This is to be expected. The informal sector makes neither cars nor spare parts.

Fruit-and-vegetable selling together with charcoal selling are the only two sub-sectors which buy nothing from the formal sector and yet end up selling 22.81 and 15.0 per cent respectively to the high income group, a finding which can be explained by the fact that the two sub-sectors are rural-oriented and as such in-road by the formal sector is rather difficult. In contrast, tailoring and shoemaking buy 80.0 and 52.34 per cent respectively from the formal sector and sell nothing to the high-income group. In a sense, this more than over-compensates the charcoal-vegetables and fruit-selling deficit.

In summary, given that the informal sector buys 47.76, 44.10 and 8.34 per cent from formal, informal and household sectors respectively while selling 16.75, 30.64 and 52.60 per cent to high, medium and low (taking high-income as a proxy for formal sector and medium-income and household as proxies for informal sector) income groups respectively, we suggest that the relationship between the sectors definitely seems asymmetrical more so as regards the household sector. Here the informal sector enjoys better terms of trade. Other than that, the relationship between the formal and informal sectors seems exploitative especially if we restrict ourselves to the terms of trade between the informal sector and the high income group. Note however that the informal sector serves herself and the household sector to the tune of 83.25 per cent, while buying from herself to the tune of 52.44 per cent. However, we reiterate that she buys 47.76 per cent of her requirements from the formal sectors. Now, if we split the remaining 52.24 per cent, of the informal sector sales between the formal and the household sector, assuming the distribution is 50.50 (i.e 26.12 per sector), this would mean that the formal sector depends (73.88 i.e. 47.76 plus 26.12) crucially on the other two sectors and thus cannot survive without them. However, even if the formal sector is left together with the household sector, the two are less likely to survive than the informal sector together with the household sector. The latter two can easily survive and operate at 83.25 per cent of the output level assuming no substantative excess capacity at the present level of operation.

As regards personal information on the respondents, we found out that 82.35 per cent of our respondents were owners of the businesses they were managing with employees or employed managers occurring in bigger numbers in transportation where only 2 out of 13 of the respondents were owners, 43 out of 85 respondents were migrants who left their home districts in order to look for jobs but on failing to get formal employment got absorbed into the informal sector. However, some of the respondents (mostly women) migrated on marriage and work both as house wives and business entrepreneurs. Of all the respondents, only one of them resided in a high-income area while the majority (58.82 per cent) resided in middle-income area (of questionable status). We think they tend towards low-income) estates*. However, a good proportion (51.76 per cent) had their homes in low-income areas.

** The respondents could be living in "servants quarters* or shanties in middle-income areas. Therefore, their houses are not middle-income as such. However, it is unlikely that those living in low-income areas would be residing in high or medium-income houses.*

Though generally felt that the informal sector is transitory and a springboard into the formal sector, none of the respondents had changed his/her occupation in the six months preceding the survey. We note however that their present occupation has not always been their occupation with some months having been casual workers in the informal sector or household sector i.e. in primary production, houseboys, barwaiters or employed to perform various tasks in the informal sector. But once they got into their present occupations they have not gone out of it. Thus the mean number of years of operation is 3.75 years. What then drives them into the informal sector? *Table 3.8* presents the respondents' driving forces. Usually the respondents gave more than one reason.

Table 3.8
Selection and Evaluation criteria

CRITERIA/REASON FOR SELECTION	No. of Reasons	Evaluation of Job Potential	Availability of Inputs	Disposal of Output	Selection of Area
1. Past Acquaintances	13(12.38)	0	0	0	0
2. Observation	36(33.49)	16(18.82)	38(44.71)	0	0
3. Advice from	23(21.9)	17(20.0)	20	0	1
4. Appraisal	0	30(35.3)	0	0	0
5. Availability of space	10	0	0	0	22(25.8)
6. Demand Consideration	0	0	0	32(37.65)	44(51.76)
7. Trial and Error	0	22(25.88)	14	26(30.59)	0
8. Administration	0	0	0	0	5
9. Others	33(31.43)	0	13	27(31.76	13
Total	105	85	85	85	85

We note from *Table 3.8* that of all the respondents' 105 reasons for selection of the activity, 121.38 per cent had something to do with past acquittance with the activity either while attending a course related to this particular activity or having assisted, in one way or another, in a relative's business or having been employed in a similar activity. However, 38.49 per cent of the reasons were related to observations i.e. personal observation by the entrepreneur of the trends of the activity. This may be by way of observing *achievements* of the people they had seen in similar activities for some time, leading to the conclusion that the business was "profitable". 21.90 per cent of the reasons were related to advice from friends and/or relatives to get into the business. Needless to say, it is highly likely that most of the advisers had similar types of businesses in the town or elsewhere. 31.43 per cent of the reasons belonged to the category of 'others' considerations for going into the business. This category would include such reasons as lack of other alternative, having training in that particular type of activity, being in town with a relative and having failed to acquire a formal job etc. Others claimed that they wanted the independence of self-employment while still others were compelled into the particular business by the need to dispose farm surpluses. This is especially true of fruit and vegetable sellers. There were a few respondents who claimed to have inherited the businesses.

As far as the occupational potential is concerned, 35.30 per cent of respondents did some form of appraisal with the search for profit being the driving factor. Note, however, that 22 out of 85 respondents (25.88 per cent) decided to try their luck i.e. they did not in any way assess the potential of the activity. 20.0 per cent of the respondents were advised by friends and relatives while 18.82 per cent did some form of personal observations. We can therefore argue that about 74.12 per cent of the sample assessed the occupational potential of the particular activities they undertook.

How about the knowledge that their products would be demanded and sold at reasonable prices? The largest group of respondents (37.65 per cent) cited demand factors - mostly large population and lack of competition from the existing establishments at the time of setting up business. 30.59 per cent or the respondents started by experimenting while 31.76 per cent had made other considerations like centrality of the location and shortage of supply. Location of the business was mostly dictated by demand factors. Thus 51.76 per cent of the respondents reported taking demand into consideration, while availability of space attracted half this figure. Other considerations, such as being near the respondents' residential area and ability to have safe storage were factors behind selection of the location while heirs had little choice. 38 out of 85 respondents (44.71 per cent) had surveyed the market in connection with the availability of inputs. In summary then, the entrepreneurs possess a fair measure of business rationality.

Informal sector activities are thought to be prone to all types of problems, and this was confirmed by the survey. Both at the time of setting up the business and at the time of the survey, only two respondents reported that they never experienced any problem: These are likely to be the heirs. However, and rather astonishingly, insecurity of land tenure both now and then was cited only three and two times respectively out of 308 and 244 problems experienced now and at the beginning. Transportation too has not been a major bottleneck occurring 9 out of 308 reasons at the initial period and 10 out of 244 reasons at the time of the survey. Capital emerged as the main constraint. 72 out of 308 problems (23.38 per cent) at the time of commencement and 24.59 per cent of the problems at the time of the survey were related to capital. Lack of demand also emerged as a constant constraint constituting 16.39 per cent of the problems at the time of the study compared with 20.12 per cent at the time of initiation.

Increased realisation by the government that the informal sector plays a positive role is reflected by the fall in administrative harassment from 7.8 per cent to 3.7 per cent between the time of setting up and the time of the survey. An almost double figure indicating excessive competition as a constraint between the two periods seems to indicate two underlying features. First, some sort of appraisal must have been initially undertaken resulting in the conclusion that competition could not have deterred optimal or near optimal performance and second, horizontal growth has taken place at the expense of vertical growth thus leading to lowered consideration for profitability. Thus the need to be a "businessman" i.e. to be self-employed plus lack of alternative employment due to low employment growth rates both in the formal and informal sectors in the wake of rapid population growth and with it a fast growing labour force, has led to increased number of enterprises as opposed to number of people engaged in the different firms.

The "others" constraint constituted 7.14 per cent of the initial problems and 8.20 per cent of the present problems. This composite category was dominated by factors related to nature, namely rain, sunshine and dust. Some respondents cited theft and storage as other constituent problems of "others". This underlies the fact that a good portion of the businesses are carried out in the open i.e. from no structures at all. This is especially true of those suffering from natural problems.

As far as sources of investment funds are concerned, 67 per cent of the respondents financed their businesses from their own savings. This implies that the initial capital investment is generally low since these people are generally poor. It may equally reflect lack of knowledge or ignorance as far as sources of credit facilities are concerned. However, the extent of initial self-financing may be as a result of lack of security to offer as collateral. Slightly below 6 per cent of our respondents had loans from formal institutions compared to 16.5 per cent who had acquired loans from friends and relatives. Note here that some of the respondents could be deterred from borrowing by the traditional fear of the unknown. Thus they would have to lose their formal securities even if they had securities, should business not perform successfully as anticipated. They, therefore would prefer to borrow, if borrow they must, from "informal" friends, rather than formal institutions. In this connection 8 per cent of the respondents had augmented their own savings with borrowed funds from acquittances.

Out of the sample, 78.82 per cent of the respondents had dependents or other members of their families staying with them and only 44.70 of them had other income earners which implies that 55.30 per cent of the respondents had to feed their dependents solely and entirely. This might account for the low percentage of those who remitted something outside the town - 10.59 per cent remitted something i.e. income outside town. The mean remittance was roughly Kshs 74 per month which constitutes 0.06 per cent of the mean income figure in transportation (which has the lowest mean) and 0.03 per cent of the sample mean. This mean of Kshs 8316* is the revenue mean. It is therefore true that the informal sector actors find themselves marginal and thus unable to remit funds outside the town. In addition a belief exists that it is those with formal jobs who should assist those who are not in the towns. It is also possible that most self-employed persons do not view themselves as being employed and therefore have little reason, if any, to remit money outside the town. How about contribution to the Municipality then?

94.12 percent of the respondents contended that they contributed towards the Municipality by providing essential services and hiring labour. Slightly more than half (50.59 per cent) felt that they utilized the Council's services in their businesses. And of all the enterprises, 98.82 paid some kind of levy to the Municipal treasury thus contributing to the much needed revenue by the Municipal Council. The Municipality collects Kshs. 46 per month from each enterprise which amounts to K£ 46423 per annum, excluding the market which earns the council K£ 34,056 for a total of K£ 80,479. This is not a small contribution from the informal sector, given for example the 1982 Municipal revenue of K£ 2933,409.

Not surprisingly, 65 per cent of our respondents felt that the growth of the informal sector had some effect on their performance. Most of them noted that this had the adverse effects of reducing the number of customers and thereby adversely affecting the level of their incomes.

**The legal minimum wage in the formal sector in Nakuru is Kshs. 482 per month.*

Some of the respondents who acknowledged the increase in the informal sector enterprises welcomed their debut arguing that they increased competition leading to efficiency; besides, some of the informal activities depend on the others for the supply of their inputs and would therefore stand to gain from lower prices resulting from increased competition. This view notwithstanding, it seems that increased number of enterprises reinforces the earlier observation of "excessive competition" at the time of the survey, which in turn seems to reinforce the popular view of "ease of entry" into the informal sector industry.

Having looked at non-functional relationships, we now turn to the functional relationships. In looking at these relationships, we once again urge the reader to keep in mind the data shortcomings mentioned earlier.

Sample Survey: Functional Relationships

The behavior of the informal sector both in terms of employment and/or income generation is influenced by a number of factors both economic and non-economic - in fact social factors seem to be more prevalent in explaining the observed behavior. In other words the informal sector, though to some extent behaving according to the expected economic norms, largely deviates from behavioral characteristics of the factors prevailing over economically quantifiable factors. While at first sight it might appear difficult to grasp the "informal sector rationable", it is not completely so on a second glance in that what is in the books is generally for societies or sectors "in the light" as it were, while the informal sector is generally an "underground" economy.

A study of this economy at this stage would therefore appear a pioneering work especially if its dynamics are to be captured. Government policies both monetary and fiscal may find way into this sector not directly but rather indirectly. Thus factors such as rate of interest and income tax manipulations, eventually find their effect in the informal sector. But how and when? While such variables have direct and in most cases strong and quantifiable impacts (may be after a lag) on the formal economy, it is difficult to ascertain their likely effect on the informal sector. However, we suspect that the effects of such measures will most probably end up being spill-overs to this sector. What we are therefore pointing out is that while, for example, the rate of interest may be an important consideration in deciding whether to invest or not in the formal sector, it is not an important factor in determining investments undertaken in the subterranean economy. But one thing we are sure of is that while investment leads to employment in the formal sector it does so as well in the disadvantaged sector. The only question is how much employment does it create? In other words, what is the marginal impact of an extra shilling spent on investment on employment? From our study, changes in employment as a function of changes in investment among other factors yields the following results.

$$X_2 = -0.0117 + 0.025X_6 + 0.0001X_{12}$$
$$(0.911) \quad (5.982)$$

$R^2 = 0.308$

DF = 82

Where

X_2 is changes in employment

X_6 is number of years of fomal education

X_{12} is changes in investment

DF is degree of freedom

The figures in the parentheses are t-values.

We note that a change in investment is an important variable and in fact it is the only variable which is statistically significant from zero in determining changes in employment. We note that the fit ($R^2 = 0.308$ is rather poor which suggests a mispecification of the function, a problem we must contend with given what we as pointed out earlier on, namely that performances in the informal sector are perhaps best explained by social factors. We further note that though a positive relationship between levels of formal education and changes in employment i.e. labour absorption, exists, education of the investor is not an important variable in explaining informal sector employment. However, we know that education is an important factor (human capital component) in increasing ones probability towards formal sector job acquisition. Stated differently, productivity is seen to increase with levels of formal education and training (maybe on the job and/or experience) in the formal sector and hence employment would increase with these two.

As far as informal sector is concerned, level of experience in the job market has a negative impact i.e. employment as a function of levels of experience among other variables yields a negative coefficient for the parameter estimate. However, the value of the parameter estimate is not statistically different from zero at 95 per cent level of confidence;

$$X_1 = 0.2992 + 0.0187X_3 - 0.0163X_4 + 0.0532X_6 + 2.1698X_7$$
$$(1.636) \quad (-0.479) \quad (1.218) \quad (5.692).$$

$R^2 = 0.304$

DF = 80

X_1 : employment (number) in the informal sector
X_3 : Age in years of the respondent
X_4 : Experience in the business in years
X_6 : Level of formal education in years
X_7 : Level of informal education i.e. a dummy variable which takes a value of 1 if the respondents had any other training and zero in all other cases.

(DF and the figures in the parentheses are as defined earlier and will be defined in the same way throughout this study).

Here, we suspect serious multicollinearity between age and experience leading to the negative impact of the parameter estimate for experience because from the Correlation Matrix (*Appendix 2*), the correlation between employment and level of experience ($rX_1X_4 = 0.033$) is positive. We note that age and level of formal education have the expected signs (positive) though statistically insignificant. Though not unexpected, the level of informal sector training is an important factor in influencing employment i.e. it shifts the employment function by 2.17 persons in an employment education space. We would expect that as one gets training in his/her field of operation, the more he/she is likely to require an assistant thereby increasing employment. The only fear is that our function explains just 31 per cent of the variation. We suspect that social factors need to be incorporated so as to capture the part of the unexplained variation.

Change in employment can also be seen as a function of experience and changes in revenue i.e. more capital will require more labour to complement it. We at the same time expect changes in employment to be affected by the level of formal education i.e. both in the formal and informal sector. Whereas this is true from our findings, the non-significance of the level of formal education leads to the conclusion that formal education is not necessary in acquiring informal sector employment; after all those with remarkable levels are already engaged in the formal sector. This observation is supported by the fact that the mean for level of formal education is 7.45 years. These are therefore primary school leavers or drop-outs who though aspiring to whitecollar jobs find chances completely remote because formal jobs require higher education than they have. The relationship between these variables is presented below.

$$X_{2} = -0.0250 + \underset{(.593)}{0.0191X} + \underset{(3.701)}{0.0001X_{13}}$$

$R^2 = 0.378$

DF = 82

X_{13} : changes in revenue and the other figures are as defined earlier on. Income/output is a function of labour and capital. Using a Cobb-Douglas formulation, we can say that capital - labour ratio is a function of average product of labour so that

$$\log (K/L) = 6.4059 + 0.2319 \ \text{Log}\ (Y/L)$$
(3.712)

r = 0.38
DF = 83
K : Capital proxied by investment
L: Labour = employment
Y: Income/output proxied by revenue

The constant elasticity of substitution for labour is 0.23. This means that for every unit of production, capital and labour will be substituted at 77.23. This observation has far reaching conclusions in that the informal sector is capital intensive. In Kenya, (physical or machinery) capital is exempted from many duties and taxes. Furthermore, depreciation allowances tend to make capital more attractive compared to labour such that it is always profitable to operate with relatively new capital and dispose the relatively old capital elsewhere (recall that 82.35 per cent of our respondents claimed that their tools and equipment were partly modern). This "elsewhere" is most likely to be informal sector by definition. The end-use cost of these machines and equipments (capital) is less likely to be expensive compared to new ones given that what matters in production is relative factor prices; the price of capital of necessity is cheaper than the cost of labour in view of the low labour productivity resulting from the low levels of education and training which culminates in the observed behaviour. In fact, the average product of labour is a significant determinant of the capital-labour ratio.

Low labour component per unit of output can equally explain the low mean employment figure of 1.5 not withstanding the size of the establishments. This might as well explain the apparent paradox of capital intensity discussed earlier in the chapter and below.

A similar formulation on a linear form, however, yields a slightly different result.

$$X_{10} = 5439.57 + \underset{(4.96)}{0.0726X_8} + \underset{(1.43)}{847.87X_1}$$

$R = 0.33$

$DF = 82$

The outcome of the above equation reinforces the earlier observations that capital is the single most important variable in determining output and that labour is of secondary importance. We emphasize that care should be taken in interpreting the parameter estimates of the factors because the likely multicolinearity between employment and investment is likely to distort them. However, from *Appendix 2*, the correlation coefficient between the two is not high ($r\,x_1x_8 = 0.43$). We need to note further the poor correlation between income and employment given by $rx_1x_{10} = 0.36$ compared with $rx_8\,x_{10} = 0.56\,rx_1\,x_{10}$. We can safely conclude therefore, that income/output is to a high extent determined by the capital component. This is contrary to many findings or feelings that the informal sector is a labour using sector and that capital-labour ratio is very low thereby leading to low average products of labour. Relative factor shares are dependent on the production techniques which are in turn dependent on the type of technology prevailing at a particular point in time and which together with other factors (mostly national development goals pitted against the constraints) determine the relative factor prices. In this case, average product of labour is likely to be high as a result of high capital productivity.

Recalling the assertion that neither investment nor income is purely a function of economic variables, an obviously expected relationship was that average wage rate is a function of average investment; this expectation is not realisable from our data.

$$X_{15} = 5089.14 + \underset{(3.071)}{0.0882X_{14}}$$

$R^2 = 0.319$

$DF = 83$

X_{15}: average wage rate in Kshs.
X_{14}: Capital-labour ratio

Though statistically significant, the variation explained is very low. This tells us that we need actually to restate the model. This fact is further supported by the type of responses we got from our respondents as to why they chose the particular type of activity; none had done any appraisal (*Table 3.8 column 1*). When queried further on the determination of the demand for their products, about 37.65 per cent cited demand considerations. No wonder our functions are only explaining roughly 33 per cent of the variations.

A composite function relating incomes to levels of investments, levels of education both formal and informal and finally labour component i.e. a modification of the linear Cobb-Douglas formulation so as to incorporate the human capital component had the following results:

$$X_{10} = 6108.11 + \underset{(4.36)}{0.0698X_8} - \underset{(-.46)}{107.22X_6} - \underset{(-.43)}{1196.79X_7} + \underset{(1.40)}{1069.35X_1}$$

$R^2 = 0.332$

DF $= 80$

The equation has the level of investment as the only statistically important parameter and the expected positive correlation. Otherwise a serious multicolinearity problem is underlined by the negative sign of the parameter estimate of the measure of human capital namely informal levels of education which displays a positive correlation coefficient from the correlation matrix given by $rx_6x_{10} = 0.015$. We note that income falls with increases in the level of formal education. This may be due to the fact that higher levels of education leads to poor interaction between the enterpreneur and the consumers resulting in communication breakdown. In other words, the entrepreneur is too aloof to intermingle and hence does not know the needs of his customers and thus a negative association between increased education and income comes to exist. The other possibility, which is much more likely at macro-level, is that high levels of formal education leads to shifts from informal to formal sector or at the traditional versus modern sector consideration, leads to migration i.e. at the national level, it leads to rural-urban migration. Though raising the average product of labour in the sector of out-migration in the short-run, in the long-run, it leads to under-development in the affected areas because the educated tend to be young, energetic and innovative.

Conclusion

We can therefore tentatively conclude that growth in the informal sector is mainly of the mushrooming type where the number of firms increase and expand horizontally while vertical growth and integration tends to remain stagnated. In other words, growth of the informal sector is largely exogenous to the industry and thus variable instruments to influence their growth are hard to enumerate.

As regards technology, though of intermediate type, the informal sector appears to be capital intensive - a fact which is dependent on the formal-informal sector relationship. Besides, to the extent that the relationship between formal and informal sector is exploitative, the domination and some characteristics of the former are likely to have been pushed into this latter economy.

The single important factor in explaining performance of the informal sector both in terms of income and employment is the level of investment. And as noted, generally, migrants are the well-educated who eventually lead to falling incomes in the region of out-migration i.e. vent for surplus best explains the observed behaviour.

We note further that factors that affect the growth and hence the dynamics of the informal sector like the respondents, background,. possibility of acquiring a formal job e.t.c., were omitted in this (functional) analysis and should in future be incorporated.

Given the foregoing, we expect government policies both monetary and fiscal to affect the informal sector indirectly i.e.implicitly the government has handy variables as far as the informal sector is concerned but the problem is how long it would take for the policy instruments to be effective.

In summary, we can say that the determinants of the growth of the informal sector are largely exogenous. The type of technology used is a curious mixture of autonomy and dependence. The performance of this sector therefore is largely dependent on the general state of the technology, the socio-economic background of the entrepreneurs and the state of health and requirements of the formal sector.

CHAPTER FOUR

SUMMARY OF CONCLUSIONS

From this study, a number of conclusions can be arrived at. Here we present only the main conclusion with the hope that other minor findings have been grasped from the study.

1. A major contention by many scholars and researchers is that the informal sector activities are net-users of municipal facilities. From our study, we found out that almost all (98.82 per cent of sampled enterprises) informal sector activities pay some kind of levy to the municipal council while only 50.59 per cent reported using municipal facilities at their places of work. Though the data should be interpreted with caution, it is evident that as far as Nakuru town is concerned, the informal sector activities are net producers of services i.e. revenue to the Municipal kit. Furthermore, the data seems to permit the conclusion that informal sector activities in Nakuru, though "young" in years have become somewhat formalized in their relation to the Municipal government.

2. The contribution of the informal sector towards employment can be seen in the light of the growth potential of this sector. The growth is in turn dependent to a high degree, on social factors like population growth. We note for example that the school enrolment rate at primary school level out-strips the growth of secondary schools. This results in primary school drop-out who can only eke

out a living from the informal sector given their low level of education. Given this situation the fate of the informal sector would look potentially explosive. In other words, increased emergence of informal sector activities is a logical expectation. Whether this situation translates itself into urban informal sector is of course dependent on a lot of factors some of which are social.

3. In the country the rate of growth of the formal sector in 1984 is expected to be the same as that of 1983 which analogously implies that the informal sector must continue playing the role it has played in the recent past. According to the Kenyan government, this means that the urban informal sector must generate 11,000 or more employment opportunities per year if the employment equation is to remain reasonably stable.

4. In Nakuru, the importance of the informal sector is emphasised when we recall that Nakuru is a capital town of an agriculturally rich region. If the region follows the national trends, and there is no reason to expect otherwise, the number of formally educated persons who, on the other hand, shun rural agricultural activities will increase. This means that rural-to-urban migration is likely to continue at an unabated rate. The majority of these immigrants will in all probability, end up in the informal sector activities in Nakuru.

5. The rate of growth of income (revenue) is appreciably high in this sector. The average number of years of operation is 3.75 and to the extent that changes in revenue during this period is Kshs. 2595, we get a mean annual growth rate in income of 12.10 per cent which is quite commendable. During the same period, the mean employment figure grew at a rate of five per cent which gives a net per capital growth rate of slightly morethan seven per cent. This is far much higher than the projected growth rate of GDP of roughly four per cent in 1984 and a similar figure for the population growth rate, all leading to a per capital growth rate of nearly zero per cent.

6. The future of the informal sector can be seen in three dimensions namely the attitude of the Municipal government, the continued growth of the informal sector and the sophistication of the town's economy.

7. Members of the Municipal Council of Nakuru had mixed feelings about the informal sector. Most of the interviewees in the Municipal government underscored the importance of the informal sector in providing employment to the 'unemployables' and the consequent generation of revenue. In the opinion of this group, therefore, there is nothing to stop the informal sector from growing. On the other hand, the "enforcement" personnel and the health department felt that these operators littered the town, but there is nothing wrong in having them. The licensing department noted that there was continued pressure from the formal sector to reduce if not to ban informal sector activities because the latter were driving the former out of business. This outcry has nevertheless, not reduced the number of licences issued or renewed each year. If anything the licences have continued to increase. All in all, from the Municipal Council's point of view, the informal sector has a role to play and hence its future is not bleak.

8. The sophistication of the town economy is partly a function of time i.e. it is likely to be positively correlated with time. We have argued elsewhere in this report that there is likely to be a positive correlation between the size of the informal sector and the sophistication of the economy which implies that time can be used as an instrumental variable in explaining the growth (in size) of the informal sector.

9. In summary, the informal sector has a role to play both now and in the future, a role which the Nakuru Municipal Council, accepts as legitimate.

10. In terms of future research, we emphasize that a model needs to be developed which would incorporate socio-political factors if the dynamics of the informal sector are to be fully understood. Furthermore there is a need to disagregate the informal sector on the basis of capital-intensive and labour-intensive activities. For example, we can have activities such as construction, and *matatu* in the capital-intensive category and the rest like fruit and vegetable-selling in the labour-intensive category. The demarcating line can be drawn on the basis of mean capital-labour ratio. In this study, for example, activities with more than Kshs. 8048 per person can be treated as being capital intensive.

11. A comprehensive model and study of the growth of the informal sector needs time series analysis which should focus on the number of the firms per year over time. Furthermore, for a strong understanding of the linkages, an in-depth study is required to establish who produces what and who are the final-use consumers. This would help in drawing non-pejorative conclusions as regards the dependence between the formal and informal sectors.

12. Finally we see the need in the near future, to look at just a single issue in the Nakuru informal sector. For example, it is generally felt that the main constraint in the growth of the informal sector activities is lack of capital and hence the obvious prescription is provision of credit facilities. If this prescription is to be taken seriously, such that its effects on the success of the activity can be identified, research into credit needs and the intended uses for the available credit is a pre-requisite. It is by no means obvious that all the business activities can profitably absorb more capital.

APPENDIX I

INFORMAL SECTOR TYPES IN NAKURU

BASELINE SURVEY.

TYPES	TOTALS
1. Kiosks	385
2. Vegetable and Fruit Sellers	308
3. Cloth Selling	97
4. Transportation (Matatu)	272
5. Shoemakers (Repairers)	59
6. Tailors (Repairers)	60
7. Charcoal Dealers	58
8. Open Air Garages	43
9. Furniture/Carpentry	38
10. Shoe-Shining	37

11.	Rickshaw Pullers	31
12.	Fish Mongers	29
13.	Watch Repairers	27
14.	General Hawkers	23
15.	Curios	22
16.	Trade and Commerce	22
17.	Chicken Sellers	13
18.	Tobacco Sellers	13
19.	Bicycles Repairers	12
20.	Eating Houses	10
21.	Utensils	8
22.	Sweater Weavers	8
23.	Tinsmith	8
24.	Miraa Dealers	7
25.	Sack Dealers	67
26.	Wholesalers	67
27.	Drinks and Buns	6
28.	Newspaper Vendors	5

29. Metal Works (Jiko makers)	5
30. Posho Mills	5
31. Groundnut Sellers	5
32. Photographers	5
33. Barbers	4
34. Radio Repairers	4
35. Sandal Sellers	4
36. Car Washing	3
37. Book Sellers	3
38. Dhobi	3
39. Mandazi Sellers	3
40. Photo Framers	3
41. Mattress Making	3
42. Blacksmith	3
43. Sign Writers	3
44. Padlock Repairers	3
45. Wood Curving	2
46. Hairdressing	2

47.	Potato Selling	2
48.	Cushion Makers	2
49.	Bakers	2
50.	Metal Box Makers	2
51.	Green Grocery	2
52.	Plumbers	2
53.	Cereal Stores	2
54.	Soda Selling	2
55.	Ice Cream Selling	2
	Total	**1682**

APPENDIX II

CORRELATION MATRIX

	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8	X_9	X_{10}	X_{11}	X_{12}	X_{13}	X_{14}
X_1	1.000													
X_2	.801	1.000												
X_3	.121	.035	1.000											
X_4	.033	.089	.181	1.000										
X_5	.106	.057	.179	-.024	1.000									
X_6	.064	.005	-.373	-.236	.026	1.000								
X_7	.529	.505	.020	.147	.052	-.018	1.000							
X_8	.428	.381	.159	.125	.127	-.004	-.066	1.000						
X_9	.190	-.058	.228	-.068	.253	.167	-.105	.641	1.000					
X_{10}	.356	.236	.176	.129	.122	-.032	.015	.558	.512	1.000				
X_{11}	.123	-.040	.191	-.045	.173	.074	-.146	.328	.545	.734	1.000			
X_{12}	.401	.545	.019	.219	-.043	-.143	.000	.775	.012	.306	-.022	1.000		
X_{13}	.308	.373	-.029	.237	-.076	-.147	.224	.294	-.072	.322	-.406	.442	1.000	
X_{14}	.110	-.111	.210	-.082	.278	.175	-.140	.590	.977	.506	.565	-.035	-.102	1.000

Definition of Variables

X_1: Employment in numbers at time of survey

x_2: Change in employment in numbers (Between initiation and time of survey)

X_3: Age of the respondent in years

X_4: Experience in the business in years

X_5: Number of hours worked in a day

X_6: Number of years of formal education

X_7: Dummy variable for informal sector training

X_8: Present Investment in Kshs.

X_9: Initial Investment in Kshs.

X_{10}: Present Revenue in Kshs.

X_{11}: Initial Revenue in Kshs.

X_{12}: Change in Investment in Ksh. (X_8-X_9)

X_{13}: Change in Revenue in Kshs. $(X_{10}-X_{11})$

X_{14}: Capital - Labour ratio $(X_{10}+X_1)$

APPENDIX III

CASE STUDIES

1. J.J.H. MOTORS

The enterprise J.J.H. Motors is an open air garage owned by three partners. The name of the enterprise was derived from the first initials of the partners. At the time of the survey only one of the partners was available for interviewing but this story is fairly typical.

The partner, H.K. Kimani was born in 1949 in a small town called Ruiru which is approximately 200 kilometres from Nakuru. He went to school at the age of twelve and studied up to standard seven. He failed his primary school leaving exam and that was the end of his education. His parents were very poor and he had to work on their neighbours' farms in order to earn extra income for the family. After working as an agricultural labourer for five years he moved to another small town (Limuru) which is about 30 kilometres from Ruiru. In Limuru he worked in a butchery for two years. In 1976, he moved to Nakuru to look for a job. He could not find a job. Consequently he became a mechanical welding apprentice in an open air garage and trained for two years. After the training he once again started looking for a job but this time not in the formal sector. Rather he preferred to look for a job in the open air garages. ("Jua Kali" garages, which literally means "hot sun" garages). He secured a job in one of the garages and it was during this time when he met his present partners. When they met, they decided to save in order to establish a Jua Kali garage owned by the three of them.

After about two years of saving they found an open air space but to their surprise the space was owned by someone. The owner of the space agreed to rent it for Kshs 1,000 per month which they considered too much but having no choice they agreed to pay the rent. The first step after acquiring the work space was to fence it which they did using rough wood off-cuts. This cost then about Kshs 1,200 which they could ill-afford on top of the rent.

Mr. Kimani estimates that the initial investment was about Kshs 6,500. This included the cost of tools such as the welding machine and spraying machine. Today he estimates that the investment is worth about Kshs 20,000 after about four years of operation. Originally they had no employees apart from 4 years spanner boys who were essentially trainees. Today, the business employs 14 people. This number includes 6 trainees who pay "nothing" for their training. Kimani estimates that originally they make about Kshs 25 - Kshs 100 per day. They also own all the tools on top of that.

Kimani attributes their "Success" to good management as a result of good understanding between the partners. They are not entirely happy though. For one thing they feel insecure renting somebody's else plot at what they consider exorbitant rent. For this reason they have asked the Municipal Council to give them a plot of their own. And why not, asks Kimani? "After all, we pay to the County an average of Kshs 70 per month for water, electricity etc. In addition we pay tax to the central government."

Note: The expansion of the business could also be attributed to availability of spare parts, Kimani's and the partners' original training as apprentices, the relatively large initial investments and low competition in the area of the town where the business is situated. We noted too that they have tried to specialize in servicing Japanese cars though they panel beat other types of car as well.

2. NAKURU JOINERY WORKSHOP

The enterprise is owned by Mr. Christopher Mwai. Mr. Mwai was born in 1949 at a place called Nanyuki which is approximately 100 kilometres from Nakuru. He went to school up to standard seven and then abruptly left school, this time not due to lack of school fees or examination failure, but simply because he had had enough of schooling. After staying at home for two years he came to Nakuru to look for employment. He stayed with a brother while looking for a job. After about a year and no job, he was influenced by his brother to join a friends workshop at a trainee carpenter. The training took a year and he paid 500/- shillings for the training, which was no mean sun under the circumstances. In the meantime he was getting odd jobs here and there which enabled him to save a small amount of cash. After saving about Kshs 2,000 he decided to open his own workshop.

Mr. Mwai's initial investment of Kshs 2,000 enabled him to initially employ two people and rent a small workshop for Kshs 350 per month. He has been working in this workshop for the last eight years. Over the eight years period his business has expanded to the extent that he is now the proud owner of an old vehicle worth Kshs 15,000 with which he transports the finished products and the raw-tools, some of which use electricity, which he estimates are worth Kshs 230,000. In all he estimates that his current total investment is about Kshs 75,000. With the increased production he has now rented one more workshop for which he pays another Kshs 350 per month. One of the workshops is stone-built. The other is made of timber. He obtains all his raw materials and tools from formal establishments in town.

Mr. Mwai now employs ten people. In addition to the employees he has four children of his own. The family lives in rented house for which he pays Kshs 350 per month. Mr. Mwai's workers are all primary school dropouts but they know the work. They have to. After all he pays them per product and he makes sure the product is of good quality. He estimates that about 2/3 of his products are sold to relatively high income people. The rest is evenly distributed between medium and low income groups. Though Mr. Mwai will not reveal his monthly income he estimates that from the initial weekly production worth Kshs 2,000 his current weekly production is worth aboutKshs 6,000.

In spite of Mr. Mwai's apparent success he comments that his business is not expanding fast enough. He attributes this to excessive competition especially from older bigger and better established workshops. The biggest order he has ever received was for the supply of twenty beds to a lodging house. Otherwise he frequently tenders to supply schools with furniture but according to him the tenders are invariably won by bigger traders who are able to sell their furniture at a lower price. In order to beat the competition and stay in business he sometimes rents his tools to other neighbouring workshops whose tools are not as modern as his.

Mr. Mwai's future plans include trying to obtain a loan in order to expand his business further. He would also like to get a show-room in the town centre to enable him to store more finished products, and attract more customers. At present, however, he cannot afford the high rent for a show-room at the city centre.

Like J.J.H. Motors, Mr. Mwai feels that he is making important contribution to the municipality. He is quick to point out that he pays Kshs 820 per year in license plus the monthly payments for water (Kshs 30) and electricity (Kshs 100). All this in addition to employing ten people, looking after four children and remitting about Kshs 300 per month to relatives outside town. "What else could they ask out of one" What else indeed?

Note: The expansion of the business must be attributed to several factors. One, the business is situated in a part of the town where there is demand for the finished products. Two, Mr. Mwai's training. Three, the relatively large initial investment which enabled him to obtain tools. Four, assistance from members of his family. In this connection we note that his father can be described as a "middle peasant". The father owns twenty acres of land, ten cows, and thirty goats.

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