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Urban planning and small-scale enterprises in Nairobi, Kenya

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Abstract

The important role played by the informal sector in most economies in less developed countries is now recognized by governments and international agencies. However, enterprises in the informal sector continue to encounter various legal barriers that prevent them from attaining their full potential. This paper examines the performance of small-scale enterprises in three neighborhoods in Nairobi, Kenya. The study reveals that government intervention and donor funds are essential to enable small-scale enterprises to attain their full potential. However, government and donor agencies provide more assistance to enterprises located in neighborhoods that have security of tenure and open space available for development. The study also demonstrates that with the installation of basic infrastructure, and the elimination of both rigid regulations and the threat of demolition, the enterprises perform more efficiently and new enterprises come up diversifying neighborhood economies and creating job opportunities. This highlights the need for urban planners to allocate land and provide basic infrastructure for the informal sector. Government intervention and funds from donor agencies are, therefore, crucial in enhancing the performance of small-scale enterprises and creating jobs.

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Introduction

The eradication of poverty requires policies that create jobs and that have equal and universal access to economic opportunities. To provide opportunities for productive employment and

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private investment, governments should help enterprises in the informal sector to become more productive. This can be achieved by upgrading and maintaining the infrastructure, which are important growth factors in the generation of jobs, income and efficiency in various sectors of the economy including enterprises in the informal sector (UNCHS, 1998). Under the enabling approach government policy makers are expected to develop infrastructure, provide technical information, facilitate linkages between large and small enterprises, promote networking and develop appropriate laws and regulation (Bigsten, Peter Kimuyu, & Karl Lundvall, 1999). This paper attempts to analyze the performance of small-scale enterprises located in three different neighborhoods in Nairobi. The paper focuses on factors that help enterprises become more efficient and examines the role of government policy makers in eliminating legal barriers encountered by the sector.

Although a significant body of literature currently exists which focuses on the informal sector, there appears to be no consensus about what the term actually denotes. The United Nations Center for Human Settlements (UNCHS) and the International Labour Office (ILO) define the informal sector by comparing it to the formal sector, whereby, unlike the latter, the informal sector is easy to enter, the resources are indigenous, the scale of operation is small, the enterprise is family owned, the technology is labor intensive, skills are acquired outside the formal education system and the market is unregulated and competitive (UNCHS & ILO, 1995). According to Mead and Morrisson (1996), the informal sector is characterized by enterprises that are small in size and not officially registered. This paper will utilize the definition provided by the Kenyan government:

The informal sector, locally referred to as “*Jua Kali*” (hot sun because proprietors work in the open) sector, covers all semi-organized and unregulated activities largely undertaken by the self-employed or those who employ a few workers. It excludes all farming and pastoralist activities. Informal sector activities are carried out by artisans, traders and other operators under a variety of work sites such as temporary structures, markets, both developed and undeveloped plots, residential premises or street pavements. The sector uses simple technology and its main legal feature is that the businesses are not registered with the Registrar of Companies. Further, operators of the informal sector may or may not have licenses from relevant authorities for carrying out businesses (GOK, 1998: 65).

Recognizing the important role played by the sector in the country’s economy, in 1987 the Kenyan government began using the term “small-scale enterprises” instead of informal sector in government statistics (Livingstone, 1991). Henceforth, the study will use the term small-scale enterprises instead of informal sector to refer to the enterprises in Nairobi.

A significant body of literature currently exists which focuses on the role of the informal sector in Kenyan development. These studies cover a wide range of analytical issues and concerns which include the role of women and men in the sector, evaluation of the sector in rural and urban areas, technological capability of the sector, structure and organization of the sector, the role of the sector in the economy, and change and development of the sector (Livingstone, 1991; Mitullah, 1991; Widner, 1991; King, 1996a,b; Aspaas, 1998; Daniels, 1999; Kabecha, 1999). Few, if any, of these studies, however, have analyzed the role of the government and donor agencies on the performance of enterprises. More important, they have not compared the benefits and drawbacks encountered by proprietors located in different parts of the same city.

This study explores the operation of small-scale enterprises in three different residential areas in Nairobi. The three neighborhoods were selected to represent enterprises in the upper, middle, and low-income residential areas in the city. The three residential areas under study are Parklands, Olympic and Mathare 4A. Parklands is a high-income neighborhood, Olympic is a middle-income residential area, and Mathare 4A is a low-income neighborhood.

To analyze the performance of small-scale enterprises in the three neighborhoods, the study examines factors that enhance the performance of the enterprises and barriers encountered by the proprietors. To do so, the study asks the following questions relevant to the operation of small-scale enterprises in Nairobi:

- First, how do these enterprises perform in different residential areas? Do enterprises in the three neighborhoods earn profit?
- Second, what problems do proprietors encounter in different residential areas? Are the problems similar in the three neighborhoods or do they differ? Do enterprises in the three neighborhoods encounter similar problems?
- Third, what roles do the government and donor agencies play in facilitating the efforts of proprietors in the three residential areas, and how do they respond to the needs of proprietors in the three neighborhoods?

This paper begins with a discussion about the informal sector in Kenya and other less developed countries (LDCs) in Section 2. Section 3 gives a description of the data and methods. Section 4 discusses the results and findings of the study. Section 5 compares results from the three neighborhoods, and this is followed by conclusions and recommendations.

The important role played by the informal sector in Kenya and other less developed countries

Most scholars agree the informal sector in LDCs exists as a consequence of poor economic conditions and high levels of unemployment (Gilbert and Gugler, 1992; Nelson, 1997; Rogerson, 2001). In Africa, economic hardships and increased levels of unemployment are a consequence of structural adjustment policies (SAPs). According to House-Midamba, like other LDCs, during the 1980s and 1990s, African countries had to adopt SAPs advocated by the World Bank and the IMF to restructure their economies and to fix economic problems created by the oil crisis in the 1970s, and the global economic depression experienced in the 1980s (House-Midamba, 1995). However, in most cases SAPs have failed to fix economic problems and in many countries conditions have worsened. The policies have lowered wages, raised interest rates, increased unemployment, raised the price of food and retarded economic growth (Sawaya, 1995; House-Midamba, 1995; Konadu-Agyemang, 2000). In Nairobi, the economic hardships have led to high inflation and a wage freeze in the formal sector. This wage freeze has resulted in some people opting to work in the informal sector which is growing rapidly and where some branches offer higher wages than some jobs in the formal sector (King, 1996b; Lugalla, 1997; Daniels, 1999).

In Kenya, the informal sector is divided into four industries: (1) manufacturing; (2) construction, wholesale and retail trade, hotels and restaurants; (3) transport and communications; and (4) community, social and personal services. The majority of workers in the informal

sector are employed in the wholesale and retail trade, hotels and restaurants (GOK, 1998). In Nairobi, small-scale enterprises are found in low, middle- and high-income residential areas, and proprietors operate from their homes, from kiosks or in the open. Low and middle-income neighborhoods benefit from the enterprises because they offer goods and services that are often found in the downtown area or in malls and large supermarkets located in high-income - neighborhoods.

Government response to small-scale enterprises in the past

During the 1960s and 1970s, most of the poor and unemployed in Nairobi worked illegally in the informal sector in low-income areas, and the Nairobi City Council often demolished homes as well as enterprises in these neighborhoods. For example, “In November, 1970, 49 shanty settlements, containing about 7,000 dwelling units worth an estimated \$300,000 and accommodating perhaps 40,000 people, were pulled down or burned by the Council’s *askaris* [police]. To prevent rapid rebuilding, some of the corrugated iron sheets and timber from the demolished shanties were confiscated,” (Werlin, 1974: 231). In 1972, research by the International Labour Office (ILO) revealed the informal sector played an important role in the city’s economy, and the government was urged to support the sector (King, 1996a). Although the number of demolition of homes and enterprises declined after the ILO research, the practice continued into the 1990s. The NCCCK (1991) estimates that in 1990, 44,000 enterprises were demolished by the City Council in various business premises in Nairobi resulting in the loss of homes, jobs and income.

Creation of jobs in both the formal and informal sectors

From the time Kenya gained independence in 1963, to the end of the 1980s, growth of employment in the formal sector was largely attributed to jobs in the public sector. However, during the 1990s, job creation in the private sector grew faster than in the public sector, while the informal sector created more jobs than the formal sector (GOK, 1996, 1998, 2000, 2002). The government attributes the slow growth of jobs in the public sector to a halt in Central Government employment, policies introduced by the government to encourage growth in other urban areas, and poor economic conditions (GOK, 1992, 1998, 2002). Compared to the formal sector, the informal sector has managed to create more jobs rapidly with little capital investment.

According to the government, “The high employment generation potential in the informal sector principally results from the multiplicity of the informal sector activities, the use of simple and inexpensive technologies which do not require specialized skills, its higher labor intensity and ease of entry” (GOK, 1992: 50). Other factors attributed to the growth of the informal sector include: the removal of legal barriers such as registration; the gradual shift of workers from subsistence agriculture to the informal sector due to the economy’s transition to a market oriented economy and; a slow down in modern sector activities (GOK, 1998, 2000). The informal sector is providing jobs for many entering the labor market including those leaving the formal sector. Jobs in the public sector are shrinking and the slow economy has led to massive retrenchments in the private sector (GOK, 2002). The Government of Kenya reports, during the 1990s, the number of people employed in the informal sector rose from 105,000 in 1990 to 4.6 million in 2001 (GOK, 1993, 1998, 2002), with 100,000 jobs created in 1994 (Rogerson, 2001). For the informal

sector to prosper, the formal sector has to perform well. According to the GOK (2003), the Kenyan economy performed poorly in 2002 and the informal sector was also affected by creating fewer jobs that year than in 2001.

Although the informal sector in Kenya has potential for job creation and income generation, enterprises in the sector continue to encounter various obstacles that prevent them from attaining their full potential. The following section of the paper examines some of the problems encountered by proprietors operating in the informal sector.

Problems encountered by the informal sector

The growth of the informal sector in less developed countries may be the main solution to urban unemployment (Gilbert and Gugler 1992; UNCHS and ILO, 1995; Werna, 2001). However, this sector encounters various obstacles in most urban areas. According to Perera and Amin (1996), problems encountered by enterprises in the informal sector include the issue of legality, lack of infrastructure, substandard structures, and the threat of demolition. Informal enterprises are also considered an environmental hazard and urban planners argue that they can be a danger to the public, especially those that are carried out along roads and sidewalks. However, most of these problems would be eliminated if urban planners allocated land for the enterprises. According to Tinker (1997), harassment from local officials is the major obstacle faced by proprietors in the informal sector. This obstacle can be overcome if officials adopt an enabling approach which urges governments to organize proprietors, and to encourage them to follow regulations and safety standards as well as to participate in the planning, assistance and advocacy processes.

In Kenya, the informal sector continues to create more jobs than the formal sector (King, 1996a; Rogerson, 2001; GOK 2002), however, hostile legal systems and local institutions tend to prevent the sector from reaching its full potential (King, 1996a). For example, the micro and small-scale enterprises in Kenya are an important source of jobs employing a third of the working population (Daniels, 1999). Nevertheless, the Kenyan government tends to favor small-scale manufacturing enterprises making them the main recipients of government support because they have potential for growth and employment creation, yet unlike other branches of the informal sector, these enterprises require certain skills making entry difficult for the poor. The other problem encountered by most proprietors is demolition. Illegal enterprises are found in various parts of Nairobi, and even though the City Council is known to demolish these enterprises, proprietors often erect new ones in the same location or move to a different part of the city. In most neighborhoods proprietors are permitted to operate if they obtain a license, however, the number of licenses available is small compared to the demand. For example, during the 1980s, out of 30,000 proprietors, city authorities issued 5,000 licenses annually, and in 1988, authorities tried to reduce the number of proprietors by denying licenses to those who had not constructed kiosks (Mitullah, 1991).

Despite the difficulties encountered by proprietors in the informal sector, small-scale enterprises continue to thrive in various parts of Nairobi.

Urban planning and the informal sector

Government policy makers and urban planners can enhance the performance of small-scale enterprises by meeting the needs of proprietors and eliminating barriers encountered by these

enterprises. This section will highlight some of the policies implemented by the Kenyan government to facilitate the efforts of small-scale enterprises.

Kenya's most urgent socio-economic problem is the creation of jobs. The formal sector can no longer compete with the informal sector in creating jobs, influencing economic development, diffusing appropriate technology and technical skills to the unskilled, and this has led the government to recognize the importance of small-scale enterprises in national development. Therefore, the government's main policy objectives for these enterprises have become job creation and skill acquisition (Orodho, 1989; Macharia, 1997).

The Kenyan government, responding to the important role played by small-scale enterprises in creating jobs throughout the country, has implemented various policies that aim at enhancing the performance of these enterprises. According to King (1996a), in 1985, government policy makers changed the education curriculum in an effort to create trained manpower for the informal sector. In the new system students have to attend primary school for 8 years, secondary school for 4 years, and the university for another 4 years.

The Kenyan government, which attributes the high growth of the informal sector in Nairobi to increased demand for goods and services by the low-income group, has introduced new economic development policies that support the sector and focus on job creation (GOK, 1992, 1993; Nelson and K'Aol, 1997). For example, during the 1980s, urban planners began to set aside land for establishment and expansion of the sector, and constructed three open-air markets in Nairobi and "Nyayo Jua Kali" sheds in various urban areas in the country (GOK, 1991). In addition, urban planners further promoted the sector by providing electricity, constructing roads, providing financial support and "sensitizing the public on the significance of the sector to the Kenyan economy" (GOK, 1995: 58). The government is also promoting small-scale enterprises by providing an enabling environment through financing, licensing and marketing of products (GOK, 2003). The following section of the paper describes the data and methods.

Data and methods

The data for this study were gathered during the months of June, July and August 1999. In each of the three neighborhoods, proprietors were interviewed using a structured questionnaire. Unstructured interviews were also carried out with two government officials and four administrators. In total 88 proprietors were interviewed, 16 men and 22 women in Hawker's Market; 14 men and 11 women in Olympic; and 12 men and 13 women in Mathare 4A.

The selection criteria of proprietors for the sample consisted of two steps: (1) identifying high, middle and low-income neighborhoods with enterprises that had received some government assistance; (2) randomly selecting proprietors from the chosen neighborhoods.

The questionnaires elicited a range of information relevant to the performance and the running of the enterprises. Pertinent information gathered which applies to this study are factors that contribute to the success of the enterprises; whether the enterprises are profitable; problems encountered by the enterprises; and whether jobs previously held by proprietors affect the performance of their enterprises.

The three residential areas under study, namely, Parklands, Olympic and Mathare 4A, represent enterprises in the high-, middle-, and low-income neighborhoods in Nairobi,

respectively. In Parklands, proprietors conduct their businesses in a market called Hawker's Market; in Olympic proprietors carry out their businesses from kiosks; and in Mathare 4A proprietors own home-based enterprises and use one or two rooms in their homes to sell their goods and services. Elsewhere, an analysis has been made of how the home-based enterprises in Mathare 4A have created jobs and diversified the local economy (Kigochie, 2001). By studying enterprises in Hawker's Market, Olympic and Mathare 4A, it would be possible to examine the barriers encountered by the enterprises and the support they receive from the government and donor agencies. The following section of the paper details the findings of the study.

Description of the enterprises

According to the data, as shown in Table 1, enterprises in Hawker's Market in Parklands, Olympic and Mathare 4A offer various goods and services. Enterprises in Olympic offer a wider variety of goods and services than enterprises in Hawker's Market and Mathare 4A. Most of the enterprises in Hawker's Market, Olympic and Mathare 4A are small and the number of people operating enterprises in the three neighborhoods varies depending on the activity. The restaurants have the highest number of employees, and depending on the success of the enterprise, the

Table 1
Goods and services sold in enterprises in the three neighborhoods

	Hawker's market	Olympic	Mathare 4A
Retail/commercial			
Groceries	X	X	X
Fruits & vegetables	X	X	X
Grains	—	X	—
Restaurant	X	X	X
Kerosene	—	X	X
Hardware	X	X	—
Paint	—	X	—
Bedding	—	X	—
Music cassettes	X	X	—
Manufacturing			
Tailor	X	X	X
Cobbler	X	X	X
Carpentry	—	X	X
Other services			
Dry cleaning	—	X	X
Telephone services	—	X	—
Hair saloon	—	X	X
Berber	—	X	X
Photo studio	—	X	X

X indicates goods and services provided by the enterprises in the neighborhoods.

restaurants have at least 3 employees and some employ more than 5 workers. Some carpenters and tailors employ 2 or 3 employees, and the dry cleaners have 2 workers. Most of the other enterprises are operated by one person. In Mathare 4A, proprietors own their enterprises and do not pay rent to a landlord and this reduces their operating costs. This is not the case in Olympic where most of the proprietors pay rent, and in Hawker's Market where some of the proprietors also pay rent.

Hawker's market in parklands

During colonial rule, the British segregated residential areas in Nairobi into neighborhoods for whites, Asians and blacks, and Parklands was one of the areas reserved for Asians. Although Parklands was desegregated after independence in 1963, the area is still home to a large number of Asians and it is also one of the high-income neighborhoods in the city. Like other high-income areas in Nairobi, Parklands does not encourage the growth of the informal sector because most clients can afford to purchase goods and services from the formal sector. However, hawkers selling fruits and vegetables usually manage to penetrate markets in high-income neighborhoods in Nairobi (see Mitullah, 1991).

Hawker's Market in Parklands, began operating in 1991 after the local government provided land and helped install sewerage and running water, while the Asian Foundation, a local charity organization, donated funds to aid in the project. The Foundation wanted to help hawkers in the Parklands area operate their businesses legally without harassment from the Nairobi City Council. Before the market was constructed, proprietors operated in an open-air market where they were often harassed by City Council *Askaris* (police). The open-air market lacked basic services such as water and toilets as well as stalls, which meant hawkers had to commute with their supplies. Hawker's Market was initially constructed for proprietors selling fruits and vegetables, but with time vendors selling other goods and services were permitted to operate in the market. Consequently, kiosks have been constructed to accommodate enterprises such as grocery stores and restaurants.

Funds from the Asian foundation were used to install running water, to construct a fence around the Market, to build stalls, kiosks, toilets, and a garbage collection area. The Market, which is intended for hawkers residing in other residential areas, does not have electricity. To enable proprietors to run their enterprises without encountering barriers to legality, the local government has relaxed some regulations such as license fees and taxes. However, all proprietors pay a monthly fee for security and cleaning services. The security guards and cleaners are employed by the Market's proprietors and do not have ties to the government. Of the 38 proprietors interviewed, 32 said the fee charged for security and cleaning is low and affordable. All proprietors said they appreciated the storage because they do not have to commute with their goods. Some proprietors have to pay rent to absentee landlords, and among those interviewed, six pay rent to a landlord while the rest own the structures.

Compared to the previous open-air market, Hawker's Market has shelter, security and basic infrastructure. These services have attracted a variety of new enterprises that have helped diversify the types of goods and services sold in the area. For example, the tailors, restaurants and grocery stores need shelter to protect goods from bad weather and storage so that proprietors do not have to commute with their equipment and supplies. In addition, the restaurants have drainage and running water which were not available in the open-air market.

It can be argued that donations from the Asian Foundation and support from the Kenyan government have helped proprietors in Hawker's Market operate more efficiently. The government has relaxed rigid regulations such as license fees and taxes, thus, enabling the enterprises to save money and at the same time eliminating the fear of demolition and harassment from the City Council. The installation of basic services has made it easier for the enterprises to try and meet health and safety standards; enabled proprietors to operate more efficiently and; diversified the types of goods and services sold in the market. At the same time, Hawker's Market has created new job opportunities in labor-intensive enterprises such as restaurants.

Olympic

The enterprises in Olympic have mushroomed in under a decade. Housing construction in Olympic was completed in 1975, and this included a shopping center that provided various goods and services such as a health clinic, two bars, two butcheries and three grocery stores. There were less than 20 kiosks in 1975 and the number had gone up to almost 50 enterprises in 1990. The kiosks mostly sold groceries and charcoal, some offered various services including mending shoes and clothes, and a few were restaurants. The latter were located at the bus terminal where *matatu* (minibuses) operators, Kenya Bus Service workers, and commuters bought their meals. By 1999, the neighborhood had over 150 kiosks and these enterprises have created new job opportunities and diversified the types of goods and services sold in the area. For example, the neighborhood now has hardware stores, hair salons, and enterprises that provide various services such as phones and dry cleaning.

The rapid increase in the number of enterprises in Olympic can be attributed to the poor economic conditions in the country discussed earlier. Studies (Rogerson, 2001) have revealed that in times of economic hardships, most jobs created in the informal sector come from new enterprise startups, while in times of economic growth expansion of existing enterprises creates new job opportunities.

Although most of the enterprises in Olympic are constructed illegally and lack basic services, proprietors pay license fees every year. The proprietors live in the vicinity and do not have to commute, and of the 25 proprietors interviewed, four own the kiosks and 21 pay rent to a landlord. Although all proprietors have licenses to operate, they fear the City Council may one day demolish their enterprises because they are considered to be located too close to the road. The City Ordinance requires businesses in residential areas be located at least 7 feet away from roads, however, all enterprises in Olympic are constructed along the main road and fail to meet this requirement. During the day, the road is bursting with activity as commuters make their way to and from the bus and *matatu* (minibus) terminal. Some commuters live in Olympic, while the majority live in the nearby Kibera squatter settlement. The road is also used by trucks supplying goods to the kiosks and stores at the shopping center, as well as private vehicles. To add to the congestion, Olympic Primary, one of Nairobi's leading elementary schools, is also located along the road. The school attracts students from various parts of the city and this has increased crowding on the street, especially when students break for lunch and go to buy food and snacks from the enterprises, and in the evening when they have to commute home. Although 19 of the proprietors interviewed agree that the condition on the road is hazardous, they believe the services they offer provide more benefits and outweigh the problems created by their enterprises.

When the government constructed the houses in Olympic in the early 1970s, it did not allocate open spaces that could be developed in the future. Hence, the enterprises are located close to the road and next to fences surrounding private houses and occasionally residents complain the enterprises are too close to their homes. When conflicts between proprietors and home owners arise, the local authorities intervene and often support proprietors by permitting them to continue constructing new enterprises.

Support from the government has enabled proprietors in Olympic to run their enterprises with renewable licenses. Although all kiosks are constructed close to the main road and private homes, the City Council has not demolished any enterprises during the last ten years. By relaxing rigid regulations, the government has helped create jobs, and new enterprises offering a variety of goods and services have been constructed diversifying the neighborhood economy.

Mathare 4A

Mathare Valley Squatter Settlement is one of Nairobi's largest and oldest low-income residential areas. According to [Muwonge \(1980\)](#) and [Lee-Smith \(1984\)](#), after Kenya gained independence in 1963, migrants from rural areas settled in the low-income area in the eastern part of the city which had been reserved for Africans during colonial rule. This area quickly filled up and the 50 persons per hectare density of 1962 rose to 200–300 persons per hectare by 1969. Most of these migrants were poor and could not afford to rent or purchase housing provided neither by the government nor by the private formal sector, and Mathare Valley became the main squatter area in Nairobi.

Mathare Valley is divided into four sections, namely, Mathare 4A, the area under study, Mathare 4B, Mathare 10 and Mathare North. In Mathare 4A, residents are benefiting from a squatter rehabilitation project which is a joint effort between the Federal Republic of Germany and the Government of Kenya ([Kigochie, 2001](#); [Otiso, 2003](#)). The Federal Republic of Germany donated funds to install infrastructure and construct new housing units, while the Kenyan government provided the land. The Project's main goal is to rehabilitate the squatter settlement and provide Mathare 4A residents with better shelter and basic services including water and sewerage. At the same time, Mathare 4A also encourages residents to retain their informal enterprises. Those who used to operate home-based enterprises before the rehabilitation get a new home with workspace that permits them to continue running their enterprises. Some of those who never owned a home-based enterprise in the old structures and are interested in operating one are also given a home with a workspace. By rehabilitating shelter and enabling Mathare 4A proprietors to continue running their enterprises, the Project has managed to support current employment and create new job opportunities. In Mathare 4A, the government has also relaxed rigid regulations to enable proprietors to operate their enterprises without having to deal with legal barriers such as license fees and taxes and, therefore, proprietors no longer have to worry about demolition and harassment from the City Council.

The new enterprises provide shelter and protect goods from bad weather. The enterprises also have better infrastructure and services including paths, sewerage, water, streetlights and garbage disposal areas. Electricity is also available for those who want to install power to their enterprises such as the dry cleaners. The settlement now has hard surface roads instead of the previous dirt roads and this has made it easier to transport supplies. Streetlights make it possible for

proprietors to operate longer and, hence, make more money, while the roads enable the formal sector to transport supplies directly to the enterprises and this has helped proprietors save money by eliminating the middleman. The enterprises also have a front yard and this can accommodate activities that require more room such as carpentry, hair saloons and a dry cleaner.

It can be argued that donations from the Federal Republic of Germany and support from the Kenyan government have enabled proprietors in Mathare 4A to operate their enterprises more efficiently by providing better infrastructure and services, and by eliminating barriers to legality. Proprietors also save money by not paying taxes and license fees. The new roads allow trucks from the formal sector to supply goods, therefore, eliminating the middleman and at the same time help proprietors save the time and money needed to purchase and transport supplies. These new enterprises have created jobs and now offer a variety of goods and services. For example, before rehabilitation, the area did not have a dry cleaners and the crowded structures prevented proprietors from operating enterprises that require a lot of room such as carpentry.

Drawing comparisons

According to the data shown in [Table 1](#), the types of goods and services sold in the three residential areas differ depending on the demand and the income levels of the residents. Some enterprises found in Olympic and Mathare 4A are not found in Hawker's Market in Parklands, for example, butcheries, barber, hair saloon and dry cleaners. The absence of these enterprises in Hawker's Market can be attributed to the fact that most residents in Parklands are well off and can afford to buy these goods and services from enterprises in the formal sector located in malls, large supermarkets or in the downtown area. Although most enterprises in Olympic and Mathare 4A offer almost similar goods and services, there is a market for telephone services in Olympic but not in Mathare 4A. Most of the low-income residents in Mathare 4A may not be in a position to afford telephone services. Also, unlike Mathare 4A residents, quite a number of homes in Olympic have phones and when their services are interrupted, residents rely on the telephone services provided by these enterprises.

Performance of the enterprises

For most proprietors, operating the enterprise is their only job and they work full time. Among those interviewed, only one proprietor in Hawker's Market in Parklands, has another job as a farmer and he sells most of his produce at the Market. In Olympic, one proprietor sells hand-made sweaters and another has a wholesale business selling milk to other proprietors. In Mathare 4A, three proprietors have other occupations as wholesalers supplying goods to other enterprises, one sells charcoal and the other two sell bread. Most proprietors in Olympic and Mathare 4A operate in their neighborhood and have relatives to assist them and this enables them to run other businesses. This is not the case in Hawker's Market, where proprietors commute and often have to run their own businesses because they do not have family members to assist them at the Market, therefore, they cannot manage to conduct other economic activities.

Whether proprietors were previously unemployed or employed in the formal or informal sector does not affect the success of most enterprises. Among those interviewed, 27 proprietors were

previously employed in the formal sector, 42 were employed in the informal sector, and 19 were unemployed. In Hawker's Market, of the 38 proprietors interviewed 24 said they previously held jobs in the informal sector, and this is understandable considering the fact that Hawker's Market was constructed for Hawker's in the Parklands area.

The data indicates that most proprietors in Hawker's Market in Parklands, Olympic and Mathare 4A, regardless of their previous employment, are either making profits or earning enough to support themselves and their families. Of the 88 proprietors interviewed, 15 said they were operating at a profit, 58 said they made enough to live on, and 15 reported operating at a loss. However, given the laws of economics, proprietors would not be able to operate an enterprise at a loss, therefore, the responses provided by these 15 operators should be interpreted with caution.

Although proprietors selling various goods and services reported making profits or operating at a loss, all restaurants in the three residential areas, except one in Mathare 4A, reported earning profits. The success of the restaurants in the three residential areas can be attributed to the demand for food by a variety of clients. In Hawker's Market, restaurants cater to employees operating *matatus* (minibuses), which dominate the transport service in the area. Other clients include proprietors working in the Market who do not go home for lunch and cannot afford to eat in restaurants outside the Market most of which cater to the high-income residents in the area. Restaurants in Olympic cater to residents, other proprietors, students attending the primary school and employees of *matatus* and the Kenya Bus Service. In Mathare 4A, restaurants cater to residents, other proprietors and employees operating *matatus*.

Despite the rapid increase in the number of kiosks in Olympic and the resulting competition, eight proprietors reported operating at a profit and 13 said they were making enough to support themselves and their families. The success of these enterprises can be attributed to the demand for goods and services from mostly the middle-income families in Olympic and to some extent low-income families residing in the squatter settlement in Kibera. The high competition resulting from the increased number of kiosks in Olympic has also had an impact on the stores at the shopping center. For example, during the 1990s, one of the grocery stores at the shopping center was turned into a supermarket, while one of the butcheries began using its backyard as a bar serving Kenyans with their favorite *nyama choma* (roasted meat) and beer. The owner says the combination of having a butchery and a bar is much more profitable than operating a butchery. The success of the butchery and bar can be attributed to the fact that, although several kiosks in the neighborhood sell meat, none has a license to operate a bar.

Problems encountered by proprietors

Some of the common problems encountered by proprietors in the three residential areas include high competition and lack of capital to expand their enterprises. Proprietors in all three residential areas said they would like to expand their enterprises but they all complained they could not afford it. This is understandable considering that most proprietors are poor and do not have the collateral to obtain loans to expand their businesses. In Hawker's Market, proprietors also complained about lack of electricity and the high fees they have to pay the middleman to transport their produce. Proprietors in Olympic complained the license fees and rent were expensive, and they also complained about lack of running water, toilets and garbage collection services. In addition, proprietors in Olympic also said they feared demolition and burglary.

In Hawker's Market, some proprietors selling fruits and vegetables complained about competition from hawkers operating in a nearby open-air market. The latter does not charge fees and proprietors sell goods at lower prices. However, proprietors in Hawker's Market who still maintain strong contacts with their clients did not complain about the competition. Among those interviewed in Hawker's Market, 19 proprietors sold fruits and vegetables and 5 of them complained business was slow and they were operating at a loss. The majority of those interviewed said their enterprises were doing well because of the high-income residents in the area who are usually willing to pay higher prices for their goods than residents in poorer parts of the city.

Unlike proprietors in Olympic and Mathare 4A, all proprietors in Hawker's Market in Parklands, commute to work because they cannot afford housing in the area. Of the 38 respondents, none listed commuting as one of the problems encountered, however, some proprietors cited the transportation of fruits and vegetables to the Market as a major problem. The majority of proprietors get their produce from markets in the downtown area or farms on the outskirts of Nairobi. Among those interviewed, of the 19 proprietors selling fruits and vegetables, 8 transport their own supplies and 11 rely on a middleman. Eight of those who rely on a middleman complained the transportation charges were high.

In Olympic, one of the problems listed by proprietors is fear of demolition. Despite proprietors in the area having renewable licenses to conduct their businesses, the Nairobi City Council maintains the authority to demolish the enterprises. In fear of demolition, some proprietors in Olympic have opted to run their enterprises in the open and they have erected semi-permanent roofs to protect their goods from bad weather. These proprietors either commute with their goods or store them at a friend's house in the neighborhood. In Hawker's Market, security guards protect equipment and goods, while in Mathare 4A proprietors use their homes to conduct business and this reduces theft. Although some proprietors in Olympic have united and hired guards to protect their enterprises, burglary remains a problem.

In Mathare 4A, some proprietors complained they had lost clients after being moved from their original area of business to the main road where the majority of the enterprises are located. Some of the proprietors also complained that being located along the main road increased competition with other enterprises. Before rehabilitation, the enterprises were located in various parts of the settlement but now the majority of them are located along the main road.

Funds from donors and government intervention in Hawker's Market in Parklands and Mathare 4A have eliminated most of the problems encountered by proprietors in Olympic such as paying rent, renewing licenses, and lack of basic services, especially running water and sewage.

Government's role

According to Lagos (1995), barriers to legality include the registration process, the location of the enterprise, regulations on health and safety standards, tax registration, and labor regulations. In Hawker's Market in Parklands, and in Mathare 4A, government intervention has helped eliminate most of these barriers. For example, the enterprises are not taxed, do not pay license fees, and proprietors do not have to worry about demolition. To add to this, labor related regulations and health and safety standards are now easier to enforce in the legalized enterprises. In Olympic, government intervention has relaxed the City Ordinance and permitted proprietors to continue running their enterprises despite their close proximity to the main road and private

homes. However, funds from donors and government intervention in Hawker's Market and Mathare 4A have eliminated most of the problems encountered by proprietors in Olympic.

Unlike enterprises in Hawker's Market and Mathare 4A, all proprietors in Olympic have higher operating costs because they have to pay license fees and the majority pay rent to a landlord. Also, compared to the enterprises in Mathare 4A and Hawker's Market, the majority of enterprises in Olympic have electricity but they all lack other basic services such as running water, toilets and sewerage. The lack of basic services in Olympic can be attributed to lack of land needed to install the infrastructure. As discussed earlier, during the construction of houses in the neighborhood, the government failed to allocate open space that could be developed in the future. In Hawker's Market and in Mathare 4A, the availability of land has made it possible to install basic infrastructure. In addition, enterprises in Olympic do not have land tenure and the Nairobi City Council maintains the authority to demolish the enterprises. Therefore, unlike enterprises in Hawker's Market and Mathare 4A, enterprises in Olympic have failed to attract donors.

It can be argued that proprietors in Hawker's Market in Parklands and in Mathare 4A, have benefited the most from government intervention because they do not have to deal with rigid regulations, such as paying for licenses and they no longer worry about the Nairobi City Council demolishing their enterprises. Proprietors also work in better environments with running water and sewerage. This is not the case in Olympic where enterprises lack running water and sewerage, proprietors have to pay renewable license fees annually, and the City Council maintains the authority to demolish the structures. In addition, government intervention in Mathare 4A and Hawker's Market has enabled the majority of proprietors to own their enterprises, while in Olympic most proprietors pay rent to a landlord and this increases their operating costs.

Conclusions and recommendations

This study finds that although the majority of proprietors in the three residential areas are able to earn profits or make enough to support their families, government intervention is crucial in assisting small-scale enterprises by providing land, infrastructure, and relaxing tax and registration regulations. However, for governments to assist these enterprises, donors have to provide the funds needed to install the infrastructure and to assist proprietors to expand their businesses.

For the informal sector in Kenya to create jobs and compete with the formal sector, it has to grow in size, adopt new and appropriate technology, and increase the quality of goods. This would generate surpluses and enable proprietors to reinvest in their enterprises. However, to accomplish this, the sector needs capital investment. The sector also needs a market for its products and given the high competition that exists in the sector due to high unemployment levels in the country, the sector has to produce quality goods that are low-cost and manage to compete with the formal sector (Orodho, 1989). Policy makers can assist proprietors in the informal sector by setting up business advisory centers that provide information that includes where to get financial assistance and how to improve the quality of goods and services.

Proprietors in all three neighborhoods said they would like to increase stock and diversify the goods and services they offer, but they lacked financial resources. For upward mobility to occur, government intervention is necessary to help the poor increase stock, save for future investments,

and gain knowledge that will help them improve their enterprises (Sethuraman, 1981; Mitulla, 1991; Lugalla, 1997). In the three residential areas, upward mobility can be achieved by informing proprietors about financial institutions and NGOs that can support them financially and technically. According to Aleke-Dondo (1989), welfare approaches have failed to provide sustainable solutions to poverty and some local and international NGOs in Kenya have opted to provide technical and financial assistance to the informal sector.

In Hawker's Market, the transportation of produce to the Market was one of the major problems encountered by proprietors. Government or donor agencies can assist proprietors by transporting goods to the market. For example, a vehicle can be donated to transport produce from markets in the downtown area and farms on the outskirts of Nairobi. In Olympic, proprietors fear their enterprises may some day be demolished, and some have opted to operate their enterprises in the open and have erected semi-permanent roofs to protect their goods from bad weather. Urban planners can eliminate this fear by implementing new policies that protect the enterprises. Urban planners should also ensure that residential development projects allocate land for future development, especially for small-scale enterprises.

This study finds that government intervention and donor assistance are crucial for the survival of small-scale enterprises. In Hawker's Market, the Asian Foundation provided the necessary funds, and in Mathare 4A the Federal Republic of Germany funded the rehabilitation project. In both neighborhoods, the government provided land and changed tax and registration regulations to enable proprietors to operate their enterprises more efficiently. The installation of basic services in Hawker's Market and Mathare 4A have improved the work environment and enabled the enterprises to raise their health and safety standards. These basic services have also enabled proprietors to diversify the types of goods and services offered, and create new jobs in enterprises that did not exist before which require running water and sewerage such as restaurants. This highlights the importance of urban planners meeting the needs of the informal sector.

Enterprises in Olympic lack security of tenure and the neighborhood does not have open space for development and, thus, has not managed to attract donors. Nevertheless, the government permits the enterprises to operate with renewable licenses, and it has relaxed the City Ordinance permitting proprietors to operate enterprises that are located less than 7 feet away from the main road.

Government intervention in the three residential areas has enabled proprietors to operate more efficiently by eliminating barriers to legality, and helped create jobs and diversify the economies in the three neighborhoods. However, enterprises in Hawker's Market and Mathare 4A, have benefited more from government support than enterprises in Olympic where proprietors have to renew their licenses annually and continue to face the threat of demolition. Therefore, it can be concluded that urban planning, availability of land for development, funds from donor agencies, and government intervention are crucial in enhancing the performance of small-scale enterprises.

As this paper has shown small-scale enterprises in Kenya play an important role in job creation, however, for the informal sector to attain its full potential the government needs to do more to facilitate the efforts of proprietors in the sector. Urban planners can enhance the performance of small-scale enterprises by allocating land and installing infrastructure. Government policy makers can set up a credit system from which proprietors can borrow money to expand their enterprises; assist in the marketing of goods and; increase coordination between the government and NGOs.

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