BUSINESS DEVELOPMENT SERVICES, UNEMPLOYMENT AND THE KENYAN INFORMAL SECTOR

Master of Arts in Law and Diplomacy Thesis

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TO MARYAMA… THANKS FOR THE SUPPORT!

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Introduction

In 1994, Kenya was plagued by high unemployment within the formal or regulated sector of its economy[1]. The informal sector, on the other hand, was thriving. Since the government's economic indicators only looked at formal sectors, many analysts were led to believe that over a prolonged period of time such unemployment would further exacerbate the problem of rural and urban poverty already present in the provinces. In fact, it was believed that the formal sector was in recession and would be increasingly unable to absorb workers. [2] As a result, Kenya's attractiveness to investor was increasingly low. To address the issue of unemployment, the government established the Micro and Small Enterprise Training and Technology Project (MSETTP). This organization, headed by the Ministry of Research, Technical Training and Technology, began to look for alternative means to the government's traditional approaches of combating unemployment. One of these approaches called for the government to increase funding to training institutions that prepare workers for the various formal sectors of the economy. However, due to the lack of jobs within the formal sectors, the MSETTP chose to focus on the informal or unregulated sectors. Specifically, rather than finance the country's technical schools and universities, they focused on the workers' needs by providing them with vouchers to pay for a training of

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[1] The World Bank, Human Development Department, *Kenya: Micro and Small Enterprise Training and Technology* (accessed November 10, 2003); Available from http://www.worldbank.org/education/economicsed/finance/demand/case/kenya/kenya_index.htm

[2] Ibid, 1

their choosing. This approach, which is referred to as the 'demand side'[3] approach in the literature attempts to foster the worker's desire to develop their skill sets by allowing them to choose their trade.

Overview of Jua Kali sector and program

In Kiswahili the expression *Jua Kali* means "under the hot sun". It is an expression used to describe the conditions under which the many tasks within Kenya's informal sectors are performed. Laborers, iron workers and mechanics all take part in the Jua Kali sector, a sector whose growth potential is thought to be significantly higher then that of the formal sectors[4]. As a result of the sector's perceived high growth potential, it was believed that curbing unemployment in Kenya's economy would be best addressed through the development of the Jua Kali sectors. In conjunction with the MSETTP, the World Bank set up an education program known as the Jua Kali voucher program. This program subsidized vouchers for worker training, whereby the workers were responsible for deciding the exact nature of their training. In other words, whether or not they would attend an institution or do an apprenticeship within an establish firm.

The rationale supporting the establishment of an education program to combat unemployment is as follows: Workers are unemployed because they lack the necessary skills to perform an assortment of jobs available to them in the informal sector. Since the sector is not regulated, the government is not aware of the workers' need for training; however providing them with adequate training would greatly rectify the unemployment problem. Further, if enough workers were to receive training, it is probable that the

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[3] The World Bank, Africa Region Private Sector Group, *Voucher Program for Training and Business Development Services Kenya Micro and Small Enterprise Training and Technology Project* (accessed November 10, 2003); Available from http://www.ilo.org/public/english/employment/ent/papers/voucher1.htm. 1

[4] Ibid., 3

problem of chronic unemployment would begin to be addressed in formal terms. The next step for the government would simply be regulating this sector.

A large part of the above argument relies on the growth potential of this informal sector. According to World Bank analysts "Kenya's informal sector constitutes 98 percent of all businesses in the country, absorbs annually up to 50 per cent of new non-farm employment seekers, has an employment growth rate of 12-14 percent, contributes 30 percent of total employment and 3 percent of GDP"[5]. For our purposes the key figures to note aside from the sector's actual growth rate are the share of total employment attributable to the informal sector and this sector's contribution of this sector to the overall output in the economy. As it only contributes 3% of the economy's output but takes on 30% of the total work force, we can establish at this juncture that though the informal sector hires a lot of workers it contributes relatively little of the country's output.

Overview of Business Development Services Market

One of the byproducts of the Jua Kali voucher is the creation of a market for business development services and training. Owners of firms within the informal Jua Kali sector who need training are connected with trainers from the informal or formal sector. Potential supply and potential demand are put together creating a market for these services. Moreover, the voucher program is a means of decreasing the cost of training for the Jua Kali firm. In addition to being subsidized, in this case by the World Bank, these vouchers address the firm's specific training needs. It gives the holder of the voucher the

[5] The World Bank, Africa Region Private Sector Group, *Voucher Program for Training and Business Development Services Kenya Micro and Small Enterprise Training and Technology Project* (accessed November 10, 2003); Available from http://www.ilo.org/public/english/employment/ent/papers/voucher1.htm. 1

necessary cash to pay for training that he might not otherwise be able to afford giving the firms the necessary skills that will enable it to be most productive. As individual firms' productivity increases within the informal sector, they will able to hire more workers, strengthen their operations and consequently the whole informal sector.

The voucher program targets established entrepreneurs and their employees as well as women. The argument is that as the entrepreneur increases his revenue because of the increase productivity of his newly trained workers, he will be more apt to take on more workers and expand his operation. As a result, the more workers he hires the more likely he will be to positively contribute to the lessening of unemployment. In addition, when a Jua Kali firm is larger the government is better able to regulate and ultimately graduate it to the formal sector. Discussion of graduation to the formal sector has encouraged the government to specifically target firms that have more employees than an agreed upon employee threshold. In other words, firms with workers above a certain number of employees qualify for the voucher those below do not. In light of that, new entrants firms into the Jua Kali market, in that they have fewer employees than established threshold, are discouraged to apply for the vouchers. On the other hand, women are allowed to come into the program even as new entrants. The aim in this case is to get as many women involved as possible and we explore why this is important later in this paper.

In order to receive a voucher, an application must be filled out and submitted to an allocation agency set up by the Project Coordination Office (PCO), an arm of the

MSETTP. Applicants must pay a fee of 100 Kenyan Shillings for the application.[6],[7] The application is then evaluated by the PCO and a decision is taken about whether or not the candidate qualifies to receive vouchers; this will be discussed in detail later in this paper. The PCO is also responsible for marketing and advertising the vouchers to the local population. Once the decision is made about the status of the candidate the allocating agency turns around and begins selling the voucher to the applicant. This applicant then takes this voucher and presents it to a Business Training Provider. This provider will train the applicant under an apprenticeship system or a more formal class room setting depending on the nature of the voucher. After all is said, the business training provider returns the voucher to the PCO for cash.

I have thus far established three key points: First, Kenya's overall economy suffers amongst other ailments from unemployment. Second, the formal sector is shrinking while the informal sector appears to be growing at the rate of approximately 13% per year[8]. Third, the government has decided to curb unemployment by leveraging a program that specifically targets the informal sector. It is my contention that an analysis of the formal sector and the factors attributing to unemployment will shed another light on the use of such a program to effectively alleviate this problem within the country. Moreover, the relationship between Foreign Direct Investment (FDI) and growth within the formal and informal sector, as was briefly introduced above, pushes us

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[6] The World Bank, *Assessment of the Jua Kali Pilot Voucher Program,* Avril Adams (accessed November 15, 2003); Available from http://www.worldbank.org/education/economicsed/finance/demand/case/kenya/juakali.htm

[7] 76.5 Kenyan Shillings = 1 USD
[8] Adams, 1

to accept that this specific training initiative will have a negative effect in the long term for the country's growth.

The most interesting aspect of this voucher program seems to be that it allows individuals to choose the training that they find necessary for the market in which they operate. As we can accurately assume informality to exist in the developing world for quite some time I believe that there is effective use for such program without it representing a panacea for unemployment. The program's effectiveness comes from its ability to better provide training to workers because of it demand side rather than supply side approach. Therefore, it is clear that the program doesn't represent a panacea for unemployment but creates a market for business development services as well as training that can eventually serve to curb the unemployment of a 500,000 person entry into the job market every year.

KENYA'S FORMAL SECTOR

African Structural Adjustment

For many African economies, the early 1990s was a period of World Bank/IMF sponsored structural adjustment and Kenya was included in this group. Not surprisingly, the economies that were subjected to this regime arrive there under very similar circumstances. Countries, such as Kenya, would borrow money in international capital markets against a source of revenue -Oil tended to be classic story, but it need not be oil. It simply need be source of foreign exchange - within their country. The money would then be spent within the country on domestic infrastructure, food subsidies or some other form of domestic consumption and over time this spending would increase the government's budget. As the volatile world market conditions of rising oil prices, rising world inflation and subsequent world recession in the 1980s began to hit these developing markets, the governments of many of these countries found the price of their export commodities go down. The fall in prices of these commodities made many of these debt burdened and overspending governments unattractive to investors who had either been lending money directly to the government or investing directly in the country. These investors became increasingly unwilling to lend money to countries like Kenya and as a result developing countries found themselves looking to the World Bank and the IMF, the lenders of last resort, for loans. The loans offered by these institutions came with conditions that the government would need to fulfill in order to place it on a path to a more sustainable development. With respect to Kenya, these 'conditionalities' came in the form of a structural adjustment.

The Kenyan Economy and Structural Adjustment

Kenya's economy, similarly to other African economies, primarily depends on agriculture as its main source of income. In 1994, 26% of Kenya's GDP came from the agricultural sector[9] and it provided 75% of the total employment within the formal economy of the country and made up 55% of total export earnings[10]. On the other hand, the industrial sector on the other hand contributed to 14% of the overall GDP and was dominated by agro-based import substitution industries. The government was also a major player in the story. In that very year it consumed 40% of the total investment within the country and paid 45% of modern sector wage.[11] These numbers lead us to conclude that in Kenya the government is very large, the industrial sector is relatively underdeveloped and finally the majority of the work force is dependent on the agricultural sector for work. Furthermore, we can establish here that Kenya is a labor abundant economy as opposed to a capital intensive one.

-Figure 1-
KENYA

Key Economic Indicators
(Millions of U.S. dollars unless otherwise noted)

	1992	1993	1994
Income, Production and Employment:			
Real GDP (1982 prices)	2,773	1,475	1,672
Real GDP Growth (pct.)	0.4	0.1	3.0
GDP (at current prices)	8,562	4,627	6,257
By Sector:			
Agriculture	2,226	1,219	1,648

[9] U.S. State Department, Bureau of Economic and Business Affairs, *1994 Country Report on Economic Policies and Trade Practices,* (Accessed April 22, 2004); Available from http://dosfan.lib.uic.edu/ERC/economics/trade_reports/1994/Kenya.html
[10] Ibid., 1
[11] Ibid., 1

Energy/Water	86	40	54
Manufacturing	1,164	626	653
Construction	265	142	381
Rents	N/A	N/A	N/A
Financial Services	745	401	580
Other Services	942	506	883
Government/Health/Education	856	460	844
Net Exports of Goods & Services	-256	-131	-94
Real Per Capita GDP (1982 base)	123	55	72
Labor Force (000s)	11,100	11,800	12,300
Unemployment Rate (pct.) 3/	N/A	N/A	N/A

(Source: U.S. State Department, Bureau of Economic and Business Affairs.)

Kenya began its World Bank/IMF sponsored structural adjustment program (see Figure 1) in 1993. The country suffered from stagflation in 1992 and 1993[12] and it was estimated that the inflation rate in June of 1993 reached 103% while unemployment rate was somewhere between 35 and 40%.[13] The adjustment program attempted to rid the country of government policies that hindered the development of a free market economy and under the program, the government aimed to abolish price controls, to remove licensing requirements, to liberalize the foreign exchange system and open up the country to competition.[14] After the program's implementation the country was indeed on a path to economic recovery[15] since the economy's growth rate rose to 3% in 1994 (see figure 1). Additionally, the country was better positioned to take advantage of gains provided by international trade as well as increasing the amount of foreign direct investment within the country. Many academics argue that international trade has a direct impact on the informal sector of developing economies and the argument is as follows: "Trade reforms expose formal establishments to increased foreign competition. In response, such establishments try to reduce labor costs by cutting worker benefits, replacing permanent

[12] Ibid., 1
[13] Ibid., 2
[14] Ibid., 2
[15] As defined by the World Bank and IMF.

workers with part-time labor, or buy contracting with establishments in the informal sector, including home-based and self-employed microentrepreneurs. Alternatively, firms in the formal sector may respond to the intensified competition from abroad by laying off workers who subsequently seek employment in the informal sector.[16]" This argument demonstrates that when a developing country opens up to trade, there is an increased number of workers and employment within the informal sector. While this point be more relevant to us as we pursue our analysis we will for now concentrate on the Kenyan trade strategy as it was in 1994.

The Kenyan Economy and International Trade

International trade as it relates to Kenya's economy could best be explained by the Heckscher Ohlin (H-O) theorem which states that:

> *A capital-abundant country will export a capital-intensive good while a labor-abundant country will export a labor-intensive good.*[17]

We have established above that Kenya is a labor abundant country. We have also established that Kenya is an agricultural economy. Further, agriculture products within the economy are labor intensive goods. It follows then, from the H-O theorem, that Kenya will produce and export agricultural products. However, it should be understood that this theorem does not bind Kenya to the production of agricultural goods since the government is free to take action to move the Kenyan economy from labor abundance to capital abundance. The incentive for movement is the higher profits historically associated with the production of capital intensive goods. The government will do this by encouraging FDI into the country.

[16] Pinelopi Koujianou Goldberg and Nina Pavcnik, The response of the informal sector to trade liberalization, *Journal of Development Economics: 72 (2003) 463-496*
[17] Heckscher Ohlin Theorem

-Figure 2-

Foreign Direct Investment: Net Inflows (Kenya)					
1990	1991	1992	1993	1994	1995
57	19	6.4	1.6	3.7	32.5

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Variable" Foreign direct investment: Net inflows
Units: Million current US dollars
Data Source: World Development Indicators 2002
Data Provider: The World Bank

The Kenyan Economy and FDI

After the period of structural adjustment (ending in 1994), investors were initially drawn back to Kenya. The low point for FDI in the country during that period was 1993 when Kenya saw its FDI drop to 1.6 million dollars from a high in 1990 of 57 million dollars (see Figure 2). Fortunately for the country FDI picked up once again and reached a high of 32.5 million dollars in 1995. Most investors –primarily consisting of British firms due to their historical ties with Kenya- agreed that the structural adjustment program was a step in the right direction for the country. However, they also agreed that a number of problems would have to be resolved in order to restore investor confidence and assure long term investment in the country. The problems include amongst others the rehabilitation of the country's deteriorating infrastructure, the privatization of government owned firms, efficiency measures taken toward the civil service, curbing corruption and finally promoting political stability.[18]

Thus far I have established three key points about Kenya's formal sector. First, in 1993 and 1994 it was forced to downscale due to the structural adjustment program

[18] Ibid, 3.

sponsored by the World Bank and the IMF. Second, international trade aimed at improving welfare within the economy is concentrated in the agricultural sector. Third, FDI is a mean to improve the overall welfare of the Kenyan people but in order to guarantee its arrival the government must take a number of steps aimed at improving the efficiency of doing business within the country.

The Causes of Growth in the Informal Sector

In order to transition to our analysis of the informal sector, one needs to understand the relationship between the formal and informal sector specifically, the factors contributing to growth in the informal sector as a result of the formal sector's influence. In Kenya, we argued that the informal sector is composed of agricultural good producers, industry and government and interestingly wages offered by these sectors within the overall formal sector that directly contributes to the growth within the informal sector. The agricultural sector offers workers a lower wage than both the industrial and government sector. Agriculture also happens to be concentrated in rural areas whereas industry and government tend to be concentrated in major cities. As a result of the higher wages in the industrial and government sectors, workers migrate from the rural areas to the urban areas. The incentive for these workers to move to urban areas is still there even in the absence of the jobs within the cities. This argument stems from the Harris-Todaro model of rural-urban migration which shows that "with the formal-sector wage fixed at a level far above the agricultural wage, and with migration decisions based on expected earnings, migration to the city is rational even though it means a substantial chance of unemployment."[19] This model lead us to believe that as these migrant enter cities

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[19] Jan Brueckner and Yves Zenou, "Harris-Todaro models with a land market," *Regional Science and Urban Economics 29 (1999):317-339*

looking for work, the majority will find themselves in a situation of unemployment. Further, in order to live within these cities some will attempt to engage in commercial activities becoming workers in the informal sector. Thus we can establish two key points about the relationship between the formal and informal sectors. First, wage differentials between the agriculture and industrial/government sector cause farmers to migrate to urban areas where they are pushed to find work within the informal sector. Second, a point stems from the first; the bulk of the informal sector is concentrated within urban areas or major cities.

KENYA'S INFORMAL JUA KALI SECTOR

Jua Kali means 'under the hot sun' and it refers to the conditions under which workers in Kenya's informal sector labor. Note that we will use the terms informal sector and the Jua Kali sector synonymously. In the following section we will analyze the exact nature of the Jua Kali sector in order to answer the following questions: What exactly characterizes a Jua Kali firm? In what industrial sectors do Jua Kali firms operate? How are workers compensated within firms? And finally, how likely are these firms within this sector to grow? The answers to these questions will lead us to take a clear position about the nature of the Jua Kali sector in Kenya and its capacity to absorb workers.

Character of Jua Kali Firms

At the outset, four traits can be identified that serve to characterize a Jua Kali firm. First, a Jua Kali firm in Kenya has somewhere between one to fifty workers. [20] Second, it is a young firm. About forty percent have been in operation for less than two years and the rest are not much more then five years old[21]. Third, they are highly vulnerable to changes in the overall economy of the country and as such the macroeconomic environment plays a significant role on the growth of the firm. Finally, they don't tend to live for very long. The implications of the last point are found in the organizations of the firms and the subsequent interactions that they will have with one another. We will return to this later in this section.

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[20] The World Bank, Africa Region Private Sector Group, *Voucher Program for Training and Business Development Services Kenya Micro and Small Enterprise Training and Technology Project* (accessed November 10, 2003); Available from http://www.ilo.org/public/english/employment/ent/papers/voucher1.htm, 7

[21] Ibid., 2

Jua Kali firms operate in three distinct industrial sectors in Kenya: manufacturing, retail and wholesale trade.[22] Within the manufacturing sector we find firms producing wearing apparel, wood products and repairs. Within the retail sector we find them engaged in the selling of second hand clothes, of hardware, building materials, machines, tools, fuel and charcoal. According to the most recent numbers from a 1995 survey the Jua Kali sector employed a total of 1,175,230 Kenyans. About 30% of these workers were engaged in the manufacturing while approximately 55% were engaged in retail and commerce.[23] This leads us to believe that Jua Kali firms find the manufacturing sector to be attractive but are concentrated on retail and commerce activities.

The breakdown of firm size gives us an interesting angle from which to view the sector's structure. The 1995 survey identified approximately 900,000 Jua Kali firms in operation in the country. Of these firms, 57% had no more than one worker, 31% had two workers, 11% had three to five workers and firms between eleven and fifty workers made up 0.2% of the sector.[24] In other words, 88% of the workers in the Jua Kali sector work in firms that employ no more than two workers. This leads us nicely to a distinction between subsistence versus entrepreneurial forms of Jua Kali.

A Jua Kali firm that attempts to create opportunity by the expansion of its business is philosophically and operationally different than one that lives to provide its owner with food for a day. Although this point will be developed throughout this section,

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[22] Ibid., 3

[23] The World Bank, *Employment and Income in Micro and Small Enterprises in Kenya: Results of a 1995 Survey* Lisa Daniels, Donald C. Mead, and Muli Musinga (accessed on November 3, 2003); available from http://www.worldbank.org/wbi/labormarkets/courses/dc2003/proceedings/pdfpaper/mod6ws.pdf

[24] The World Bank, *Kenya Voucher*, 2

there is merit here in painting an image of this distinction. In the literature Jua Kali firm are often classed by whether or not they work on permanent premises with access to electricity or not. Kenneth King, a researcher at the Centre of African Studies of the University of Edinburgh who has extensively worked on Kenyan Jua Kali since the 1970 gives us an image of the situation on the ground.

> "In Nairobi, for instance, there are marked contrast between the relatively small but solid stone buildings in Gikomba and the much larger stone buildings with their great steel doors and padlocks of Jua Kali enterprises starting up with the Como Rock light industrial area. Both of these have relatively straightforward access to power provided they can pay. These two concentrations of Jua Kali are, on the surface, dramatically different from areas such as Kamukunji and Ziwani where tinsmiths and metalworkers and car and lorry mechanics, respectively ply their trades with great vigour, quite largely without any permanent buildings and in the open air, though many will have some security of tenure. All four areas must be considered different again from the large number of Jua Kali who have no regular place of work, but make use of pavements, street corners and small plots of waste land, always aware that they may be moved on or harassed."[25]

Make Up of Jua Kali Firms

Jua Kali firms are varied in their makeup. Within the range of Jua Kali firms we find thriving manufacturing businesses and men doing repairs on the sidewalk of streets. As we progress in our analysis we will paint a clear image of what the majority of these firm look like in Kenya and subsequently how these firms will react to policies aimed at addressing macroeconomic problems such as unemployment.

Within the Jua Kali sector, large divisions exist not only in the size of the firms but also in the wage associated with each firm. The national average of net profits per

[25] Kenneth King, "Microenterprise: Macroeconomic Environment Revisiting Kenya's Informal (Jua Kali) Sector Against The Background of the Formal Globalising Economy," *Pergamon:S0738-0593(96)0062-4*

person per year in the sector was 33,200 Kenyan Shillings[26]. Workers who labored in firms made up of one worker received 22,458 Shillings, workers in firms between two to five workers received 29,719 Shilling, while workers in firms between six and fifty workers received 3,182,832 Shillings.[27] The data here clearly indicates that the size of a firm has direct bearing on the profitability of the firm and in this case we see a ten thousand percent increase on the profitability of a one person firm as opposed to any firm above six workers and below fifty.

Growth in Jua Kali Firms

Growth in the Jua Kali sector favors firms that are already established and have more than 11 workers. On average new start ups (generally associated with one or two workers) between 1994 and 1995 showed profitability per person per year at 18,980 Kenyan Shillings while firms that were establish prior to this (more than 11 workers) actually showed profitability of approximately 45,479 Kenyan Shillings per person per year. How does this profitability translate into growth? To begin, firms become more profitable than others because they are more efficient[28] and their efficiency translates into higher returns. These higher returns allow these firms to expand and thus further increase their revenue. One must keep in mind that this is an environment free of regulation and therefore profitability is likely to increase if the firm is expanding rather then starting up.

Based on the above numbers we can reasonably conclude that the large majority of Jua Kali firms in Kenya as of 1994 were primarily comprised of subsistence firms rather than entrepreneurial one. Specifically, we can point to 0.2% of the Jua Kali market

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[26] 76.5 Kenyan Shillings = 1 USD
[27] Ibid., 3
[28] The World Bank, *Voucher for training,* 6
Efficiency here could be thought of as simply a high ratio of inputs to outputs.

composed of entrepreneurial firms. The ILO 1995 Report on World Employment in its discussion of the African informal sectors arrived at a similar position. It described the bulk of the informal sector work in Africa as 'dead end survival activities'.[29] Kenneth King also arrives at a similar conclusion when he writes: "It (Jua Kali sector) could very well then become the kind of dead-end that the ILO considers Africa's informal sectors to be.[30]" To reiterate, the Kenyan informal sector could be categorized as a dead-end sector consisting mostly of urban subsistence workers.

[29] ILO 1995 *World Employment 1995: An ILO Report.* ILO Geneva
[30] King 425

FORMAL AND INFORMAL SECTOR AND FDI

Kenya's formal sector was in poor shape in 1994 for three principal reasons. Firstly, structural adjustment had caused the economy to shrink. Secondly, although a platform for free trade was being established, the scale at which this measure would have been beneficial to the country was not yet attained. Finally, foreign investors had fled the country and were only making a slow and gradual return. Based on the aforementioned three points we established that the overall state of the sector was precarious but improving. In addition, the growth rate of the economy at the end of 1994 was 3%, up from .04% in the previous year.

The informal sector, on the other hand, was growing at a rate of 12 to 14% per year in 1994. Even more impressive than the growth figures were the employment figures and according to the World Bank, the sector absorbed 50% of all non farm employees and hired 30% of the population. Additionally, it constituted 98% of all businesses within the country. A very impressive figure indeed! However, closer examination of the informal sector's makeup revealed to us that 88% of the businesses concentrated within this sector had no more than two employees. This translated to businesses characterized as subsistent rather than entrepreneurial. This distinction has allowed us to say the following about the nature of the sector: If the majority of the sector is comprised of subsistent firms then the sector on the aggregate could be characterized as 'dead-end' or consisting of the urban poor. If, on the other hand, the sector is comprised of entrepreneurial firms, then the sector could be characterized as vibrant. Furthermore, a vibrant as opposed to dead-end informal sector will respond very

differently to policy. It was therefore very important to be aware of which kind of informal sector one has within one country. Based on this analysis, it was established that the Kenyan informal sector was more of a dead-end sector and that only.02% of this sector could be considered vibrant.

Addressing Unemployment

In the beginning of our analysis we discussed the Kenyan government's plan to address unemployment within the country by increasing the capacity of the informal sector to absorb workers. As it was established that the only firms within the Jua Kali sector able to absorb any workers made up only 0.2% of the sector the problem of unemployment had yet to be resolved. So the question still remains: How will the government rid itself of the problem of unemployment within the country? I have argued in the above analysis of the formal sector that the relationship between the formal and informal is such that when the formal sector thrives the informal sector looks vibrant but when the formal sector lags the informal begins to look like a 'dead-end' sector consisting of the urban poor. Ken King puts this in clear light:

> "As far as the impact on the informal sector of these processes is concerned, it seems clear there are very important positive relationships between segments of the modern industrial sector and micro-enterprises. This is particularly evident in the metal-working sector. And it is likely, therefore, that any major closure or reduction in the capacity of the modern sector would have direct knock-on effects on the informal sector, such is the latter's dependence on both new and scrap materials from the former."[31]

It follows from this argument that the government, in order to ensure the existence a thriving formal sector and subsequent vibrant informal sector, needs to take measures that ensures the growth of its formal sector. We hinted above that the traditional approaches

[31] King, 422

of trade liberalization and FDI are the real mean by which the formal sector will grow. Let us take a closer look at these two trade policies as they apply to Kenya's informal sector.

Trade

Trade liberalization within Kenya is a fairly straightforward task in that the government only needs to ensure that the policies that promote it are in place and are enforced. However, as we argued above, a direct result of trade liberalization is an increase in the size of the informal sector. One might inquire whether this increase in size of the informal sector to be looked upon favorably by the Kenyan government? I would argue that in this case it is. The reasons for this have their roots in the vibrant versus dead-end informal sector argument. Trade reform we established above increase foreign competition within the country and this increase competition leads to two effects directly caused by a need to diminish cost. The first effect is a push by formal sector firms to hire workers in the informal sector. Their aim is to decrease their cost in order to remain competitive as the wage is significantly lower in the informal sector. The second effect pushes firms to lay off workers again to minimize their cost of production. These workers in turn join the informal sector work force. Within this model, the introduction of competition increases not only the size of the sector but increases the number of employed workers within the sector. Assuming that this competition has strengthened the formal sector in a more traditional way, the informal sector will begin to look more and more vibrant. Because the formal sector benefits in the long run, according to our analysis thus far, the informal sector will respond by becoming more entrepreneurial and thus better able to absorb workers.

What FDI wants?

The FDI community demands the resolution of four significant problems before they would be willing to return to Kenya. These include the rehabilitation of the country's deteriorating infrastructure, the privatization of government owned firms, efficiency measures taken toward the civil service, curbing corruption and promoting political stability. While comfortable with the fact that FDI requires the government to implement these measures prior to their return to Kenya, one might ask about FDI's relationship with the formal sector and its subsequent relationship to the informal; in short, what does FDI want? The following schematic I created will best address this question.

$$FDI \uparrow \Rightarrow \frac{\uparrow GDP^{Informal}}{\uparrow GDP^{Formal}}$$

$$FDI \uparrow \Rightarrow \frac{\rightarrow GDP^{Informal}}{\uparrow GDP^{Formal}}$$ [32]

$$FDI \downarrow \Rightarrow \frac{\uparrow GDP^{Informal}}{\rightarrow GDP^{Formal}}$$

$$FDI \downarrow \Rightarrow \frac{\rightarrow GDP^{Informal}}{\downarrow GDP^{Formal}}$$

FDI in the country will increase under the following two conditions: When GDP in the formal and the informal sector rise or, when GDP in the formal sector rises and GDP in the informal sector stays the same or goes down. It will decrease when GDP in the informal sector rises and GDP in the formal sector stays the same or goes down. It will also decrease when GDP in the informal stays the same or goes down and GDP in the formal sector goes down. The key relationship to capture in all of this is one that I have alluded to several times in this paper. The relationship between the formal and informal sector tells us that GDP in the formal sector is a function of GDP in the informal

[32] Diagram created by Malick Antoine.

sector. In other words, in order to explain informal sector GDP, formal sector GDP will have to be placed in the equation.

To conclude, the government in its drive to curb unemployment should seek policies that encourage foreign direct investment within the country. FDI will have the effect of creating employment opportunities in both the formal and informal sectors of the economy in the median to long term. In the case of the formal sector, FDI may even create jobs as soon as it crosses the border. In the above analysis one sees that FDI is most comfortable when the formal sector is up and the informal sector is up or, when the formal sector is up and the informal sector is steady in its growth. The government, therefore, in its policies to address unemployment should keep this dynamic in mind so as to assure the best possible outcome for its economy.

The Formal Sector is Equally Important

In the initial discussion of unemployment in Kenya, the government was targeting the informal sector with an education program that aimed to create a market of business development services within the country. It can now be clearly established that such a program would be most beneficial to the population if it targeted populations in both the formal as well as informal sectors. Kenneth King puts it in the following way:

> "… there has been a disturbing tendency both by government and donors to treat micro-enterprise development as something of a separate sector. This temptation to do something for the Jua Kali sector in complete separation from wider policies stems partly from the very absence of complementary industrial policies and relevant trade policies. In some external constituencies, such has been the disillusionment with the role of the State in Africa that it sometimes seems as if the development of the informal sector is being projected as the only hope for African economies[33]."

[33] King, 419.

This simply cannot be the case as King underlines. We have shown above that the informal sector is intrinsically linked to the formal sector. Its very nature is defined by the formal sector. The government will thus do well to incorporate within its policies dealing with the informal sector measures aimed at ameliorating the formal sector. The following sections will analyze the specifics of a voucher program established by the MSETTP-the informal sector arm of Kenya's Ministry of Research, Technical Training and Technology. This Ministry established a policy aimed at providing business development service (BDS) training to the informal sector. This training it was hoped would have an impact on the country's high unemployment levels. I will show that the incorporation of the formal sector within the target group of voucher recipients is essential to reach the Ministry's employment goals.

THE OLD PARADIGM VS. NEW APPROACH

Supply Side

Traditionally in the developing world economic interventions made by the government were made through the support of institutions already present within the country. In other words, when a government wished to implement some kind of policy it did so by using channels open to it. These channels take the form of established institutions within the country such as Ministries, states owned firms and even states owned schools among others. It will be easier for us to understand this concept if we ground ourselves in our very relevant example of the Kenyan government's attempt to provide business development services training to the country. According to what is referred to in the literature as the "old paradigm",[34] the Kenyan government in order to effectively implement its policy would intervene by providing budgetary support to public training institutions (in this case technical schools.) These institutions would, for their part, use this support to increase classroom size, desks and uniforms among other administrative sundries. They would do their best to provide this training to the students enrolled in the given program and graduate them once they measured that indeed the students had learned the necessary skills outlined in the policy. By using this approach the government is said to act on the 'supply side' of the economy[35]. In other words, by establishing and enforcing the policy the government is in essence assuming to know what the country needs but also making sure that it is received. We are assuming here that the government manages to fully implement the goal of its policy. This need not be

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[34] The World Bank, Africa Region Private Sector Group, *Voucher Program for Training and Business Development Services Kenya Micro and Small Enterprise Training and Technology Project* (accessed November 10, 2003); Available from http://www.ilo.org/public/english/employment/ent/papers/voucher1.htm. 8

[35] The World Bank, Africa Region Private Sector Group, *Kenya Voucher Program for Training and Business Development Services* Thyra A. Riley and William F. Steel (accessed November 15, 2003); Available from http://www.worldbank.org/wbi/labormarkets/courses/dc2003/proceedings/pdfpaper/mod6ws.pdf

true and in practice is often not true, but we will assume it here and return to this point a little further on in this section.

In providing these services through a policy and implementing this policy through its institutions, the government directly intervenes in the supply of this service within the country. Typically, the government would find institutions that provide either goods or services and support them in the case of a positive intervention and cut their funding or impose restrictive regulation in the case of a negative intervention. These institutions are treated as the only vehicle for change. Further, if the government happens to be the only entity providing the service it is said to control the supply of that service within the country. Using these parameters 'supply side' interventions of the government can be examined.

Supply Side Inefficiencies

Perhaps the biggest criticism of the supply side approach refers to the inefficiencies associated with the implementation of a given policy and the Kenya BDS training case gives us a good platform from which to understand this phenomenon. Specifically, in the diffusion of the policy through its institutions, the government has very little control over how the policy is implemented. It is then up to the different governmental institutions to interpret the policy and to put in place the necessary infrastructure for its implementation. For example, in the BDS case the government policy is simply to provide the country with BDS training, but in practice this translates to pushing the policy through its institution by setting aside funds to sponsor the project and outlining general guidelines to be followed. The Ministry of Education and its subsequent sub-Ministries are then to implement this policy. The inefficiencies arise

from the administrative steps between the government's policy and its implementation and from the tools that the government has at its disposal for the implementation of its policy. For example the majority of schools in Kenya happen to be of a technical nature. The equipment as well as the trained personnel tends to be of a technical nature; implementing a BDS training program in such an institution will present challenges for both the students and the personnel of these institutions. In addition, the methodological approach implemented within a classroom setting is one that lends itself to theoretical learning as opposed to practical learning. This refers to a classroom approach as opposed to a 'hands on' approach-note that because of the unregulated environment in which business is conducted in the Jua Kali sector, apprenticeship often provide a better platform for learning than the classroom. A final and important point about these inefficiencies is that the institutions which take advantage of any support from the government are often free to continue to perform their tasks even if these tasks have no relevance to the population. This is perhaps the central point about the inefficiencies. Since the problem was found to be in the 'supply side' and since economist tend to be very practical people they decided to look at the 'demand side' to find a remedy to this problem.

Demand Side

In my opinion the 'demand side' approach happens to be a novel and interesting way of putting forth policies to a population. If this approach is utilized to its utmost in Kenya, the population will progressively become owners of policies suggested by the government. This will move the government away from its current paternal image to one

of a partner in the development of the Kenyan people. Avril Adams, an evaluator of the Kenyan Jua Kali voucher program gives us a peak at the implication of this approach:

> "The voucher program, she states, is important to micro and small entrepreneurs in Kenya, but also to other African countries faced with the need for reform of publicly financed training systems that are poorly aligned with market needs. Government financing of these systems without focusing on their outcomes provides little incentive for reforms. Elsewhere in the region, training funds have emerged with World Bank support –Cote D'Ivoire, Togo, Mali, and Madagascar – to shift money away from institutions into the hands of employer and workers representatives to buy effective training services."[36]

While the implications of such a move on the role of government are drastic, they fall beyond the scope of this paper. To elaborate on exactly how the demand side approach creates these dynamics we will again use the BDS training program.

A New Paradigm?

The most appealing aspect of this new or 'demand side' approach is that it allows for the creation of a market by bringing together potential supply and demand. In Kenya, the government's aim was to provide its workers with BDS training. We saw under the 'supply side' approach the government leaning heavily on its institutions to diffuse its policies. The 'demand side' approach on the other hand calls for the workers or students to seek out the training themselves. The government's role, in this scenario, is simply to provide the student with the necessary funds with which to pay for this service. This implies that students no longer have to use the government's facilities to learn. If they happen to think that the technical schools provided by the government are inefficient they can now go to some other institutions in order to receive training that they themselves would chose. Because they are in a position to choose they are also able to incite the

[36] Adams, 1

formation of private institutions that in turn provide them with training. Under this 'new paradigm', a market for a range of business development tools, technologies and training will be created. In essence they will have moved from the 'supply side' of the training market to the 'demand side'. The hope is that if the government allows people to decide for themselves exactly 'what they would want to be trained as', 'what they would want to learn', or 'how they would want to learn it', the workers at the end of the day would be better off and more productive than they were under the 'old paradigm'.

Kenya Voucher Program

The MSETTP in collaboration with the World Bank developed a program that would test this very approach in Kenya. In 1994 the Kenya Voucher Program attempted to create a market for BDS in the informal sector. Recall that the MSETTP's long term goal was curbing of unemployment and that the MSETTP saw the informal sector as the primary sector where unemployment could best be addressed. I have argued that this claim is false because of the nature of Kenya's informal sector. It is according to our analysis a dead-end sector. Further, I have established that the informal sector and the formal sector for that matter would best be helped by the trade liberalization and FDI and therefore a voucher program that targets[37] only a dead-end informal sector will do little to relieve the country of its high unemployment. This program would best serve the economy if it includes the formal sector within its targeting for all the reasons mentioned above; reasons that clearly demonstrate the benefits of a growing and healthy formal sector.

[37] We will discover later on in this analysis that the World Bank analyst in charge of this program limited the receipt of voucher to firms within the vibrant sector of our informal sector. Pushing our point even further that targeting should not be limited to the informal sector.

The next section will analyze the voucher program in an attempt to understand the specifics of the program. We will evaluate the cost and benefits of the program to the Kenyan population and arrive at a general conclusion of how the government should go about implementing this program so as to maximize its effect on unemployment in the country.

THE KENYA VOUCHER PROGRAM

Program Goals

The Kenya Voucher program was implemented in November of 1994. The MSETTP branch of the Ministry of Research, Technical Training and Technology specifically looked at the Jua Kali sector as a major source of employment and income generation for the country. During the program's pilot phase the MSETTP set out to "support regulatory reforms favoring development of the (Jua Kali) sector; improve institutional capacity for sector policy development; promote access to appropriate technology, encourage women entrepreneurs, address infrastructure needs."[38] I have argued against targeting the informal sector as a source of viable employment, but a good question to ask as this juncture is what led to the Kenyan government to consider this informal sector as a source of employment? The answer to this question is twofold, because, in the one hand, a distinctly cultural influence is at play and in the other we have the growth numbers of the sector. The misinterpretation of these numbers is the root of the problem.

The cultural distinction refers to the need of the general Kenyan population to point to a business community of their own. In other words, to grant Kenyan the power to say that in 'Kenya we also have Kenyan businesses and these businesses also do well.' However, to effectively analyze this distinction one would have to develop a historical dimension of business in East Africa, particularly the presence of Indian firms within the region, but this will take us far off the scope of this paper. Kenneth King in a 1996 paper on this very topic states: "it could be forcefully argued that Kenya's microenterprise development has had a distinctive cultural character. It has been affected both by the

[38] Adams, 1.

shape of the modern sector of the economy and particularly by the profile of Indian firms that have operated in East Africa. But it has also been powerfully influenced by the different traditions of trade and craft within Kenya's African communities.[39]" However, one should keep in mind that the growth rate of this sector as impressive as it may be has little to do with the nature of the sector itself.

The growth rate of the informal sector in Kenya in 1994 was estimated to be between 12 and 14% and it is important to understand that this applies not to the firms but the sector itself. This growth translates to approximately 129,000 new entrants into the Jua Kali sector per year.[40] The makers of the Kenya Voucher program, The World Bank and the MSETTP, specifically had these new entrants in mind when formulating their policy and from the data generated by the 1995 survey, they concluded that new entrants in the Jua Kali sector should be encouraged to join firms that are established and/or large. This translates to the 0.2% of the Jua Kali firm that we refer to above as 'vibrant'. We can see here that the World Bank and the MSETTP are not interested in the typical Jua Kali firm in Kenya but rather the vibrant firm that we spoke positively of in our analysis. Further, the profitability of these firms and the benefits associated with their expansion was enough to convince them to establish this as their policy objective. In other words, to take potential new entrants into the Jua Kali sector and channel them into existing firms so as to, through a process of growth within these firms, wean them from the informal sector to a more formalized one. How exactly they were going to do this was through the process of developing a market for business development services outlined above.

[39] King, 419.
[40] The World Bank, *Employment,* 3

Program Specifics

The voucher program involves four principals coordinating hands: a management unit, private allocation agencies, micro and small enterprises (Jua Kali firms) and the providers of BDS. In Kenya, the Project Coordination Office (PCO), an arm of the Ministry of Research and Technology, but set under its own management during this project, is responsible for the management of the voucher program. It has the task of identifying private allocation agencies that would be responsible for distributing the vouchers and identifying BDS providers who would be in charge of training potential new entrants in the Jua Kali sector. In addition, there is an institutionalization component within its structure because the PCO is also responsible for incorporating the Ministry's staff into this policy by assigning them with tasks such as quality control, procurement, project audits and the supervision of training providers.

The private allocation agencies are generally chosen from existing Jua Kali firms or associations which would have applied to the PCO for a license to hold this status. They also tend to be composed of private consulting firms that wish to promote their businesses by associating themselves with this service. Upon qualification, these firms receive a number of applications to sell to Medium or Small enterprises (Jua Kali firm) at the going rate of 100 Kenyan Shillings per voucher, roughly 2 USD[41]. This is generally equivalent to 10% of the face value of the voucher. The private allocation agency is required to return this fee to the PCO.[42]

The private allocation agencies are considered to be in a position of knowing the applicant's business because they have either visited it or are personally associated with

[41] In 1995

[42] The World Bank, *Assessment of Jua Kali,* 5

the applicant.[43] After issuing the voucher, the allocation agencies are responsible for carrying the vouchers to Nairobi where the PCO pays them a sum equivalent to 3% of the face value of the voucher and in turn they then receive more vouchers to sell to qualified applicants. The allocation agencies also have an advisory role to play with regard to the applicants. They are often the ones to suggest to the applicants which business training or skill they should receive.

Training providers in Kenya are made up of a number of different institutions. There are over 600 Youth Polytechnic institutions, 20 Technical Training institutions, 17 institutes of technology, 3 National Polytechnic institutions as well as training centers operated by the National Youth service, the YMCA and other Christian organizations. The traditional apprenticeship training program found mostly in the informal sector of the economy also deserves mention and according to a survey conducted in 1999 the total number of apprentices in the country numbered 53,000.[44],[45] Further, the importance of this institution is not to be taken lightly. In Kenya a significant proportion of the apprentices actually paid for this service. Approximately 75% of the master craftsmen interviewed during this survey stated that they charged a fee to their apprentice trainees[46].

Vouchers Types

Three types of vouchers are sold by the allocating agency. The first type of vouchers are *training vouchers*, they are standard vouchers that can be used within a group training environment, usually a classroom and they provide their recipients with

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[43] Ibid., 5
[44] MSE baseline survey
[45] The International Labor Office, *Training for Work in the Informal Sector: Evidence from Kenya, Tanzania and Uganda,* (accessed November 12, 2003) available from http://www.logos-net.net/ilo/150_base/en/publ/014.htm, 3.2

[46] MSE baseline survey

training to improve basic skills and practices. Examples of this include training in basic marketing and management. The second types of vouchers are *technology and business development vouchers*, which provide assistance usually on an individual basis to solve problems particular to one Jua Kali firm. This usually includes advice on management, marketing and technology, the development of subcontract opportunities as well as the development of specialized training in advanced technical skills. The third and last form of these vouchers comes as *upgrading vouchers* which generally have a training of trainers' component to them. They are generally allocated to master craft workers and public training institutions in order to encourage them to better their training programs.

Within the organizational framework of the voucher program, the PCO is responsible for producing an index of training providers that meet a certain set of standards established by itself and maintained through an internal audit mechanism. This index or master list is provided to the MSE via the allocating agencies and prices charged by the training providers would ideally be determined by a process of negotiation between the training providers and the trainees overlooked by the PCO. The evaluation of the pilot program reveals that it is difficult for all three parties to reach consensus on setting the price of diverse forms of training. The PCO has therefore asked the mission to intervene in the setting of prices. According to Avril Adams,

> "The mission was asked… about listing training in different cost ranges which would be roughly correlated with levels of technology, because more sophisticated technologies, like the repair of electronic fuel injection systems in automobiles, tend to be more expensive then training in less sophisticated technologies. The proposal called for the publication of as many as three directories with each directory focused on training within a given price range, e.g. 1,000 to 17,000 Ks; 17,001 to 50,000 Ks…"[47]

[47] Adams, 6.

These directories would, in turn, be provided to PCO offices. The cycle is brought to an end when the training provider returns his voucher to the PCO for its full face value.

A QUICK NOTE ON TARGETING

Women and the Jua Kali Voucher Program

In 1995, after the pilot program was in place, the MSETTP and the World Bank redefined the group to be targeted by this program. In its original conception the project's target group was not particularly well defined, but it was clear that the government wished to avoid the 'dead-end' firms of the sector. During the pilot program the target group was defined as "manufacturing and service enterprises with 1 to 50 employees".[48] By limiting itself to this target group the MSETTP excluded women altogether. One of the central goals of this policy was to encourage women to start small to medium size enterprise by providing them with training. Further, within the range of 1 to 50 employee manufacturing firms, the pilot program assessment team discovered a wide range of 'dead-end firms'. By redefining their target group in 1995 the MSETTP and the World Bank specifically included Jua Kali firms that employ 1 to 10 workers and are headed by women and firms that employ 11-50 employees; or the 0.2% of Jua Kali firms considered vibrant. According to the 1995 numbers, this combined group made up approximately 30% of firms operating in Kenya's Jua Kali sector. As of 1998, 62% of the beneficiaries of vouchers have been women[49]. The allocating agencies have been directed to push women to apply for these vouchers; the result that is being sought out is an increase in the number of firms run by women. The motivation for such a decision originates from a need to repair inequities already present in the system as well as address poverty alleviation. We will not address the link between women and poverty in this paper as it is a bit outside the scope of our purpose. Because of this targeting decision,

[48] Adams, 1.
[49] The World Bank, *Kenya Voucher*, 4

the Jua Kali voucher could now be seen as having two aims. The first is the curbing of unemployment within the country by concentrating on the development of the informal sector. The second is to increase the number of players involved in commercial activities within the country. These are two distinct aims and cannot be evaluated on the same level. I have argued so far that the government would do well to look at incorporating the formal sector in this policy as it is consistent with the promotion of job creation within the country and further that the government would do well to leave the 'dead-end' Jua Kali firm aside and concentrate on the ones that are vibrant. The introduction of women to the picture motivated the government to consider the dead-end Jua Kali firm -headed by women of course- for reasons that we will not extensively discuss in this paper. I happen to agree with the MSETTP and the World Bank that including women in this story has great benefits but in our analysis we will continue treat the 'dead-end' informal sector as ultimately having no real impact in the curbing of unemployment. In the following section we will give a detailed cost/benefit analysis of the voucher program and the ways in which the government could improve this program to reach its central aim of having some impact on unemployment in the country.

VOUCHER COSTS & BENEFITS

The central objectives of this policy, at least in the stage of its conceptualization, were to create a market for business development services and aid efficient firms in becoming larger in terms of numbers of employees and level of profitability[50]. We saw in our discussion of targeting that a dimension of women empowerment was added on by including them within the target group but as of 1995, this policy has done little to help firms that stand above the 11 employee threshold to growth. It has rather had two important results. The first was to push a significant number of women to seek out training and subsequent employment in the informal sector. Second, it began to create a market business development services within the country. The evaluation team of the pilot project describes the situation on the ground as rather positive in this regard.

> "We have seen an important shift in the supply side of the training market to respond to Jua Kali needs. Most important, we have observed competition between public and private providers of training for the new market created by vouchers with the result being a reduction in the cost of training that will in itself expand access to training in the future."[51]

This is the most interesting aspect of this program and one that should be expanded to incorporate the formal sector. In other words, employees of formal sector who seek to receive BDS training should be allowed to. The reason for this stems for the fact that these employees have access to capital as well as idea that they could in turn use to create firm within the informal Jua Kali sector; this is consistent with the arguments that we have presented above. Ultimately, the creation of these businesses will have a far more significant impact on unemployment within the country than the alternative of just

[50] Ibid., 1
[51] Adams, 1

offering the vouchers to Jua Kali firms. Of course we realize that significant measures will have to be taken in order to prevent leakages of the voucher to those without the intentions of adding value to the system. But this is another problem altogether; one that will have to be evaluated if ever the MSETTP decided to extend these services to the formal sector.

Voucher Costs

Three types of costs are associated with the Jua Kali voucher program: the direct cost of the training, the program's administrative costs and the opportunity costs of the trainee's labor while pursuing the training. In 1995, the direct cost of training stood at $252 per voucher. The administrative costs of running the program were $57 per voucher[52]. The opportunity costs could not be calculated due to the inability to access data.[53] This may prove to be a continuing problem due to the volatile nature of income generation within the sector. What can be said with certainty is that the private rates of return for those involved in the program are higher then the social rate of return because of subsidization–recipients only pay 10% of the voucher fee.[54] To assure sustainability in the long-run the government could increase the percentage paid by the workers in order to increase the expected social rate of return.

Benefits

This policy hoped to increase the number of trained workers within the Jua Kali sector and an increased number of trained workers on the whole would improve the

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[52] The World Bank, *Assessment of Jua Kali,* 4

[53] The opportunity costs here represents the money the Jua Kali worker would have received for his labor had he not been sitting in a class room or an apprenticeship program.

[54] Social rate of return represent the dollar amount society receives for the investing in the voucher program; in other words, the amount money that is generated by the recipient of a voucher towards society's income (e.g. GDP).

productivity of the sector itself. Increased productivity would provide firms with additional income to invest into more workers who would, in turn, receive training and this would ultimately translate into the absorption of more workers into the sector. Furthermore, workers who, after leaving their respective firms for whatever reasons and are equipped with the training provided by this program, would leave with a set of skills that would prove useful in finding other employment. Female voucher recipients– approximately 62% of total voucher recipients- are well positioned to increase their entrepreneurial base. A position whose positive social benefits range from an overall increase in child welfare to diversification of the work women are allowed to do. Finally, the creation of the market of business development services will have the benefit of decreasing the costs of training. As more and more trainers enter the market and compete for voucher trainees their overall costs will go down to the benefit of anyone seeking this type of business training.

The MSETTP is optimistic about the realization of these benefits but some difficulty arises when measuring the policy's impact. The relationship between training on productivity and earnings, for example, is inherently difficult to measure and the methodologies used to understand this relationship during the pilot phase of this project proved to be inadequate. A costly way of approaching this is to use methodologies that "include before and after comparisons of earnings for trainees or the creation of control and treatment groups whose earnings can be compared using statistical techniques".[55] The only evidence provided is anecdotal and in the review of this voucher's pilot program the relationship between training and profitability was shown by the following: 'One recipient who had trained with a master craft worker on repairing automotive

[55] The World Bank, *Voucher Assessment,* 4

clutches, reported he had since completed five clutch repair jobs which added to his business.'[56]

As for women, there is evidence that they are increasing their presence in the Jua Kali sector by increasing their numbers. The fact that they make up 62% of voucher recipients is evidence enough. However, there is little evidence that they are diversifying the nature of their work. The evidence rather shows that women are sticking to their traditional trade by seeking training in textiles and food processing.[57] They may prove to be examples that inspire other women to seek those vocations.

The creation of the market for business development services is the most notable benefit of this voucher program since it is an attempt to create a flow of knowledge from the formal sector to the informal or developing sector. However we saw in the discussion on targeting that only two groups were given access to the vouchers: women who run enterprises with less then 10 employees and men or women who run enterprises that employ between 11 and 50 employees (these tend to be, for the most part, run by men). This group together makes up about 30% of the enterprises in the Jua Kali sector and if women are removed from the equation we account for only 0.2% of the Jua Kali entrepreneurs. This group does not compose a large share of Jua Kali employment, it is rather a small concentration of efficient firms compared to the rest of the sector. The logic behind the decision to include only firms that employ over 11 employees was grounded in the ability of these firms to generate more revenue per person than firms that hadn't reached that target. Because these firms were significantly more productive than others they were given the opportunity to improve by tapping a source of training found

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[56] Ibid., 3
[57] Ibid, 4

in the formal sector. Additionally, an analysis of the informal and formal sector leads one to believe that nurturing a vibrant sector of the informal will indeed have a positive impact in the reduction of unemployment.

CONCLUSION

We will conclude by making three points regarding the Kenya Voucher Program as it relates to the informal sector. First, the market that is being created caters to a very small percentage of the population and therefore will not address the central problem in the hands of the Ministry of Research on Technical Training and Technology: provide the informal sector with training so it can more readily absorb workers. Rather than doing this the informal sector is left relatively unchanged while owners of existing businesses are given the option to better their business model. This strategy does not necessarily translate into increasing its work force and I suggest that the government begin to address this concern by opening up the voucher program to the formal sector. Second, women who are involved in Jua Kali firms with less than 10 employees, run very similar firms, in terms of risk structure, to those run by men. Allowing women to receive subsidized training may change their approach, but it will not change the risk profile of the environment where their firms will be set up. There are also variables (such as access to capital, number of contacts et. al.) that may be responsible for the ability of a Jua Kali firm to scale up so as to become a firm above the 11 employee threshold, but these variables are not necessarily correlated to the training provided by the vouchers. Finally, the voucher program is taking an important first step in the creation of a market for business development services and training. In doing this, it is rewarding firms that have a proven track record of generating cash while ignoring firms that do not. This is the correct approach to take and the government should more actively encourage entrepreneurs with a positive track record to open up businesses in either the formal or informal sectors. Ultimately, this is the best way of dealing with unemployment.

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