Chapter 1

UNDERSTANDING THE INFORMAL ECONOMY LANDSCAPE AND FUTURE OF WORK IN KENYA

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EXECUTIVE SUMMARY

The importance of the informal economy in Kenya cannot be overstated.

In 2018, the informal economy accounted for 24% of Kenya's gross domestic product (GDP): 1.7 trillion KSh out of approximately seven trillion KSh. It also employs five times more workers than the formal economy and is creating jobs at a rate that is ten times faster. Researchers, policymakers, and key actors across both public and private sectors are continuously researching and experimenting with new ways to support informal economy workers, improving their enterprises, experiences, and overall prosperity.

Against this backdrop, the Busara Center for Behavioral Economics conducted a literature review from July to August 2023 to synthesise what past studies have found on the informal economy in Kenya. We researched key features of the Kenyan informal economy, and how women and youth typically participate. From the literature, we surfaced future trends, taking a forward-looking approach to our review. The gaps we found will inform the upcoming phases of research for this project.

For this research, we define the informal economy as "economic activities that are not covered or insufficiently covered by formal arrangements. These activities have market value, and if they were recorded, would contribute to tax revenue and GDP." Since there is no standard definition for the term "informal economy," we developed this working definition that is an amalgamation of four different definitions that we discovered and considered. Our definition intends to define the informal economy within the broader context of the wider economy, acknowledging its particularities around regulation and value.

Similarly, we found that the informal economy is disproportionately composed of youths: 44% of workers in the informal economy are aged 15 to 34, while 35% of the Kenyan population is aged 15 to 34. The formal economy is not creating jobs fast enough to absorb Kenya's growing youth population, pushing more and more youths into the informal economy. Additionally, given the present economic climate and increasing financial insecurity, youths must take on additional work to support themselves and their families. As a result, they are creating "portfolios of work," where they combine "informal and formal wage labour, self-employment, agricultural, and/or unpaid family work," often while simultaneously attending school. This strategy allows youths to seize opportunities as they present themselves to maximise their income.

Despite the prevalence of women and youths in the informal economy, women-owned enterprises are less productive than those owned by men, and youths generally earn less than the average informal economy worker. At a high level, women lack access to both fixed and social capital; "customary laws and practices" restrict women's ownership of and control over physical assets, and they have been historically excluded from social and commercial networks that could help their enterprises grow and thrive. They also struggle with managing professional responsibilities and household demands, impacting the amount of time they can devote to their enterprises. Among youths, many say that society - from the media to the education systems - is preparing them for jobs in the formal sector, even though these jobs do not exist. Consequently, they feel they lack the training, mentorship, and networks that are essential for success in the informal economy.

In response, the Kenyan government has implemented policies and initiatives to support informal economy workers, especially women and youths. These policies focus on developing legal processes; ensuring workers' rights; regulating the financial sector; providing enabling frameworks for micro, small, and medium enterprises (MSME) and ICT innovation; and increasing access to finance and enterprise support for women, youths, and other vulnerable or marginalised groups. However, many of these policies and initiatives encounter implementation challenges. A case in point is Kenya's Constitution and legal code, which ensure women's rights, yet face issues with inadequate investment in government enforcement and a prevailing lack of compliance among the general public.

There is a growing trend of "Jobtech" in the informal economy, which has the potential to address many of the barriers faced by women and youths, and support the informal economy more broadly. Jobtech platforms in Kenya are valued at 16 billion KSh, employ 35,000 workers, and are expected to grow at a rate of 33%. Through online employment, workers can choose hours around their lifestyles, helping women balance work and family commitments, and youths manage multiple income streams in their portfolios of work.

However, Jobtech has brought its own unique set of challenges, namely competition from overseas for gig jobs online. The global market for online gig work is highly competitive, and workers have to continually accept jobs for low pay, perpetuating a cycle of diminishing wages that many refer to as a "race to the bottom." Research has also highlighted that online gig work affects workers' well-being. They often feel isolated and lonely, and experience high stress levels from uncertainty and insecurity.

Taken together, these findings point to several areas for further research. Filling these knowledge gaps will allow us to develop evidence-based recommendations on how to support the informal economy in Kenya more effectively.

- **Contextualising and clarifying key terms:** Throughout the literature, there is a lack of clarity, consistency, and contextualisation around key terms and classifications. If we fail to contextualise definitions like "informal economy," we may overlook essential sub-sectors or sub-populations in our recommendations simply because we did not include them in our definitions.

- **Understanding norms and the informal economy:** Norms play a prominent role in how workers engage in the informal economy, but there is little evidence on how to leverage or shift these norms to improve outcomes for workers, especially women.

- **Supporting youths in the informal economy:** Youths in Kenya feel they are being prepared for jobs in the formal sector that do not exist. We need to identify impactful ways of supporting youths to thrive in the informal economy, taking into account portfolios of work and other key nuances.

- **Improving the well-being of gig economy workers:** We need more research on effective policies and interventions to improve working conditions for Jobtech workers. With this information, we can develop standards and regulations to protect workers from the possible downsides of Jobtech.

RESEARCH BACKGROUND

1. What are key features of the informal economy in Kenya?

2. How do women and youths participate in the informal economy in Kenya?

3. What government initiatives support or transform the informal economy in Kenya?

4. How will the informal economy look in the future?

5. What are the gaps in the literature and areas for further research?

FEATURES OF THE INFORMAL ECONOMY

In this section, we describe how and why different originations across the public and private sectors define the informal economy. Using this information, we propose our own working definition for the purposes of this research. Then, we describe key features of informal enterprises, including size, activities, and years in operation. We also detail characteristics of the average worker in the informal economy and the typical barriers they face with formalisation.

Definition and significance of the informal economy

Our review revealed a range of definitions of the informal economy. Organisations across the public and private sectors define the informal economy to align with their research, activities, and interests. For example, the Kenya National Bureau of Statistics (KNBS) (2016)[1] uses the following definition of the informal economy:

> "For statistical purposes, the informal (economy) is regarded as a group of production units which form a part within the 'system of national accounts' of the household sector as unincorporated enterprises owned by households. Household-based enterprises are distinguished from corporations and quasi-corporations on the basis of their legal status and the type of office accounts they hold. Informally self-owned enterprises employ family workers and workers on an occasional basis. For operational purposes and depending on national circumstances, this segment comprises either all self-owned enterprises or only those which are not registered under specific forms of national legislation.
>
> **- KNBS (2016)** "

KNBS (2016) developed this definition for their MSME survey. The survey aims to provide data on MSMEs nationwide to inform policy formulation and implementation. Using the definition above, KNBS (2016) can effectively distinguish between informal and formal enterprises during survey administration and analysis. This delineation allows them to gather data on the state of the informal economy, which in turn can be used to develop and implement targeted, evidence-based policies.

Other organisations take a broader, more generalisable approach when defining the informal economy. The International Labour Organisation (ILO) developed a definition that can be used across countries and sectors. The goal of this definition isn't necessarily to differentiate formal versus informal enterprises for survey administration, but rather to provide a universal understanding of the concept of the informal economy. The ILO (2023) definition is as follows:

1. Kenya National Bureau of Statistics. (2016). 2016 MSME Basic Report. Retrieved from https://www.knbs.or.ke/download/2016-msme-basic-report/

> “The informal economy refers to all economic activities by workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements.”
>
> **- ILO (2023)**

For our research, we developed a working definition of the informal economy, combining common elements across different definitions. In addition to the two definitions above, our definition incorporates elements from those developed by Women in Informal Employment: Globalising and Organising (WIEGO) (2023) and Deléchat and Medina (2021). Throughout this chapter, we use the following definition:

The informal economy refers to economic activities that are not covered or insufficiently covered by formal arrangements. These activities have market value, and if they were recorded, would contribute to tax revenue and GDP.

The informal economy contributes substantially to the Kenyan economy (Muruna, et el. (2021). In 2018, the informal economy accounted for 1.7 trillion KSh to the total GDP of approximately seven trillion KSh (24%). For most Kenyans, the informal economy provides a vital source of employment; the informal economy employed 14.9 million Kenyans in 2018 (KNBS, 2019) and created 702,900 jobs from 2021 to 2022[2]. There are a wide range of reasons why the informal economy is growing, including “rising tax burdens, poor governance, and high levels of corruption in the public sector,” all of which are stifling growth in the formal economy (Ogbu, O, et al, 2022). Urbanisation has also spurred growth in the informal economy, as urban-to-rural migration has brought a surplus of labour into cities that the formal sector cannot absorb (World Bank, 2016).

Furthermore, the informal economy serves as a critical source of food security (Owuor, 2020). It’s a “...dense and diverse network of informal markets, suppliers, transporters, mobile traders, hawkers, retailers, and street food vendors…” and thus has the ability to reach poor urban households in Kenya’s rapidly growing towns and cities, providing them with affordable access to food.

Characteristics of the informal economy

Enterprises in the informal economy can be classified into three categories based on the number of workers employed[3]:

Micro-enterprises	Small enterprises	Medium enterprises
1-9 employees	**10-49** employees	**50-99** employees

The vast majority of informal economy enterprises (99.4%) are micro-enterprises that have been in operation for seven years on average. 0.5% are small enterprises that have been in operation for 10 years on average, and 0.1% are medium enterprises that have been in operation for 10 years on average.

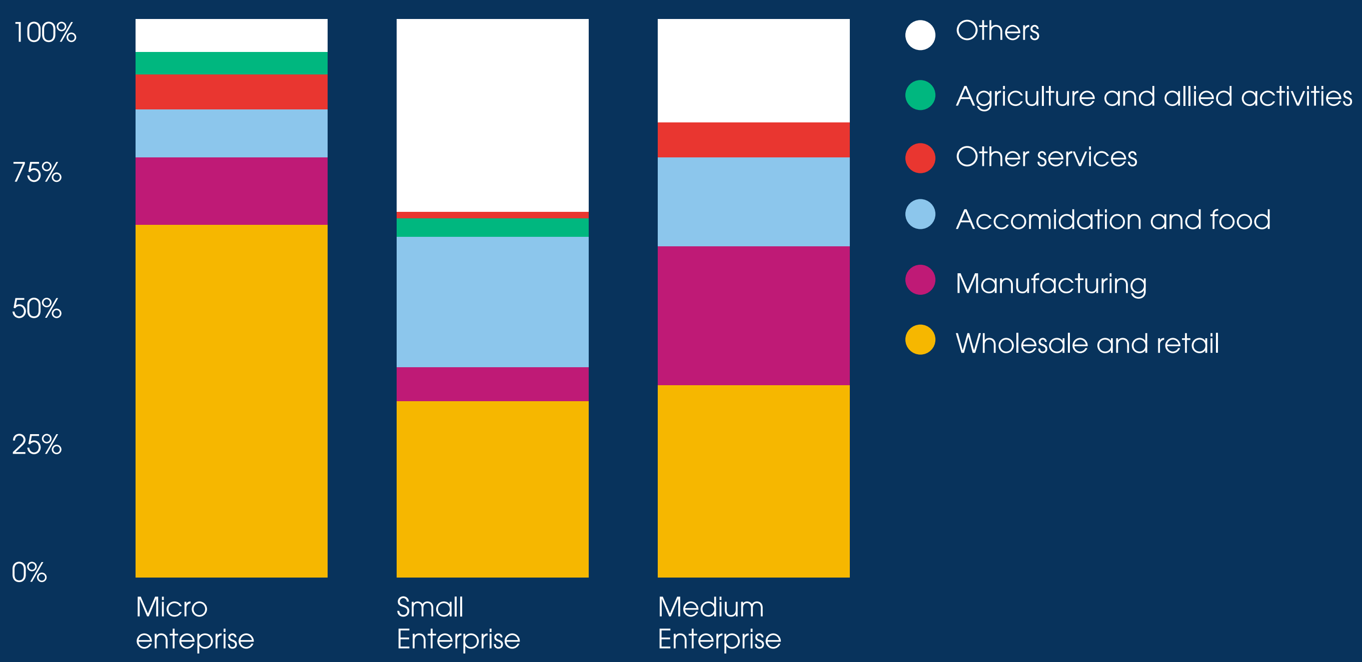
[2] Equivalent to 86% of all jobs created in Kenya over this period

[3] KNBS (2016), ILO (2023), KIPPRA (2010), and FSD Kenya (2015) use this classification of enterprises in the informal economy.

As depicted in Image 1 (below) from the Federation of Kenya Employers (FKE) (2021), most micro-enterprises conduct wholesale and retail trade, which includes the repair of motor vehicles and motorcycles. There are also a relatively large number of micro-enterprises in manufacturing (e.g., food manufacturing, fabricated metal products, etc.), and accommodation and food services (e.g., food and beverage services activities).

Small and medium enterprises conduct slightly different activities. While a large portion are in wholesale and retail trade, they are more likely than micro-enterprises to work in manufacturing, accommodation, and food services, as shown in Image 1 (below). Many also conduct activities that FKE and the Kenya National Bureau of Statistics (KNBS) classify as "other," including creative arts and entertainment, computer and household goods repair, and financial service activities.

Image 1: Distribution of informal enterprises by size and activity



Several activities listed above fall within Kenya's "repair and reuse" sector, including the repair of motor vehicles, motorcycles, computers, and household goods. This sector contributes an estimated 1.12 billion GBP (202 billion KSh) to GDP, therefore employing a large number of Kenyans, and plays an essential role in supporting the transition to a circular economy. However, despite its importance, there is a general lack of research on the repair and reuse sector because of its **"invisibility"**: the activities within the sector are often embedded within other enterprises, and most who work in the sector do not define what they do as "repair" and "reuse."

The average worker in the informal economy is a female micro-enterprise owner between the ages of 23 and 30. She most likely operates a **"livelihood sustaining business,"** meaning the enterprise is her only source of income, and she started the enterprise for **"survival purposes"** because she had no other way to earn a living. While she has a secondary education, she never received formal training or other non-financial support to develop the relevant skills for her enterprise. A lack of information on administrative procedures prevents her from formalising her enterprise, as well as the high costs of compliance with tax, social security, and labour regulations.

WOMEN AND YOUTH

WOMEN IN INFORMAL ECONOMY

In this section, we explain the significance of the informal economy for Kenyan women, who make up a majority of workers in the informal economy. We then describe key characteristics of their enterprises and how they compare to enterprises owned by men. We conclude by discussing the unique challenges they encounter in starting and growing successful informal enterprises.

Importance of the informal economy for women

58.5% of enterprises in the informal economy are owned by women as of 2016. The informal economy is a vital source of income and employment for many women. Kenyan women are typically responsible for household and care activities, and the informal economy provides them with the flexibility to balance these demands with paid work. By having employment and earning income, women can make autonomous decisions, increasing their decision-making power within the household. They also expand their social networks and improve their standing in the community, as opposed to staying at home and tending to household responsibilities. However, employment in the informal economy offers lower, less certain income than formal wage employment, adversely affecting their overall earnings.

Gender perspectives in the informal economy

Table 1 (below) highlights notable differences between men and women in the informal economy. Men are more likely than women to own small and medium enterprises. Men are also more likely than women to put more time and resources into their enterprises, and they invest using funds from commercial banks and other formal financial institutions. In contrast, women are more likely to invest using funds from savings and credit cooperative societies (SACCO) or microfinance organisations. As a result of these differences, enterprises owned by men are worth more than those owned by women, and they are twice as productive in terms of monthly sales per worker.

Table 1: Key differences between men and women in the informal economy

	Men in the informal economy	Women in the informal economy
Enterprise characteristics	Men own 55.6% of small and 51.2% of medium enterprises	Women own 58.8% of the informal micro-enterprises
Years of schoolin[4]	13.3 years	13.5 years
Hours worked per month	267 hours	248 hours
Time in operation	7.6 years	6.8 years
Initial capital	65,510 KSh	45,377 KSh
Source of capital	Commercial banks	SACCOs or micro-finance
Current worth of enterprise	227,353 KSh	168,690 KSh
Monthly productivity (sales per workers)	24,764 KSh	12,408 KSh

Unsurprisingly, woman-owned enterprises are more likely to fail. "...more than half (61%) of the informal economy (enterprise) failures occur in the first five years and to a larger proportion affect female-owned enterprises." These failures are largely due to a shortage of funds and increasing operating costs. Both social and biological factors also contribute to the higher rate of failure among women, as they often need to take time off work for pre- and post-natal care, as well as to care for their children.

[4] These differences are not statistically significant.

Challenges faced by women

Compared to men, women in Kenya lack access to fixed capital, putting them at a disadvantage in the informal economy. "Customary laws and practices" restrict women's access to and control over physical assets. Consequently, **"only 12% of women aged 20-49 years report owning any land on their own, compared with 39% of men; 82% of houses have only male owners listed."**

Women also face barriers in accessing social capital. They have been systematically excluded from social and commercial networks that provide essential skills, market intelligence, peer encouragement, and other foundational elements crucial for enterprise survival and expansion. These challenges are worse for women in rural areas, as they face poor network connectivity and long distances to markets, both of which are key sources of information and networking. Additionally, women typically have stronger **"horizontal"** networks than **"vertical"**[5] networks, and their networks are markedly less diverse. Compared to men, they lack access to suppliers and customers with **"high purchasing power,"** inhibiting their profitability and growth potential.

Furthermore, as with all types of employment, Kenyan women in the informal economy struggle with managing professional responsibilities and **household demands.** While there is wide support for women to undertake paid work, norms in Kenya dictate that women remain accountable for housework and childcare, and that any paid work is an additional responsibility. In some instances, they work more hours than men to financially support their households, especially women who engage in gig work. **Among youths,** research has shown that young women spend more time on paid work than young men, giving young men more time to focus on their education.

Finally, women face discrimination and gender-based harassment, impacting when and how they work, and who they interact with. The Kenyan government has implemented laws to protect women - the Constitution of Kenya 2010 elaborates on equal rights for women, the government ratified many ILO conventions that guarantee equal pay and prohibit employment-based discrimination, among others - but these laws are poorly implemented and enforced. For example, there is little data on the impact of these policies; **"multiple initiatives started by the government target women, but evidence of effectiveness is difficult to find."** This lack of data inhibits the government's ability to make improvements to the system.

[5] Horizontal networks are "connections and relations between those in similar socio-economic situations" while vertical networkers are "neworks with people of different socio-economic standing."

YOUTH IN THE INFORMAL ECONOMY

In this section, we explain the importance of the informal economy for youths, considering the average age of workers in this sector skews young. Then, we describe how youths participate in the informal economy and the types of activities they typically pursue. Last, we discuss the unique challenges they face in succeeding in the informal economy.

Importance of the informal economy for youths

The informal economy employs a disproportionate number of youths in Kenya; 44% of workers in the informal economy are aged 15 to 34, while 35% of the Kenyan population is aged 15 to 34.[6] More and more, youths are transitioning into the workforce via the informal economy. In 2019, one million youths entered the job market in Kenya. However, in 2022, only 5% of youths found work in the formal sector.

Given this trend, Kenyan youths are leveraging the flexibility offered by the informal economy and engaging in a **"portfolio of work,"** where they work multiple jobs and combine **"informal and formal wage labour, self-employment, agricultural, and/or unpaid family work."** They may also include education and training into their portfolio to build skills that align with different jobs. This strategy allows youths to seize opportunities as they present themselves, thereby maximising their income. The jobs they pursue often change over time as their skills and interests evolve.

> "This (portfolio of work) strategy has increasingly been seen as a 'logical choice' for most young Africans for the flexibility, risk mitigation, and independence it affords."
>
> **- Ngene et al., 2021**

[6] These figures are from 2016 and 2015, respectively.

Activities of youths in the informal economy

Most youths (65%) in the informal economy can be classified as **"occasional earners,"** meaning they do odd jobs for local informal enterprises to support their families during tough economic times. Many occasional earners are full-time students (75%) who fit work around their school hours. They earn 3,762 KSh per month on average, which contributes to their living expenses. This monthly income is substantially lower than the median monthly income for MSMEs in the informal sector; as of 2016, micro-enterprises earn 6,000 KSh, small enterprises earn 50,000 KSh, and medium enterprises earn 20,000 KSh.

There are also a large number of youths who work in the informal economy full-time. Among all youths in the informal economy, 9% are out-of-school youths in **"survival mode, unable to access the skills or support they need to break the cycle,"** earning 7,866 KSh per month on average. 16% are youths who have finished school and have multiple jobs at any given time, and they try new enterprise ideas every few months. These youths earn 11,191 KSh per month on average. The remaining youths can be classified as **"full-time entrepreneurs"** (9%), earning 12,405 KSh per month on average. These entrepreneurs are typically older than 22 with families to support, and they have one stable enterprise with several side gigs. They invest their time and money in growing their primary enterprise. Among these youths, **"entrepreneurship is a big part of their identity."**

Kenyan youths work a wide range of jobs in the informal economy. Hall (2017) clusters the activities that youths conduct as follows:

- Food industry (e.g., cooking and selling street food, setting up kiosks, delivering food)
- Food services (e.g., butchers, grocers, fruit and vegetable kiosks, coffee servers)
- Artisanal sector (e.g., production of ironware, carpentry, masonry, welding)
- Transport sector (e.g., drivers for public transport vehicles, matatus conductors, route planners, users)
- Informal transport sector (e.g., boda boda drivers) Solid waste management (e.g., finding recyclable materials, such as plastic, glass metals, electronics, or even hair weaves, which can be sold on, or made into other products)

Challenges faced by youths

The "Young and Kenyan" report by Shujaaz (2023) highlights several significant challenges youths experience in the informal economy and the workforce. With the present economic climate and increasing financial insecurity, youths need to take on more work to support themselves and their families. Nearly all youths in Kenya report having to earn money to supplement their costs, up from 47% in 2016.

> "For many young people, this is the defining characteristic of their generation: while young people in the past could rely on their parents, they have to look out for themselves."
>
> **- Shujaaz, 2023**

To make matters worse, youths in Kenya lack access to startup capital, preventing them from starting and growing enterprises. As of 2021, 22.5% of Kenyan youths were excluded from accessing financial services. Financial institutions in Kenya have a relatively small portfolio of financial products for young entrepreneurs. Compared to adults, financial products and services for youths are less profitable, as youths typically save less, are harder to reach, and have a longer time horizon to realise profit. As a result, youths rely on **"small, unsecured mobile loans that come with unsustainably high interest rates."**

More broadly, Kenyan youths do not feel like they are set up for success in the workforce. They say society - from the media to the education systems - is preparing them for jobs in the formal sector, even though these jobs do not exist. They feel they are not given access to training, mentorship, and networks to succeed, especially young entrepreneurs interested in growing their **"hustle"** into a thriving enterprise. Additionally, they feel unsupported by their government. The regulatory system is too complex, and young entrepreneurs face hurdles with basic tasks to set up an enterprise, such as securing a business licence or tax number.

GOVERNMENT INITIATIVES

KEY GOVERNMENT POLICIES

In this section, we provide an overview of the policies and initiatives that the Kenyan government has implemented to bolster the informal economy and its workforce, especially women and youth. We also explain several notable implementation challenges that hinder the effectiveness of these policies.

Supporting transition to formal economy

Since 1968, the Kenyan government has been implementing policies to support informal enterprises with formalisation. Table 2 provides a non-exhaustive list of these policies. These policies generally focus on:

- Legal frameworks for the informal economy, including legal processes for obtaining a business licence and specification of which levels of government have jurisdiction over different areas of the informal economy.
- Workers rights, including the right to form unions. Several policies also ban sexual harassment and other forms of discrimination.
- Regulating and supporting the financial sector to increase access to finance for informal enterprises.

Table 2: Policies to support transitioning to the formal economy

Policy	Year	Description
Trade Licensing Act (Cap 497)	1968	Provides for licensing of certain trades and enterprises; applicants need to state space ownership, titles/lease, or other evidence of permission to access and utilise the space for the enterprise
Micro-Finance Act	2006	Enables micro-finance institutions to mobilise savings and take deposits for re-investment, thus building a sustainable base for financial inclusion
Hours worked per month	2007	Established labour institutions, including the National Labour Board, Labour Administration and Inspection, Employment and Labour Relations Court, Committee of Inquiry, and Wages Council
Labour Institutions Act	2007	Establishes the basic minimum terms and conditions of employment, and the fundamental principles and rights at work. It also prohibits forced labour, discrimination, and sexual harassment in employment
The Labour Relations Act	2007	Accords workers and employers the right to form and/or join a trade union and to undertake collective bargaining regardless of whether they are in formal or informal economy
Occupational Safety and Health Act	2007	Provides for the safety, health, and welfare of employees and all persons lawfully present at places of work, including in the informal economy
SACCO Societies Act	2008	Enables SACCOs to mobilise savings and take deposits for re-investment, thus building a sustainable base for financial inclusion
The Constitution of Kenya	2010	Entrenches fundamental rights and freedoms of an individual, including the right to work for all workers and employees, the right to fair remuneration, and the right to join a trade union
Micro and Small Enterprises Act	2012	Provides legal and institutional frameworks for the informal economy and to address issues of promotion, development, and regulation of the sector
County Government Act	2017	Mandates the county governments to develop county integrated development plans. Informal economic activities in residential areas are handled under this framework of the country governments

Adapted from "The Informal Economy in Kenya" by FKE, 2021

Supporting the informal economy

Table 3 provides a non-exhaustive list of policies implemented by the Kenyan government to support the informal economy. The goal of these policies isn't necessarily to help informal enterprises transition to the formal sector. Instead, they aim to help enterprises grow and thrive, therefore creating employment opportunities for Kenyans. These policies critically review laws and regulations that inhibit growth for informal economy enterprises. They also provide enabling frameworks for MSMEs, including policies to encourage ICT growth and innovation.

Table 3: Policies for supporting the informal economy

Policy	Year	Description
Sessional Paper No. 1 on Economic Management for Renewed Growth	1986	Established a Special Task Force to review all policies, laws, and regulations relating to micro-enterprises and small enterprises Began designing informal economy policies
Sessional Paper No 2 on Small Enterprises and Jua Kali Development	1992	Recommended that relevant Ministries, Departments, and Agencies should address the legal and regulatory framework that inhibits growth of micro-enterprises and small enterprises Transferred micro-enterprise and small enterprise functions to the Ministry of Labour and Human Resource Development, which commissioned a task force to establish the Jua Kali Authority and Jua Kali Council
Economic Recovery Strategy for Wealth and Employment Creation	2003 - 2007	Establish a Commission to review all enterprise-related regulations Eliminated 11 licences in trade, and others were simplified to make the environment more enterprise friendly
Sessional Paper No. 2 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction	2005	Created an enabling policy and regulatory environment for micro-enterprises and small enterprises Advocated for harmonisation of trade licensing, local government reforms, security of tenure, capacity building, compliance, and decentralisation of enterprise regulation
Kenya Vision 2030	2008	Provided a blueprint that emphasises the importance of the informal economy and stresses on measures that are aimed at increasing productivity, enabling employment, and increasing entrepreneurs' incomes and public revenues Kenya Vision 2030 is implemented through five-year rolling Medium Term Plans
Kenya National Digital Masterplan	2014-2017 and 2022-2023	Provided a framework for leveraging and deepening the contribution of ICT to accelerate economic growth, encompassing four pillars: digital infrastructure; digital government service, product, and data management; digital skills; and digital innovation, enterprise, and digital business
Kenya National Trade Policy	2016	Advocated for the creation of an enabling and enterprise-friendly legal and regulatory framework, protection for micro-enterprises and small enterprises against government harassment, and the strengthening of micro-enterprise and small enterprises associations and cross border trade communities.

Adapted from "The Informal Economy in Kenya" by Federation of Kenya Employers, 2021 and "The Kenya National Digital Master Plan: 2022-2023" by The Ministry of ICT, Innovation, and Youth Affairs, 2022

Supporting women, youths, and vulnerable groups

The government initiatives listed in Table 4 target women, youths, and other vulnerable or marginalised groups. They provide access to funding, capacity building, enterprise support, and mentorship.

Table 4: Government initiatives for women, youths and vulnerable groups

Initiative	Year	Target group	Target sector	Services
Women Enterprise Fund	2007	Women only	Informal and formal	Access to finance Enterprise development
Youth Enterprise Development Fund	2007	Youth: Men and women	Informal and formal	Access to finance Enterprise development Marketing Entrepreneurial training/capacity building
Access to Government Opportunities	2013	Women, youth, persons with disabilities	Formal only	Access to government procurement Eliminated 11 licences in trade, and others were simplified to make the environment more enterprise friendly
Uwezo Fund	2013	Women, youth, persons with disabilities	Informal and formal	Access to finance Entrepreneurial training/capacity building Mentorship
National Government Affirmative Action Fund	2015	Women, youth, persons with disabilities, children, elderly	Informal and formal	Access to finance
The Hustler Fund	2022	"Bottom of the pyramid"	Informal	Access to financeEnterprise development Entrepreneurial training/capacity building

Adapted from "Gender Productivity Gap in Kenyan Informal Enterprises" by R. Agwaya and S. Mairura, 2019, The Kenya Institute for Public Policy Research and Analysis and "The Hustler Fund," 2023

Challenges with policies and implementation

Implementation challenges undermine the effectiveness of these policies and initiatives. Many ministries, departments, and agencies are involved in policy design, implementation, and oversight. Overlapping mandates overcomplicate implementation, introduce administrative red tape, and blur lines of accountability. In some cases, there is also a general lack of political will to implement the policy and put measures in place to ensure it succeeds.

Adding to these challenges, policies supporting ICT growth and innovation do not explicitly consider the informal economy. Policymakers assume that the same ICT policies can be used for both the formal and informal economies. Meanwhile, the environments, opportunities, and use cases for technology can differ drastically.

> "The effectiveness of the current policy innovation and technological intervention is inadequate in many ways… the informal sector is lacking in: exclusive innovation and technology policies to guide the sector; clearly identified non-governmental interventions to nurture innovations or source technology; and recognition of the existing different types of innovations."
>
> **- Nyaware, 2020**

Lastly, social norms can influence enforcement and adherence to certain policies, especially around discrimination and harassment. According to Calder et al. (2021), **"government policies, laws, and regulations can both reflect and reinforce the norms that play out… Norms influence whether gender-responsive policies exist, and whether their implementation and enforcement are well-funded and monitored."** For example, Kenya's Constitution and legal code guarantee women's rights, but government investment in enforcement is insufficient, and there persists a lack of compliance among the general public.

FUTURE TRENDS

THE GIG ECONOMY

In this section, we describe the growing trend of the gig economy and why Kenyans choose to partake in this type of work. We also provide an overview of the growing body of literature around the potentially harmful effects of the gig economy on workers' well-being.

Benefits of the gig economy

The gig economy is a growing trend worldwide. However, in Kenya, the gig economy has been the norm for decades and is closely intertwined with the informal economy. Throughout the literature, definitions of the gig economy and the informal economy are markedly similar, and it's often unclear what differentiates the two. Mercy Corps (2019) defines the gig economy according to its key characteristics:

- **Independent work:** Gig economy workers have control and flexibility over the type of work they perform, and where and when they perform the work.
- **Short-term nature of work:** Gig economy work is short-term and conducted on a task-by-task basis. Both the employer and the client recognise the limited duration of the work.
- **Payment per task:** Gig economy workers are paid by task and do not receive a salary or hourly wage.

Below are the main reasons why workers in Kenya partake in the gig economy:

- The gig economy offers flexibility that is not offered through traditional employment.
- The gig economy provides temporary employment between career jobs or between full-time work and retirement.
- Many gig economy jobs pay better than other types of work, especially online work.
- Workers can supplement income from their full-time jobs with gig economy work.
- In many cases, the gig economy is the only option available, especially given the current volatility of the economy. Some university graduates are able to pursue gig economy work in their fields, but others are forced to take on work that does not suit their skillset.

Well-being of gig economy workers

There is a burgeoning body of evidence that demonstrates the potentially harmful effects of the gig economy on the well-being of workers. The flexibility that leads many to pursue work in the gig economy can be linked to experiences of uncertainty and insecurity. In addition, gig economy workers endure long, irregular hours, and the distinction between work and personal life is blurred, which affects them both physically and mentally. These challenges are exacerbated for certain groups, particularly women and low-income gig economy workers, who already experience increased levels of stress and insecurity.

Many workers find themselves trapped in the gig economy because they lack the resources to **"disengage"** and transition to other types of employment. Most do not have financial safety nets, and so they have to continuously take on different tasks in the gig economy instead of taking time off to search for something more stable. This dynamic also forces them to continuously adapt and re-skill, investing their own time and resources to meet the ever-changing demands of the market, consequently depleting their savings.

Finally, online gig economy workers report feeling isolated and lonely since their interpersonal contacts and communications are drastically reduced.

> Social interactions between fellow workers, family, and friends have long been considered effective for the psychological and physiological health of workers. Gig workers were often confined to their homes or cafés….
>
> **- Anwar and Graham, 2021**

TECHNOLOGY

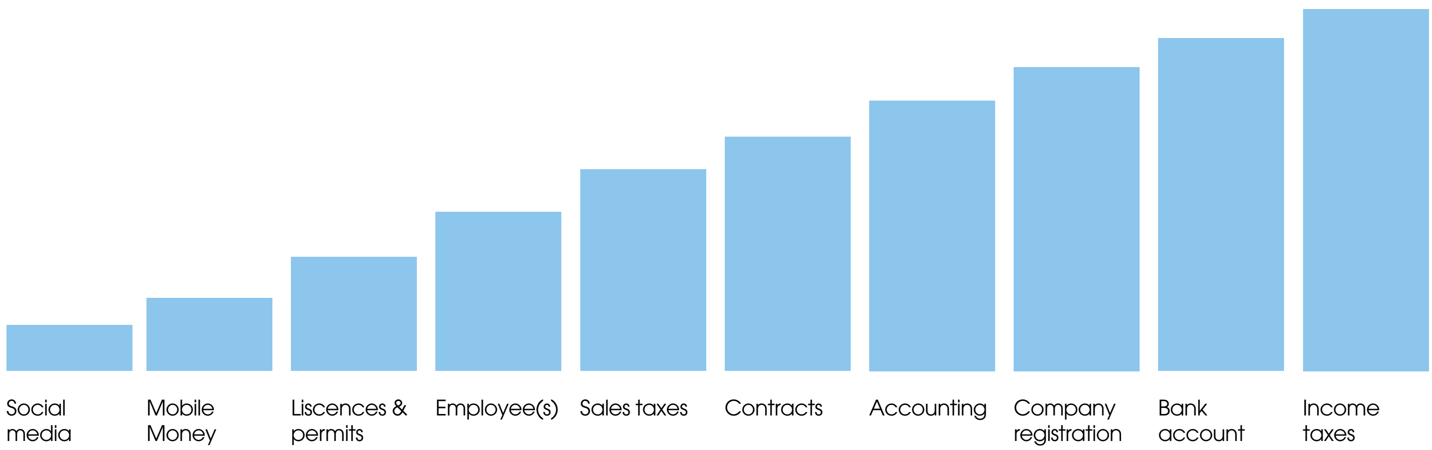
In this section, we describe the rise of technology in the informal economy. First, we detail how technology can pave the way for formalisation through "somewhat formal" enterprises. Second, we explain how COVID-19 accelerated technology innovation and adoption in the informal sector, along with the enduring impacts of the pandemic. Third, we provide an overview of the types of technologies that are available to informal economy workers in Kenya, highlighting the potential benefits for women. Last, we discuss the specific challenges posed by technology in the informal economy.

"Somewhat" formal enterprises

Digital technology has given rise to "somewhat" formal enterprises, which are informal enterprises that have formal elements. "…the digital world allows (an enterprise) to take on formality in small, accessible, low-cost steps that match company needs - more of a ladder to climb than a cliff to scale." Image 2 (below) displays how this formalisation typically occurs. For example, informal enterprises start using apps to support their marketing and operations (e.g., Facebook, Youtube, etc.) and as their enterprise becomes more established, they begin taking steps to formalise, such as obtaining the appropriate licences and permits, which they also acquire using digital technology. Over time, these enterprises begin resembling those in the formal economy.

> "We'd expect this digital progression to enable a lot more (enterprises) to successfully make the transition from startup to formal enterprise because each step is at less cost and less risk. Even if (an enterprise) doesn't make it to the apex, there is value created at each step."
>
> **- Ng'weno and Porteous, 2018**

Image 2: Digital enterprise progression



COVID-19 and the informal economy

The COVID-19 pandemic ushered in a wave of technology innovation and adoption across Kenya. Many new technologies were developed in response to the pandemic: telehealth apps to offer online consultations, contact tracing apps to trace people who were exposed to COVID-19, and drone deliveries to deliver medical equipment to rural areas, for example. Companies also began developing new financial products, seizing the opportunity presented by a rise in cashless transactions. Many of these new products involved extending credit to low-income populations to increase access to finance.

Even though access to finance increased, many informal enterprises were financially impacted by the pandemic. Lockdown measures prevented Kenyans from leaving their homes, affecting jobs in the informal sector that rely on face-to-face interactions, from shop owners to domestic workers. In response, Kenyans drained their savings, liquidated assets, and borrowed money to cope with economic downturns and shutdowns. Many who borrowed money fell victim to financial fraud and identity theft; the expansion of credit increased reckless lending, fraud, and privacy concerns. In response, the government extended access to credit to the private sector, but to date, there is no evidence of who received this credit.

Many informal enterprises will never recover from the economic downturn caused by COVID-19, particularly those owned by women. Most enterprises that failed during the pandemic were newer and smaller than the average, and pre-pandemic, women-owned enterprises tended to be newer and smaller. The pandemic also burdened women with additional domestic responsibilities - for example, school closures forced women to stay home and care for their children who would otherwise be at school - taking time away from their enterprises.

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“Jobtech” platforms

Kenyans in the informal economy are increasingly using digital technology to support and grow their enterprises. According to the Jobtech Alliance (2023), the online platform economy is valued at 109 million USD (16 billion KSh), employs 35,000 workers, and is expected to grow at a rate of 33%.

Given this potential, there is a growing body of literature on Kenya's “Jobtech” platforms. The Jobtech Alliance (2023) created a taxonomy of these platforms, giving organisations across the public and private sectors a common language to use when talking about the online platform economy, and coordinating research and best practices. Jobtech platforms in Kenya can be categorised in one of the following ways:

- **Platforms for offline work:** Platforms where work is mediated online but delivered offline, also known as location-based platforms, as per the World Bank.
- **Digital services for micro-enterprises:** Platforms that improve access to markets, enterprise performance, or productivity of self-employed individuals or micro-enterprises.
- **Tech-enabled skilling:** Edtech platforms that equip people for the world of work.
- **Platforms for digitally-delivered work:** Platforms where work is mediated and delivered online, sometimes known as cloud work.
- **Digital tools for worker enablement:** Digital platforms that provide workers with tools that enhance their rights, benefits, and protections.

Understandably, there is a lot of excitement over the benefits Jobtech can provide to informal economy workers. Online digital platforms provide the opportunity to foster equality through two different mechanisms. First, the minimal startup capital needed to access these platforms levels the playing field, affording those from low-income backgrounds an equal chance to generate income. Second, workers can choose their hours around their lifestyle, which helps women balance work and family commitments. In fact, **“70-80% of women on platforms in Nigeria, South Africa, Kenya, India, and Indonesia believed that platform work had created new income opportunities for them.”** Many Jobtech platforms also offer their workers benefits, such as access to insurance, training, and support, and for some platforms, their workers report relatively high levels of job satisfaction.

However, while here are low barriers to entry, online gig work still requires infrastructure and hardware to be completed successfully, including mobile networks, electricity, laptops, monitors, and data. These requirements put Kenyan youths in rural areas at a disadvantage. **“70% of youth in rural areas do not find (Jobtech) appealing because they lack internet access, and buying data bundles is too expensive. They also state the lack of reliable electricity and the fact that most of them are computer illiterate.”** Due to these challenges, they struggle to access platforms and information on Jobtech opportunities.

Many online platform jobs also score low against **“fair work”** principles, especially fair pay. The global market for online gig work is highly competitive, and many gig economy workers in Kenya have to accept jobs that pay below the local minimum wage to compete with gig workers in other countries. This trend, often described by researchers as a **“race to the bottom,”** perpetuates a cycle of diminishing wages, as workers continue to accept lower pay.

CONCLUSION

LIMITATIONS

Many of the statistics presented throughout this report are drawn from the 2016 MSME survey in Kenya. 2016 was the last time this data was collected. Therefore, these statistics are outdated and do not factor in changes brought about by the COVID-19 pandemic, which had a drastic and lasting impact on the informal economy.

The 2016 MSME survey also underrepresents agriculture. According to the survey results, less than 1% of MSMEs fall within the agriculture, forestry, and fishing category. However, a survey conducted by the Central Bank of Kenya in July 2022 found that "the agricultural sector employs over 40% of the total population and more than 70% of the rural populace." The majority of this work would likely be considered informal. This underrepresentation limits our understanding of the role agriculture plays in the informal economy and the overall MSME landscape. It can also inhibit policymakers from developing targeted interventions for the agricultural sector, as many use the results from the MSME survey as the foundation for evidence-based policies and solutions.

Additionally, there is a lack of clarity, consistency, and nuance around key terms and classifications. For many of the terms critical to this study, the definitions vary between sources, and in some instances, they are nearly the same. For example, definitions of "gig economy" and "informal economy" often overlap. Relatedly, many studies defer to international organisations like the ILO when defining terms such as "gig economy" and "informal economy." These standard definitions lack nuance specific to the Kenyan context and may overlook important characteristics that affect how we research the informal economy. The categorisation of activities also varies by organisation, and categories like "retail" and "wholesale" include different activities across different studies.

Finally, few peer-reviewed studies from academic journals take a nuanced, forward-looking approach to researching the informal economy. While there is a wide body of literature on the informal economy, most analyse Africa or the Global South more broadly and are not context-specific to Kenya. Many studies also assess what has been done in the past and do not shed light on future trends, challenges, and opportunities. To gather insights into the "future" of the informal economy, we had to rely primarily on industry reports and white papers.

AREAS FOR FURTHER RESEARCH

In this section, we describe four priority areas for further research, drawing on gaps we identified in the literature, challenges with policy design and implementation, and the limitations of our study.

Contextualising and clarifying key terms

Defining and contextualising relevant terms is a critical first step to developing recommendations that will support the informal economy in Kenya. Suppose we fail to contextualise the definition of "informal economy" and other key terms. In that case, we may inadvertently ignore essential sub-sectors or sub-populations simply because we did not include them in our definitions. For example, some definitions include the agricultural sector under the informal economy umbrella. Should agriculture be included in the definition? This decision will influence the type of research we conduct and the recommendations we provide.

Understanding norms and the informal economy

Throughout the literature, it is clear that norms play a significant role in how workers engage in the informal economy, but there is limited evidence on how to leverage or shift these norms to improve outcomes for workers. Most well-researched interventions involve increasing access to finance or improving registration processes. However, gender norms, for instance, can hinder the performance of women-owned enterprises. The norms in Kenya dictate that women are responsible for household and care work, giving them less time to devote to their enterprises, which impacts their revenue and likelihood of enterprise failure. We lack an in-depth understanding of how interventions that shift norms or lessen women's domestic responsibilities affect their success in the informal economy.

Supporting youths in the informal economy

Throughout the literature, it is clear that norms play a significant role in how workers engage in the informal economy, but there is limited evidence on how to leverage or shift these norms to improve outcomes for workers. Most well-researched interventions involve increasing access to finance or improving registration processes. However, gender norms, for instance, can hinder the performance of women-owned enterprises. The norms in Kenya dictate that women are responsible for household and care work, giving them less time to devote to their enterprises, which impacts their revenue and likelihood of enterprise failure. We lack an in-depth understanding of how interventions that shift norms or lessen women's domestic responsibilities affect their success in the informal economy.

Improving well-being of gig economy workers

We need more research on effective policies and interventions to improve working conditions for Jobtech and gig economy workers. While Jobtech and the gig economy offer notable benefits - flexibility, equal access to opportunities, relatively high job satisfaction - the race to the bottom means that some Kenyans work long hours for very little pay. As a result, many are effectively trapped in the gig economy, unable to save enough money to take the time to find more stable employment. They have to continuously accept short-term jobs to meet their financial obligations. Studies have also shown that the online gig economy negatively affects workers' well-being; the lines between work life and personal life are blurred, workers feel lonely and isolated, and the uncertainty and insecurity associated with unstable income can cause stress. Standards and regulations should be implemented to protect workers from the downsides of Jobtech and the gig economy, maximising the benefits while mitigating potential harm.

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APPENDIX: EMERGING SEGMENTS

Segmenting by economy activity

KNBS (2016) segments MSMEs by the main activity that enterprise owners conduct. Many other organisations across the public and private sectors also use this segmentation approach to align with the findings from the 2016 MSME survey. Their segments of MSMEs include:

- Agriculture, forestry, and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam, and air conditioning supply
- Water supply, sewage, waste management, and remediation activities
- Construction
- Wholesale and retail trade, repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific, and technical activities
- Administrative and support service activities
- Education
- Human health and social work activities
- Arts, entertainment, and recreation
- Other service activities

Segmenting by revenue

Shujaaz (2023) segments youth in the informal economy by the amount of revenue they earn per month. For each of these segments, Shujaaz provides estimated demographic data and descriptions to humanise the segments. These segments can be used to target interventions to support youth entrepreneurship and employment.

Table 5: Segments by revenue according to Shujaaz (2023)

Monthly revenu	Name of segment	Description
12,405 KSh	Full-time entrepreneurs	They have one established enterprise and/or two to three gigs
11,191 KSh	Start up hustlas	They experiment with new enterprises every three to six months
7,866 KSh	Survival-mode hustlas	They earn income from manual jobs and small tasks
3,762 KSh	Occasional workers	They are students who do occasional work for informal enterprises

Segmenting by skills and earnings potential

Research Plus and Triple Line Consulting (2022) segments enterprises in the informal economy by the skills of the owner and earnings potential of the enterprise. These segments can be used for targeting financial products and enterprise support.

Table 6: Segments by skills of owner and earnings potential according to Research Plus and Triple Line Consulting (2022)

Name of segment	**Skills of owner**	**Description/earnings potential**
Livelihood-sustaining	Enterprise owners (and their employees) do not have relevant skills/training	Enterprise owners rely on the enterprise as their sole source of income
Skills-based business	At least a few employees (including the owner) have relevant skills	Higher level of education than livelihood sustaining enterprise owners
Successful MSEs	Owner has relevant skills	May or may not be registered Higher access to finance, training, and support than livelihood sustaining and skill-based businesses Generate profit that is at least double the minimum wage
Moderate Growth MSE	Owner has relevant skills	Most are registered and located in urban areas Rarely owned by youths Operating for >5 years
High-growth startups	Owner has relevant skills	100% are registered Formal skills-based MSMEs with ambitious purposes Mostly owned by youths Operating for <5 years

TRANSFORM is an impact accelerator that unites corporates, donors, investors and academics to support visionary enterprises. Together, we test and scale new solutions that support low-income households by tackling environmental challenges, improving health and wellbeing, and building inclusive economies.

We combine grant funding, business insight, practical experience, resources and networks. Our tailored approach creates evidence which we share widely to help leaders across the world solve global challenges.

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