

Informal Businesses and Choice of Products' Market in Kenya

By Evelyne Njuguna and Purity Kagendo

Choice of markets to sell products is of vital importance to any business survival, performance and profitability. It is paramount for businesses to access market and create awareness of their products and services to potential consumers. Informal businesses comprising economic activities that are not under government observation, regulation or taxation are characterized by ease of entry, small scale activity, self-employment with a high portion of family workers and little capital. Even with these traits, products from the informal sector are a source of livelihood for the vulnerable groups in the economy, employing women, youth, and rural communities. In Kenya, the informal sector contributes to over 80 per cent of total employment.

Following the recognition of the informal sector as a key driver and source of employment, stakeholders including governments and researchers are increasingly viewing the sector as a pathway for poverty reduction. The Government of Kenya has put in place institutional, legal and regulatory frameworks to mainstream and regulate the activities from these sectors with focus on access to the markets being central. These include Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth, Sessional Paper No. 2 of 1992 on Small Enterprises and Jua Kali Development, Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction, the Buy Kenya-Build Kenya Strategy of 2017, Micro and Small Enterprises Act (MSEA) No. 55 of 2012 and the Access to Government Procurement Opportunities (AGPO).

Despite these measures, informal businesses' access to markets remains a hindrance to their growth and competitiveness. From the Micro, Small and Medium Enterprises (MSMEs) survey of 2016, informal businesses have a choice to sell their products to various markets, including individual consumers, MSMEs, large establishments (non-MSMEs),

exports and access to government through the procurement processes. Products' market strategies by businesses are important as they aid in decisions on how to compete. Unlike formal businesses that can easily adopt marketing strategies such as price posting, informal businesses tend to lie low and would rather avoid sending informative signals describing the product, price and their location. This is principally because such marketing strategies would expose them to government regulation such as taxing authorities of a country.

This policy brief is based on a KIPPRA study¹ that looks at how informal businesses in Kenya choose a product market and factors that influence such choices. Such information is necessary in unblocking the hindrances of the informal businesses' contribution to the economy.

Determinants of the Choice of the Market

From literature, several factors determine the choice of a product market in businesses either directly or indirectly. These include market research, product diversity, market information, marketing institutional support, business location, access to capital and credit and socio-economic factors including education status, skills development and gender of the business owner.

Focusing attention to the informally operated businesses in Kenya, the KIPPRA study finds several factors to have a considerable influence on the choice of product market that, if addressed, could lead to increased productivity of businesses in the informal sector.

- a) Type of business in a sector of the economy determines the product market accessed. Entrepreneurs engaging in trade and services, unlike manufacturing, are found to access

¹ Evelyne Njuguna and Purity Kagendo (2019), Factors that determine choice of products market for businesses in the informal sector in Kenya

government opportunities. In the agri-business sector narrow markets such as individual consumers who in most cases are end consumers are preferred by informal business owners. This shows little value addition of agricultural products and low production volumes that cannot satisfy wider markets.

- b) Access to market information proxied by the presence of a mobile phone in the business setup is key. Empirical evidence shows that informal businesses owning a mobile phone are more likely to reach individual consumers as opposed to large establishments. The mobile phone is also a source of market information. This serves as an indicator to the increased adoption and acceptance of ICT in all spectrum of businesses whether formal or informal.
- c) Gender of the entrepreneur determines the market choice. Results show that female-owned businesses tend to have a limited scope and do not reach wider markets compared to large establishments. This shows that women do not necessarily engage in business with growth and expansion as the main objective but rather because of the need to be independent and create space for running a household without too much restrictions. For most women, time spent on businesses is also limited as they gamble between taking care of families and running the business. Access to other markets such as large establishments and exports requires extra commitment and resources, which are mostly not available for women.

Enhancing Informal Businesses Decisions on Choice of Products' Market

To enhance an informal business' decision in choice of a products' market, promotion of locally

manufactured goods, change of mindset towards that of growth and expansion is necessary and women empowerment should be advocated for.

- 1) In expanding market for locally manufactured products, first the government in its procurement processes needs to promote buying of locally manufactured products, including those from the informal businesses. Secondly, is the need to reduce the red tape, a move that may encourage compliance with the set procurement terms and conditions. Further, businesses in the agribusiness sector should be provided with support in value addition techniques and in strategies such as groups and cooperatives formation to increase the volume of produce while at the same time increasing the bargaining power when accessing wider markets.
- 2) There is need to encourage access to market information using closely available devices such as mobile phones in businesses. Through social media, texting and calling, it is easy to reach a wider network of consumers and there is therefore need to make use of mobile phones affordable to these cadre of businesses. This is through lowered tariffs and taxes imposed on data usage in the telephony industry. This will encourage more use of the mobile phone in doing business among the informal businesses.
- 3) Have in place policies that target closing of the gender gap especially for women in business. This is through emphasis on women empowerment by having programmes and interventions that promote women's access to productive resources such as land, which can be used as collateral when acquiring capital for business expansion and growth. This will eventually lead to ability to access wider markets.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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For More Information Contact:

Kenya Institute for Public Policy Research and Analysis
Bishops Road, Bishops Garden Towers
P.O. Box 56445-00200, Nairobi
Tel: 2719933/4
Cell: 0736712724, 0724256078
Email: admin@kippra.or.ke
Website: <http://www.kippra.org>
Twitter: [@kipprakenya](https://twitter.com/kipprakenya)