



International
Labour
Organization

PROSPECTS



► Challenges related to informality and formalization in Turkana County, Kenya

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A report about challenges related to informality and formalization of enterprises and jobs in the informal economy in Turkana County, Kenya.

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The views expressed in this report are those of the authors and do not necessarily reflect the views or policies of ILO and partners.

► Foreword

Turkana County is an important PROSPECTS County in Kenya. It hosts 200,253 refugees in the Kakuma Refugee Camp (158,811) and Kalobeyei Integrated Settlement (41,442). The County informal economy is estimated at 95.5% of the economy and makes significant contribution to employment creation and income generation, both for refugees and host communities. In view of the informal economy presenting an opportunity for refugees and host communities, overcoming barriers in the sector is key to promoting sustainable livelihood opportunities. The ILO conducted a study to identify these barriers. Specifically, those related to informality and formalization of enterprises and jobs in the informal economy in Turkana County. The study gathered important information from key stakeholders on: challenges of informality; current, planned or potential initiatives to reduce vulnerabilities and improve services and support to actors in the informal economy in Turkana County; the challenges and threats to the formalization of actors in the informal economy in Turkana County; and the opportunities to formalize the informal economy in Turkana County. This report details the findings of this study in a clear and succinct way with a view creating dialogue among the stakeholders involved in addressing the challenges of informality in Turkana County.

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► Abbreviations and Acronyms

| | |
|---------------|--|
| AAH-I | Action Africa Help International |
| AEC | Africa Entrepreneurship Collective |
| BLEC | Blessed Community Empowerment Organization |
| CIDP | County Integrated Development Plans |
| CSOs | Civil Society Organizations |
| DRS | Department of Refugee Services |
| FBOs | Faith Based Organizations |
| FGD | Focus Group Discussion |
| FKE | Federation of Kenya Employers |
| ICT | Information Communication and Technology |
| IFC | International Finance corporation |
| ILMA | Integrated Labour Market Assessment |
| ILO | International Labour Organization |
| KCB | Kenya Commercial Bank |
| KeSIC | Kenya Standard of Industrial Classification |
| KII | Key Informant Interview |
| KIPPRA | Kenya Institute for Public Policy Research and Analysis |
| KISEDP | Kalobeyei Integrated Socio-Economic Development Plan |
| KKCF | Kakuma Kalobeyei Challenge Fund |
| KNCCI | Kenya National Chamber of Commerce and Industry |
| KRA | Kenya Revenue Authority |
| LWF | Lutheran World Federation |
| MoITED | Ministry of Industrialization Trade and Enterprise Development |
| MSEA | Micro and Small Enterprise Authority |
| MSEs | Micro and Small Enterprises |
| MSMEs | Micro, Small and Medium Enterprises |
| NITA | National Industrial Training Authority |
| NGOs | Non-Governmental Organizations |
| NHIF | National Hospital Insurance Fund |
| NSSF | National Social Security Fund |
| PIN | Personal Identification Number |
| REREC | Rural Electrification and Renewable Energy Corporation |
| UNHCR | United Nations High Commissioner for Refugees |

► Executive Summary

Turkana County is an important PROSPECTS County in Kenya. It hosts 200,253 refugees in the Kakuma Refugee Camp (158,811) and Kalobeyei Integrated Settlement (41,442). The County informal economy is estimated 95.5% of the economy and makes significant contribution to employment creation and income generation, both for refugees and host communities. In view of the informal economy presenting an opportunity for refugees and host communities, overcoming barriers in the sector is key to promoting sustainable livelihood opportunities. To overcome these barriers, the ILO sought to identify the challenges related to informality and formalization of enterprises and jobs in the informal economy in Turkana County.

Specifically, the International Labour Organization sought to gather information from key stakeholders on challenges of informality, current, planned or potential initiatives to reduce vulnerabilities, improve services and support and address challenges along with an assessment of opportunities and threats to the formalization of actors in the informal economy and lead the logistical support of the organization of information sharing sessions on informality for the identified stakeholders. Using data from a field survey and key secondary sources, this report details the challenges of informality in Turkana County, the programmes addressing these challenges and the setbacks associated with the programmes.

The study established the following:

- 1.** Informality is pervasive in Turkana County with almost nine in ten enterprises yet to start their formalization journey. These businesses have not been formally registered by the registrar of companies, licenced by the local authorities or complied with taxation and social security requirements. Given the high levels of informality, enterprises are unproductive and unable to create jobs or generate income for the people.
- 2.** Registration of businesses is hindered by lack of awareness of the registration pathways available for various types of informal enterprises. Even so, bureaucratic procedures and delays by registration service providers is discouraging many small businesses from registering. The capacity of the current registration centres in Lodwar and Kakuma is not adequate to facilitate efficient registration processes. In addition, lack of identity cards remains a key bottleneck for business registration among host communities. For refugees, delays in issuance and renewal of alien cards hindering prospective businesses from business or tax registration.
- 3.** Informal enterprises perceive that the costs of taxation registration and compliance outweighs its benefits given the requirements of record keeping and making periodic online returns as per the law. Most informal businesses have limited resources and technical capacity to compute and file returns. There is generally a lack of clarity of how tax compliance can benefit informal businesses who are barely surviving.
- 4.** There is a general mistrust and weak dialogue between informal sector and government. This makes tax compliance and other areas of co-operation such as business registration more difficult. The mistrust arises from tax agents from both the national and county government perceiving the informal sector as unwilling to pay their taxes. On the other hand, informal enterprises view the officers as forceful when collecting their taxes. The existing taxation system does not favour businesses operating in a pastoral economy context. The system envisaged regular tax payments yet earnings from livestock and livestock products are irregular and unpredictable.
- 5.** Informal business face diverse local licenses and charges that are considered too expensive for their scale as they are not necessarily dependent on their scale or revenue. While some informal enterprises have flexible license payment terms, the charges are low and affordable in the short run but expensive in the long run.
- 6.** Over 95 percent of informal sector workers in the County do not have social security protection. Lack of awareness of the need for social security or that the businesses are too small to absorb costs associated with social security account for low compliance. Also, majority of enterprises are aware of the nature of social security products available in the market.

7. The workforce in Turkana County has no health cover despite having good knowledge of the national health insurance scheme. Most employers in the informal sector know that providing health insurance is imperative for them but did not comply due to poor enforcement as well as limited cash flow.
8. Business informality is a key reason for limited access to affordable and adequate credit for enterprises. As a result of informality and low levels of productivity, enterprises do not have formal and document records, bankable plans, cannot accumulate collateral and other documentation to facilitate issuance of credit. These enterprises rely on informal sources of credit which is generally more expensive than the formal sources. In addition, the enterprises circumvent the requirement to be formal by borrowing from formal sources uses the owners accounts especially in instances where the separation between personal and business finances is not distinct. This may explain why 40 per cent of informal enterprises in Turkana County have accessed formal finance.
9. The informal sector suffers poor access to infrastructure including electricity, water, space for businesses, and information and communications technology infrastructure such as computers, smart phones and internet

A number of programmes are being implemented by state and non-state actors to address the aforementioned challenges. Programmes by state agencies include:

- i) One stop shop *Biashara* Centre in Kakuma;
- ii) Constituency Industrial Development Centre by the Micro and Small Enterprises Authority; and
- iii) *Biashara* Fund by Turkana County Government

Private sector initiatives include:

- i) *Boresha Biashara* loan by Kenya Commercial Bank, and
- ii) Mentorship programme by Kenya National Chamber of Commerce and Industry

Programmes being implemented by non-governmental organizations include:

- i) Start and Grow Your Business by Action Africa Help International;
- ii) Business Development Services by African Entrepreneur Collective;
- iii) Digitructs by Digitructs but funded by the International Finance Corporation through the Kakuma Kalobeyei Challenge Fund; and
- iv) Mini Grids by Renewvia Energy Corporation, which is funded by the International Finance Corporation through the Kalobeyei Challenge Fund.

The programmes have the following gaps and/or implementation challenges:

- ▶ A dispute between the United Nations High Commissioner for Refugees and Africa Help International has halted implementation of the Start and Grow Your Business
- ▶ The *Huduma* Centre in Lodwar lacks the capacity to resolve issues at the local level thus referring matters to Nairobi thereby causing unnecessary delays.
- ▶ The *Boresha* Biashara loan accepts household items as collateral but the refugees may lack the household items to use as collateral while the host community cannot use their land as collateral because it is communal.
- ▶ The efficacy of the business development services by the African Entrepreneur Collective is restricted by the limited rights of the refugees to do business and own property in Kenya.
- ▶ The *Biashara* Fund implemented by Turkana County Government is not accessible to the refugees

- ▶ Outreach of the Constituency Industrial Development Centres implemented by the Micro and Small Enterprises Authority is undermined by low financial and human resource capacities of the Authority

The following are some of the recommendations and strategies to be pursued by different actors in addressing the challenges related to informality and formalization in Turkana County:

National Government Ministries, Departments and Agencies

1. Informality is pervasive in the Turkana economy with 86.38 percent of the enterprises in Turkana County yet to start their formalization journey and 9.61 a step away from informality. The National government in partnership with Turkana County Government should devolve the registration of businesses to Turkana County. This may be done through improving the capacity of the available Huduma Centres, MSEA branch and Department of Trade to ensure that businesses get quick registration services
2. Lack of identity cards and alien identification cards by host communities and refugees, respectively is a major hinderance to registration of businesses in Turkana County. The National Registration Bureau and Department of Refugee Services should ensure timely registration of persons in Turkana County irrespective of their status to unlock business registrations.
3. Refugees who renew their alien identification cards are issued with new identification card numbers, which leads to loss of records. The National Registration Bureau and the Department of Refugee Services should harmonize their records and ensure that the identification number on the renewed alien identity card is similar to the expired one.
4. Low penetration of smart devices such as computers and smart phones among the host communities and refugees is limiting access to internet by informal enterprises. The Ministry of ICT, Innovation and Youth Affairs in collaboration with the Turkana County Government and mobile phone service providers should incentivize ownership of smart devices through tax waivers for remote and marginalized regions

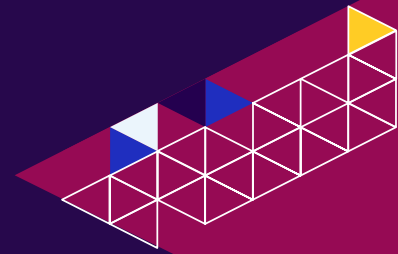
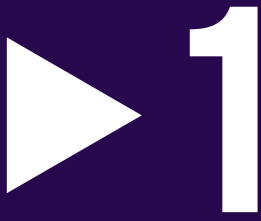
Turkana County Government

5. Turkana County Biashara Fund (Amendment) Act 2020 restricts enterprises owned by refugees from accessing the *Biashara* Fund operated by the Turkana County Government. The County Government should, therefore, amend the Act to allow enterprises owned by legally registered refugees in the county to benefit from the revolving fund.
6. Management of the Turkana County *Biashara* Fund by the Turkana County Government undermines key tenets of governance in the running of the affairs of the Fund including screening of potential borrowers and enforcement of repayment. The Turkana County Government should explore establishing a county parastatal as in the case of Meru County with the Meru County Microfinance Corporation to oversee the Fund
7. Turkana County Government should partner with the Micro and Small Enterprises Authority to offer productivity improvement skills training to the informal enterprises in the county. Skills training areas to be targeted include marketing, technology adoption, pricing, and customer service

Development partners

8. The start and grow your business programme by Action Africa Help International has come to a halt due to uninvestigated corruption allegations on the part of AAH-I employee yet the programme was impactful. For benefit of the host community and the refugees, the AAH-I and the UNHCR should amicably solve their disputes at a partner level without adversely halting the programme
9. The United Nations High Commissioner for Refugees and the International Finance Corporation should partner with the Micro and Small Enterprises Authority to upscale the Constituency Industrial Development Centres in Turkana County

10. Non-certification and/or non-standardization of skills training provided by business development service providers in Turkana County restricts use of certificates from such training within Turkana County. The business development service providers should, therefore, partner with the National Industrial Training Authority to promote standardization of the training and recognition of the certificates. This can be implemented within the Recognition of Prior Learning Framework of 2021.
11. The energy demands in the refugee camps in Turkana County is beyond the capacity of the Renewvia Energy Corporation Minigrid. The Corporation should, therefore, partner with the Rural Electrification and Renewable Energy Corporation (REREC) to upscale electricity production and supply in the county.



INTRODUCTION

► 1.1 Study Context

Turkana County is the second-largest County in Kenya in terms of land size¹. It is the poorest County, with an overall poverty incidence of 79.4 percent in 2015/2016 (Kenya Institute for Public Policy Research and Analysis (KIPPRA), 2020). The County had an estimated population of 926,955 persons (excluding refugees) in 2019 with at least half of the population (52.3%) falling within the working age of 15-65 years. The County had over 791,011 persons (excluding refugees) aged 5 years and above in 2015/16. Of these, 41.4 percent were employed, with the male proportion being higher (42.5%) than the females (40.3%). Equally, the persons not in the labour force were at 40.1 percent with women being more (42.1%) than men (38.3%). The average unemployment rate was 18.4 percent for the County. Among the Sub-Counties, Turkana West, which is the area hosting refugees, had the highest unemployment rate of 23.1 percent.

Turkana County hosts two important refugee settlements: Kakuma Refugee Camp and Kalobeyei Integrated Settlement, with an estimated population (excluding asylum seekers) of 158,811 and 41,442 respectively as of June 2022 (United Nations High Commissioner for Refugees (UNHRC), 2022). The refugees in Kakuma Refugee Camp are mainly from South Sudan (66.3%), Somalia (18.4%) and Democratic Republic of Congo (5.3%). Others are from Ethiopia (4.1%), Burundi (3.1%) and Sudan (2.4%). An assessment in 2021 estimated the employment rate for refugees in Kakuma and Kalobeyei Integrated Settlement at 24 and 43 percent, respectively (UNHRC, 2021) This is compared to employment rate of 71 percent for the host communities. Similarly, there were differences within Kakuma camp with one-third of refugees in Kakuma I or II being employed compared to 5.5 percent of refugees in Kakuma IV.

The County has a large informal economy that makes significant contributions to employment creation and income generation, both for refugees and host communities. Demand for goods and services in Turkana is rising especially in Lodwar, Kakuma and Kalobeyei. For instance, Kakuma's market value was estimated at USD 56 million per year in 2018, of which half was attributed to consumer goods (International Finance Corporation (IFC), 2019). The growth is buoyed by population growth, urbanization and devolution. In view of the informal economy presenting an opportunity for refugees and host communities, overcoming barriers in the sector is key to promoting sustainable livelihood opportunities. A study by UNHCR and World Bank (2019) showed that refugees have useful job-related skills that can be strengthened and matched to market and community needs and exploited to improve their livelihoods through engagement in wage employment and entrepreneurship. Also, formalization of the pastoral economy remains a key priority for the County Government of Turkana.

Kenya has a rapidly growing and burgeoning informal economy, which accounted for 83.4 percent of total employment in 2020 up from 82 percent in 2016. The contribution of the informal economy to Kenya's economic growth increased from 18.9 percent in 1999 to 33.8 percent in 2015. An assessment of the informal economy

¹ The county has area of 71,597 km², accounting for 13.5 percent of Kenya's total land area

in Kenya by the Federation of Kenya Employers (FKE) with support of the ILO in 2021² established that there were 6,987,090 informal enterprises in Kenya in 2016. Of these, 99.4 percent were micro enterprises while the rest were either small (0.5%) or medium (0.1%)³. The assessment established that more than half of informal microenterprises were run by females (58.5%) while more males run the informal small (55.6%) and medium (51.2%) enterprises. Male owned informal enterprises were found to be about twice as productive (KSh. 24,764) as female owned informal enterprises (KSh. 12,408). This demonstrates gender gaps in productivity of informal enterprises in Kenya. Female-owned informal enterprises were also found to likely to fail compared to male owned enterprises.

According to FKE (2021) lack of markets, poor access to finance, high cost of compliance with tax regulations, complex business registration procedures are some of the major constraints faced by informal enterprises. Others are low levels of innovation and competitiveness and poor infrastructure. In view of these challenges, formalization of informal enterprises in Kenya takes a pyramidal shape with majority (73.3%) of the enterprises yet to start their formalization journey, a few (19.1%) are a step away from informality and another 5.4 percent are midway the formalization journey (FKE, 2021). A paltry 1.4 percent of the informal enterprises are ready to formalize while slightly less than one percent are fully formalized.

The informal economy in Turkana County is constrained in creating productive and sustainable employment and livelihood opportunities to meet the growing demands of refugees and host communities. The Integrated Labour Market Assessment (2021) of Turkana County revealed existence of opportunities for unlocking the potential to make the informal economy to be viable and increase the capacities of enterprises to create employment and provide better livelihood opportunities to refugees and host communities. As such, formalization of informal enterprises as a pathway through which informal enterprises can achieve vertical growth and generate increased employment and livelihood opportunities is highly encouraged.

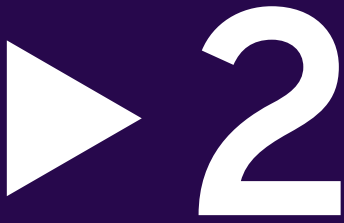
► 1.2 Objectives of the study

The main objective of the assignment was to identify challenges related to informality and formalization of enterprises and jobs in the informal economy in Turkana County, Kenya. Specifically, the assignment sought to:

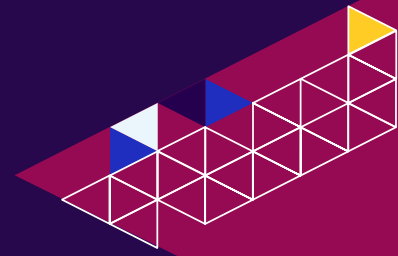
- i) Gather information from key stakeholders on challenges of informality, current, planned or potential initiatives to reduce vulnerabilities, improve services and support and address challenges along with an assessment of opportunities and threats to the formalization of actors in the informal economy; and
- ii) Lead the logistical support of the organization of information sharing sessions on informality for the identified stakeholders.

² Based on the Micro, Small and Medium Establishments (MSME) Survey dataset from the Kenya National Bureau of Statistics.

³ The 2016 MSME Survey defined micro enterprises as those enterprises with 1-9 employees; small enterprises have 10-49 employees and medium enterprises have 50-99 employees.



▶ 2



METHODOLOGICAL APPROACH

This section presents the study design, the data types used and their sources. It also details the techniques that were used to achieve each of the study objectives.

▶ 2.1 Study design

The study employed both the quantitative and qualitative designs. The quantitative design was used to establish the status of enterprise informality in Turkana County, how informality constrains economic growth, employment and livelihood opportunities, and labour market development in Turkana County. The qualitative approach was used to detail the policy, legal and institutional challenges faced by informal economy workers and operators in Turkana County. The technique was also used to document the current, planned or potential initiatives to reduce vulnerabilities, improve services and support and address the challenges faced by the informal economy in Turkana County.

▶ 2.2 Data type and source

The study utilized both primary and secondary cross-sectional data. The data was sourced from the following:

Detailed document review: This involved a review of various policies, laws and regulations governing the informal economy in Turkana County. The policy and programmatic documents reviewed included; *Sessional Paper No.1 of 1986 on a Strategy for Small Enterprises Development in Kenya: Towards the year 2000*, Turkana County Integrated Development Plans (CIDPs) and the Kalobeyei Integrated Socio-Economic Development Plan (KISEDIP, 2018-2022). Others were studies such as Kakuma as a market place by the International Finance Corporation (IFC), Turkana County integrated labour market assessment by the ILO, and the Informal economy in Kenya by the Federation of Kenya Employers (FKE). The laws and regulations reviewed included the Refugees Act (2006), Kenya Citizenship and Immigration Act (2011) and Turkana County Biashara Fund (Amendment) Act, 2020.

Focus Group Discussions: Four focus group discussions (FGD) were conducted, two in Lodwar town and two in Kakuma. Each FGD was used to capture the challenges that informality is posing to enterprises in Turkana County and the Turkana economy in general. The FGD focused on various actors in the county such as informal and formal enterprises in Lodwar town, the livestock marketing council in Lodwar town, informal and formal enterprises in Kakuma Town and formal and informal enterprises in Kakuma camp.

Key Informant Interviews: 14 key informant interviews (KIIs) were conducted to capture the programmes that are being implemented to address the challenges of informality in Turkana County and identify their

weaknesses. The KII participants were drawn from government and non-governmental organizations implementing interventions targeting informal economy enterprises in Turkana County (Appendix 1).

The 2015/2016 Micro, Small and Medium Enterprises (MSME) Survey and Turkana County Enterprises Register: The two datasets were used to establish the status and dynamics of informality in Turkana County. The 2015/2016 MSME Survey by the Kenya National Bureau of Statistics (KNBS) is the most current nationally representative dataset that provides information on the nature of the MSMEs in Kenya. The survey frame was drawn from both the business registers held by counties (for licensed establishments) and the household survey (for unlicensed establishments). The Turkana County Enterprises Register is cross-sectional enterprises dataset maintained by the Turkana County Chapter of the Kenya National Chamber of Commerce and Industry (KNCCI).

▶ 3

FINDINGS AND DISCUSSIONS

▶ 3.1 Introduction

This section presents the study findings and discussions. Section 3.2 discusses the status of formalization of enterprises in Turkana County while section 3.3 presents the nexus between informality and socio-economic development in Turkana County. Sections 3.4 to 3.8 discuss the opportunities and challenges around business registration, taxation and licensing, social protection, and access to credit and infrastructure by informal enterprises in Turkana County.

▶ 3.2 Status of formalization of informal enterprises in Turkana County

Informality in Turkana County is largely a micro-enterprises challenge. Formalization can be viewed in two main ways: the dichotomous (strict) and the continuum view. In the strict view, an enterprise is considered formal if it is registered with the registrar of companies. According to the 2015/2016 MSME survey there were 116,044 formal and informal MSMEs in Turkana County in 2016. When these enterprises are evaluated in this strict sense, only 1.25 percent of the enterprises are considered formal (see Table 1). Disaggregating the strict formality status with the size of the enterprises reveals that informality is majorly a microenterprises affair.

Microenterprises in Turkana County are largely unregistered. According to the 2015/2016 MSME survey, only one percent of the microenterprises in Turkana County are registered. This is compared to 43.5 percent for small enterprises and 42 percent for medium enterprises. This finding is corroborated by the FGD with owners of formal and informal enterprises in Turkana County, which indicated that almost all the micro traders in the County were informal. However, enterprises in building and construction, logistics, and large retailing and wholesaling are mainly formal. The finding that informality is a microenterprises affair in Turkana County is corroborated by the primary data collected during the study. The dominant composition of the FGDs conducted in Lodwar and Kakuma was that of own account enterprises that were unregistered. Meaning that majority of the informal enterprises are microenterprises.

► **Table 1: Formalization in the strict view (Proportions in parenthesis)**

| Formality Status | Micro (1-9 employees) | Small (10-49 employees) | Medium (50-99 employees) | Total |
|------------------|-----------------------|-------------------------|--------------------------|----------------------|
| Formal | 1,231 (1.07) | 204 (43.5) | 13 (42) | 1,448 (1.25) |
| Informal | 114,313 (98.93) | 265 (56.50) | 18 (58.06) | 114,596 (98.75) |
| Total | 115,544 (100) | 469 (100) | 31 (100) | 116,044 (100) |

Source of Data: KNBS (2016)

Informality is pervasive in the economic sectors that are dominant in Turkana County. Based on the 2020 Kenya Standard of Industrial Classification (KeSIC 2020)⁴, enterprises in Turkana County are in 12 out of the 21 industrial classifications with informality grossly affecting eight of them (Table 2). Nationally, it has been established that informality is a challenge in sectors with ease of entry and exit. However, the situation in Turkana appears to be unique. Informality is not only a challenge in sectors with ease of entry and exit such as wholesale and retail but also sectors that largely require enterprises to be formal such as manufacturing. The sectors that are grossly affected by informality in Turkana County are information and communication (100%), manufacturing (99.92%), accommodation and food service activities (98.14%), and wholesale and retail trade; repair of motor vehicles and motorcycles (97.7%). Others are other service activities (93.28%), human health and social work activities (92.38%), financial and insurance activities (70.97%) and construction (51.98%). Majority of microenterprises in Turkana County are in information and communication, accommodation and food service activities, wholesale, and retail trade; repair of motor vehicles and motorcycles and other service activities sectors. This was supported by the primary data findings that established that majority of the enterprises in basketry, administrative and ICT support services, agricultural activities such as livestock rearing and selling and green grocers were unregistered.

► **Table 2: Formalization by sector (Proportions in parenthesis)**

| Formality Status | Formal | Informal | Total |
|--|--------------------|------------------------|---------------------|
| Manufacturing | 50 (0.08) | 65998 (99.92) | 66048 (100) |
| Construction | 109 (48.02) | 118 (51.98) | 227 (100) |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 909 (2.30) | 38571 (97.70) | 39480 (100) |
| Transportation and storage | 37 (74) | 13 (26) | 50 (100) |
| Accommodation and food service activities | 176 (1.86) | 9262 (98.14) | 9438 (100) |
| Information and communication | 0 (0) | 41 (100) | 41 (100) |
| Financial and insurance activities | 90 (29.03) | 220 (70.97) | 310 (100) |
| Professional, scientific and technical activities | 18 (69.23) | 8 (30.77) | 26 (100) |
| Administrative and support service activities | 13 (50) | 13 (50) | 26 (50) |
| Education | 20 (80) | 5 (20) | 25 (100) |
| Human health and social work activities | 8 (7.62) | 97 (92.38) | 105 (100) |
| Other service activities | 18 (6.72) | 250 (93.28) | 268 (100) |
| Total | 1448 (1.25) | 114,596 (98.75) | 116044 (100) |

Source of Data: KNBS (2016)

⁴ See Appendix 2

Informal enterprises in Kenya have eight possible levels of formality or informality. Under the continuum view, informal enterprises have four steps to achieving full formality. These are: registration by registrar of companies; licensing by the local authorities; compliance with tax regulations; and compliance with social security requirements. An enterprise that begins the formalization journey with registration is considered semi-formal while those which begin with the other requirements for formalization are considered semi-informal. Given this view, an enterprise may oscillate towards or away from formality thereby yielding eight levels of formality and informality (see Table 3). Table 3 shows that the level of formality increases as a semi-formal enterprise moves from level eight to one. On the other hand, the level of informality increases as a semi-formal enterprise moves from level one to eight. Based on the continuum view, therefore, enterprise at level one of semi formality are fully formal while with respect to semi-informality enterprises at level eight are completely informal.

► **Table 3: Levels of formality and informality in Kenya**

| Level | Semi-Formality | | | | Semi-informality | | | |
|-------|----------------|----------|--------------------------------|---|------------------|----------|--------------------------------|---|
| | Registered | Licensed | Compliant with tax regulations | Compliant with social security regulation | Registered | Licensed | Compliant with tax regulations | Compliant with social security regulation |
| 1 | √ | √ | √ | √ | X | √ | √ | √ |
| 2 | √ | √ | √ | X | X | √ | √ | X |
| 3 | √ | √ | X | √ | X | √ | X | √ |
| 4 | √ | √ | X | X | X | √ | X | X |
| 5 | √ | X | √ | √ | X | X | √ | √ |
| 6 | √ | X | √ | X | X | X | √ | X |
| 7 | √ | X | X | √ | X | X | X | √ |
| 8 | √ | X | X | X | X | X | X | X |

Key: √ Yes X no

Close to nine in ten of the enterprises in Turkana County are yet to start their formalization journey.

Application of the formality and informality continuum outlined in Table 3 allows establishment of the levels in which various enterprises fall. These levels in turn assist in establishing the kind of incentives that various enterprises need to formalize. Analysis of the 2015/2016 MSME survey data shows that a paltry 0.14 percent of all the enterprises in Turkana County were strictly formal and had attained all the four aspects of the formality continuum. Majority (86.4%) of the enterprises were strictly informal, and had not achieved any of the four aspects on the formality continuum (See Table 4 and Figure 1). The implication is that 13.5 percent of the enterprises in Turkana County are oscillating towards formality (see Figure 1).

Only a few enterprises in Turkana County are ready to formalize.

Further disaggregation of the 2015/2016 MSME survey data shows that of the 15,640 (13.5%) of the enterprises in Turkana County that are in-between formality and informality, only 976 (0.8%) are ready to formalize (Figure 1). A disaggregation of these enterprises which are ready to formalize shows that 0.6 percent of them were semi-formal and, in need of social security to comply. The remaining 0.2 percent of the enterprises were semi-informal and required registration by the registrar of companies to be formal. This means that business development services (BDS) in form of training on social security compliance and business registration processes is likely to propel the enterprises to formality. During an FGD with enterprises in Kakuma Camp majority of the participating enterprises were not intending

to formalize due to hinderances such as lack of registration documents and uncertainty occasioned by their refugee status.

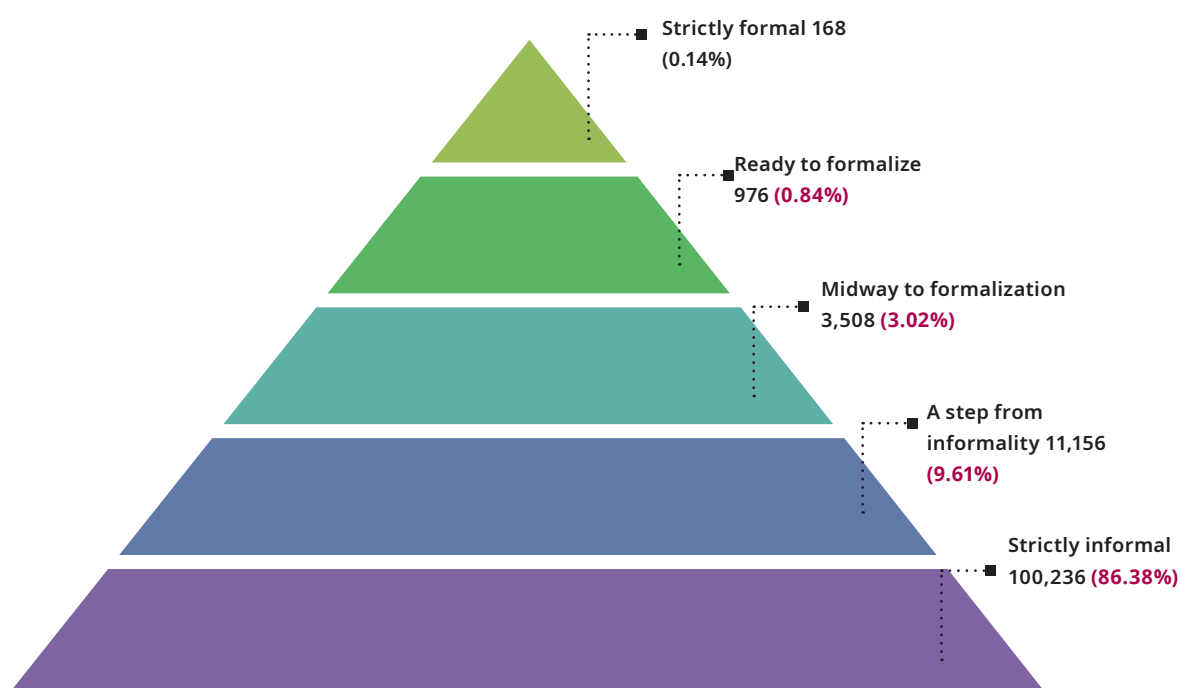
Business registration, compliance with tax regulations and social security laws are key binding constraints to formality in Turkana County. Similarly, 3,508 (3%) of the enterprises are midway to formality. Of these, 0.4 percent are semi-formal and 2.6 percent were semi-informal. Of the semi-informal enterprises, 0.02 percent requires registration and compliance with tax regulations while 2.6 percent require registration and compliance with social security laws. The semi-formal enterprises require compliance with the tax and social security regulations. All the 11,156 (9.6%) enterprises that are a step away from informality are semi-informal, only complying with social security regulations (0.01%) and licensed (9.6%). These enterprises can easily drift to informality than move towards formality. The implication is that the enterprises requires BDS focusing on training on the importance of taxation, business registration and compliance with social security regulations to formalize.

► **Table 4: Levels of formalization of enterprises in Turkana County**

| Level | Semi-Formality | | Semi-informality | |
|--------------|----------------|---------------|------------------|---------------|
| | Frequency | Proportion(%) | Frequency | Proportion(%) |
| 1 | 168 | 12 | 150 | 0.13 |
| 2 | 731 | 50 | 3,028 | 2.64 |
| 3 | 95 | 7 | 26 | 0.02 |
| 4 | 454 | 31 | 11,148 | 9.73 |
| 5 | 0 | 0 | 0 | 0 |
| 6 | 0 | 0 | 0 | 0 |
| 7 | 0 | 0 | 8 | 0.01 |
| 8 | 0 | 0 | 100,236 | 87.47 |
| Total | 1,448 | 100 | 114,596 | 100 |

Source of Data: KNBS (2016)

► **Figure 1: Formalization continuum for enterprises in Turkana County**

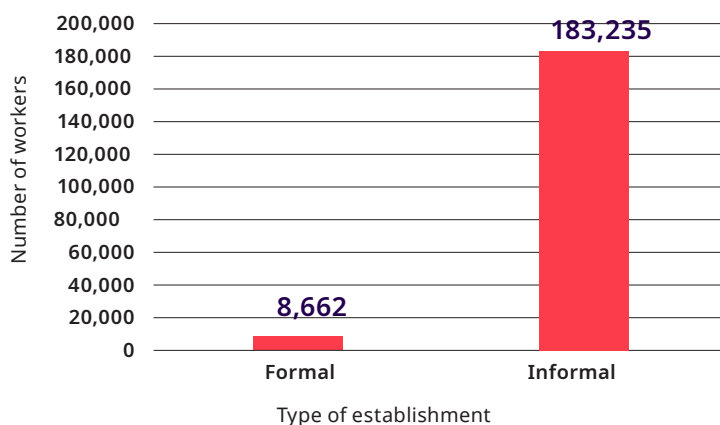


Source of Data: KNBS (2016)

► 3.3 Informality and socio-economic development in Turkana County

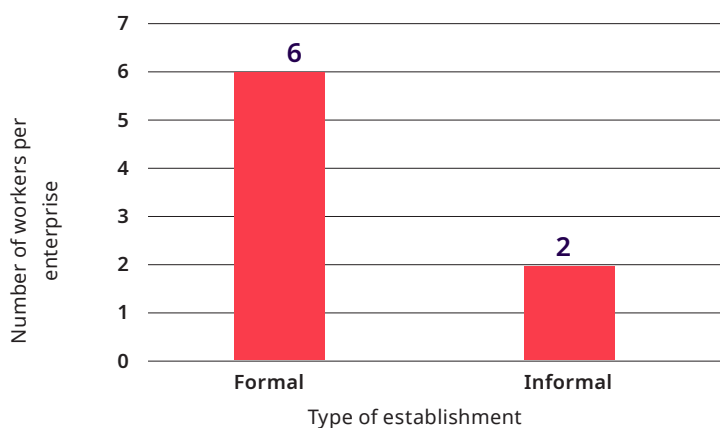
Informal enterprises provide employment and livelihood opportunities in Turkana County. The 2015/2016 MSME survey established that MSMEs in Turkana County employed about 191,897 workers. Of these, 183,235 (95.5%) were engaged by informal enterprises while 8,662 (4.5%) were employed by formal enterprises (Figure 2). The intensity of informal sector employment in Turkana County is higher than the national level where 83.3 percent of the workers were in the informal sector (KNBS, 2022). Though important in promoting employment, income generation and livelihood opportunities, informal enterprises in Turkana County have a lower employment per capita (Figure 3). Based on the analysis, an informal enterprise in Turkana County on average employs two workers while a formal enterprise employs six. This means that informality inhibits employment by about four workers. This is confirmed by a regression analysis of employment against establishment type without controlling for establishment characteristics (Table 5). This finding is further corroborated by sentiments raised during FGDs in Lodwar and Kakuma. Informal enterprise operators interviewed opined that “...we largely do not employ to our capacity because our work is seasonal. So instead of employing workers for long we only employ them for piece rate work...”. The 2021 Turkana County Integrated Labour Market Assessment also established that informal microenterprises in Turkana County employ only one worker compared two workers for similar enterprises nationally, thus employing below potential.

► **Figure 2: Employment by formal and informal enterprises in Turkana County**



Source of Data: KNBS (2016)

► **Figure 3: Number of workers per establishment**



Source of Data: KNBS (2016)

► **Table 5: Constrained employment due to informality of enterprises in Turkana County**

| VARIABLES | Estimates |
|--------------------------------|-----------------------|
| Informal establishment | -4.383*** (0.0483) |
| Constant | 5.982*** (0.0480) |
| Observations | 116,044 |
| R-squared | 0.066 |
| Standard errors in parentheses | |
| *** p<0.01, ** p<0.05, * p<0.1 | |

Source of Data: KNBS (2016)

Informality of enterprises in Turkana County is a hinderance to enterprise growth. The demand for more workers by an enterprise is a proxy of firm growth. Table 6 shows the number of workers employed at the inception of the establishments and during the 2015/2016 MSME survey in Turkana County. It shows that between inception of the establishment and the conducting of the 2015/2016 MSME survey, employment by formal enterprises more than doubled while employment by informal enterprises increased by more than half. The different employment outcomes between formal and informal enterprises in Turkana County shows that informality constraints enterprise growth. This finding is validated by an FGD respondent who reported that *"... I noticed that my construction business would not expand as fast as I wanted if it remained informal. Most clients that I was getting were quickly losing trust in me because I lacked most of the statutory requirements. I decided to register to deal with these trust issues and I cannot regret it. My enterprise has since grown and I have doubled the number of employees..."*.

Compared to formal enterprises, informal enterprises in Turkana County are not generating enough decent work opportunities for women as fast as the male dominated formal enterprises. At inception, formal enterprises in Turkana County employed more males (70.1%) compared to females (Table 6). A similar situation prevailed during the 2015/2016 MSME survey when male workers accounted for 72.4 percent of employment in formal enterprises in the county. However, female workers accounted for the largest proportion of informal employment both at inception (95.1%) and during the survey in 2015/2016 (72.5%). The informal enterprises also experienced a constrained employment growth (54%) compared to formal enterprises (140%). Female workers bore a disproportionate burden of the subdued growth in informal employment compared to male workers (Table 6). The implication is that some of the informal enterprises in Turkana County employed women either closed down or replaced female workers with male workers.

► **Table 6: Changes in employment by establishment type in Turkana County**

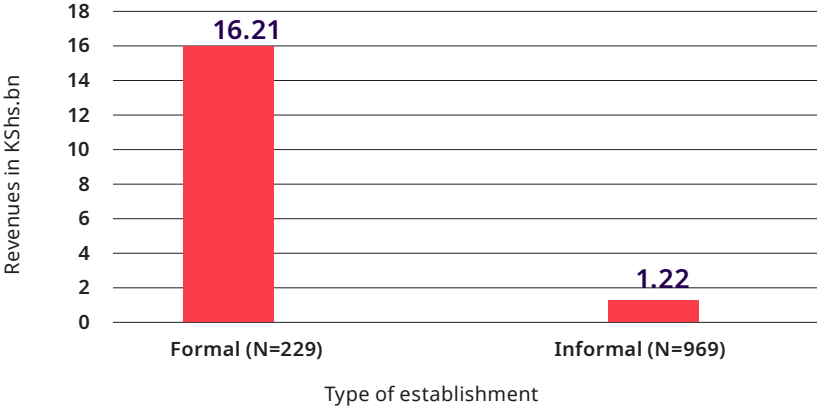
| Establishment type | Number of workers at inception | | | Number of workers during the survey in 2015/2016 | | | Growth (%) |
|--------------------|--------------------------------|---------|---------|--|---------|---------|------------|
| | Male | Female | Total | Male | Female | Total | |
| Formal | 2,531 | 1,077 | 3,608 | 6,271 | 2,392 | 8,663 | 140 |
| Informal | 5,819 | 112,836 | 118,655 | 50,458 | 132,776 | 183,234 | 54 |
| Total | 8,350 | 113,913 | 122,263 | 56,729 | 135,168 | 191,897 | 57 |

Source of Data: KNBS (2016)

Informal enterprises in Turkana County are less productive than formal establishments. Revenues earned by establishments can be used as a proxy for workers' productivity in the turnover approach to measurement of labour productivity (Schreyer, 2001). The higher the revenues, the more a worker or establishment is considered productive. Figures 4 and 5 show the sales revenue data reported by establishments in Turkana County during the 2015/2016 MSMEs survey. It shows that formal enterprises recorded a higher sales revenue (KSh. 16.2 billion) compared to informal enterprises (KSh. 1.2 billion). This means that the revenues in the formal establishments were 13.5 times the revenues in the informal establishments. In per capita terms, a worker in the formal

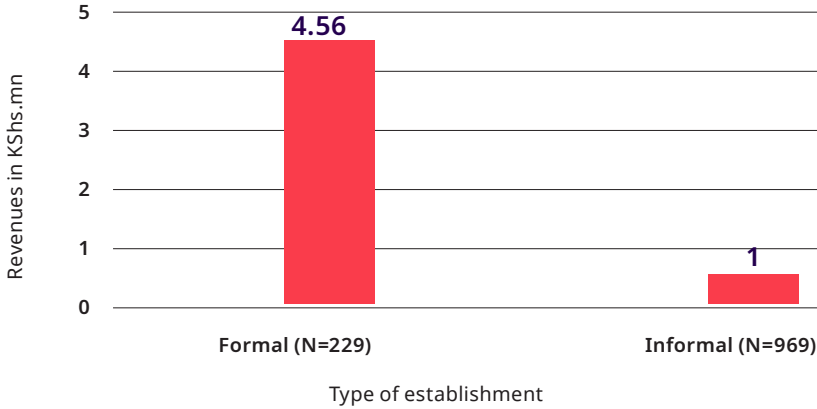
establishment in Turkana County offered goods and services worth KSh. 4.6 million per year compared to KSh. 0.5 million per worker in the informal establishment. A worker in a formal establishment in Turkana County was, therefore, 9.2 times as productive as a worker in an informal establishment. The implication is that being informal inhibits enterprise output in Turkana County by KSh. 69.5 million per year (Table 7). This directly leads to subdued economic performance of the County.

► **Figure 4: Annual sales of goods and services by establishment type in Turkana County**



Source of Data: KNBS (2016)

► **Figure 5: Annual sales of goods and services per worker by establishment types**



Source of Data: KNBS (2016)

► **Table 7: Productivity penalty due to informality of enterprises in Turkana County**

| Variable | Estimates in KShs.mn |
|--------------------------------|----------------------|
| Informal establishment | -69.5*** (7.2) |
| Constant | 70.8*** (6.5) |
| Observations | 1,198 |
| R-squared | 0.073 |
| Standard errors in parentheses | |
| *** p<0.01, ** p<0.05, * p<0.1 | |

Source of Data: KNBS (2016)

► 3.4 Business registration

Given the low levels of formalization of enterprises in Turkana County and its attendant adverse effects on socio-economic welfare of refugees and host communities, several organizations have created programmes and partnerships to address informality and its challenges in the County. The most prominent ones are the Action Africa Help International (AAH-I) and Kenya National Chamber of Commerce and Industry (KNCCI). This section discusses their programmes and further insights as obtained from other KIIs and FGDs.

The AAH-I have been running a business incubation programme that has been brought to a halt by a myriad of challenges. AAH-I is an African-led, Africa focused international non-governmental organization (NGO) that works with communities in remote hard to reach areas and communities who have experienced conflicts such as the refugees. The NGO has been running a business incubation and support programme in Turkana dubbed start and grow your business. The objective has been to create a community of businesses with a view of improving livelihoods and quality of life for the marginalized. The programme coaches and provides seed capital to start ups (see Box 1). However, the programme has run into challenges and has ground to a halt. The following lessons and challenges on registration of businesses in Turkana County can be picked from the experience of AAH-I.

Lack of requisite registration requirements for businesses is hindering the registration of businesses by host and the local community in Turkana County. The business incubation programme by AAH-I assisted start-ups with the registration of businesses through the e-citizen platform. The registration process got the businesses a name and a Kenya Revenue Authority (KRA) Personal Identification Numbers (PIN). To register a business on e-citizen a local would require their national identify card while a refugee would require their alien identification card. However, not all the beneficiaries of the training had these registration documents. Of the 210 refugees who benefitted from the programme, for example, only 10 were able to register their businesses. The main challenge was that the refugees could not register their businesses the rest did not because they had no alien cards to identify them. As a result, most of the startups have been locked out of doing business with large corporates and the government since they are unregistered.

The lack of requisite identification documents is pervasive among the refugees. To establish the extent to which the lack of requisite identification documents was a challenge follow up questions were raised with owners of informal enterprises in Kakuma shopping center and the within the Camp. Participants in the camp decried that they have not been receiving their alien identification cards since 2014. This is the case whether it is a new application or renewal of expired cards. As a result, majority of the refugees are not only locked out of registering their businesses but also locked out of financial infrastructure such as M-PESA.

Expiry of alien identification cards means expiry of KRA PIN and other government approvals attached to the alien ID. In a follow up interview with the UNHCR concerning the challenges posed by lack of requisite registration documents the expiry of the alien identification cards was identified as a key challenge to registration of businesses. The interview established that non-expiring identification numbers such as mobile phone numbers, qualification certificates and KRA PIN can be issued based on an expiring alien ID. The problem arises from the fact that a new alien ID bears a different identification number from the expired one. This causes identification of businesses previously registered with the old alien ID since some numbers such as the KRA PIN cannot be transferred from the old alien ID to the new alien ID's number.

Responsibilities that come with registration of businesses may deter prospective businesses from registering. Though the business incubation programme by AAH-I trained business on the obligations that come with registration such as filing of tax returns, the obligations may deter businesses from registering. This is especially fueled by the remoteness of Turkana County and cost of accessing technology to enable compliance. For instance, filing of business returns require steady internet connection and power supply that may not be available for most businesses that are owned by the refugees and locals who are away from the national grid. Given that these enablers of compliance are not easily available business owners chose to be informal to avoid the burden that comes with compliance.

Uncertainties on the part of the refugee community are hindering registration of their businesses. The interview with AAH-I revealed that uncertainties hinder registration of businesses by the refugee communities. According to the AAH-I, the refugees unlike the host communities consider Turkana as pass through. This

shortens their planning horizons which in turn stops them from making long-term decisions such as registration of businesses.

Complex dispute resolution mechanisms among implementation partners may hinder registration of businesses. The start and grow your business programme by AAH-I was a partnership between AAH-I and the UNHCR. Although the programme was promising in achieving its objectives the partnership between UNHCR and AAH-I broke down on allegations of financial misappropriation by AAH-I staff. The break down denied the programme the financial backing forcing it to come to a halt. As a result of the dispute, future beneficiaries were locked out and the envisioned community of businesses was left without a unifying agent. Indeed, in the focus group discussions with formal and informal business owners in Kakuma refugee Camp participants complained that they no longer get the services they received from AAH-I despite the services being beneficial. The participant opined that: *"...I no longer get opportunities to exhibit my wares for sale since the AAH-I left us. this has denied me opportunities that were coming with the exhibitions. Please tell those people to bring back AAH-I so that I continue with my exhibitions..."*

► **Box 1: Action Africa Help International Business incubation programme**

Action Africa Help International (AAH-I) is an African-led, Africa focused international non-governmental organization (NGO) that works with communities in remote hard to reach areas and communities who have experienced conflicts such as the refugees. With respect to registration and expansion of businesses for livelihoods, AAH-I had a collaboration with UNHCR, as an implementation partner, to incubate business for both the host community and the refugees in Turkana County through the start and grow your business programme. The programme used a training of trainers approach and mentorship to help incubate the businesses. Through an arrangement with PUM of Netherlands, AAH-I got a consultant to coach trainers who were expected to train the beneficiaries on how to start and run businesses. To benefit one was required to apply for the training and upon successful application one would be trained for six months. The training focused on identifying business gaps for startup opportunities, registration of businesses, responsibilities that come with registration and how to mentor other individuals to start and run their businesses. After the six months training, the trained beneficiaries received a seed capital to start their businesses. To ensure sustainability of the programme, the seed capital was provided on a revolving fund model. The programme boasts to have trained over 300 businesses person with 60% (180) of the incubated ideas still standing to date. When disaggregated the beneficiaries are 70% refugees and 30% host community.

Mentorship sessions between formal and informal enterprises can help informal enterprises formalize.

Majority of the informal enterprises in Turkana County blame lack of information on formalization pathways for their informality. During a focus group discussion with informal and formal enterprises in Lodwar a participant opined that *"...I don't know why I should be expected to be formal when I don't know where to start. Should I begin with licensing or registration by the registrar of companies? Should one go to the Huduma centres for business registration services or to the County government?"* This view is a lack of information on the formalization pathways available for various types of businesses. This lack of information would easily be addressed should the efforts by the KNCCI to operationalize the mentorship sessions between formal and informal enterprises work. In studying the various paths explored by formal enterprises to seek formalization an informal enterprise would know which options fit their business and explore them. Though a promising strategy, the mentorship sessions have not been there in the past. The sessions require an overall coordinator with the knowledge of mentors and possible mentees. In the case of Turkana County this coordinator is the KNCCI. The KNCCI, recently completed creating a comprehensive register of enterprises in Turkana County. To KNCCI, therefore, the knowledge of who is formal and informal is new. This explains why the mentorship sessions are the next step after the creation of the register.

Negative experiences during the formalization process discourage registration of businesses in Turkana County.

To help informal enterprises formalize their operations, the registration process should be devoid of negative experiences and inconveniences. For instance, a participant in a focus group discussion vented her frustrations when she said *"...I am one of the most frustrated persons when it comes to registration of*

businesses in Turkana County. I had a bad experience at our Huduma centre. I met unscrupulous government officials that were simply after bribes they asked me to submit a business name and wait for several days for the name to be approved in Nairobi. Upon return they told me that the name is already taken but they could assist me fast track the process if I paid KShs.50,000. I obliged and paid the bribe because I wanted my business registered. However, to date my business is still unregistered. I would advise anyone seeking registration their business to be cautious with our Huduma centres". The implication of this kind of sentiments is that the business registration processes should be streamlined to avoid these bad experiences. The streamlining could focus on making the self-help services via e-citizen popular among the business community.

Opportunities to trade with the government and other large corporates can be used to incentivize informal enterprises in Turkana County to register. During the focus group discussion with formal and informal enterprises in Lodwar town several formal enterprises shared the motivation behind their registration. The emerging themes were that the enterprises formalized to: gain trust from their clients; get access to government and NGO jobs; emulate previous employers; prove that they are legitimate businesses; get premises to house their businesses; and avoiding harassment from authorities. Therefore, these motives can be used to incentivize informal enterprises in Turkana County to formalize. The universally acceptable motive is the opportunity to trade with the government and its agencies. For instance, one of the formal traders surprised her vegetable vending peers when she revealed that her business was registered. She opined that *"...I got wind of a secondary school that required regular supply of vegetables in our town, I rushed to the school, but I had nothing to prove that I was a vegetable vendor. I went to the Cyber Cafes here in town and through e-citizen got a business registered and proved to the headteacher that indeed I was a business lady. I got the contract and to date I am still supplying the school with vegetables"*. This view and the opportunity to supply vegetables to other government agencies within Turkana County such as the level 5 hospital and other schools got the other participants excited and willing to register.

The marginalization of the host community and refugee community in Turkana County require a unique one stop business solution centre. The presence of refugees in the Kakuma complex presents enormous business opportunities. However, local enterprises, whether owned by the host community or refugees, are not ready for these opportunities due to the handicaps inflicted by failure to register. To solve this, a one stop business centre that solves business registration for the refugees and the host community is vital. The business registration centre should be able to handle the unique registration challenges of the refugees with absolute finality without having to refer the cases elsewhere where they may not be understood or handled with the veracity they deserve. Further the one stop business solution centre should consider the marginalization of the host community with respect to availability of power and internet. The centre should be available for even self-service business services considering that the host community may lack internet and power services that are vital for registration and subsequent compliance. In addition to aiding business registration, the one stop business solution centre should be a centre for labour information such as workers' rights since there is little presence of official workers' organizations in Turkana County.

► **Box 2: Registration initiatives by the Kenya National Chamber of Commerce and Industry**

The KNCCI is part of efforts to initiating formalization and registration of businesses in Turkana County. The first initiative is the proposed mentorship sessions between formal and informal enterprises at the chambers headquarters in Turkana to motivate informal enterprises formalize. The chamber is proposing to hold joint sessions between informal and formal enterprises in Turkana County with a view of making the informal enterprises see the need for formalization. Formal enterprises will be studied as case studies of formalization to help informal enterprises learn the formalization pathways that are available for them. In addition, the Chamber will incentivize the formal enterprises formalize by allowing them to use their resource centre to apply for business opportunities at the County via the (Integrated Financial Management System) IFMIS. The chamber is already developing a resource centre to facilitate this. The resource centre is already set up and is only waiting for computers and projectors to start off.

The second initiative is the one stop shop for biashara (business) services a partnership between KNCCI, Turkana County government, UNHCR, WB and ILO. This initiative seeks to have a business registration one stop shop (Huduma centre) in Kakuma to address the business and personal registration needs of the host and refugee communities. The biashara centre will take care of the uniqueness that comes with the identification of refugees and registration of their businesses without having to refer their cases to the headquarters such as Nairobi. This will help in timely provision of registration to the refugees, the host community and their businesses.

► 3.5 Taxation and licensing

Majority of informal enterprise owners and workers lack skills on and access to online tax registration and compliance. The 2015/2016 MSME Survey showed that on average, 46.2 percent of enterprises in Turkana County did not spend any money on taxes⁵. In addition, another 37.6 percent paid taxes worth KES 1000 or less every month. The monthly median tax expenditure was KES 172.9. Field findings suggested that majority of the businesses were too small, operated informally and unable generate any taxable income. Moreover, the nature and structure of taxes is not supportive of formalization. The tax requirements of a Personal Identification Number (PIN) and periodic returns over online platforms such as itax hampers compliance to taxation. Majority of owners and workers have a low education background and often lack skills to enable use online services or have no access to the internet to facilitate tax registration and returns. A member of an FGD said. *“As a vegetable vendor I do not know where to get the PIN number and how I can use it once I get it. I feel that it’s too much for the small business that I run”. I’ve heard that there is a Kenya Revenue Authority Office in Lodwar but I’ve never seen them supporting small businesses like us (Vegetable Vendor, Lodwar)”*. In view of this, providing business education on taxation and supporting informal businesses access online tax services may help increase compliance.

Informal enterprises perceive that the costs of taxation, registration and compliance outweigh their benefits. The current taxation system requires that businesses keep records and are able make periodic online returns as per the law. However, most informal businesses have limited resources and technical capacity to compute and file returns. For effective tax compliance, businesses need to keep accounting records, hire a professional to help compute and file taxes. Field findings suggest that most businesses feel that the compliance costs are much higher relative to the benefits associated with taxation. There is lack of clarity of how tax compliance can benefit informal businesses who are barely surviving. Enhancing tax education can help in part to ameliorate the fear of compliance. The training can also enhance separation between personal and firm finances making tax computation easier.

The current presumptive tax offers an opportunity for compliance among informal enterprises but enforcement is weak. The presumptive tax was introduced in 2019 to help increase compliance among MSMEs. The rate is set at 15 percent of the amount payable for a business permit or trade license issued by a County Government⁶. Of all the tax options available, this tax type offers the cheapest and most efficient option for compliance. However, many informal businesses in Turkana appeared to lack access to accurate information on the tax options, regulations and procedures that would favour them. In addition, the more established informal enterprises choose to evade tax and operate incognito. In the process of tax evasion, they end up paying more money in the form of bribes to the law enforcers. Conversations with enterprises indicated that many do not factor the cost of this evasion versus paying the required tax.

There is a general mistrust and weak dialogue between informal sector and government, making tax compliance more difficult. Tax agents from both the national and county government perceive the informal sector as unwilling to pay their taxes. On the other hand, informal enterprises view these officers as forceful when collecting their taxes. KIIs in the county opined that there need for continuous structured dialogue between the informal enterprises and government. In Turkana County, KNCCI plays a lead role in advocating for equitable taxation and better business environment. However, the informal enterprises do not feel accommodated by tax authorities given that their tax policies and reforms are not friendly to them. In recent times, the revenue authorities have introduced many reforms that may not easily be complied to by enterprises operating in a pastoral economy context. The pastoral economy is sometimes barter based and less access to modern ICT tools that facilitate compliance.

The process of acquisition of refugee documents makes tax compliance among them complex. The refugee status determination process requires that the Department of Refugees Services (DRS) issues alien cards to validated refugees within 90 days of entry into the country. However, the process takes longer and DRS has a backlog of over 30,000 cases. In effect, refugees without an alien card are not able to obtain a PIN. The KIIs also indicated that alien card holders renew the documents every 5 years implying that the validity of PIN certificate is also put to question. Lack of PIN implies that refugees’ businesses are unable to formalize and benefit from opportunities that require the document. A refugee said *“since I came to the camp five years ago, I have not been able to get an alien card. So I cannot register my business, open an account, get tax registration or do business in the town. I’ve also heard that the alien card renewal process takes a long time. I have the skills to grow my*

⁵ The enterprises have zero tax expenditures

⁶ KRA Website: <https://www.kra.go.ke/individual/filing-paying/167-presumptive-tax#:~:text=What%20is%20the%20rate%20for,is-sued%20by%20a%20County%20Government.>

business but I feel disappointed that I cannot move without this document". In view of growing business in Kakuma, the Kenya Revenue Authority has not set up an office in the town. It's though that a greater partnership with KRA, UNHCR and DRS can increase tax registration and compliance.

Informal businesses must have diverse licenses that are too expensive for their scale. Turkana County Government has various licenses and charges for difference business types and location. The single business is the most dominant license for many informal businesses. In the 2021, the charges ranged from KSh. 2400 – 30000 regardless of registration status (Table 8). For instance, a small trader in a mobile place in Lodwar would pay KSh. 2,700 per year to run their businesses. A similar trader in semi-permanent place would pay KSh. 3,500 per year. Under the specialized category carpenters pay KSh. 10,200 per year, large welders pay KES 30,000 while tailors pay up KSh. 8,200. In addition, these business face other indirect taxes occasioned intercountry cess and other taxes. Traders in the FGDs decried high charges that are fixed and not dependent on their scale in terms of revenue. Results from the MSME Survey also ranked high licensing charges as one the severe challenges to business growth and formalization.

► **Table 8: Annual charges for single business permits for selected business types (2021)**

| Type of business | Zone A - Lodwar Municipality (KSh.) | Zone B - Lokichar, Kainuk, Kalokol, Kakuma (KSh.) | Zone C - Other Towns (KSh.) |
|---|-------------------------------------|---|-----------------------------|
| Hawker 1 person without a motor vehicle | 2,400 | 1,600 | 1,000 |
| Hawker 1 person with a motor bike | 3,000 | 2,500 | 2,000 |
| Small Informal Sector Trade/Service provision | 2,700 | 2,400 | 2,000 |
| Semi-Permanent Informal Sector Trader (up to 2 persons) | 3,500 | 2,000 | 1,500 |
| Traders that are more specialized | 5200 – 30000 | 3200-20000 | 2700 - 10000 |

Source: Turkana County Government (2021)

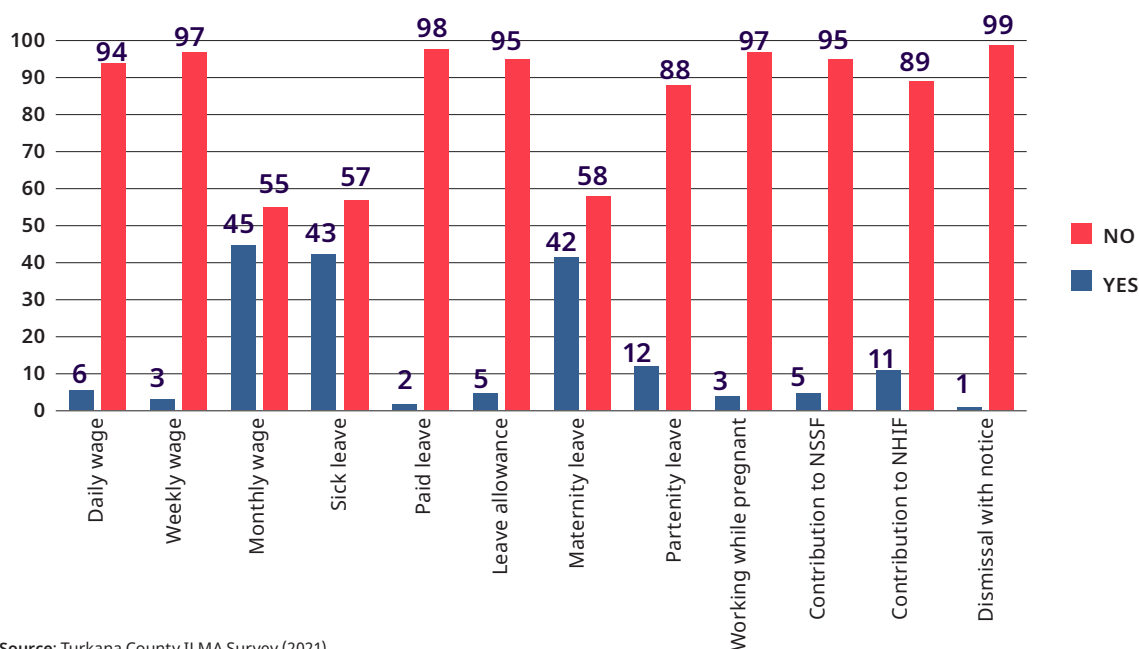
The informal economy has flexible license payment terms but expensive in the long run. The structure of licenses in the pastoral economy, small mobile traders, and green groceries allows informal enterprises to pay their charges on a daily or pay as you trade basis. The FGDs indicated that green grocers pay KSh. 20 per day when they operate in the market instead of an annual single business permit. Based on a working cycle of 20 days per month, the total levies would translate to KSh. 4800 per year which is higher than what is paid by some enterprises for the annual single business permits. Thus, daily charges are expensive in the long run and potentially inefficient in collection. Providing discounted but longer payment cycles (weekly, monthly) can reduce the transaction costs both for the traders and the County. Also, reviewing the charges to ensure that they compare with other single business permits is feasible.

► 3.6 Social protection

Majority of informal workers in Turkana County do not have social security protection. Decent work is a key pillar for sustainable development as it helps to reduce inequalities and poverty, and empower people, especially those that are most vulnerable. The 2021 Turkana County Integrated Labour Market Assessment established that up to 95 percent of the informal enterprises surveyed were not registered with the National Social Security Fund (NSSF) as illustrated in Figure 6. This is besides other decent work deficits associated with low maternity leave protection (58%) and termination without notice (99%). The current study attributes low access to social security to lack of awareness and negative attitudes by the informal enterprises particularly on NSSF. It is also attributed to small nature of the businesses, which undermines their capacity to absorb the costs

associated with social security. Informal enterprise owners viewed compliance as an extra cost to the business in the face limited working capital and net income.

► **Figure 6: Selected conditions of employment in informal enterprises in Turkana County**



Source: Turkana County ILMA Survey (2021)

Targeted social security products for informal enterprises exist but uptake is low. Majority of stakeholders in the FGDs were not aware of the nature of products provided by NSSF. For instance, the *Haba Haba* – a mobile phone-based savings plan targeting the informal sector was not known by nearly all informal enterprises interviewed. This product provides members a chance to save a minimum of KSh. 25 a day, with the option of withdrawing 50% of their contribution after consistently contributing for a minimum of 5 years. The respondents did not see the value of saving for a distant future that is uncertain. Some businesses indicate limited cash flow to support these deductions. The situation was worse among refugees as they were not covered at all. In the alternative, some enterprise owners and workers have established product that encourages social security among willing members (Box 3).

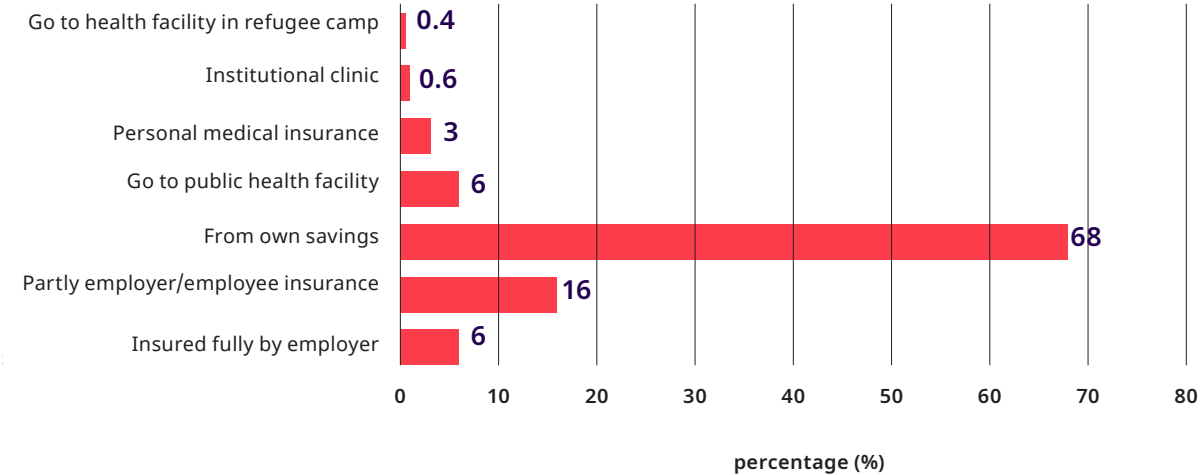
► **Box 3: A social security product for informal businesses in Turkana County**

Lorugum Revival Self Help Group is a common interest group that was started in 2017 by 20 informal traders in Lodwar Fresh Produce Market. The group was started with the aim of contributing funds for members` social security. The members contribute a minimum of KSh. 200 per week (every Monday) and sends it to the bank account through a mobile money platform. The group`s Secretariat updates the payment records on a regular basis. By July 2022, the group had accumulated a total of KSh. 400,000. The members have agreed that one cannot withdraw their savings unless they want to leave the group completely. However, members are allowed to borrow against their individual contributions. They can borrow up to 5 times their savings with no requirement for an additional collateral.

The workforce in Turkana County has no health cover despite having good knowledge of national health insurance scheme. Social protection is a key pillar of decent work as reinforced by ILO. Irrespective of formality status, up to two thirds of the workforce in Turkana County meet their health needs by making payments from own savings with only six percent being covered by employer-provided medical scheme (Figure 7). Study results show that informal workers and entrepreneurs were aware of existence of the National Health Insurance Fund

(NHIF) but not many of them were registered with the scheme. Most employers in the informal sector knew that providing health insurance was imperative for them but did not comply due to poor enforcement as well as limited cash flow. An employer in Lodwar said *"I believe most of employers know that they need to provide NHIF for their employees but some of us just ignore. We only think it is important when the worker falls sick and we have to pay the hospital bill using cash. Personally, I have NHIF and it is working well. More employers need to be encouraged to settle NHIF for all their workers.* Conversations with KIIs opined that employers should restructure their payouts to ensure that NHIF payments are netted out before paying their workers. That way employees can be covered. There were several instances where workers had NHIF but accounts were not active since the last employer paid for them. Also, since several people in Turkana

► **Figure 7: Options for the workers' healthcare (%)**



► 3.7 Access to finance

Informality is a key constraint to access to affordable credit. Access to formal sources of credit such as commercial banks increase with the formality of a business. Data from the 2015/2016 MSME survey revealed that a 40 percent of informal enterprises in Turkana County got credit from commercial banks compared to formal firms (53%). FGDs indicated that a number of enterprise owners borrowed using own accounts to support their businesses and other personal needs. They mostly borrowed short term loans through digital platforms e.g, KCB-MPesa or physically in branches. Cumulatively, ,, more informal enterprises compared to formal businesses accessed credit through Micro Finance Institutions (MFIs), public financing agencies/cooperatives, non-bank financial institutions and other informal cooperatives (Table 9). It would be expected that unregistered firms would not access credit from commercial banks. However, commercial banks are accepting other forms of registration such as payment of licenses. Commercial banks have also embraced an innovative way of reaching out to those customers in the informal sector who may not have collateral to offer. This has been achieved through group lending, a model in which group members guarantee each other to access credit. In addition, some owners of informal enterprises circumvent the registration requirement by borrowing business loans using their personal accounts. The fact that most of informal enterprises are borrowing from other sources other than commercial banks means that they may be paying exorbitant interest on their loans. The FGD respondents in Lodwar and Kakuma revealed that most informal enterprises in Turkana County do not have

records, bankable plans, collateral and other documentation to facilitate issuance of credit. As a result, access to formal credit by informal enterprises in the County is low compared to formal enterprises.

► **Table 9: Main source of credit to formal and informal enterprises in Turkana County**

| Main Source of credit | Formal Enterprises | | Informal Enterprises | |
|---|--------------------|----------------|----------------------|----------------|
| | Number | Proportion (%) | Number | Proportion (%) |
| Commercial Banks | 210 | 53 | 536 | 40 |
| Micro Finance Institutions | 86 | 22 | 245 | 18 |
| Money lenders | 81 | 21 | 0 | 0 |
| SACCOs | 13 | 3 | 0 | 0 |
| Building Societies | 5 | 1 | 0 | 0 |
| Public Financing Agencies/ Cooperatives | 0 | 0 | 119 | 9 |
| Self Help groups | 0 | 0 | 50 | 4 |
| Family friends | 0 | 0 | 18 | 1 |
| Non-Bank Finance institution | 0 | 0 | 100 | 7 |
| Trade Credit Supplies | 0 | 0 | 118 | 9 |
| Other Formal / Informal cooperatives | 0 | 0 | 100 | 7 |
| Public Enterprise funds | 0 | 0 | 68 | 5 |
| Total | 395 | 100 | 1,354 | 100 |

Source of Data: KNBS (2016)

Inadequate working capital is a key reason for business closures in Turkana County. Operating funds are critical for the survival of firms in Kenya. About one-third of the businesses that close in the country cite lack of operating funds or working capital as the main reason for closure. Analysis of the 2015/2016 MSME survey data shows that 52 percent of the informal enterprises in Turkana County borrowed to bolster their working capital unlike 23 percent of the formal enterprises (Table 10). This means that compared to formal enterprises, the informal enterprises in Turkana County are more constrained by working capital. The other prominent use of the borrowed funds includes refurbishing the business (31% formal and 20% informal) and purchasing inventory (17% formal).

► **Table 10: Main reason of seeking credit by enterprises in Turkana County**

| Main reason for seeking credit | Formal | | Informal | |
|--------------------------------|------------|----------------|--------------|----------------|
| | Frequency | Proportion (%) | Frequency | Proportion (%) |
| Working Capital | 91 | 23 | 708 | 52 |
| Refurbishing business | 123 | 31 | 277 | 20 |
| Starting another business | 0 | 0 | 117 | 9 |
| Purchase Inventory | 68 | 17 | 80 | 6 |
| Non- Business Purpose | 0 | 0 | 64 | 5 |
| Other (Specify) | 113 | 29 | 58 | 4 |
| Pay debt | 0 | 0 | 50 | 4 |
| Total | 395 | 100 | 1,354 | 100 |

Source of Data: KNBS (2016)

Two leading commercial banks in Turkana County lend to refugees and host communities using special loans tailored for semi-informal and semi-formal enterprises. Turkana County is served by two leading banks. These are the Kenya Commercial Bank (KCB) and Equity Bank. The KCB is a leading tier one bank in Kenya. The bank is renowned for its market leading deposit and lending products. The KCB is lending to formal and informal enterprises owned by both refugees and host communities through its branches in Lodwar and Kakuma. The bank has designed the Boresha Biashara loan product whose loan amount ranges

from KSh. 5,000 to KSh. 3,000,000 to serve this clientele. The product is tailored to help entrepreneurs to recover from the devastating effects of the Coronavirus Disease 2019 (COVID-19) pandemic. The bank uses business owners' M-PESA statements and cash sale slips to overcome challenges associated with lack of business records particularly by informal enterprises. It also accepts household items as a collateral. The KCB has also sought special permission from the Central Bank of Kenya (CBK) to use refugee manifest to open accounts and issue loans to refugees. Though the Boresha Biashara loans are well intended and have been customized to meet the unique nature of enterprises in Turkana County, only a few businesses have benefitted. A key informant from the bank branch in Kakuma reported that enterprises are not benefiting from the product because refugees do not have household items that can pass as collateral. The host communities cannot also use their land as collateral since land is still communally owned.

African Entrepreneur Collective is lending to refugees and host communities. The AEC is a leading humanitarian agency in Africa. The agency is a voice of enterprises owned by refugees and host communities. In Kenya, the AEC is supporting the refugees in Kakuma and the host community. The AEC provides loans to enterprises in Turkana County using a business development service model. The model includes a six-month training in areas such as bookkeeping, business operations, sales and marketing, digital marketing and investment readiness. After which an enterprise qualifies for credit. The loans range from USD 40 to USD 50,000 depending on the business size and repayment capacity. To deal with the marginalization of the refugee community the AEC shares its portfolio in a ratio of seven refugees owned enterprises for every ten beneficiaries. Just like KCB, the AEC overcomes the challenges associated with identifying the refugees by using the refugees manifest or alien identity cards. To estimate the size and the ability of the business to repay its loans, the AEC uses M-PESA statements, bank statements or business information kept in bookkeeping tools shared during the training. Although the AEC model is meant to unlock lending to both the host community, access to credit by refugees is hindered by a number of factors. These include limited rights of the refugees to do business and own property in Kenya; limited opportunities for expansion of businesses outside Kakuma and Turkana County in general; and non-certification or standardization of the training that it provides to enterprises, which limits recognition of the certificates to Turkana County only.

Turkana County government is lending to informal enterprises through the Biashara fund but is discriminating the refugees. The County government of Turkana is lending to formal and informal enterprises in the County through the *Biashara* fund. The *Biashara* fund, is a revolving fund for businesses in Turkana County created by the *Biashara* Fund Act (2015). To qualify for the funds a business requires: any form of registration such as proof of payment of taxes and licenses; that it is owned by a Turkana resident; a demonstrated need for the funds; and that it is not owned by a refugee. In the financial year 2021/2022 the fund disbursed a total of KSh.187 million. The enterprise that received the least amount of money got KSh. 50,000 while the highest received KSh. 200,000. The enterprises are expected to repay the money at an interest rate of five percent per annum. This is meant to make the fund a sustainable revolving fund for Turkana County businesses. The *Biashara* Fund Act caps the fund at KSh.300 million. Consequently, only KSh.100 million has been budgeted for the fund in the financial year 2022/2023. The fact that the fund ignores the refugees has got the refugee business community in Kakuma complaining. Adam, a businessperson in Kakuma camp, complained that *"...we are disappointed that the County government ignores refugee businesses when it comes to the biashara fund yet we pay permits and licenses just like the rest of the enterprises in Turkana County. We hope that County government considers us next time they disburse the biashara fund..."*. Other than ignoring the refugees the structure of the fund may not be sustainable due to political meddling which is not good for lending. The process of lending requires thorough screening of potential borrowers to ensure that the funds are repaid and the business has a need for the funds. This makes it difficult for a county government to be a direct lender as is the case in Turkana County.

► 3.8 Infrastructure

Informality of enterprises limits access to clean water sources. Formality of an enterprise influences its location and, therefore, the amenities it can access. To hide from authorities, informal enterprises will locate themselves in hard-to-reach areas or indiscernible areas. For this reason, they miss out on key amenities such as water. Data from the 2015/2016 MSME survey shows that only 41 percent of informal enterprises had access to piped water in Turkana County compared to 66 percent of formal enterprises. Majority of the informal

enterprises mainly got their water from a spring, borehole or well (Table 11). The findings imply that there is a differential of access to clean water by informal enterprises in Turkana County. Compared to formal enterprises, informal enterprises are less likely to access water from clean sources. This finding is validated by the primary data collected in an FGD in Lodwar town. Informal enterprises operating in Lodwar market complained that they did not have an ablution block where they could access clean and safe water despite paying market charges to the County government. The director of industrialization and trade confirmed this allegation and blamed it on the slow progress of constructing a new market for the traders. The situation is the same in Kakuma refugee camp where traders complained that the County government taxes them through various licenses and permits but does not bother to provide them with key amenities such as water. One of the informal business operators in Kakuma opined that “...Turkana County government considers us to be equal taxpayers with the host community but discriminate us when it comes to service provision. How come they collect license and permit fees of ranging between KShs.6,000 and KShs.25,000 but provide us with no services? If we are equal taxpayers, we should also be equal beneficiaries!”

► **Table 11: Main source of water for formal and informal enterprises in Turkana County**

| Water source | Informal Enterprises | | Formal enterprises | |
|--------------------------|----------------------|----------------|--------------------|----------------|
| | N | Proportion (%) | N | Proportion (%) |
| Other sources | 8 | 0.0 | 86 | 6 |
| Lake | 100 | 0.1 | 0 | 0 |
| Spring / Well / Borehole | 66,134 | 57.7 | 100 | 7 |
| Piped into dwelling | 2,226 | 1.9 | 348 | 24 |
| Piped into yard | 743 | 0.6 | 589 | 41 |
| Piped into outside tap | 44,129 | 38.5 | 10 | 1 |
| Water Vendor | 1,256 | 1.1 | 315 | 22 |
| Total | 114,596 | 100.0 | 1,448 | 100 |

Source of Data: KNBS (2016)

Nearly all the informal enterprises in Turkana County are not connected to electricity. Electricity connection is important for any going concern. It determines the working hours of the business, the equipment the business can employ in their business activities and at times the communication between the business and the clients. Analysis of the 2015/2016 MSME survey data shows that 97 percent of the informal enterprises in Turkana County had no connection to electricity (Table 12). This contrasts with 26 percent of the formal establishments. The findings imply that informality has a penalty of accessing electricity in Turkana County. A simple logistic regression of electricity connections to formality status of the enterprises without controlling for enterprise characteristics reveals that an informal enterprise in Turkana is 71 percent less likely to be connected to electricity compared to a formal enterprise (Table 13). While this may be explained by the tenancy problems that have bedevil the informal enterprises, the penalty is still significant. The situation is same in Kakuma refugee camp and Kakuma town. In an FGD with formal and informal traders in Kakuma Camp the businesspersons complained that none of them were connected to electricity. Indeed, one of the participants said that “...We have no electricity connections in our homes nor in our business premises. Life in the camp is tough. I feel that lack of electricity connections in the camp could be one of the explanations why we are forced to close our businesses by 8pm. It could be that if there was adequate lighting at night, we could have been allowed to extend our business hours past 8pm”. The traders lamented that interference with their business hours made them lose business opportunities associated with evening rush hours.

► **Table 12: electricity connections to enterprises operating in Turkana County**

| Connected to electricity | Informal Enterprises | | Formal Enterprises | |
|--------------------------|----------------------|----------------|--------------------|----------------|
| | N | Proportion (%) | N | Proportion (%) |
| No | 111,562 | 97 | 388 | 27 |
| Yes | 3,034 | 3 | 1060 | 73 |
| Total | 114596 | 100 | 1,448 | 100 |

Source of Data: KNBS (2016)

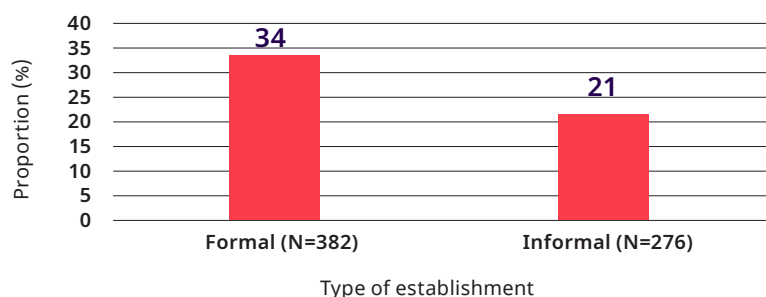
► **Table 13: Effect of informality on the probability of being connected to electricity**

| VARIABLES | Base model | Marginal effects |
|--|-----------------------|-----------------------|
| Informal | -4.610*** (0.0621) | -0.706*** (0.0116) |
| Constant | 1.005*** (0.0593) | |
| Observations | 116,044 | 116,044 |
| Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 | | |

Source of Data: KNBS (2016)

Nearly all the informal enterprises in Turkana County have no access to internet. Access to internet is vital for business communication, marketing and access to information. Analysis of the 2015/2016 MSME survey data reveals that only 382 (26.4%) of formal enterprises in Turkana County reported that they have access to a computer. Of these, only 34 percent (128) were using their computers to access internet (Figure 8). The analysis further revealed that only 276 (0.24%) of informal enterprises reported owning and computer out of these only 21 percent (58) reported using the computers to access internet. The finding implies that that nearly all the informal enterprises in Turkana lack access to internet. It can be argued that the informal enterprises access internet through their owners' handheld gadgets especially considering that majority of informal enterprises cannot be separated from the owners. However, this is not the case. A survey by the IFC revealed that only 28 percent of phone owners in Kakuma camp and 36 percent in Kakuma town have smartphones (IFC, 2018). A follow up question by this survey to smartphone owners revealed that only 19 percent of smartphone owners in Kakuma Camp and 33 percent in Kakuma town connected to internet. The situation would not be different in the rest of Turkana County since there is limited access to the internet across the County and service largely offered by only one provider. As such, the statistics from the 2015/2016 MSME survey may not be exaggerated. The finding is further supported by primary data collected during the survey. In an FGD at Kakuma Camp one of the businesspersons selling secondhand clothes complained that she has severally received the wrong consignment from her suppliers in Lodwar because she has no smartphone and cannot access internet to communicate with the suppliers. She opined that *"...I sell secondhand clothes within the camp my business is quite challenging because I have to order the clothes from as far as Lodwar town. Matters are complicated by the fact that I have no smartphone and internet connection to enable me use social media apps such as WhatsApp to describe what I want to buy using photos. So most of the times the suppliers end up sending me what I had not ordered. For instance, there is a period they sent me cold weather jackets against my wish to get dresses. I incurred losses because Kakuma is always hot"*

► **Figure 8: Proportion of enterprises with access to internet**



Informality limits enterprises in Turkana County from accessing good roads. Roads play a linking role in an economy. They link workers to their jobs, producers to the markets and children to schools. An individual or an enterprise without access to good roads is, therefore, delinked from jobs, markets, schools and hospitals. Data from the 2015/2016 MSME survey shows that only 1.1 percent of informal enterprises in Turkana County had access to good roads in contrast to 42 percent of formal enterprises (Table 14). Up to 97 percent of the informal enterprises in Turkana County reported that the state of the roads connecting them with the rest of the society is bad. Although this could be explained by the remote locations selected by informal enterprises to establish their businesses the consequences are dire, nonetheless. The implication of the finding is that informality in of enterprises in Turkana County imposes a price on access of good roads by enterprises. The fact that roads are the links to market for goods and services as well as inputs for business means that informal enterprises are more delinked from their markets for goods and inputs compared formal enterprises in Turkana County. The situation is worse in Kakuma Camp since the businesspersons in the camp are not only delinked from the source of their inputs and markets for their goods by road but also by the confinement in the camp.

For instance, consider the case of Sarah⁷ a tie and dye expert in Kakuma camp. She is confined in the camp and so cannot fetch dye from Lodwar despite the new road and can neither travel to sell her dyed fabrics in the market. She must rely on well-wishers who travel to and from the camp to buy her dye and market her fabrics limiting her opportunities to grow her enterprise and talent.

Therefore, poor state of roads and encampment of the refugees limit access to markets for informal enterprises owned by the host and the refugee communities.

► **Table 14: Access to road infrastructure by enterprises in Turkana County**

| Road Status | Informal enterprises | | Formal enterprises | |
|--------------|----------------------|----------------|--------------------|----------------|
| | Informal | Proportion (%) | Formal | Proportion (%) |
| Good | 1,256 | 1.1 | 586 | 42 |
| Fair | 1,531 | 1.3 | 375 | 27 |
| Bad | 111,741 | 97.6 | 419 | 30 |
| Total | 114,528 | 100.0 | 1,380 | 100 |

Conditions in Kakuma camp and land allocation policies limit refugees desire to own and run businesses.

One of the key factors of production is land. Land provides the physical space where businesses can conduct their commercial activities as well as store their inputs and outputs. Without adequate physical space a business is forced to cut down on production and limit the amount of inputs at any particular time. With respect to MSMEs space constraints manifest in traders selling their wares by the roadside, traders having to carry their equipment and goods back home every other evening and traders relocating their production to a client’s site. According to the 2015/2016 MSME survey informal enterprises in Turkana County did not complain about

⁷All names are anonymized

space. Out of the surveyed 114,596 informal enterprises only eight percent (8,779) felt that their physical space was limited (Table 15). Though these findings present a somewhat rosy picture the findings are contradicted by the primary data collected during this study. In one of the FGD with informal and formal enterprises in Lodwar and Kakuma informal vegetable vendors complained that they have been forced to operate by the roadside for lack of adequate space in the market. In addition, the refugees at Kakuma complained that the 15X10 meters land they are awarded is not adequate for their businesses and their dwellings. This is compounded by the fact that the Camp has land set aside for a market yet it is not developed. Therefore, the land allocation policies in Kakuma camp are limiting refugees desire to own and run businesses.

► **Table 15: Informality and challenge of business space among enterprises in Turkana County**

| Space | Informal enterprises | | Formal enterprises | |
|--------------------------|----------------------|----------------|--------------------|---------------|
| | N | Proportion (%) | Formal | Proportion(%) |
| Space is not a challenge | 105,817 | 92 | 1,438 | 99.3 |
| Space is a challenge | 8,779 | 8 | 10 | 0.7 |
| Total | 114,596 | 100 | 1,448 | 100.0 |

Given these infrastructural challenges faced by enterprises and more so the informal enterprises in Turkana County several programmes are being implemented by various stakeholders to address the challenges. The forgoing discussion discusses these programmes and their challenges.

The Kakuma Kalobeyei Challenge Fund (KKCF) seeks to integrate the refugees and the host community as well as promote their self-reliance while solving their infrastructural challenges. The KKCF is a five-year program of the International Finance Corporation (IFC), implemented with Africa Enterprise Challenge Fund, Turkana County Government, and UNHCR. Through its three main components the KKCF seeks to solve a myriad of problems limiting businesses in Turkana County including infrastructure. Through its rolling competitive business challenge the KKCF is solving infrastructural problems in Kakuma and Kalobeyei by investing in social enterprises that solve infrastructural problems. One such investment is supporting investments in digitrucks. Digitrucks are highly flexible solar-powered mobile computer lab that can be used in a wide range of settings and learning situations. The trucks provide the refugees in Kakuma with access to computers for learning and internet access. Hence solving the inaccessibility of internet by informal enterprises within the camp. Though a critical solution the digitrucks are mobile and, therefore, not always available for the informal enterprises in Kakuma camp. The second investment is in Renewvia Energy corporation⁸. The corporation is a solar developer that designs, install, own and operate commercial and community solar power systems. In Turkana County the corporation is running a minigrid that provides electricity to both the host and refugees communities. At present the minigrid is providing electricity to more than 600 homes and small businesses. All a household or business requires is to pay a connection fee of KShs.1,050 (USD10). Part of this connection fee, KShs.200 (USD2) is reimbursed to the household as a monthly installment for their electricity subscription. The connections are metered and the households pay based on their usage. The facility is supporting key services such as a medical laboratory and cooling facilities in small businesses. Though impactful, the corporation is not able to meet the power demands in the refugee Camp and the surrounding communities. With the support of the KKCF, the corporation is expanding its site and seeks to connect 2,250 more households and businesses to electricity⁹.

The Constituency Industrial Development Centres by MSEA have limited outreach. The MSEA is the government agency in Kenya mandated to develop the Micro and Small Enterprises in the country through various initiatives. One of the initiatives is the operationalizing of CIDCs across the country. The CIDCs are modern Common user manufacturing facilities equipped with modern machinery and tools to realize industrial dispersion and balanced economic development throughout the country. So far, the MSEA has managed to operationalize 120 CIDCs and seeks to operationalize a further 58 centers in the financial year 2022/2023. However, a scrutiny of the operational CIDCs and the intended investments reveal that the MSEA may not have

⁸ <https://www.youtube.com/watch?v=zuAzLgGzNZE>
⁹ <https://kkcfke.org/faq/what-do-you-look-forward-to-doing-in-kakuma-kalobeyei-how-do-you-see-your-business-growing-in-the-next-5-years-what-challenges-have-you-had-to-overcome-8/>

prioritized Turkana County. The investments have ignored both the host community and the refugees. As a result, *jua Kali* operators in Turkana County lack shared manufacturing facilities that micro and small traders may not be able to afford. The second initiative that the MSEA is running is the modernization of the MSE worksites across the country. The worksites are intended to provide space for MSEs to run their businesses and store their output. To provide these worksites, MSEA works in collaboration with County governments. In Turkana, modernization programme sought to construct a *jua kali* shed. However, construction works are yet to commence.

The National government in collaboration with partner agencies has implemented key infrastructural projects in Turkana County. The government (the public sector) has a role in stimulating the development of the private sector in the country. Part of this involves development of key infrastructure such as roads, airports and internet. In Turkana, key infrastructural investments such as key trunk roads have been missing. For instance, it is not until now (2022) that the government has constructed the South Sudan link road. The development of this key link road has entailed the upgrade of 514 kilometer stretch of road from Kitale to Lokichoggio to bitumen standards¹⁰. The road connects Kitale, Kapenguria, Lokichar, Lodwar, Kakuma, Lokichoggio and Nadapal towns. The completion has integrated Kakuma and the rest of Turkana with the rest of the country via Kitale and Eldoret. Importantly, the road has reduced travel time between Lodwar and Kitale (120 Kilometers) to from three days on a rainy day to less than three hours. This is expected to lower the cost of key goods and services in Kakuma town and ensure ease of replenishing perishables to small businesses in Kakuma town. However, though the road is a key game changer, the encampment policy stops the refugees from enjoying the full benefits of integration that come with the road. In addition to the road the national government in conjunction with the World bank completed the laying down of a high-speed internet fibre optic cable in 2020. The project was aimed at transforming the lives of the people in Northern Kenya through smart ICT infrastructure and bridging the digital divide. The Fibre optic cable runs through Lodwar, Kakuma, Lokichar and Lokichoggio towns. The completion of this key infrastructure saw the internet speeds in Turkana County improve from 2G to 4G. As a result, the residents of Turkana County can interact with their loved ones and the NGOs are able to reach their headquarters with ease. The challenge, though, besetting the enjoyment of this high speed internet is the penetration of smart devices. The IFC (2018) estimated that only 28 percent of phone owners in the camp and 36 percent in Kakuma town had smartphones. The implication is that the benefits guaranteed by the laid fibre optic cable may be delayed by acquisition and access to smart devices such as smart phones and computers.

The encampment policy in Kakuma Refugee Camp is limiting the refugees particularly women from engaging in business. The encampment policy inhibits refugees from moving outside the refugee camp. The implication is that the refugee community and those in entrepreneurship must rely on logistical firms owned by the host-communities to restock their businesses in the camp, and transport output from the camp to markets in Lodwar and the rest of the Country. This restriction adversely limits businesses owned by the refugees particularly those operated by women. Majority of male refugees have invested in *bodas bodas*¹¹, which they use to ply between the camp and Kakuma town, an advantage that majority of women do not have. A refugee FGD respondent who has a tie and dye business within the camp complained that *"...I was born here, and my parents passed me some tire and dye skills. I have been using my skills to earn a living by dyeing fabrics. I depend on well-wishers to source new fabrics and transport my dyed fabrics to the market. This is so expensive for me. I cannot ascertain the price that the dyed fabrics fetch in the market I simply accept what am given. I wish I had the right to do businesses like the host community..."*

¹⁰ <https://youtu.be/oi5RwXtMQqU>

¹¹ [Motorbikes](#)

▶ 4

SUMMARY AND RECOMMENDATIONS

▶ 4.1 Main challenges of informality in Turkana County

1. Informality is pervasive Turkana County with almost nine in ten enterprises yet to start their formalization journey. These businesses have not been formally registered by the registrar of companies, licenced by the local authorities or complied with taxation and social security requirements. Given the high levels of informality, enterprises are unproductive and unable to create jobs or generate income for the people.
2. Registration of businesses is hindered by lack of awareness of the registration pathways available for various types of informal enterprises. Even so, bureaucratic procedures and delays by registration service providers is discouraging many small businesses from registering. The capacity of the current registration centres in Lodwar and Kakuma is not adequate to facilitate efficient registration processes. In addition, lack of identity cards remains a key bottleneck for business registration among host communities. For refugees, delays in issuance and renewal of alien cards hindering prospective businesses from business or tax registration.
3. Informal enterprises perceive that the costs of taxation registration and compliance outweighs its benefits given the requirements of record keeping and making periodic online returns as per the law. Most informal businesses have limited resources and technical capacity to compute and file returns. There is generally a lack of clarity of how tax compliance can benefit informal businesses who are barely surviving.
4. There is a general mistrust and weak dialogue between informal sector and government, making tax compliance and other areas of co-operation such as business registration more difficult. This arises from Tax agents from both the national and county government perceiving the informal sector as unwilling to pay their taxes. On the other hand, informal enterprises view these officers as forceful when collecting their taxes. The current taxation system does not favour businesses operating in a pastoral economy context. The taxation system requires regular tax payments when earnings from livestock and their products are irregular and unpredictable.
5. Informal business face diverse local licenses and charges that are considered too expensive for their scale as they are not necessarily dependent on their scale or revenue. While some informal enterprises have flexible license payment terms the charges are low and affordable in the short run but expensive in the long run.
6. Over 95 percent of informal sector workers in the County do not have social security protection. Lack of awareness of the need for social security or that the businesses are too small to absorb costs associated with social security account for low compliance. Also, majority of enterprises are aware of the nature of social security products available in the market.

7. The workforce in Turkana County has no health cover despite having good knowledge of the national health insurance scheme. Most employers in the informal sector know that providing health insurance is imperative for them but did not comply due to poor enforcement as well as limited cash flow.
8. Business informality is a key reason for limited access to affordable and adequate credit for enterprises. As a result of informality and low levels of productivity, enterprises do not have formal and document records, bankable plans, cannot accumulate collateral and other documentation to facilitate issuance of credit. These enterprises rely on informal sources of credit which is generally more expensive than the formal sources. In addition, the enterprises circumvent the requirement to be formal by borrowing from formal sources uses the owners accounts especially in instances where the separation between personal and business finances is not distinct. This may explain why 40 per cent of informal enterprises in Turkana County have accessed formal finance.
9. The informal sector suffers poor access to infrastructure including electricity, water, space for business and ICT infrastructure such as computers, smart phones and internet.

► 4.2 Programmes and initiatives in the informal sector

To address these challenges, the following programmes are being implemented but have some constrains

| S.No | Programme | Challenges |
|------|--|---|
| 1 | Start and grow your business by Action Africa Help International (AAH-I) | The programme has halted because of lack of funds. There were corruption allegations against one of the AAH-I employees which led UNHCR, the main financier, to pull out. There have not been efforts to resolve the dispute leading to further uncertainty of the programme. |
| 2 | Mentorship sessions between formal and informal enterprises by the Kenya National Chamber of commerce and Industry Turkana Chapter | The mentorship programme will be a periodic rather a continuous service. Hence, there will be gaps between need and provision whenever services are out of season. |
| 3 | The one stop shop Biashara Centre in Kakuma | The risk that faces this one stop shop business solution centre is that of inheriting the red tapism associated with the Huduma centre at Lodwar. The centre lacks the capacity to resolve issues at a local level and keep referring matters to Nairobi causing unnecessary delays. |
| 4 | Boresha biashara loan by Kenya Commercial Bank | The refugees may lack the household items to use as collateral. They cannot use land as collateral because it is communal and lacks title deeds |
| 5 | Business development services by African Entrepreneur Collective (AEC) | The limited rights of the refugees to do business and own property in Kenya limits the effectiveness of this programme Non-certification or standardization of the training that they provide to enterprises in Turkana County restricts the use of the training to unlock funds within Turkana County only. |
| 6 | The Biashara Fund by Turkana County government | The fund outrightly discriminates against refugees yet they pay taxes to the County government through permits and licence fees The direct lending by the County government waters down the key tenets of lending such as thorough screening of potential borrowers and enforcement of repayment |
| 7 | The Kakuma Kalobeyei challenge Fund (KKCF) by the Internal Finance Corporation (IFC) | The digitrucks are mobile and, therefore, not always available for the informal enterprises in Kakuma camp and The power demands in the refugee Camp are beyond Renewvia Energy corporation minigrid. |
| 8 | The constituency industrial development centres (CIDCs) by Micro and Small Enterprises Authority (MSEA) | The MSEA may not have prioritized Turkana County thereby ignoring both the host community and the refugees. |

► 4.3 Recommendations

The challenges associated with the informality in Turkana together with the programmes and their setbacks require precise targeted actions. The measures proposed for action by the respective actors are as presented:

National government ministries, departments and agencies

1. Informality is pervasive in the Turkana economy with 86.38 percent of the enterprises in Turkana County yet to start their formalization journey and 9.61 a step away from informality. The National government in partnership with Turkana County Government should devolve the registration of businesses to Turkana County. This may be done through improving the capacity of the available Huduma Centres, MSEA branch and Department of Trade to ensure that businesses get quick registration services in the region.
2. Lack of identity cards among the host community and lack of as well as expiry of alien identification cards among the refugees is hindering registration of businesses in Turkana County. The National government through the National Registration Bureau and Department of Refugee Services (DRS) should ensure timely registration of persons in Turkana County irrespective of their status to unlock business registrations.
3. The expiry of an alien identification card denies refugees access to records and further identification issued based on the expired alien identity cards. The National government through the DRS and the National Registration Bureau should ensure that the identification number on the renewed alien identity card is similar to the expired card to avoid loss of identification that was based on expired card.
4. Low penetration of smart devices such as computers and smart phones among the host communities and refugees is limiting the access to internet by informal enterprises. The National government in conjunction with na., KNCCI – Turkana, MSEA - Turkana and Department of Trade can establish an ICT centre where businesses can have regular access to online services of registration, tax services, application of tenders etc. The same services can be extended with the refugee camp by UNHCR and partners.
5. Majority of informal enterprise owners and workers lack skills on and access to online tax registration and compliance. The National government through the Kenya Revenue Authority should consider “one stop shop” whereby the entities pay the fair share of taxes at the point of licensing to simplify compliance. Further, the itax system can be reconfigured to automatically file returns for whenever an enterprise pays their fair share of taxes. Training of businesses owners on their obligations is also desired.
6. Lack of social protection among the informal economy workers is undermining decent work in the County. The National government through the NSSF and the NHIF should find ways of integrating informal social security arrangements such as the Lorigum Revival Self-help Group into their systems. This could be by directly collecting the weekly contributions by members. Intensive training and awareness creation through KNCCI and other groups can enhance uptake of these services.
7. The encampment policy in Kakuma is constraining the enjoyment of benefits that come with the key infrastructural developments such as roads since they cannot get out of the camps to either source materials for their businesses or sell their wares. The national government in partnership with her tripartite partners such as the UNHCR should grant the refugees the right to access markets within the country progressively starting with the markets Turkana County urban centres such as Lodwar.

Turkana County Government

1. Turkana County Biashara Fund (Amendment) Act 2020 restricts enterprises owned by refugees from accessing the Biashara Fund operated by the Turkana County Government. The County Government should, therefore, amend the Act to allow enterprises owned by legally registered refugees in the county to benefit from the revolving fund.
3. The direct administration of the Biashara Fund by the County government waters down the key tenets of lending such as thorough screening of potential borrowers and enforcement of repayment. The County government should amend the Biashara Fund Act (2020) to adopt best practices in lending. An option that

the County could explore is establishing a county parastatal in charge of the fund like is the case in Meru County with the Meru County Microfinance Corporation.

4. Informality reduces the productivity of enterprises by around KShs.65 million every year. The county government should enhance productivity through capacity building informal enterprises in marketing, technology adoption, pricing and customer service and other needs

Development partners

1. The start and grow your business programme by Action Africa Help International has come to a halt due to uninvestigated corruption allegations on the part of AAH-I employee yet the programme was impactful. For benefit of the host community and the refugees, the AAH-I and the UNHCR should amicably solve their disputes at a partner level without adversely halting the programme
2. The Micro and Small Enterprises Authority is implementing the constituency industrial development centres programme nationally but is limited by funds and manpower to reach the marginalized areas such as Turkana County. The development partners such as UNHCR and the IFC should partner with the MSEA by financing the implementation of the constituency industrial development centres programme in Turkana County.
3. Non-certification or standardization of the training provided by business development service providers in Turkana County restricts the use of the training within Turkana County only. The business development service providers should partner with government agencies such as the National Industrial and Training Authority (NITA) to help standardize the training and provide internationally recognized certification. This can be implemented within the Recognition of Prior Learning Framework of 2021.
4. The KNCCI-Turkana Chapter intends to start mentorship sessions to periodically and on a sectoral basis between formal and informal enterprises. To enrich the programme the KNCCI should make the programme a continuous exercise and should allow cross sectoral mentorship to raise awareness on the alternative formalization pathways available for enterprises in Turkana County.
5. The power demands in the refugee Camps are beyond Renewvia Energy corporation minigrid. The corporation should partner with government agencies such as the Rural Electrification and Renewable Energy Corporation (REREC) to upscale its electricity production.

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► Appendix 1: Key informants

| S.N | Name organization | Name of key informant | Position in organization | Telephone/email contact |
|---|---|-----------------------|---------------------------------------|---|
| National Government Ministries and Agencies | | | | |
| | Micro and Small Enterprises Authority | Caroline Kioko | CEO, MSEA | ckioko@msea.go.ke |
| Turkana County Government | | | | |
| | Department of Trade | James Lokwale | Director, Trade | 0729742048 jlokwale@gmail.com |
| | | Michael Musyoki | Senior Trade Officer/ ILO Focal point | 0713258565 mikendeto89@gmail.com |
| Employer and Business Membership Organizations | | | | |
| | Turkana Chamber of Commerce and Industry | Francis Edome | CEO | 0720603713 |
| | Lodwar Juakali Traders Association | Peter Etabo | Chairman | 0728621343 |
| | | Stephen Omolo | Secretary | 0729312191 |
| | County Livestock Market council | Joseph Ossuru | Chairman-Livestock Marketing Coop | 0705 607244 turkana.netclmc@gmail.com |
| Financial and Business Development Service providers | | | | |
| | Equity Bank – Lodwar | Job Nyorsok | Branch Manager | 0763761361 |
| | KCB Bank – Kakuma/ Lodwar | Otara Felix | Credit manager | 0728921888 |
| | National Bank – Lodwar | Edward Mwangi | Operations Manager | 0725803690 |
| | African Entrepreneur Collective | Alex Masitsa | Manager | |
| | Kakuma Kalobeyei Challenge Fund | Charles Nyandero | manager | |
| Actors Supporting Refugee Businesses | | | | |
| | Action Africa Help International | Erick Mathenge | Manager AAH-I | 0704040614 |
| | United Nations High Commissioner for Refugees (UNHCR) | Edith Ingutia | Livelihoods | 0725762637 ingutia@unhcr.org |
| | Lutheran World Foundation | Joseph Wekesa | | 0720876645 |
| | Blessed Community Empowerment organization (BLEC) | Mike Ekai | | 0714448605 |

► Appendix 2: Kenya Standard of Industrial Classification (KeSIC 2020)

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|------------------|--|
| Section A | Agriculture, forestry and fishing |
| Section B | Mining and quarrying |
| Section C | Manufacturing |
| Section D | Electricity, gas, steam and air-conditioning supply |
| Section E | Water supply, sewerage, waste management and remediation activities |
| Section F | Construction |
| Section G | Wholesale and retail trade; repair of motor vehicles and motorcycles |
| Section H | Transportation and storage |
| Section I | Accommodation and food service activities |
| Section J | Information and communication |
| Section K | Financial and insurance activities |
| Section L | Real estate activities |
| Section M | Professional, scientific and technical services |
| Section N | Administrative and support service activities |
| Section O | Public administrative and defense; compulsory social security |
| Section P | Education |
| Section Q | Human health and social work activities |
| Section R | Arts, entertainment and recreation |
| Section S | Other service activities |
| Section T | Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use |
| Section U | Activities of extraterritorial organizations and bodies |



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