

role of the informal sector in the socio-economic development of Kisumu District in Western Kenya. The informal sector is defined as a collection of small-scale business enterprises engaged in manufacturing, service and retail trade activities. In the study, special attention is given to the rural component of the sector, with the view of finding out its capacity for growth and its employment creation potential.

A selection of small-scale manufacturing, service and trade economic activities, located in the rural service centres (designated for development) of Kisumu District was made to represent the rural-based informal sector, and to serve as a basis for an analysis of its main characteristics and contribution to development in the rural milieu. Eleven service centres, defined as belonging to the rural environment, were randomly selected and these centres yielded 210 informal sector business establishments for the study. The sector was then studied in the light of three hypotheses which aimed to find out whether it contributes to the development of the District by reducing selectively the perceived extreme population pressure on farm land, the rural-to-urban migration of school-leavers seeking work, and whether it does succeed in providing profitable employment to these categories of persons among the rural population.

The three hypotheses were then tested by the means test, Chi-square test ( $X^2$ ), and Multiple Linear Regression methods, respectively. The means test revealed that the mean land holding per person employed in the informal sector of 0.34 hectares is significantly lower than the District's mean of 0.46 hectares per person. The critical  $t$ -value of -1.65 was found to be greater than the computed probability of 0.06 for 209 degrees of freedom. Hence, the null hypothesis was rejected and the alternative accepted that the informal sector tends to selectively employ people with smaller than average parcels of farm land in the District. Similarly, the  $X^2$  test showed that when directed to look at the fate of primary school-leavers as an employment pool, the informal sector, in actual fact, employs a large proportion of both male and female operators in that category of school-leavers. For those with secondary school education, however, the proportion employed in the informal sector was found to be smaller than the District's average. In other words, with the exception of secondary school-leavers, the sector was shown to be responsible for reducing rural-to-urban migration by absorbing selectively that part of the rural population most likely to migrate to the urban centres to seek alternative employment outside agriculture. For the male informal operators, significance was obtained by a computed  $X^2$  value of 55.91 as compared with a critical value of 7.82. Similarly, the computed  $X^2$  value for the female operators was 8.27 while the critical value was 5.99.

Finally, Multiple Linear Regression analysis was used to show that the profits in the informal sector businesses are significantly responsive to five business-influencing factors, namely, the number of customers received, present value of fixed and circulating capital, sub-sector of business activity (i.e. manufacturing, service and trade) and rank of the service centre in which the business is located. For the whole sector, these variables explained 47%

ness. By sub-sectors, the total variance explained was 13% for manufacturing economic activities while the explanatory variables were the number of customers received and present value of capital for trade, the value of circulating capital, number of customers received and years of education for service, and the number of customers received and present value of capital for manufacturing. Thus, profits of business in the informal sector were shown to exhibit moderate to low responsiveness to the factors which normally influence business performance. This was concluded to be indicating the presence of problems of business performance and the potential for profitable economic growth of the informal sector in the District.

On the basis of the results obtained, it was concluded that the informal sector is vital as a means of relieving extreme population pressure on the land, reducing rural-to-urban migration of school-leavers at the lower levels of education, and as a source of potentially profitable economic activities. However, the recruitment of secondary school-leavers was found to be lower than the proportion of the population of the District with secondary school education. For this reason, it was recommended that the participation of secondary school-leavers in the informal sector should be promoted to enhance the capacity of the sector to absorb the potentially migrant school-leavers as a whole. Furthermore, the factors which normally influence business performance were found to be accounting for no more than 48% of the variability in business profits. Due to this, it was recommended that other factors, including the problems of business performance should be examined and resolved for a full realisation of the potential of the sector to the development of Kisumu District.