

# ***Industrial Structure, Nature of Informal Enterprise and Inequality in Kenya: a Dominance Test Perspective***

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## **Abstract**

The informal sector in Kenya was first brought to the limelight in 1972 through a report of the International Labour Organization (ILO), and it has continued to grow since then. The ILO report underscored the sector's critical role in promoting growth in incomes and employment. Given Kenya's top ranking in the league of the most income unequal societies in the world, the contribution of the informal sector to income growth would be of immense interest to policy makers.

A casual observation of the informal sector structure suggests that the different sub-sectors within the informal set-up exhibit varying characteristics with respect to their locations, gender composition of workers, and contribution to household income levels, among others. The exact nature of the effect of these structure induced characteristics on household income distribution is however, not clear. This has acted in part, to hinder effective policy formulation on distributional issues.

Using raw Labour Force Survey data, this study employs Lorenz dominance analysis, complemented by income shares of different ordinal groups divided by sex, and estimates of gini coefficients, to uncover the distributional effects of informal sector structure on household income by sex and location. Preliminary results suggest that overall, urban household incomes arising from informal sector activities are more unequal than rural incomes and that "paid employment" is the most equalizing, while "other sources" is the most unequalizing across locations. Across sexes, "wholesale and retail trades" is the most unequalizing. For males, "paid employment" is the most equalizing, while for females, "community, social and personal services" is the most equalizing.

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