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Employment and  
Income in Micro  
and Small  
Enterprises in  
Kenya:  
Results of A  
1995 Survey

*GEMINI Technical Report No. 92*

# GEMINI

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS**  
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

**DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International •  
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EMPLOYMENT AND INCOME  
IN MICRO AND SMALL ENTERPRISES  
IN KENYA:  
RESULTS OF A 1995 SURVEY

by

Lisa Daniels  
Indiana State University

Donald C. Mead  
Michigan State University

Muli Musinga  
Kenya Rural Enterprise Programme

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**ACRONYMS**

CBS	Central Bureau of Statistics of the Government of Kenya
FTE	Full Time Equivalent
GEMINI	Growth and Equity through Microenterprise Investments and Institutions
ISIC	International Standard Industrial Classification
KSh	Kenya Shillings
MSE	Micro and Small Enterprises
ROSCA	Rotating Savings and Credit Association
USAID	U. S. Agency for International Development

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Finally, of course, we must thank the entrepreneurs for putting up with a long and complicated questionnaire. Hopefully the results will lead to improved projects and policies which will justify their - and our - efforts.

## **EXECUTIVE SUMMARY**

This report summarizes the findings of the 1995 baseline survey of Micro and Small Enterprises (MSEs) in Kenya. Compared to the 1993 survey, the 1995 study collected substantially more information from a somewhat smaller sample of enterprises. The resulting analysis provides important information under four major headings.

### **EMPLOYMENT GROWTH**

The retrospective questions in the 1995 survey indicate that total employment in MSEs has been growing at rates of at least ten percent per year in recent years. The analysis also indicates that there is a rapid turnover in the sector. In 1994, for example, it is estimated that about 250,000 new jobs were created in MSEs; but these were offset by about 150,000 jobs lost through existing businesses that ceased operation, leaving a net increase of only about 100,000 workers in MSEs.

The balance between new jobs arising from net new enterprises getting started, compared to those resulting from an expansion of existing enterprises, appears to vary over time, depending on the state of the macro economy. In 1994, when overall growth in the economy was low, about 70% of the new jobs came from net new starts. In 1995, when the economy was in a more dynamic phase, about 70% of the jobs came from expansions in existing enterprises. In general, expansion jobs appear to yield higher returns.

### **INCOME EARNED**

It is estimated that MSEs account for 12-14% of Kenya's GDP. Most of this is in the form of returns to the owner and unpaid workers in the enterprise. Among MSEs, manufacturing and trade are of roughly equal importance in terms of their contribution to GDP.

When examined in terms of income generated per person employed (working owners plus unpaid workers), the data suggest that about two-thirds of the enterprises were generating income equal to or below the minimum wage. Income per worker was substantially higher in enterprises operating in urban areas, and in enterprises owned by men. It was also higher in cases where the entrepreneur had more education or technical training.

Among those enterprises generating returns below the minimum wage, in about half the cases, the activity contributed less than half the total income of the household. For another third of these low-return enterprises, though, the enterprise supplied more than half of the household income. This suggests that for many households, the MSE is strictly a supplementary activity, contributing only small amounts and a small share of the household's income. In a number of other cases, however, the MSE is the main source of household income and still generates only very low returns. In both these sets of circumstances, MSEs are making a significant contribution to the alleviation of poverty.

For the remaining third of the enterprises that generate returns equal to or above the minimum wage — and specially for the twenty percent that produced more than double the minimum wage — MSEs constitute an important growth dynamic that can move households well above the poverty threshold.

### **ACCESS TO CREDIT, TRAINING AND OTHER FORMS OF ASSISTANCE**

The survey results make clear that only a small minority of MSEs had benefitted from any form of credit or of non-financial assistance. Most enterprises rely primarily or exclusively on own savings and reinvested profits to finance the enterprise; only about ten percent had ever received any credit. Among those that did obtain outside funding, the most frequent source was rotating savings and credit associations (ROSCAs).

Since this was the principal source of credit and most ROSCAs involve women, the share of enterprises receiving credit from any source was higher for enterprises owned by women than for those with men as owners. Use of outside credit was positively related to enterprise size as well as to the level of education of the entrepreneur.

More than half the entrepreneurs had some primary education. An additional quarter had some secondary or higher education. Technical education was much less widespread, reaching only about a quarter of the entrepreneurs, mostly through apprenticeships.

Only about seven percent of the entrepreneurs reported having received any form of non-financial assistance. Much of this was in the form of informal advice.

### **CAPITAL INVESTED IN THE ENTERPRISE**

Most MSEs start with very limited amounts of capital. Expressed in 1994 prices, about 45% started with less than KSh 1,000 (about US\$ 20), while 70% started with less than KSh 5,000 (about US\$ 100). Most of those that start with these small amounts of capital remain very small in terms of amounts invested, although nearly a quarter of those starting very small did move up at least to the next size category by expanding their investment base.

Most of those starting with very small amounts of capital were generating very low levels of income for owners and unpaid workers. A few, though, did manage to progress to a stage where they were able to earn KSh 5,000 or more per person per month.

### **OVERVIEW**

There is a tendency in some circles to think of micro and small enterprises as a homogeneous category, which can be most effectively helped by one single type of assistance. This study should make clear the fallacy of that approach. The universe of enterprises with 1-50 workers is complex and diverse. The majority of these enterprises make their principal contribution in the area of poverty alleviation, for households that would otherwise be desperately poor. Others - a significant minority of MSEs - are making

a major contribution to the growth of the economy, helping participants move substantially above a poverty minimum.

These different groups of enterprises have different needs in terms of support. The principal problems faced by the simplest enterprises are more likely to center around credit. For more dynamic enterprises generating higher returns, problems and constraints are more complex; simple credit programs would be increasingly inadequate to their needs. Those designing assistance programs need to understand these differences, to determine which target group corresponds most closely with their priorities, and then design their assistance programs accordingly.

## **SECTION ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND AND OBJECTIVES**

The important role of micro and small enterprises (MSEs) as a source of income and employment for poor households in Kenya has been widely acknowledged since the early 1970s, following the publication of the ILO's influential report (ILO, 1972). However, it was not until the first national baseline survey of MSEs was conducted in 1993 that the magnitude of the sector and its contribution to employment in the country became well known (Parker, 1994). That survey, conducted by GEMINI in conjunction with K-REP, generated a wealth of information that has helped to change many earlier perceptions regarding the sector. Comparing MSEs in Kenya with those in other African countries, it established that the MSE sector in Kenya has more signs of dynamism and maturity than in most other African countries. The survey not only provided evidence of the need for more support for the MSE sector in Kenya but also provided important information on the basis of which better intervention programs could be formulated for the sector.

Many microenterprise development organizations have a major goal of raising incomes and employment among the poor. While there is now substantial understanding of the number of jobs created in MSEs and the general patterns of growth of employment in MSEs, much less is known about these jobs in terms of either their durability or the incomes they generate. This lack of knowledge has led to a lengthy and generally fruitless debate regarding the extent to which expansion in employment in MSEs should be seen as a component of a successful development process or as a sign of the malfunctioning of the rest of the economy. Many critics of MSE support argue that even though the sector is a significant employer of the poor, microenterprises and the jobs they offer are merely a part of a survival economy where people do what they must do because they have to survive, but are not part of a dynamic process of economic growth. According to this line of reasoning, resources diverted to the support of MSEs are wasted from a long term developmental perspective. In the absence of reliable information on the incomes generated in MSEs, it is difficult to determine the extent to which each side of the debate is justified, or to determine which MSEs are growth oriented and which are best considered as part of the survival economy. It is for this reason that one of the main goals of the second national baseline survey, conducted in May and June of 1995 and which is the subject of this report, was to measure the incomes generated by MSEs in Kenya, using a statistically valid approach similar to the one successfully applied in the first baseline survey in 1993.

A second goal of the survey was to examine in more detail the patterns of change in employment among MSEs during the period since the 1993 survey was completed. The survey results enable us to approach this question in two different ways. One involves a comparison of 1993 results with those found in the 1995 survey. In addition, the 1995 survey asked retrospective questions of each respondent, generating information on patterns of change over the previous 18 months for this sample of enterprises. As we shall see, one of the problems of interpretation of the survey results comes from the fact that these two approaches lead to substantially different conclusions. Our discussion of this issue is presented in section three below and in appendix six.

## **1.2 OUTLINE OF THE REPORT**

After this brief introduction, section II reviews the survey methods employed. Section III provides an overview of the structure of the MSE sector. Sections IV and V examine the contribution of MSEs, first to employment, then to income. Sections VI and VII explore the process of entrepreneur decision-making, and problems faced by the entrepreneurs. Section VIII examines survey results as these relate to the entrepreneur's access to training, to other forms of non-financial assistance, and to credit. Section IX examines the types of micro and small enterprises that appear to be most interesting for assistance agencies. Section X provides brief concluding observations.

## **SECTION TWO**

### **SURVEY METHODS**

The 1995 Kenya national survey of micro and small enterprises (MSEs), like the earlier 1993 survey, was carried out by Development Alternatives, Inc. and Kenya Rural Enterprise Programme, in collaboration with Michigan State University. The survey was done in close consultation with the Central Bureau of Statistics (CBS) of the Government of Kenya, with the CBS providing one of the co-supervisors for each of the field teams. The activity was funded by the U. S. Agency for International Development, through the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project. This section describes the survey methods used: MSE definitions, the timing of the survey, survey instruments, sampling methods, sample size, and data collection methods. Table 2-1 summarizes the survey approach, indicating some of the differences between the 1993 and 1995 surveys.

#### **2.1. MSE DEFINITION**

The definition of micro and small enterprises used in both the 1993 and 1995 surveys was any income-earning activity that is not in primary agricultural or mineral production. "Microenterprises" are those enterprises with 10 or fewer workers, while "small enterprises" have from 11 to 50 workers. The distinction between informal and formal enterprises is not used in this report. Information was collected, however, on the size (in terms of employment and investment), type of structure and location of the enterprise. These variables could be used to categorize enterprises as formal or informal.

#### **2.2. TIMING OF THE SURVEY**

The survey was conducted in May and June of 1995. Since this was a follow-up of an earlier survey, done in September and October, 1993, particular attention was paid to changes in employment since 1993. As we shall see below, the fact that the two surveys were done at different periods of the year appears to have had a clear effect on the comparability of the results.

#### **2.3. SURVEY INSTRUMENTS**

Two questionnaires were used in the 1993 and 1995 surveys: an existing enterprise questionnaire (EEQ), and a closed enterprise questionnaire (CEQ). The 1995 EEQ was significantly longer than the 1993 questionnaire because new questions were added relating to business income and expenses. The 1995 EEQ was subject to extensive discussion, revision and field pretesting during the first half of 1995.

TABLE 2.1  
A COMPARISON OF THE SURVEY METHODS USED IN 1993 AND 1995

	1993 Survey	1995 Survey
Timing	September and October, 1993	May and June, 1995
Existing Enterprise Questionnaire (EEQ)	One page, covering basic information on all MSEs	Ten pages, covering detailed information on MSE revenues and expenses
Supplementary Questionnaire (SQ)	Administered to six percent of respondents	None. The EEQ covered all relevant information
Closed Enterprise Questionnaire (CEQ)	Administered to proprietors of MSEs that closed any time prior to survey	Administered to proprietors of MSEs that closed in 1993, 1994 or 1995
Clusters	111 clusters randomly selected from four strata:  Stratum No. of clusters Nairobi/Mombasa           23 Cities                         30 Towns                         15 Rural areas                 35	54 clusters randomly selected from among those previously surveyed:  Stratum No. of clusters Nairobi/Mombasa           12 Cities                         19 Towns                         11 Rural areas                 12
Sample size	H.H.s or enterprises visited           18,280 EEQs admin'ed           5,353 SQs admin'ed             300 CEQs admin'ed           1,101	H.H.s or enterprises visited           11,012 EEQs admin'ed           2,259 SQs admin'ed             0 CEQ's admin'ed           511

The CEQ was brief in both surveys. In the 1993 survey, the CEQ was administered to proprietors of MSEs that had closed at any time prior to the survey. In 1995, the CEQ was administered to proprietors of MSEs that had ceased operation in the calendar years 1993, 1994, or 1995. This was done to avoid duplication of the 1993 survey.

In addition to the EEQ and CEQ, the 1993 survey administered a supplementary questionnaire to a subset of proprietors. This was not necessary in 1995 since all relevant questions were incorporated onto the longer version of the EEQ.

#### 2.4. SAMPLING METHOD

The 1995 survey returned to a subset of the enumeration areas or clusters visited by the 1993 GEMINI survey. The original sample in 1993 was selected by using a stratified, one-stage cluster sampling technique. This involved three steps. First, the country was divided into four strata, based on population density and commercial activities. Stratum 1 included Nairobi and Mombasa. Stratum 2 included all other large urban areas with populations of more than 10,000. Stratum 3 included towns with populations of 2,000 to 10,000. Finally, stratum 4, the rural stratum, included all areas with less than 2,000 people and

all other areas not included in Strata 1 through 3.<sup>1</sup> Second, a random sample of clusters within each stratum was selected. The clusters were based on the CBS sampling frame used in the 1989 census. Finally, all households, businesses, and mobile vendors in each selected cluster were interviewed.

Because the questionnaire for the 1995 survey was significantly longer than the questionnaire used in 1993, the number of clusters was reduced. A comparison of the number of clusters selected in each survey is shown in Table 2-1.

All of the enumeration areas covered in 1995 were also included in the 1993 survey. In a sense, then, the two surveys could have been treated as a panel, returning to the same locations to examine patterns of change in individual enterprises over the 18 months between the two surveys. However, limitations of time and personnel precluded linking individual enterprises between the two surveys. Given the stringent budget constraints, a decision was taken to give primary attention to the additional financial information collected in 1995, rather than concentrating on linking individual enterprises between the two surveys to focus on changes in individual enterprises during the intervening period.

## 2.5. SAMPLE SIZE

The 1995 survey visited 11,012 households or enterprise sites in 54 clusters. At these sites, 2,259 existing MSEs were identified and enumerated. An additional 511 MSEs that had closed in the previous three years were also enumerated.

## 2.6. DATA COLLECTION METHODS

Data collection was carried out by 20 enumerators and four supervisors, along with four co-supervisors supplied by the Central Bureau of Statistics. Enumerators and supervisors were trained for one week, followed by final field pretests of the questionnaires. Twenty-five enumerators attended training, of whom 20 were selected for the fieldwork based on written test scores and performance during the training.

To complete the existing and closed enterprise questionnaires, enumerators visited all houses, shops, street vendors and hawkers within the geographic boundaries of each cluster. Completed questionnaires were coded and checked for errors by the supervisors, a data coder, and the analysts. A computer error detection program was also used to check for errors.

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<sup>1</sup> In addition to these four strata, the 1993 survey included a fifth stratum made up of commercial and industrial areas. Because the focus of this survey was not on medium and large enterprises, this stratum was omitted from the 1995 survey.

## SECTION THREE

### STRUCTURE OF THE MSE SECTOR

#### 3.1 MAGNITUDE: ISSUES OF COMPARABILITY WITH THE 1993 SURVEY

The 1993 survey estimated that there were approximately 910,000 micro and small enterprises in Kenya at the time of the survey, employing just over two million people. Those numbers have come to be widely accepted in Kenya as providing the best available estimate of the magnitude of the MSE sector.

While an estimate of overall magnitude was a key goal of the 1993 survey, the 1995 survey had different principal objectives. As indicated in section one above, it was focused primarily on collecting more extensive and detailed information on income earned and patterns of change from a smaller sample of enterprises. As such, it is less well suited to provide estimates of the overall magnitude of the sector.

When extrapolated to be representative of the country as a whole, using the same procedures as those followed in 1993, the 1995 survey results imply an MSE universe of only 708,000 enterprises, providing employment to only 1.2 million people. Direct comparisons between those two sets of numbers would imply that the MSE sector has shrunk substantially during the intervening eighteen months, with the number of enterprises declining by 22% while employment in these enterprises declined by a whopping 43%.<sup>1</sup>

We do not believe this to be the case. In fact, as indicated in our discussion in section 4 below, our analysis based on retrospective responses in the 1995 survey indicates that both the number of enterprises and total employment in these enterprises has increased substantially during this period.

What can account for these divergent findings? We have wrestled at some length with these inconsistencies, and identified several possible explanations: (1) seasonality; (2) changes in the enumerated areas; (3) differences in field procedures between the two surveys; (4) unwilling respondents in 1995; (5) changes in the performance of the economy. These factors are discussed more fully in Appendix VI.

As a result of these factors, most of the discussion in this report focuses on the findings of the 1995 survey: the structure of MSEs as of May-June 1995, and earlier changes reported in retrospective answers given by respondents in the 1995 questionnaires.

This discussion should serve to remind the reader that these are estimates based on a sample of respondents. They should not be treated as precise facts, accurate down to multiple decimal points, but as indicators of structures and patterns. Approached in this way, comparisons of many of the characteristics of MSEs between the two surveys can still be valid. For example, the proportion of the population with certain characteristics can still be compared. We have included such comparisons in our discussion throughout this report where appropriate.

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<sup>1</sup> A comparison of the two sets of figures, stratum by stratum (and even enumeration area by enumeration area), shows that the largest implied decreases are concentrated in rural areas; the reduced numbers in rural locations account for about 87% of the total implied decrease in numbers of MSEs.

### 3.2 LOCATIONAL BREAKDOWN OF MSEs

The locational breakdown of enterprises and employment based on the 1995 survey is provided in Table 3.1 below.

TABLE 3.1  
LOCATIONAL BREAKDOWN OF MICRO AND SMALL ENTERPRISES

	Breakdown of enterprises		Breakdown of employment	
	Number of enterprises	% of total	Total employment	% of total
Urban areas				
Nairobi/Mombasa	54,990	7.8%	104,622	8.9%
Other cities	88,569	12.5%	171,990	14.6%
Towns	37,092	5.2%	65,142	5.5%
Urban, subtotal	180,651	25.5%	341,754	29.1%
Rural areas	527,772	74.5%	833,476	70.9%
Total	708,423	100.0%	1,175,230	100.0%

Source: 1995 survey data

Kenya is in large measure a rural country; only about 20% of the population lives in cities. It is not surprising, then, that most MSEs operate in rural parts of the country. The fact that the share of employment in urban areas is somewhat higher than the share of enterprises in such locations reflects the fact that urban enterprises are somewhat larger (with an average of 1.9 workers per enterprise, compared to 1.6 for their rural counterparts).

### 3.3 THE SHARE OF FAMILY INCOME SUPPLIED BY THE MSE

Looking at the share of income contributed to the household by the MSE, only about 24 percent of MSEs in both 1993 and 1995 reported that the MSE provided all or nearly all of the household income. The proportion of households relying on MSEs for at least half of the household income declined, however, from 69 percent of MSEs in 1993 to 61 percent in 1995. Comparing urban and rural areas, both surveys found that urban households are more dependent on MSE income than are rural households. For example, 80 percent and 78 percent of MSEs in urban areas reported that they provided half or more of household income in the 1993 and 1995 surveys, respectively. In rural areas, 67 percent and 55 percent of MSEs reported that they provide half or more of household income in the 1993 and 1995 surveys, respectively.

### **3.4 MSE EMPLOYMENT: FULL TIME OR PART TIME ACTIVITIES?**

In addition to providing a large share of household income, the great majority of MSEs in both 1993 and 1995 operated on a full-time basis. In 1995, 93 percent of all MSEs operated 12 months a year; the average enterprise operated 11.8 months per year in 1995. 1993 figures were comparable. In addition to the months per year, the 1995 survey also collected information on the number of days per month and hours per day that MSEs were in operation. These MSEs operated an average of 25.4 days per month and 9.3 hours per day.

Information collected in 1995 makes it possible to examine the intensity of work of the MSE labor force. In particular, we have measured working hours of the labor force against a standard of 45 hours per week for 52 weeks a year, or 2,340 hours of work per person per year. Relative to this standard, the survey results indicate that about 36% of the MSE labor force were working less than full time; for this 36%, their short-fall relative to full employment was about 40% (i.e. this group was working an average of 1,418 hours per year, 39.4% below the 2,340 hour standard). The remaining 64% of the labor force were working at or above the full employment standard. In fact, we estimate that the latter group was averaging about 3,185 hours per year, some 36% above the full employment standard. Combining these two, one might estimate that the 1.1 million people working in MSEs in 1995 provided about 1.2 million of Full Time Equivalent (FTE) people (about 8% more than the absolute number of workers engaged).

### **3.5 SECTORAL BREAKDOWN OF MSEs**

In Kenya, as in other developing countries, the sectoral breakdown of micro and small enterprises is quite different in urban and in rural localities. The existing structure of enterprises is shown in table 3.2 below.

TABLE 3.2  
SECTORAL BREAKDOWN OF MSES  
(percent of all enterprises)

	Urban areas	Rural areas	Total economy
Food, bev. & tobacco	5.7% (36.7%)	8.7% (22.9%)	
Textiles & garments	4.2% (27.5%)	7.1% (18.6%)	
Wood, grass & cane	3.5% (22.5%)	8.2% (21.4%)	
Non-metals	0.1% (0.4%)	14.2% (37.1%)	
Metal products	1.6% (10.2%)	0% (0%)	
Other manufacturing	0.4% (2.7%)	0% (0%)	
Manufacturing, total	15.5% (100)	38.3% (100%)	32.4%
Construction	0.4%	0.5%	0.5%
Wholesale trade	1.4% (2.1%)	0% (0%)	
Retail trade	63.4% (97.9%)	51.4% (100.0%)	
Commerce, total	64.8 (100%)	56.3% (100%)	54.8%
Hotels, rest. & bars	10.0%	4.9%	6.2%
Other services	9.4%	4.9%	6.0%
Total	100%	100%	100%

Note: the first figure in each cell reports the share of this category in all microenterprises. The second figure, in parentheses, tells the share within particular subcategories: among all the manufacturing enterprises, or among those enterprises engaged in commerce. Source: 1995 survey data.

The table shows that manufacturing activities are far more important in rural than in urban areas, a finding common to other countries of Africa. Within the manufacturing sector, non-metallic minerals (pottery, cement blocks etc.) are prevalent in rural areas but relatively rare in the cities. The most common activities in the food and beverage category were beer brewing and grain mills. In the category of wood, grass and cane, the biggest component was furniture manufacturing, along with (in rural areas) grass and cane products (baskets etc.).

### 3.6 SIZE BREAKDOWN OF ENTERPRISES

The following table presents the size breakdown of micro and small enterprises, as reported in the 1995 survey.

TABLE 3.3  
BREAKDOWN OF ENTERPRISES, BY SIZE  
(percent of all enterprises)

Number of workers, at the time of the survey	1995 survey
1 worker	56.5%
2 workers	31.1%
3-5 workers	11.2%
6-10 workers	1.1%
11-50 workers	0.2%
Total	100%
Average number of workers per enterprise	1.66

Note: these figures include the total work force of the enterprise: working owners, paid and unpaid workers, and apprentices. Source: 1995 survey data.

As the table shows, most MSEs are very small; the average is only 1.7 workers, with over half the MSEs consisting of one person working alone.

### 3.7 AGE DISTRIBUTION OF MSEs

Like the earlier survey, the new results confirm a high rate of new entry to the MSE sector; close to 40% were started in 1994 or 1995, and nearly two thirds are less than six years old. On the other hand, the fact that 20% of the enterprises were more than 10 years old and about 8% more than 20 years old reminds us that there are also significant numbers of veteran entrepreneurs in the field.

TABLE 3.4  
BREAKDOWN OF ENTERPRISES, BY AGE  
(percent of all enterprises)

Age of the enterprise	1993 survey	1995 survey
less than 2 years	42.4%	38.3%
2-5 years	28.1%	27.1%
6-10 years	13.0%	14.4%
11-20 years	11.7%	11.8%
21-30 years	3.4%	5.6%
31-50 years	1.5%	1.9%
51 or more years	0.0%	0.9%
Total, all enterprises	100%	100%

Source: 1993 and 1995 survey data

### 3.8 BREAKDOWN OF THE MSE WORK FORCE

The 1995 survey asked about employment levels, by category, at the time of the survey as well as at the end of each of the previous two years. This information enables us to describe the evolving employment structure in the respondent firms. Data are presented in table 3.5 below.

The table makes clear that the great majority of the labor force is made up of working proprietors and unpaid workers, most of whom are presumably family members. These two groups account for over 80% of the workers in MSEs. This is not surprising given the information presented in table 3.3 above that over 50% of the enterprises were one-person activities consisting of the owner working alone.

TABLE 3.5  
BREAKDOWN OF MSE WORK FORCE  
(percent of all workers)

	Employment structure as of:		
	Dec. 1993	Dec. 1994	Apr-May 1995
Working owners	74.2%	71.7%	66.9%
Unpaid workers	9.3%	11.2%	14.5%
Subtotal: working owners + unpaid workers	83.5%	82.9%	81.4%
Paid employees	13.4%	15.0%	15.4%
Apprentices	3.1%	2.1%	3.2%
Total	100%	100%	100%

Source: 1995 survey data.

The retrospective data collected in the 1995 survey indicates that, as these enterprises grew, the largest increase was in numbers of unpaid workers, with a smaller expansion in the relative share of paid workers. It is interesting that there is no corresponding increase in the role of apprentices.<sup>2</sup>

The number of people under the age of 15 working in MSEs was limited, amounting to less than 5% of the total MSE labor force.

### 3.9 GENDER AND MSEs

The breakdown of MSEs in terms of the gender of their owners is shown in table 3.6 below.

TABLE 3.6  
OWNERSHIP OF MSEs BY GENDER

	% of all enterprises
Female owners	43.3%
Male owners	40.5%
Multiple owners	15.7%
Total	100%

In addition to accounting for 43% of the owners, females also provided 45% of the total work force among micro and small enterprises. We will discuss the characteristics of enterprises owned by women at various points in this report.

<sup>2</sup> The corresponding figures from the 1993 survey were as follows: working owners, 50.2%; unpaid workers, 20.5%, giving a subtotal of 70.7%; paid workers, 23.8%; and apprentices, 5.7%. We have no good explanation for the implied declining share of paid workers and apprentices, although this is consistent with both the implied overall average enterprise size and the fact that most of the implied decline took place in rural areas, where the reliance on working proprietors and unpaid family members is highest.

## SECTION FOUR

## THE CONTRIBUTION OF MSEs TO EMPLOYMENT

Information from the 1995 survey can be used to make estimates of patterns of growth in employment in MSEs in the recent past. The survey asked about employment at the time the enterprise started, as well as levels of employment at the end of 1993 and at the end of 1994, for any enterprise that was in operation on those dates. When combined with information from the CEQ concerning enterprises that had ceased operation during this period, the resulting picture of patterns of employment growth is shown in table 4.1 below.

TABLE 4.1  
CHANGES IN MSE EMPLOYMENT, 1994-95  
(based only on data from the 1995 survey)

	Proprie tors	Paid workers	Unpd workers	Apprent	Total
Employment growth during 1994					
New enterprises started in 94: employment at start	160,016	39,884	26,494	216	226,610
- Closures during 94: employment at close					-156,903
= Net change in employment from the birth of new enterprises					69,707
+ Net change in employment from an expansion during 94 of existing enterprises	6,995	7,615	13,849	-1,171	27,288
= Total estimated employment growth during 1994					96,995
Employment growth during 1995					
New enterprises started in 95: employment at start	125,780	14,189	19,184	6,386	165,539
- Closures during 95: employment at close					-124,651
= Net change in employment from the birth of new enterprises					40,880
+ Net change in employment from the expansion during 95 of existing enterprises	4,348	25,128	47,660	11,486	88,622
= Total estimated employment growth during 1995					129,510

Note: employment categories are not available for closed enterprises. The information in this table is based on responses to the 1995 survey only.

There are several things of interest in this table. The first is the over-riding fact that MSE employment was growing substantially during this period. The figures suggest a growth in the sector by

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about 100,000 workers during 1994, and a further increase of about 130,000 workers in the first half of 1995. Using current estimated employment levels from the survey and "working backwards" (adjusting for estimated past changes as shown in the table), these figures imply an average employment growth rate among MSEs of 10-12% per year during 1994 and 1995.<sup>1</sup>

A second striking thing about these figures is the high level of "churning" in the sector. New enterprises are starting up at the same time that existing ones are ceasing their operations. In 1994, for example, the figure of 100,000 new jobs is a net figure that resulted from about 250,000 new openings coming into existence, offset by 150,000 positions that were lost when existing enterprises were closed.

Third, there was a significant difference between the two years in the relative importance of net new starts, as opposed to enterprise expansions, as a source of new jobs. In 1994, over 70% of the new jobs resulted from net new enterprise starts, with less than 30% coming from enterprise expansions. In 1995, these proportions were reversed; nearly 70% of the new jobs came from expansions, while only a little over 30% came from net new starts.

This distinction is important since it appears that there are substantial differences between the types of jobs that come into existence through these two routes. Expansion jobs - particularly those that involve the use of paid workers - are more likely to reflect a response by an entrepreneur to an identified business opportunity. While some new starts are also doubtless of this type, many new MSE ventures reflect pressures to start a business when alternative sources of income are drying up. The balance between these two sources of new employment openings, then, might reflect the extent to which those running existing businesses are optimistic about expansion opportunities, on the one hand, and the nature of the alternatives available to potential workers, on the other.

There is reason to believe that each of these factors is influenced by the state of the overall economy, and might vary over the business cycle. It is interesting in this regard to find that 1994 was a period when real GDP per capita was approximately constant in Kenya, although real wages were rising while the inflation rate was declining as the economy pulled out of a serious recession in 1993. During this period when the overall economy was marking time, then, most new MSE jobs came from net new business starts. In 1995, in the face of good rains and some improvement in the business climate, employment growth through (gross as well as net) new business start-ups declined, but was replaced by a substantially more rapid rate of expansion in existing enterprises; the share of all new jobs coming from an expansion of existing enterprises increased from under 30% in 1994 to nearly 70% in 1995. We shall have more to say about the nature of these jobs in section 5.3 below.

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<sup>1</sup> While estimates of the size or patterns of growth of the labor force are notoriously unreliable, one could compare these estimates of increasing labor absorption in MSEs with the growth of population of working age (normally defined as all people age 15-64). Figures from the World Bank's World Development Report on the size and age structure of the Kenyan population suggest that the number of people of working age was rising by 700,000-900,000 persons per year during this period. This would imply that at least one in eight of these new entrants to the population of working age was entering the ranks of workers in MSEs.

## SECTION FIVE

### THE CONTRIBUTION OF MSEs TO INCOME

#### 5.1 BACKGROUND AND APPROACH FOLLOWED

One of the main goals of this survey was to make estimates of income earned in micro and small enterprises. As was recognized from the start by all concerned in planning the survey, this is a daunting challenge. The results appear to justify the major efforts required.

The approach used started from an estimate of the annual value of sales. Recognizing the issue of seasonality among many MSEs, the questionnaire asked respondents to specify whether each month of the year was one of high, medium, or low sales. It then asked for an estimate of the value of sales for each of these categories. When summed, this provided an estimate of the total value of sales over the past year.

To move from sales to net income, the approach focused on the most recent month to specify each of a list of cost items. The approach was somewhat different for traders and non-traders. For traders, a key part of the estimate was done in terms of trade margins: the difference between the price at which a product was purchased and the price at which it was sold. Such information was collected for the five most important products sold, with enough data to be able to take a weighted average of the five based on sales values. From this margin, other costs were then deducted to provide an estimate of the gross profit margin. Applying that ratio to annual sales provides an estimate of gross profits of the enterprise per year.

The questionnaire also collected information on capital assets: buildings and equipment, machinery, vehicles, and hand tools. For each, the respondent was asked the year of purchase and the amount spent. This provided an estimate of the cost of physical capital, measured at the time of purchase. The consumer price index was used to inflate those numbers to reflect values as of 1994. These figures were then used, assuming straight line depreciation, to make rough estimates of annual implicit depreciation charges.<sup>1</sup> This in turn made it possible to separate the gross profit estimate into two components: depreciation, and the residual, net profits of the enterprise.

It should be emphasized that these are not very precise figures. They are designed to be indicative rather than definitive. Appendix Seven provides more information about estimating problems and procedures. On the whole, we believe that they are valid as indicative figures and constitute an important contribution to our understanding of the MSE sector.

#### 5.2 INCOME CONTRIBUTION OF MSEs TO THE NATIONAL ECONOMY

We present the results here in two ways. The first involves national aggregates: the contribution of MSEs to the national economy. The approach here was to estimate the average contribution to GDP per enterprise, for each of fifty-one four-digit (ISIC4) industrial categories. These figures were then

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<sup>1</sup> Buildings were depreciated over 20 years, while machinery and equipment, hand tools, vehicles and other fixed assets were all depreciated over five years.

multiplied by estimates (derived from the survey) of the number of enterprises in each industry group, to determine the aggregate contribution of MSEs to GDP.<sup>2</sup>

This procedure results in a total estimate for 1994 of approximately KSh 44 billion, or 2.2 billion Kenyan pounds.

This figure might be compared to the official estimate of GDP for 1994 of 16.1 billion pounds (see Republic of Kenya, Economic Survey, 1995). It is not clear to what extent the 2.2 billion from small enterprises is included in the 16.1 billion (implying that MSEs account for nearly 14% of the total) or is left out of the current calculation (implying that they account for about 12% of a revised total). The truth is probably somewhere between these two, suggesting that about 13% of the GDP is earned in MSEs.

The approach used makes it possible to provide two alternative breakdowns of this total: by sector, and by factor shares (see tables 5.1 and 5.2 below). Trading is the most important sector in terms of its contribution to national income, although manufacturing is not far behind. Manufacturing's share of GDP is somewhat higher than its share of MSE employment, implying an above-average contribution to GDP per worker; for trading, the opposite relationship holds.

In terms of factor shares, it is not surprising that by far the largest category is the residual category of net profits, or net returns to owners and unpaid workers. Since many enterprises are one-person activities or rely exclusively on unpaid workers (often unpaid family members), this figure could also be thought of as the implicit wage for owners and unpaid workers. Calculated depreciation figures, even based on inflated values to express them in terms of 1994 prices, are of only minor importance, as are interest and rental expenses incurred by the businesses. Paid labor is of somewhat more importance, although it still accounts for well under 10% of income generated in MSEs.

TABLE 5.1  
CONTRIBUTION OF MSEs TO THE NATIONAL ECONOMY

	Share of total MSE contribution to GDP	Share of total MSE employment	Relative contribution to GDP per worker
	(1)	(2)	(3 = 1 / 2)
Manufacturing	37.0%	34.5%	1.07
Trade	41.1%	50.4%	0.82
Restaurants, hotels & bars	14.6%	8.2%	1.78
Other services	7.3%	6.8%	1.07
Total	100%	100%	1.00

Note: in these figures, construction is included with other services. Source: 1995 survey results.

<sup>2</sup> Note that the calculations make use of the 1995 estimate of numbers of MSEs. If the true number of MSEs is in fact larger than that, as implied by the results of the 1993 survey, the contribution of MSEs to GDP would be correspondingly higher.

TABLE 5.2  
CONTRIBUTION TO GDP: FACTOR SHARES

	Share of total contribution to GDP
Paid labor	7.6%
Interest payments	0.2%
Rental payments	3.5%
Depreciation	2.9%
Net profits: returns to the enterprise	85.9%
Total	100%

Source: 1995 survey results.

### 5.3 NET RETURNS PER WORKER

The other approach we have used in analyzing these numbers is to express them in terms of net returns per worker. For this calculation, we started with the net profits figure (i.e., estimated earnings of the enterprise after deducting all cash costs, including paid wages, plus our own estimates of depreciation); this figure was divided by the total number of working proprietors plus unpaid workers engaged in the enterprise. The resulting figure provides a measure of the financial profitability per (un-paid) worker in the enterprise, after a rough correction for depreciation. Alternatively it can be thought of as a very crude measure of economic profitability per (unpaid) worker in the enterprise.<sup>3</sup>

The resulting numbers can be presented in any of several different ways. We start with the most highly aggregated figures, looking at national averages, with separations by some major categories (see table 5.3 below).

Looking first at the overall average, KSh 33,000 is not a very good income in Kenya. While it is close to three times the average GDP/capita (about KSh 12,000 per person per year), the figures are not really comparable since one is per person in the total population while the other is per worker.

Moving on to the different disaggregations of the total, it is striking that returns per worker in urban areas are more than five times those in rural locations. This reflects many factors, including the more limited alternatives available in rural areas, the lower cost of living there, and the sectoral composition of enterprises in the two locations; yet even within narrowly defined industry groups, urban enterprises regularly generate far higher returns per worker than their rural counterparts.

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<sup>3</sup> In addition to obvious measurement problems, this measure is only approximate since it makes no allowance for returns to capital other than the interest expenses born by the entrepreneur. It also measures labor in stock rather than in flow terms: numbers of workers, not person-months. We hope in due course to be able to use these data to provide more sophisticated estimates e.g. of returns per person-day.

The same issues arise in relation to the gender breakdown, although in this case the relative differentials are somewhat smaller. Again this reflects the nature of the alternatives available as well as the industrial structure, although again this is only a part of the explanation.

TABLE 5.3  
NET PROFITS PER PERSON PER YEAR IN MSEs  
(KSh)

	Net Profits per person per year
National average	33,200
By location:	
Urban enterprises	85,544 (24.4%)
Rural enterprises	16,350 (75.6%)
By gender of owner	
Enterprises owned by women	15,552 (63.3%)
Enterprises owned by men	63,335 (36.7%)
By size of the enterprise	
1 worker	22,458 (57.2%)
2-5 workers	29,719 (42.6%)
6-50 workers	3,182,832 (0.2%)
By share of household income supplied by MSE	
Provides all or almost all	63,457 (23.9%)
Provides more than half	60,887 (16.3%)
Provides about half	20,299 (20.9%)
Provides less than half	9,522 (39.0%)

Source: 1995 survey results. Figures in parentheses tell share of all observations with relevant data in this category.

In the size breakdown, the largest size category is heavily influenced by extreme values and is based on a relatively small number of observations. More significant is the clear increase in profitability as enterprises move from the one-person category up to 2-5 workers. The 30% increase in average returns

per worker associated with this change reminds us of how significant such small changes can be for an enterprise that increases even a little bit in size. The more detailed figures indicate that this increase applies even to an expansion from one up to two workers.

The last section of the table makes clear that there are substantial differences in average net returns associated with the contribution of the enterprise to household income. For the 40% of all activities that provided more than half the household's income, the average return was over KSh 60,000 per year, close to twice the overall average. The 40% that provided less than half the household's income, by contrast, produced an average of less than KSh 10,000 per year. The latter are clearly supplementary activities whose role is to make a contribution to household income, although the household does not rely on them as its principal source of support.

We have explored the relationship between these data on net profits per person and patterns of employment growth. In particular, Table 4.1 in the previous section provided estimates of patterns of employment growth in 1994 and 1995, broken down between jobs arising from new business starts vs. jobs that resulted from an expansion of existing enterprises. We have combined that information with the income data to make estimates of the average net income in new enterprises started in those two years, compared to income earned in those that expanded. The results are presented in table 5.4 below.

The figures make clear that, in each of these two periods taken individually or together, enterprises engaged in employment expansion generated higher incomes than those just getting started. The figures are consistent with our hypothesis that MSE jobs arising from enterprise expansions are more efficient and generate higher returns than jobs coming from new starts.

TABLE 5.4  
AVERAGE NET INCOME PER ENTERPRISE, BY EMPLOYMENT GROWTH CATEGORY  
(K Sh per person per year)

	Average income per enterprise per year
Enterprises started in 1994	19,038
Enterprises that expanded in 1994	21,745
Enterprises started in 1995	18,901
Enterprises that expanded in 1995	52,787
Average: new start-ups, 1994 and 1995	18,980
Average: enterprises that expanded in 1994 or 1995	45,479

Source: 1995 survey results

#### 5.4. NET RETURNS PER PERSON PER MONTH, AND MINIMUM WAGES

In order to provide some indication of the significance of these numbers in relation to alternative income sources in the country, we have converted them to monthly measures, then compared them with the monthly minimum wage. The official minimum wage is specified at different levels for workers in

Nairobi and Mombasa, in other municipalities and a few larger townships, and in the rest of the country. For general laborers, the monthly minimum wage for these three categories are KSh 1,904, KSh 1,755, and K Sh 1,070, respectively. For each locality group, we have looked at the share of workers earning different levels of income. The resulting figures are given in table 5.5 below. The heavy line in the table measures the official minimum wage for that locality.

The figures indicate that, in each of the three strata, about two thirds of all enterprises are generating net incomes below the minimum wage level. This is a sobering finding that must temper one's enthusiasm for the growth of MSEs as a solution to the country's poverty problems.

Of course the fact that so many people find it necessary to engage in micro and small enterprises even when they yield such low returns reminds us that the alternatives must be even less desirable. Even if they do not provide income equal to the minimum wage, they make an extremely important contribution to these families. Furthermore, as indicated in section 3.2, only about a quarter of the entrepreneurs indicate that this was the sole source of support for the household. Yet one must recognize that, for many, these are either supplementary or survival activities.

TABLE 5.5  
RETURNS PER PERSON PER MONTH, BY LOCALITY  
(percent of all enterprises)

% of all enterprises with profits per person per month:	Nairobi/ Mombasa	Other cities	Small towns & rural areas
Below 1,070	51.1%	49.6%	65.0%
1,070 to below 1,755	13.7%	11.6%	14.7%
1,755 to below 1,904	1.1%	1.5%	1.2%
1,904 to below 3,000	12.5%	10.4%	9.9%
3,000 to below 5,000	4.6%	6.8%	3.8%
5,000 to below 10,000	10.2%	8.8%	2.0%
10,000 to below 20,000	4.5%	7.1%	1.8%
20,000 to below 50,000	2.3%	2.7%	1.4%
50,000 and above	0%	1.5%	0.2%
Total	100%	100%	100%

Source: 1995 survey data

There is also another, brighter side to this picture: in each of the three strata, close to 20% of the enterprises are producing returns at least twice the minimum wage. Since these are likely to be larger establishments with more workers per enterprise, the share of total employment yielding these higher returns is even higher.

We have examined the relationship between income levels generated by MSE activities and various other factors. The approach here has involved classifying each enterprise in one of three categories: those yielding returns equal to or below the minimum wage; those somewhat above the minimum wage; and those providing incomes at least double the minimum wage. In this calculation, we have grouped together the different strata, but with each enterprise judged according to the minimum wage in that locality. Results are shown in table 5.6 below.

The table shows a substantially higher percentage of enterprises earning at least twice the minimum wage for MSEs owned by men, compared to those run by women; a higher percentage in enterprises run by entrepreneurs who have more education, or who have received some form of technical training; and a substantially better record for enterprises engaging paid workers.

TABLE 5.6  
NET INCOME PER WORKER PER MONTH, RELATIVE TO MINIMUM WAGE:  
ALTERNATIVE CORRELATED FACTORS

	At or below	Somewhat	At least twice	Total
Total, all enterprises	67.1%	14.1%	18.8%	100.0%
By gender of owner:				
Male-owned enterprises	52.2%	20.9%	26.7%	100.0%
Female-owned enterprises	75.4%	9.1%	15.6%	100.0%
By education of owner				
Lower primary or less	78.2%	9.2%	12.6%	100.0%
Upper primary or more	56.7%	18.7%	24.6%	100.0%
Technical training received				
None	72.2%	10.0%	17.7%	100.0%
Some	42.7%	21.8%	35.5%	100.0%
Any paid workers?				
No	71.0%	12.3%	16.7%	100.0%
Yes	25.9%	33.2%	40.9%	100.0%
By contribution to household income (column percentages rather than row percentages)				
Provides all or almost all of	19.2%	30.9%	35.4%	n.a.
Provides more than half of	13.9%	14.7%	26.2%	n.a.
Provides about half of household	18.5%	39.6%	14.7%	n.a.
Provides less than half of	48.4%	14.9%	23.7%	n.a.
Total	100.0%	100.0%	100.0%	n.a.

The last section of the table looks at this variable in relation to the contribution of the activity to household income. This section of the table presents the results in terms of column percentages rather than row percentages. The first column of this section, for example, explores the question: of those enterprises that generate incomes equal to or below the minimum wage, how many were the sole source of income for the household (the first line in this section), as opposed to being only a supplementary income source (the last line in the section)? As indicated in the first line of the table, this category includes about two thirds of all MSEs in the country. The figures in the last section of the table show that for about half these low-return activities, the MSE is clearly a supplementary activity, contributing less than half the household's total income. At the other extreme, however, nearly 20% of these enterprises were virtually the sole source of income for the household, while close to two thirds supplied more than half the household's income. These appear to be the most needy households, relying on MSEs for more than half their income but still earning returns below the minimum wage. The majority of these are small traders, frequently dealing in agricultural produce, often in rural areas. The characteristics of enterprises producing higher and lower returns are discussed in more detail in section nine below.

## SECTION SIX

### PROPRIETOR DECISION MAKING

#### 6.1 REASONS FOR GOING INTO SMALL BUSINESS

Proprietors were asked why they chose to operate a small business, as well as their reasons for choosing this particular type of business. In the first case, the largest proportion of proprietors (31.2%) reported that they wanted to supplement their income. Twenty-six percent of all proprietors reported that they had no better options, while 23 percent felt that a small business would provide more income than other alternatives. The remaining respondents preferred to work for themselves (14.1%) or had other miscellaneous reasons (5.3%).

When asked about why proprietors chose their particular type of business, 35.8 percent reported that they thought it would be profitable. Nineteen percent reported that they thought the capital requirement for that line of business matched the amount that they had available. Seventeen percent said that they were skilled in that particular line of business. The remaining respondents said that they had no alternatives (11.8%), their families worked in the same line of business (6%), they could combine the business with chores while operating from the home (1.6%), or other miscellaneous purposes (8.1%).

#### 6.2 PROFIT USE

For over half of all proprietors (53%), the principal use of the profits from their business was to meet household needs. A much smaller proportion (23%) reinvested profits into the business. The remaining respondents paid for their children's education (12%), invested in agriculture (6%), put their money into savings (4%), added a new business (1%), or used it for other miscellaneous needs (1%).

#### 6.3 REASONS FOR BUSINESS CLOSURE

In addition to asking questions about why respondents enter the MSE sector, proprietors that had previously operated MSEs were asked why they closed their businesses. The six most frequently cited reasons were: financial problems (30.1%), marketing problems (14.2%), child care and household responsibilities (12.1%), miscellaneous reasons (12.0%), health reasons (11.3%), and input problems (5.6%).

The closure rates of MSEs over the past five years are illustrated in Table 5.1. The rate is calculated as the number of firms that closed in sector  $i$  during year  $t$ , divided by the number of firms alive

in sector  $i$  at the beginning of year  $t$ .<sup>1</sup> The highest closure rates occurred in wholesale and retail trade, followed by processed food preparation. The high closure rates for wholesale traders are surprising since we shall see in section eight below that this is an activity that appears to generate high returns. In addition to strong competition from larger enterprises, high closure rates among wholesalers may reflect the high risks that go along with high returns in this activity. For both retail trade and processed food preparation and sales, returns were below average, although there was a wide variation around the average figures.

TABLE 6.1  
CLOSURE RATES OF MSEs

Sector	Closure Rates from 1991 to 1994				4-Year Avg.
	1991	1992	1993	1994	
Slaughter, preparing, butchering meats	23.3	4.1	6.8	3.0	9.3
Malt liquors	1.0	7.9	0.2	16.4	6.4
Wearing apparel	17.2	21.6	0.4	0.5	9.9
Wood furniture and fixtures		10.8	16.4	0.2	9.1
Wholesale trade	73.6	51.3	22.1	68.4	53.9
Retail trade	12.2	28.2	23.6	31.3	23.8
Restaurants and bars	0.9	45.0	0.8	5.3	13.0
Processed food preparation & sales	8.0	30.7	36.4	20.0	23.8
Barber shops/beauty salons	0.6	6.2	11.5	62.9	20.3
Economy-wide closure rates	8.4%	21.3%	16.2%	21.3%	

The sectoral breakdown in this table contains only those sectors that represented at least one percent of the sample in 1995.

<sup>1</sup> In equation terms:

$$CR_{it} = C_{it} / N_{it} \text{ where}$$

$CR_{it}$  = closure rate in sector  $i$  during year  $t$

$C_{it}$  = number of enterprises in sector  $i$  that close during year  $t$

$N_{it}$  = number of enterprises operating in sector  $i$  at the start of year  $t$ .

## SECTION SEVEN

### PROBLEMS AND CONSTRAINTS FACED BY ENTREPRENEURS

The survey asked the respondents to specify the two biggest problems faced by the business over the past year. While over 90% reported on at least one problem, only 43% designated a second problem in their responses. The following table reports the answers given for the first problem, the most serious constraint that they faced.

TABLE 7.1  
PRINCIPAL PROBLEM FACED BY THE ENTREPRENEUR  
(percent of all respondents)

	All enterprises	Enterprises that have not grown	Enterprises that have grown
Percent reporting no problems	6.6%	7.7%	5.1%
Of those with a problem, what was the most pressing one?			
Working capital	12.5%	11.7%	8.2%
Fixed capital	11.1%	10.8%	11.2%
Other capital	9.0%	9.2%	4.2%
<b>Subtotal: capital</b>	<b>32.7%</b>	<b>34.4%</b>	<b>23.5%</b>
Markets	24.2%	24.2%	28.1%
Tools, equipment, spares	2.4%	2.3%	3.2%
Raw materials & intermediate products	11.3%	12.6%	6.9%
<b>Subtot: intermed inputs</b>	<b>13.7%</b>	<b>14.9%</b>	<b>10.1%</b>
Government: fees, regulations, harassment etc.	4.1%	3.7%	4.1%
Shop space	1.8%	1.5%	0.6%
Transport	11.2%	11.0%	9.5%
Utilities	1.4%	1.6%	0.7%
Other problems	11.0%	8.6%	23.4%
<b>All problems</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: in addition to the 6.6% of respondents answering "no problems" there was another 7.8% without answers to this question. Many of these probably have had no problem to report. In addition to enterprises that have grown or that have remained stable (the last two columns in the table), there was a third category in the data, those that had contracted, which is not reported here since the number of observations is small.

About a third of the respondents designated capital as their most serious problem. This is a higher percentage than has appeared in other countries in Africa, and is substantially higher than was found in the 1993 survey (when this question was asked of only a much smaller sample of enterprises, in a supplementary questionnaire; at that time, only 14.2% mentioned capital as their most serious problem). Particularly for non-growing enterprises, the largest component of the "other capital" category refers to the problem of customers who do not repay loans received. From the enterprise's point of view, one could say that this is a problem of too much credit given rather than too little credit received.

The point is often made that many other types of problems are mistakenly identified as issues of capital; poor management of inventories, of raw material procurement or of marketing can all appear as a credit problem. Yet it is clear that a significant number of small entrepreneurs in Kenya see their principal difficulty as one of inadequate access to credit. For enterprises that stopped producing, we saw in section 6.3 that the most important reason cited for their closure was "financial reasons," which includes the problem of access to credit. It is perhaps not surprising that the majority of MSE assistance programs have focused on this area.

Markets are also a major problem for many small producers and traders, particularly for those that have grown. While there are a number of different subheadings grouped together under this heading, the main problem is simply one of "not enough customers."

It may be helpful to explain the principal issues grouped together under the residual category, "other problems." For the growing enterprises, where this category is particularly significant, the most important issues related to accidents, to bad weather, and to other household responsibilities for the entrepreneur. For those that have not grown, in addition to those problems, frequent mention was made of problems of theft, and of personal health. Clearly, small enterprises operate in ways that are embedded in the household; any crisis in the household becomes a challenge to the continuing viability - and indeed, to the survival - of the enterprise.

## **SECTION EIGHT**

### **ENTERPRISE ACCESS TO TRAINING AND CREDIT**

The continuing recognition of the MSE sector as a contributor to employment growth and household incomes among the poor in Kenya has resulted in a proliferation in recent years of institutions with support packages directed at enhancing the sector's contribution to the economy. Recent estimates indicate that, by the end of 1994, there were 105 formal institutions with MSE support packages in the country (Oketch *et al.*, 1995). The assistance programs are diverse in terms of their orientation (finance, training, marketing, etc), geographical coverage (rural vs urban, national vs regional), intensity (amount of support) and targeted population groups (women, men, youth; sectors; etc). As these institutions continue to grow and multiply, it is important for policy makers to have an understanding of what percentage of MSEs are being reached by any form of assistance; the characteristics of those reached, i.e any biases in terms of education, gender, location, size of enterprise; and the extent to which different assistance packages are related to enterprise performance. To help shed light on these issues, the survey collected information on the level of education and training of proprietors and their access to various training and assistance programs.

#### **8.1 PROPRIETOR EDUCATION LEVELS AND ACCESS TO TECHNICAL AND BUSINESS TRAINING OPPORTUNITIES**

##### **Formal education**

The majority of MSEs (80 percent) are owned by people who have at least some formal education, with only one fifth having no education at all (see Table 8.1). Fifty five percent have some primary education, while 23 percent have completed some secondary education. It is also interesting to note that there are some proprietors, albeit a small percentage (1.2%), who are fairly highly educated, having completed A-level or university education.

A gender disaggregation of education levels of enterprise owners indicates that women proprietors are generally less educated than their male counterparts (Table 8.1).

TABLE 8.1  
LEVELS OF FORMAL EDUCATION ATTAINED BY PROPRIETORS

Level of education	Share of all enterprises		
	Female	Male	Total
None	32.8%	10.0%	20.4%
<b>Primary</b>	<b>48.1%</b>	<b>58.8%</b>	<b>55.3%</b>
Some lower primary	10.8%	8.7%	9.8%
Completed lower primary	11.5%	20.6%	15.4%
Completed upper primary	25.8%	29.5%	30.1%
<b>Secondary</b>	<b>18.7%</b>	<b>29.2%</b>	<b>23.2%</b>
Completed lower secondary	9.9%	11.6%	9.6%
Completed upper secondary	8.8%	17.6%	13.6%
<b>Higher</b>	<b>0.2%</b>	<b>1.9%</b>	<b>1.2%</b>
Completed A-levels	0.1%	1.5%	0.8%
Completed University	0.1%	0.4%	0.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: 1995 Survey

Enterprises in urban areas are more likely to be at one of the extremes of the continuum: more people (31%) with secondary or higher education (compared to 22% of enterprises in rural areas) or with no education (24%, compared to 19% in rural areas). Rural producers, by contrast, were more concentrated at the level of primary education (59% of all rural enterprises, compared to only 44% of urban producers).

### Proprietor Access to Technical Education

Unlike formal education, which is often more general in application, technical education is expected to be more closely related to the performance of an enterprise. Following this line of thinking, Kenya has since the 1970s been encouraging the establishment and expansion of various levels of technical training institutes and, in 1984, introduced the 8-4-4 system of education to emphasize a more technical/practical orientation in education as a gateway to self employment.

Data collected in the survey indicates that only about one fourth (26 percent) of proprietors have received any form of technical education. Apprenticeships account for the highest proportion of those who have obtained technical training, while Village Youth Polytechnics and Technical Training Institutes are also significant (Table 8.2).

As expected, male proprietors (38 percent) have had more access to technical education than their female counterparts (17 percent). On the other hand, urban areas have a higher proportion (31 percent) of enterprises owned by people who have received technical training than their counterparts in rural areas (25 percent). This is not at all surprising given the high concentration of technical training institutes in urban areas and the rural-urban migration trends, particularly of skilled people.

TABLE 8.2  
TECHNICAL EDUCATION/TRAINING

Type of technical education	Share of all enterprises		
	Female	Male	Total
None	83.9%	62.4%	73.5%
Apprenticeship	6.3%	16.7%	11.1%
Village Youth Polytechnic	4.9%	10.2%	7.6%
Technical Training Institute	2.7%	7.5%	4.9%
National Polytechnic	0.1%	1.4%	0.7%
Harambee Institute of Technology	0.1%	0.2%	0.6%
Others	1.9%	1.5%	1.5%
Total	100.0%	100.0%	100.0%

Source: 1995 Survey

### Access to Business Training

Only a small percent (9.2 percent) of MSE proprietors have received any form of business training. Whereas the training programs range from training courses lasting a few days (seminars and workshops) to courses going on for more than a year, it is impressive to note that the majority of those who have received any business training had courses lasting for more than a year. This may indicate that it is unlikely that the proprietors obtained this form of training after they had started their own businesses, since it is unlikely they would have had that amount of time to spare for training while running a business. It thus appears that very few proprietors have accessed training programs designed to reach existing small business operators.

As is the case for technical training, data from the survey indicate that male proprietors have a higher chance of obtaining business training (12 percent), compared to their female counterparts (6 percent). Contrary to expectations, there is little difference between the share of rural (8.8 percent) and urban (9.3 percent) entrepreneurs who have been able to take advantage of business training opportunities.

The level of education appears to be a significant factor in determining the chances of the proprietor taking advantage of business training opportunities. Those with higher education are substantially more likely to get additional business training than those with little or no education.

**TABLE 8.3**  
**BUSINESS TRAINING OPPORTUNITIES ACCORDED**

Length of training	Share of all enterprises		
	Female	Male	Total
None	93.7%	88.2%	90.8%
< 1 week course	0.2%	1.4%	0.8%
1 - 4 week course	1.0%	0.1%	0.9%
1 - 3 month course	1.0%	1.4%	1.0%
4 - 12 month course	0.6%	1.6%	1.4%
> 12 month course	3.5%	7.3%	5.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0</b>	<b>100.0</b>

Source: 1995 Survey

An implication of this discussion is that if formal education, technical and business training are important determinants of enterprise performance, then it would not be surprising if a large proportion of MSEs in Kenya did not perform well, since the majority of owners have had only few opportunities for such training. It would also be expected that male-owned enterprises would perform better than their female-owned counterparts, as would enterprises located in urban areas compared to those in rural areas, since these have had more access to such assistance.

## **8.2 NON-FINANCIAL ASSISTANCE TO MSEs AND MEMBERSHIP IN BUSINESS ASSOCIATIONS AND NETWORKS**

### **Availability of Non-financial Assistance**

As Table 8.4 shows, only about seven percent of MSEs have been reached with any form of non-financial assistance, despite the many formal and informal organizations in the country offering this type of assistance. It is also interesting to note that even among the few who have received any form of non-financial assistance, the majority have received it from informal sources. Only 2 percent of MSEs have received non-financial assistance from formal institutions.

TABLE 8.4  
ENTERPRISE ACCESS TO NON-FINANCIAL ASSISTANCE,  
BY LEVEL OF EDUCATION

Type of assistance	All enterprises	Level of education of owner			
		None	Primary	Secondary	Higher
None	93.1%	95.1%	91.7%	85.5%	86.7%
<b>Formal</b>	<b>2.1%</b>	<b>3.3%</b>	<b>3.0%</b>	<b>5.4%</b>	<b>4.4%</b>
Management training	0.7%	0.5%	0.3%	1.9%	2.2%
Tech. training/advice	0.2%	0.0%	0.5%	1.0%	0.0%
Marketing assistance	0.2%	0.7%	1.1%	0.8%	0.0%
Multiple assistance	0.2%	0.9%	0.1%	0.3%	0.0%
Other assistance	0.8%	1.2%	1.0%	1.4%	2.2%
<b>Informal</b>	<b>4.8%</b>	<b>1.6%</b>	<b>5.4%</b>	<b>9.1%</b>	<b>8.9%</b>
Advice/training assist.	4.5%	1.6%	5.0%	8.0%	8.9%
Other	0.3%	0.0%	0.4%	1.1%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: 1995 Survey

Table 8.4 shows that the educated have a somewhat higher chance of receiving both formal and informal non-financial assistance. It is not surprising that those with higher education tend to have higher access to formal non-financial assistance given the education entry limits of some of the assistance programs (e.g management & technical training) and the generally higher exposure of the educated. In the case of informal assistance (including advice from friends and relatives), this may reflect the fact that more educated people have more contacts with others able to provide such assistance.

Access to non-financial assistance is also positively correlated with the size of the enterprise (Table 8.5). Data from the survey indicate that 16 percent of enterprises with 11-50 workers have received non-financial assistance, whereas only 6 - 8 percent of those with 10 or fewer workers have benefitted from it. A striking difference between small firms (less than 5 workers) and larger ones is that whereas more of the non-financial assistance received by the firms in the lower size category is informal, the opposite is the case for the larger ones. For instance, the enterprises in the 11-50 worker category who received assistance (16 percent) received all their help from formal sources, whereas enterprises in the one-worker category got most of their assistance from informal sources. This presumably reflects the need on the part of larger enterprises for more complex assistance as well as their greater access to such assistance due to their better contacts.

**TABLE 8.5**  
**ENTERPRISE ACCESS TO NON-FINANCIAL ASSISTANCE,**  
**BY SIZE OF ENTERPRISE**  
 (% of all enterprises in the size category)

Type of assistance	Number of workers in enterprise				
	1	2	3 - 5	6 - 10	11 - 50
None	93.1	93.0	94.8	92.3	83.7
<b>Formal</b>	<b>1.6</b>	<b>2.7</b>	<b>2.2</b>	<b>6.7</b>	<b>16.3</b>
Management assistance	1.0	0.1	0.4	2.4	12.7
Technical training	0.1	0.3	0.2	1.9	0.0
Marketing assistance	0.1	0.4	0.1	0.0	3.6
Multiple assistance	0.2	0.2	0.5	0.0	0.0
Other assistance	0.2	1.7	1.0	2.4	0.0
<b>Informal</b>	<b>5.3</b>	<b>5.3</b>	<b>2.9</b>	<b>1.1</b>	<b>0.0</b>
Advice/training	5.0	5.0	2.9	1.1	0.0
Other assistance	0.3	0.3	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: 1995 Survey

### Non-financial Assistance and Level of Income from the Enterprise

The survey indicates that there is a positive relationship between an enterprise's non-financial assistance and the amount of income it generated. Table 8.6 shows that whereas only about 8 percent of enterprises with a monthly income of up to Ksh 5,000 had received any non-financial assistance, over 20 percent of those with monthly incomes of more than Ksh 20,000 had received such assistance.

**TABLE 8.6**  
**BUSINESS ASSISTANCE AND THE FIRM'S NET MONTHLY INCOME PER WORKER**

Net monthly income per worker	Received non financial assistance	Never received any non financial assistance	Total
≤ Ksh 2,000	7.9	92.1	100.0
Ksh 2,001 - 5,000	8.4	91.6	100.0
Ksh 5,001 - 10,000	13.5	86.5	100.0
Ksh 10,001 - 20,000	14.3	85.7	100.0
Ksh 20,001 - 50,000	21.2	78.8	100.0
Ksh 50,001 +	22.2	77.8	100.0

Source: 1995 Survey

## Membership in Business Associations and Informal Networks

About one fourth (26 percent) of owners of MSEs are members of business associations and networks in Kenya. These include women's groups, trade associations, Rotating Savings and Credit Associations (ROSCAs), and co-operative societies, among many others. More women proprietors (35 percent) are members of these associations than are men proprietors (15 percent). Comparing the number of proprietors who have received non-financial assistance (7 percent) with the number who are members of business associations (26 percent) indicates that not all members of these associations have received any business-related assistance from them.

### 8.3 ENTERPRISE ACCESS TO CREDIT FACILITIES

Whereas there is some controversy as to whether finance is the most pressing need for MSEs, there is a general consensus among MSE development specialists that finance can make an important contribution to MSE development. Furthermore, this may be the only type of MSE assistance that currently can be provided sustainably. Perhaps as a reflection of this line of thinking, almost half (46 out of 105) of the formal small enterprise support institutions in Kenya are currently focusing their support on the provision of credit (Oketch, *et al.*, 1995).

Table 8.7 shows that only a small number of MSEs (10.8 percent of the total) have ever received credit from any source. Contrary to conventional wisdom, the survey indicates that more female-owned enterprises (15 percent) have had access to credit, compared to their male-owned counterparts (5 percent). This is not surprising, however, given that almost half (46 percent) of those who have received credit got it from ROSCAs, most of which are women's groups (Table 8.12).

TABLE 8.7  
ENTERPRISE ACCESS TO CREDIT

Ever received credit?	Share of all enterprises		
	Female	Male	Total
Yes	15.4%	5.2%	10.8%
No	84.6%	94.8%	89.2%
Total	100.0%	100.0%	100.0%

Source: 1995 Survey

The level of education of the proprietor and the size of the enterprise also appear to have some significance in determining the enterprise's chance of obtaining credit. Fewer very small enterprises have received credit than larger enterprises (Table 8.8). The same was the case for enterprises owned by people with lower education, compared to those with relatively higher levels of education (Table 8.9). A higher number (14 percent) of enterprises involved in commercial activities have received credit, compared to those in either manufacturing (8 percent) or services (5 percent).

TABLE 8.8  
RECEIPT OF CREDIT, BY SIZE OF ENTERPRISE

Size of enterprise	Received credit	Never received credit	Total
1 worker	9.6%	90.4%	100.0%
2 workers	10.0%	90.0%	100.0%
3 -5 workers	14.2%	85.8%	100.0%
6 - 10 workers	54.3%	45.7%	100.0%
11 -50 workers	47.9%	52.1%	100.0%

Source: 1995 Survey

TABLE 8.9  
RECEIPT OF CREDIT, BY LEVEL OF EDUCATION

Level of education	Received credit	Never received credit	Total
None	6.8%	93.2%	100.0%
Some primary	6.5%	93.5%	100.0%
Completed lower primary	11.0%	89.0%	100.0%
Completed upper primary	9.7%	90.3%	100.0%
Completed lower secondary	11.0%	89.0%	100.0%
Completed upper secondary	16.0%	84.0%	100.0%
Completed A-levels	14.5%	85.5%	100.0%
Completed university	25.4%	74.6%	100.0%

Source: 1995 Survey

## Access to Credit and Enterprise Performance

### Employment

Table 8.10 shows the pattern of change in number of workers employed by the enterprise, as this relates to the receipt of credit. The figures indicate that, among those that received credit, a somewhat higher percentage (21 percent) had expanded, compared to those that had not received any credit, where only 16% had expanded. It was also true, on the other hand, that a higher percentage of those receiving credit had contracted. This might reflect the fact that some of the credit was used to help enterprises deal with economic difficulties.

These figures remind us that credit can contribute to enterprise expansion if it is utilized well; but it can also stress business operations and contribute to enterprise contraction e.g. when it is diverted to other uses or when its cost is higher than its return. This is particularly so for enterprises that try to "buy their way out of trouble," postponing dealing with difficulties by taking loans when other remedies are called for.

TABLE 8.10  
ACCESS TO CREDIT AND ENTERPRISE EXPANSION

Business expansion status	Received credit	Never received credit	Total
Contracted	5.6%	3.2%	3.5
No change	73.7%	80.7%	79.9
Expanded	20.8%	16.1%	16.6
Total	100.0%	100.0%	100.0

Source: 1995 Survey

### Net Monthly Income per Worker

As in the case of non-financial assistance, the survey showed a positive relationship between an enterprise's access to credit and the level of net income in the enterprise. Table 8.11 shows that the proportion of enterprises that have received credit rises from 15 - 18 percent for firms making up to Ksh 10,000 to over 30 percent for the firms generating a net monthly income per worker of over Ksh 20,000. Causality probably runs in both directions in this relationship; it is not possible to state on the basis of this study in which direction the relationship is stronger.

TABLE 8.11  
ACCESS TO CREDIT AND LEVEL OF INCOME

Net income per worker per month	Received credit	Never received credit	Total
≤ Ksh 2,000	15.1%	84.9%	100.0%
Ksh 2,001 - 5,000	17.9%	82.1%	100.0%
Ksh 5,001 - 10,000	15.6%	84.4%	100.0%
Ksh 10,001 - 20,000	25.0%	75.0%	100.0%
Ksh 20,001 - 50,000	30.8%	69.2%	100.0%
Ksh 50,000 +	33.3%	66.7%	100.0%

Source: 1995 Survey

### Sources of Credit to Small Enterprises

As noted earlier in this section, only about ten percent of MSEs have ever received any form of credit. Table 8.12 shows that only about three percent of MSEs have been reached with credit from formal institutions. Nearly half of all credit has come from ROSCAs, followed by formal credit institutions and loans from family and friends. Contrary to expectations, about three quarters of the credit (76.3 percent) went to female proprietors. In part, this is understandable, given that ROSCAs - most of them women groups - are the most important source of credit to MSEs. It is interesting to note, however, that it is only from bank overdrafts that more male proprietors have received credit than their female counterparts.

Almost two thirds (64 percent) of all the credit to MSEs has gone to enterprises located in rural areas (Table 8.14). It is important to note, however, that since more than three quarters of all

enterprises are located in rural areas, the share of all enterprises in rural areas that have received credit (9.1%) is substantially below the comparable figure for urban areas (15.3%).

TABLE 8.12  
SOURCES OF CREDIT TO ENTERPRISES

Source of credit	Percent
None (no credit received)	89.2%
ROCSAs	5.0% (45.5%)
Formal credit institutions	3.2% (29.1%)
Family members	2.0% (18.2%)
Bank overdraft	0.2% ( 1.8%)
Money lenders	0.1% ( 0.9%)
Other sources	0.5% ( 4.5%)
Total	100.0%

Note: The figures in brackets are percentages of those firms which have received credit.  
Source: 1995 Survey.

TABLE 8.13  
SOURCES OF CREDIT RECEIVED, BY GENDER

Source of credit	Female	Male	Total
ROCSAs	84.4%	15.6%	100.0%
Formal credit institutions	58.0%	42.0%	100.0%
Family members	80.8%	19.2%	100.0%
Bank overdraft	37.3%	62.7%	100.0%
Money lenders	87.6%	12.4%	100.0%
Other sources	87.9%	12.1%	100.0%
Total	76.3%	23.7%	100.0%

Source: 1995 Survey

TABLE 8.14  
SOURCES OF CREDIT RECEIVED, BY REGION

Source of credit	Urban	Rural	Total
ROCSAs	31.1%	68.9%	100.0%
Formal credit institutions	45.8%	54.2%	100.0%
Family members	36.6%	63.4%	100.0%
Bank overdraft	100.0%	0.0%	100.0%
Money lenders	100.0%	0.0%	100.0%
Other sources	22.1%	77.9%	100.0%
Total	36.3%	63.7%	100.0%

Source: 1995 Survey

## 8.4 AMOUNT OF CAPITAL INVESTED IN MSEs AND ITS SOURCES

### Start-up Capital

The amount of capital it takes to start a small enterprise is a question of interest not only to organizations supporting the MSE sector but also to potential proprietors considering starting their own business. Data from the survey indicate that most MSEs start with very small amounts of capital. Almost two-thirds (62 percent) of the MSEs currently in operation started with an investment of Ksh 1,000 or less, while an additional 20 percent started with between 1,001 and 5,000 Kenya shillings (see Table 8.15). It is important to note, however, the small number of enterprises (1 percent of the total) that started with over Ksh 100,000. Column (b) of Table 8.15 indicates that this picture does not change much when the amount of capital at the start is expressed in terms of 1994 prices.

Although there may be an inverse relationship between the amount of start-up capital and the chances of a business collapsing, it is interesting to note that nearly two thirds of the businesses over 30 years old started with capital amounts of Ksh 1,000 or less. Even with small amounts of starting capital, many MSEs continue to operate for many years, providing employment and income to many people in the country.

TABLE 8.15  
AMOUNT OF START-UP CAPITAL

Amount of capital	Share of all enterprises	
	(a) When capital is expressed in starting- year prices	(b) When start-up capital is inflated to 1994 prices
Ksh 0 - 1,000	62.5%	44.9%
Ksh 1,001 - 5,000	19.6%	26.0%
Ksh 5,001 - 10,000	6.3%	9.6%
Ksh 10,001 - 20,000	4.3%	7.2%
Ksh 20,001 - 50,000	3.8%	5.7%
Ksh 50,001 - 100,000	2.4%	1.5%
Ksh 100,001 - 500,000	0.9%	4.2%
Ksh 500,000 +	0.1%	0.8%
Total	100.0%	100.0%

Source: 1995 Survey

The first two years of an enterprise's life are considered critical in determining whether it will survive. It is during this period that the proprietor consolidates experience in his/her line of operation, building up enough capital to pass a threshold in terms of its ability to meet customer demands and to generate profits. It may be useful, therefore, to consider the amount of investment that takes place in an enterprise within the first two years rather than right at the start of the business. Table 8.16 shows that, by the end of two years, a considerable number of MSEs are bigger than at the time of start-up.

Whereas 45 percent of enterprises started with a capital of Ksh 1,000 or less, only 32 percent have this amount of capital by the end of their first two years.

TABLE 8.16  
AMOUNT OF CAPITAL INVESTED IN THE FIRST TWO YEARS

Amount of capital	Share of all enterprises	
	with such capital at start of business (1994 prices)	with such capital at end of first 2 years (1994 prices)
Ksh 0 - 1,000	44.9%	31.7%
Ksh 1,001 - 5,000	26.0%	18.3%
Ksh 5,001 - 10,000	9.6%	10.7%
Ksh 10,001 - 20,000	7.2%	10.9%
Ksh 20,001 - 50,000	5.7%	14.1%
Ksh 50,001 - 100,000	1.5%	8.4%
Ksh 100,001 - 500,000	4.2%	4.7%
Ksh 500,000 +	0.8%	1.3%
Total	100.0%	100.0%

Source: 1995 Survey

The amount of capital used to start a small enterprise appears to vary by gender, location of enterprise, sector and level of education. Table 8.17 shows that women tend to start their enterprises with less capital than men, probably reflecting the poorer income status of women in Kenya. Enterprises in urban areas start with higher amounts of capital than those in the rural areas (Table 8.18). Table 8.19, on the other hand, shows that enterprises in manufacturing tend to start with less capital than those in either commerce or services. People with less education tend to start their businesses with less capital than their counterparts who are relatively more educated (Table 8.20), perhaps reflecting the relative ease which more educated people have in accessing finance, whether from own savings or from credit.

TABLE 8.17  
AMOUNT OF START-UP CAPITAL, BY GENDER

Amount of capital (starting year prices)	Female	Male
Ksh 0 - 1,000	75.8%	49.7%
Ksh 1,001 - 5,000	17.8%	20.9%
Ksh 5,001 - 10,000	3.8%	9.45%
Ksh 10,001 - 20,000	0.9%	7.8%
Ksh 20,001 - 50,000	1.25%	5.5%
Ksh 50,001 - 100,000	0.35%	5.9%
Ksh 100,001 - 500,000	0.25%	0.6%
Ksh 500,000 +	0.0%	0.1%
Total	100.0%	100.0%

Source: 1995 Survey

TABLE 8.18  
AMOUNT OF START-UP CAPITAL, BY REGION

Amount of capital (starting year prices)	Urban	Rural
Ksh 0 - 1,000	44.9%	68.7%
Ksh 1,001 - 5,000	21.2%	19.0%
Ksh 5,001 - 10,000	10.6%	4.8%
Ksh 10,001 - 20,000	8.8%	2.7%
Ksh 20,001 - 50,000	9.0%	2.0%
Ksh 50,001 - 100,000	3.5%	2.0%
Ksh 100,001 - 500,000	1.6%	0.7%
Ksh 500,000 +	0.5%	0.0%
Total	100.0%	100.0%

Source: 1995 Survey

TABLE 8.19  
AMOUNT OF START-UP CAPITAL, BY SECTOR

Amount of capital (starting year prices)	Manufacturing	Commerce	Services
Ksh 0 - 1,000	72.5%	57.0%	59.7%
Ksh 1,001 - 5,000	10.9%	24.0%	24.1%
Ksh 5,001 - 10,000	6.3%	6.8%	3.8%
Ksh 10,001 - 20,000	2.7%	5.8%	1.7%
Ksh 20,001 - 50,000	2.6%	4.9%	2.2%
Ksh 50,001 - 100,000	3.3%	1.1%	6.5%
Ksh 100,001 - 500,000	1.6%	0.4%	1.4%
Ksh 500,000 +	0.2%	0.0%	0.5%
Total	100.0%	100.0%	100.0%

Source: 1995 Survey

TABLE 8.20  
AMOUNT OF START-UP CAPITAL, BY LEVEL OF EDUCATION

Amount of capital	None	Primary	Secondary	Higher
Ksh 0 - 1,000	87.5%	61.3%	43.7%	2.0%
Ksh 1,001 - 5,000	6.5%	21.1%	28.2%	16.4%
Ksh 5,001 - 10,000	1.7%	6.5%	10.0%	8.0%
Ksh 10,001 - 20,000	2.5%	4.0%	6.6%	10.0%
Ksh 20,001 - 50,000	1.1%	3.6%	6.5%	12.9%
Ksh 50,001 - 100,000	0.5%	2.3%	3.9%	18.4%
Ksh 100,001 - 500,000	0.1%	1.1%	1.0%	13.5%
Ksh 500,000 +	0.0%	0.0%	0.1%	18.9%
Total	100.0%	100.0%	100.0%	100.0%

Source: 1995 Survey

### Start-up Capital, Growth Potential and Enterprise Performance

Table 8.21 shows the growth pattern of enterprises since their start. It shows that whereas a large number of enterprises have not made significant changes in the amount of capital invested since start-up, the majority of firms (over 50 percent) do undergo some change. Some expand, while others contract. In the aggregate, however, more firms expand than contract, so there is a net expansion of enterprises in most categories. The table shows that the highest chances of expansion in capital (about 45 percent) are found in those firms starting with a capital of Ksh 5,001 - 20,000. There appears to be a close relationship between the amount of start-up capital and the expansion/contraction pattern of an enterprise.

TABLE 8.21  
PATTERNS OF BUSINESS EXPANSION AND START-UP INVESTMENT:  
EXPANSION OF CAPITAL

Amount of start-up capital (1994 prices)	Patterns of change in investment			
	No change	Expanded	Contracted	Total
Ksh 0 - 1,000	77.7%	22.3%	na	100.0%
Ksh 1,001 - 5,000	42.9%	31.0%	26.1%	100.0%
Ksh 5,001 - 10,000	22.5%	44.3%	33.2%	100.0%
Ksh 10,001 - 20,000	25.2%	44.9%	29.9%	100.0%
Ksh 20,001 - 50,000	39.1%	34.8%	26.1%	100.0%
Ksh 50,001 - 100,000	30.0%	37.8%	32.2%	100.0%
Ksh 100,001 - 500,000	43.5%	9.4%	47.1%	100.0%
Ksh 500,000 +	66.7%	na	33.3%	100.0%

Note: na = not available; the nature of grouping was such that no expansion or contraction could be captured for these categories.

Source: 1995 Survey

Table 8.22 presents similar information, but with expansion expressed in terms of employment rather than of capital. Comparing it with table 8.21 shows that not all enterprises that expand in capital increase the number of workers. They are however not likely to reduce the number of workers, an indication that capital expansion in MSEs is not generally labor displacing but rather is a complement to employment growth.

TABLE 8.22  
PATTERNS OF BUSINESS EXPANSION AND START-UP INVESTMENT:  
EXPANSION OF EMPLOYMENT

Amount of start-up capital (1994 prices)	Patterns of change in employment			
	No change	Expanded	Contracted	Total
Ksh 0 - 1,000	80.5%	15.8%	3.8%	100.0%
Ksh 1,001 - 5,000	76.2%	20.7%	3.1%	100.0%
Ksh 5,001 - 10,000	89.3%	8.2%	2.5%	100.0%
Ksh 10,001 - 20,000	78.3%	19.2%	2.6%	100.0%
Ksh 20,001 - 50,000	84.7%	12.3%	3.0%	100.0%
Ksh 50,001 - 100,000	68.2%	29.5%	2.4%	100.0%
Ksh 100,001 - 500,000	87.4%	12.0%	0.6%	100.0%
Ksh 500,000 +	46.8%	53.2%	0.0%	100.0%

Source: 1995 Survey

The preceding discussion addressed the question whether enterprises that start out with very small capital are ever in a position to expand to a level that they can offer substantial employment. Table 8.23 focuses on the question of whether they are in a position of generating substantial levels of income. It shows that although 70% of the firms which started with capital amounts of Ksh 1,000 or less generated a monthly income per worker of Ksh 2,000 or less, there is still a good number of firms (30 percent) in this category which are producing relatively good incomes, some with incomes of up to Ksh 50,000 per month. The figures make clear, then, that while the majority of enterprises starting out with minimal amounts of capital do not grow and do not generate substantial amounts of income, others are more successful on both counts, leading to higher levels of incomes as well as to investment in the business and increasing levels of employment.

TABLE 8.23  
AMOUNT OF START-UP CAPITAL AND THE INCOME LEVEL OF ENTERPRISE

Amount of start-up capital (1994 prices)	Percent of firms with such levels of monthly net income per worker (Kshs)					
	≤ 2,000	2,001 - 5,000	5,001 - 10,000	10,001 - 20,000	20,001 - 50,000	> 50,000
Ksh 0 - 1,000	70.0	18.9	6.1	3.4	1.4	0.0
Ksh 1,001 - 5,000	46.9	22.9	16.7	8.6	2.4	2.4
Ksh 5,001 - 10,000	42.4	25.6	14.4	12.0	4.0	1.6
Ksh 10,001 - 20,000	46.4	12.8	13.8	12.8	11.0	2.
Ksh 20,001 - 50,000	47.4	13.7	15.8	8.4	10.5	4.2
Ksh 50,001 - 100,000	38.2	17.6	8.8	17.6	17.6	0.0
Ksh 100,001 - 500,000	43.8	12.5	12.5	18.8	6.3	6.3
Ksh 500,000 +	0.0	0.0	0.0	100.0	0.0	0.0

Note: figures in each row add to 100.0 percent (i.e for each category of start-up capital).

Source: 1995 Survey

### Principal Source of Start-up Capital

The questionnaire asked about the principal source of funds used to start the business. The responses make clear that most MSEs are started using non-credit (equity) sources of finance, with only a small percent (8 percent) depending on finance from credit sources. In the aggregate, there two important sources of start-up capital: own savings (74 percent); and gifts (11%) and loans (5%) from family members or friends (see Table 8.24). Given that most MSEs are owned by people with relatively low incomes, it not surprising that most MSEs start with only small amounts of capital, since the owners rely almost entirely on their own savings or those of others in their immediate family. The table shows that more women (14 percent) start their enterprises with non-equity finance than men (4 percent), meaning that a higher percentage of female proprietors have to handle loan repayment obligations at an early stage in their businesses, compared to their male counterparts.

TABLE 8.24  
PRINCIPAL SOURCE OF START-UP CAPITAL

Source of capital	Share of all enterprises		
	Female	Male	Total
<b>Non credit sources</b>	<b>81.2%</b>	<b>89.4%</b>	<b>86.3%</b>
Own savings	62.2%	87.7%	74.2%
Funds given by family or friends	17.0%	1.4%	10.9%
Sale of another business that closed	2.0%	0.3%	1.2%
<b>Credit sources</b>	<b>13.6%</b>	<b>3.9%</b>	<b>7.7%</b>
Funds lent by others	9.7%	0.8%	4.9%
Loan from other informal sources	3.3%	1.3%	2.0%
Loan from ROSCA/SACCO	0.1%	1.2%	0.6%
Loan from financial institutions	0.3%	0.4%	0.4%
Loan from employer	0.2%	0.2%	0.2%
Other*	5.2%	6.7%	5.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: 1995 Survey

Note: \* Other sources of start-up capital include products obtained for 'free' e.g farm produce from own farm.

### Current Amount of Capital and its Sources

Table 8.25 shows the current amount of capital invested in MSEs compared with the figures of start-up capital, adjusted for inflation. Looked at in conjunction with the information in Table 8.21, it shows that through the process of some firms expanding and others contracting, the overall structure of MSEs in terms of amount of capital invested has not changed much since the start of the firms. The majority of firms (75 percent) remain small, with capital amounts of Ksh 10,000 or less. There has, however, been some gradual build-up of capital over time, with a larger share of enterprises (25 percent) having a capital of more than Ksh 10,000, compared to only 19 percent with that level of capital at the start. The MSE sector seems to be making a positive contribution to capital formation in the country.

TABLE 8.25  
AMOUNT OF CAPITAL INVESTED IN MSEs AT START-UP AND TODAY

Amount of capital	Number with such amount of capital at start (1994 prices)	Number with such amount of capital now (1994 prices)
Ksh 0 - 10,000	80.6%	75.3%
Over Ksh 10,000	19.4%	24.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: 1995 Survey

As was the case for business start-up capital, MSEs depend almost entirely on non-credit sources to finance further investments in their enterprise (Table 8.26). Re-investment of business profits, own savings, and family and friends, in descending order of importance, are the three most common sources of capital for business expansion. It is interesting to note that even though 11 percent of enterprises have received credit at one time or another, only 3 percent have used credit as their principal source of financing for their current capital stock.

TABLE 8.26  
PRINCIPAL SOURCE OF FINANCING CURRENT ASSETS

Source of capital	Number of enterprises
<b>Non credit sources</b>	<b>94.1%</b>
Reinvested profits from the business	77.9%
Own savings	14.1%
Funds given by family or friends	2.1%
Sale of another business that closed	0.0%
<b>Credit sources</b>	<b>2.8%</b>
Funds lent by family or friends	1.9%
Loan from other informal sources	0.6%
Loan from ROSCA/SACCO	0.0%
Loan from financial institutions	0.3%
Loan from employer	0.0%
Other	<b>3.1%</b>
<b>Total</b>	<b>100.0%</b>

Source: 1995 Survey

## SECTION NINE

### WHICH TYPES OF MSEs ARE MOST WORTHY OF SUPPORT?

Many people would regard this as a central question for this study, with all other aspects leading up to this issue. We would like to say two things as background for our discussion here. The first is that a baseline survey is not an appropriate analytical approach to provide clear-cut answers to this question. Survey results can describe the past and can throw light on current enterprise structures. At best, they can identify categories of enterprises that appear to have done well and others that have not. But judgements about growth potentials require a different type of analysis involving a more detailed examination of particular components of the MSE universe, looking particularly at future possibilities. The best one could hope for would be that the survey results would identify strong candidates for such analysis.

The second point is that different types of enterprises appear to be effective in contributing to different types of objectives. Since different donors and assistance organizations place different weights on alternative goals for microenterprise development, the question needs to be reformulated to ask about the potential contribution that might be hoped for, from the promotion of different types of enterprises.

Our presentation explores the potential contributions of MSEs under three headings: contributions to income, contributions to employment, and contributions to improved circumstances for women.

#### 9.1 CONTRIBUTIONS TO INCOME

The most useful measure in our data of the contribution of different types of enterprises to income may be one that focuses on net income earned per person. In our analysis of this data, we have grouped different industrial categories together in an effort to ensure that each category has at least 20 observations.<sup>1</sup> With this grouping, it was possible to identify twenty different industry groups with relevant income data. The results are presented in table 9.1 below.

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<sup>1</sup> A few categories ended up with less. There were only 17 wholesalers with useable data; it did not make sense to combine these with any other category, so they are separately reported. Bars, hotels and restaurants; other food, drink and tobacco; and shoes, other textiles and leather each ended up with somewhat less than 20 observations. Of course when cross-classifications are done (e.g. by gender), some cells still end up having substantially fewer observations.

TABLE 9.1  
NET PROFITS PER WORKER PER YEAR,  
BY INDUSTRIAL SECTOR  
(Kenya Shillings)

	Net profit per worker per year	Average capital invested per enterprise
Wholesale trade	2,524,025	530,822
Bars, hotels, other restaurants	517,761	25,300
Making wearing apparel	176,134	56,756
Retail, other	68,298	46,018
Other food, drink & tobacco manufacturing	54,939	198,068
Retail of hardware, building mat., machines & tools	47,873	75,487
Repairs: all others	43,298	23,087
Barber shops, beauty salons	41,388	22,065
Retailing ready-made garments	41,286	30,216
Other services	35,560	35,987
Other manufacturing	32,754	8,719
Retailing second hand clothes	26,039	6,409
Selling processed foods, street restaurants	20,878	5,188
Manufacture of furniture and other wood products	20,098	11,997
Retailing of agricultural produce	19,410	2,524
Kiosk, general grocery	11,826	32,593
Making shoes, other leather and textiles (excl. garments)	11,787	20,548
Repair of shoes	10,999	1,542
Beer brewing	7,781	1,110
Retailing of fuel & charcoal	7,306	349
Total, all sectors	33,200	22,324

Source: 1995 Survey Results

In examining this table, we find it useful to group the activities into four categories. Those in the lowest category, generating incomes of less than 12,000 shillings per person per year (less than 1,000 shillings per person per month), are clearly marginal activities. Aside from expected categories of beer brewing, trade in charcoal, shoe making and repair, it is surprising to find the large group of kiosks or general grocers in this category. The capital invested in these groceries is substantially larger than for others in this lowest income category, although the returns are not impressive. It may be that sales were

understated so profits are underestimated for this group, although it was a large category in the data set (with over 200 cases with income data).

A second category ranges from 1,500 - 3,000 shillings per person per month (18,000 - 36,000 per person per year). These activities earned incomes equal to or somewhat above the minimum wage. The largest group in this category is made up of enterprises retailing agricultural produce. It also includes commerce in second-hand clothing, as well as street restaurants, and furniture manufacturers. Capital requirements for most of the activities in this group, while larger than those for the first category, are still quite modest.

There are several components of this category that appear to offer good prospects for relatively easy entry, particularly for women. In fact, two-thirds or more of the enterprises in food processing and the retailing of agricultural produce and second hand clothes and more than 40% of those in the wood and cane products are owned by women. One must be careful about such data, however, since a disaggregation by gender shows that, for most of these activities, enterprises owned by women generated income levels far below those in activities operated by men (see Appendix Table 5-3 and section 9.3 below). Within this category, only in food processing were returns to enterprises owned by women higher than those run by men.

The third category of enterprises generated incomes from 3,000 - 6,000 shillings per person per month. Activities here include some of the larger and more established retail enterprises: hardware and building materials, new clothing, and the residual "other retailing" category that includes pharmacies, booksellers etc. It also includes barber shops and beauty salons, and repair activities other than shoes (a category that includes vehicle and bicycle repair). In general, these are activities that require more skills and/or more capital than those below them on the list.

The three activities at the top of the list are generally well above average in size, either in terms of capital (wholesalers, garment makers) or of work force (bars/hotels). While these three appear to be generating high returns, they are not easy activities in which to enter or to prosper. Among the three of them, it is interesting that over 40% of the enterprises are owned by women.

## **9.2 CONTRIBUTIONS TO EMPLOYMENT**

One can also approach these different industry groups with the question in mind of the degree to which they have helped create new jobs in the economy. Table 9.2 below presents data that throws light on this question.

TABLE 9.2  
PATTERNS OF EMPLOYMENT GROWTH,  
BY INDUSTRIAL SECTOR

	Total employment, 1995	Average no. of workers added per enterprise per year	% that have grown	Share of employment coming from expansion
General kiosk, grocery	221,657	0.04	7.6	4.4%
Retail: ag produce	191,707	0.05	10.0	14.3%
Other manufacturing	137,006	0.14	31.8	26.4%
Wood products manufacture	94,111	0.15	55.2	35.5%
Selling processed foods, street restaurant	63,589	0.88	42.4	22.4%
Retail: fuel & charcoal	63,426	0.05	27.2	19.7%
Other food, drink & tobacco manu.	55,094	0.01	25.2	11.9%
Beer brewing	54,040	-0.03	20.4	2.8%
Retail, other	52,026	0.13	31.2	33.7%
Other textiles, leather & footwear	43,013	0.24	12.2	16.3%
Other services	38,901	0.0	3.4	0.1%
Bar, hotel, other restaurant	33,248	0.35	15.9	9.2%
Retail: second hand clothes	29,770	0.07	4.9	-5.3%
Repairs: all others	27,319	0.14	66.6	37.2%
Wearing apparel manu.	22,423	0.15	6.7	7.8%
Retail: ready-made garments	16,710	0.02	7.1	4.6%
Repairs: shoes	8,863	-0.03	20.4	14.5%
Retail: hardware, building mat, machines & tools	8,680	0.06	12.6	15.2%
Wholesale trade	8,238	1.61	39.5	31.9%
Barber shop, beauty salon	5,409	0.30	10.9	3.5%
<b>Total, all sectors</b>	<b>1,175,230</b>	<b>0.11</b>	<b>17.6</b>	<b>14.0%</b>

The information in Table 9.2 focuses on the significance of different industry groups as sources of employment rather than as sources of income. The ranking is obviously quite different. The approach helps to remind us that some activities that appear to be quite interesting from an income point of view (e.g. barber shops, or hardware retail establishments) have in fact been negligible to date as sources of employment.

The table reminds us of the overwhelming importance of traders in generating employment among MSEs. On the other hand, the last three columns of the table remind us that most of the employment in the trading activities came at the time of start-up; they have been responsible for only limited numbers of expansion jobs. Since we have suggested that the latter have frequently been more stable and rewarding jobs, this might give some cause for concern about these large but slowly-expanding categories as targets for promotion.

It may be useful here to reiterate the point made at the beginning of this section: the fact that a particular sector is small or has grown only slowly in the past tells us only little about its potential as a source of employment growth in the future. Even very rapid growth in a sector that is tiny would have a hard time making a major contribution to the development of the country; conversely, even relatively modest growth of a sector that is huge could make a very significant difference for many people. The table can help clarify these issues. But to answer the question of the activities with the greatest potential contribution to the development of the nation, one must look beyond this type of information to more detailed analysis of particular sectors.

### 9.3 POTENTIAL CONTRIBUTIONS FOR WOMEN

We have seen in section three that a major share of the owners as well as of the work force in MSEs are women. One can approach these enterprises owned by women with the same two questions we have asked of the whole: in which activities are women earning the highest returns? Which are providing the largest employment, among those owned by women? Table 9.3 below provides answers to these questions.

What this table shows is that the top six categories in terms of earnings are all currently of negligible importance in magnitude for enterprises owned by women. The most widespread activity group for women, retailing of agricultural produce, earns an average return per worker among female-owned enterprises. Two other activities, street restaurants and retailing of second hand clothes, appear to earn somewhat above average returns for women and to be fairly extensive. These may be singled out as activities earning acceptable returns that are generating significant amounts of employment for women. But it may be worth recalling that the overall average return for enterprises owned by women is only about a quarter of the level earned in enterprises owned by men. One could say that these are activities that significant numbers of women pursue and that are among the least bad for women in terms of current earnings. The overall picture of enterprises owned and operated by women is not one that can generate much pride and enthusiasm.

TABLE 9.3  
NET RETURNS PER YEAR PER WORKER AND NUMBER OF ENTERPRISES:  
ENTERPRISES OWNED BY WOMEN  
(KSh per year)

	Returns per person per year	Number of enterprises owned by women
Bar, hotel, other restaurant	180,014	3,700
Retail: hardware, building mat, machines & tools	91,393	465
Retail, other	82,908	5,905
Wearing apparel	38,439	5,842
Repairs: all others	29,883	150
Barber shop, beauty salon	26,063	1,413
Selling processed foods, street restaurant	21,674	21,947
Other services	21,041	3,850
Retail: second hand clothes	18,967	17,951
Retail: ag produce	15,692	112,488
Other food, drink & tobacco	14,379	6,317
Retail: ready-made garments	11,798	7,175
Other textiles, leather & footwear	10,590	18,036
Wood products	10,077	14,687
Beer brewing	9,076	14,206
General kiosk, grocery	8,390	40,963
Retail: fuel & charcoal	4,470	15,051
Other manufacturing	483	11,686
Wholesale trade	n.a.	n.a.
Repairs: shoes	n.a.	n.a.
<b>Total, all sectors</b>	<b>15,552</b>	<b>301,832</b>

## SECTION TEN

### CONCLUSIONS

This survey has provided important new insights into the micro and small enterprise sector in Kenya. There has been a rapid turn-over in the sector, with many new activities getting started at the same time that others are going out of business; but the net effect has been that the sector continues to expand at a substantial rate, with employment growing by at least ten percent a year. When the economy itself is doing well, as was the case in the first half of 1995, most of these new jobs came from an expansion of existing small enterprises. When aggregate growth was more limited, as was the case in 1994, most of the new jobs came from new small business start-ups.

For the majority of workers, these are full-time activities. Only a little over a third (36%) were working less than 2,340 hours per year (45 hours per week, 52 weeks of the year); that third had aggregate working hours about 40% below this standard of full time. The other two thirds of the work force, by contrast, were working at least 2,340 hours per year; in the aggregate, the latter group was working about 36% more than the full employment standard.

Estimates of income earned in MSEs suggest that these activities account for 12-14% of GDP in the country. Average returns per person were about KSh 33,000 per year, about three times the average GDP per capita but still a very low figure.

It is sobering to find that, in over half the enterprises, earnings per person per month of proprietors and unpaid workers appear to be below the minimum wage. On the other hand, in nearly 20% of the enterprises, earnings per person per month were more than double the minimum wage. Another part of the questionnaire indicated that in only about a quarter of the cases did the enterprise provide all or virtually all of the household income. These figures remind us that, while some people are doing very well in their microenterprises, for the majority, this was either supplementary or a survival-type activity.

There is a tendency in some circles to think of micro and small enterprises as a homogeneous category, which can be most effectively helped by one single type of assistance. This study should make clear the fallacy of that approach. The universe of enterprises with 1-50 workers is complex and diverse. The majority of these enterprises make their principal contribution in the area of poverty alleviation, for households that would otherwise be desperately poor. Others - a significant minority of MSEs - are making a major contribution to the growth of the economy, helping participants move substantially above a poverty minimum.

These different groups of enterprises have different needs in terms of support. The principal problems faced by the simplest enterprises are more likely to center around credit. For more dynamic enterprises generating higher returns, problems and constraints are more complex; simple credit programs would be increasingly inadequate to their needs. Those designing assistance programs need to understand these differences, to determine which target group corresponds most closely with their priorities, and then design their assistance programs accordingly. It is hoped that this study will contribute to that process.

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**ANNEX A**

Final Version K-REP/USAID MICRO AND SMALL ENTERPRISE SURVEY  
 EXISTING ENTERPRISE QUESTIONNAIRE, MAY 1995  
 - STRICTLY CONFIDENTIAL!! -

Date Proofed _____	Date Entered _____	Date Completed _____
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- 1. Enumerator Name \_\_\_\_\_ Enumert1 \_\_\_\_\_
- 2. Supervisor Name \_\_\_\_\_ Supervs2 \_\_\_\_\_
- 3. Cluster Name \_\_\_\_\_ Cluster3 \_\_\_\_\_

PART I: FOR ALL ENTERPRISES

- 4. 1995 Unique ID? (ENUMERATOR: LEAVE BLANK) Uniquei4 \_\_\_\_\_
- 5. Enterprise Type? \_\_\_\_\_ Buscode5 \_\_\_\_\_

- 6. Date Started?
  - Month \_\_\_\_\_ Mo\_strt6 \_\_\_\_\_
  - Year \_\_\_\_\_ Yr\_strt6 \_\_\_\_\_

- 7. Location of enterprise? Locatin7 \_\_\_\_\_
  - 1) home
  - 2) traditional market
  - 3) commercial district shop
  - 4) roadside
  - 5) mobile
  - 6) industrial site
  - 7) other \_\_\_\_\_

- 8. Structure type? Structu8 \_\_\_\_\_
  - 1) permanent structure
  - 2) temporary structure
  - 3) roof only
  - 4) no structure
  - 5) vehicle
  - 6) other \_\_\_\_\_

- 9. Working patterns?
  - Months/year last year (put dash if firm < 1 year old) Mon\_wrk9 \_\_\_\_\_
  - Days/month last month (put dash if firm < 1 month old) Day\_wrk9 \_\_\_\_\_
    - (all days of month = 30)
    - (all days except Sundays = 25)
    - (Mondays thru Fridays = 20)
  - Hours/day last week (Did they close over lunch?) Hrs\_wrk9 \_\_\_\_\_
    - Opening time \_\_\_\_\_ Closing Time \_\_\_\_\_





15. Formal education? Eductn15 \_\_\_\_\_  
 1) None 5) Completed lower secondary  
 2) Some lower primary 6) Completed upper secondary  
 3) Completed lower primary 7) Completed A-levels  
 4) Completed upper primary 8) Completed university  
 9) Other \_\_\_\_\_
- 15A. Did you receive any other type of technical education? Othed15a \_\_\_\_\_  
 1) None 5) Tech Training Inst  
 2) Apprentice 6) National Polytechnic  
 3) Youth Polytech 7) Other \_\_\_\_\_  
 4) Harambee Inst Tech
16. Formal business training excluding apprenticeships? Traing16 \_\_\_\_\_  
 1) None 4) 1-3 month course  
 2) One week course 5) 4-12 month course  
 3) 1-4 weeks course 6) More than 1 year course
17. Kinds of NON-FINANCIAL business assistance received? Assist17 \_\_\_\_\_  
 1) None 6) Informal advice/training assistance  
 2) Management training 7) Multiple assistance  
 3) Technical training/advice 8) Other \_\_\_\_\_  
 4) Marketing assistance 5) Other advice/training from formal institutions
- 17A. Do you belong to any business support group or informal business network such as a women's group, trade association, coop, or informal business group 1 = YES 2 = NO Assoc17a \_\_\_\_\_
18. Have you received any type of credit? 1 = YES 2 = NO Credit18 \_\_\_\_\_
- 18A. If you have received credit, from which of the following sources did you receive credit.  
 Loan (not free) from family/friends . . . . . (1=Yes, 2=No) Lnfam18a \_\_\_\_\_  
 Moneylender . . . . . (1=Yes, 2=No) Monln18a \_\_\_\_\_  
 Formal credit institution (Loan) . . . . . (1=Yes, 2=No) Forml18a \_\_\_\_\_  
 Rotating credit society . . . . . (1=Yes, 2=No) Rotat18a \_\_\_\_\_  
 Bank overdrafts . . . . . (1=Yes, 2=No) Ovrdr18a \_\_\_\_\_  
 Other \_\_\_\_\_ (1=Yes, 2=No) Othcr18a \_\_\_\_\_
19. Why did you choose to start a small business on your own, rather than doing something else? Whybus19 \_\_\_\_\_  
 1) No options available  
 2) Small business provided better income than alternatives available  
 3) I prefer to work for myself  
 4) I wanted to supplement my income that I earn elsewhere  
 5) Other \_\_\_\_\_
20. Why did you choose this particular activity for your small business? Whyact20 \_\_\_\_\_  
 1) I am skilled in this activity  
 2) My family has worked in this activity  
 3) I thought it would be profitable  
 4) Capital requirements for this line match what I had available  
 5) This is the only thing I was able to do; I had no alternative  
 6) Other \_\_\_\_\_



1995 UNIQUE ID:

**PART II: FOR ALL ENTERPRISES FROM WHICH INCOME DATA CAN BE COLLECTED**

(SKIP TO QUESTION 30 IF INCOME DATA CAN NOT BE COLLECTED)

21. Please designate months with high, average, and low levels of sales (months of operation for new businesses):

	Ja	Fe	Ma	Ap	My	Ju	Jl	Au	Se	Oc	No	De	Tot
High													
Aver													
Low													

22. What was the value of your total sales yesterday (or over the past week or month)?

Value in shillings

Sales22 \_\_\_\_\_

1) per day 2) per week 3) per month

Time22 \_\_\_\_\_

**ENUMERATOR:**

1) MULTIPLY THE FIGURE ABOVE BY THE NUMBER OF DAYS WORKED PER MONTH (SEE ABOVE TABLE) OR BY 4 (IF IT IS PER WEEK).

2) SAY TO THE RESPONDENT - THIS IMPLIES THAT YOUR TOTAL SALES LAST MONTH WAS

KSh \_\_\_\_\_

23. Is that right, for such a month (low, average, or high)? Correc23 \_\_\_\_\_

1) yes 2) no

24. Please tell us the average sales per month for all three types of months.

**RANGE:**

High Sales Months Ksh \_\_\_\_\_ High Sales Monthly Avg Highs124 \_\_\_\_\_

Average Sales Months Ksh \_\_\_\_\_ Average Sales Monthly Avg Avgsa124 \_\_\_\_\_

Low Sales Months Ksh \_\_\_\_\_ Low Sales Monthly Avg Lowsa124 \_\_\_\_\_

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1995 UNIQUE ID:

ENUMERATOR:

IF RESPONDENT IS A TRADER - OR A BUSINESS OWNER WHO VALUES SALES BY UNIT RATHER THAN BY TIME SPENT WORKING - CONTINUE WITH QUESTION 25.

IF RESPONDENT IS A MANUFACTURER, REPAIR OR SERVICE ENTERPRISE, SKIP TO QUESTION 28.

25. For a trader:

Please tell me the five products that provide you with the most receipts from sales.

PRODUCT	Most frequent selling price per piece in past week		Cost of purchase of the product		How many did you sell last month?		Units of sales per unit of purchases  How many units of A are in one unit of B
	price (KSh)	unit (A)	price (KSh)	unit (B)	# of units	time period: 1) day 2) week 3) month	

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1995 UNIQUE ID:

26. What were your costs of doing business in the recent past, other than the cost of the products you sell?  
(RECORD A ZERO IF THE BUSINESS DOES NOT HAVE A COST IN THE LISTED CATEGORY)

Cost category	Cost (KSh)	Per time period:
		1) day 2) week 3) month 4) year
Paid labor: salaries		
Paid labor: piece workers		
Paid labor: other		
Electricity for business		
Water for business		
Telephone		
Transport: inputs		
Transport: products		
Rent of shop or storage space		
License (kind? _____)		
Cost of credit (interest costs)		
Repairs/service of machines		
Other costs 1		
Other costs 2		
Other costs 3		
Other costs 4		
Other costs 5		
Other costs 6		
Other costs 7		

27. What were your total sales last month?

Salemo27 \_\_\_\_\_

SKIP TO QUESTION 30

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1995 UNIQUE ID: \_\_\_\_\_

28. For a manufacturer, repair or service enterprise:

What were your costs of doing business in the recent past?

Cost category	Cost (KSh)	Per time period:			
		1) day	2) week	3) month	4) year
Inputs/Supplies: 1					
Inputs/Supplies: 2					
Inputs/Supplies: 3					
Inputs/Supplies: 4					
Inputs/Supplies: 5					
Inputs/Supplies: 6					
Inputs/Supplies: 7					
Inputs/Supplies: 8					
Inputs/Supplies: 9					
Inputs/Supplies: 10					
Inputs/Supplies: 11					
Paid labor: salaries					
Paid labor: piece workers					
Paid labor: other					
Electricity for business					
Water for business					
Telephone					
Transport: inputs					
Transport: products					
Transport: other					
Rent of shop or storage space					
License (kind? _____)					
Cost of credit (interest)					
Repairs or service of machines					

29. What were your total sales last month?

Salemo29 \_\_\_\_\_



1995 UNIQUE ID: \_\_\_\_\_

33A. (If you recorded a building/home in Question 33) Bushm33a \_\_\_\_\_  
 What proportion of the building or home  
 is used by the business?

34. What was the principal source of funds Financ34 \_\_\_\_\_  
 you used to finance your current assets?

- 1) Reinvested profits from the business iteself
- 2) Own savings, incl. salary, terminal benefits  
or profits from another business
- 3) Funds lent by others in family or friends
- 4) Funds given by others in family or friends
- 5) ROSCAS and loans from savings associations at work place
- 6) Loans from employers
- 7) Borrowings from other informal sources
- 8) Borrowings from formal financial institutions
- 9) Receipts from sale of another business that closed
- 10) Other \_\_\_\_\_

35. How much net income (profit) did you Netinc35 \_\_\_\_\_  
 earn in this activity last month?

- 1) Business experienced a loss
- 2) Up to Ksh 2,000 per month
- 3) Ksh 2,001-6,000 per month
- 4) Ksh 6,001-10,000 per month
- 5) Ksh 10,001-20,000 per month
- 6) Ksh 20,001-30,000 per month
- 7) Ksh 30,001-40,000 per month
- 8) Ksh 40,001-50,000 per month
- 9) Ksh 50,001-100,000 per month
- 10) Above Ksh 100,000 per month

36. What are the three most important things that you normally do with the  
 net income from this business (List in decreasing order of importance)

- |                            |                               |                |
|----------------------------|-------------------------------|----------------|
| 1) Add a new business      | 6) Give to family/rural areas | Frprof36 _____ |
| 2) Reinvest in business    | 7) Put into savings           | Scprof36 _____ |
| 3) Invest in agriculture   | 8) Use for entertainment      | Thprof36 _____ |
| 4) Use for household needs | 9) Medical expenses           |                |
| 5) Children's education    | 10) Other _____               |                |

37. What were the other sources of income for the household in the past year?  
 LIST IN DECREASING ORDER OF IMPORTANCE.

- |                                 |                |
|---------------------------------|----------------|
| 1) No other sources of income   | Frincm37 _____ |
| 2) Paid employment - government | Scincm37 _____ |
| 3) Paid employment - other      | Thincm37 _____ |
| 4) Income from another business |                |
| 5) Remittances                  |                |
| 6) Agriculture                  |                |
| 7) Other _____                  |                |

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1995 UNIQUE ID: \_\_\_\_\_

38. What proportion of your household income is provided by this business? Shincm38 \_\_\_\_\_

- 1) Provides all or almost all of household income
- 2) Provides more than half of income
- 3) Provides about half of the income
- 4) Provides less than half of the income
- 5) Provides negligible part of household income
- 6) Not applicable (if corporate owned)

39. If you have more than one business at this location, does this one provide the most income? Primar39 \_\_\_\_\_

- 1) Primary business
- 2) Secondary business
- 3) Only business at location

40. What were the two biggest problems your business has faced over the last year? (Enumerator: If person says CREDIT, ask what problem credit would solve).

1st Problem \_\_\_\_\_ Frprob40 \_\_\_\_\_

2nd Problem \_\_\_\_\_ Scprob40 \_\_\_\_\_

41. Gender of owner Gender41 \_\_\_\_\_

- 1) Female, one proprietor
- 2) Male, one proprietor
- 3) Multiple proprietors - husband and wife
- 4) Multiple proprietors - blood relatives
- 5) Multiple proprietors - non-family
- 6) Other \_\_\_\_\_

42. Did anyone in your household operate a business which closed in 1993, 1994, or 1995? Closed42 \_\_\_\_\_

- 1) yes
- 2) no

43. Proprietor's name, nickname, enterprise name, physical address, CBS #

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

THANK YOU VERY MUCH FOR YOUR COOPERATION!

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## Closed Enterprise Questionnaire (Kenya, 1995)

Date Completed _____	Date Proofed _____	Date Entered _____
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1. Closed Enterprise ID \_\_\_\_\_
2. Enumerator Name \_\_\_\_\_ Enumerat2 \_\_\_\_\_
3. Cluster \_\_\_\_\_ Cluster3 \_\_\_\_\_
4. Enterprise Type \_\_\_\_\_ Buscode4 \_\_\_\_\_
5. Gender of owner \_\_\_\_\_ Gender5 \_\_\_\_\_
- 1) Female, one proprietor  
2) Male, one proprietor  
3) Multiple proprietors - husband and wife  
4) Multiple proprietors - blood relatives  
5) Multiple proprietors - non-family  
6) Other \_\_\_\_\_
6. Location of enterprise \_\_\_\_\_ Locatin6 \_\_\_\_\_
- 1) Home                      5) Mobile  
2) Traditional Market      6) Industrial Site  
3) Commercial District      7) Other \_\_\_\_\_  
4) Roadside
7. Year enterprise started \_\_\_\_\_ Yr\_strt7 \_\_\_\_\_
8. Number of workers at start  
(proprietors, paid, unpaid, apprentices) \_\_\_\_\_ Workstr8 \_\_\_\_\_
9. Year enterprise closed \_\_\_\_\_ Yr\_clos9 \_\_\_\_\_
10. Number of workers at close  
(proprietors, paid, unpaid, apprentices) \_\_\_\_\_ Workcl10 \_\_\_\_\_
11. Reason enterprise closed \_\_\_\_\_ Reasc111 \_\_\_\_\_
12. What are you doing now \_\_\_\_\_ Actnow12 \_\_\_\_\_
- 1) Run another business    3) Nothing  
2) Work for someone else    4) Other \_\_\_\_\_
13. Proprietor's Name, Nickname, Enterprise Name, Physical Address, CBS#
- \_\_\_\_\_
- \_\_\_\_\_

**ANNEX B**  
**LIMITATIONS OF THE 1995 SURVEY**

While the 1995 survey of MSEs was successfully completed and the information generated reasonably reliable, it is important for the reader to bear in mind a number of limitations of the survey when interpreting the results.

1. **Underestimation of businesses involved in illegal activities.**

Although every effort was made to make sure that all businesses in each enumeration area were covered, it is likely that some businesses involved in illegal activities e.g brewing of local (illegal) alcoholic drinks (Chang'aa, Busaa, etc), prostitution, illegal cross-border trade, etc were not fully enumerated. For instance, enumerators interviewing households in cluster 1351 (Huruma slum estate, Eldoret) reported that for a number of cases they could sense the existence of brewing businesses through either the smell of the brew or seeing the customers (drunk) holding the drinks but they would get negative responses as to whether the household was operating any business. Again, no prostitution business was reported even in cluster 1105 (Pumwani, Nairobi) which is an area well known and documented having a large number of people in that kind of business. The exclusion of such illegal businesses could therefore have led to an underestimation of the total number of MSEs, the level of employment and the sector's overall contribution to GDP.

2. **Respondent fatigue and willingness to be interviewed**

The 1995 existing enterprise questionnaire was relatively long (taking approximately 20 - 30 minutes) owing to the nature of details which were required to provide an accurate measure of income. Even though the enumerators were carefully selected with considerations of experience and were further trained on interviewing techniques, it is likely that some respondents would get tired before the end of the interviews and therefore start giving imprecise information. In a few cases, some respondents were reported to have declined to be interviewed, citing the amount of time it had taken the enumerators to interview their neighbors. As such, the length of the questionnaire could have led to both some level of imprecision in information gathered and underestimation of businesses.

3. **Accuracy of income information**

The approach followed to collect income information incorporated many considerations which could lead to inaccurate measurement of business income e.g seasonal variations and lack of business records. In the absence of business records and given the, sometimes, wide (daily, weekly, monthly and seasonal) variations in business sales and expenses, the most ideal method for collecting income information is that of repeatedly going back to the respondent say after every two weeks for a couple of years. This method, however, is extremely expensive and can hardly be used for samples large enough to be extrapolated to give national estimates. The 1995 one-point-in-time measurement of income therefore suffers the trade-off of inaccuracy and the figures presented should be interpreted as they are - *approximations*.

4. **Issues of extrapolation**

The extrapolation process to obtain national estimates used demographic information (population growth rate, size of households, and number of households) based on the 1989 Kenya Population Census. To the extent that there could have been inaccuracies in the census information (results of the census were delayed for almost 5 years, for reasons still not publicly known), then the extrapolated results would also be inaccurate.

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**5. Underestimation of certain sub-sectors**

The nature of some businesses is such that it is difficult to cover them using a household survey, e.g transport businesses such as 'matatus', taxis and buses. Since the approach of the survey was that respondents were interviewed for only those businesses operated at the interview site, it is not easy that such transport businesses would be found on site unless when parked to offload or load customers. Besides, even under such cases it is not likely that the operators would be patient enough to wait for 20 - 30 minutes to be interviewed before taking their customers to their destinations. It is therefore likely that such sub-sectors were under-enumerated, leading to an under estimation of their importance in the MSE sector.

**ANNEX C**  
**STRATUM DEFINITIONS**

The 1995 survey was based on a sub-sample of the 1993 sample of clusters from four nationally representative strata.<sup>1</sup> In 1993, the clusters in these four strata were randomly selected from the CBS 1989 Population Census Master Sample of enumeration areas.

The more detailed information sought during the 1995 survey required more time for administering each questionnaire than during the 1993 survey, and therefore it was not possible to cover the whole sample used in 1993 given budgetary and time limitations. Analysis of the degree of variability of employment in each of the four strata indicated the extent to which the number of clusters could be reduced in each without compromising the level of confidence in the results to unacceptable levels. Based on these numbers, a random sample of clusters in each stratum was drawn from the 1993 sample. Following is an outline of the strata and clusters sampled.

### **Stratum 1: Nairobi and Mombasa**

For the same reasons as in the 1993 survey (see GEMINI, 1993), clusters in Nairobi and Mombasa were left in their own stratum during the 1995 survey. Out of the 23 clusters sampled in 1993, a total of 12 clusters (7 in Nairobi & 5 in Mombasa) were randomly selected in 1995. For Nairobi, the clusters are: 1137 (Dandora), 1159 (Soweto-Kahawa), 1063 (Mutweini), 1153 (Marura), 1097 (Kilimani), 1105 (Pumwani) and 1118 (Makadara); while for Mombasa they are: 1243 (Kwa Hola), 1222 (Ziwa la Ng'ombe), 1234 (Mwembe Ngoma), 1240 (Customs Quarters) and 1201 (Majengo ya Musa).

### **Stratum 2: All other towns with population over 10,000**

The 1993 sample included 30 clusters from towns which, by the end of 1992, had a population of over 10,000 people (other than Nairobi and Mombasa). Most of these towns are Provincial or District headquarters (with municipality status) and are therefore important as regional administrative, commercial and industrial centers. It was expected that such characteristics would result in a different growth pattern among MSEs than elsewhere in either the larger cities (Nairobi and Mombasa) or the much smaller towns and rural areas.

The 1995 survey randomly selected 19 clusters out of the 30 sampled in 1993. These are: 1285 (Kilimani, Kisumu), 1182 (Makuyu, Murang'a), 1349 (West Indies, Eldoret), 1358 (Kamukunji, Eldoret), 1187 (Kingongo, Nyeri town), 1284 (Okore estate, Kisumu), 1278 (Geticha, Kisii), 1267 (Marsabit), 1183 (Maina Village, Nyahururu), 1295 (Nyamasaria, Kisumu), 1170 (Thika), 1262 (Majengo, Machakos), 1345 (Tuwani Kona Moja, Kitale), 1302 (Siaya), 1273 (Garissa), 1367 (Amoni, Busia), and 1261 (Mjini, Machakos).

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<sup>1</sup> In 1993, an additional fifth strata of commercial and industrial zones was purposively selected in a bid to capture medium enterprises (50 - 100 workers). In 1995, the focus of the survey was primarily on micro and small enterprises and therefore this stratum was dropped from the sample. Besides, very few medium enterprises were found in this stratum in 1993.

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**Stratum 3: All other urban areas with population of 2,000 - 10,000 people.**

In 1993 a random sample of 15 clusters was drawn from a list of all towns which had a projected population of between 2,000 and 10,000 people in 1992. Almost all (12 out of 15) did not fall in the CBS Master Sample and were therefore delineated during the survey. A *Pencil Toss* process was used to mark the boundaries of these clusters (see GEMINI, 1993 - Annex C, for details). In 1995, 11 out of the 15 clusters sampled in 1993 were included in the survey through random selection. Only one of these fell in the CBS Master Sample and therefore the rest (10) did not have well documented boundaries - no maps. However, to avoid a repeat of defining the clusters again during the survey and the likelihood of getting a different area, people who were in the 1993 survey were used to identify the boundaries of these clusters. The clusters covered in 1995 are: 3008 (Aweido), 3002 (Makuyu), 3009 (Kehancha), 1308 (Ongata Rongai), 3011 (Kilgoris), 3003 (Ol Kalou), 3004 (Mambrui), 3012 (Marigat), 3010 (Magadi), 3006 (Mwala), 3005 (Runyenjes).

**Stratum 4: Rural areas and towns with populations of less than 2,000 people**

In 1993, a sample of 35 clusters were randomly selected from the 926 rural operational clusters included in the CBS Master Sample. Of these 35 clusters, 12 were randomly selected in the 1995 survey. These are: 0076 (Ikindu, Murang'a), 0483 (Muma, Kisii), 1031 (Kitulu, Kakamega), 0039 (Thanju, Kirinyaga), 0767 (Kipsitol, Nandi), 0915 (Milimani, Uasin Gishu), 0081 (Kamwario, Murang'a), 0158 (Tezo Mwandoni, Kilifi), 0790 (Karikapneko, Narok), 0217 (Kizumanzi, Taita Taveta), 0528 (Nyakongo, Kisumu), 0992 (Kwarqamor, Busia).

**ANNEX D**  
**WEIGHTING PROCEDURES**

The 1995 survey followed exactly the same procedures in extrapolating the survey data to a national levels as those used in 1993. The procedure involved four stages:

1. **Estimation of number of households in each stratum**

This was obtained from using three sets of figures: CBS 1989 population figures, population growth rates for 1989 - 1995, and CBS estimates of average household size. Table A4-1 shows the population sizes for each stratum in 1989, its projections for 1995 (based on an assumption of declining birth rates), and the estimated number of households in 1995, based on the CBS estimate of an average of 6.6 persons per household.

TABLE A4-1  
ESTIMATED NUMBER OF HOUSEHOLDS BY STRATA, 1995.

Stratum	Population 1989	Population 1995	Number of Households 1995
1:Nairobi/Mombasa	1,811,000	2,232,563	338,267
2:Towns over 10,000	1,551,000	1,912,041	289,703
3:Towns 2,000-10,000	348,100	429,131	65,020
4:Rural areas	17,689,900	21,807,746	3,304,204
Total	21,400,000	26,381,481	3,997,194

2. **Estimation of the percentage of households with an existing enterprise**

Information for this calculation was obtained from the survey. The survey provided information on the following:

- (a) number of households visited and found to have an enterprise;
- (b) number of households visited but found to have no enterprise;
- (c) number of households visited but no information obtained i.e closed households; and
- (d) total number of households visited (i.e b + c + d).

Four steps are involved in estimating the percentage of households with an existing enterprise in each stratum.

- (i) The first step involves the calculation of the percentage of households with an enterprise out of the total number visited and with information obtained i.e  $[a/a + b]$ .
- (ii) The second step involves calculating the number of households with enterprises out of those where no information was obtained. In 1995, this was done using the same assumption used in 1993: that there are 25 percent fewer businesses in closed

households than in open ones<sup>2</sup>. This step therefore involves multiplying  $[(a/a+b) * 0.75]$  by the number of closed households (c) in each stratum to obtain the number of households with an enterprise among those where no information was available.

- (iii) The third step simply involves the addition of the results of (ii) to the number of households found to have enterprises during the survey (a). This is:

$$\{a + [(a/a+c) * 0.75]*c\}$$

- (iv) The final stage involves the calculation of the percentage of households with an enterprise among the ones visited in each stratum. This is done by calculating:

$$\{a + [(a/a+b) * 0.75]*c\}/d$$

### 3. Estimation of the number of households with an enterprise in each stratum.

To obtain the number of households with an enterprise, the percentage of households found to have an enterprise during the survey i.e  $\{a + [(a/a+b) * 0.75] * c\} / d$  obtained in step (iv) is multiplied by the estimated number of households in each stratum - Table A4-1. The number of households with an enterprise is shown in Table A4-2.

TABLE A4-2  
ESTIMATED NUMBER OF ENTERPRISES BY STRATA, 1995.

Strata	Total # of households 1995	% of households with enterprises	Estimated # of enterprises	% of estimated enterprises in stratum
1	338,267	16.2	54,922	7.8
2	289,703	30.5	88,389	12.5
3	65,020	57.3	37,253	5.2
4	3,304,204	16.0	527,823	74.5
Total	3,997,194	na	708,386	100.0

### 4. Calculation of weights

The final stage of the extrapolation process involves the calculation of the weights to be used in blowing-up survey observations to a national level. It involves the estimation of the number of enterprises in the country (Table A4-2) which each of the observed enterprises represents. The last column of Table A4-3 shows the weights calculated using this method. These are the weighting factors used in the data series.

<sup>2</sup> Repeat visits to households where nobody was found at home earlier in the day yielded a comparable percentage in Zimbabwe (Daniels, 1993).

TABLE A4-3  
WEIGHT FOR EXTRAPOLATION

Strata	Estimated number of enterprises	Observed number of enterprises	Ratio of estimated to observed enterprises (Weight)
1	54,922	195	282
2	88,389	757	117
3	37,253	1,124	33
4	527,823	183	2884
Total	708,386	2,259	na

**ANNEX E**  
**TABLES**

TABLE 5-1  
NET PROFITS PER WORKER PER YEAR:  
PROFITS, AND SAMPLE SIZE

	Net profits per worker per year	Wtd N	Unwtd N
Beer brewing	7,781	16,421	20
Other food, drink & tobacco	54,939	12,685	16
Wearing apparel	176,134	8246	34
Other textiles, leather & footwear	11,787	24,350	19
Wood products	20,098	20,049	31
Other manufacturing	32,754	18,717	21
Wholesale trade	2,524,025	981	17
Retail: ag produce	19,410	85,371	347
Retail: fuel & charcoal	7,306	21,954	43
Retail: hardware, building mat, machines & tools	47,873	1,476	27
Retail: ready-made garments	41,286	6,736	72
Retail: second hand clothes	26,039	18,203	79
General kiosk, grocery	11,826	70,038	213
Retail, other	68,298	10,295	56
Selling processed foods, street restaurant	20,878	11,757	34
Bar, hotel, other restaurant	517,761	849	13
Repairs: shoes	10,999	4,960	21
Repairs: all others	43,298	5,227	39
Barber shop, beauty salon	41,388	1,563	22
Other services	35,560	10,866	32
Total, all sectors	33,200	350,744	1,156

Note: in this table, as in all calculations of profits per worker in this paper, the information refers only to working proprietors and unpaid workers. Salary and wages of paid workers have been deducted as a cost, and numbers of paid workers are not included in the denominator of this calculation.

TABLE 5-2  
NET PROFITS PER WORKER PER YEAR:  
URBAN AND RURAL ENTERPRISES

	Urban enterprises	Rural enterprises
Beer brewing	11,215	7,305
Other food, drink & tobacco	70,268	53,413
Wearing apparel	41,425	234,007
Other textiles, leather & footwear	94,724	7,194
Wood products	79,942	10,605
Other manufacturing	256,249	14,504
Wholesale trade	2,524,025	n.a.
Retail: ag produce	32,707	13,965
Retail: fuel & charcoal	7,054	7,374
Retail: hardware, building mat, machines & tools	47,874	n.a.
Retail: ready-made garments	66,642	7,420
Retail: second hand clothes	84,269	10,763
General kiosk, grocery	35,989	3,390
Retail, other	138,176	13,454
Selling processed foods, street restaurant	48,719	10,887
Bar, hotel, other restaurant	517,762	n.a.
Repairs: shoes	26,095	133
Repairs: all others	81,258	12,458
Barber shop, beauty salon	41,388	n.a.
Other services	114,768	15,291
Total, all sectors	85,544	16,350

TABLE 5-3  
NET PROFITS PER WORKER PER YEAR  
BY GENDER OF OWNER

	Female owners	Male owners
Beer brewing	9,076	7,870
Other food, drink & tobacco	14,379	145,480
Wearing apparel	38,439	52,022
Other textiles, leather & footwear	10,590	19,701
Wood products	10,077	25,629
Other manufacturing	483	38,600
Wholesale trade	n.a.	3,739,107
Retail: ag produce	15,692	57,871
Retail: fuel & charcoal	4,470	5,031
Retail: hardware, building mat, machines & tools	91,393	34,647
Retail: ready-made garments	11,798	97,228
Retail: second hand clothes	18,967	101,202
General kiosk, grocery	8,390	16,410
Retail, other	82,908	54,830
Selling processed foods, street restaurant	21,674	16,441
Bar, hotel, other restaurant	180,014	636,522
Repairs: shoes	n.a.	8,847
Repairs: all others	29,883	85,880
Barber shop, beauty salon	26,063	51,880
Other services	21,041	114,970
Total, all sectors	15,552	63,335

Note: in the original data, there was a third category, multiple, mixed-gender owners, not separately reported here.

**ANNEX F**

**POSSIBLE REASONS FOR THE DECREASE IN THE ESTIMATED  
NUMBER OF MSES FROM 1993 TO 1995**

As indicated in section three, a direct comparison of the results of the 1993 and 1995 surveys imply that there was a 22.2 percent decrease in the estimated total number of MSEs during the eighteen months between the two surveys. The discussion in sections three and four make clear some of the reasons why we find such a decrease to be incorrect. Some possible explanations for the implied decrease are examined below.

### Seasonality differences

The 1993 survey was conducted in September and October, while the 1995 survey was conducted in May and June. This difference in timing may lead to different estimates due to the seasonal patterns of MSE operation. Although seasonal MSEs should have been reported even if they were not in operation at the time of the survey, they may have been missed if the proprietor was not available at the time of the survey. The differences between the seasons at the time of the two surveys is described below.

The period in September and October, when the 1993 survey was conducted, is generally a dry season in Kenya, with few agricultural activities. Also, because it is the period immediately after the rains and harvests, it is a time when there are many off-farm activities, especially those related to trade of agricultural products. This season also forms the peak period for hot-weather related enterprises such as ice cream vending, fruit and juice processing and trading, etc., particularly in the coastal region.

In contrast, the period of May and June when the 1995 survey was conducted is in the rainy season, the peak period of agricultural work. Most people outside of the major towns are engaged in agricultural activities. If businesses do exist, they are typically open late in the day when farmers are available to make purchases. The survey, however, had to be conducted throughout the day due to time constraints. March through July is also the wettest and coldest season in Kenya and therefore any businesses related to hot weather are likely to be closed.

Responses to questions in the 1995 survey regarding high, low, and average sales months corroborate these ideas. For example, including only MSEs that were greater than one year old and that were located in towns and rural areas, Table 6-1 shows the proportion of proprietors reporting high, low, or average sales activities during the months when the two surveys took place. Although there is not much difference in the proportion of firms that reported high sales in the two time periods, a much higher proportion of MSEs reported low sales in May and June when the 1995 survey was conducted.

In addition to seasonal MSE patterns, consumer spending patterns may also differ in the two periods. For example, different weather seasons call for changes in budgetary considerations (investment/spending priorities). During the wet season, many people spend more on the farms as opposed to during dry season, when more priority is given to off-farm expenditures.



### Changes in the enumerated areas

There were several changes in enumerated clusters that may have led to a differences in the number of MSEs between 1993 and 1995. First, Ongata Rongai (Cluster 1308) had a visible section of the cluster where structures were destroyed. It was not clear if this resulted from the routine local government demolition of illegal structures or from the forceful eviction of outsiders (ethnic clashes). A total of 160 enterprises were found in this cluster in 1993 compared to only 76 in 1995.

TABLE 6-1  
HIGH, LOW, AND AVERAGE SALES ACTIVITIES  
DURING THE TWO SURVEY PERIODS

Survey Periods	Proportion of MSEs Reporting High, Low, and Average Sales		
	High	Low	Ave
1995 Survey Period			
May	25%	32%	36%
June	22%	27%	36%
1993 Survey Period			
September	24%	17%	50%
October	25%	14%	52%

The numbers do not add up to 100 percent across high, low, and average sales due to the inability of some proprietors to report sales activities.

All statistics in this table were taken from the 1995 survey.

In clusters 0992 (Kwangamor, Busia) and 0528 (Nyakongo, Kisumu), a considerable number of residents were participating in funeral ceremonies which were going at the time of the visit. Many household/business premises were therefore closed. Similarly, in cluster 1345 (Kitale), a Chief's meeting was taking place and therefore many business premises were also closed. For the three cases, no re-visits were done.

In Marigat (cluster 3012), the county council was in the process of building better market structures in the market area. As a result, enterprise owners had been asked to pull down their structures. Whereas many enterprise owners in the market were still using their plots (with no structure), enumerators were informed that some owners had temporarily moved out of the cluster awaiting the completion of the new market structures. In 1993, a total of 120 businesses were found in the cluster, while in 1995 a total of 135 were found.

Cluster 3003 (Ol kalou) had a large increase in the number of businesses. It is possible that this can be explained by the shift of the District headquarters from Nyahuru (cluster 1183) to this town.

Although these events could be considered as part of a process of random variation that should even out when aggregated, it appears that negating events were more heavily represented in 1995 than in 1993.

#### Differences in field procedures between the two surveys

Although the enumerators in the two surveys were trained with identical field procedures, there were large variations in the number of closed households and households with no activity that were counted in 1993 and 1995. Because the denominator of the extrapolation factor includes both closed households and households with no activity, a higher number of these households will lead to a lower number of estimated MSEs in Kenya. Overall, the 1995 survey counted 15 percent more closed households and 32 percent more households with no activity within the sampled clusters. Some differences in these numbers should be expected due to changes in population and some differences in cluster boundaries in 1993 and 1995. Nonetheless, the change in closed and no activity households seems quite large. The discrepancy may therefore have arisen from different supervisory methods in the field and enumerator counting procedures.

#### Unwilling respondents in 1995

The 1995 questionnaire was much longer and more complicated than the one used in 1993. As a result, there were more incidences of respondents not willing to be interviewed in 1995 than in 1993. Such enterprises should have been recorded as an existing MSE, however, they may have been recorded as a closed household or as a household with no activity.

#### Changes in the performance of the economy

1993 was a year of high inflation (double digit) following the de-regulation of exchange rates early in the year, the subsequent depreciation of the Kenya Shilling against the major currencies, and the drought in the country. It is, therefore, likely that many people started MSEs during this period as a response to the hard times. Low agricultural activity resulting from the existing drought could also have encouraged more people to seek off-farm means of survival.

1995 was generally a low inflationary period (single digit) with stable prices following the stabilization of the economy from the effects of liberalization and the good performance of the agricultural sector as a result of good rains in late 1994. It is therefore likely that some of the enterprises started in 1993 merely as a response to the hard times have been closed and the owners switched back to agriculture.

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**ANNEX G**  
**ISSUES IN INCOME ANALYSIS**

It was recognized already in the planning of this survey that the income estimates were going to be the most difficult part of the survey. Partly for this reason, extra care was taken to consult with others with experience in the area in developing the approach and the questionnaire, and to provide resources for pretesting the questionnaire.

It was also clear from the pretest that not everyone able to complete the rest of the questionnaire would be able to provide the information required for income estimates. Sometimes the respondent was an employee or a manager who knew quite a lot about other aspects of the business but was not able or willing to discuss costing questions. The questionnaire was designed, then, in such a way that the income section could be treated as a separate unit; the rest could be completed even for enterprises for which no income data were forthcoming.

In the end, the questionnaire was administered to 2,259 enterprises. Of these, it was possible to make estimates of gross and net profits for 1,615 enterprises.

The resulting figures, however, raised lots of questions as the data were examined more closely. Perhaps the most worrisome was that 35% of the responses implied negative net profits. Both economic theory and good business management make clear that businesses sometimes should, can and do continue to operate for some periods even though they are running at a loss. But large numbers and large losses, particularly among small businesses, raise questions about the validity of the data.

Looking back at the underlying information, we identified two points in the calculations where there could be implausible results. One was for traders, and involved the trade margin: the average ratio of prices of goods sold to the purchase price of those same goods. We insisted that this ratio should be greater than one. If it was equal to or less than one, the enterprise was dropped from the income analysis.

Secondly, for trading as well as nontrading enterprises, we required that total costs in the reference month not exceed total sales that month by more than 20%. This means that we included in the analysis some losing enterprises (their costs could be up to 120% of their revenues); but we excluded those where these ratios were far out of line. After these two exclusions, 1,186 enterprises remained in our analysis set, of which about 4% were estimated to have negative gross profits.

We also had extensive discussions among the authors of the report concerning the desirability of excluding outliers at the upper end. Our calculations implied that there were a few enterprises earning very high returns, including one wholesaler with computed net profits of nearly 20 million shillings per year. Is that plausible? Is it a mistake that should be excluded, or a very profitable enterprise that should be included?

In the end, after considerable debate, we made no exclusions at the upper end. What we did instead was to undertake a sensitivity analysis. If all enterprises with gross profits per year greater than 1 million shillings are excluded, seventeen of the 1,186 enterprises would be excluded; the average contribution per enterprise to GDP would decline by 23%. If instead the cut-off point were 500,000 shillings of gross profits per year, then 43 enterprises would be excluded from the original 1,186 in the analysis set, and the average contribution per enterprise would decline by 45%. At the lower end, if we had excluded all enterprises with computed negative gross profits (as one member of our analysis team would have preferred), that would have led to the exclusion of 146 enterprises, and would have raised the reported income figures by about 14%.

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This means that with regard to the upper end, we have been generous in our inclusions; from this point of view, the estimates are upper bounds. This follows from our belief that these income figures, while high, are not implausible. Of course when these unusual enterprises are reported as a part of a cell with not many other cases, the results can be extreme estimates for individual components. The profitability estimates by size of enterprise (table 5.3) are an example of this. On the lower end, we have been conservative in our exclusions, leading to estimates that are lower bounds; leaving out a larger number of enterprises would have raised the resulting estimates of income generated.

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