

**Institutional Analysis and Recommendations
for
Kenya Small Scale Business Association**

**Submitted to
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CHAPTER ONE

Introduction and Background

The Kenya Small Scale Business Association (KSSBA) is part of an effort to encourage the growth of the small enterprise sector. The association plans to deliver business services to small businesses of between 10 and 50 employees. Although other business associations have substantial numbers of members which fall into this size category, service programs aimed at the small business sector have received relatively little attention. The Government of Kenya has begun to officially recognize the worth of the small enterprise sector as is demonstrated by references to the value of promoting the sector in the Development Plan and in the 1986 Sessional Paper 1.

The overall goal of KSSBA is to establish a harmonious working relationship with Government to promote a sound policy

and regulatory environment for small business and to provide business support services which are not otherwise being provided.

KSSBA was officially registered with the Government of Kenya under the Companies Act as a non-profit company in June 1986. It is a new organization which has to date largely been conceived and promoted through the efforts of Mr. N. Gathinji, a Certified Public Accountant and business leader. The registration of the organization permits a wide range of activities with many possible avenues for meeting the objectives of the organization.

The Board of Directors of KSSBA is made up of influential business figures, civil servants and public figures who share Mr. Gathinji's vision of a business association catering to the needs of small businesses. The Board has at this writing met three times and is in the process of defining the mission, operating scope and strategies for KSSBA.

The members of the present Board are:

1. Mr. David Mwiraria, Chairman of the Board; Permanent Secretary of Ministry of Education.
2. Mr. Ndolo Ayah, Member of Parliament.
3. Mr. Gitahi Migwi Chiuri Ngaruro, Managing Director, Kenya Cooperative Creameries.
4. Professor Joseph Kamuya Maitha, African Development and Economic Consultants.

5. Miss Salome Waigumo Mathangani, Librarian, University of Nairobi.
6. Mr. John Peter Nyangeri Simba, Executive Director, Industrial & Commercial Development Corporation.
7. Mr. Ndungu Gathinji, C.P.A., Cook Sutton & Gathinji.

During the organizational phase of starting KSSBA, USAID financed a three week tour of small business organizations in India and Southeast Asia. This tour took place in March-April 1986 and was designed for opinion leaders in the public sector and private sector. Mr. Gathinji was the leader of this delegation. A report was written on the tour by Mr. Gathinji with the input of other tour participants. The report highlighted the activities of the group, included impressions of the group participants and a conceptual outline of the kinds of activities which KSSBA seeks to undertake. Although Mr. Gathinji is the only tour participant who is presently on the KSSBA Board, the other tour participants are valuable resources to involve in the operations of KSSBA.

The major initiatives of the evolving KSSBA plan of action include: 1.) establishing a policy dialogue with the Government of Kenya; 2.) holding seminars and workshops; 3.) publishing a small business journal; 4.) establishing a center for entrepreneurial research and training; 5.) studying the feasibility of establishing a bank for small business;

6.) inviting and developing papers for support services and development activities; and 7.) sponsoring educational trips for business opinion leaders to other countries.

This report is an attempt to outline the strengths that KSSBA must develop to become an effective support institution for small businesses. Chapter two of the report will discuss the usual functions played by business associations and some of the strategies which have been successful in carrying out these functions. The topics to be dealt with include accessing and maintaining a membership base, organizational structure, financing of association activities and services offered. The third chapter will discuss these same topics in relation to the growth and development of KSSBA. This report does not purport to be a plan for implementation, but should be considered a strategic overview of the relevant issues and strategies of relevance to KSSBA. A more detailed development plan and work plan is being developed by Mr. Arthur Gachugi, a Nairobi-based business consultant.

CHAPTER TWO

Role of Business Associations

Functions

The functions played by associations vary in composition, form, and proportion from one association to the next. These variations are usually attributable to differences in the definition of the mission and purpose of the association.

The usual functions played by a trade association are:

- 1.) Representation. This takes the form of lobbying in legislative or administrative bodies on behalf of the interests of the membership, appearing on behalf of their constituency in public forums and entering into policy dialogue with governmental units. While this is one of the most visible roles played by business associations, this function usually does not take up a very large proportion of the total budget. U.S. business and

trade associations typically devote about five percent of their budget to representation functions.

2.) Education. The educational function takes the form of educating the membership of the association and the public at large concerning issues of vital interest to the membership of the association. Education activities are typified by seminars or workshops on such topics such as legal issues which impact on the members of the association, uses for computers in the business of the members, new technical processes of interest to members, etc.

3.) Member Services. Services vary depending on the type of association and the particular role it fulfills. The services offered by an association are typically those which cannot be offered as efficiently as by other service providers. Group insurance to members, bargaining on behalf of members, information services, legal services and other similar services are examples.

Financing a Business Association

An almost universal problem of associations is that of securing adequate funding to support the desired size of program. As a result there is an almost constant process of trying to diversify and expand funding sources. Typical sources of income

are as follows.

Membership Dues

Associations which are dependent on dues income for the bulk of their funding are generally professional associations which rely on volunteer help to supplement a generally sparse budget. Business associations which offer a full range of business services are less dependent on membership dues because of other sources of income.

The figures which follow show actual sources of revenue for a national business association in the U.S. The significant feature to note is the small proportion of total revenues which is made up of membership dues.

Table 1. Revenue Sources for 1984

Membership dues	\$600,000
Fees/contributions	\$214,000
Contracts and Grants	\$2,305,000
Overhead Recovery	\$834,000
Other	\$40,000

Total	\$3,993,000

Dues may be nominal fees which do not even cover the cost of maintaining the membership list if the association has access to other sources of income and there is some other benefit to the association from having a large membership base. For example, political influence may be increased if an association has a large membership base. In such a case the association might want to keep membership dues low to encourage more members to join.

Membership dues are usually calibrated to ability to pay or to the level of services provided to members. Thus, larger businesses usually pay higher dues to participate in the association, but also receive higher levels of services. Dues can be based on the revenue volume of member businesses. However this approach must be modified to account for differences in the nature of business. For example, profit margins may vary significantly between a manufacturer and an insurance broker. An insurance broker would not be expected to calculate his volume based on insurance coverage while the manufacturer would calculate his volume based on actual sales. Different fee schedules are set up for different industry groupings.

An alternative method of setting membership dues is to base them on the number of employees or the number of accounts or some similar classification.

Grants

Many associations receive supplemental funding from government agencies, donors and foundations to support either core activities of the association or specific programs. While grant funding can play a critical role in the development of the organization, a "grants mentality" can develop if relied on too heavily and the purpose of the association might be influenced. This is to say that the association should consider whether a prospective grant fits the long run goals of the association. Just because a grant is offered to do a specified function does not necessarily mean it should be accepted if it would have the effect of changing the direction of the association.

Contracts

If an association builds a staff capability in a particular area it may consider contracting with government, donors or private sector institutions to provide services. An association may also contract on behalf of a member or members in cases where money available must be channeled through a non-profit organization. An association may be the contractor for administration of a contract in cases where the accounting system of the member has not been approved and the association might be asked to be the administrator of the contract. Also, in certain cases a non-competitive award can be made only to a nonprofit

organization. In such cases the association may be asked to administer the contract even though the member will be doing the work. In these cases the association collects a fee for handling a contract. In contracting the donor retains more control over the funds and products or services than in a grant mode.

Fees for Services

Service fees represent one of the prime sources of income to associations. Examples include technical assistance, sales commissions, finders fees, auditing, bookkeeping and other services. Generating a healthy cash flow from the sale of services has the additional advantage of showing donors that the services of the association are highly valued by members and this increases the likelihood that donors will provide additional grants or contracts.

Special Assessments

To cover the costs of projects or programs that are not needed or desired by all of the membership, special assessments are sometimes made. For example, a regulatory issue that is of vital interest to only a limited segment of the membership may be financed by a special assessment to those concerned.

Trade Shows

Contrary to some popular opinion trade shows can and should make money for the sponsors. Any business which sells to the members of the association or purchases from the association would have an interest in participating and can be charged fees accordingly. Small associations and associations which have not established a track record usually do not try to sponsor their own trade show, but instead try to piggy-back on existing trade shows and limit risk of loss.

Annual Meeting

Participation at the annual meeting can often be packaged and sold to members and non-members to include registration fees, hotel and transportation packages, participation in receptions, lunches and special events. A broadly based membership with high attendance at annual meetings is the means by which some associations turn a modest profit.

Advertising

Associations sell advertising space in journals to help defray costs of publication and distribution. Membership lists can be sold to advertisers who want to sell to members.

Directories

Directories of the association membership are often put together with advertising from the members. Directories are sold to interested parties such as suppliers and purchasers. This can be a money-maker for the association when the membership base reaches a large enough point to warrant a directory. Some printers specialize in putting together directories while splitting the profits on publication with the association.

Sales Commissions

An association can act as bargaining agent on behalf of members or groups of members. By bargaining on behalf of a number of members the small businesses will receive the benefit of large scale purchasing. Small businesses often have to pay retail prices for purchases in small quantities. By nominating the association as bargaining agent the members will be able to buy at wholesale prices and there is still room for a commission for the association. This can be done with supplies, insurance, or other products used by the membership.

Other Income

Miscellaneous sources of income include licensing fees for

the use of the name of the association, finders fees for making contacts for facilitating sales, negotiation services, etc.

Organizational Structure

Associations can be structured to include geographic coverage (membership districts or representation for branches), industry representation (Manufacturers, retailers, agribusiness, etc.), or form of organization (i.e. small business). Some associations allow only individual businesses to join while others will admit other associations. Stronger associations generally allow for a number of these groupings inside one umbrella organization. The affinity between businesses in the same line of business is strong because of the shared problems and markets so associations which provide business services to members generally have some type of industry grouping.

CHAPTER THREE

Recommendations for KSSBA

Mission

The mission and purpose of the association need to be more clearly defined since the target group, organizational structure and financial viability depend on how the mission is defined. It is recommended that KSSBA adopt as the mission to work for a business environment that encourages the formation and growth of small business in an expanding Kenyan economy. Such a mission statement would allow the functions of representation, education and member services. The mention of an expanding Kenyan economy in the mission statement is purposeful in that it implies that the policies and procedures of the association support liberalization of the economy rather than supporting measures which may benefit small business at the expense of the economy.

Growth Strategy

The growth of KSSBA should be services-led. Associations have a chicken and egg dilemma in that an expanded membership base is necessary to provide the kind of services necessary to attract new members. However with KSSBA should be able to take advantage of donor generosity to finance a menu of services which will be helpful in generating interest in membership. Without a substantial number of paying members, the representation functions of the association will ring rather hollow.

Functions of KSSBA

Representation

The representation function is the primary purpose for forming KSSBA since Mr. Gathinji and the other Board members feel this is the potentially most fruitful area for advancing the interests of small business. Over the next two years KSSBA plans to develop a policy dialogue with the Ministries of Finance, Planning and Development, and Commerce and Industry. One objective will be assisting to develop a major policy paper which can be incorporated as an action plan in the 1989/93 Development Plan. The anticipated course of action is to respond to the Government of Kenya's stated need for establishing a thriving

small enterprise sector. The strategy is to work to establish a respectful partnership with the Government and not to usurp the Government role.

A necessary condition for the development of a credible policy dialogue with Government is an ongoing research program to investigate issues of concern to the small business operator. Even though the official policy of the Government is to encourage the small business sector some of the policies and regulations have negative impacts on them. A research program should be started to document these issues and call them to the attention of Government representatives.

A recommended first step in this process is to commission a survey of the policies and regulations which have a negative impact on small business. This survey would rank the policies and regulations according to relative impact and identify an agenda for policy dialogue and an agenda for further research. Some policies impact on small business because of their size and others impact on small businesses because of the industry they are in.

Following is an initial list of research issues which appear to have negative impacts on small businesses.

- 1.) Price controls appear to affect the small business more than the large business. Large businesses are able to turn over large

volumes of items on fixed margins and thus sustain the profitability of the business. Small business has a lower volume of turnover and profitability is decreased by controlled margins. Larger businesses make up for controlled prices with higher volumes. This is an option that is not available to small business.

2.) Import and export controls have a negative impact on small business since permits, licenses, and exemptions often are procured through influence with Government officials. Larger businesses usually have more influence and are able to procure the necessary documentation more readily. Also large businesses are more able to afford the specialized expertise of "facilitators" who can assist in this process.

3.) Collateralization requirements for loans impacts the small business sector more than larger businesses since smaller businesses are less likely to have assets which can be mortgaged. This is particularly true for businesses run by women because women are much less likely than men to have land or other assets registered in their name.

4.) Maintaining artificially high exchange rates makes exports less competitive in world markets. This particularly hurts businesses which have a comparative advantage. The agribusiness sector in general seems to have a comparative advantage in world markets and high exchange rates harm the export potential of agribusiness. The agribusiness sector is predominately made up of small businesses and therefore the artificially high exchange

rate has a disproportionate effect on small businesses.

5.) Many or most small businesses are not covered by Government programs that large businesses are eligible for. The training levy pays for training of staff and employees of covered businesses. Most small businesses are not covered by this program.

Education

There appears to be a fairly high demand for training courses for small businesses which is being financed by donors as part of their focus on small businesses. Acceptance of training courses by small business proprietors also seems to be very high. The initial course offerings by KSSBA can take advantage of the interest on the part of donors to finance the major portion of the cost of sponsoring such a program. Fairly basic training courses in such areas as cash management, use of credit, costing, inventory control, purchasing, basic marketing, bookkeeping and similar topics seem to have gained a popular acceptance.

Training courses sponsored by KSSBA should not be done wholly with in-house expertise since there are a number of consultants, training companies, management consultants, and businessmen who are entering this field. KSSBA should either package these available resources for use by members or contract out to specialists to run the courses. This is a technique that

is now being used by Kenya Institute of Management, Kenya Association of Manufacturers, Business and Professional Women's Club and the Chamber of Commerce in their own training courses.

Services

The services which are recommended for KSSBA to offer to members and prospective members are outlined below under "Financing of KSSBA". One prospective service which is not mentioned is use of International Executive Service Corps (IESC) to provide technical assistance to members of KSSBA. The IESC program accepts requests for technical assistance from developing country businesses and matches the job requirements to a roster of retired U.S. executives. The executive serves on a volunteer basis and the local business is expected to pay for the expenses incurred. In spite of the IESC executives serving without reimbursement the cost of international air travel and local living expenses can be prohibitive to a small business.

As part of the Private Enterprise Development Project, USAID will be providing additional funding to IESC so that the cost of providing an executive can be reduced. KSSBA is ideally positioned to take advantage of the IESC program to offer technical assistance to members and prospective members. KSSBA could package a request for technical assistance on behalf of a group of small businesses.

The mode of collaboration for KSSBA and IESC might be similar to a recent relationship between Kenya Industrial Estates and IESC. KIE took the initiative to gather together 40 bakers to receive technical assistance from an IESC executive. The IESC executive visited each of the 40 bakers and provided assistance in areas such equipment specification, baking procedures, cost containment and quality control. As part of this consultancy two workshops were sponsored for the participating bakers.

The IESC would like to provide more multi-client technical assistance, but the organization is not in a position to coordinate with a number of small businesses. KSSBA could fill this role. At a minimum, the cost of the technical assistance could be cost shared and there is a distinct possibility that KSSBA could charge fees to participating businesses which would cover not only the out of pocket expenses, but also a handling fee or margin for KSSBA. This service can also provide the foundation for an industry-based marketing campaign for KSSBA to recruit new members.

Financing of KSSBA

KSSBA should not use donor funds to build structures or services which cannot be sustained when donor support is ultimately withdrawn. Any available funds should be used to

defray start-up costs of activities which will sustain the organization. The association should invest any available funds in activities which will cost-effectively increase the membership base or activities which will increase income. The corollary of this proposition is that KSSBA should not indiscriminately undertake services or programs which do not substantively contribute to the mission of the association. Just because a donor is willing to provide funding for a particular activity, KSSBA should not automatically undertake that activity. Precious energy and resources may end up being diverted from more vital functions which will contribute more to the long run development of KSSBA.

Services offered by KSSBA should be on at least a partial cost recovery basis. Even if a donor is willing to underwrite the complete cost of running a training course for small business, some fees should be charged for participation. This will establish the precedent that the association is not going to give things away and the participants will be narrowed to those who genuinely can use the services. This will also provide some income for the association. More importantly this will help KSSBA to become more market oriented. If businesses are not willing to pay even a nominal amount, then the service is probably not worthwhile and should be dropped.

Membership Dues

Initially grants are expected to make up the major source of income for KSSBA. However income from membership dues is critical to demonstrate to donors that the services of the association are valued enough by members that they will pay to join.

KSSBA will very early in the process of developing a business plan have to face the issue of dues structure. There are two competing considerations in coming up with a dues structure. One is the need to derive enough income from membership dues to support the activities of the association and the second is the need to keep dues low enough to encourage a broadly based membership. An exercise that should be gone through is to multiply the number of planned members in KSSBA by the average amount of dues income to see what proportion of necessary revenues of the association are expected to derive from membership dues.

Generally membership associations charge whatever the market will bear. Historically small businesses have not been able to pay expensive dues in an association. Association membership is one of the first items to be cut when a business is experiencing some difficulties. Thus dues from members can be expected to be

somewhat cyclic and to coincide with business cycles. However once a business has joined an association they tend to maintain their membership even if they have to reduce dues contribution or skip paying for a year or so. Thus a recommended strategy for KSSBA is to offer reduced membership dues for the first year or two to encourage business owners to join. Even if a business owner fails for some reason to renew membership, the business should be maintained on the roles as a member for at least one year. The appeal can be made to the business owner to activate his membership in the association during that time period.

The question of membership dues is intimately linked with organizational structure and membership requirements. For example there might be different classes of membership based on characteristics of the member or expected degree of participation in the association.

It is recommended that a differential dues structure be developed based on ability and willingness of business owners to pay. At the bottom of the dues structure might be a category of concessional membership dues for hardship cases where a business owner has had financial reverses or the business is too small to justify full membership participation.

A second category of membership dues might be for non-voting affiliates. Included in this category might be representatives

of donor organizations, larger businesses that have significant dealings with small businesses either as suppliers, subcontractors, distributors, franchise agents, etc.

A third category of membership dues might be for basic membership services. This would include full rights and benefits of membership. Thoughtful consideration should be given to charging different dues for different sizes of business since inevitably the larger businesses require more services from the association and should be expected to pay higher dues. If the only substantial membership benefits are participating in representation functions of the association a case can be made for charging the same membership dues for everyone. However this is not a recommended strategy since this would relegate the KSSBA to the status of a political lobby group instead of a full service business association.

Grants

KSSBA is in a start-up situation there are likely to be major expenses incurred in setting up operations before off-setting revenues can be generated. Therefore it is recommended that KSSBA actively pursue grants which are consistent with the goals and purpose of the association. In addition to USAID, KSSBA is approaching NORAD and the Ford Foundation for funding. The ILO and KAF should also be on the list of donors to approach.

Contracts

With the amount of interest being expressed by Government of Kenya, donors and foundations, the time is right for KSSBA to be able to provide contract services for small businesses. KSSBA could contract to provide training programs and technical assistance to small businesses and also to do research on small business issues. KSSBA should not attempt to provide these services by itself because there is no capability for doing so at present. In any event it would not be advisable to build an in-house capacity in these areas because this would have the effect of increasing the overhead cost of KSSBA.

The recommended contracting strategy is for KSSBA to build a management capability to run the association which can also be used to administer contracts. KSSBA would be in a position to work with consultants, training organizations, other business associations, university researchers, non-governmental organizations and others to package services for contracting. KSSBA would be able to take care of managing, coordinating, monitoring and reporting on contracts. The association would take fees for packaging these services. KSSBA would be in a position to assume the role of prime contractor with one or more subcontractors in contract administration.

The critical element for this contracting strategy is for KSSBA to put together a good management capability that has the trust of the donors as being able to perform. Donors are always seeking cost-effective means of reaching target populations and if KSSBA has ready access to a membership base of small businesses it will be very well positioned to capitalize on this access. Donors will be very cautious about extending large contracts to KSSBA until it has established a track record for responsible contract administration.

The strategy for KSSBA to get started in this line of business might be to jointly bid with other organizations on contracts. By selecting more experienced partners to bid with, KSSBA would learn how to package and administer contracts. Initially KSSBA would be the junior partner in any joint bidding and would provide access to small businesses. As more experience is gained in packaging and administering contracts, KSSBA could assume a more active role and become the prime contractor. On internationally sourced contracts working with small businesses in Kenya KSSBA might team up with foreign groups bidding on the contract.