

**Micro- and Small-Scale Enterprises in Kenya:
Results of the 1993
National Baseline Survey**

by

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with

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category use markedly more start-up capital than smaller enterprises, suggesting that they start with more business assets than simply their labor, whether it be land, materials, or equipment. In addition, enterprises starting with 3-5 workers are more likely to add workers than businesses that start larger. Although two-thirds of these enterprises remain in the 3-5-worker size category, a sizeable percentage grow into 6-10- or 11-50-worker enterprises. The potential of this size category has not gone unnoticed by local officials, who target this size group more than others for licensing requirements.

Because women make up 46 percent of the Kenyan MSE sector's entrepreneurs and 40 percent of the sector's total employment, women-owned enterprises deserve a special look. They predominate in commercial activities and, in subsector terms, in the agriculture-based, forest-based, and textile subsectors. Women's enterprises start smaller, grow slower, and end smaller than do men's enterprises, with two-thirds remaining one-worker concerns. In aggregate, women-owned enterprises generate 26 percent fewer jobs per year than do men-owned enterprises, although they outnumber their male counterparts. Women entrepreneurs have different credit use patterns than do men, using less start-up capital and little formal credit, relying instead on informal credit. Similarly, women are more likely to join savings circles as a means of financing their enterprises. In terms of workers, women-run businesses are more likely to rely on unpaid and unskilled workers. Women are more likely to work from their home and are rarely found in the more formal locations of commercial areas, trading centers, or along roads. If working outside the household, women typically have less formal tenure arrangements and are more likely to work out of temporary structures and without utilities than are men. Although women stay in business as long as men, they are more likely to leave business for personal reasons rather than business failure, reflecting both their lower risk strategies while in business and their dual role as childbearers and rearers as well as businesswomen.

The report recategorized enterprises by subsector. Although this was a rough exercise, it revealed the clear dominance of agriculture-related activities in the MSE sector. Despite the omission of primary agricultural activities from the survey, agriculture-related enterprises are by far the most numerous of any group of activities, making up the bulk of commercial enterprises and one-third of manufacturing businesses. Moreover, this group of activities is a key provider of income and employment for women.

There are several key implications for policy makers from these findings.

- First, strategy should focus on assisting enterprises within the microenterprise sector, rather than on assisting larger enterprises. There are two rationales for this: first, this is how to reach those enterprises that provide 93 percent of the sector's jobs, and, second, this is the population from which tomorrow's small enterprises will emerge.
- Second, any strategy that attempts to reach this population must attempt to reach rural businesses and home-based enterprises, because of their sheer numbers, general invisibility, and involvement of women.
- Third, women entrepreneurs face a different set of constraints than other entrepreneurs, which should be taken into account in strategy development.
- Finally, at least in the short run, microenterprise development will be tied unavoidably to the development of the agricultural sector.

EXECUTIVE SUMMARY

One of the striking characteristics of the micro- and small-scale enterprise (MSE) sector in Kenya is its heterogeneity. The MSE sector includes the smallest self-employment endeavors with other enterprises that are remarkably dynamic, operating a vast array of activities from both rural and urban locations. But from this amalgam, and the long list of findings outlined in this report, a few central conclusions emerge.

First, the MSE population in Kenya is much larger than previously estimated, with more than 900,000 enterprises, most based in rural areas, employing 2 million people. This higher estimate can be traced in part to the survey's discovery of some 300,000 enterprises operating from the home, which are likely to have gone uncounted in previous surveys.

Second, within this huge population of MSEs, enterprises with more than 50 workers play an inconsequential role; indeed, this population is nonexistent outside of commercial and industrial areas. Enterprises with 11-50 workers also play a minor role, comprising only 1 percent of enterprises nationally. Instead, it is microenterprises — those with 1-10 workers — that make up 99 percent of the enterprise population.

The microenterprise population, however, shows a great deal of dynamism, particularly when compared with MSEs in southern Africa. The Kenya MSE sector is unique in three important respects: a minority of enterprises have only one worker, only one-third of enterprises are based in the home, and only half of all entrepreneurs are women. In southern Africa, by contrast, the majority of enterprises are one-worker, women-owned, and home-based businesses. Finally, a higher percentage of enterprises in Kenya have added workers than in any of the southern African countries. In sum, it appears that the Kenyan MSE sector has "grown up" more than its counterparts elsewhere in the continent.¹ In search of the reasons for Kenya's distinct path, one may look to the economic health of Kenya in the late 1980s relative to other African countries, which may have spawned the dynamic group of enterprises that are still in operation.

Given evidence of an evolving sector juxtaposed against the reality that 99 percent of enterprises have less than 10 workers, how should graduation be defined in the Kenyan MSE context? Graduation in the Kenya context does not mean a movement of microenterprises into medium enterprises with more than 50 workers. Instead, it is the less noticeable but very important transformation of one-worker enterprises into 3-5-worker enterprises, or of 3-5-worker enterprises into enterprises with 6-10 or 11-50 workers. Indeed, such graduations are likely to include major transformations within enterprises in types of employment offered, markets serviced, types of skills required, and problems encountered.

Certain size categories within the microenterprise population appear to offer special development potential. This is particularly true of enterprises in the 3-5-worker category. Not only does this size category make up 20 percent of the enterprise population, but it provides one-third of the sector's jobs nationally, more than any other size category. The workforce in 3-5-worker firms is more likely to be paid than in smaller enterprises, and receives training through apprenticeships. This size category is also the most numerous in the commercial and industrial area sample. Enterprises starting in the 3-5-worker

¹ Although a lower percentage of women entrepreneurs is not a mark of the MSE sector's "evolution," it suggests that MSE activities are relatively attractive to men, which is a sign of either dynamism in the sector or poor opportunities elsewhere in the economy.

SECTION ONE

INTRODUCTION

For more than a decade, it has been clear that Kenya is facing a worsening employment crisis. In spite of a growing labor force, public sector hiring has slowed and formal private growth has stagnated. Increasingly, attention has turned to the micro- and small-scale enterprise (MSE) sector as a provider of employment. This sector, often called the informal or *jua kali* sector, has been the object of much study and speculation, both in the amount of employment it can generate and its potential to provide stability and growth. And, as development practitioners look for ways to tie the Kenyan economy into the more dynamic export market, new questions arise about the linkages between MSEs and the medium- and large-scale sector.

As a way to better understand, and thereby assist, Kenya's private sector, the Kenya Mission of the U.S. Agency for International Development (USAID) commissioned a baseline survey of micro, small, and medium enterprises in Kenya in 1993. The survey was to provide estimates on the size, composition, and employment of all enterprises with up to 100 workers, to identify constraints faced by these businesses, and to identify areas with a history of growth and expansion. This report presents the results of that survey.

Section Two provides a brief overview of the survey approach used. Greater details on the survey instruments and methods are provided in the annexes. Section Three presents the findings from the primary survey, using extrapolated data to provide a statistically valid overview of the sector nationally. Results of the small-sample supplementary survey are also presented in Section Three, providing additional qualitative insights into the sector, its constraints, and its needs. Section Four compares the primary findings with the illustrative data on enterprises in commercial and industrial areas. Of special interest here is the profile of the medium enterprise sector. Section Five regroups and re-analyzes the data from the primary survey along subsector lines. Finally, Section Six presents conclusions across all chapters. The annexes include the survey instruments and business codesheet, strata definitions, weighting procedures, and additional tables.

SECTION TWO

SURVEY APPROACH

The 1993 Kenya national baseline survey of micro, small, and medium enterprises was carried out by Development Alternatives, Inc. and Kenya Rural Enterprise Programme of Nairobi under the USAID-funded Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project.¹ Survey planning and execution were undertaken in close collaboration with the Central Bureau of Statistics (CBS).

SAMPLING

Using a stratified cluster sampling technique, the country was broken into four strata. Stratum 1 includes Nairobi and Mombasa, given their unique demand and supply conditions and their links to the outside world via international airlines or seaports. These cities are referred to in the paper as Kenya's "capital cities." Stratum 2 includes all other large urban areas with populations of more than 10,000. Stratum 3 includes all urban areas with populations of 2,000 to 10,000. Finally, Stratum 4 includes all towns with populations of less than 2,000 and all other areas not captured in Strata 1 through 3, and is referred to as the "rural stratum" throughout this report.

Each stratum was then subdivided into similarly sized areas using the CBS 1989 sampling frame of "population clusters," and a random sample was drawn from each stratum.² Within each chosen cluster, all households and businesses were visited.

In addition to the random sample described above, a fifth stratum was purposely added to the survey, made up of commercial and industrial areas that had reportedly been omitted from the CBS population census sampling frame. This addition was also intended to provide greater coverage of medium-sized enterprises with 51 to 100 workers. However, given the lack of data on the location of these industrial areas nationwide and the problems of carving out similarly sized areas for sampling purposes, a very rough method was used. Specifically, boundaries of commercial and industrial areas were generated for six major metropolitan areas using maps and observation visits. These areas were then broken into smaller units based on geographic size, and clusters were chosen randomly in each city. Given the lack of an appropriate sampling frame for this stratum, the resulting data are considered nonrandom and are omitted from the statistical analysis presented in Section Three; they are instead presented in Section Four.

¹ The survey method was based on the prototype developed by Michigan State University and used by the GEMINI project worldwide. For a complete overview of this methodology, see McPherson and Parker, 1993.

² An exception to this method was used in Stratum 3, where the CBS sampling frame was judged incomplete. For a more extensive discussion of issues encountered and decisions made in the sampling process, see Annex D.

SURVEY INSTRUMENTS

The survey included three survey instruments. The first questionnaire, delivered at each site where an activity was taking place, collected basic information on all current business activities. Data focused on the type, location, and workforce of the enterprise; access to capital; infrastructure and training; and basic characteristics of the entrepreneur. This instrument is referred to as the primary questionnaire. Second, a supplementary questionnaire was administered to a subset of 300 ongoing enterprises, exploring the nature of opportunities and constraints facing the enterprise. Finally, a closed-enterprise questionnaire was administered wherever an individual had engaged in business in the past, focusing on the nature of the previous activity, reasons for business closure, and subsequent activities of the entrepreneur. The three survey instruments are in Annex A.

DATA COLLECTION AND EXTRAPOLATION

Data collection was carried out over a six-week period in September and October 1993, by a team of 5 supervisors and 36 enumerators.³ Over the course of the survey, 111 clusters were enumerated, covering 18,280 households and business sites, and providing information on 5,353 current business activities and 1,998 previous business activities.⁴

To estimate the number and types of enterprises nationally, the survey results were extrapolated to the entire country, combining population figures from the Central Bureau of Statistics 1989 population census with survey statistics on percentage of households engaged in business activities in each stratum. Extrapolation results are shown in Table 3-1 in Section Three and discussed in Annex E.

DEFINITIONS

For the purposes of this survey, an "enterprise" is any income-earning activity that is not in primary agricultural or mineral production. "Microenterprises" are those with 10 or fewer workers, "small enterprises" have from 11 to 50 workers, and "medium enterprises" have from 51 to 100 workers. No distinction is made between enterprises operating in the informal or formal sectors, in part because of the definitional problems that arise with such terminology. For those concerned with these definitions, various proxies typically used to define informality can be found in the analysis, such as the type of structure, the security of tenure to the premise, the amount of start-up capital, and the number of workers.

³ Each of the five field teams also included a CBS representative who assisted in identifying sampled areas according to 1989 population census definitions.

⁴ Cluster coverage was as follows: 23 clusters in Nairobi/Mombasa, 30 clusters in large urban areas, 15 clusters in small urban areas, 35 clusters in rural areas, and 8 clusters in commercial/industrial areas. Of the 18,280 sites visited, individuals were available to answer questions at 10,785 sites (59 percent of the sites visited), while 7,495 sites (41 percent) were closed.

LIMITATIONS

Two limitations deserve special mention so that the results presented can be interpreted correctly. First, because of insecurity, many of the semi-arid areas of the country were excluded from the survey. In addition, parts of Nakuru District were excluded due to political instability during the survey period. All excluded areas are listed in Annex D. The second limitation was the inability to choose a random sample of respondents for the supplementary questionnaire, because of the lack of an appropriate sampling frame. Instead, a quasi-random method was used. As such, the findings of the supplementary questionnaire cannot be considered representative in a statistical sense. However, the results from the supplementary survey provided interesting insights into the sector, and are presented throughout this report.

SECTION THREE

SURVEY RESULTS

The analysis presented in this section is based on the 4,535 existing and 1,998 now-closed businesses captured in the areas selected with a random sampling method. Not included are the nearly 800 businesses interviewed in the commercial and industrial areas. Because no businesses in the random sample fell into the medium size category of 51-100 workers, this section discusses MSEs only.

MAGNITUDE AND IMPORTANCE OF THE SECTOR

The MSE sector consists of approximately 910,000 enterprises, employing more than 2 million individuals.⁵ This estimate is dramatically higher than that of prior studies. Previous USAID estimates, for example, which used Government of Kenya (GOK) data, estimated employment in the sector to be around 635,000.

Previous estimates have underestimated the number of rural enterprises and rural employment in the MSE sector.⁶ This survey estimates that more than three-fourths (78 percent) of enterprises and employment are located in rural areas, on the order of 710,000 enterprises employing 1.5 million people. The remaining 22 percent of enterprises are urban, with 8 percent of enterprises located in Nairobi or Mombasa, 10 percent in other large urban areas, and the remaining 4 percent in small urban areas, as shown in Table 3-1. Although rural businesses are more likely to be seasonal businesses, the vast majority (81 percent) of enterprises nationwide operate year-round.

The importance of the MSE sector is particularly apparent in terms of its ability to provide employment for those of working age. Using an estimate of 13 million Kenyans of working age in 1993, MSEs provide employment for 16 percent of the labor force.⁷ Again, the bulk of this employment is in rural areas, as shown in Table 3-1.

Nationwide, one quarter of all households engage in some form of business activity. However, this average varies by strata. In rural areas where much of the population depends on agriculture, only 23 percent of households have business activities. In Nairobi and Mombasa, where the greatest number of alternatives to self-employment exist, again only 22 percent of households engage in business activities.

⁵ These estimates are based on survey data, which estimates the density of enterprises relative to number of households, and CBS population figures on 1989 total population by strata, household size, and growth in population between 1989 and 1992. A complete discussion of the method of extrapolation is provided in Annex E.

⁶ For example, this survey's estimates of urban employment in the sector are 33 percent higher than the government's 1991 estimate, while in rural areas this survey's employment estimates are 943 percent higher than the government's 1991 estimate (source: Government of Kenya *1992 Economic Survey*, p. 51).

⁷ This estimate is based on a straight-line calculation from World Bank 1990 and 1995 figures for population of working age of 11,348,000 and 13,972,000, respectively, where working age is defined as those between the ages of 15 and 59 (see p. 136, World Bank, 1992).

TABLE 3-1

ESTIMATED NATIONAL ENTERPRISE POPULATION BY STRATA

Strata	Est. # of Households, 1993	Est. % of Households with MSEs	Estimated # of Enterprises	Estimated Employment in Stratum
Nairobi/Mombasa	315,479	22.3%	70,411	181,692
Other cities with more than 10,000 pop'n	270,187	34.6%	93,528	212,645
Other towns with 2,000-10,000 pop'n	60,640	59.4%	38,007	84,469
Rural areas	3,081,812	23.1%	710,509	1,592,038
Total	3,727,918	24.6%	910,455	2,050,844

Business activities become more important to households in urban areas other than Nairobi and Mombasa. In large urban areas, 35 percent of all households are engaged in business activities. In small towns, reliance on business is even higher; 59 percent of all households in small towns engage in some form of MSE activity.

Roughly one-fourth of households (24 percent) involved in the sector depend on their businesses for all of household income, while 69 percent depend on their business for half or more of their income. Households in urban areas are generally more dependent on their enterprises as a source of household income than those in rural areas (with 80 percent and 67 percent of households dependent on businesses for half or more of their incomes in urban and rural areas, respectively). Finally, women-owned businesses provide a substantially lower share of household income than men-owned businesses.

How do these findings on the magnitude and importance of the sector compare with other countries? Comparable data is available from four surveys in southern Africa and is shown with the Kenya data in Table 3-2.⁸ First, the proportion of the national labor force employed in MSEs in Kenya is comparable (albeit somewhat lower) with that found in southern Africa, where at least one-fifth of the labor force is engaged in the MSE sector. Second, the Kenyan results mirror those of southern Africa on distribution of enterprises — the majority of activities are found in rural areas. Finally, Kenya is also comparable with the other countries in that MSEs are important household income generators, providing the majority of household income for the bulk of households active in the sector.⁹ In short, the magnitude and importance of the Kenyan MSE sector is very much in line with the story being told across Africa: that MSEs provide an important source of employment and income nationally, particularly for hard-to-reach rural populations.

⁸ For Lesotho, see Fisseha, 1990; for Swaziland, see Fisseha and McPherson, 1991; for Malawi, see Daniels and Ngwira, 1993; and for Zimbabwe, see McPherson, 1991.

⁹ McPherson, 1991, suggests that the lesser dependence on MSEs observed in the Zimbabwe case is the result of greater wage employment opportunities in Zimbabwe than elsewhere.

TABLE 3-2
COMPARISONS OF KENYAN MSE SECTOR WITH MSE SECTORS IN
SOUTHERN AFRICAN COUNTRIES¹⁰

Country	% of Labor Force Working in MSE Sector	% of Households Depending on MSEs for at Least Half of Household Income	% of MSEs Located in Rural Areas ¹¹
Kenya	16%	69%	78%
Zimbabwe	27%	52%	68%
Swaziland	24%	64%	77%
Malawi	21%	70%	90%
Lesotho	20%	75%	80%

INDUSTRIAL STRUCTURE

As Table 3-3 illustrates, Kenya's MSE sector is dominated by commerce and trade activities. Most trading activities are related to the agricultural sector, either in trading farm produce or ready-made food. Manufacturing is the second most prominent sector, comprising 27 percent of enterprises. Service activities (including construction, and transport and storage services) make up the remainder of the MSE sector, comprising 13 percent of all businesses.

TABLE 3-3
ESTIMATED SECTORAL DISTRIBUTION OF ENTERPRISES AND EMPLOYMENT

SECTOR	Estimated Number of Enterprises	% of Enterprises	Estimated National Employment	% of All MSE Employment
Commerce	551,736	60.6%	1,076,016	52.8%
Manufacturing	244,912	26.9%	599,936	29.5%
Services	113,807	12.5%	360,893	17.7%
Total	910,455	100%	2,036,932	100%

¹⁰ See footnote 8 for sources of data.

¹¹ Definitions of rural areas vary slightly across countries, depending on stratification system used.

Kenya differs from Zimbabwe, Swaziland, and Lesotho in that it has a larger proportion of enterprises in commerce and a smaller proportion in manufacturing.¹² In part, this may reflect the heavy reliance of Kenya's economy on primary agricultural production, which is not captured in this data set until the products are either sold to a trader or somehow transformed. On average, Kenya also has a higher percentage of activities in services than is found in other African countries, where percentage of MSEs in services range from 5 to 12 percent.¹³

Table 3-4 provides a more detailed look at the composition of manufacturing, commerce, and trade activities. The data reveal that in the dominant commerce sector, the vast majority of enterprises (96.5 percent) are retailing or vending operations.

TABLE 3-4
DISTRIBUTION OF ENTERPRISES BY TWO-DIGIT ISIC CODE¹⁴
(in percentages)

ENTERPRISE CATEGORY	ISIC CODE	RURAL	URBAN	TOTAL
MANUFACTURING		28.5%	20.0%	26.9%
Food/Beverage/Tobacco products	31	11.0%	7.1%	10.1%
Textile/Leather products	32	2.3%	5.4%	2.9%
Forest products	33	11.0%	3.8%	9.4%
Mineral products	36	3.7%	0.1%	2.9%
Metal products	38	0.6%	3.1%	1.2%
Other manufacturing		0.3%	0.5%	0.4%
COMMERCE/TRADE		60.2%	62.1%	60.6%
Wholesale trade	61	2.3%	1.5%	2.1%
Retail trade	62	57.9%	60.6%	58.5%
SERVICES		10.9%	17.9%	12.5%
Hotels/restaurants/bars	63	2.7%	6.3%	3.5%
Personal services	85	2.4%	5.6%	3.1%
Professional services	83	0.0%	0.4%	0.1%
Repair services	95	1.6%	3.9%	2.1%
Transport/storage	71	1.3%	1.2%	1.3%
Construction services	50	2.9%	0.5%	2.4%
TOTAL		100%	100%	100%

¹² Percentages of MSEs in manufacturing in southern Africa are as follows: Lesotho, 58 percent; Zimbabwe, 70 percent; Swaziland, 61 percent; Malawi, 43 percent; Botswana, 41 percent.

¹³ Percentages of MSEs in services (including financial, transport, and construction services) in southern Africa are as follows: Lesotho, 12 percent; Zimbabwe: 8 percent; Swaziland: 6 percent; Malawi: 5 percent; and Botswana: 6 percent (see footnote 8 for sources of data).

¹⁴ ISIC stands for "International Standard Industry Classification," and is the classification system most used by analysts of business data.

As shown in Table 3-4, manufacturing activities make up a greater share of activities in rural areas (29 percent) than in urban areas (20 percent). This is a common pattern seen in many other African countries. The bulk of Kenya's manufacturing activities take advantage of Kenya's natural resource base, grouping in agricultural and forest-based products. Those not based on natural resources, such as textiles and metal, are much more likely to be urban manufacturing activities.

As opposed to activities in commerce and manufacturing, the majority of service activities are urban. The two exceptions are transport and construction services.¹⁵

SIZE DISTRIBUTION

Although the intention of the survey was to capture enterprises ranging in size from 1 to 100 workers, the vast majority (98.6 percent) of the enterprises captured in the random sample fell within the microenterprise-sized category of 1-10 workers, with the remaining enterprises (1.4 percent) falling into the small enterprise category of 11-50 workers. At first, it was assumed that this result reflected the tendency of medium-sized enterprises to locate in known commercial and industrial areas that the random sample did not cover. Somewhat surprisingly, however, even the purposive sample of commercial and industrial areas presented a sample of firms of which 89.9 percent were microenterprises, with only 9.8 percent small enterprises, and 1.3 percent medium enterprises. The purposive sample of commercial and industrial areas is clearly statistically inadequate, but this finding still suggests that smaller businesses (in terms of workers, at least) are more important to private sector activity in Kenya than had originally been assumed.

Within the MSE population, the majority of enterprises (53 percent) have more than one worker, with an average workforce of 2.3 workers. Men-owned businesses are significantly larger than their women-run counterparts (2.6 workers as opposed to 1.6 workers).¹⁶ This reflects the fact that two-thirds of women-run businesses are 1-person enterprises, compared with only 39 percent of men-owned businesses.¹⁷

Size composition also varies by sector; trade activities are most likely to be 1-person operations, while services are most likely to be multiworker operations, as shown in Table 3-5. This suggests that service activities require a larger workforce or a more diverse set of skills than do commerce or manufacturing activities, which may prove to be a barrier to entry for many would-be entrepreneurs.

¹⁵ It is expected that transportation services have been substantially undercounted, given their mobile nature.

¹⁶ Both men-run and women-run businesses are smaller than those enterprises run by more than one individual (3.4 workers).

¹⁷ Once disaggregated by sector, the relationship holds for businesses in manufacturing and commerce, though not for service businesses.

TABLE 3-5
 AVERAGE ENTERPRISE SIZE BY SECTOR
 (in number of workers)

Sector	% that are One-Worker Enterprises	Average # Workers per Enterprise
Manufacturing	40%	2.5
Commerce	52%	2.0
Services	36%	3.2
Average	47%	2.3

Kenyan enterprises are, on average, larger than their southern African counterparts, suggesting a more mature MSE sector in Kenya. Compare the Kenya figures with those from Zimbabwe, for example, as shown in Table 3-6, where Zimbabwe figures are fairly typical of southern African countries.¹⁸

TABLE 3-6
 ENTERPRISE SIZE BREAKDOWN, KENYA AND ZIMBABWE
 (in percentages)

ENTERPRISE SIZE	KENYA	ZIMBABWE
1 Worker	47%	70%
2 Workers	28%	15%
3-5 Workers	20%	12%
6-10 Workers	4%	2%
11-50 Workers	1%	1%
TOTAL	100%	100%
Average Size	2.3 workers	1.8 workers

Sources: Kenya: survey data; Zimbabwe: McPherson, 1991

Why else is the size distribution of the sector important? Assistance agencies often target their assistance toward enterprises of specific sizes, either explicitly by working with larger enterprises, or implicitly by offering very small working capital loans that are most appropriate for the smallest

¹⁸ The percentage of one-person firms in other southern African countries is as follows: Lesotho, 80 percent; Malawi, 60 percent; Swaziland, 68 percent. For data sources, see footnote 8.

enterprises. It would be interesting to know which of these size categories is the most important in terms of national employment provision, if that is one of the program's goals.¹⁹

Table 3-7 gives the aggregate number of jobs provided by enterprises in each size category nationally. The data show that the size category providing the greatest number of jobs overall is the 3-5-worker size category, in which 20 percent of the sector's enterprises provide 32 percent of the sector's jobs. In the larger size categories, the percentage of jobs created drops markedly, to 13 percent for enterprises with 6-10 workers and to 7 percent in the small enterprise population.

TABLE 3-7
EMPLOYMENT PROVISION BY ENTERPRISE SIZE CATEGORY

	ENTERPRISE SIZE CATEGORY (in workers)					
	1	2	3-5	6-10	11-50	TOTAL
Average Number of Workers per Enterprise	1	2	3.5	7.2	15.8	2.3
Estimated Number of Enterprises (in thousands)	427.9	254.9	182.0	36.4	9.1	910.4
Estimated Total # Workers in Size Category (in thousands)	427.9	509.8	642.9	262.6	143.6	1987
Estimated % of MSE Jobs Provided by Enterprises in Size Category	21.5%	25.7%	32.4%	13.2%	7.2%	100%

LABOR FORCE CHARACTERISTICS

Type of Worker

In addition to the sheer number of jobs, it is important to look more closely at the quality of jobs provided by the micro and small enterprise sector. What type of workers make up the "typical" Kenyan enterprise? Half of all workers are the owners themselves. The other half of the workforce is made up of unpaid family members (20 percent), paid workers (24 percent), and trainees (6 percent). Overall,

¹⁹ This report uses a size breakdown of "1", "2", "3-5" and "6-10" workers for the following reasons. First, one-worker enterprises are deemed distinct in that they are strictly self-employment activities. Two-worker enterprises bear much resemblance to one-person enterprises in that they can be managed with informal information and activity sharing. Once an enterprise reaches 3-5 workers, the level of organization changes. At this size, the business is organized along more formal lines, where a single individual must take on a management and information dissemination role. Finally, scholars of entrepreneurship and business organization (such as Peter Kilby) argue that a more binding "managerial bottleneck" begins to appear once an enterprise grows to 6 or more workers, hence the next size category of 6-10 workers. It is expected that there is an analogous progression in level of mechanization and capitalization that parallels this size and organizational evolution.

40 percent of the workforce is female. A very small percentage of workers (4 percent) are children under the age of 15.

The composition of the workforce varies markedly by gender of the proprietor, as shown in Table 3-8. First, women entrepreneurs rely less on hired workers than their male counterparts, instead relying on their own labor or on unpaid family workers. In fact, in aggregate, women-run enterprises bring on four unpaid family members for each paid worker, while men-run businesses bring in more paid than unpaid workers. Second, women-run businesses provide a greater share of jobs for women in the sector, with 82 percent of all positions held by women compared with 14 percent in men-run enterprises.²⁰

TABLE 3-8
LABOR FORCE BREAKDOWN BY GENDER OF PROPRIETOR
(in percentage of workers)

WORKER TYPE	WOMEN-OWNED ENTERPRISES	MEN-OWNED ENTERPRISES	ALL ENTERPRISES
Proprietor	66%	37%	50%
Unpaid family	24%	20%	20%
Paid workers	6%	35%	24%
Apprentices	4%	8%	6%
TOTAL WORKERS	100%	100%	100%
Female workers	82%	14%	40%
Workers under 15	9%	2%	4%

Workforce composition varies by the size category of business, as shown in Table 3-9. Almost by definition, 1-person enterprises are overwhelmingly staffed by the owner. Two-person firms rely on a mix of family and paid workers to assist the proprietor. For all businesses with 3 or more workers, paid workers dominate the workforce, and the relationship becomes more pronounced as firms get larger. The percentage of apprentices is also a function of firm size, with few apprentices in enterprises with 1 or 2 workers. As businesses get progressively larger, apprentices make up a larger proportion of their labor force.

Table 3-9 sheds further illumination on the quality of the jobs discussed in Table 3-7 above. Recalling that the 3-5-worker size category provided the greatest number of jobs nationwide, it now appears that those jobs are of good quality, with a high percentage of paid jobs, and a strong human capital development component through bringing on of apprentices. The proportion of good-quality jobs

²⁰ In large part, this reflects that women proprietors are counted as part of women working in the sector. In terms of family or hired workers, men-run businesses provide approximately as many positions for women as do women-run businesses.

in the 6-10- and 11-50-worker categories is even higher, but as Table 3-7 showed, the total number of jobs provided by these size categories of businesses is smaller.

TABLE 3-9
LABOR FORCE COMPOSITION BY CURRENT ENTERPRISE SIZE
(in percentage of enterprises)

WORKER TYPE	ENTERPRISE SIZE (in workers)					
	1	2	3-5	6-10	11-50	ALL
Proprietor	95%	57%	31%	19%	13%	49%
Unpaid family	1%	24%	24%	14%	7%	19%
Paid workers	4%	17%	37%	56%	66%	26%
Apprentices	0%	3%	8%	11%	14%	6%
TOTAL	100%	100%	100%	100%	100%	100%

Training of Workers

Overall, 72 percent of MSEs report that their most skilled workers have no training, while 15 percent have completed apprenticeships and 9 percent have formal vocational or technical training. The service sector appears to have the best-trained workforce, with 65 percent of respondents citing some form of either apprentice or formal training. On the other hand, commerce enterprises have the least-trained workforce; 87 percent of such businesses had no trained workers. Workers in women-run enterprises have some of the lowest levels of training; 82 percent of entrepreneurs in women-run enterprises have untrained workers only. Undoubtedly, this relates to women's heavy reliance on family labor. In addition, rural enterprises have a less-trained workforce than urban enterprises. Finally, 6-10-worker enterprises are most likely to have some skilled workers, while the self-employed (one-worker enterprises) are least likely to have training.

For assistance agencies interested in expanding paid employment of a skilled workforce, the picture of the labor force provided here points to an important gap in training, both for the self-employed and in the larger workforce, where women and rural entrepreneurs are either not finding or not hiring trained personnel.

Entrepreneurial Skills

On the supplementary questionnaire, entrepreneurs were asked if they felt they needed additional skills to be more effective in business. Sixty-eight percent of entrepreneurs stated that they would like to acquire additional skills of some type. Table 3-10 shows the types of skills these entrepreneurs would like to develop.

TABLE 3-10
SKILLS DESIRED BY ENTREPRENEURS BY SECTOR
(in percentages)

Type of Training Desired	Manufacturing	Commerce	Services	Total
Management	22%	44%	35%	37%
Technical	33%	9%	25%	18%
Marketing	8%	11%	3%	9%
Other	2%	6%	0%	4%
None	35%	30%	37%	32%
Total	100%	100%	100%	100%

Source: Supplementary Questionnaire

More than one-third of respondents expressed a need for management training. This need was voiced particularly strongly by those in commerce. Second was the need for technical skills, primarily (as expected) by those in manufacturing. Nine percent of businesses also said they needed to learn better marketing skills, particularly those in commerce, but also those in manufacturing. These needs did not vary by gender of the proprietor or by strata.

LOCATIONAL CHARACTERISTICS

Location of Work Premise

It is always important to identify where MSEs are located, so that those working with the sector can reach their target population. To find even the most invisible enterprises, those operating from within households, USAID/Kenya undertook this style of door-to-door survey rather than the more traditional count of enterprises in market areas. Now, ex post, one can examine how many of the sector's enterprises are, in fact, located within households that would have been missed using other survey methods.

The survey revealed that one-third (32 percent) of all enterprises are indeed located within households, enterprises that one can assume went uncounted in previous surveys. Undoubtedly, this is one of the central reasons that this survey estimates a much larger MSE population than previous studies, as discussed above.

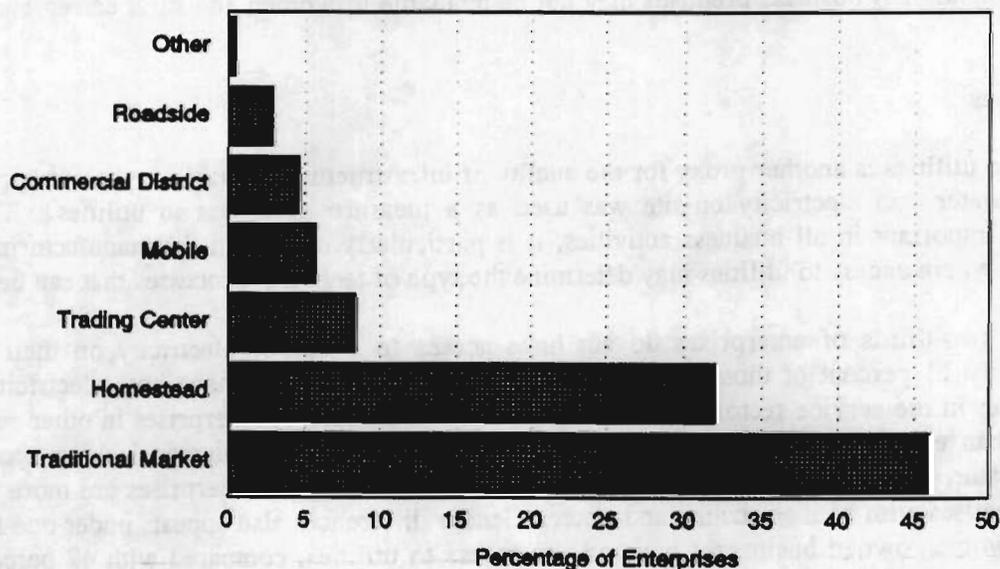
Kenya's enterprise population operating from the home is markedly lower than that in southern African countries, where the percentage of home-based businesses ranges from 54-77 percent.²¹ Again, this may point to the greater maturity of the MSE sector in Kenya.

Figure 3-1 provides the breakdown of enterprise location. The largest population is found in traditional marketplaces (46 percent), and then within the home (32 percent). The third largest group of enterprises is located in neighborhood or rural trading centers (8 percent), defined as formal groups of stores much smaller than the commercial districts of the large cities, but more formal than the traditional markets. Such trading centers can be found in outlying urban estates or in remote rural areas, and typically include a grocer and pharmacist, along with a few other businesses.

Enterprise location varies by several factors. First, rural enterprises are more likely to locate within the home (37 percent versus 16 percent) or be mobile (7 percent versus 3 percent) than their urban counterparts. Both of these choices are responses to few market options within the geographic reach of those located in remote areas.

Second, women are more likely to operate businesses from the home than are men (43 percent versus 23 percent), regardless of sector. This reflects women's dual role in the household and in business, leading them to locate their enterprises where they can tend to household responsibilities at the same time. Women have equal access to traditional markets, but not to trading centers, commercial districts, or roadside locations, where men are twice as likely to locate their enterprises than their female counterparts. Men also dominate in mobile enterprises, reflecting their dominance in wholesaling, transport, and construction.

**FIGURE 3-1
ENTERPRISE LOCATION**



²¹ Comparable statistics from the southern Africa surveys are Botswana: 77 percent; Zimbabwe: 77 percent, Malawi: 54 percent; Swaziland: 68 percent; and Lesotho: 60 percent. For sources, see footnote 8.

Third, location varies by sector, where service and commerce activities are least likely to locate within the homestead, tending instead toward market locations, whether traditional markets, trading centers, or commercial areas. Services also make up the bulk of mobile enterprises, particularly in rural areas. On the other hand, manufacturing activities are most likely to locate within the home, particularly for women-run businesses.

These locational findings are relevant to assistance agencies attempting to work with either rural, manufacturing, or women-run enterprises, all of which tend to operate from the most invisible location, within the home. Because it is more difficult to reach home-based enterprises because of their greater invisibility and wider geographic dispersion, alternative mechanisms may be needed to contact those home-based entrepreneurs than have been used in the past.

Type of Structure

The type of structure in which a business operates has long been used as a sign of formality or informality. More important than these categories, however, is the premise's ability to provide protection from the elements, security, and storage space.

The survey categorized enterprises as operating from a permanent structure, a temporary structure, under a roof only, or in the open. Overall, half (51 percent) of MSEs work in permanent structures. This varies by sector; 62 percent of enterprises in the manufacturing sector are located in permanent structures, compared with 51 percent in services and 47 percent in commerce. Urban and rural enterprises appear equally likely to operate from a permanent structure. However, more businesses work from the home or homestead in rural areas (37 percent) than in urban areas (16 percent), where homes tend to provide a permanent structure. Once excluding home-based enterprises, only 24 percent of rural enterprises work from permanent structures, compared with 40 percent of urban enterprises. Similarly, once excluding home-based enterprises, only 16 percent of women operate from permanent structures, compared with 35 percent of men and 39 percent of multiowner enterprises. This suggests that alternative (nonhome) business premises may not be available to women and rural entrepreneurs.

Access to Utilities

Access to utilities is another proxy for the quality of infrastructure available to the entrepreneur. Availability of water and electricity on-site was used as a measure of access to utilities. Though infrastructure is important in all business activities, it is particularly critical in the manufacturing and services sectors, where access to utilities may determine the type of technical processes that can be used.

Overall, two-thirds of enterprises do not have access to water or electricity on their work premises, and only 11 percent of those operating from permanent structures have both electricity and water. Businesses in the service sector have twice the access to utilities of enterprises in other sectors. As expected, urban enterprises have better access to utilities, with only 53 percent lacking access to electricity and water, compared with 71 percent of rural businesses. Bigger enterprises are more likely to work from premises with both electricity and water. Gender differences also appear; under one-fourth (23 percent) of women-owned businesses have on-site access to utilities, compared with 42 percent of male-owned and 39 percent of multiowner businesses.

Security of Tenure

Both assistance agencies and entrepreneurs are concerned about the security of access to the workplace. To gauge the extent of insecure tenure and identify who is most at risk of displacement, the survey collected data on the form of tenure entrepreneurs hold, distinguishing among those holding a title deed to their work space, those with a written lease, those with a verbal agreement, and those that consider themselves as squatters.

As shown in Table 3-11, 47 percent of all entrepreneurs hold a title deed to their workplace, while another 27 percent have a written lease to the space. Adding these two categories together, it can be said that 74 percent of enterprises have some security of tenure to their work space.

TABLE 3-11
FORM OF ACCESS TO WORKPLACE
(in percentages)

Form of Access to Workplace	Rural Enterprises	Urban Enterprises	All Enterprises
Holds title deed	58%	12%	47%
Written lease	18%	58%	27%
Informal agreement	8%	15%	10%
Squatter	6%	8%	6%
Other	11%	6%	10%
Total	101%	99%	100%

Of the remaining 26 percent, 10 percent operate under an informal agreement, while only 6 percent are squatters. These 16 percent of entrepreneurs are considered to have insecure tenure, in that they could be removed from their workspace precipitously. The remaining 10 percent of entrepreneurs have some other form of agreement, typically operating in a traditional market and paying a daily market fee.

These patterns vary by location and gender of the proprietor. As shown in Table 3-11, urban enterprises are nearly as likely to have secure tenure as those in rural areas, but the percentage of urban enterprises holding title deeds is very small relative to those holding written leases, while the reverse holds in rural areas. This points to the importance of a legal framework that enforces written contracts, particularly for urban business people. Bigger businesses are more likely to have formal tenure arrangements, whether looking at initial or current enterprise size. In gender terms, female-owned businesses are less likely to have secure tenure arrangements (71 percent) than male-owned (77 percent) or multiowner (83 percent) enterprises. Once removing home-based enterprises from the analysis, the picture looks worse for women; only 56 percent have secure tenure, compared with 76 percent for men and 80 percent for multiowner businesses. This lower access to secure tenure outside the home for women-run enterprises provides a further incentive for women to operate their businesses from their homes.

FORWARD LINKAGES

As the private sector develops, one expects increasing interactions between enterprises as they specialize to provide the goods and services needed as inputs into other business activities. This survey collected data on forward linkages from the enterprises to the purchasers of their goods and services in an attempt to identify where these linkages are the strongest.

The vast majority of enterprises (84 percent) reported selling their goods directly to local individuals. In general, then, it appears that there are few forward linkages. However, another 13 percent of enterprises do provide goods or services to other businesses. These linkages can be broken into two categories. The first are distribution linkages: enterprises sell their products to other businesses for on-sale to the final consumer. Although there is little value-added in this transaction, the linkage serves to distribute the products more extensively than would otherwise be possible. The second form of linkage is a production linkage, in which goods or services are used in the production of other goods and services. This form of linkage generates greater physical value added.

Of the 13 percent of enterprises that do have forward linkages, 11 percent are distributive, while only 2 percent are productive. Although manufacturing enterprises show the highest number of linkages overall, service enterprises are most likely to have production linkages (49 percent of all linkages are productive), followed by manufacturing (28 percent), and then commerce (10 percent). Businesses in rural areas have more linkages (16 percent) than do urban enterprises (5 percent), but rural linkages tend to be distributive, because of their distance from final consumers. For gender, men-run enterprises tend to have more production linkages, while women-run enterprises have few production linkages but rely heavily on distribution linkages. Outflanking both, multiowner enterprises have both more production and more distribution linkages than sole proprietors of either gender. It is good to encourage production linkages where they already exist, but it is also useful to look for new ways to move more MSEs into channels with forward production linkages.

SOURCING OF INPUTS

The survey also looked at backward linkages, providing data on whether inputs or stocks are sourced within Kenya or through imports. Fully 84 percent of entrepreneurs rely on Kenya-made inputs or stocks. The bulk (90 percent) of these entrepreneurs purchase their inputs in the marketplace, while the other 10 percent collect or make their inputs themselves. Self-collection of inputs is nearly exclusively the domain of rural manufacturers, who grow or collect their own raw materials prior to production.²² Those businesses purchasing Kenya-made inputs through the marketplace can be said to have the strongest backward linkages, providing employment for producers at an earlier stage in the production or exchange process. These commercial linkages are strongest in urban manufacturing enterprises and commercial ventures selling agricultural products in some form.

Another 6 percent of enterprises rely to some extent on imported stocks or inputs. Of these, 43 percent are entirely dependent on imported inputs, while the other 57 percent use some combination of imported and domestic goods. The likelihood of enterprises using imported inputs is not related to enterprise size.

²² Fully 26 percent of rural manufacturers report making or collecting their own inputs.

ACCESS TO BUSINESS ASSISTANCE

To learn about the reach of formal assistance to MSEs, the survey asked about the different types of assistance received by the entrepreneur while in business. Entrepreneurs cited both formal assistance (either of a financial or nonfinancial nature) and informal assistance from family, friends, or informal money lenders. Table 3-12 provides their responses.

The vast majority of enterprises (85 percent) have never received assistance from any source (formal or informal) while in business. Nine percent of enterprises have used credit at some time, but the majority of those users have borrowed from informal sources. Only 4 percent have borrowed from formal sources, and the remaining 91 percent have relied on personal savings for their capital.

On the nonfinancial side, only 1 percent of enterprises have been reached by formal assistance from any source. Another 4 percent report receiving nonfinancial assistance informally. Finally, 1 percent of enterprises report receiving more than one form of assistance since they started business, though it is not clear whether this assistance is formal or informal, financial or nonfinancial.

TABLE 3-12
FORMS OF BUSINESS ASSISTANCE RECEIVED BY SECTOR
(in percentages)

Type of Assistance	Manufac- turing	Commerce	Services	All Enterprises
None	87%	86%	76%	85%
Informal credit	3%	6%	5%	5%
Formal credit	4%	3%	12%	4%
Informal nonfinancial support ²³	5%	4%	3%	4%
Formal nonfinancial assistance ²⁴	1%	0%	4%	1%
Multiple assistance	0%	1%	1%	1%
Total	100%	100%	101%	100%

Access to assistance varies by sector, as shown in Table 3-12. Of particular note is that 16 percent of enterprises in the service sector have used formal business assistance (12 percent financial and 4 percent nonfinancial), compared with 5 percent in manufacturing and 3 percent in commerce.

²³ Includes everything from business advice, to babysitting, to watching the shop while the proprietor is running errands.

²⁴ The forms of formal nonfinancial assistance include technical or marketing assistance, management training, and help in making business contacts.

Urban enterprises are more likely to have received formal business assistance, both financial and nonfinancial, than those in rural areas (7 percent versus 4 percent, respectively). Instead, rural enterprises are most likely to rely on nonfinancial, informal assistance.

Men-run enterprises are more likely to have used formal financial assistance (7 percent) than their female counterparts (1 percent), while the reverse holds for informal credit, used by 6 percent of women and 4 percent of men. Also, formal nonfinancial assistance is nearly nonexistent for women entrepreneurs, but they use more informal nonfinancial assistance than their male counterparts.²⁵

Information from the supplementary questionnaire sheds additional light on the types of informal assistance entrepreneurs receive through support group membership. One-fifth of entrepreneurs reported that they belong to a business support group.²⁶ These groups provide a variety of services to their members. Most common are financial services. Much of this finance is used for purchasing business inputs. Several groups, however, collect money to help members in times of crisis, providing money that would otherwise be withdrawn from the enterprise. In Table 3-13, below, this is called crisis cash, and can be seen as a sort of informal insurance scheme.

TABLE 3-13
SERVICES PROVIDED BY ENTERPRISE SUPPORT GROUPS
(by percentage of groups)

Type of Service Provided to Members	% of Groups Providing Service
Business financial assistance	44%
Crisis cash	13%
Information services	6%
Production assistance	2%
None	35%
Total	100%

Source: Supplementary Questionnaire

²⁵ This parallels the finding in the Malawi survey (see Daniels and Ngwira, 1993) that showed a higher percentage of women entrepreneurs using informal money lenders and family and friends for loans than did men (women:men ratio of 19%:12%), while a higher percentage of male entrepreneurs used formal credit than did women (men:women ratio of 2%:1%).

²⁶ No attempt has been made here to categorize these groups. They cover the spectrum, including ROSCAs; Mandaleo ya Wanawake; Juhudi Credit Scheme; and various women's self-help groups, *jua kali* associations, church groups, and farmers' cooperatives.

Very few groups organize to provide information or production assistance. No group organized for the purposes of joint marketing. Finally, of note is the large number of business support groups that provide no assistance.

Support groups joined by women are more likely to provide business financial services than those joined by men, possibly reflecting fewer credit options for women outside of these groups. Groups providing crisis cash, however, do not appear to be gender-specific, suggesting a broad need for these services.

What other services would entrepreneurs like from support groups? Most commonly, they cited financial assistance. Such suggestions were even made for groups already providing financial services. Secondly, entrepreneurs would like to turn to their support groups for marketing assistance and business advice.

AMOUNT OF START-UP CAPITAL

The amount of start-up capital used by enterprises is interesting for two reasons. First, it is another proxy for informality: those enterprises that start with little or no capital may be considered informal. Second, it illuminates which types of enterprises require more capital to get off the ground, with implications for loan programs targeting new enterprises.

Data were collected for amount of start-up capital in nominal terms. However, given the inflation in Kenya, data from one time period is not comparable with data from another period. Rather than attempting to convert these figures into real terms, this analysis looks only at those enterprises that were less than two years old at the time of the survey, in the hopes of minimizing error caused by inflation.

As shown in Table 3-14, the preponderance of enterprises (89 percent) start with Ksh. 10,000 or less. Although the majority of enterprises in all sectors start with this small amount of capital, businesses in the service sector are more likely to use much greater amounts of start-up capital. This may account for the frequency of multiowner service enterprises, for which more than one owner is required to amass the necessary start-up capital.

TABLE 3-14

AMOUNT OF START-UP CAPITAL BY SECTOR (in percentages)

Amount of Start-up Capital (Ksh.)	Manufacturing	Commerce	Services	All Enterprises
0-10,000	92%	92%	57%	89%
10,001-25,000	1%	5%	20%	6%
25,001-50,000	2%	1%	6%	1%
50,001-100,000	1%	1%	4%	1%
Over 100,000	4%	1%	13%	2%
Do not know	0%	1%	1%	1%
Total ^a	100%	101%	101%	100%

^a Totals do not all equal 100% due to rounding.

Urban enterprises use more start-up capital than do rural businesses. Controlling for sectoral differences, this relationship holds for enterprises in manufacturing and commerce. However, rural service enterprises use more start-up capital than do urban service enterprises, reflecting capital needs of rural transport and construction service activities. Again controlling for sectoral differences, men-run enterprises use more start-up capital than do women-run businesses.

TABLE 3-15
AMOUNT OF START-UP CAPITAL BY START-UP SIZE
(in percentages)

Amount of Start-Up Capital (Ksh.)	Enterprise Size At Start-Up				
	1 Worker	2 Workers	3-5 Workers	6-10 Workers	11-50 Workers
0-10,000	94%	78%	59%	88%	55%
10,001-25,000	4%	14%	10%	9%	7%
25,001-50,000	1%	1%	7%	0%	0%
50,001-100,000	0%	3%	4%	0%	0%
Over 100,000	1%	4%	14%	3%	38%
Do not know	0%	0%	6%	0%	0%
TOTAL	100%	100%	100%	100%	100%

It would be expected that the larger the enterprise at start (in number of workers), the more capital required to open the business. As shown in Table 3-15, this pattern appears to hold; self-employment activities (1-person enterprises) use the least start-up capital, and those enterprises with more than 10 workers use the most.²⁷ There appear to be common levels of start-up financing used, one at the low end of Ksh. 0-25,000, and another at the high end of more than Ksh. 100,000. Few businesses use start-up capital in the ranges of Ksh. 25,001-100,000. This information can be useful for those designing loan programs for new enterprise starts.

PATTERNS OF CHANGE

The preceding analysis focused on the current state of the MSE population. It is now useful to look more closely at how enterprises have evolved. This section analyzes dynamic aspects of the sector: how much expansion has taken place in the enterprises now in the sector, the typical life expectancy of enterprises, the reasons for enterprise closure, and subsequent activities of entrepreneurs of closed enterprises.

²⁷ A yet unexplained anomaly appears in the 6-10-worker category.

Measures of Growth

Data were collected on the size of enterprises in terms of number of workers, both at the time the business was first opened and at the time of the survey. By subtracting number of workers at start from number of workers currently, a measure of absolute number of workers added was generated. Dividing by the age of the enterprise and summing across enterprises, the data provide a measure of the number of workers added to existing businesses annually. In other words, this is the *amount of additional employment generated on a yearly basis by businesses currently active in the MSE sector*.²⁸

In addition to the absolute number of jobs created on an annual basis, it is sometimes useful to look at the annual growth rate of existing businesses, particularly for making comparisons with other countries. Tables using two such measures, one a linear growth rate and one a compound growth rate, are provided for key criteria in Annex G.²⁹

Unfortunately, data are not available on enterprise size in terms of value added, sales, or profits. Growth in employment therefore serves as a proxy (albeit a limited one) for the other types of business growth.

Identifying Growing Enterprises

Taken as a whole, 38 percent of businesses now in the MSE sector have added workers since they opened. Another 4 percent of enterprises have contracted, and the remaining 58 percent show no net change in employment. In aggregate, current enterprises generated 70 percent of current jobs at the time of opening, and the other 30 percent of jobs through expansions. Using the linear growth rate (shown in footnote 29), average expansion in employment has been at the rate of 29 percent per year. Using a compound growth rate, employment has been expanding at 24 percent per year.

Translating this expansion into number of jobs, existing enterprises are adding roughly 270,000 additional workers per year in total. But which businesses are providing this expansion of employment? First, as shown in Table 3-16, manufacturing businesses add more workers per enterprise per year than their counterparts in commerce or services. However, considering that commerce enterprises are more numerous than manufacturing enterprises, in aggregate the commerce sector is adding more workers per year (providing 53 percent of expansion jobs) than is manufacturing (providing only 33 percent of expansion jobs).

²⁸ This is not to be confused with the total employment generated by the MSE sector in a year. Though total MSE employment creation is preferable in that it describes the labor absorption of the sector, it depends on two pieces of information that are not available through this survey: the number of jobs brought into the sector by new enterprises in a given year, and the number of jobs lost through enterprise closures in a given year.

²⁹ The linear growth rate equation is:

$$\frac{(\# \text{ Workers Currently} - \# \text{ Workers At Start}) / (\# \text{ workers at start})}{(\# \text{ Years in Operation})}$$

By using starting size as the divisor in the numerator, the growth rate is higher for those enterprises that start smaller. For this reason, many prefer compound growth rates, also presented in Annex G.

TABLE 3-16
EXPANSION IN EMPLOYMENT BY SECTOR

Sector	Average # Jobs Added per Year per Enterprise	Estimated # of MSEs Nationwide	Total Estimated Jobs Added per Year	Percentage of Expansion Jobs
Manufacturing	.36	244,912	88,168	33%
Commerce	.28	515,736	144,406	53%
Services	.28	113,807	31,866	12%
Total	.297	910,455	270,405	98%

There is wide diversity in the percentage of enterprises expanding between types of activities within any given sector. For example, in manufacturing, metal products and miscellaneous manufacturing (including such activities as artifact production and chemicals processing) show the most enterprises expanding. In commerce, wholesale enterprises are more likely to add workers than are retailers. In the service sector, professional services (including accounting, word processing, copy/fax centers, and legal advisors, among others) and transport services show the greatest percentage of growing enterprises.

Enterprise expansion is a locational phenomenon as well. As shown in Table 3-17, enterprises in all strata add roughly the same number of workers per year per enterprise (ranging from .23 to .31 workers). However, the overwhelming number of rural enterprises means that the bulk of jobs from expansion (81 percent) are occurring in rural areas.

TABLE 3-17
EXPANSION IN EMPLOYMENT BY STRATA

Strata	Average # Jobs Added per Year per Enterprise	Estimated # of MSEs Nationwide	Total Estimated Jobs Added per Year	Percentage of Expansion Jobs
Nairobi/Mombasa	.23	70,411	16,476	6%
Other Cities with over 10,000 population	.29	93,528	26,749	10%
Towns with 2,000-10,000 population	.26	36,007	9,398	3%
Rural areas	.31	710,509	218,126	81%
Total	.297	910,455	270,405	100%

Other locational characteristics also influence the likelihood of expansion. Those enterprises operating from the home are less likely to add workers (33 percent grow) than those located along roads (48 percent) or in markets, whether traditional markets (40 percent), trading centers (37 percent), or commercial districts (50 percent). Third, those in premises to which they have secure tenure (either in the form of title deed or written lease) are more likely to expand than those operating with informal agreements.

Enterprise growth is also related to the proprietor's gender. Women-run enterprises are much less likely to grow than men-run or multiowner enterprises. As shown in Table 3-18, although women-owned businesses outnumber men-owned enterprises, because of their lower expansion rate they contribute only 32 percent of expansion jobs compared with 43 percent by men-owned enterprises.

Other characteristics of the proprietor may also influence an enterprise's ability to expand. First, those proprietors with previous experience as entrepreneurs and those previously employed in the *jua kali* sector are more likely to expand than those coming out of unemployment, from government service, or from agriculture. Surprisingly, those with a history of formal sector employment do not tend to have expanding enterprises, while those fresh from school do.

TABLE 3-18

EXPANSION IN EMPLOYMENT BY TYPE OF OWNER

Owner Category	Average # Jobs Added per Year per Enterprise	Estimated # of MSEs Nationwide	Total Estimated Jobs Added per Year	Percentage of Expansion Jobs
Men-owned enterprises	.32	382,361	115,956	43%
Women-owned enterprises	.21	416,078	87,376	32%
Multiowner enterprises	.52	132,016	68,648	25%
Total	.297	910,455	270,405	100%

Are expansions more prevalent among enterprises that start smaller or larger? As shown in Table 3-19, expansions are not coming from those enterprises that start with more than 10 workers. Only 12 percent of these enterprises have expanded and, on average, they are shrinking in size. Instead, new jobs are being created by the smallest enterprises. On an enterprise level, one-worker businesses add more workers per year than any other size category (.36 workers per year per enterprise), and in aggregate provide more than two-thirds (70 percent) of expansion jobs.

TABLE 3-19
EXPANSION IN EMPLOYMENT BY ENTERPRISE STARTING SIZE

Enterprise Size at Start (# workers)	Average # Jobs Added per Year per Enterprise	Estimated # of MSEs Nationwide	Total Estimated Jobs Added per Year	Percentage of Expansion Jobs
1 worker	.36	427,900	154,044	70%
2 workers	.23	254,900	58,627	27%
3-5 workers	.18	182,000	32,760	15%
6-10 workers	.29	36,555	10,601	5%
11-50 workers	-3.99	9,100	-36,309	-17%
Total*	.297	910,455	219,723	100%

* Totals do not match between tables due to rounding errors and missing data.

The nature of inputs also influences the enterprise's likelihood of expansion. First, for financial inputs, those enterprises that started with more than Ksh. 50,000 appear more likely to expand than those starting with less than Ksh. 50,000. In human capital inputs, the skill level of the labor force also appears relevant. Among enterprises where workers have the least training, the fewest enterprises expand (35 percent). For those with former apprentices, the percentage of expanding enterprises rises to 40 percent, and for those with vocationally trained workers, it goes up to 56 percent.

Transformation in the Growth Process

Earlier in the report it was noted that the size structure of Kenya's MSE sector is larger than in southern African countries, resulting from more expansion of existing enterprises. This suggests that Kenyan MSEs may be further along in the process of transformation into larger, more mature enterprises than are MSEs in other southern African countries. This section examines the extent to which growing enterprises have indeed moved upward through the size structure, graduating in some sense from one level of complexity to the next.

Examining only that 38 percent of enterprises that have expanded their workforce, how many of them have successfully grown out of their original size category? Table 3-20 provides the number of graduates by starting size.

TABLE 3-20

HOW FAR HAVE ENTERPRISES GROWN:
NUMBER OF EXPANDING ENTERPRISES BY STARTING AND CURRENT SIZE

CURRENT ENTERPRISE SIZE	INITIAL ENTERPRISE SIZE (in workers)				
	1	2	3-5	6-10	11-50
2 Workers	100,845 (54%)	—	—	—	—
3-5 Workers	70,810 (38%)	35,433 (87%)	6,669 (37%)	—	—
6-10 Workers	8,740 (5%)	5,323 (13%)	8,475 (47%)	1,309 (48%)	—
11-50 Workers	5,863 (3%)	69 (0%)	3,016 (16%)	1,398 (52%)	438 (100%)
Total Enterprises	186,258 (100%)	40,825 (100%)	18,160 (100%)	2,707 (100%)	438 (100%)

Looking first at the largest population of enterprises, those starting with one worker, 46 percent graduated into more complex enterprises with 3 or more workers. The majority of these graduations was into the 3-5-worker category. By definition, those starting with 2 workers graduated at least into the 3-5-worker category. However, a larger percentage (13 percent) graduated into enterprises with 6 or more workers than was seen in the one-worker enterprises. The pattern continues for all categories: there is definitely an upward progression from one size category to the next, regardless of starting size.

The absolute numbers presented in Table 3-20 provide another lesson. Although enterprises starting with one worker showed some of the lowest percentages of enterprises climbing into the 6-10- and 11-50-worker categories, because of their vast numbers they make up a larger absolute number of graduates in both the 6-10- and 11-50-worker categories. Reading Table 3-20 horizontally, the largest number of 6-10-worker enterprises now in the MSE sector started as 1-person enterprises (8,740). The same lesson appears for 11-50-worker enterprises; 5,863 (or 54 percent) of the 11-50 worker enterprises are expected to have started with one worker. The size category providing the next greatest number of small enterprises is the 3-5-worker group, where 3,016 have graduated into 11-50-worker enterprises, making up 30 percent of that population.

Though not shown in the above tables, the data also revealed that (except for enterprises starting with 1 worker) enterprises starting at all sizes showed some amount of decline. The worst declines took place in the 11-50-worker group, where 85 percent of enterprises fell back into the 1-10-worker size category. This finding unambiguously points to the risks facing enterprises starting with more than 10 workers, and suggests that sustainable enterprises with more than 10 workers will emerge from smaller firms.

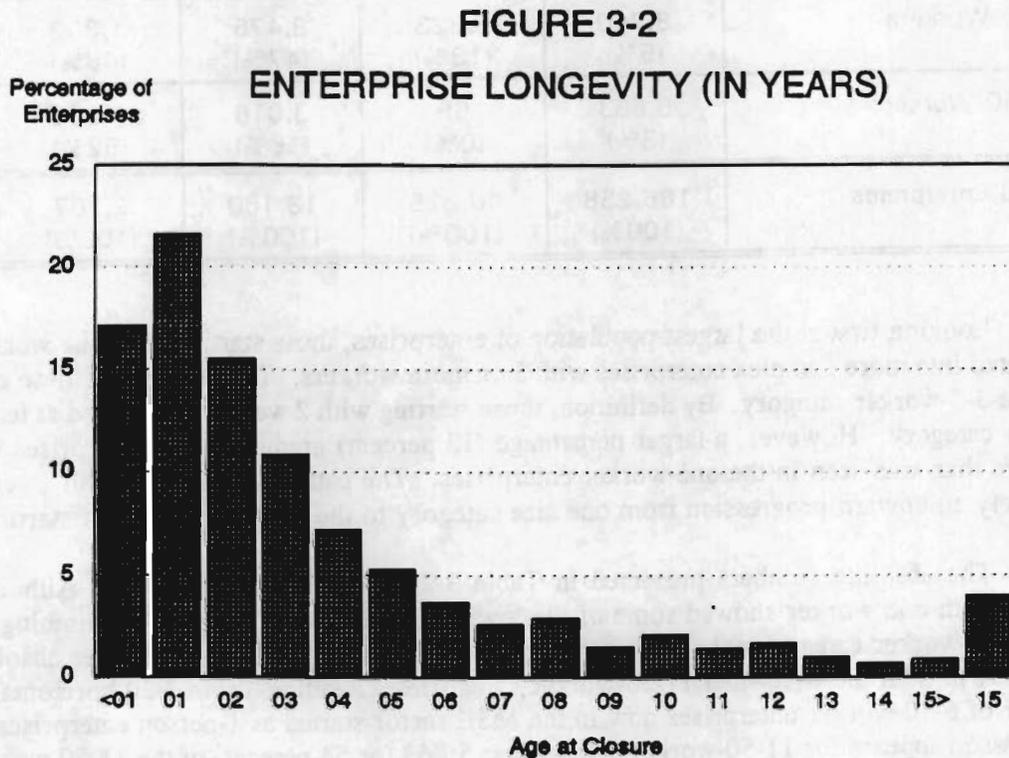
In conclusion, it appears that the vast population of one-worker enterprises is indeed the seedbed for 3-5-worker and 11-50-worker enterprises, providing half or more of all enterprises in those categories their start. Enterprises starting with 3-5 workers have also played an important role as a seedbed for larger enterprises, including small enterprises with more than 10 workers. Thus, it appears that the best

way of encouraging small enterprises (those with more than 10 workers) is through assistance to enterprises that start as microenterprises, and particularly those with fewer than 6 workers.

Enterprise Age and Longevity

The average age of enterprises now in operation is five years, ranging from a few months to 84 years. The majority of enterprises, however, are less than three years old, reflecting the large number of newcomers to the sector, as well as the rapid departure from the sector of other enterprises.³⁰

The closed enterprise questionnaire provides better data on the typical life span of an enterprise, with data on the timing of enterprise closure not available from the primary questionnaire.



Source: Closed Enterprise Questionnaire

³⁰ Twenty-four percent are less than 12 months old; 19 percent are 13-24 months old; 10 percent are 25-36 months old; 9 percent are 37-48 months old; and 5 percent are 49-60 months old. The remaining 33 percent are more than 60 months old.

As Figure 3-2 shows, the closed enterprise data confirm that enterprises are much more likely to close within their first three years, with the largest number closing sometime within the first 24 months in operation. This points to the higher risk facing entrepreneurs in the early years. If assistance agencies conserve their resources by targeting enterprises with sustainable employment generation potential, one of the best strategies may be to avoid new business starts.³¹

Based on closed enterprise data, several enterprise characteristics correlate with enterprise age. First, rural enterprises are likely to remain open longer than urban enterprises. Second, enterprises with forward linkages to other businesses live longer than those that sell directly to final consumers. Longevity is also related to the final size of the enterprise: the larger the enterprises becomes, the longer it is likely to stay open. The data also show a relationship between longevity of the enterprise and the year in which it was opened. It appears that enterprises that started longer ago had longer life spans than those started more recently. This could be attributed to increased competition in recent years, increased options for proprietors in more recent years, or a trend toward greater occupational mobility.

Reasons for Enterprise Closure

All business closures should not be seen as business failures. Closures can be broken into two categories. First are those enterprises that were not sufficiently healthy to continue (either because of insufficient market demand, production difficulties, or managerial deficiencies). These closures are considered business failures. Second are those businesses that closed for reasons external to the enterprise, either economic (better job) or personal. These were closures of otherwise viable businesses. Sixty percent of former entrepreneurs cited business failure as the cause of closure, while 40 percent said that they closed viable businesses for reasons unrelated to the enterprise.

Table 3-21 provides a breakdown of reasons given for enterprise closure. Noticeable is the shortage of operating capital, cited as the key reasons for closure by 24 percent of the entrepreneurs. On the policy front, fully 6 percent said legal or regulatory problems caused them to close.³²

Responses varied by rural and urban area. In rural areas, respondents were more likely to point to working capital shortages or personal reasons for closure. In urban areas, on the other hand, size of market, legal problems, and the decision to move to another enterprise were more frequently cited. Reasons for closure also vary by gender of the owner; women entrepreneurs are more likely to close for personal reasons than their male counterparts.

Finally, reasons for closure vary by sector as well, as shown in Table 3-21. Of note is that service enterprises are less likely to close for lack of capital, which reinforces the earlier finding that service enterprises have better access to capital sources.

³¹ Alternatively, assistance agencies can identify environmental causes of new business failure (such as policy constraints or lack of credit sources) and target those problems to provide new enterprises a level playing field.

³² The same percentage of enterprises cited legal or regulatory problems in Zimbabwe (see McPherson, 1991).

TABLE 3-21
REASONS FOR ENTERPRISE CLOSURE

REASON FOR ENTERPRISE CLOSURE	SECTOR			
	Manufacturing	Commerce	Services	All Enterprises
ENTERPRISE FAILURE				
Too few customers	8%	4%	9%	5%
Too many competitors	2%	4%	3%	4%
Working capital shortage	23%	25%	12%	24%
Materials shortage	2%	3%	0%	3%
Legal/government problem	12%	4%	11%	6%
Other business reason	15%	17%	31%	18%
CLOSURE OF VIABLE ENTERPRISE				
Personal reasons	31%	32%	19%	31%
Took a job	0%	1%	1%	1%
Changed businesses	4%	5%	6%	5%
Other	5%	4%	9%	3%
TOTAL	100%	100%	100%	100%

Source: Closed enterprise questionnaire

Postclosure Activities of Entrepreneurs

What did entrepreneurs do after their business closed? Fully 60 percent opened new enterprises, though after how much time is unknown. Another 15 percent went to work in the agricultural sector, while 8 percent went on to take paid employment. Finally, 17 percent have not re-entered any economic activity, and have either retired, taken on family responsibilities, or remained unemployed.

Subsequent activities of entrepreneurs vary by whether they live in rural or urban areas, and whether they are male or female. Rural entrepreneurs were much less likely to go back into business (29 percent), with most turning to agriculture (42 percent) instead. Urban entrepreneurs were much more likely to start a new enterprise (71 percent). In terms of gender, men and women were equally likely to open another enterprise (60 percent), but secondary options differed. Women who did not go into business tended to remain out of the workforce (23 percent) or go into agriculture (13 percent), while men tended first toward agriculture (16 percent) then toward working for others (13 percent).

Finally, subsequent activities of entrepreneurs vary depending on why they closed their first enterprise. Those that closed because of shortages of operating capital, for example, were much less likely to go into a new enterprise, undoubtedly because of lack of capital there as well. On the other hand, those who felt the market was too small in their original enterprise (either due to low demand or market saturation) were likely to go back into business, presumably in an area with higher demand. As expected, those who left business for personal reasons were less likely to return to business, and made up the bulk of those who did not re-enter the labor force. The second most numerous group of people

who did not re-enter the labor force were those who closed their business because of shortages of working capital. This lends credence to the view that working capital is the key need of entrepreneurs who do not have economic options other than self-employment.

CONSTRAINTS

Using an open-ended-question method, the supplementary questionnaire asked entrepreneurs to report the first, second, and third most pressing problems they faced in their business over the last year. From these responses emerges a picture of the key constraints facing the sector as a whole.³³

First, 18 percent of entrepreneurs were not able to point to any specific constraint facing their business. Another 26 percent cited only one major problem, 32 percent cited two major problems, and 24 percent cited three or more major problems.

Most Important Constraints

As shown in Figure 3-3, the most commonly cited problem related to market size; 30 percent of responses showed some difficulty resulting either from market saturation or low demand. The second major difficulty was in accessing nonfinancial inputs (25 percent). Problems with insufficient capital made up 14 percent of responses, substantially below problems with markets or access to inputs. Figure 3-3 shows the percentage breakdowns by type of problem. Of note is the number of enterprises citing transport, location, policy, and other constraints. Below is a brief description of the composition of these broad categories of problems.

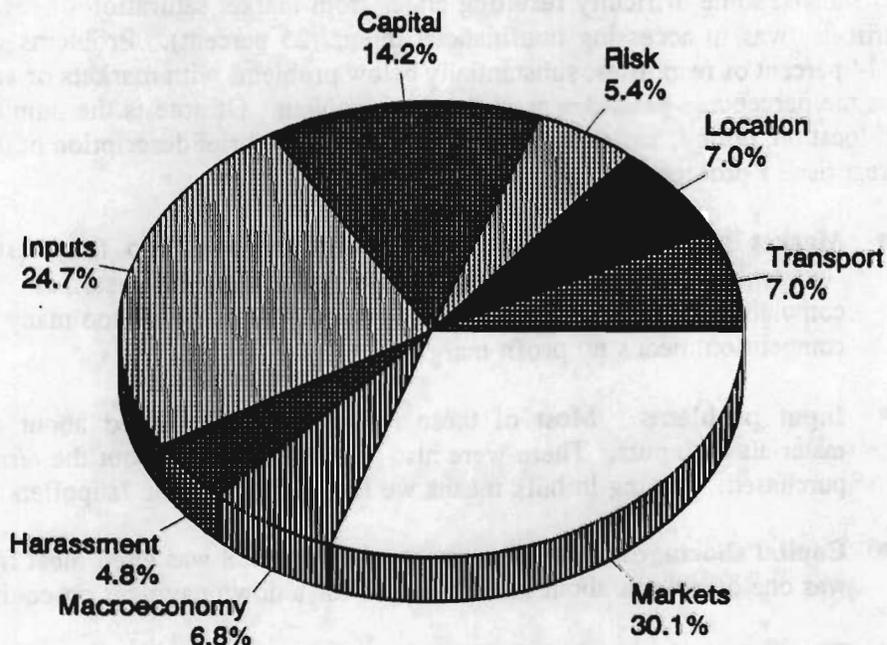
- **Market size.** The most frequent complaint was "too few customers," or similarly, "customers don't have money" or "irregular flow of customers." Less frequent were complaints about the competitive structure of the market: "too many competitors" or "price competition means no profit margins."
- **Input problems.** Most of these respondents complained about lack of access to raw materials or inputs. There were also a few complaints about the terms on which inputs are purchased: "buying in bulk means we lose selectivity" or "suppliers cheat us."
- **Capital shortages.** Operating, or working, capital was cited most frequently, though there was one complaint about lack of capital for a down payment on equipment.
- **Transport.** "Lack of reliable transport" was a recurrent concern. "Traffic congestion" concerned one transport company.
- **Location.** Several entrepreneurs cited their "poor premises" as a major constraint, while others cited the high cost of rent as a problem, or lack of storage space.

³³ It is important to note that findings from the supplementary survey are not based on a scientifically random sample, and therefore cannot be viewed as representative of the entire MSE population. However, a semirandom selection method was used, so there is no reason to expect any particular bias in these results. Second, relationships presented in this and the following sections are held less rigorously to the tests of statistical significance used in the rest of Section Three. Specifically, relationships are described regardless of the level of statistical significance, under the assumption that they reveal avenues for future inquiry rather than scientific findings.

- **Risky environment.** It is difficult to enumerate all of the risks facing a business. The risks listed by business people include theft, civil strife, bad credit from customers, or accidents. Once aggregated, they comprised 5.5 percent of all problems cited.
- **Economic conditions.** "Devaluation" or "inflation" was cited by numerous entrepreneurs as a major problem. Other less-frequently cited difficulties include taxation, fluctuating prices, and licensing.
- **Government involvement.** Finally, 4.8 percent of enterprises said that their most pressing problem arose from interactions with officials. Most termed it "government involvement" in the business, while others pointed to daily cash payments or withdrawal of licenses.

FIGURE 3-3

CURRENT BUSINESS PROBLEMS FACING ENTREPRENEURS



Source: Supplementary Questionnaire

Which enterprises seem most affected by these various constraints? First, problems vary by strata. Although market size and access to inputs are problems in the capitals, they are cited less frequently than in the rest of the population. Government intervention in business appears to be an urban problem, with 9 percent of businesses citing it in Stratum 1, and 5 percent in other large cities. Businesses in the secondary cities in Strata 2 and 3 are the most concerned with market size and access to inputs. Location also becomes a major issue for these enterprises. Rural enterprises seem less concerned about market size, inputs, location, or government involvement; they cite transport issues as their most serious problem.

The location of the enterprise also relates to the types of problems it faces. As was the case for rural enterprises, home-based enterprises are more likely to be concerned with transportation. However, these enterprises are the least likely to face government interference. Instead, the more visible enterprises (those in traditional markets, small trading centers, or along roads) cite greater problems with harassment. Harassment seems to be a bigger problem for those working from temporary structures or in the open air than for those working from permanent premises.

Enterprise size also affects which problems are reported; the 6-10-worker size category cited market size and harassment as key problems, while smaller enterprises cited transport, access to inputs, policy, capital, and market size.

Problems vary by sector as well. Although market size is a problem for all sectors, it is felt most acutely by services. Service enterprises also feel most constrained by their location, which affects their access to these limited markets. Commercial activities cite transport and harassment as more important problems, while manufacturing activities face more constraints linked to capital, the risky environment, and government policy.

What Has Made Business Easier?

Entrepreneurs were asked what, if anything, has made business easier in the last year. More than half (61 percent) responded that nothing had made business easier, reflecting that 1992 had been a difficult one for the economy. Of the remainder that did see an improvement, 40 percent attributed it to some improvement in the market — either a change in demand, or a drop in competition. These enterprises tended to be located in the capital cities or in rural areas. Better market conditions were most frequently cited by those in metalworking. Another 18 percent said that better access to inputs made business easier. Only 8 percent attributed their improved condition to gaining access to credit.³⁴ Several respondents cited changes in the way they run their business (14 percent) as a key to better business. Such changes included getting new accounts, diversifying into new product lines, increasing the amount of stock carried, or getting on better terms with one's workers.

What do these responses indicate? Most importantly, they mirror the responses about key constraints presented above, where entrepreneurs said that a change in the market, access to inputs, or access to capital would make a significant difference in the success of the enterprise. Here is the finding that changes in those same areas (in the same order of importance) have, from the entrepreneur's perspective, been the key change that has resulted in better business. The last item mentioned above, internal business change, also reflects the positive effect that internal management training could have on

³⁴ Without more information, this finding is impossible to interpret. It could reflect that very few respondents received credit or, alternatively, that those who did receive credit do not believe that it made business easier.

a business, confirming the appropriateness of the managerial training requested by entrepreneurs, as discussed above.

Regulatory Constraints

In a multiple choice question on the supplementary questionnaire, entrepreneurs were asked which regulatory requirements affect their businesses. Table 3-22 shows the percentage of enterprises that reported facing a variety of restrictions. Only 11 percent of enterprises are limited either in where they can produce or where they can sell; another 14 percent report that they have faced the toughest locational sanction: eviction. Those evicted tend to be located in the larger cities.

Two other areas of importance to enterprises are licensing and miscellaneous cash payments. Although the survey did not collect information on the cost of licenses or the amounts paid in cash, these make up an implicit tax levied on enterprises that go to local rather than national coffers. Which enterprises are paying these implicit taxes? More than 40 percent of enterprises in all strata buy licenses. However, the percentage rises to 54 percent in small towns, and to 64 percent in larger cities. There is no discrimination by sector or by gender. Of all MSEs, the mid-sized enterprises (those with 3-5 workers) are most likely to be required to get a license. Cash payments are most frequent in the capital cities and in small towns (Stratum 1: 56 percent, Stratum 3: 30 percent). Commercial enterprises are most likely to make regular cash payments, perhaps in some form of daily operating fee. Again, the 3-5-worker size category is most likely to be targeted for such payments.

TABLE 3-22

PERCENTAGE OF ENTERPRISES CITING REGULATORY RESTRICTIONS

Type of Regulatory Restriction	% Enterprises Facing Regulation	% Enterprises Not Facing Regulation
License requirement	53%	47%
Limitation on business location	11%	89%
Eviction	14%	86%
Minimum wage requirement	11%	89%
Miscellaneous cash payments	29%	71%

Source: Supplementary Questionnaire

ADDITIONAL FINDINGS FROM THE SUPPLEMENTARY QUESTIONNAIRE

In addition to the information provided on constraints, the supplementary questionnaire collected information on reasons for choice of activity and future business plans. These findings are presented below.

Why Did Entrepreneurs Choose Their Current Activity?

When asked why they chose to open a particular type of business, entrepreneurs gave a wide variety of answers. Most common, however, were that (1) they have skills or experience specific to their type of business; (2) it looked like a profitable venture; (3) they only had a limited amount of start-up capital, and this business did not need more than that amount; and (4) they had family or friends in this type of business.

Answers vary markedly by gender. Table 3-23 shows the responses by men and women. Men are more likely to choose a business based on its profitability, or on their skills or interests. A large percentage of women also cite skills and profitability as a key reason for entering a particular enterprise, but they are more likely to base their choice on capital availability or on convenience to transport or the household. Women are also more likely than men to enter a given line by accident, without advance consideration of market size or profitability.

TABLE 3-23
REASONS FOR PURSUING CHOSEN BUSINESS BY GENDER
(in percentages)

Reason for Pursuing Current Business	Men Sole Proprietors	Women Sole Proprietors	Total
Had skills/experience	32%	14%	23%
It looked profitable	19%	14%	17%
Had suitable amount of start-up capital	9%	22%	15%
Had family or friends in this line	9%	7%	8%
Convenient in terms of transport	1%	6%	4%
Saw a ready market	2%	1%	2%
Enjoy this business	5%	1%	3%
Entered accidentally	1%	4%	2%
Can operate this business from home	0%	3%	1%
Other	22%	28%	25%
Total	100%	100%	100%

Source: Supplementary Questionnaire

Reasons for entering a specific type of business also vary by sector. Having skills or experience is a key reason for starting a particular type of manufacturing or service enterprise, but is not an issue for those entering commerce. Commercial enterprises, on the other hand, are most often started either because they look profitable, or because the entrepreneur has the appropriate amount of start-up capital to open that type of enterprise. Only those in commerce enter "accidentally."

Plans for Enterprise Expansion

A follow-on question to why entrepreneurs choose a given business is whether they intend to stay in their current business, or if they would rather switch to a different activity. When asked whether, given the opportunity, they would expand their current enterprise or start a new business, 78 percent said that they would expand while another 20 percent said they would shift into a different line.

Responses vary by gender of proprietor. More women entrepreneurs intend to diversify, while more men plan to expand their current enterprise. This gives further credence to the hypothesis set out by Downing (1990) that asserts this finding.³⁵ This finding may also reflect that the reasons women enter a particular venture become less important as they gather experience in business. This is undoubtedly true for those entering a particular business by accident, and is likely true for those entering because of convenience.

Plans vary by location. Entrepreneurs in small towns are least interested in shifting into new activities, despite their general concern with the size of the market (see the discussion of constraints above). Secondly, entrepreneurs operating from more commercial areas, either small trading centers, road sides, or commercial districts, are less interested in shifting into a new line than their counterparts operating from the home or in traditional markets.

Future plans also vary by sector; those in services are most interested in expanding their businesses (despite serious concerns about market size among these businesses), and those in manufacturing are more interested in shifting into another business. In subsectors, those in textiles, leather, and metals seem most content in their current activity, while those in agriculture- or forest-based activities, construction, and personal services are more interested in switching into new activities.

Intentions also vary by the size and growth experience of the enterprises. The larger the enterprise is currently, the less likely the entrepreneur is to plan a shift into a new activity. This pattern begins to appear in businesses with 3 to 5 workers, and is stronger in larger enterprises. Also, more enterprises with a history of growth plan to stay in their current enterprise, while those that have not expanded are more likely to plan to shift into new lines. Those that plan to stay in the same business have expanded their workforce at an annual rate of 30 percent, while those that intend to shift to new activities have only grown at a rate of 13 percent.

What reasons are given for planning to expand the current enterprise? The most common reasons are the high investment made in this enterprise, the high costs of starting a new venture, or having skills particular to this line of work. Only secondarily do people plan to stay because this enterprise has better prospects than the alternatives.

And why do others plan to shift into new activities? The most common response was to take advantage of a perceived opportunity in another type of activity. The second reason was to escape the low returns in the current enterprise, often without an idea of what business activity they would choose to start.³⁶

³⁵ To simplify, Downing hypothesizes that women tend to diversify their economic activities with the goal of security of income, while men tend to focus on a fewer economic activities with the goal of growth in income.

³⁶ It is possible to tie these patterns back to the discussion on business closure above. In the case of closing a business to pursue a more profitable option, a business "closure" would be considered voluntary and would represent a net gain for the entrepreneur. In the second case, however, the closure would be considered a business failure.

Lessons from the Supplementary Questionnaire Findings

What conclusions can be drawn from these supplementary questionnaire findings? First, people have a tendency to enter businesses with lower barriers to entry (that is, low skill and capital requirements) and thereby find themselves in oversaturated markets. When combined with the finding that market size is the key constraint for enterprise expansion, this suggests that future assistance to the MSE sector must be directed by a solid knowledge of market potential and of the competitive structure of the marketplace.

Secondly, technical skill development was mentioned both as a key need of those already in manufacturing or services, as well as a key motivation for entering a specific type of enterprise. From the perspective of assistance agencies, skill development must go hand in hand with a knowledge of market potential. The data suggest that those with technical skills are unlikely to shift into new activities, even if their current business is providing little income. Therefore, it is critical that people are not trained in skills that push them into already saturated markets.

SECTION FOUR

COMPARISON OF PRIMARY RESULTS WITH PURPOSIVE SAMPLE OF INDUSTRIAL AND COMMERCIAL AREAS

In the planning stage, the 1993 baseline survey was intended to provide a profile of micro, small, and medium enterprises. It was expected that while a random sample might reveal a portion of the medium-sized sector, the bulk of those enterprises would concentrate in urban commercial and industrial areas. As a secondary strategy, then, a fifth stratum was added to the survey that covered only commercial and industrial areas in six major urban areas.³⁷

After the field work was completed, it was discovered that the random sample uncovered only MSEs, thus provided no statistically valid findings on the medium-sized enterprise population. In addition, statistical shortcomings of the data from Stratum 5 became increasingly clear, because of the myriad difficulties discussed below. As a result, the information this survey provides on medium-sized enterprises, or on enterprises based in commercial and industrial areas, must be seen as only suggestive. Despite this, it is important to examine the data for any insights that may emerge. It is hoped that future studies will be more successful at charting the structure and characteristics of the medium enterprise sector.

SAMPLING ISSUES

In undertaking the 1989 population census, the government's Central Bureau of Statistics did not enumerate areas known to be commercial or industrial. This resulted in two design problems for this survey. First, all individuals residing in commercial or industrial areas were excluded from the national population from which this survey's sample was drawn. If these populations differ from other urban residents in specific characteristics, these traits are not represented in the primary survey. Second, by using a sampling frame that excluded commercial and industrial areas, the survey automatically under-represented the national enterprise population, and, most likely, the larger and more modern enterprises.

Unfortunately, even though these obstacles were known a priori, it was difficult to remedy them for two reasons. First, CBS did not maintain a list of areas excluded from the population census. As a result, it was not clear which areas had been excluded, and where the boundaries of excluded areas fell. This raised the possibility of double-counting populations along the edges of these areas, including them both in the general population sampling frame and the commercial and industrial sampling frame. Despite this possibility, a list of areas was developed for six urban areas, with boundaries drawn along major roads. The second major problem was one of densities of enterprises. The baseline survey method is based on a random sample of clusters with roughly the same number of enumeration units. In the random sample, this unit was households. For commercial and industrial areas, it was to be enterprises. However, it was impossible to visually carve out similarly sized population units within the now-identified commercial or industrial areas. The method finally arrived at is provided in Annex D. As such, it is impossible to generate even a rough estimate of the number of enterprises in a given industrial or commercial area, to estimate numbers of workers involved in this segment of the private sector, or to generalize about this stratum in any way.

³⁷ The six cities included in stratum 5 are Nairobi, Mombasa, Thika, Nakuru, Eldoret, and Kisumu.

The team explored two alternative means of sampling to reach this population. First was the possibility of picking a random sample of enterprises from a national roster of registered enterprises. However, given the nascent state of the roster, it was viewed as an insufficient sampling frame for this type of exercise. Second, the team explored the option of undertaking a complete door-to-door census of all enterprises in a city's commercial and industrial areas. Unfortunately, this option was too costly to pursue, even with a shortened questionnaire.

Despite all of these caveats and warnings about the data, the basic findings on the characteristics of enterprises in commercial and industrial areas are provided below, with comparisons made with urban-based enterprises operating outside of the commercial and industrial areas.³⁸

CHARACTERISTICS OF ENTERPRISES IN COMMERCIAL AND INDUSTRIAL AREAS

Stratum 5 (commercial and industrial areas) differs from the general urban population in many respects. To uncover these differences, this section revisits many of the topics covered in Section Three, focusing on this particular urban enterprise population.

Industrial Structure

Table 4-1 shows the sectoral breakdown of Stratum 5 relative to other urban enterprises. Clearly, a lower percentage of enterprises in commercial and industrial areas are involved in commerce, while the percentages in services and manufacturing are markedly higher.

TABLE 4-1
COMPARISON: SECTORAL COMPOSITION
(in percentages)

SECTOR	Urban Enterprises Outside Commercial/ Industrial Areas	Urban Enterprises In Commercial/ Industrial Areas
Manufacturing	16%	23%
Commerce	65%	42%
Services	19%	35%
Total	100%	100%

³⁸ All comparative analysis presented here is between enterprises in the commercial/industrial area and urban enterprises in the general sample located in towns with over 10,000 population, including Nairobi and Mombasa. Rural enterprises and those operating from small towns were excluded.

Size Structure

Although it was hoped that Stratum 5 would capture a sizeable proportion of medium-sized enterprises (those with 51-100 workers), only 1 percent of enterprises fell into this size group, as shown in Table 4-2. More heavily represented than in the general urban population, however, is the small enterprise category, which includes fully 10 percent of enterprises within commercial and industrial areas.

TABLE 4-2
COMPARISON: CURRENT ENTERPRISE SIZE
(in percentages)

Enterprise Current Size (# workers)	Urban Enterprises Outside Commercial/Industrial Areas	Urban Enterprises In Commercial/Industrial Areas
1 worker	49%	27%
2 workers	26%	21%
3-5 workers	19%	29%
6-10 workers	5%	12%
11-50 workers	1%	10%
51-100 workers	0%	1%
Total	100%	100%
Average Size	2.3 workers	5.8 workers

Nonetheless, this still leaves 89 percent of enterprises in the various microenterprise size categories. Of note is the different size distribution of enterprises within the microenterprise category. A much smaller proportion of enterprises are one-worker concerns than is seen in the general urban population. Instead, a higher percentage appear in the more complex 3-5- and 6-10-worker categories.

Labor Force Characteristics

The workforce in the commercial and industrial areas is made up largely of paid workers (66 percent), while unpaid family make up only 6 percent of workers. Compare this with enterprises outside of commercial and industrial areas, where only one-third (31 percent) of workers are paid, and 47 percent of workers are proprietors. This indicates that the sector provides an important source of self-employment outside of commercial and industrial areas, but an important wage labor generator within commercial and industrial areas.

TABLE 4-3
COMPARISON: LABOR FORCE COMPOSITION
(in percentages)

Type of Worker	Urban Enterprises Outside Commercial/ Industrial Areas	Urban Enterprises In Commercial/Industrial Areas
Working owner	47%	21%
Unpaid family	16%	6%
Paid worker	31%	66%
Unpaid apprentice	6%	7%
TOTAL	100%	100%
Children under 15 as % of total	3%	1%

Workers within the commercial and industrial areas tend to be more skilled than those working outside, with a greater percentage of workers having completed apprenticeships (23 percent versus 18 percent) or formal technical training (18 percent versus 9 percent), and a significant number having some university training (7 percent versus 1 percent). Finally, workers in the commercial and industrial areas are more likely to be male, with women making up only 24 percent of the workforce, compared with 55 percent in other urban enterprises.

Enterprise Location

Only four out of five enterprises (79 percent) in the stratum can be said to be located in a "commercial" or "industrial" area per se. Although this may seem inappropriate, it points to the existence of areas within the stratum that have the characteristics of the broader population. In fact, 2 percent of enterprises in this stratum are operating from within the home, 4 percent in neighborhood trading centers, 5 percent along feeder roads, and 9 percent are mobile. Similarly, only slightly over half (52 percent) of all the enterprises found are working from permanent structures. The rest are in temporary structures (14 percent), under a roof only (10 percent), or without a structure (20 percent). Access to utilities is not widespread; only 38 percent have both electricity and water on-site, and fully 35 percent have neither. Still, more enterprises have access to both a permanent structure and utilities than in the population outside of commercial and industrial areas.

Security of Tenure

Not surprisingly, fewer enterprises in commercial and industrial areas hold a title deed to their working premise, particularly since fewer enterprises operate from the home. The majority (51 percent) have a written lease, but this is a lower percentage than in the rest of the population (58 percent). A greater number of enterprises are squatting within the commercial and industrial areas than outside (12 percent versus 7 percent), again signaling the sizeable population of informal activities in these so-called formal areas.

Linkages

Stratum 5 enterprises have stronger forward linkages than other urban enterprises, with 13 percent (as opposed to 2 percent) servicing other enterprises. In addition, a few service the export market (1 percent), while other urban enterprises do not. In terms of backward linkages into input markets, the majority of Stratum 5 enterprises still buy domestic inputs (67 percent), but more depend on imported inputs than in the general urban enterprise population (18 percent versus 9 percent).

Access to Credit

Enterprises in commercial and industrial areas rely marginally less on informal credit sources (5 percent versus 7 percent) and marginally more on formal credit than their counterparts outside of these areas (8 percent versus 6 percent). However, the bulk of enterprises (79 percent) have still not received credit or business assistance of any kind.

Entrepreneurial Characteristics

Entrepreneurs in the commercial and industrial areas have a much different background than those that locate elsewhere. Twenty-eight percent come out of formal sector employment, another 11 percent from informal sector employment, and 10 percent directly from school. Conversely, many fewer come from agriculture and from government employment than in the rest of the urban population. Entrepreneurs in commercial and industrial areas are more likely to be male (54 percent versus 40 percent). As expected, more enterprises have multiple owners than in the general enterprise population (28 percent versus 14 percent).

Starting Size

Enterprises in commercial and industrial areas generally start with more workers than those outside. Table 4-4 gives the breakdown of initial enterprise size. Perhaps surprisingly, fully half of all enterprises in commercial and industrial areas began with only one worker. However, there are a sizeable number of enterprises starting in the more complex 3-5-worker size category. Although only a small percentage started in the 6-10 or 11-50 size categories, the percentages are still much higher than seen in enterprises outside of commercial and industrial areas.

Patterns of Change

Enterprises in the commercial and industrial areas appear to be expanding more rapidly than other urban enterprises. More than half of the enterprises show some expansion (54 percent versus 37 percent outside). Employment in existing enterprises is expanding at a rate of 25 percent per annum in aggregate, compared with 20 percent among enterprises outside of commercial/industrial areas. Which enterprises in commercial and industrial areas appear to be growing? Men-owned or group-owned enterprises show higher growth rates (each at 24 percent per annum) than women-owned enterprises (16 percent per

annum). Manufacturing enterprises show the highest growth rates (32 percent per annum), followed by services (26 percent per annum).³⁹

TABLE 4-4
COMPARISON: INITIAL ENTERPRISE SIZE
(in percentages)

Enterprise Initial Size (# workers)	Urban Enterprises Outside Commercial/ Industrial Areas	Urban Enterprises In Commercial/ Industrial Areas
1 worker	72%	50%
2 workers	18%	23%
3-5 workers	8%	19%
6-10 workers	1%	5%
11-50 workers	1%	4%
51-100 workers	0%	0%
Total	100%	100%
Average size	1.6 workers	3.0 workers

A PROFILE OF SMALL AND MEDIUM ENTERPRISES

The above statistics are helpful for providing a flavor of the differences between enterprises operating within commercial and industrial areas and those operating from without in the MSE sector. However, they do not create an understanding of the MSE, in terms of its characteristics now or of its history. This section provides two profiles, one of medium enterprises and one of small enterprises, that operate in commercial or industrial areas. Again, these profiles should be read with the understanding that this data set is limited.

³⁹ These growth rates are calculated using the linear method described in footnote 30.

PROFILE: THE MEDIUM ENTERPRISE SECTOR

Medium enterprises, those with 51-100 workers, are the exception rather than the rule in Kenya's private sector. However, those that do exist are visible and draw much attention, because of their size and urban location.

In this survey, medium enterprises were found only in the manufacturing and service sectors. Because of the small sample size (11), no patterns emerged in types of activity. Of note was their distribution across food, leather, plastic, metal, and wood processing, and in construction and transport services. They are based in permanent structures (most of which are owned by the company), have access to utilities, and (with the exception of the sawmill) operate year-round.

Only a few of the medium enterprises are run by single owners, with the majority relying on multiple owners, either through family, cooperative, or corporate structures. None are women-owned sole proprietorships.

For the most part, medium enterprises do not appear to start with more than 50 workers. In this small sample, for example, half began as microenterprises, and 25 percent as small enterprises, indicating how dynamic these enterprises have been in the past. Most of the entrepreneurs came out of formal sector employment just prior to opening this enterprise. In addition, most report that their trained workers have formal technical training or even university experience. As a composite, then, owners and workers have higher skills than in the population at large. Perhaps because of this skill advantage, most have passed the risky three-year mark, ranging in age up to 23 years.

Medium enterprises are more likely than the general population to build forward linkages to other enterprises: 5 of the 11 stated that other enterprises were their most important clients. In addition, the enterprises involved in maize milling, leatherwork, sawmilling, metalwork, restaurants, dairy transport, and building construction all reported relying solely on domestic inputs.

Overall, then, the medium enterprise population is a dynamic group based in production of goods and services rather than trade, showing substantial past growth and longevity and strong domestic linkages.

PROFILE: THE SMALL ENTERPRISE SECTOR

Small enterprises, those with 11-50 workers, make up 10 percent of the enterprise population found in commercial and industrial areas. As in the medium enterprise sector, the bulk of the population is involved in either manufacturing (30 percent) or services (50 percent). There are, however, some commercial activities in this group (20 percent).

The majority of enterprises are multiowner establishments, half of which are corporations. Of the 41 percent that are sole proprietorships, 83 percent are men-owned. Combined with low percentages of female workers (16 percent), there are few women involved in this group of enterprises overall. The vast majority of enterprises operate year-round from permanent premises with electricity and water. Although only 27 percent of enterprises hold a title deed to their work space, another 69% have a written lease to their premises.

The small enterprise population is longer-lived than the general population, with an average age of 11 years. In addition, it is more dynamic than the general population. Currently, the typical small enterprise has 22 workers, up from an average of 9 workers at start. As this statistic suggests, the majority (70 percent) of small enterprises started in the microenterprise category. The greatest number of enterprises evolved from enterprises starting with 3-5 workers.

This size group shows stronger forward linkages than the general population (29 percent service other enterprises), but the majority still sell the bulk of their goods or services to final consumers. In addition, there is a small group of enterprises (3 percent) involved in exports, though none of these enterprises are manufacturers. The majority (53 percent) rely only on domestic inputs. These backward linkages are strongest in the manufacturing sector.

SECTION FIVE

TAKING A SUBSECTOR APPROACH

WHAT IS A SUBSECTOR?

Much of this report has focused on the size and growth of categories of enterprises in hopes of identifying those activities that provide stable and growing employment. However, little attention has been placed on identifying how these enterprises relate to each other across these broad categories.

In providing goods and services, enterprises are part of a chain linking those that provide production inputs all the way through to those who deliver the finished products to the final consumer. This chain of actors make up what we call a subsector: a set of enterprises making, trading, transporting, and servicing a related set of goods. Subsectors can be identified either by their raw material base (as is the case in commodity subsectors), or by the finished product market (such as the garment or footwear markets).

Reorganizing the data along subsector lines provides a different view of the MSE sector than that presented in Section Three. Rather than defining activities as "manufacturing," "commerce," or "services," a subsector is driven by a definition of the input or product, and will inevitably include a combination of manufacturing, commercial, and service activities that service that particular market. As assistance programs increasingly target their programming toward growing markets, designers will inevitably be thinking along subsector lines.

Before examining the data, one caveat must be made. Stratified random sampling methods undoubtedly resulted in some geographically concentrated activities being over- or under-counted, depending on whether their locality fell into the sample. For example, fish-related activities that congregate along the perimeter of Lake Victoria were not captured by the sample. Also, it is likely that leatherworking activities, which may dominate in the arid parts of the country not covered by the survey, were under-counted. Unfortunately, it is impossible to assess which activities have been over- or under-counted and to what extent. As a result, the distribution of enterprises in specific subsector groupings (such as that provided in Table 5-1) is indicative only of the true national distribution, and the results should be read with this in mind. That noted, it is still useful to look at the trends appearing within activities even if the number of enterprises in the particular activities may be incorrect.

RE-EXAMINING THE DATA ALONG SUBSECTOR LINES

The data from the baseline survey were regrouped into rough subsector categories.⁴⁰ After categorization, seven subsectors emerged that were both adequately homogeneous for analysis, and included more than 1 percent of the population nationally. They are:

- Agriculture-based products
- Forest-based products
- Textile products
- Construction services
- Transport services
- Metal products
- Leather products

Five of these subsectors are defined by their raw materials (such as agricultural or forest-based products), while the other two — construction and transport — are service product subsectors. The seven subsectors and the proportion of MSEs and MSE employment they represent are shown in Table 5-1.⁴¹

The subsectors vary widely in number of enterprises. As expected, the two subsectors based on Kenya's natural resource base (the agriculture- and forestry-based products subsectors) are the largest, both in number of enterprises and total number of jobs provided. The construction subsector, fourth largest in number of enterprises, is the third most important provider of jobs because of the larger number of workers per enterprise.

In addition to numbers of enterprises and jobs, subsectors vary according to other important criteria, such as percentage of enterprises owned by women, quality of jobs provided, percentage of enterprises located in rural areas, and dependence on domestic rather than imported inputs. What follows are brief descriptions of each subsector, including information on these and other characteristics. The section concludes with a discussion on the relative merits of the different subsectors. For those interested in additional data, Annex H contains comparative tables of subsector characteristics.

⁴⁰ These groupings are rough in the sense that some enterprises might participate in multiple subsectors, but have been assigned only one in this analysis. Similarly, many enterprises did not neatly fit into a particular category, so were relegated to the "miscellaneous" group for lack of better information. Annex F provides a complete list of activities for each subsector, as well as for miscellaneous activities.

⁴¹ Omitted from the analysis are businesses that fell in the chemicals subsector (0.5 percent), nonconstruction minerals subsector (0.9 percent), miscellaneous services (1.9 percent), and other miscellaneous activities (15 percent).

TABLE 5-1
NUMBER OF ENTERPRISES AND EMPLOYMENT BY SUBSECTOR

SUBSECTOR	ESTIMATED # OF MSEs IN SUBSECTOR	ESTIMATED % OF MSEs IN SUBSECTOR	ESTIMATED # OF JOBS IN SUBSECTOR	ESTIMATED % OF JOBS IN SUBSECTOR
Agriculture-based products	451,694	50%	911,925	45%
Forest-based products	131,610	15%	329,841	16%
Textile products	59,554	6%	111,527	5%
Construction services	56,830	6%	217,091	11%
Transport services	18,643	2%	59,285	3%
Metal products	14,683	2%	29,392	1%
Leather products	10,276	1%	19,280	1%
Other	167,120	18%	358,591	19%
Total	910,465	100%	2,036,932	101%

Agriculture-based Products Subsector

The agriculture-based subsector is the largest nationally, comprising 50 percent of all enterprises and 45 percent of MSE employment. It is also a major provider of income and employment to women, who make up 58 percent of entrepreneurs and 63 percent of workers in the subsector.

The majority (54 percent) of enterprises are strictly self-employment activities; however, some enterprises are 3-5-, 6-10-, or 11-50-worker enterprises. Although only 1 percent of agriculture-related enterprises fall into the "more than 10" size category, once adjusting for the magnitude of the subsector it appears that 37 percent of 11-50-worker enterprises nationally are in this subsector (compared with 19 percent in construction and 11 percent in forest-based products).

Three-fourths (74 percent) of the subsector's activities are in commerce. Wholesaling activities are more dominant than in other subsectors, reflecting the need for food distribution nationwide. Still, the vast majority (95 percent) of commerce activities are at the retail or vending level, both for primary agricultural products and for prepared food items. Manufacturing activities make up 20 percent of all activities in the subsector, the most common of which are preparing ready-to-eat foods, brewing beer, and grain milling. Service activities, including butcheries and restaurants, make up the final 6 percent of activities.

Next to the leather subsector, agriculture-based enterprises are some of the least dynamic, with only 34 percent of enterprises having added any workers since opening. Finally, this subsector is predominately rural, with 82 percent of enterprises based in rural areas or towns with less than 2,000 people.

Below, Table 5-2 provides a closer look at the most common activities in the agriculture-based subsector by some key characteristics. For the assistance agency, this type of table can point out where specific activities may involve their target group (such as women in rural areas) while showing some potential for growth.

TABLE 5-2
CHARACTERISTICS OF SPECIFIC AGRICULTURE-BASED ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Retail of agricultural produce	53%	70%	80%	4%	30%
Retail of food/drink	9%	69%	88%	8%	39%
Retail of livestock	8%	21%	98%	8%	38%
Preparing ready-to-eat food	7%	54%	65%	16%	36%
Beer brewing	7%	74%	97%	4%	16%
Restaurant/bar	5%	9%	65%	42%	43%
Maize mill	3%	9%	95%	66%	38%
Wholesale of agricultural produce	3%	50%	94%	5%	56%
Wholesale of livestock	1%	0%	98%	1%	50%
Butchery	1%	4%	0%	47%	30%
Average		58%	82%	10%	34%

Forest-based Products

This subsector is central to the MSE sector, and includes 15 percent of all enterprises and 16 percent of the sector's employment. It includes all enterprises based on forest resources. The most important products emerging from the subsector are wooden furniture, charcoal, rope or twine, and baskets. Not included in the subsector are enterprises transforming forest-based resources into building materials, which instead appear in the construction subsector below.

Forest-based enterprises are slightly larger and longer-lived than the average and 42 percent have added workers, suggesting that they are a stable source of employment. Half of the subsector's enterprises are owned by women and 47 percent of workers are female. However, few workers are paid (9 percent), typically a sign that the subsector provides largely self-employment activities. Indeed, as shown in Table 5-3, the subsector splits into those activities that are self-employment activities (6 percent or less of workers paid) and those that are more formal enterprises (with more than 25 percent paid workers). Note that women entrepreneurs are found nearly exclusively in the self-employment activities.

Manufacturing dominates in the subsector, making up 63 percent of enterprises. The most common manufacturing activities are furniture-making (21 percent), rope and twine production (13 percent) and basket-making (12 percent), followed by other grass products, sawmilling, and charcoal-making. Women dominate in grass-related activities (such as rope, twine, and basket making) while men dominate in wood-related activities (furniture making, sawmilling, and charcoal). Women-run enterprises tend to be smaller and to grow more slowly than the men-run enterprises, particularly because of the dominance of basket-making, which is relatively stagnant.

TABLE 5-3
CHARACTERISTICS OF SPECIFIC FOREST-BASED ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Retail of charcoal	36%	72%	82%	2%	36%
Furniture-making	21%	5%	77%	27%	60%
Cord/rope/twine-making	13%	74%	99%	0%	55%
Basket-making	12%	84%	98%	0%	9%
Other grass production	9%	31%	99%	6%	38%
Sawmilling	5%	0%	98%	37%	50%
Charcoal-making	2%	0%	100%	0%	100%
Average		50%	88%	9%	42%

Textile Products

The third largest subsector, textiles, includes 6 percent of all MSEs and provides 5 percent of the sector's jobs. This subsector is dominated by women, who make up 62 percent of proprietors and 60 percent of workers. The subsector is also characterized by very small enterprises, where 81 percent of enterprises have 1-2 workers and none have more than 10 workers.

In addition to the production and distribution of new clothes, a thriving second-hand garment market makes up a large part of the subsector, involving nearly half (48 percent) of enterprises. It is expected that secondhand clothes compete with locally produced garments from the MSE sector in the marketplace.

TABLE 5-4
CHARACTERISTICS OF SPECIFIC TEXTILE ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Retail of secondhand clothes	48%	68%	72%	8%	54%
Dressmaking/tailoring	28%	58%	54%	15%	48%
Retail of ready-made clothes	13%	28%	44%	8%	17%
Weaving/spinning	8%	95%	92%	1%	49%
Average		62%	64%	9%	47%

Although the majority of textile enterprises are in rural areas, one-third are found in urban areas — typically those involved in garment-making or the retail of secondhand clothing. The textile subsector shows many of the characteristics typically ascribed to the informal sector. Enterprises in the subsector serve the final consumer rather than other businesses, with few backward linkages. They tend to operate from traditional marketplaces and homesteads, relying heavily on their own savings for capital.

Construction Services

In addition to building construction services, the construction subsector is made up of those firms manufacturing and distributing building materials of all types, as well as those selling real estate or renting rooms or flats. The subsector makes up only 6 percent of enterprises, but it contributes 11 percent of the MSE sector's jobs, reflecting the large average size of enterprises.

The striking characteristics of enterprises in the construction subsector are their size and longevity. The average business starts with more than four workers and has been in operation for more than nine years. Currently, this subsector has a higher proportion of businesses with 6-10 and 11-50 workers than any other subsector. But despite their size and longevity, there is little expansion of existing businesses. On average, there has actually been a slight decrease in the number of workers per enterprise over time.

Construction enterprises are predominately rural (89 percent), with the exceptions being the real estate and rental markets, which are found primarily in large urban areas. The majority of enterprises report conducting their enterprises from traditional markets, but a fair number are mobile, particularly for construction services.

TABLE 5-5
CHARACTERISTICS OF SPECIFIC CONSTRUCTION ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Building construction services	29%	0%	98%	35%	44%
Brick/block-making	18%	1%	98%	46%	51%
Stone masonry	18%	0%	100%	28%	57%
Retail of building materials	14%	15%	90%	11%	30%
Rooming house services	10%	20%	42%	1%	14%
Wood construction material production	4%	0%	91%	15%	53%
Real estate services	1%	21%	0%	0%	51%
Average		4%	89%	27%	41%

Women play a minor role in this subsector, making up just 4 percent of entrepreneurs and 13 percent of workers. The subsector provides a higher percentage of paid jobs (27 percent) than on average, which, when combined with the longevity finding, suggests both stable and high-quality employment for those already employed. The lack of growth, however, suggests that there may be few new jobs in this subsector until the economy improves.

Construction enterprises tend to be more complex than in most other subsectors, with a higher percentage of businesses (30 percent) run by multiple owners. Construction enterprises are also more likely to be part of an extended supply chain, with strong forward and backward linkages to other domestic businesses.

A relatively high percentage of construction enterprises (13 percent) are tied into the formal credit system, well above the national average of 4 percent. All businesses that received credit reported going to formal credit sources, the reverse of the pattern seen in most of the MSE sector. This use of formal credit may reflect the large amount of start-up capital required for several of these activities, in particular retailing of building materials, setting up rooming houses, dealing in real estate, and constructing buildings.

Transport Services

According to survey data, transport services make up only 2 percent of the MSE population and 3 percent of the sector's employment. However, it is likely that the extent of this subsector was vastly undercounted, given its mobile nature. It is clear that this subsector is an important provider of services to other businesses, both rural and urban, large and small.

TABLE 5-6

CHARACTERISTICS OF SPECIFIC TRANSPORT ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Bus/matatu services	35%	0%	89%	85%	29%
Bicycle repair	24%	0%	78%	4%	54%
General good transport	19%	0%	96%	50%	99%
Motor vehicle repair	15%	0%	42%	40%	90%
Ox/donkey cart, mkokoteni	5%	0%	0%	11%	15%
Construction material transport	2%	0%	0%	63%	100%
Average		0%	74%	45%	61%

Activities in the subsector include both transport of people (matatus) and of goods, using either motorized or nonmotorized means. Service activities in the subsector include motor vehicle and bicycle repair.

Overall, transport enterprises are a dynamic lot, with more than half of all enterprises (61 percent) adding workers since they started. Only 41 percent of enterprises started with one worker, and currently only 25 percent have one worker. The average transport business has three workers, and 45 percent of the workforce is salaried. Women, however, are not among this workforce, either as workers or owners.

Metal Products

The metal product subsector is made up of those that make, sell, and repair metal products, either for households or for other businesses. The subsector represents only 2 percent of MSEs and 1 percent of MSE employment nationwide.

A higher percentage of enterprises in the metal subsector started with one worker than in any other subsector. In addition, only 36 percent have expanded since opening. As a result, this subsector still has the highest percentage (61 percent) of one-worker enterprises of all of the subsectors. Only 37 percent of enterprises are run by women, and men hold 65 percent of all jobs.

TABLE 5-7

CHARACTERISTICS OF SPECIFIC METAL-BASED ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Retail of domestic hardware	69%	50%	68%	5%	32%
Miscellaneous metalworking	10%	0%	0%	23%	52%
Metal furniture/grill/gate production	8%	16%	0%	52%	64%
Retail of machinery	6%	10%	0%	35%	28%
Production of household metal hardware	4%	0%	0%	6%	14%
Average		37%	47%	13%	36%

The metal subsector is predominately urban, with the exception of domestic hardware retailers. It depends more heavily on imports than do many of the other subsectors. Finally, businesses in the metal subsector use more formal credit than in most other subsectors; however, use of formal credit was only reported by male-run or multiowner enterprises.

Leather Products

Leather, the smallest of the subsectors, makes up 1 percent of MSEs and MSE employment. On average, its enterprises start the smallest and grow the least of any subsector. It is heavily dominated by men, who make up 74 percent of entrepreneurs and 91 percent of workers. Leather enterprises are based largely in urban areas, typically in towns with more than 10,000 population. Leather workers tend to operate from traditional marketplaces.

One-fifth of leather enterprises are in manufacturing, either producing shoes or leather products. Another quarter are involved in trading activities. This leaves about half of all enterprises in service or repair activities. The dominance of repair over new shoe-making reflects a consumer trend toward cheaper shoes made of cloth or plastic, which are produced by the largest formal sector firms like Bata. This trend is only likely to reverse itself when the income of the average consumer rises substantially.

TABLE 5-8
CHARACTERISTICS OF SPECIFIC LEATHER ACTIVITIES

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Shoe repair	47%	1%	24%	13%	45%
Non-shoe leather products	30%	40%	75%	0%	7%
Retail of shoes	15%	27%	0%	20%	48%
Shoe-making	7%	6%	0%	39%	57%
Average		17%	34%	13%	33%

CONCLUSIONS

To summarize, Table 5-9 brings together the averages from the above tables for comparative purposes. When cast in a comparative light, special characteristics of the subsectors begin to appear. For example, the metal and leather subsectors tend to be urban and are dominated by men. In addition, neither subsector plays a large role in the MSE sector. On the other hand, agriculture and forest-based activities, which provide the bulk of the sectors' employment, are predominately rural and women-dominated.

Table 5-9 highlights some of the difficulties or tradeoffs inherent in working with specific subsectors. For example, clever programming will be required to focus on agriculture-based enterprises and also have a large impact on paid employment. Similarly, it will be difficult to reach women by developing programs in the construction subsector. Clearly, only a few criteria have been examined here, because of the increasing complexity of the discussion as new criteria are added. However, any assistance agency interested in intervening in specific subsectors would want to look at additional criteria, undoubtedly with more disaggregation than was used here. And, in addition to informing practitioners about the tradeoffs of working with different client groups, this type of information helps identify where client groups are located to reach them more easily.

TABLE 5-9
COMPARISONS ACROSS SUBSECTORS

Activity	% of MSEs	% Women-Owned	% Rural	% Paid Workers	% Growing
Agriculture-based products	50%	58%	82%	10%	34%
Forest-based products	15%	50%	88%	9%	42%
Textile products	6%	62%	63%	9%	47%
Construction services	6%	4%	89%	27%	41%
Transport services	2%	0%	74%	45%	61%
Metal products	2%	37%	47%	13%	36%
Leather products	1%	17%	33%	13%	33%
Average		46%	78%	12%	38%

Finally, the above analysis is based on what is currently taking place in the subsector in question, and does not explore the potential of the subsector, either in entering new markets, adopting new technologies, or involving new populations. These critical issues of future potential need a different type of analysis than is possible with baseline data — relying more on detailed subsector studies that can explore market potential, returns to labor of different activities and different technologies, and other opportunities and constraints facing participants in a given subsector. Subsector studies are recommended to clarify other issues as well: the regional distribution of activities, vertical channels through which products flow, competitive structure of the subsector, and the institutional and informational systems supporting the subsector. Such detailed information is necessary for developing appropriate strategies for subsector development, and for identifying the correct intervention points.

SECTION VI

CONCLUSIONS

One of the striking characteristics of the MSE sector in Kenya is its heterogeneity — it includes the smallest self-employment endeavors with others that are remarkably dynamic, operating a vast array of activities and from both rural and urban locations. But from this amalgam, and the long list of findings outlined in this report, a few central conclusions emerge.

First, the MSE population in Kenya is much larger than previously estimated. The 1993 baseline survey of MSEs reveals that Kenya has more than 900,000 MSEs nationwide, employing nearly 2 million people, or 16 percent of the population of working age. More than three-fourths of the enterprises are based in rural areas; however, households in urban areas depend more heavily on enterprises for both employment and income.

Second, within this huge population of MSEs, enterprises with more than 50 workers play an inconsequential role. The vast majority of enterprises (98.6 percent) have 1-10 workers, with an average size of 2.3 workers. Although a few have 11-50 workers, no enterprises were found with more than 50 workers. Within the microenterprise category, the majority have more than 1 worker. In fact, the 3-5-worker size category emerges both as a provider of large numbers of high-quality jobs and as an important seedbed from which larger enterprises grow.

The microenterprise population, however, shows a great deal of dynamism. Existing enterprises are adding, in aggregate, some 270,000 jobs per year. However, only 38 percent of businesses are expanding while another 58 percent have not added workers and 4 percent have contracted in size. Thus, a minority of dynamic enterprises are providing this growth in employment. These enterprises tend to start small (with 5 or fewer workers), to be located in heavily trafficked areas, to have workers with technical skills, and to be run by men.

Another finding is that Kenya's MSE sector is dominated by commerce and trade activities, most of which are retailing or vending of agricultural products. In addition to the 61 percent of enterprises in trade, another 27 percent are in manufacturing, and 12 percent in services. Nearly one-third of all enterprises operate from within the home. Half operate from permanent structures, but few have access to electricity or running water on the premises. Few enterprises have received business assistance of any type. Of the 9 percent that have received financial assistance, only 4 percent used formal credit sources, with the majority relying on informal channels. Only 1 percent of enterprises received nonfinancial assistance such as training or marketing assistance.

Enterprises are most likely to close in their first three years. The enterprises now in existence have an average age of five years, showing that the current population includes survivors as well as newcomers. Enterprise closures are not all business failures. Only 53 percent of enterprises that closed were failures; the other 47 percent closed voluntarily. Once closed, the majority of entrepreneurs try again at business.

Entrepreneurs cite low demand in the market as the most important constraint facing their enterprise. Secondly, they point to lack of access to inputs and working capital as major constraints. These responses correspond to the reasons given for enterprise closure: working capital shortages, then poor market conditions. Entrepreneurs also cite problems with transport, the overall level of risk, economic policy, and government involvement in their business.

Women play a central role in Kenya's MSE sector, constituting 46 percent of entrepreneurs and 40 percent of employment in the sector. Women dominate in the commerce sector, particularly in agriculture-related activities. Women-owned enterprises show a different dynamic than men-owned enterprises, tending to be smaller and to grow more slowly than their men-owned counterparts. The data also show that women-owned enterprises use smaller amounts of start-up capital, locate more frequently within the home, and rely on less-skilled and unpaid workers.

Enterprises based in commercial and industrial areas vary from those in the general population in several ways: they are larger, tend to be concentrated in manufacturing or services, are male-dominated both in ownership and workers, have greater forward linkages to other enterprises, and expand more rapidly. However, 89 percent of enterprises in commercial and industrial areas still have fewer than 10 workers, while 10 percent have 11-50 workers, and only 1 percent have more than 50 workers.

By recategorizing data by subsector, the report reveals the clear dominance of agriculture-related activities in the MSE sector. Despite the omission of primary agricultural activities from the survey, agriculture-related enterprises are by far the most numerous of any group of activities, making up the bulk of commercial enterprises and one-third of manufacturing businesses. Moreover, this group of activities is a key provider of income and employment for women.

Four key implications for policy makers come from these findings.

- First, any strategy to assist the sector should focus on assisting enterprises with 1-10 workers, rather than on enterprises with 11 or more workers. There are two rationales for this: first, this is how to reach those enterprises that provide 93 percent of the sector's jobs, and, second, this is the population from which tomorrow's small enterprises will emerge.
- Second, any strategy that attempts to reach this population must attempt to reach both rural businesses and home-based enterprises, because of their sheer numbers, general invisibility, and the involvement of women.
- Third, women entrepreneurs face a different set of constraints than other entrepreneurs, which should be taken into account in strategy development.
- Finally, at least in the short run, microenterprise development will be tied unavoidably to the development of the agricultural sector.

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ANNEX A
SURVEY INSTRUMENTS

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SUPPLEMENTARY QUESTIONNAIRE (KENYA, 1993)

TO BE FILLED AT END OF INTERVIEW: _____

Date: _____ Proprietor Name: _____ Enumerator: _____

Cluster #: _____ Proprietor # (from BQ): _____ Supervisor: _____

Enterprise # (from BQ): _____

1. What are some of the biggest problems your business has faced over the last year? [ENUMERATOR: If person says CREDIT, ask what problem credit would solve]

1st problem: _____

2nd problem: _____

3rd problem: _____

2. Have you experienced ... () ... over the last year?
[ENUMERATOR: tick for each]

- | | | | | |
|----|--------------------------------------|---------|--------|--------|
| a. | Eviction or demolition | Yes () | No () | NA () |
| b. | Request for cash payments | Yes () | No () | NA () |
| c. | Requirement to get a license | Yes () | No () | NA () |
| d. | Limitation on where you can sell | Yes () | No () | NA () |
| e. | Limitations on where you can produce | Yes () | No () | NA () |
| f. | Requirement to pay minimum wage | Yes () | No () | NA () |
| g. | Other form of government involvement | Yes () | No () | NA () |
| | [list] _____ | Yes () | No () | NA () |

3. Is there anything that has made business easier over the last year?

1. _____

2. _____

3. _____

4a. How do you compare yourself to your competitors in terms of customers?
(Who gets most customers?)

b. Why do you think so? _____

5. What skills would you like to acquire to enhance your business?

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6. If you were to expand or improve this business, what steps would you take?

7a. If you could choose between expanding this business or starting another business, which would you choose? [ENUMERATOR: tick one]

- Expand this business..... ()
- Start new business..... ()
- Other_____ ()

b. Why do you say so? _____

8a. Do you belong to any business support group or informal business network? Yes () No ()

b. [IF YES] What is the nature of the group? _____

c. [IF YES] How has this group helped your business? _____

d. [IF YES] What else could this group do to assist your business? _____

9. For what reasons did you decide to pursue this kind of business rather than some other business activity?

10a. OTHER ON-SITE OR SEASONAL BUSINESSES CURRENTLY? Yes () No ()

[IF YES: return to Basic Questionnaire]

b. [IF NO] ANY CLOSED BUSINESSES? Yes () No ()

[IF YES: go to Closed Enterprise Questionnaire]
[IF NO] Many thanks for your time.

TO BE FILLED AT HEAD OFFICE: _____

Unique Enterprise #: ::::: Post-code date: ::::: Data entry date: :::::

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B-1

ANNEX B
ENTERPRISE CODE LIST, KENYA 1993

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ENTERPRISE CODE LIST, KENYA 1993

A. MANUFACTURING/PRODUCTION ACTIVITIES

1	Maize mill	Manufacture of Agricultural Products
2	Other grain mill	
3	Bakery production	
4	Dairy products	
5	Meat slaughtering/processing	
6	Fish preserving/processing	
7	Animal oils/fats processing	
8	Vegetable oils processing	
9	Fresh vegetable processing/packaging	
10	Fresh fruit processing/packaging	
11	Fresh flower processing/packaging	
12	Sugar processing	
13	Juggery ("sukari nguru")	
14	Other sugar products	
15	Tobacco processing	
16	Tea processing/packaging	
17	Coffee processing/packaging	
18		
19	<i>Preparing ready-to-eat food</i>	
20	Other agro-industries	
21	Animal feed production	
22	Malt production/beer brewing	Beverage Production
23	Other spirits production	
24	Non-alcoholic beverage production	
25	Wearing apparel production (except shoes)	Manufacture of Garments/ Textiles
26	Weaving/spinning	
27	Knitting mills	
28		
29	Other textiles	
30	Leather tanning/finishing	Manufacture of Leather Products
31	Leather shoe production	
32		
33	Other leatherwork	
34	Fertilizer/pesticide production	Manufacture of Chemical Products
35	Paint/varnish production	
36	Drug/medicine production	
37	Soap/cosmetics/toiletries production	
38		
39	Other chemical production	
40	Rubber products	
41	Plastic shoe production	
42		
43	Other plastic works	

44	Cordage/rope/twine production	Manufacture of Grass/Wood Products
45	Basket making	
46	Charcoal production	
47	Sawmills/wood mills	
48	Paper/pulp products	
49	Non-metal furniture making	
50	Wood crate production	
51	Wood construction materials	
52		
53		
54	Other grass/wood products	
55	Cement/lime/plaster production	Manufacture of Mineral Products
56	Brick/block making	
57	Roof tile making	
58	Stone mason	
59	Pottery/earthenware	
60		
61	Other mineral products	
62	Metal furniture/grills/gate	Manufacture of Metal Products
63	Metal electrical machinery	
64	Metal non-electrical machinery	
65	Household metal goods and general hardware (knives, keys, stoves, lamps, sufuria, tools)	
66		
67		
68	Other tinsmithing	
69	Other blacksmithing	
70	Other welding	
71	Other metal work	
72	Printing/publishing	
73	Jewelry production	
74	Wood carving	
75	Other art/artifact production	
76		
77		
78		
79		
80	<i>Recycling activities (trash/scrap)</i>	
81		
82	ALL OTHER MANUFACTURING	

ENTERPRISE CODE LIST, KENYA 1993

A. MANUFACTURING/PRODUCTION ACTIVITIES

<ul style="list-style-type: none"> Flour mill Grain mill Food production Food products Meat slaughtering/processing Dairy processing/processing Oil processing Vegetable oils processing Vegetable processing/packaging Fruit processing/packaging Flower processing/packaging Food processing Beer ("sukari nguru") Sugar products Sugar processing Sugar processing/packaging Sugar processing/packaging Prepared ready-to-eat food Food processing industries Food production 	<p>Manufacture of Agricultural Products</p>
<ul style="list-style-type: none"> Beer production/beer brewing Spirits production Alcoholic beverage production 	<p>Beverage Production</p>
<ul style="list-style-type: none"> Apparel production (except shoes) Textile spinning Textile mills Textiles 	<p>Manufacture of Garments/ Textiles</p>
<ul style="list-style-type: none"> Leather tanning/finishing Shoe production Leatherwork 	<p>Manufacture of Leather Products</p>
<ul style="list-style-type: none"> Pesticide production Paint production Pharmaceutical production Cosmetics/toiletries production Chemical production Chemical products Shoe production Plastic works 	<p>Manufacture of Chemical Products</p>

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126 Boat hire 127 Bus/matatu service 128 Taxi service 129 Ox cart/donkey cart/hand cart 130 Livestock transport 131 Fresh fruit/vegetable/flower transport 132 Dairy transport 133 Timber/forest product transport 134 Construction material transport 135 Garment transport 136 137 138 Other goods transport	Transport Services
139 Laundry/dry cleaner 140 Hairdresser/barber 141 Private clinic/midwife services 142 Herbalist 143 Veterinary services 144 Hunting/guide services 145 Funeral services 146 Legal services 147 Accounting/bookkeeping services 148 Data processing services 149 <i>Daycare/nursery services</i> 150 151 Other professional service	Other Personal/ Professional Services
152 Building construction/partitioning 153 Painter/roof tiler 154 Plumber 155 Electrician 156 157 158 Other construction/building services	Construction Services
159 Motor vehicle repair 160 Bicycle repair 161 Electrical repair/ <i>appliances</i> 162 Clock/watch repair 163 Shoe/leatherwork repair 164 165 Other repairs	Repair Services
166 Photo studio (9592) 167 Sign painting (5104) 168 <i>Real estate/landlord</i> 169 170 171 172 ALL OTHER SERVICES	Other Services

B. COMMERCIAL ACTIVITIES

83	Wholesale food, drink, tobacco	Wholesale Trade Activities
84	Wholesale agricultural produce	
85	Wholesale livestock	
86	Wholesale ready-made garments	
87	Wholesale second-hand garments	
88	Wholesale, other textiles, shoes	
89	Wholesale, building materials	
90	Wholesale, domestic hardware	
91	Wholesale, machinery and tools	
92	Wholesale, scrap	
93	Wholesale, seed, chemicals	
94		
95		
96		
97	ALL OTHER WHOLESALE TRADE	

98	Retail livestock	Retail Trade Activities (includes hawking activities)
99	Butchery	
100	Retail food, drink, tobacco	
101	Retail agricultural produce	
102	Retail fuel, charcoal	
103	Retail domestic hardware	
104	Retail building materials	
105	Retail machinery, tools	
106	Retail ready-made garments	
107	Retail second-hand garments	
108	Retail shoes, leather goods	
109	Retail art/artifacts	
110	Retail grass products (<i>kiondos, etc.</i>)	
111	Retail newspapers/magazines	
112		
113	General kiosk/grocer	
114	Stationers/bookstore	
115	Filling station	
116	Pharmacy	
117		
118	ALL OTHER RETAIL TRADE	

C. SERVICES

119	Restaurant/Bar/Pub	Room/Board Services
120	Entertainment services (video, discoteque)	
121	Short-term lodging (<i>lodging only</i>)	
122	Rooming/guest house (<i>food, drink, and lodging</i>)	

123	Storage/warehousing grains	Storage Services
124		
125	Storage/warehousing other goods	

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ANNEX C

STRATA DEFINITIONS AND LISTS OF AREAS

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The sampled cities are listed here with the CBS cluster numbers. Thika (1170, 1171, 1174); Muranga (1181, 1182); Nyeri (1187); Kilifi (1191); Embu (1253); Machakos (1261, 1262); Marsabit (1267); Meru (1271); Garissa (1273); Kisii (1278); Nyamira (1277); Kisumu (1284, 1285, 1295, 1298); Siaya (1302); Homa Bay (1303); Nanyuki (1315); Nyahururu (1183); Narok (1339); Kitale (1345); Eldoret (1349, 1351, 1357, 1358); and Busia (1367).

Stratum 3: All cities and towns with population of 2,000-10,000

All towns with projected 1992 population of 2,000-10,000 were listed, and a random sample of 15 clusters drawn. Only three of the 15 fell in the CBS Master Sample. These towns and cluster numbers are: Lamu (1197), Muhoroni (1300), and Ongata-Rongai (1308). Towns without CBS cluster numbers are: Ol Kalou, Kikuyu, Runyenjes, Makuyu, Kehancha, Nkubu, Awendo, Kilgoris, Mambrui, Magadi, Marigat, and Mwalie.

In those towns without a CBS cluster, the team arrived in the town, visually established its boundaries, then drove into the center of that area and crafted out a 50-100 household area using a random "pencil toss" method. Once the pencil pointed the team in a given direction, the team carved out a square area up and to the right of the direction indicated by the pencil. If the area contained less than 50 households, than an additional area contiguous to the upper right hand boundary of the area was added until at least 50 households were captured.

Stratum 4: Rural areas and towns with populations under 2,000

Overall, there were 926 rural "operational" clusters in the CBS Master Sample. Areas excluded from the "operational" list were either extremely remote or posed some form of security risk. As a result of these difficulties, as well as the fact that nonoperational clusters might not have defined boundaries, the research team decided to draw the Stratum 4 sample from the operational list only. Total sample size was 35 clusters.

The following cluster areas were randomly selected: 0012, 0039, 0076, 0077, 0081, 0087, 0158, 0202, 0217, 0263, 0274, 0397, 0406, 0412, 0458, 0483, 0498, 0512, 0528, 0617, 0640, 0644, 0741, 0767, 0768, 0790, 0822, 0834, 0872, 0915, 0924, 0942, 0950, 0992, and 1031.

Stratum 5: Industrial and commercial areas

As described in the Section Two, Stratum 5 covered industrial and commercial areas in Nairobi, Mombasa, Thika, Nakuru, Kisumu, and Eldoret. Difficulties with defining boundaries were described at length in Section Four, and will not be repeated here. Below are the specific instructions provided to the field teams.

First, the team was to identify the boundaries of all commercial and urban areas of the city. Second, these areas were broken into small geographically contiguous areas, each of which was roughly 1/2 kilometer square (as determined by visual examination). As much as possible, these chunks should have easily identifiable boundaries, either roads, fences, streams, or other landmarks. Once a complete

list of areas was made, each area was given a number and all numbers placed in a hat, from which one was chosen randomly.¹ That was the area that was enumerated.

¹ One area was chosen in Thika, Nakuru, Kisumu, and Eldoret, while two areas were chosen in Nairobi and Mombasa.

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ANNEX D
TECHNICAL RECORD OF SAMPLING DECISIONS

During the process of developing the sampling frame and implementing the survey, several sampling-related issues came to light. Some have been alluded to in other parts of the report. This annex makes an attempt to spell out all of the decision points encountered during sampling and during survey execution, and the decisions made at each point.

ISSUES ENCOUNTERED DURING SAMPLING

First, use of the CBS 1989 Population Census data meant that areas not covered in the census would also not appear in this survey. In certain cases, main towns in certain districts were included, while rural areas were not. For that reason, the Stratum 4 sample omitted the following districts: Isiolo, Marsabit, Garissa, Mandera, Wajir, Samburu, and Turkana.

Second, given the political upheaval in parts of Nakuru District, and the cordoning off of particular towns, Nakuru District was omitted from Stratum 3 (small towns) and Stratum 4 (rural areas). Nakuru Town itself was left on the sampling frame for Stratum 2, but was not selected in the sample. However, Nakuru Town was represented in Stratum 5 with one cluster.

Third, other areas were said to be particularly dangerous for groups traveling by road, as the enumerators in this survey were. For this reason, Tana River District, Wajir Town, and Mandera Town were omitted from the sample following reports of bandit attacks.

ISSUES ENCOUNTERED DURING SURVEY EXECUTION:

The major issues uncovered during survey execution revolved around the accuracy of the 1989 Population Census clusters, both in terms of their size and location. Although it was expected that most clusters would contain 80-120 households, they varied from 14 to 1,000. It does not appear that this variance had adverse effects on the sample. The largest cluster was the result of three traditional markets having sprung up on that location. It is more difficult to assess the reasons for small clusters. The strategy used was to take the boundaries of the cluster as presented by CBS, and sample that area completely, rather than breaking up large clusters or adding to small clusters.

A few other anomalies appeared. The Marsabit cluster was nonexistent. To ensure that Marsabit was not deleted from the sample, the team developed a cluster in the field, following the Stratum 3 method provided in Annex C. On arriving at a rural cluster on the border with Uganda, which supposedly had 37 households, the team found empty houses following a cattle raid. The number of dwellings were counted, and recorded as "households without business activity."

What explains these various irregularities? In part, it may result from the changes occurring in the population between the time the census was undertaken in 1989 and the time of the survey in 1993. In part, it may also reflect some of the problems inherent in the 1989 Population Census figures. Although these issues indicate the need for caution, the census figures still provided the best available sampling frame for a survey exercise of this type.

ANNEX E
WEIGHTING PROCEDURE FOR NATIONAL ESTIMATES

Taken alone, the survey data reflect the relative importance of the various strata in sampling, rather than in the country as a whole. To make the data represent the country, observations from each stratum must be weighted according to the number of enterprises they are expected to represent nationally. The procedure for weighting is described below.

The extrapolation of the survey data to national estimates depends on several pieces of information. First, it is based on estimates of the number of households in Kenya in 1993. This estimate is based on three sets of figures: CBS 1989 population figures, population growth rate figures for 1989-1992, and CBS estimates of average household size. Second, extrapolations are based on the estimated percentage of households involved in the sector in each stratum. These figures are generated from the survey data itself.

Table E-1 shows the national population estimate by strata for 1989 and again for 1993, using CBS figures for 1989 and USAID-provided figures for population growth between 1989 and 1993. Then, using CBS household size estimate of 6.6 individuals per household, the 1993 population figure is converted into the number of household estimated in each stratum.²

TABLE E-1

ESTIMATED NUMBER OF HOUSEHOLDS BY STRATA, 1993

Strata	1989: Population	1993: Population	1993: # Households
1: Nairobi/Mombasa	1,811,000	2,082,164	315,479
2: Cities over 10,000	1,551,000	1,783,234	270,187
3: Towns 2,000-10,000	348,100	400,222	60,640
4: Rural areas	17,689,900	20,338,641	3,081,612
Total	21,400,000	24,604,262	3,727,918

² Note that this straight-line calculation method assumes no population migration between 1989 and 1993, and assumes identical household size by strata. However, without the appropriate data to correct any problems in these areas, these figures represent the best estimates available.

The second stage in weighting the data is to calculate the percentage of these households that have some enterprise activity. Table E-2 shows the percentage of households estimated to have enterprise activity.³ This percentage is then multiplied by the number of households to generate an estimated number of enterprises operating in each stratum and the percentage of enterprises operating in each stratum.

TABLE E-2
ESTIMATED NUMBER OF ENTERPRISES BY STRATA, 1993

Strata	1993: Total # of Households	% of Households with Enterprises	Estimated Number of Enterprises	Estimated Percentage of Enterprises
1	315,479	22.3%	70,411	7.7%
2	270,187	34.6%	93,528	10.3%
3	60,640	59.4%	36,007	4.0%
4	3,081,612	23.1%	710,509	78.0%
Total	3,727,918	na	910,455	100.0%

The third, and final stage of extrapolation is to calculate the ratio of estimated to observed enterprises in each stratum. This figure provides the weighting factor used in the data series. The final column of Table E-3 provides the weights for extrapolation. It is helpful to use Stratum 1 as an example of how these weights can be interpreted: "Although we expect 70,411 enterprises to fall into Stratum 1 nationally, we have observed only 367. Therefore, each observed enterprise must represent 191.86 enterprises in the analysis so that Stratum 1 is not under-represented ($367 \times 191.855 = 70,411$).

³ Estimates of percentage of households involved by strata can easily be calculated for those households where someone was at home to answer questions. However, roughly 40 percent of households in each stratum were closed, and no information could be collected whether an enterprise was operating there or not. However, data from the 1993 national Zimbabwe survey show that the percentage of closed households with enterprises is roughly 25 percent lower than those in open households. These findings are similar to those found in return household visits in the 1991 Kenya Kibera survey. Therefore, using the Zimbabwe correction figure, the total percentage of households with enterprises was adjusted downward to compensate for the lower percentage of households with enterprises in closed households.

TABLE E-3
WEIGHTS FOR EXTRAPOLATION

Strata	Estimated Number of Enterprises	Observed Number of Enterprises	Ratio of Estimated to Observed
1	70,411	367	191.86
2	93,528	2110	44.33
3	36,007	1446	24.90
4	710,509	620	1145.98
Total	910,455	4543	na

Compared with Stratum 1, Strata 2 and 3 were more heavily sampled as a percentage of their expected national importance, so each observed enterprise represents only 44 or 25 other enterprises in Strata 2 and 3, respectively. However, Stratum 4, which has the highest weight, was least heavily sampled, so each observed enterprise represents 1,146 enterprises nationally.

ANNEX F

LIST OF ACTIVITIES INCLUDED IN EACH SUBSECTOR

The tables below show the specific activities included in each subsector, as discussed in Section Five. The number of observations for each activity is provided, as well as the percentage of the total sample it represents. The total percentage in each subsector varies from that presented in Section Five, due to the fact that the numbers presented here have not been extrapolated to the entire population with the appropriate weights, while those in Section Five have.⁴

AGRICULTURE-RELATED SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Maize mill	30	0.7
Other grain mill	3	0.1
Bakery products	1	0.0
Meat processing/ preserving	1	0.0
Fish processing/ preserving	7	0.2
Animal oil processing	1	0.0
Juggery	1	0.0
Other sugar processing	1	0.0
Tobacco processing	1	0.0
Preparing ready-to-eat foods	176	3.9
Malt/beer production	41	0.9
Other spirits production	1	0.0
Non-alcoholic beverage production	2	0.0
Wholesale of food, drink, or tobacco	39	0.9
Wholesale of agricultural products	26	0.6
Wholesale of livestock	7	0.2
Retail of livestock	46	1.0
Retail of food, drink, or tobacco	115	2.5
Restaurant/bar/pub	186	4.1
Retail of agriculture products	1117	24.6
Butchery	77	1.7
Veterinary services	1	0.0
Total	1880	41.5

⁴ Those activities not appearing in these tables but listed on the business code sheet in Annex B had zero observations.

FOREST-BASED PRODUCT SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Cord/rope/twine production	18	0.4
Basket-making	26	0.6
Charcoal production	2	0.0
Sawmill	10	0.2
Wooden furniture production	142	3.1
Other grass/wood production	14	0.3
Wood carving	1	0.0
Retail of charcoal	177	3.9
Retail of grass products	8	0.2
Total	398	8.8

TEXTILES SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Production of wearing apparel	192	4.2
Weaving or spinning	10	0.2
Knitting mills	3	0.1
Other textile production	10	0.2
Retail of ready-made garments	103	2.3
Retail of second-hand garments	205	4.5
Total	523	11.5

CONSTRUCTION SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Wood construction material production	4	0.1
Brick or block-making	12	0.3
Stone masonry	8	0.2
Retail of building materials	19	0.4
Building construction services	23	0.5
Painter/roof tiler	2	0.0
Plumber	2	0.0
Electrician	4	0.1
Other construction services	10	0.2
Short-term lodging services	11	0.2
Rooming house services	41	0.9
Landlord	12	0.3
Total	148	3.3

TRANSPORT SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Bus or matatu service	16	0.4
Ox cart, donkey cart	17	0.4
Dairy transport	2	0.0
Construction material transport	2	0.0
Other goods transport	6	0.2
Motor vehicle repair	38	0.8
Bicycle/appliance repair	34	0.7
Total	115	2.5

METALS SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Metal furniture, grills, gate production	27	0.6
Metal electrical machinery production	2	0.0
Metal non-electrical machinery production	1	0.0
Household metal products	9	0.2
Other tinsmithing	8	0.2
Other blacksmithing	5	0.1
Other welding	18	0.4
Other metal work	3	0.1
Wholesale of domestic hardware	1	0.0
Retail of domestic hardware	84	1.8
Retail of machinery and tools	21	0.5
Total	179	4.0

LEATHER SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Leather tanning/finishing	1	0.0
Production of leather shoes	16	0.4
Other leatherwork	6	0.1
Wholesale of shoes	1	0.0
Retail of shoes, leather products	41	0.9
Shoe repair	76	1.7
Total	141	3.1

CHEMICALS SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Paint/varnish production	2	0.0
Soap/cosmetics/toiletries production	1	0.0
Production of rubber product	7	0.2
Production of plastic products	1	0.0
Filling station	4	0.1
Pharmacy	7	0.2
Photo studio	22	0.5
Total	44	1.0

NON-CONSTRUCTION MINERALS SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Pottery/earthenware production	1	0.0
Other mineral production	6	0.2
Total	7	0.2

PERSONAL AND PROFESSIONAL SERVICES SUBSECTOR

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Laundry/dry cleaning services	32	0.7
Hairdresser/barber	87	1.9
Private clinic or midwife services	16	0.4
Herbalist	13	0.3
Daycare/nursery services	3	0.1
Legal services	2	0.0
Other professional services	17	0.4
Total	170	3.7

MISCELLANEOUS ACTIVITIES

Activity	Number of Enterprises in Sample	Percentage of Total Sample
Printing/publishing	3	0.1
Art/artifact production	5	0.1
Recycling activities	1	0.0
All other production activities	9	0.2
All other wholesale activities	10	0.2
Retail of art/artifacts	11	0.2
Retail of newspapers	11	0.2
Stationers/bookstore	22	0.5
General kiosk	570	12.5
All other retail activities	144	3.2
Entertainment services	6	0.1
Electrical repair	20	0.4
Clock/watch repair	12	0.3
Other repairs	70	1.5
All other service activities	43	0.9
Total	937	20.7

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ANNEX G
ENTERPRISE GROWTH RATE TABLES

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TABLE G-1
 ENTERPRISE GROWTH BY STRATA
 (using Linear Growth Rate)

Strata	Average Annual Growth Rate	% of Enterprises Expanding	Annual Growth Rate of Expanding Enterprises
Nairobi/Mombasa	28%	40%	64%
Other cities with over 10,000 population	22%	37%	54%
Towns with 2,000-10,000 population	22%	42%	49%
Rural areas	30%	37%	71%
All enterprises	29%	38%	68%

TABLE G-2
 ENTERPRISE GROWTH BY STRATA
 (using Compound Growth Rate)

Strata	Average Annual Growth Rate	% of Enterprises Expanding	Annual Growth Rate of Expanding Enterprises
Nairobi/Mombasa	25%	40%	52%
Other cities with over 10,000 population	19%	37%	44%
Towns with 2,000-10,000 population	19%	42%	40%
Rural areas	25%	37%	56%
All enterprises	24%	38%	54%

TABLE G-3
 ENTERPRISE GROWTH BY TWO-DIGIT ISIC CODE
 (using Linear Growth Rate)

Enterprise Category	ISIC Code	Average Annual Growth Rate	% of Enterprises Expanding	Annual Growth Rate of Expanding Enterprises
MANUFACTURING		33%	39%	72%
Food/Beverage/Tobacco products	31	31%	31%	91%
Textile/Leather products	32	20%	42%	49%
Forest products	33	40%	45%	67%
Mineral products	36	34%	41%	83%
Metal products	38	33%	62%	57%
Other manufacturing		29%	52%	65%
COMMERCE/TRADE		28%	36%	70%
Wholesale trade	61	26%	55%	51%
Retail trade	62	28%	35%	72%
SERVICES		23%	43%	51%
Hotels/restaurants/bars	63	35%	41%	55%
Personal services	85	21%	44%	51%
Professional services	83	7%	54%	13%
Repair services	95	15%	36%	55%
Transport/storage	71	26%	56%	56%
Construction services	50	11%	34%	35%
ALL ENTERPRISES		29%	38%	68%

TABLE G-4

ENTERPRISE GROWTH BY TWO-DIGIT ISIC CODE
(using Compound Growth Rate)

Enterprise Category	ISIC Code	Average Annual Growth Rate	% of Enterprises Expanding	Annual Growth Rate of Expanding Enterprises
MANUFACTURING		27%	39%	54%
Food/Beverage/Tobacco products	31	30%	31%	88%
Textile/Leather products	32	16%	42%	39%
Forest products	33	28%	45%	35%
Mineral products	36	28%	41%	69%
Metal products	38	28%	62%	48%
Other manufacturing		9%	52%	21%
COMMERCE/TRADE		25%	36%	58%
Wholesale trade	61	18%	55%	35%
Retail trade	62	25%	35%	60%
SERVICES		18%	43%	39%
Hotels/restaurants/bars	63	33%	41%	48%
Personal services	85	15%	44%	34%
Professional services	83	4%	54%	8%
Repair services	95	11%	36%	43%
Transport/storage	71	24%	56%	52%
Construction services	50	5%	34%	19%
ALL ENTERPRISES		24%	38%	54%

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TABLE G-5

ENTERPRISE GROWTH BY PROPRIETOR CLASSIFICATION
(using Linear Growth Rate)

Proprietor Classification	Annual Growth Rate	% of Enterprises Expanding	Annual Growth Rate of Expanding Enterprises
Male sole proprietor	32%	44%	64%
Female sole proprietor	22%	29%	76%
Multiowner enterprise	40%	45%	63%
All enterprises	29%	38%	68%

TABLE G-6

ENTERPRISE GROWTH BY PROPRIETOR CLASSIFICATION
(using Compound Growth Rate)

Proprietor Classification	Annual Growth Rate	% of Enterprises Expanding	Annual Growth Rate of Expanding Enterprises
Male sole proprietor	26%	44%	48%
Female sole proprietor	20%	29%	66%
Multiowner enterprise	34%	45%	45%
All enterprises	24%	38%	54%

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ANNEX H
ADDITIONAL DATA ON SUBSECTORS

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In addition to the magnitude of the subsector, there are other criteria by which the strengths and weaknesses of subsectors can be examined. Some of these criteria are:

- Enterprise size and growth;
- Composition of the labor force;
- Ability to provide jobs for women;
- Ability to provide jobs in either urban or rural areas; and
- Reliance on domestic rather than imported inputs.

Tables providing data on each of these criteria are provided below.

TABLE H-1
PERCENTAGE AND TYPE OF GROWING ENTERPRISES BY SUBSECTOR

SUBSECTOR	% OF ENTERPRISES THAT HAVE GROWN	ACTIVITIES WHERE MORE THAN HALF OF ENTERPRISES HAVE EXPANDED
Agriculture-related	34%	Bakeries, slaughterhouses, oil, sugar, and tobacco processing, and wholesale of food and agriculture products.
Forest-related	42%	Cord/rope production, charcoal production, sawmilling, and furniture production.
Textiles	47%	Garment production, spinning and weaving, and retail of second-hand garments.
Construction	41%	Brick and block production, stone masonry, electrician, lodging proprietor.
Transport	61%	Dairy transport, construction material transport, motor vehicle repair and bicycle repair.
Metals	36%	Metal furniture and electrical machine production, and smithing.
Leather	33%	Shoe production and retail.
Sample Average	38%	

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TABLE H-2

PERCENTAGE OF ONE-WORKER ENTERPRISES, AT START AND CURRENTLY BY SUBSECTOR

	% One-Worker (at start)	% One-Worker (currently)	% Enterprises
Agriculture-related	77%	54%	23%
Forest-related	72%	41%	31%
Textiles	81%	49%	32%
Construction	46%	29%	17%
Transport	41%	25%	16%
Metals	78%	61%	17%
Leather	86%	57%	29%
Sample average	71%	47%	24%

TABLE H-3

CURRENT SIZE BREAKDOWN OF ENTERPRISES BY SUBSECTOR
(in percentage)

SUBSECTOR	ENTERPRISE SIZE (in number of workers)				
	1	2	3-5	6-10	Over 10
Agriculture-related	54%	28%	15%	3%	1%
Forest-related	41%	25%	28%	5%	1%
Textiles	49%	32%	16%	3%	0%
Construction	29%	22%	24%	21%	4%
Transport	25%	28%	38%	9%	1%
Metals	61%	16%	17%	5%	1%
Leather	57%	21%	18%	4%	0%
Sample average	47%	28%	20%	4%	1%

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TABLE H-4

LABOR FORCE BREAKDOWN BY TYPE OF WORKER BY SUBSECTOR
(in percentage of total workers)

SUBSECTOR (Average # of workers in parentheses)	Owner & Unpaid Family	Paid Worker	Unpaid Trainee	Total	Female Workers
Agriculture (2.0)	89%	10%	1%	100%	63%
Forest-related (2.5)	87%	9%	4%	100%	47%
Textiles (1.9)	84%	9%	7%	100%	60%
Construction (3.8)	69%	27%	4%	100%	13%
Transport (3.1)	50%	45%	5%	100%	0%
Metals (2.0)	83%	13%	4%	100%	35%
Leather (1.9)	80%	13%	7%	100%	9%

TABLE H-5

GENDER OF PROPRIETOR BY SUBSECTOR
(IN PERCENTAGES)

SUBSECTOR	Men-owned Enterprises	Women-owned Enterprises	Group-owned Enterprises	Total
Agriculture-related	31%	58%	11%	100%
Forest-related	32%	50%	18%	100%
Textiles	32%	62%	6%	100%
Construction	64%	4%	32%	100%
Transportation	85%	0%	15%	100%
Metals	54%	37%	9%	100%
Leather	74%	17%	10%	100%
Sample Average	40%	46%	14%	100%

TABLE H-6

PERCENTAGE AND TYPE OF URBAN ENTERPRISES BY SUBSECTOR

SUBSECTOR	% OF ENTERPRISES LOCATED IN URBAN AREAS	ACTIVITIES PRIMARILY IN URBAN AREAS
Agriculture-related	18%	Butcheries, production of ready-to-eat foods, wholesale and retail of packaged foods, and retail of agricultural products.
Forest-related	12%	No activities are primarily urban, although the production of furniture and retail of charcoal and grass products are more urban.
Textiles	37%	Production of garments, and retail of new garments.
Construction	11%	Painting, plumbing and electrical services, and real estate and lodging services.
Transport	26%	Ox/donkey carts, dairy transport, construction material transport, and motor vehicle repair.
Metals	53%	All activities are primarily urban.
Leather	67%	Production, retail, and repairing of shoes.

TABLE H-7

PERCENTAGE AND TYPE OF ENTERPRISES USING IMPORTED INPUTS BY SUBSECTOR

SUBSECTOR	% OF ENTERPRISES REPORTING USE OF IMPORTED INPUTS	ACTIVITIES USING ANY IMPORTED INPUTS
Agriculture-related	1%	Maize mills, wholesale and retail of packaged foods.
Forest-related	5%	Retail of charcoal.
Textiles	30%	Garment production, and retail of second-hand clothing.
Construction	4%	Retail of building supplies, and construction services.
Transport	23%	Bus services (matatus), motor vehicle repair and bicycle repair.
Metals	13%	Machinery production, and retail of hardware or machinery.
Leather	16%	Retail of shoes.
Sample Average	6%	

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