

PNAD 475  
IAN 36486

REPORT FOR AID ON  
EMPLOYMENT GENERATION  
NAIROBI - KENYA

This Report was prepared for the AID Office of Housing pursuant to a request under FCH Contract AID/OTR-C-1738. It was written by Mr. Arthur Boyd and the field work took place from March 26 to April 18, 1980.

Washington  
24 April 1980

-1-

CONSULTANT'S REPORT ON THE HOUSING GUARANTY  
SUB-PROJECT FOR EMPLOYMENT GENERATION - NAIROBI, KENYA

A. The Assignment Objective

The basic objective of this assignment was understood to be: to advise the Regional Housing Office in Nairobi as to how best to maximize the use of available funds (approximately \$1,300,000) in employment generation as practical in place operation. Time was considered to be of the essence in this situation.

1. The first step in the process of attaining the above objective was to analyze the capabilities of the principal Kenyan organizations now providing loans and technical assistance to small sized enterprises in Nairobi. Eight different organizations purporting to offer such services were considered. Each of these organizations made statements covering its concept of ideal goals to serve the public welfare and to create additional job opportunities. Few of the organizations had the necessary experienced staff or the supporting infrastructure to accomplish those goals within the prescribed time limits demanded by the project under consideration. The names of the organizations and individuals are listed in Appendix A.

2. No single existing organization was found to have the necessary experience or the trained personnel to service the full targeted recipient group being considered by RHUDO and USAID. On an income scale this group could be described as ranging from the lowest 1 percent up to a near mid point of 35 percent of the population.

B. Recommendation

It is recommended that the Kenya Industrial Estates (KIE) be charged with the primary responsibility for implementing the Employment Generation component of Project 615-HG-005. It is suggested that the National Christian Council of Kenya (NCCCK) be asked to assist the KIE in the process of selection and qualifying potential loan recipients. NCCCK would also assist in the technical and business training of the small scale enterprises that were loan recipients.

C. Financial Position and Alternate Proposals

The fluid situation that exists at the decision making level in the City Council of Nairobi (Council) renders it difficult to make firm recommendations at this point. Instead, to further the understanding of the problems surrounding the Employment Generation Project an outline discussion will be made of the financial situation and various proposals put forth concerning this project.

1. Briefly, the Council is the initial borrower of all funds for the Umoja II Project. The bulk of these funds are to be spent directly on residential construction and required infrastructure. About \$1,300,000 of these funds were earmarked for the Employment Generation Project. Since the Council did not wish to become involved in the making and administering of the many small business loans it was proposed to allocate these funds to some other qualified Kenyan institution.

D. Three proposals have been made:

1. The first proposal was to split the loan funds between KIE and NCCK. KIE would take care of the larger industries and NCCK would look to the needs of the smaller businesses. Various sized workshops and sheds would be supplied from HG funds. KIE and NCCK would each separately administer their share of the allotted funds and be responsible for the collection of loan repayments and workshops rentals.

When this proposal was presented to KIE some valid questions arose. The funds borrowed by the Council from which the allocations were to be made would have to carry a going market interest rate of some 14 to 16 percent. KIE states that it has access to ample loan funds at rates ranging from 3 percent interest and upwards.

2. A second quite changed proposal was put forth. In order to simplify the administration of the project it was suggested that KIE furnish the funds for AAA loans to the various sizes of industries. Housing Guaranty funds would be used to build a large number of workshops and sheds that would be leased in blocks or bulk to KIE. KIE would then find tenants that would rent the sheds. Loans for tools, material and starting up costs would be made by KIE out of their own funds that have been obtained from various countries at interest rates as low as 3%. NCCK would be kept in the picture to assist KIE in the selection and training of the new tenants. USAID-RHUDO would reimburse NCCK for the expenses incurred in providing these services.

This proposal had the advantage of providing low cost loan money (from KIE) and making available to KIE workshops and sites that they needed. It would also provide KIE with subsidized training for the greater number of small business operators that would now be involved. When this proposal was put on the table KIE became concerned about the rentals to the Council who would be supplying the funds with which to build the workshops. It was felt that because the Council funds carried higher interest rates that the rentals would be correspondingly higher. It was feared by KIE that as they were leasing the shops in bulk they (KIE) would be placed in the position of paying rentals on empty shops should one of their tenants fail to pay or give up the shop for some reason.

3. A third proposal was then made with a simple but very important change. KIE would now furnish all of the funds necessary to both build the workshops and make loans to the tenants. The only component furnished by USAID via the Council would be the necessary land upon which the workshops would be built. This proposal, while quite different from the first, is not without merit. Considering that the basic objective of the Employment Generation Project is to create the maximum new jobs this proposal could

make available to small businesses a large number of sheds and stalls accompanied by low interest rate loans. The cost to tenants of both stalls and loans should be at the lowest possible level because of the low interest rates of 3% to 10% on the funds involved. It has been calculated that a one million dollar loan fund from the KIE would support the following numbers of small businesses with a margin to cover extra training costs and other contingencies.

Number of Plots and Loan Amounts

100 Sm Bs with 1 to 3 employees @ \$2,000 each	\$ 200,000
50 Sm Bs with 4 to 10 employees @ \$5,000 each	250,000
20 Med Bs with 10 to 15 employees @ \$10,000 each	200,000
10 Lg Bs with 15 employees or over @ \$20,000 each	200,000
Allowance for Contingencies	150,000
Total:	<u>\$1,000,000</u>

Size of proposed Work Spaces

10 each grade A - 100 sq M	work shops
20 each grade B - 60 sq M	work shops
50 each grade C - 30 sq M	sheds
100 each grade D - 20 sq M	sheds or stalls

Explanation of grades of Construction

- A = KIE present standards
- B = Umoja Dwelling standards
- C = Simbrite walls timber framing and cement floor
- D = Simbrite walls w/rough timber poles and gravel floor

When at the point of average operation the total of these industries, large and small, could accommodate an estimated 990 employees. The scheduled sizes are flexible and the numbers could be shifted from one group to another depending upon the needs of the loan applicants.

Schedule of Workshop Occupancy over 4 year Period

	<u>Year one</u>	<u>Year two</u>	<u>Year three</u>	<u>Year four</u>
100 spaces 1 to 3 employees	20	35	30	15
50 spaces 4 to 10 employees	8	15	17	10
20 spaces 10 to 15 employees	3	6	7	4
10 spaces 15 and up employees	1	3	4	2

If these funds were furnished by KIE the Government of Kenya (GOK) could either borrow \$1 million less Housing Guarant/ funds or divert these funds to other purposes. This third proposal could not be put forward to KIE until it was sure that Council would approve the transfer of land for workshop sites to KIE. The possibility of this approval could not be discussed with Council because responsible Council executives were attending a conference in London. It is the intention of RHUDO to explore this issue with Council at the earliest convenient date.

**E. Suggestions Based on the Third Proposal**

1. There are important issues to be observed. KIE has in the past been slow to make decisions and has a cumbersome bureaucratic system for deciding upon the selection of small business tenants and loan recipients. If RHUDO-USAID are to achieve their goals of getting two or three hundred small businesses set up over the next four years this process must be speeded up. It should also be kept in mind that KIE has had little experience in dealing with the very small enterprises of the 1-3 employee type. These are the kinds of small operators that have to be brought in from the informal sector. KIE is also inclined to overbuild the workshops. The specifications of the sheds and workshops should be kept in some balance with the calibre of the tenant occupying the space. The individual coming directly from the informal sector would need only the simplest type and least expensive stall or shed. A flexible range of building codes could be set up and monitored by USAID. There are also some restrictions on the types of business and owners that are considered acceptable in the Umoja area. These limitations will be pointed out later.

2. There are several leverage points that can be exploited by RHUDO-USAID to assure that KIE would be responsive to these suggestions and limitations. KIE needs and wants land for workshop sites. They are short of experienced staff for giving technical and business training to large groups of small businesses. The proposed Employment Generation advisor and his counterpart assisted by personnel from NCKK can supply training inputs and help to speed up the selection process.

3. It is, therefore, suggested that RHUDO-USAID proceed with the recruitment and setting up of the following staff:

- a) 1 Senior Employment Generation Advisor (USAID would fund this position)
- b) 2 Junior Assistants with education and background in business (US Peace Corps)
- c) 1 Informal Sector Expert (NCKK)
- d) 2 Project Officer trainees (KIE)
- e) 1 Secretary (NCKK or KIE)

The above staff would be based in the Umoja Housing area and would report to and work in close cooperation with the KIE Project Officer. The NCKK staff contribution would be paid for by USAID from Housing Guaranty loan funds.

4. Responsibilities of the Employment Generation Advisor and his counterparts would be:

- a) To insure that there exists a close working relationship with the KIE staff and to iron out problems that are surely to arise. The assignment is envisioned as a practical face-to-face operation with potential

tenants and loan recipients. The senior USAID advisor would be expected to carry out sensitive negotiations with responsible officials of the GOK and other parastatal organizations and private groups. His educational and business background should include a through training in business administration and marketing. Practical experience in these fields would be most valuable. The ability to get along with people from various social levels and to be able to take an easy diplomatic approach is considered a necessity. The senior advisor would, of course, be responsible for keeping an alert watch to see that USAID limitations and objectives pointed out below were being observed.

b) The Peace Corps volunteers would be expected to be primarily training officers working closely with small business operators in the field of business management, marketing and simple book-keeping. A Bachelor's degree or a Master's degree in the fields of administration and marketing is considered a necessity for these positions. Even more important than the required education is the ability to convey this technical information in its most simple form to the ordinary person attempting to run a successful small business.

c) The NCCK informal sector expert would work closely with the project director (KIE) in the selection and qualification of tenants of the smallest shelters and the recipients of the smaller loans.

F. Limitations and Restrictions to be Considered in Selecting Loan Recipients

1. It is recommended that both length of time or residence as well as location of the area lived in be considered. It is reasonable to give primary consideration to applicants who have been living in the Nairobi area for at least one year.

The Umoja housing projects 1 and 2 were designed to serve Nairobi residents who had no regular housing or were housed in a substandard manner. The people who now occupy Umoja I and who will occupy Umoja II should be given first chance to establish small enterprises should they wish to do so.

Ethnic consideration may be implied but should not be a fixed policy. The group least able to get a foothold in the economic sector seems to be the native African who has recently moved to Nairobi from the rural area.

The Project Paper on Nairobi housing clearly states\* that the objective of this program is to increase appropriate employment within the Umoja Housing Estate. Criteria indicates:

- a) inoffensive environmentally, e.g. not noisy, smelly or obnoxious
- b) would serve the needs of Umoja and nearby areas

- c) be labor intensive and employ workers within the target range
- d) construction related activities would be given priority.

2. A partial list of occupations or trades for the Umoja area would include those activities related to residential buildings:

- a) concrete blockmaking
- b) metal working - window frames and ventilators
- c) carpentry and woodworking of all kinds
- d) roof and door frames
- e) furniture making of all types
- f) bedding and mattress making.

It would be expected that there might be several competing concrete building block makers and perhaps six or eight furniture and shelving manufacturers. Stone building blocks should be considered as an alternate building material for houses. Stone is available locally and is labor intensive.

3. In the service area, acceptable occupations among others would be:

- a) shoe repairing (and making)
- b) bicycle shops - repairs and sales
- c) automobile light repairs
- d) automobile tyre shops
- e) tailor shops for both making and repairing clothing
- f) manufacturers of clothing of all kinds.

Innovation and good judgement would be the best final guide as to whether or not any proposed small business was acceptable.

#### G. The Essentials of Employment Generation

At this point it is thought to be advisable to review the various factors involved in the various aspects of employment generation, the four basic components necessary for the creation of jobs are:

- a) market - an observed need
- b) site
- c) a skill and tools - or the ability to learn
- d) credit.

When any one of these four components are missing it will be difficult if not impossible to bring about the creation of a successful enterprise be it large or small. It should be noted that the necessity for a site on which to work is considered next to the most important element on the list.

An outline of practical steps in Employment Generation:

1. Determine income strata target.
2. Set limitations, if any.
  - a) place of residence
  - b) length of time of residence
  - c) ethnic considerations.
3. List types of industries or businesses preferred, e.g. carpentry, furniture making or ironmongry.
4. Set required qualifications, e.g. experience, good character, etc.
5. Prepare simple questionnaires that will indicate possible qualifications. Be prepared to give assistance in filling out the questionnaires.
6. Identify possible individual recipients.
7. Select those qualifying by studying completed questionnaires and personal interviews.
8. Appraise proposed industry or trade activity.
9. Qualify in the market place, e.g. will the product or service sell?
10. Allot space in proportion to the requirements of the particular proposed activity.
11. Agree on amount of credit needed; amount for tools and amount for materials. Set terms and define repayment schedules. It is important to note here that the recipient will remember and believe the first things that he is told about the loan conditions. Make it clear from the start that the money advanced is to be repaid.
12. Follow up with:
  - a) general business guidance training
  - b) technical training
  - c) simple accounting or bookkeeping
  - d) ongoing marketing advice.

13. Arrange for prompt follow up if the agreed upon repayment schedule is not observed.
  - a) determine why the loan recipient is not able to pay
  - b) agree on what is to be done (delay payments or make partial payments or set new schedule of reduced payments).
14. Establish a method of terminating relationship with the loan recipient if it appears beyond a reasonable doubt that the proposed activity will not work out.

#### H. Follow Up Schedule and Outline of Work Expected

1. At some future date probably within the next 3 or 4 months it is expected that a follow up effort will be scheduled. It is estimated that this work can be done in 3 1/2 weeks by a two-man team or in six weeks by one person. It is believed that a two-man team would be more effective.

2. The scope of work would include a final Employment Generation Plan to be used as a basis for an agreement between the four principal parties - City Council of Nairobi, KIE, NCKK and USAID. It is expected that this plan would result in a signed agreement between the concerned parties.

The plan would set forth in detail what it was expected that the beneficiaries would receive and which services or funds would be supplied by each of the contracting parties. The plan would also include a schedule of future dates by which time various steps in the process would be started. Estimated completion dates would also be indicated.

The essence of this team's work would be to produce a document that would spell out in simple understandable terms what services each of the four contracting parties were agreeing to perform.

#### I. Conclusions

1. The needs for an employment generation effort in Nairobi is plainly observable when visiting various squatter settlements. This need is testified to by many documents and research papers.

The proposed employment generation project is straight forward and relatively simple. What remains to be done is to decide and agree upon which elements each of the involved parties - City Council of Nairobi, NCKK, KIE and USAID are supposed to contribute. The ultimate beneficiaries have been identified and are known to exist in number far beyond the scope of this effort.

2. It is important that the Employment Generation Advisor and his staff remain in contact with all phases of the operation regardless of what form the final plan may take. The goal of setting up 120 small industries mentioned in the Housing Project Paper, is modest. With the financial resources and land available this goal should be easily exceeded. It is especially important that the limitations outlined in this paper be observed. Training in marketing, simple accounting and business management should be started in the preoperational period with each of the new businesses. This training should be continued on an as needed basis until the new enterprise is soundly established.

Written by

Arthur J. Boyd

4/18/80

Nairobi

Organizations or Individuals Contacted in Kenya to obtain  
Information on Employment Generation

1. AID Regional Office of Housing  
for East and Southern Africa (RHUDO)
2. City Council of Nairobi (Council)  
Mr. Gilbert Njau, Chief of Housing Development Department  
Mr. M.M. Yusuf, Umoja Project Director
3. Kenya Industrial Estates (KIE)  
Mr. C.S. Mbindyo, Managing Director  
Mr. Geoffrey Rurua, Regional Manager Nairobi
4. National Christian Council of Kenya (NCCCK)  
Ms. Kadzo Kogo, Urban Program Director  
Mr. John Kamau, General Secretary
5. Partners for Productivity (PFP)  
Mr. Charles Ford Khaminwa, General Manager
6. Technoserve  
Mr. Tom Giddens, Manager
7. United Nations Development Program (UNDP)  
Mr. Robert Kitchner, Resident Representative
8. United Nations Habitat Centre (UN HABITAT)  
Mr. Eric Carlson, Co-Director, Habitat Centre  
and FCH Trustee
9. Niels Jorgensen  
Independent Consultant - Finance, Housing and  
Employment Generation
10. Afro-American Labor Center (AALC)  
Mr. D. O'Laughlin
11. United States Peace Corps  
Ms. Coralie Turbitt, Country Director for Kenya
12. Industrial Promotion Services (IPS)  
(Partners for Progress)  
Mr. John Mohamed, Managing Director

Employment Generation Consultancy - March 1980

Publications used as References

1. Kenya Project Paper  
Nairobi Housing and Community Facilities  
Project 615-HG-005
2. Compendium on Development Assistance to Kenya  
as of December 31 1979, prepared by UNDP/Kenya
3. Kenya Industrial Estates Annual Report - 1977/1978
4. City Council of Nairobi Report on the Proposed  
Second Phase of the City Council of Nairobi/US  
Agency for International Development Umoja Housing  
Scheme 1978 - prepared by M.M. Yusuf
5. PICES Phase I: A Case Study - Enterprise Support  
Activities of the Urban Community Improvement  
Programme. National Christian Council of Kenya  
- December 1979
6. National Christian Council of Kenya Annual  
Report - 1977
7. National Christian Council of Kenya: Urban Community  
Improvement Program (UCIP) - Five Year  
Budget, 1980-1985
8. The Emergence of a National Wages and Income Policy  
for Kenya - A Survey of Experience and Prospects  
- by Barack E. Odour-Otieno, Ministry of Labor,  
March 1979
9. RHUDO File on Small Enterprise Approaches to Employment
10. The Development Impact of Private Voluntary Organizations  
- Kenya and Niger. By Development Alternatives Inc.  
February 2, 1979
11. DS/UD Small Enterprise Approaches to Employment Project  
- An Overall Project Description. M. Farbman  
January 30, 1979

17

12. Nairobi's Informal Sector by William J. House.  
Working Paper Number 347 - University of Nairobi
13. A Report on Cooperative Housing for Low Income  
Workers in Kenya. Prepared for the Ministry of  
Cooperative Development, Kenya, by FCH
14. Consultancy for Small Businesses. By Malcolm Harper.  
Published in England 1976.