MICRO and SMALL ENTERPRISES in KENYA

AGENDA for IMPROVING the POLICY ENVIRONMENT

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PREFACE

In Kenya it is now widely recognised that the promotion of the micro and small enterprise (MSE) sector is a viable and dynamic strategy for achieving national goals, including employment creation poverty alleviation and balanced development between sectors and subsectors Together all these form the foundation of a strong national industrial base and domestic production structure that are central to the Government s vision of achieving newly industrialised country status by the year 2020

While micro and small enterprises have tended to absorb large numbers of unemployed people they are in themselves not always able to generate reasonably remunerated long-term jobs However given an enabling policy environment and well targeted technical assistance and support the MSE sector can play a critical role in providing opportunities likely to stimulate sustainable economic growth

As it is results from a recent MSE baseline survey in Kenya show that the sector contributes at least 13 8 percent of Kenya s gross domestic product (GDP) The Government's commitment to the promotion of MSE development could be achieved through linkages between small and large firms and a range of effective organisational techniques Among these are increased cooperation coordination and networking among small firms in specific sectors so that services such as marketing research and development skills acquisition and even production can be shared

This book presents a synthesis of research findings from various studies undertaken by the International Center for Economic Growth (ICEG) through a grant from the United States Agency for International Development (USAID) Mission to Kenya The grant used primarily to support research and dissemination activities developed out of the need to promote policy and regulatory reforms aimed at creating an enabling environment for micro and small enterprises in Kenya The goal of the grant was to increase the potential of MSEs to generate employment and income opportunities The various papers presented in this book provide an assessment of the existing policy regime and constraints affecting MSEs and proceed to make recommendations on the way forward It is hoped that the various recommendations will be useful to policy makers practitioners donor agencies and other stakeholders interested in promoting the role of MSEs in job creation and poverty alleviation

The research itself involved the participation of many people and institutions all of whom it is not possible to list. However we wish to give special recognition to the United States Agency for International Development (USAID) Mission to Kenya for a major contribution in providing funds used to develop the underlying research papers and corresponding dissemination workshops. We would like to recognise the roles played by Robert Young, Dennis Weller, Zack Ratemo and Maria Stephens, all of USAID, for their contributions and ideas in designing and managing the research project. We also wish to thank the members of ICEG's Advisory Committee for their useful insights and guidance in directing the research process. Special thanks go to the Ministry of Planning and National Development and to Dr. Isaiah Onyango in particular, for facilitating and co-hosting the dissemination workshops of the research findings. The Kenya Government through funding from the United Nations Development Programme (UNDP) provided additional funds, which were used to sharpen the research results for purposes of updating Sessional Paper No. 2 of 1992. Last but not least, we appreciate useful comments and inputs from the leaders of various *jua kali* associations who participated in the dissemination workshops.

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CHAPTER ONE

Introduction

Andrew Mullei and Crispin Bokea

The significance of Kenya s micro and small enterprise (MSE) activity has continued to grow since the sector was first brought into the limelight in 1972 in a report by the International Labour Organisation (ILO) on ' Employment, Income and Equity in Kenya The report underscored the sector's critical role in promoting growth in incomes and employment The evolution and historical circumstances responsible for the emergence of the informal sector in Kenya can be traced back in earnest, to the early 1960s when the newly independent government introduced trade licenses, work permits and state-owned monopoly organisations as well as permission to allow civil servants to operate businesses all as part of a broader strategy for the indigenisation programme

Due to the economic space and opportunities created by this set of legislation and the subsequent slowdown in economic activity, especially beginning in the mid 1970s the number of micro and small enterprises often operating informally continued to grow The trend continued into the 1980s and early 1990s In the latter period the MSE sector has witnessed a bustling of activity and a dramatically renewed interest by both external agencies and national governments in informal sector activities with a desire to intervene directly in this sector, in contrast with the more or less benign neglect that characterised the early years

In November 1985 Kenyan President Daniel arap Moi visited one of the more famous *jua kali*[1] sector industrial clusters located in Kamukunji Nairobi Symbolically, this visit marked an important milestone in the evolution of the MSE sector in Kenya because it initiated a crucial process of political recognition of the sector at the highest level Within a period of three months and four visits the President touched on the following issues of policy, which were later to constitute the key areas of policy focus for the MSE sector

- The provision of sheds
- The possibility of security of tenure—sheds were to be provided free and title deeds would be issued to the allotees

[1]*Jua kali* means hot sun in Kiswahili the term refers to working under the hot sun as many *jua kali* artisans lack formal workplaces

- Sector organisation and formation of groups e g *jua kali* associations
- The possibility of subcontracts, including from the Government—Government vehicles would be repaired in the informal workshops of Gikomba
- The incorporation of the sector into national industrial policy and planning

In 1986 a policy scenario focused on MSEs came into being with the publication of Sessional Paper No 1 of 1986, on *Economic Management for Renewed Growth* By the time it was released the rather casual term "informal" sector had been given a new positive dimension and was being substituted with the term *jua kali* This Sessional Paper highlighted the potential of the MSE sector as well as helped change its image from employer of last resort to vibrant wellspring of technological capacity and aggressive entrepreneurship The Sessional Paper which had been prepared against a background of declining economic growth and severe fiscal constraints, introduced radical changes and outlined a development strategy that put great emphasis on the rural economy and the development of the informal sector

The Sessional Paper also recognised that 80 percent of the population reside in the rural areas where they are involved in off farm income-generating activities It proposed the establishment of a special task force to review local authority by laws and other regulations governing informal activities to create a healthy legal and regulatory climate for informal sector activities The Sessional Paper also noted that direct assistance was to be provided to individuals and small-scale businesses Consequently the Centre Project' was born within the Ministry of Planning and National Development to address the key issues of the informal sector

In 1989 the Government of Kenya (GOK) published a document entitled 'A Strategy for Small Enterprise Development in Kenya Towards the Year 2000' which focused on the constraints the sector was experiencing These were broadly classified as (1) the enabling environment, (2) investment and finance and (3) promotional programmes and enterprise culture These subsequently formed a basis for designing fairly focused policies on the sector

By 1992 the policy focus had been refined and was published as Sessional Paper No 2 of 1992, on *Small Enterprise and Jua Kali Development in Kenya* This Paper has served as the basis of all other programmes for the development of the sector An agenda for action was defined covering a period of 12–24 months in those areas considered crucial for the promotion of the MSE sector This period expired in February 1994

Early in 1994, a thorough assessment of policies, strategies and programmes under the Agenda for Early Action was carried out and the obstacles inhibiting growth in the sector were identified and analysed The following issues emerged

- There was a multitude of actors involved at various levels of implementation of the policy and strategy framework However, due to weak or nonexistent coordination mechanisms, much of the effort had been misspent resulting in minimal impact Furthermore the capacity in Government to play its facilitative and coordination role effectively was weak and required strengthening

- Although the policy environment towards the MSE sector was considered positive the regulatory environment remained largely hostile to many small business operators Most of the disabling laws and regulations that inhibit the operations of the sector had been reviewed in 1988 but the outcome was not adequately disseminated to appropriate users for action Consequently other task forces were set up later to review some of the same laws and regulations In effect, it was observed that little implementation of the recommendations on possible amendments had been achieved

In order to address these two issues the MSE unit in the Ministry of Planning and National Development was upgraded to a division with two distinct sections The first section the Policy Section was given the mandate to develop policy monitor implementation coordinate and disseminate information to target users and assess impact on the beneficiaries The second section the Deregulation Unit was mandated to facilitate creation of an enabling environment for promoting MSEs by addressing the existing constraints specifically those laws and regulations that have proved punitive to MSE development

During the same period, a number of donor agencies including the United Nations Development Programme (UNDP) the British Department for International Development (DFID) the United States Agency for International Development (USAID) German Technical Development Agency (GTZ) and the European Union, simultaneously designed a series of support programmes to promote the growth and development of micro and small enterprises in Kenya Such external interventions are increasingly becoming part of the wider development agenda of the sector

Notwithstanding the significant efforts made by the Government donor agencies and other private sector organisations to support and promote the development of the MSE sector in Kenya a number of policy constraints continue to inhibit the sector s realisation of its full potential Thus in the effort to make further progress, USAID signed a cooperative agreement with the International Center for Economic Growth (ICEG) in July 1996 under which ICEG was to implement a microenterprise policy support programme (called MicroPED) consisting of a series of *research projects stakeholder policy forums brainstorming* *workshops* and *strategic training seminars* These activities were specifically intended to promote dialogue and yield policy and regulatory reforms aimed at easing constraints to the development of micro and small enterprise activities in Kenya, and thereby increase opportunities for employment and income A total of seven research projects and corresponding policy forum activities were implemented that generally heightened the level of policy dialogue among stakeholders in Kenya

Moreover, as a direct result of the USAID/ICEG cooperative agreement the Ministry of Planning and National Development, in January 1998, invited ICEG to review the implementation status of the policies and strategies outlined in Sessional Paper No 2 of 1992, and to propose a new updated sessional paper for the MSE sector Following this invitation ICEG commissioned a team of MSE specialists to prepare background research papers on various aspects of the process It is worthwhile to note that the entire process of reviewing the status of implementation and formulating proposals on the way forward was considerably informed by the research outputs from the USAID/ICEG MicroPED Project

This volume combines the research conducted under the USAID/ICEG Micro PED Project with the GOK/ICEG background papers prepared for the purpose of updating Sessional Paper No 2 of 1992 on *Small Enterprise and Jua Kali Development in Kenya* The renewed policy and strategy framework proposed in these papers is based on an integrated vision of Kenya's economic development process The vision sees the different segments of the MSE sector as closely interconnected parts of the larger economy, which also includes large businesses, multinationals parastatals, non-government organisations and other non-business activities

A more balanced, effective policy focus is in line with current economic development goals to foster a dynamic and growth-oriented micro and small enterprise sector More importantly the vision of this policy and strategy framework is based on the acceptance of a market economic system, private entrepreneurship, and fostering a constructive partnership between the public and the private sector players in the economy Besides, given that micro and small enterprises do not in themselves constitute an economic enclave on their own MSE policies and strategies will be in tune with broader national and regional as well as sectoral developments, taking into account differences between categories of MSEs

The principal aim of this volume then is to present the findings and recommendations of the USAID/ICEG MicroPED project and the related GOK/ICEG research studies in a form accessible to all interested stakeholders in the MSE sector Following this introduction the book describes nine specific focal areas

Chapter Two analyses the overall legal and regulatory framework going beyond the Sessional Paper to consider existing laws and their enforcement in areas such as land tenure, trade licensing, business regulation and property rights

Chapter Three focuses on credit and finance it traces the history and sifts out the impact—which is minimal—of a variety of programmes intended to provide the vital capital input MSEs require Infrastructure comes next in Chapter Four, and the picture here is grim MSE access to utilities like power and water is sporadic at best and usually nonexistent and roads are so bad that neither artisans nor customers can readily reach workplaces, not to mention the direct implications on transaction costs of MSE businesses The role of the local authorities in redressing this situation is explored

The twin issues of entrepreneurship development and business development services are the subjects of Chapters Five and Six, respectively on the premise that entrepreneurs are made not born The two chapters look at the various formal and non formal programmes for training or otherwise assisting MSE operators Issues in markets and marketing are presented in Chapter Seven, which sets out an integrated and rational approach to product design and quality, and mechanisms for penetrating export markets

Chapter Eight on technology policy calls for nothing less than an about face in attitudes toward the use of technology The day of old fashioned first generation technologies is past and in order for Kenya to take its place among newly industrialised countries, the focus even for MSEs must be on modern environmentally friendly highly efficient technology

Then though the policy framework pays lip service to gender equity, Chapter Nine notes that many social and economic realities work to prevent equity between men and women in the MSE sector According to the chapter this is despite the overwhelming presence of women in microenterprises and many steps must be taken to level the playing field Finally Chapter Ten focuses on the environmental impact of MSEs noting that in the aggregate MSEs do more damage to the environment than large businesses because there are so many of them, the technologies they use are not often efficient, and they are essentially unregulated

In addition to the situation analyses in these nine areas, each chapter provides in depth recommendations for a wide range of practical steps that can be taken in and out of the policy arena to redress shortcomings The emphasis of the recommendations is on the private sector—including MSEs themselves—with the Government providing only the enabling environment A common thread in all the chapters is a sense of urgency—much time has been lost with very little accomplished in the way of implementing the existing policy framework Issues of implementation must be addressed forthrightly this time around, if Kenya is to tap the full dynamism of the MSE sector achieve sustained economic growth and pull its people from the mire of poverty

CHAPTER TWO

The Legal and Regulatory Framework

Winnie Karingithi

Excessive regulatory constraints inhibit business competitiveness worldwide They impose costs and inflexibilities that frustrate enterprises hamper innovation, deter investment and minimise opportunities for employment creation Large businesses may have the capacity and resources to get around the regulations when necessary, but the operations of micro and small enterprises (MSEs) which have fewer financial resources and less management depth can be seriously hampered

In Kenya MSEs are particularly inhibited by cumbersome laws and regulations, most of which are out of tune with current development realities Some laws have provisions that are either outrightly hostile to the activities of the MSEs or not sensitive to the needs and situations of these enterprises An enabling environment for small business must be provided if Kenya s need for growth and employment opportunities is to be met effectively and sustainably An important part of creating such an environment is the removal of legal and regulatory obstacles

IMPACT OF THE LEGAL AND REGULATORY FRAMEWORK ON MICROENTERPRISES

Overzealous regulations have a negative impact on the growth and development of MSEs because they

- Absorb scarce management time
- Increase fixed costs disproportionately
- Restrict operating flexibility
- Divert scarce financial resources from productive investment

One of the major weaknesses of MSEs is the limited capacity of management and resulting poor management skills Time that is taken up with regulatory issues diverts this already weak capacity from directing the strategy and operations of the enterprise Over the long term, the diversion of scarce managerial resources may prove to be the most damaging of all the many effects of regulations on the competitiveness of MSEs (a prime example is the time taken to get licenses)

Worldwide research suggests that MSEs tend to be both more highly geared financially, and more reliant on short term borrowings than large companies Access to equity capital is restricted to existing shareholders and retained earnings, therefore MSEs tend to have less capital available, and hence less capacity to absorb unproductive capital expenditure that arises as a consequence of regulations This sort of expenditure is illustrated by regulations contained in outdated building codes stringent factory legislation and national standards legislation Such regulations can set unnecessarily high standards of compliance that far exceed the capacity of MSEs

It is not only the regulations themselves that have a negative impact on the conduct of business, but also the manner in which they are implemented and enforced For example current licensing provisions give wide discretionary powers to licensing officers to grant, revoke, cancel or renew licenses Research by the Deregulation Section of the Ministry of Planning and National Development reveals that these powers are often implemented inappropriately, with the cost to business being uncertainty, wasted time and additional expenditure in the form of bribes

The manner in which licensing provisions are enforced in Kenya creates a major disincentive to investment The newspapers carry daily reports of serious property rights violations by licensing enforcement officers and street traders identify police harassment and bribery as the most serious constraints they face in the conduct of their businesses Again, MSE entrepreneurs suffer a disproportionate impediment because they are less likely to be aware of their rights and because they experience greater difficulties accessing justice and meeting the costs of bribes

ASSESSMENT OF THE EXISTING POLICY FRAMEWORK

Since the 1972 ILO report, "Employment, Income and Equity in Kenya' micro and small enterprises' contribution to overall economic development has dominated many development debates in Kenya The sector s importance in economic development was singled out in Sessional Paper No 1 of 1986, *Economic Management for Renewed Growth* which set out to create an enabling environment for MSEs Specifically, the Sessional Paper recommended that

> A special Task Force be established to review all policies as well as current local authority by laws and other regulations governing informal sector activities to create a healthy legal and regulatory climate for informal sector activities by eliminating unnecessary constraints recommending an appropriate scale of licensing fees and charges and protecting street hawkers and other self employed people from over zealous policing

The Government's commitment in Sessional Paper 1 of 1986 was reinforced in the 1989 GOK report "The Strategy for Small Enterprise Development' which set out mechanisms for the removal of constraints to the growth and development of the MSE sector A further effort by the Government was formulation of a policy framework in Sessional Paper No 2 of 1992 *Small Enterprise and Jua Kali Development in Kenya* This paper sought to establish the requisite enabling environment for the development of the sector

A critical component of the enabling environment is the legal and regulatory framework according to Sessional Paper No 2 of 1992, relevant ministries in consultation with the Attorney-General s office were instructed to

- Undertake a comprehensive review of all pertinent acts and in-depth analysis of the extent to which such acts have adverse impact on MSEs either directly or indirectly
- Review licensing arrangements and building codes for small enterprises with a view to relaxing any that hinder MSE businesses
- Restructure those clauses of the Employment Act that restrict access to employment by women in certain industries other than for medical and environment reasons

Other policy documents also declared the Government's intention to create an enabling legal and regulatory environment The Development Plan for 1989–1993 declared that "the Government would speed up the already initiated review of the local authorities by-laws and regulations that have proved restrictive to the development of MSEs This would include the suspension of certain categories of licenses appropriate revision of building codes and ease allocation of land to MSEs The Budget Speech for 1992/93 stated that the Treasury would publish a replacement to the Trade Licensing Act that would reduce the licensing requirement for small enterprises seeking to set up business

Further, the Small Enterprise Policy Implementation Programme (SEPIP) mission report of 1994 was initiated to help Government formulate proposals that would translate the policy framework for small enterprise development as set out in Sessional Paper No 2 of 1992 into concrete action The report identified the failure to address some key issues such as legislative reform land allocation and poor infrastructure as the main weaknesses inhibiting the development of the MSEs

The Small Scale and Jua Kali Enterprise Development (SSJKE) programme was to finalise the review and implementation of the amendments to existing laws and regulations According to the programme document the key actors—

Attorney General Federation of Kenya Employers, non government organisations and Ministry of Local Government—need to

- Disseminate information on the reviews that have been completed and ensure their implementation by concerned authorities especially the local authorities
- Assist selected local authorities to review and amend licensing procedures with a view to establishing a one stop office to reduce existing complexities and time wastage
- Assist local authorities to review licensing and other fees in order to harmonise the large number of different rates charged

In the Development Plan for 1994–1996 the Government pledged to harmonise the licensing regime and simplify requirements so as to encourage commercial and industrial investment The Eighth National Development Plan (1997–2001) proposed the following measures

- On the Land Reform Programme, the Government would implement the recommendations of the Presidential Commission on Land Use The Ministry of Lands and Settlement would take measures to ensure that land is earmarked for industrial development in every local authority on the basis of the Physical Planning Act of 1996 (In this regard, the Government considers that the Physical Planning Act of 1996 adequately addresses the problems of industrial land among other categories) On the strength of this act the Government would encourage all local authorities, through their physical development liaison committees, to set aside land for use as industrial parks so as to minimise the initial cost for industrial investors
- In the area of agricultural reform, the Ministry of Agriculture and Ministry of Cooperatives would amend the Dairy Act to strengthen the regulatory powers of the Dairy Board and allow more actors in the industry
- The Cooperative Act would be reviewed to enable the act to become more commercially oriented to allow cooperatives to operate competitively
- The Forest Act would be drafted and tabled in Parliament for legislation The act is to outline strategies for tackling shortcomings in wood supply and provide a legal base for enforcing supply and utilisation decisions
- The Ministry of Labour, AG and Ministry of Health would undertake a comprehensive review of the Factories and Other Places of Work Act and the Public Health Act with a view to strengthening occupational health in the workplace

The Budget Speech of 1996/97 charged local authorities to consolidate their licenses to only a single payment This was expected to minimise the licensing burden on business in general and *jua kali* enterprises in particular Then in order to develop the formal and informal sector, Sessional Paper No 2 of 1996, *Industrial Transformation to the Year 2020*, proposed that the AG should review the Vagrant and Public Nuisance Acts to make allowance for genuine *jua kali* enterprises as opposed to misfits and vagrants

In addition, the Minister for Finance, in the Budget Speech of 19 June 1997, proposed to discontinue collection of trade licensing fees for revenue purposes by the central government with effect from January 1998, leaving the central government concerned only with regulatory approvals

Finally in the Budget Speech on 11 June 1998, the Minister for Finance made the following announcement about the Local Government Act

> To make Business environment more friendly I propose to amend the Local Government Act to require local authorities to issue only one business permit to a business enterprise effective from 1st January 1999 The permit will be issued automatically provided that
> (i) all required information is given
> (ii) the required fees are paid and
> (iii) the business has settled other revenue liabilities
> This business permit will not be a substitute for meeting required regulatory conditions concerning health safety or environment standards The regulatory function will be de linked from the revenue collection functions but businesses will still be required to ensure compliance with these other laws, not as a condition of getting a license

IMPLEMENTATION STATUS OF THE POLICIES

Since the publication of Sessional Paper No 2 of 1992, an enormous amount of work has been done to identify various rules and regulations affecting start-up operation and growth of MSEs in Kenya However, very little positive action has resulted Some of the initiatives undertaken to date are described in the following sections They include law review task forces trade licensing reform some sector specific reform such as agriculture and health and a variety of other measures

Task Forces

The Government undertook preliminary action towards creation of an enabling legal and regulatory environment by appointing task forces to review the various laws Little progress has been made in the actual review of these laws through this process, however The results of the task forces have not been disseminated in any way, and no regulatory change has resulted In addition, not all the task forces set up deal with regulation of the business environment

Task force on health sector reform

To implement the policies outlined in the Eighth National Development Plan, the Ministry of Health is in the process of undertaking a review of relevant legislation and regulations including those that promote occupational health, many of which apply to MSEs As an initial step, a task force was set up for this purpose, after some delays the task force was recently launched and is scheduled to complete the task within six months The delay was due to lack of the necessary logistics, but these are being put in place for the exercise

Action on land reform

The Ministry of Lands constituted a task force that was launched in 1997, its members were the technical officer and legal officer from the Ministry, and representatives from the AG's office and the Law Reform Commission The task force is charged with reviewing the 30-plus pieces of legislation on land in order to harmonise and simplify them

A land procurement committee was formed to address the issue of procurement of land for MSE development in line with Sessional Paper No 2 of 1992 The committee was to

- Identify and document all land earmarked for the *jua kali* sector in urban and rural centres and its accessibility to infrastructural facilities
- Initiate and facilitate formal reservation and registration of such land
- Assess and determine the need for land in various urban and rural centres for the *jua kali* sector, in consultation with the district development committees and local authorities

The committee recommended that the land identified or reserved for use by the *jua kali* sector be held by the Permanent Secretary of the Ministry of Research and Technology until bona fide *jua kali* associations are registered

Deregulation Section (DS), Ministry of Planning and National Development

With the support of the British government s Department for International Development (DFID), the GOK established the Deregulation Section (DS) in the Ministry of Planning and National Development (MPND) to speed up the legislative review process and the implementation of policy recommendations

The Deregulation Section commenced its work in May 1996 Its mandate is to identify legal and regulatory constraints to the entry into and operation of business in Kenya It also formulates proposals for reform and coordinates the implementation of these reforms after their approval The work includes consultation with and information dissemination to all stakeholders in order to build consensus on the reforms required, and to advocate the need and rationale for change so that vested interests (which are considerable) that are resistant to change are brought along in the process

It is important to point out that while various proposals for specific legal changes have been developed in both the public and private sectors, the work of the Deregulation Section is to review and assess these proposals and make specific recommendations to Government within the context of the Government's overall policy of creating a liberalised and market oriented economy The section is responsible for extending the implementation of the macroeconomic policy framework to the domestic economy through the process of deregulation

Already the Deregulation Section has submitted proposals to the Government for review of the licensing laws after a thorough consultation and review process Local authority licensing regulations are also being changed This is discussed below

Trade Licensing Reform

In a major paper on the reform of trade licensing at the national level the Ministry of Planning and National Development (Deregulation Section) recommended the repeal and/or amendment of 14 acts of Parliament and 13 by laws relating to trade licensing None of these changes would affect standards on public health, public order, public safety or the environment The recommendations were summarised in a Cabinet Memorandum in May 1997

The Finance Minister's proposals for comprehensive reform of trade licensing, set forth in the Budget Speech of 1997, were a direct result of the work of the Deregulation Section The main changes announced were

- The cancellation of license fees payable to the Ministry of Commerce and Industry under the Trade Licensing Act (Cap 497)
- The consolidation of all local authority (LA) licensing into a Single Annual Business Registration Fee

This fee is to be issued by "one stop shops (OSS) without the licensee having to furnish proof of compliance with other regulations before being issued with a receipt for payment (This does not imply that enterprises do not have to comply with health, safety and environment regulations It simply means that the onus of compliance is moved from the licensee to the licensor, or from the enterprise to the LA This change will ease the compliance burden on enterprises and increase revenue collection by the LAs)

The intention behind this announcement was, ultimately, to remove all central and local government licensing requirements and replace them with a single, non-approval-based business registration fee, payable to local authorities

The Minister also effected the cancellation of the First Schedule of the Trade Licensing Act (Cap 497), which is the schedule under which trade license fees are payable to the Ministry of Commerce and Industry

Progress since budget speech – Local authority (LA) trade licensing

The Ministry of Local Authorities, through a circular dated 14 October 1997, began the implementation of the trade licensing reform at the local authority level The objectives of the reform were

- To deregulate the business sector so as to encourage greater economic growth and employment
- To reduce the administrative and compliance costs of controlling, regulating and maintaining information on private sector activities
- To enhance local government revenues so that local authorities could improve the delivery of services

Then, in 1998, the Ministry (MOLA) introduced the single business permit, effective on optional basis from January 1999 but mandatory in all local authorities from January 2000 The idea was to enable local authorities to shift from the existing complex system of multiple licenses to a new, simplified system The legal changes necessary for the switch were introduced in Parliament in the 1998/99 Finance Bill proposing amendments to the Local Government Act (Cap 265)

The shift was phased in as follows

- During the first year (calendar year 1999), all local authorities are required to issue either one consolidated business permit using their existing fee structure, or one single business permit using a fee schedule issued by the Ministry of Local Authorities
- During the second year (calendar year 2000), all local authorities are required to issue only one single business permit using one tariff base selected from a schedule approved by the Ministry

As of September 1999, 21 4 percent of local authorities (36 out of 168) had implemented the new system

Inter-Ministerial Consultative Committee on Rationalisation of Trade Licenses

This IMC committee was formed after the 1994/95 Budget Speech It drew its members from various ministries —Finance Commerce and Industry Local Government Tourism and Wildlife—as well as the Attorney General s office Fisheries Department and Nairobi City Council The committee was formed to address the licensing problem as members of the business community were finding the escalating cost of licenses and permits hard to bear Thus there was a growing feeling that there should be a drastic reduction in the number of licenses required through the establishment of a "one-stop window" for approval and issuance of licenses by both central government and local authorities The committee produced a paper containing various recommendations from several meetings and deliberations in May 1995 Nothing much happened after the presentation of the paper but the recommendations were incorporated into the Deregulation Section Report, ' Improving the Legal and Regulatory Environment through Trade Licensing Reform '

Review of NCC by-laws

The draft discussion paper Model By-laws Relating to Business Registration and Street Trading proposes a rationale and methodology for introducing model by laws to regulate street trading in the absence of trade licensing and to introduce the business registration system It will be considered as part of the review of NCC by laws A tariff schedule to replace the existing schedule of fees and charges under the Licensed Trades and Premises By law is also being designed by the Deregulation Section in conjunction with the Kenya Local Government Reform Programme and Nairobi City Council (NCC)

Subsequent to the development of the draft discussion paper a task force to review the Nairobi City Council by laws was put in place The Deregulation Section through meetings originated by KLGRP is the secretariat and conduit for technical and financial assistance (with guidance from KLGRP) to NCC to review all its by-laws and in particular the ones governing trade licensing It is this task force that is developing the new non approval based tariff schedule and the new NCC by laws that are to serve as model by-laws for adoption by all local authorities in the country The amendments to the Local Government Act (Cap 265) necessary for the introduction of model by laws and the new business registration system are also intended to result from this task force review

Inter-Party Parliamentary Group (IPPG)

As a result of the IPPG meeting before the 1997 election a number of acts that affect MSEs were repealed or amended The following acts were repealed

Vagrancy Act (Cap 58), Outlying Act (Cap 104) and Special District Administration Act (Cap 105) The acts that were amended include Local Government Act (Cap 265), Chief's Authority Act (Cap 128) Societies Act (Cap 108), Preservation of Public Security Act (Cap 57) and Public Order Act (Cap 56) While the acts repealed through the IPPG initiative do not govern business primarily the indirect impact on business of this legislative action is substantial, particularly on the MSE sector

Agriculture Sector Reform

According to the Eighth National Development Plan (1997–2001), the Government is to strengthen the management of agricultural cooperatives by amending the Cooperative Act to allow cooperatives to operate competitively (i e , to become commercially oriented), and refocus the role of Cooperative Ministry to that of regulation Towards this end the Cooperative Act has already been amended and is only awaiting Presidential assent

In the livestock sector, according to the current development plan, a number of measures were to take place to improve the quality of livestock products and increase the processing of livestock These are

- Fully liberalise the dairy sector so as to encourage private sector participation in the dairy industry
- Amend the Dairy Act to strengthen the regulatory powers of the Dairy Board and allow more actors in the industry

A dairy development policy has been drafted and is awaiting submission to the Cabinet for approval The legal aspects are being handled under the Dairy Act review An inter-ministerial task force was constituted and so far has worked on the Dairy Act revision a draft bill is with the AG

Currently, the Ministry is in the process of reviewing all acts and subsidiary legislation that pertain to the operations of the agricultural sector with an aim of putting them under one legal framework

Kenya Management Assistance Programme

The Kenya Management Assistance Programme (K-MAP) has been a dynamic agent for capacity building through business training and counselling In the process of undertaking these tasks K-MAP encountered first hand the massive legal administrative and technical disincentives that make it very difficult for the small enterprise sector to develop K-MAP recognised that these impediments had to be removed if it was to realise its goal of building the capacity of the sector With the help of a consultant, and financial support from the Centre for International Private Enterprise (CIPE) K MAP surveyed a randomly selected sample of small business operators from various parts of the country to establish the nature and magnitude of the constraints

The survey identified legal and administrative problems that have not only restricted the growth and development of the small business sector but have also acted as disincentive for practicing as well as potential MSEs The results were presented and thoroughly discussed at four workshops attended by representatives of government ministries and NGOs whose activities include different kinds and levels of assistance to MSEs

The deliberations of the four workshops led to the establishment of an inter-ministerial committee that has been working with the broad-based private sector Committee for the Improvement of Small Business Environment (CISBE) to remove the legal and administrative constraints identified by the survey

Committee for the Improvement of Small Business Environment (CISBE)

The formation of CISBE was motivated by the desire of the private sector to take a lead role in the implementation of policies affecting the business environment in Kenya The institutions advocating MSE sector development thus formed a common front to lobby the Government in its implementation of MSE programmes The committee is composed of legally constituted member organisations, who work together to contribute to the current national efforts of creating an enabling environment for MSEs in Kenya It also has Government representatives as members including the AG's office

As conceptualised CISBE was to play a crucial role in lobbying for the revision and implementation of legal and administrative provisions governing MSEs As a broad-based non-government organ, CISBE was expected to have a very large membership of MSEs as well as the ability to reach out to a large majority of MSEs The CISBE and the Deregulation Section were to complement each other s efforts

Weaknesses and Gaps in the Policy Framework

The lack of progress in the implementation of the policy framework set out in the Sessional Paper—despite the clearly stated GOK intention to carry out a review—creates the impression that the framework was unrealistic It overlooked the absence of the political will and financial resources that are necessary to implement such an ambitious programme Moreover, the relative absence of measurable results clearly indicates that the policy framework needs revision and more should be done to promote the MSE sector

At the same time, there was no capacity in terms of technical and financial assistance to implement the various initiatives In most cases, the guidelines required funding and technical expertise for implementation, which were not provided For example, a survey done by the Regional Centre for Socioeconomic Studies and Development revealed that local authorities indicated that they did not have adequate human and financial resources to review the by laws that were considered outdated and repressive of MSE activities

Mechanisms for information dissemination were not put in place and therefore, no major efforts were made to sensitise the key players about their respective roles in the policy formulation process The results have been that no programmes or activities were set up in the various ministries and other organisations that were expected to lead the policy formulation and subsequent implementation process For instance after amendment or repeal of some of the disabling laws and regulations that inhibit the operations of the MSEs, the outcomes were not adequately disseminated to appropriate users for action

Nor were mechanisms put in place for coordination monitoring and evaluation of the various activities envisaged in the policy framework Consequently the various actors involved at different levels of implementation of the policy and strategy framework have lost energy and momentum resulting in minimal impact on target beneficiaries For example it is widely believed that the Attorney-General's office is responsible for initiating all new legislation This is not the case The AG's office only facilitates the process Recommendations for new changes in the existing legislation must come from the implementing ministry responsible for the administration of the particular act The Attorney General then puts the recommendations into legislative language After approval by the minister who made the recommendation, the legislation is then forwarded to Parliament

The other policy documents (sessional papers, development plans) that followed only managed to highlight and create a strong case for creating an enabling policy environment but no specific policies were spelled out as such There was in general a lack of coherence in statements of intent made after the 1992 policy framework

So despite government efforts to provide a policy framework for MSEs progress in improving the policy environment for the sector remains constrained

PROPOSED POLICY INTERVENTIONS

In order to promote MSEs there is need to speed up the work already started to review various legal constraints that restrict the development of the sector Concrete policy interventions are urgently needed in the areas of trade licensing, business registration access to work space and security of tenure, and finance Labour laws and regulation of the retail sector are among the other areas that also need attention and action

Intervention 2 1 – Streamline Trade Licensing

Trade licensing is among the biggest barriers to the development of the Kenyan economy—in fact it is as important an issue as access to finance and access to workspace and utilities This was borne out by extensive consultations with business people whose overwhelming conclusion is that the requirement for trade licenses in Kenya is one of the major constraints to the entry into and operation and development of business at all levels

Traditionally in Kenya licensing has been used to regulate and control business activities That situation has now changed revenue generation has become the motivating factor behind local authority trade licensing However, the mechanism of control continues to be used with the effect that as the need for revenue increases so does the number of business licenses required and the controls they impose This deteriorating situation is compounded because

- Licensing requirements are duplicated at central government and local authority level and among the ministries themselves
- The ambit of discretion given to licensing officers leads to inconsistent application of the legislation, uncertainty and opportunities for corruption
- The system is characterised by lengthy and cumbersome approval procedures and the use of inappropriate enforcement measures

Trade would be facilitated if restrictions were confined to those that are essential to preserve necessary standards relating to public health public order security safety and the environment, and if compliance were monitored by regular inspections and audits carried out by the appropriate administration agencies

Trade licensing by central government

Trade licensing at central government level should be restricted to limited specified activities e g movement of toxic substances sale of fire arms etc that would remain strictly controlled This should eliminate the problem of multiple licensing The Minister of Finance in his Budget Speech of June 1997 announced the discontinuation of the collection of trade licensing fees for revenue purposes by the central government with effect from January 1998 Only trade licensing administered by the Ministry of Commerce and Industry under the Trade Licensing Act (Cap 497) has been effected since this announcement

Local authority licensing by-laws

Local authorities derive their powers from the Local Government Act (Cap 265) The councils have powers to administer and provide services within their area of jurisdiction One such power is to provide licenses to businesses operating in their areas and make necessary by laws to prohibit control and regulate various trades and businesses that are carried out The by laws lay great emphasis on control They incorporate harsh penalties and criminal convictions for non-compliance, and they give broad discretionary powers to local authority officials to impose a wide variety of trading restrictions

All local authorities' trade licensing by-laws should be consolidated into one set model of by laws on trade which will provide the necessary regulatory measures and one tariff structure Licensing should be automatic upon the payment of specific fees and the supply of basic information such as is required for statistical and information purposes, it should not be conditional on anything other than payment of the appropriate fees Businesses should continue to observe all regulations relating to health, environment and safety

Local authorities need sufficient resources not only to design a business license system but also to maintain it They also need to ensure that such a system guarantees simple, speedy and effective processing of license applications Another factor to consider is the affordability of license fees which is crucial to securing the full cooperation of street traders and other businesses

The proposed consolidation of licensing by-laws will simplify the fee collection process reduce the number of administration officers involved and cut associated transaction costs Entrepreneurs will be encouraged and facilitated in their attempt to enter into business whereas in the past they were impeded and controlled Removal of the requirement for multiple licenses, the simplification of procedures and the consolidation of by laws will have the effect of significantly reducing the time spent by entrepreneurs on licensing matters thus creating more time to spend on productive activities that will generate employment, income and greater trading opportunities Furthermore businesses that have been relieved of double licensing fees may be more willing to comply with registration requirements and regulatory standards

Intervention 2 2 – Decentralise Business Registration

Business registration is perceived by most MSEs as a cumbersome, bureaucratic and costly process and consequently, a major roadblock to the start-up of a formal business Registration of business names takes place only in Nairobi, although the Registrar has opened offices in Mombasa and Kisumu, they do not yet deal with business names Moreover, the requirement that the applicant should give the address and the physical location of the principal place of business creates a major problem for MSEs which often lack a fixed workplace

Registration of business names should be decentralised initially to the two existing Registrar s offices in Mombasa and Kisumu and ultimately to the sub district level to cater for entrepreneurs who are far from Nairobi In the meantime the Registrar should draw up a schedule to provide services at different district headquarters at specific times of the year This would encourage new businesses and the many business enterprises that operate under unregistered names to register

In order to ensure effective decentralisation the process should be compu terised to avoid duplication of names and the consequent legal implications Computerisation would enable the Registrar to inform an applicant if a name is acceptable or not on the spot

To implement the decentralisation recommendation, the Registrar's office should carry out a feasibility study on the proposed computerisation programme to establish the financial and technical support that will be necessary to computerise and decentralise the business registration process The feasibility study could be carried out with support of a donor and the ensuing report then used to raise funds to finance the decentralisation The decentralisation and the mobile registration exercise would require external financial resources for procurement of equipment computerisation expenses and staff training The proposed changes would reduce costs of direct travel expenses save business time—thereby increasing productivity revenue and profit—and increase chances of completing the registration exercise, as opposed to the current practice where many applicants fall by the wayside

Intervention 2 3 – Ensure Access to Workspace and Security of Tenure

In Kenya the lack of access to workspace is complicated by land allocation and tenure issues and aggravated by stringent building standards and regulations controlling the provision of utilities such as power roads and water Absence of legal titles contributes to lack of access to credit and to harassment by local authorities and provides disincentives for development of and investment in the worksite preventing improvements in technology and productivity For instance an estimated 66 percent of MSEs rent their premises Only a minority—11 2 percent—own their premises/workspace The remainder have use of the premises mostly as squatters or invaders

Land ownership arrangements have posed problems in accessing land for MSE development At present the requirement still holds that titles should be issued in favour of Ministry of Research, Technical Training and Technology (currently Ministry of Research and Technology) to hold in trust for MSE associations This is not possible however as the Ministry is not "incorporated" An attempt to prepare the titles in favour of the Permanent Secretary in the Treasury under The Registration of Titles Act (Cap 101) has also hit a snag as it cannot legally hold property in trust for other ministries and organisations Thus, according to a report by Keipet Consultants "Improving Access to Physical Infrastructure for MSE Development in Kenya", there is need to amend Cap 101 if the Ministry is to be named custodian of MSE sites As of now, ownership arrangements are not clearly defined and the Ministry of Lands is handicapped in issuing titles to MSE associations

The land allocation and transfer system should be amended to a transparent system of transfer at open market prices with title deeds being issued to and held by the purchaser Other legislative changes are necessary to ensure as far as possible security of tenure for MSEs, together with a greater emphasis in development planning on the needs of the sector

The Government through the Ministry of Research and Technology and Ministry of Lands and Settlement should ensure that all land identified and earmarked for *jua kali* activities is registered and titles issued in the names of the appropriate associations This will guarantee security and permanency of tenure for beneficiaries The Ministry of Local Authority and the local authorities themselves should regularise temporary occupation licenses held by MSEs for a longer time if they meet the necessary planning requirements this will enable them to develop the plots and prevent harassment by law enforcement agencies

Intervention 2 4 – Broaden Access to Finance

Lack of access to finance appears to be the most significant impediment to the conduct of business by the MSE sector While access to finance is not primarily a regulatory impediment, there are certain regulatory requirements that aggravate the problem such as constraints on the ability of financial institutions other than banks to mobilise savings and take deposits for reinvestment

A study should be conducted to identify the constraints that limit access to finance whether they are legal in nature arise through banking practices, or whether they are in fact misconceptions The study should relate the constraints to specific types of finance required, such as working capital venture capital or long term loans The study should also identify and document lending constraints of various types of financial institutions such as commercial banks, development finance institutions savings and credit cooperative societies and micro finance institutions Any misinformation about access to finance, including gender related constraints should be highlighted

Finally, the study should develop specific recommendations for the removal of the legal constraints, taking into consideration the necessity of maintaining the stability of the financial sector It should also recommend further action that should be taken to address those problems that are not legal in nature

Intervention 2 5 – Review Labour Laws

Labour regulations, which include recruitment and dismissal regulations, restrictions on employment of part time and temporary workers, and restrictions on pay rates, have a major impact on the ability of a business to operate with flexibility The ability of entrepreneurs to react to unexpected changes in the market is a fundamental pillar of competitiveness, and is particularly important to small companies because they do not enjoy many of the competitive advantages common to larger companies The redundancy provision, for example, constrains firms from adjusting to economic changes by restricting their autonomy in hiring and firing employees While large firms cite the restrictions on permanent redundancy as their main problem with the labour laws, MSEs in general do not comply with these laws The need to comply therefore makes it costly for the MSE sector to graduate to higher levels

The Employment Act (Cap 226) can be a hindrance in other ways, as well, despite its intention to protect workers' wage payment, work hours and general welfare According to the act, women cannot be employed in any industry undertaking mining or manual work This is often abused as a discriminatory action against women According to Sessional Paper No 2 of 1992 the clauses of the Employment Act that restrict access to employment by women in certain industries other than for medical and environmental reasons were to be restructured However, no restructuring has been done to date The sections mandating or allowing discrimination against employment of women in certain industries should be removed

All employment related regulations should be reviewed to facilitate a more flexible framework within which business can operate more competitively

Intervention 2 6 – Review the Industrial Training Act

The Industrial Training Act established a National Industrial Training Council mandated to improve the quality and efficiency of the training of personnel engaged in industry by means of funding generated from annual training levies payable by employers Currently however the levy does not appear to be working to the advantage of MSEs The act requires employers to comply with stringent formalities in order to take advantage of the scheme This should be reviewed to assess whether the formalities can be relaxed so that micro and small enterprises are encouraged to participate in these training schemes

The training system should be modernised for several reasons

- It is not flexible enough to prepare the workforce, including micro and small enterprises with the technical skills upgrading required for new jobs and technologies as the structure of the economy changes Although there is some excess training capacity, there are many unsustainable technical training institutes especially youth polytechnics, that perpetuate low quality training
- Some industrial training centres now offer evening courses for artisans, but they are primarily oriented to large and medium-scale industries
- The trade test system does not adequately reflect the new or emerging skills and technologies that are found in the MSE sector

More relevant employer-based training should be incorporated to facilitate moving skill upgrading closer to productivity and employment While the industrial training levy is an important private source of financing training in the various industries, the levy system should be modernised in order to have an impact on labour productivity, especially in the MSE sector, where the greater percentage of jobs is being created

The trade test system should also be assessed and an action plan prepared to modernise it The plan should include amending relevant legislation if necessary and formalising MSE representation on the Training Council

In fact the Government, through the Ministry of Research, has been working to develop a long-term national skills training strategy that would be more responsive to productive sector training needs The strategy would be based on assessment of the industrial training levy scheme, evaluation of the trade test and certificate system, and review of the policy for skills training

Intervention 2 7 – Facilitate the Operations of the Retail Sector

Constraints on the operations of the retail sector include shop opening hours and licensing restrictions Retail being a predominant MSE activity, should be facilitated as far as possible, and competition within the sector should be encouraged in the interests of traders and consumers alike In order to solve the problems in this area, action should be taken to encourage lawful trade, while at the same time balancing the interests of the city at large, the formal business sector and the residents of the city

Most local authorities including Nairobi have not been able to deal effectively with the informal retail sector — i e , unlicensed hawkers — due to the numbers involved as well as political and social pressures that are often exerted Although hawking appears to have potential as a lucrative business, most hawkers operate at a loss because of the many direct and indirect costs they incur Some of the indirect costs are bribes to city *askaris* and losses from either confiscated commodities or those that perish if unsold A major problem affecting hawking operations is lack of licenses, another problem is site of operation The sites considered illegal for hawking by city authorities are the very ones regarded as most appropriate by hawkers because of their proximity to potential customers This conflict of interest has resulted in running battles with hawkers, street traders and council *askaris*

It has been observed that street traders and hawkers are part of the urban environment and there is no way planners can ignore them It has also become clear that present operating by laws are by their design unable to accommodate the demands of informal sector activities There is therefore a conflict between the by-laws and the informal sector operations

It is imperative to come up with a workable solution to the problems in this area For retail business, including hawking of all sorts, the operators need more assistance The NCC has proposed the introduction of open-air markets that operate on given days and where hawkers and street traders can sell their wares without claiming ownership of the same In some countries it has been found helpful to close certain streets during certain hours to allow hawkers to operate there The NCC is closely studying this possibility with a view to identifying the streets where this can be practiced

A number of other approaches should be explored in the urban areas

- Using car parks and playgrounds as night markets
- Making use of temporarily vacant urban lots
- Assigning traders to secondary streets in an orderly manner so as to minimise the conflict of land
- Using or designating some streets for hawking purposes by diverting and closing them to vehicular traffic at specified hours
- Introducing open air markets that operate on given days where hawkers and street traders can sell their wares without claiming ownership of the site

Hawkers and street traders should organise themselves into associations and cooperative societies so that they can express their opinions as a group and be in a better position to help fellow hawkers with moral and financial support to start businesses The possibility of acquiring a block license type of business permit has been suggested by various stakeholder forums

Intervention 2 8 – Simplify By-laws on Minimum Standards

Any rules and standards that are to be contained in legislation or by-laws should be confined to matters of public order, orderly trading, and minimum standards for public health, safety and the environment A thorough review should be carried out to establish

- What standards exist that pertain to health, safety and the environment
- Whether those standards are currently enforced with respect to the small-scale and informal sector
- Whether the standards are capable of being enforced by the appropriate implementing agencies
- Whether the standards can be complied with by the MSE sector, and are therefore sensible

Standards in all these areas are high, but they are not adhered to by the MSE sector and are not uniformly enforced The Government should introduce a programme of simplifying compliance standards so that the burden on business is reduced Pending the introduction of such a programme, and in order for the MSE sector to be given the opportunities to trade legitimately, appropriate minimum compliance standards relating to health, safety and the environment should be developed

Further consultations have been envisaged with the local authorities and relevant ministries to encourage the development of those standards Commitment to an overall reform programme in this area can be encouraged through the preparation of the necessary papers for approval and by following those approvals through the system

Intervention 2 9 – Address Needs of Agricultural and Horticultural MSEs

Problems of agriculturalists and horticulturalists relate to land and infrastructural issues as well as to cartage, haulage and licensing issues In addition, parastatals continue to dominate the sale and distribution of many agricultural and horticultural products, and thus opportunities for competition and creative initiative are limited

The Government should step up the review of various statutes regulating agrarian industry to examine whether the current mechanisms for production, sale and distribution continue to be effective, and to make recommendations for reform where appropriate Though proceeding slowly, this exercise is ongoing, and the first drafts have been circulated to the relevant stakeholders for comment and feedback For example the Ministry of Agriculture is currently in the process of reviewing all acts and subsidiary legislation that pertain to the operations of the agricultural sector with the intention of putting them under one legal framework

Intervention 2 10 – Review the Science and Technology Act

This act establishes a council charged with determining priorities for and advising Government on what activities it should be undertaking for Kenya's scientific and technological advancement It appears that the council has concerned itself with the traditional sciences to the exclusion of the technological skills development that would benefit the micro and small enterprise sector

The act should be re examined to ascertain whether this issue is indeed a regulatory matter and if so whether amendments are appropriate in order to ensure that the council broaden its focus to include technological advancements that would enhance the MSE sector

Interventions 2 11 – Review Restrictions on Exporting and Importing

Notwithstanding recent liberalisation of export restrictions exporters continue to face frustrating delays and significant difficulties These appear to be related to documentary and procedural complexities associated with the formal export incentive schemes and implementation procedures In addition, delays arise from the necessity for pre-shipment inspections and special commodity specific export permits These constraints take on even greater importance as Kenya faces the challenge of rising regional competition in both traditional and non traditional export markets

The Government should review current procedures to establish appropriate measures that will enhance Kenya's position both regionally and internationally

Intervention 2 12 – Review Manufacturing and Product Regulations

Regulations that lay down certain methods of manufacture and prescribe product standards can influence the extent to which enterprises can be innovative That is they affect producers ability to develop and exploit new products services and operating processes and to maximise operating efficiency This can be a serious constraint, as the ability of a business to innovate is essential to its developing the capacity necessary to compete and achieve long term success

Appropriate measures should be taken to determine whether businesses in Kenya are constrained by product and process regulations that inhibit innovation

Intervention 2 13 – Open up the Construction and Building Industry

The building industry has traditionally been the purview of large construction companies that are in a position to mobilise significant resources in terms of machinery and personnel, and that have sufficient financial backing to be seen to be readily accountable in the event of negligence or faulty workmanship In Zimbabwe, industry specific regulations effectively imposed ceilings on the size and value of work for which small scale construction companies could tender, and compensatory affirmative action measures only served to increase the perception that indigenous construction companies were not capable of competing on an equal footing with their large international counterparts

Measures should be taken to determine whether any such regulations operate to constrain the growth of the building industry in Kenya, if so appropriate changes should be made

Intervention 2 14 – Ease Constraints on Investment

A country s investment approval process is critical to its reputation as a location for business In Kenya the process frequently consumes unnecessary time and energy on the part of both the prospective investor and the Government The issue should be examined in depth and appropriate measures taken to implement a more streamlined and efficient approval process

Intervention 2 15 – Make the Transport Sector Efficient, Economical and Safe

The efficient and economical transport of both goods and the labour force is fundamental to the operating success of business Regulatory constraints on Kenya s transport sector include stifling restrictions on the movement of goods On the other hand regulations regarding passenger-carrying businesses are not enforced Licenses are strictly controlled leading to corruption and inefficient delivery of services For the passenger costs are too high and safety standards are not observed

Regulations constraining the free movement of goods other than in the interests of safety should be removed Steps should be taken to improve the effectiveness and efficiency of mass transport to ensure that workers get to their jobs safely and on time Government must take corrective measures to address these problems

Intervention 2 16 – Remove Statutory Gender Disparities

Many existing statutes operate to unfairly disadvantage women in business Given the significant role that Kenyan women play in the economy, and in the MSE sector in particular and given GOK's commitment to implementation of a policy of gender equality appropriate measures should be taken to review all regulations affecting the ability of women to enter into and remain in business

Intervention 2 17 – Review Industrial Estate Schemes

These schemes formed parts of several early initiatives but they failed to achieve better access to workspace for the MSE sector The issue should be examined in depth to establish the reasons for the failure of the schemes, and whether any new initiatives through legal reform could lead to improved use of existing structures

Intervention 2 18 – Develop Effective Information Management and Dissemination Mechanisms

There is need to develop a system for information dissemination among NGOs, Government departments the private sector and the business community A key element of such a system would be collaborative forums with other research groups relevant Government departments and international development agencies to share progress on various activities in order to ensure complementarity on ongoing activities in the MSE sector Information dissemination activities at the grassroots level should be conducted in collaboration with organisations with a large representation of MSEs such as K REP K-MAP Kenya Small Traders and Enterprises Society (KSTES), and the Kenya National Chamber of Commerce and Industry (KNCCI) among others

To facilitate a network for sharing information research findings and other promotional services there is need to boost awareness at all levels For example to ensure sustainability of the deregulation process through implementation of the solutions that have been developed it is essential to transfer to both civil servants and entrepreneurs the skills that are necessary to bring about actual changes on the ground All players must be in a position to understand the changes that deregulation is expected to bring the benefits that will result and the way in which they will be expected to operate and perform their functions in the newly changed environment Law reform for example may remove criminal sanctions for non conformity with trading by laws but it will not have an impact on enforcement behaviour until such time as police officers are educated on how to carry out their duties in the new environment. Entrepreneurs will not be in a position to insist on their rights until they know about them and understand them.

Facilitating the implementation of reform involves two distinct activities:

- information dissemination to entrepreneurs, and
- education/training of civil servants and enforcement agencies.

A requirement of the information dissemination exercise is that it leads to changes in attitude. Control must give way to facilitation, and changes to the system in the absence of mechanisms to foster attitude change will not achieve this objective.

The education process is envisaged as being most effectively delivered in the form of workshops, an ongoing seminar programme and comprehensive media coverage with appropriate advertising. Appropriate measures should be taken to monitor the implementation of the agreed changes at the local authority level. A specific monitoring programme should be developed and followed.

Intervention 2.19 – Enact Specific MSE Legislation

Procedures and practices required by Kenya's stifling legal and regulatory environment should be analysed since in the past they have been identified as constituting implicit cost to MSEs. It is necessary to explore the possibility of enacting an MSE Act, which should among other things clearly define what MSEs are for the purpose of policy implementation. This will resolve the conflicting definition of MSEs among government departments and the private sector. Towards this end, policy research should be carried out to establish the relevant provisions of the act for consideration by Parliament.

Experience in other countries demonstrates that the introduction of a legal framework to support the MSE sector has helped provide a conducive environment for the sector to flourish. For example, in Japan, small business policy is extremely important with government regarding the promotion of the MSE sector as one of the most cost effective interventions to promote the development of the whole economy. To put more weight in the sector Japan came up with a basic Small Business Act "The Fundamental Law of Small Medium Enterprises". This is a constitution for policy orientation toward small and medium enterprises that provides a policy framework within which other legislation could be included. The emphasis is on "eliminating the barriers associated with smallness" and in modernising the sector. This is an idea that can be applied in Kenya since it will amount to positive intervention in favour of small business.

A similar scenario is found in South Africa where the African National Congress government elected in 1994 placed a new emphasis on small business development The government's approach culminated in the release of a White Paper, National Strategy for the Development of Small Business in South Africa" The White Paper strongly emphasised the establishment of an enabling regulatory environment for small firms Aside from investing much time and many resources in establishing a new institutional framework to support small business, a National Small Business Act demonstrating government's commitment to the small business sector was passed by the South African Parliament at the end of 1996 This legislation requires all government departments to assess the impact of existing and proposed legislation on small business

Intervention 2 20 – Review and Repeal Outdated Laws and By-laws

In a fast changing socioeconomic environment there is need for simple and adaptive legal instruments that can effectively respond to the needs of varied economic activities, including those of MSEs Most local authorities expressed urgent need for the review and/or repeal of outdated laws and by-laws to accommodate MSE activities This would stimulate additional investment from the sector itself and be in harmony with the stated government policy of reviewing the legal and regulatory framework that is inimical to MSE activities including licensing arrangements that affect MSEs The study suggested that this can be done through a well coordinated regulatory framework and harmonising laws governing MSEs— for instance the Public Health Act and the Local Government Act sections 148 and 163 Among other things, the clause requiring full council meetings to pass resolutions should be eliminated in order to remove political interference in the regulation of the MSE activities There is also need to sensitise MSEs on laws and by-laws to enhance compliance Moreover because some MSE activities are concentrated on a single worksite, and the majority have formed registered associations/groups the possibilities of providing block licenses should be explored to ease the licensing process and minimise corruption and harassment

The Attorney-General's office should speed up the work of the committees and task forces that have been established to review laws and regulations that inhibit MSE operations

Intervention 2 21 – Clarify the Role of Government and Local Authorities

The overall government policy is no longer to be directly involved in business but rather to facilitate provision of an enabling environment suitable for the development of the private sector The potential role of Government in deregulation should be

- To promote the formulation of an institutional and policy framework for deregulation in the country
- To take the lead in coordinating ongoing initiatives in order to promote joint reform initiatives and implementation
- To provide a link/focal point for receiving reviewing and overseeing the implementation of law reform proposals and facilitate approval of drafting bills or new legislation

It is crucial that Government continuously bridge the gap through technical assistance relating to deregulation in areas of monitoring the impact of new legislation, and by mobilising the resources required to support the implementation of deregulation programmes The private sector, which is seriously affected by the changing legal requirements should assist the Government in identifying the various constraints they face Both the private sector and Government should work together as far as possible to disseminate information about legal reforms and attitudes This would result in greater penetration for the various government initiatives The private sector should design programmes to allow lobbying for change with the goal to conduct advocacy activities

This is in line with what is articulated in Sessional Paper No 2 of 1997 and the Eighth National Development Plan (1997–2001) which called for the public and private sectors to become "partners in progress Accordingly, the two should adopt a stakeholder participation approach in the implementation efforts

Given their central role the mandate of the Attorney-General s office and the Ministry of Planning should be to work with other stakeholders, in both government and private sector, to carry out the necessary research on various issues and recommendations to develop recommendations for legal reforms and to assist with their implementation

Increased emphasis on the promotion of the MSE sector will strain the limited resources already provided under the various programmes A review of the activities envisaged and the constraints MSEs face (e g , lack of workspace lack of credit) reveals the need for a combination of financial, physical and human resources This calls for increased resource mobilisation in ways that will guarantee self-sustainability of activities

Both technical and financial resources are needed if the various identified activities are to be carried out The potential sources of funds are the donor community, private sector organisations and individual MSE associations, and Government Resources are required to support the in depth research necessary for the development of specific recommendations for legal reform and to ensure effective information dissemination to entrepreneurs, policy makers and enforcement agencies

The particular Government ministries and other institutions involved in this area should demonstrate commitment to providing an enabling environment for business development by allocating financial resources in their budget lines The key actors in this area—Ministry of Planning, Ministry of Local Authorities Ministry of Health Ministry of Lands AG s office—should join forces with donors NGOs and other private institutions to mobilise resources This will best be achieved through sensitising and awareness creation

The local authorities should also mobilise resources to educate their enforcement officers and the business community on the various issues affecting them The resources should be used to support other ongoing initiatives as well, such as reviewing the various outdated by laws and streamlining the licensing procedures

Intervention 2 22 – Involve Private Sector, NGOs and Donors in the Policy Process

The private sector must be involved in formulating and implementing policies related to MSEs particularly in the area of improving the legal and regulatory environment for the growth of the MSE sector Here is where the information dissemination campaign to sensitise NGOs private sector public sector the business community and international development agencies becomes critically important

Organisations that are well represented among MSEs at the grassroots should use their networks to undertake the information dissemination campaigns through workshops, posters brochures newsletters and mass media to educate their members and the business community at large Sensitisation workshops for example could be used to strengthen both local and umbrella associations This will help them raise funds through registration and subscription fees hence pool resources to support associations that would help the groups to take up on-site training of their members and workshops to create legal awareness

The Deregulation Section is currently running a project funded by DFID that has a budget for about two more years These resources can go a long way in financing the in-depth research required and in disseminating information to various stakeholders Other ongoing projects that could contribute financial assistance are the Kenya Local Government Reform Programme (KLGRP) funded by the World Bank and the Small Town Development Programme funded by Germany Both are implemented by the Ministry of Local Authorities

The technical expertise needed for the information campaigns can be drawn from the AG s office Ministry of Local Authorities Ministry of Lands Ministry of Health the Deregulation Section of the Ministry of Planning and National Development local authorities and other relevant government departments Outside consultants can be identified where necessary

CHAPTER THREE

Credit and Finance

Henry Oketch

Kenya's commercial banking industry which accounts for almost 10 percent of the country s gross domestic product (GDP), remains largely oblivious to the credit needs of the emergent micro and small-scale enterprise (MSE) sector This is despite the MSE sector s size dynamism, and contribution to employment and incomes The banks' attitude is not limited to Kenya, lack of access to bank credit is cited by MSEs around the world as one of the biggest constraints to their growth The Government of Kenya in 1992 made policy proposals and recommendations to open up Kenya s banking industry as well as non-bank financial institutions and non-government organisations (NGOs) to MSEs

Indeed the overall aim of the policy recommendations made in Sessional Paper No 2 of 1992 was to create an environment for sustainable institutions and approaches to MSE financing as a market for mainstream financial institutions The Government was also concerned with the institutional practices and attitudes of bank officials who deal with the MSE sector This chapter reviews the background of MSE financing in Kenya assesses the implementation of policy directions and makes suggestions for a variety of ways to achieve the policy objective of providing finance to this dynamic component of the economy

> **Building sustainable financial services** systems for poor men and women is of critical interest from three perspectives first, from the point of view of financial sector development, people who have not been integrated into the formal financial sector because of low incomes, gender, ethnic identity or remote location often represent a large and potentially profitable market for institutions that can develop ways to reduce the costs and risks of serving them Second, from the standpoint of enterprise formation and growth, the availability of stable sources of funding and deposit services contributes to successful start up and operations of micro and small enterprises Third, from the perspective of poverty reduction, access to reliable, monetised savings facilities can help the poor smooth consumption over periods of cyclical or unexpected crises, thus greatly improving their economic security Once some degree of economic security is attained, access to credit can help them move out of poverty by improving the productivity of their enterprises or creating new sources of livelihood.[1]

[1]Bennett L and E Carlos Cuevas Sustainable banking with the poor *Journal of International Development* vol 8 no 2 145–152 1996

MSE CREDIT PROGRAMMES IN KENYA

With the exception of a few special credit arrangements often funded by donors or Government most formal financial institutions in Kenya do not knowingly make loans to the small scale and *jua kali* sector Though they would never say so they seem to believe that if you must lend to these businesses, you would be better off just giving the money away as charity This would in their calculation, eliminate the need to meet overhead costs The attitude of the banks to the perceived risk of the micro finance market is unfortunately ignorant of the economic potential of MSEs Most often the banks forget to take into account the social and economic rewards of doing business with the MSE sector

Historically the provision of loans to the informal sector in Kenya, whether by banks or NGOs has consisted of an assortment of pilot projects and innovative ideas After 20 years of experimentation lending to the MSE sector is beginning to evolve into a new financial industry, one that builds on successful principles experiences and best practices from both commercial finance and grassroots-based development institutions

The National Council of Churches of Kenya in partnership with USAID/Kenya pioneered in making MSE loans in 1975 starting with a loan capital of US$10 000 under its Small Scale Business Enterprises project In September 1980 the status of the project was upgraded with a further funding of US$275 000 from USAID There was some lending by other NGOs during this period as well, but it was not until 1985 with the advent of the Kenya Rural Enterprise Programme (K REP) also financed by USAID that any comprehensive approach to MSE credit emerged In the initial period the efforts of these NGOs mimicked the paradigm so popular with development finance institutions (DFIs) in the 1970s, and until the 1980s none of the commercial banks had a credit programme specifically for MSE activities In fact, banks had reached just 3 percent of the 10 8 percent of the surviving MSE businesses (enumerated in a national survey in mid 1995) that had accessed credit of one sort or another Indeed, informal savings and credit societies and friends and relatives supply the bulk of credit (69 1 percent) to these enterprises

Why Businesses Need Credit

The *Penguin Dictionary of Economics* (1972) identifies three types of credit (1) consumer credit which is credit extended formally or informally by shopkeepers finance houses and others to the ordinary public for the purchase of consumer goods (2) trade credit which is credit extended by material suppliers to manufacturers or by manufacturers to wholesalers or retailers and (3) bank credit which consists of loans and overdrafts to a bank's customers A fourth type of credit (which is not discussed in the *Penguin Dictionary)* customer credit is very widespread in manufacturing and involves an advance payment by a customer for goods or services to be delivered at a later date

Finance on the other hand is defined in the *Penguin Dictionary* as the provision of money when and where required It may be short term medium term or long term Like credit finance may be required for consumption or investment and all the relationships described under credit are equally applicable

Lastly reference to financial institutions or intermediaries would mean institutions that hold money balances of or that borrow from, individuals and other institutions in order to make loans or other investments This last point is important because in financial intermediation credit and savings are different sides of the same coin

Credit or finance (used interchangeably in this chapter) enables a producer to bridge the gap between the production and sale of goods and permits consumers to purchase goods out of future income While credit and finance on their own do not create economic opportunities they provide people and businesses with the capacity to exploit such opportunities whenever and wherever they occur For MSE owner managers access to credit and finance at a critical moment can obviate the need to draw down inventories or capital from the enterprise to deal with immediate financial needs Access to credit and finance removes the pressures imposed by sudden and unexpected demands for cash on the enterprise and gives an investor some degree of freedom in deciding the most optimal timing for when and at what price to offer goods or services to the market Access to credit and finance also provides an opportunity to an investor to acquire more assets now than is possible from the current resources against expected future income Financial services help people meet their household and business goals

Kenya's Sources of Finance and Credit

Kenya has a large and growing financial services sector contributing in 1997 almost 10 percent of the gross domestic product (GDP) In March 1998 there were 17 different types of financial institutions operating in Kenya Among these were 53 commercial banks, 16 non-bank financial institutions 57 hire purchase companies 4 merchant banks 39 insurance companies 12 investment advisory firms 20 securities and equities brokerage firms a stock exchange a capital markets authority 40 foreign exchange bureaus a social security system, numerous pension plans 4 building societies, 2 mortgage finance companies 10 development finance institutions a postal savings bank and 2 670 savings and credit cooperative societies

The sector has been able to mobilise deposits and extend credit to both the public and private sector But, the sector has not been very effective in mobilising savings as the share of domestic savings held as financial assets is reported in January 1998 at 25 percent of the gross domestic product (Table 3 1)

Table 3 1 Savings mobilisation in Kenya 1994–1997

Measure	1994	1995	1996	1997
Advances/deposits ratio	64	79	76	
Domestic savings (as a percent of GDP)	18 1	13 9	15 9	14 4

Sources Government of Kenya *Economic Survey* 1997 Central Bank of Kenya Monthly Economic Review April 1998

There has been a steady growth of total lending by commercial banks (Table 2 2) The annual growth rates in lending to the private sector for example averaged 9 percent in 1981–1984 and 15 percent in 1985–1989, and finally increased to 21 percent in 1990–1991 At the end of 1997 the entire sector had Ksh209 billion in loans and advances

Table 3 2 Total lending by commercial banks in Kenya 1993–1997

Year	1993	1994	1995	1996	1997
Total credit	153 5 billion	204 2 billion	249 5 billion	272 5 billion	315 4 billion

Source Government of Kenya *Economic Survey* 1997

The total assets of the banking sector at the end of 1998 were reported to be Ksh409 8 billion by the Central Bank But over 60 percent of the assets are concentrated in just 7 of the 53 banks and 16 non-bank financial institutions Total domestic deposits with banks and non bank financial institutions at end January 1998 stood at Ksh271 3 billion The largest four of the banks control 81 percent of the deposits

The combined assets of the banking sector generated a profit of Ksh15 8 billion in 1997 which is about 10 2 percent more than in 1996 Just as with deposits and assets 75 percent of the profits made by the industry in 1997 were shared among just 5 of the 53 banks

At the end of 1996 the 2 670 savings and credit cooperatives had an outreach of 1 158 139 members and over Ksh23 6 billion in assets Members' reserves loans and shares at the end of the period were Ksh619 8 billion Ksh19 5 billion and Ksh23 2 billion respectively It is estimated that 20 percent of the outstanding loan portfolio (about Ksh3 9 billion) had been disbursed to the MSE sector

Credit to the MSE Sector

Of the 17 different types of financial institutions operating in the finance sector in Kenya today only four are active in financing MSE activities Prominent among these are the savings and credit cooperative organisations (SACCOs) NGOs, and informal associations, such as merry-go-rounds particularly in the rural areas

The successful transformation of the financial activities of PRODEM an NGO in Bolivia, into BancoSol has demonstrated the potential of the many financial NGOs in Kenya for becoming regulated financial institutions In Kenya K-REP decided in 1994 to create a micro finance bank after realising that as an NGO, it lacked the capacity to serve as an effective financial intermediary Most of the NGOs who are more committed to serving the MSE sector with credit than banks have limited outreach and growth potential because of their limited financial resources many depend on a single source of grants, and few have the systems and organisational structure to support a larger organisation

Not surprisingly recent studies in the country show that lack of credit and finance, whether for working capital fixed capital or other type is a major constraint to 32 7 percent of firms in the MSE sector[2] In fact, most MSEs rely primarily or exclusively on own savings and reinvested profits for their business finance That these may not be sufficient is indicated by the fact that lack of credit and finance to effectively manage cash flows accounts for 30 1 percent of dead small-scale and *jua kali* businesses[3] This has to be considered against a total volume of credit internally generated in the sector of Ksh9 3 billion in 1995, while the net asset value of investments in the sector in the same year was Ksh50 9 billion These estimates are very close to the recently documented share of the MSE sector of between 12 percent and 14 percent of Kenya's GDP

Moreover, the lack of access to credit is reported in many studies to account for excess capacities in MSE firms Estimates of excess capacity resulting from capital shortage range from 18 percent to 42 percent and sometimes can be as high as 58 percent Indeed, evidence from MSE surveys in the country indicates that enterprises that have accessed credit as well as other inputs have survived longer and in addition were able to expand more than those without access These studies also show a positive relationship between an enterprise s access to credit and the level of net income in the enterprise Self-financed firms generally start smaller than do those that start up with external financing and both medium and fast growth firms are characterised by relatively high incidence of commercial

[2]Daniels L O D C Mead and J M Musinga *Employment and Income in Micro and Small Enterprises in Kenya Results of a 1995 Survey* Gemini Technical Paper No 92 Bethesda Maryland USA GEMINI 1995
[3]Mead D C and C Liedholm The dynamics of micro and small enterprises in developing countries *World Development* vol 26 no 1 (January) 61–74 1997

Some Approaches to Micro Credit Institutions

In Uganda, CERUDEB has reached over 77,000 customers and makes on average 1,000 loans per month to investors in the Ugandan MSE sector in Uganda Some 90 percent of its loans are made with the savings mobilized from its customers (total deposits in excess of Ush11 7 billion Another bank in Uganda, the Cooperative Bank of Uganda opened a micro finance agency outside one of the biggest markets in Uganda and was able to mobilize US$121,800 worth of savings from 2,000 customers within two months The Family Finance Building Society in Kenya is the only example of a private for-profit bank that has 85 percent of its portfolio with micro loans

And in Bolivia, BancoSol grew out of a successful micro lending programme founded in 1983 by PRODEM, a Bolivian NGO, to alleviate the difficulties faced by small enterprises Only set up in January 1992

BancoSol had already served over 65,000 customers with a portfolio of US$32 6 million by 1994 In addition to the borrowers BancoSol has attracted 30,000 savers BancoSol loans are granted on the basis of solidarity guarantees The loans are granted with a minimum of paperwork and formality, but repayment is better than 99 percent, even though the real annual interest rate is about 31 percent

Further to the east, the Bank Rakyat Indonesia (BRI) started commercialization of micro finance in 1984 through its *unit desas* (village banks) As a result of innovations in savings and credit instruments now known as *Kupedes* it has reached over 2 6 million borrowers with a total loan outstanding of US$1 9 billion In 1986 it introduced a new savings instrument, now known as *simpedes* (village savings), that had attracted 19 million savers by March 1998 And the bank has been profitable every year from 1986 through 1997, with the profits in 1997 reaching US$173 million The profitability of the micro finance operations guarantees that the BRI will continue providing services to the low-income sector of the Indonesian economy Another private bank in Indonesia, the Bank Dagang Bali is running a profitable banking relationship with a portfolio that is 83 percent micro finance

bank start up financing

Fewer of the very small enterprises have accessed credit than relatively larger ones For instance while about half of the MSE within the 6–10 worker size range have accessed credit in the past, this compares with under 20 percent of those within the 1–2 worker range Education level is another factor almost 40 percent of the entrepreneurs with high school or university education have accessed credit in the past, compared with 24 percent of their counterparts with up to four years of education

As the country becomes more aware of the contribution of the MSE and *jua kali* sector to the GDP on the one hand and the constraints to the sector on the other hand new institutions are emerging to supply some of the missing inputs The biggest impact of Sessional Paper No 1 of 1986 and Sessional Paper No 2 of 1992 is to increase the awareness of the general public of the unexploited potential of the MSE sector Out of the 105 institutions reported to be supporting SSJKE in one way or another in May 1995 75 were involved in credit and finance Most of these were attracted to the sector after the publication of the two sessional papers

REVIEW OF SESSIONAL PAPER NO 2 OF 1992

The policy framework in Sessional Paper No 2 of 1992 identified a number of factors constraining access to credit by small-scale enterprise clients Leading among them were lack of experience of borrowers with credit institutions reluctance by formal financial institutions to lend to small enterprises and regulations that limited the funds available for loaning Other obstacles included stringent collateral requirements which make access to credit and finance by small scale and *jua kali* customers difficult low volume of loanable funds high interest rates and high administrative overheads relative to the size of loans

The policy framework recommended a number of strategies to improve access to credit by small scale enterprises One of the proposed ideas was to create an incentive system to promote lending to small enterprises by commercial banks through deregulation which would allow banks to charge competitive interest rates Other proposals were to allow commercial banks to charge a reasonable fee on small enterprise loans to cover their administrative costs and to allow banks and financial institutions to charge fees for advisory services rendered before and after providing loans to small enterprises

Reducing Government borrowing levels from local financial institutions and relaxing liquidity requirements by Central Bank to allow for more credit expansion were also proposed to increase the supply of credit to the MSE sector It was suggested that the Industrial Training Act be amended so that banks and other financial institutions can also claim expenses associated with providing their small scale enterprise clients with business advisory services as well as training and developing mechanisms to direct credit to small enterprises

The policy framework also proposed a strategy for developing innovative and diversified programmes and schemes for attracting funding for special target groups The *Agenda for Early Action* recommended that the Ministry of Planning and National Development the Ministry of Finance the Central Bank of Kenya non government organisations, and donors should develop innovative and diversified programmes and schemes to attract funding for special target groups The Agenda also encouraged banks, development finance institutions (DFIs), NGOs, non bank financial institutions and trade associations to develop a wider variety of credit guarantee schemes especially for special groups such as professionals, women, artisans, retirees and others

Specific programmes recommended for implementation in the Sessional Paper included

- Establishment of a credit-reference bureau
- Establishment of credit guarantee schemes
- Establishment of a College of Banking and Finance
- Establishment of an export credit guarantee mechanism
- Establishment of a venture capital institution
- Creation of a forum through which the Central Bank and DFIs could debate and recommend appropriate changes in banking regulations
- Design and introduction of courses appropriate to understanding of and lending to small enterprises
- Undertaking special studies to investigate the structure of risks associated with lending to the small enterprise sector

Among the institutions identified as important agents in the delivery of credit and finance to MSEs were commercial banks, semi-formal financial institutions such as K REP and K-MAP, other NGOs such as the Kenya Women Finance Trust (KWFT), and community based organisations and trade associations Suggested government organisations included the Central Bank of Kenya and line ministries (Finance, Planning and National Development, Industry and Commerce Home Affairs Culture and Social Services and Local Government), and parastatals such as the Industrial and Commercial Development Corporation (ICDC) and Kenya Industrial Estates (KIE) Universities, polytechnics, technical schools and donor agencies such as the United Nations Development Programme (UNDP) and the Danish International Development Agency (DANIDA) were also cited as important players

To address the constraints constituted by strict requirements of collateral the Central Bank in collaboration with commercial banks and financial institutions was to review the lending regulations and procedures to make the requirements more flexible and responsive to the credit needs of small enterprises Credit schemes targeting special groups were to be encouraged by urging commercial banks and other financial institutions to make loans for small enterprises on the basis of the character of entrepreneurs and the profitability of intended projects instead of the traditional collateral Banking regulations were to be changed to allow development finance institutions to accept deposits from the public

Despite the recognised constraints to access to credit by micro and small enterprises provision of credit to the sector is still limited due to the following factors

- Stringent collateral requirements which make access difficult
- Low volumes of loanable funds and limited information on providers of credit and finance
- Inappropriate assessment of beneficiaries
- High interest rates and expensive services relative to size of loans
- High levels of bad and doubtful debts in the banking sector
- Lack of business support services

The extent to which financial institutions and NGOs have established business relationships with the MSE sector since the publication of Sessional Paper No 2 of 1992 is not yet properly documented Because of this it is difficult to estimate the volume of credit to the sector The problem is in fact compounded by lack of information about demand for credit by the sector at the time of publication of the Sessional Paper

Nonetheless the Office of the Vice President and Ministry of Planning and National Development, with support from the British Government (Department for International Development, DFID formerly Overseas Development Administration) carried out a national survey of institutions and projects involved in the development of the MSE sector[4] The study identified 16 private sector organisations 15 Government ministries parastatals and agencies 50 NGOs and 11 bilateral and multilateral donor organisations Fifty of these were involved in the provision of credit for the MSE sector among them were two commercial banks Barclays Bank and Kenya Commercial Bank A year later with support from USAID/Kenya K REP established that 28 of the 41 institutions participating in the study had disbursed 2 300 loans in 1990 7 313 in 1991 and 8 063 in 1992 The total amounts disbursed in these years by the reporting institutions were Ksh115 6 million in 1990 Ksh210 8 million in 1991 and Ksh240 7 million in 1992

A subsequent update of the inventory by K-REP in 1995 [5] with the support of DFID (then the ODA) showed that a total of 54 403 loans worth some Ksh847 2 million had been disbursed between 1990 and 1994 by the institutions participating in the study (This amount did not include loans made by Small Enterprise Finance Company (SEFCO) KIE and the two commercial banks but the increase in the total amount disbursed if these are added is unlikely to exceed Ksh1 2 billion) Most of the four year totals (Ksh354 1 million) were disbursed in

[4]K REP *Inventory of Projects and Programmes for Small and Jua Kali Enterprise Development in Kenya* Nairobi Kenya Rural Enterprise Programme 1993

[5]Oketch H O A Abaga and D Kulundu *Demand and Supply of Micro and Small Enterprise Finance in Kenya* Nairobi K REP (ODA Project no MIS 031 540 019 A W 002) 1995

1994 alone, indicating a big increase in the volume of credit flowing to the MSE sector after the publication of the Sessional Paper in 1992

The demand for credit and finance by MSEs in 1995 was estimated by the DFID funded study at Ksh4 5 billion against a total estimated supply of nearly Ksh1 billion While there are numerous and varied institutions involved in the delivery of credit to the MSE sector, the capacity to deliver credit in volume and effectively (i e , on terms that meet MSE requirements and with respect to successful recovery of loans) lies with a handful of organisations The existing financial markets will remain inaccessible to the MSE sector unless additional funds are made available to those organisations

Today bank credit is still perceived as the number one limiting factor in business expansion and development of the MSE sector, basically because of non price barriers imposed on access to credit These barriers continue to restrict access to credit by MSE firms despite the liberalisation of the financial sector

IMPLEMENTATION STATUS OF CREDIT PROVISIONS OF SESSIONAL PAPER NO 2 OF 1992

The following discussion of the implementation status of the Sessional Paper No 2 of 1992 is clustered by category of proposed initiatives

- Specific schemes and programmes
- Policy directions
- Strategies

Generally it is in the area of specific schemes and programmes where the Sessional Paper has been most successful Among other things, the number of credit programmes and institutions focusing on the MSE sector has multiplied, a credit reference bureau has been established, and the College of Banking and Finance is operational

Specific Schemes and Programmes

The Government of Kenya proposed in Sessional Paper No 2 of 1992 to mobilise commercial banks and other interested parties to buy shares in a broad based national credit guarantee corporation It further outlined its intention to intensify its effort to mobilise or attract soft foreign loans for on lending to public and private institutions for lending to the MSE sector The Government also proposed to absorb the foreign exchange risks associated with external borrowing so as to stimulate the flow of funds to the MSE sector

From observation and based on the number of multilateral and bilateral organisations now funding NGOs and other micro finance institutions dealing with the MSE sector, there is evidence that these proposals have been positive in generating loan funds for the sector However the Government is yet to mobilise commercial banks and other private investors to create a broad-based national credit guarantee corporation The idea of establishing an export guarantee insurance scheme or an export credit fund for MSE products also remains just an idea

Not surprisingly the majority of institutional credit provided to MSE investments in Kenya still comes from NGOs rather than banks The continued lack of interest of banks in smaller clients can be explained by their collateral-based methodologies, perceptions of high risks, costs of small transactions and strong competing incentives for lending to the public sector Increased competition in banking has generally not been sufficient to overcome these obstacles and stimulate banks to aggressively seek new smaller clients

The College of Banking and Finance has been set up and a series of relevant courses are offered to commercial banking staff in collaboration with the Cranfield School of Management The college trains credit officers in appraisal and supervision of term loans to MSE investments, but the impact of this training is lost within the existing banking culture Discussions with some banking staff who have attended the courses show that it indeed has changed their attitude towards the MSE sector Following two successful study tours organised by the college for nine directors and senior managers of the banking industry to Indonesia (in 1993) and Bolivia and Mexico (in 1994), the Standard Chartered Bank established a special MSE lending unit (phased out during reorganisation in 1994) and assigned staff at its branches to handle micro loans The collapsed Kenya Finance Bank redefined its niche market, trained all its employees in line of this vision and launched services for the MSE sector However very few banking staff have attended—only 12 from the Kenya Commercial Bank since the course was started in 1992 and a similar number from Barclays Bank Other banks—including the Central Bank itself—have not sent their staff for specialised training on micro finance

While the idea of introducing study tours and appropriate training for banking staff and senior managers is good, and the effort so far made by the College of Banking and Finance is commendable, the poor participation of banks in training their staff can be explained by their lack of interest in doing business with the MSE sector in the first place

Participants in the courses offered by the College of Banking and Finance on financing MSE activities acknowledge that they are few and operate within a different culture in their banks from what is implied in the training Furthermore, the Central Bank is yet to force the curriculum on financing MSE businesses into the internal training programmes of the commercial banks as proposed in Sessional Paper No 2 of 1992 The paper did not address the issue of funding specialised courses on financing MSEs, and this might explain the limited impact of the recommendation Should the curriculum be imposed it could significantly affect the attitude of banking staff, as demonstrated by a study tour organised by K REP for senior Central Bank managers to BancoSol in Bolivia in 1995 And as noted above a similar study tour organised by the College of Banking and Finance in early 1993 led to the establishment of a special MSE loans programme at the Standard Chartered Bank

Comments by Banking Staff Participating in MSE Courses at College of Banking and Finance

- "It is difficult to change the institution "
- "The operating environment is very different from what is taught at the College, banks cannot change overnight "
- "It has been difficult for us to practice what we have learned or to introduce major changes in how we deal with demand for MSE loans "

An export credit guarantee/export credit fund for MSE products has not been established as recommended in the Sessional Paper, but it has a very limited chance of widening access to credit for the MSE sector Government and donors have used guarantee funds as a mechanism to direct credit to the financial market segments ignored by mainstream financial institutions since the late 1970s Many guarantee funds using *individual, portfolio* or *intermediary* models have been established to direct credit to the MSE sector Under the Rural Private Enterprise Fund, USAID/Kenya allocated funds in 1984 and 1987 to Barclays Bank and the Kenya Commercial Bank to on-lend to firms in the MSE sector with very limited impact on numbers and sustainability More recently DFID collaborated with the Kenya Women Finance Trust to establish a guarantee fund for women owner-managers of MSE activities And the Cooperative Bank of Kenya working in partnership with K MAP, has just launched a guarantee fund for MSE owner-managers with training links with K MAP The impact of these recent initiatives is yet to be assessed but credit guarantee schemes tested in the past have achieved only marginal results in terms of outreach to the MSE sector and financial or institutional sustainability

The proposal to encourage commercial banks to get involved in lending to the sector has similarly run into a blank wall Many banks are reluctant and still depend on external financing to run their special windows of credit for the MSE sector Furthermore, banks have little motivation to screen their borrowers and recover their loans under loan guarantee funds, which continues to result in high default rates and persistent de capitalisation None of the loan guarantee funds established with commercial banks since 1977 can be traced today

At the same time, special credit programmes, such as the Rural Private Enterprise Fund and the Joint Loans Board, continue to be managed unprofessionally, which results in low repayment rates and subsequent collapse of the programmes The few commercial banks that have MSE programmes still service the sector more as a result of a donor or Government initiative or as a public relations exercise than because they see the sector as a potentially viable market

In sum, loan guarantee funds have persistently vanished after their target period, have reached very few MSE clients and have tended to benefit banks more than the MSE sector for which they are intended With the exception of the KWFT loan guarantee arrangement with Barclays Bank most have operated with substantial guarantee funds thus eliminating all risks to the banks

The oldest Government-sponsored credit programme the Joint Loans Board Scheme (JLBS) continues to be heavily subsidised by the Government It charges 6 5 percent for its loans In the 1990/91 financial year, the JLBS received Ksh4 million in direct subsidies from the Government, with a matching amount from local authorities

Policy Directives

Around the world NGOs that have traditionally funded their lending operations with external (usually donated) capital are transforming into regulated financial intermediaries in order to access deposits from the public and capital markets The first one to do so in Kenya the K-REP Bank Ltd , will unfortunately find itself operating in a difficult environment as the regulations in force do not recognise the unique elements of micro finance lending

The dilemma facing pioneers like K REP is that the existing banking regulations under which they are seeking licensing are designed for a loan portfolio with borrowers whose characteristics are substantially different from those of the typical institutions specialised in the provision of micro finance Indeed micro finance lending methodologies are based on information rather than collateral, and thus emphasise personal contact rather than detailed documentation Furthermore, a micro finance portfolio consists of thousands of small unsecured short-term loans which makes the methodology of assessment of individual borrowers practically impossible to implement In contrast classic bank regulatory and supervisory practices focus on risks associated with traditional finance

Documentation requirements are designed to assess the reliability of collateral and the financial stability of the borrower and to avoid the risks of making loans to bank owners or colleagues on preferential terms (known as insider lending) as well as the dangers of risks in single large loans Within the existing regulations for risk classification and weighting framework, none of the proposals made in the Sessional Paper for innovations in lending using cash flow and character other than collateral can be applied by the commercial banks

One of the policy directives in the Sessional Paper to open up access to credit for firms in the MSE sector was to introduce market-led incentives, such as the deregulation of foreign exchange and interest rates Well, the Government abolished interest rate controls in 1991 and the foreign exchange controls were repealed in 1993, thus fulfilling some of the policy recommendations of Sessional Paper No 2 of 1992 While the full force of these reforms is yet to be felt, it is obvious they will further limit rather than open access to credit for the MSE sector as recent experience in Africa indicates

Studies of the impact of financial liberalisation in Africa[6] still detect substantial fragmentation of financial markets Informal and formal lenders still largely pre select their client groups according to the availability of information and ability to manage risk using a specific methodology and product These studies show little short term impact of financial liberalisation on financial deepening, liabilities structures, product innovation or outreach of formal banking systems despite some strengthening of portfolios competition and supervision In light of this the possible entrance of the Post Office Savings Bank and Cooperative Bank Ltd into the MSE sector despite their positive orientation to the sector will definitely be impaired by the banking regulations in the same way that commercial banks have been discouraged

Failure by the Government to reduce its budget deficit has pushed rates of interest on loans very high as it seeks to borrow from the banking sector by offering very high rates of return on treasury bills consequently crowding out the private sector Yet even if the Government balanced its budget, thereby reducing interest rates this on its own would not induce formal financial institutions to start lending to the MSE sector because of existing banking regulations and attitudes to the sector

Furthermore contrary to the recommendation of Sessional Paper No 2 of 1992 development finance institutions are still not allowed to accept deposits from the general public In fact, more recent banking policy is forcing DFIs to convert to commercial banks in order to survive in business The policy attraction of DFIs was that unlike commercial banks and non bank financial institutions

[6]Steel WF and E Aryeetey Informal financial markets under liberalization in four African countries *World Development* vol 25 no 5 (May) 817–830 1997

which generally insist on more than 100 percent security, their lending is cash flow based and their collateral requirements are often restricted to the fixed assets being financed However, given the operating environment described above it is doubtful that this recommendation would have been effective in opening access to credit for MSE firms

In the same way the relevance and possible impact of one of the policy recommendations on allowing banks to charge full cost of providing business advisory services to MSE enterprises that access credit from them is overshadowed by the inaccessibility of credit in the first place the policy incentives of financial liberalisation notwithstanding

One of the proposals in Sessional Paper No 2 of 1992 for addressing the issues of access to training and business advisory services was amendment of the Industrial Training Act The proposed amendment was to allow banks to draw on the industrial training levy fund to finance the cost of training extended by DFIs and banks to their MSE borrowers This recommendation is yet to be implemented but is unlikely to be effective given that banks and DFIs still do not lend to MSE businesses because of the factors enumerated above Furthermore, the business advisory services offered by banks are not easily accessible to the MSE owner managers or employers given their level of education business culture and orientation

The Small Enterprise Credit Agency (SECA) was registered as a company limited by guarantee in July 1992 It had 13 members by December 1997 made up of 8 commercial banks, 5 MFIs, 1 hire purchase /leasing bank 3 development finance institutions and 1 provider of non financial services (K-MAP) Although SECA a credit reference bureau was established as proposed in the Sessional Paper it is yet to become an effective agent for banks and NGOs involved in lending to MSEs Part of the problem has been the difficulty of creating and updating a database of borrowers and lenders, and another part of the problem has to do with funding and institutional ownership of SECA At the moment SECA is one and the same as the committee initially set up to oversee its establishment with a divided vision and commitment Another problem is the unwillingness and lack of information and reporting capacity among the institutions involved in lending to the MSE sector

Instead of taking up the current special initiatives which are often donor or government driven banks should build appropriate capacity internally to provide micro credit and micro finance services as their regular business In doing so the banks should take into account the unique characteristics of the MSE sector such as loan sizes, alternative collateral etc

One other programme proposed in the Sessional Paper that is yet to be implemented is a broad-based National Credit Guarantee Corporation The Ministry of Planning and National Development is also yet to set up a venture capital institution for the MSE sector as proposed in the Sessional Paper A special MSE training fund (Ksh2 2 billion) was recently established by the Government with World Bank support, but it is too early to assess its impact on training Initial reports on its implementation suggest that the fund might be abused and thus undermine its potential impact

Strategies

With regard to strategies proposed in Sessional Paper No 2 of 1992 the Central Bank is yet to create a forum where commercial banks can debate policies and regulations that hinder the flow of credit to the MSE sector Neither has the bank carried out or initiated studies on comparative risks and costs associated with lending to the MSE sector There is no doubt that these two recommendations if implemented could have a positive impact on the current attitude of formal financial institutions towards the MSE sector

The overall assessment of the implementation status of the Sessional Paper should be viewed in the context that the role of MSE investments in the economy is just beginning to be understood by policy makers and the private sector It is argued here that lack of knowledge about the potential of the MSE sector and its unique attributes has partly limited its access to credit from the otherwise huge financial sector

RECOMMENDED POLICY INTERVENTIONS

The suggestions presented in this section recognise that the main weakness of Sessional Paper No 2 of 1992 was that a mechanism for follow up and implementation was not defined This time it is proposed that a special department be created within the Central Bank to manage and translate some of the original ideas and new suggestions into action Moreover given that deregulation of the financial markets has been fully implemented, but without much positive impact on access to credit by the MSE sector, it is time to differentiate the market and change banking rules and regulations to reflect the conditions and best practices that can best serve different segments of the market, particularly the MSE sector

Intervention 3 1 - Commercialise Micro Finance

Even though the number of NGOs and other institutions involved in providing credit to the MSE sector has increased in the recent past, their outreach remains severely limited because of their limited resource base and lack of legal capacity to provide a range of financial services Furthermore, the diffusion of best practices and innovations in lending to the poor using peer pressure, character and cash flows rather than tangible collateral as the basis for securing loans has remained untested by commercial banks and other mainstream financial institutions despite its enormous success elsewhere (Ethiopia Bolivia, Indonesia and other places)

The Central Bank of Kenya should lead the movement towards commercialising micro finance by rewriting banking laws and regulations to reflect the new innovations in finance for the poor, such as the use of peer pressure, character and profitability of MSE activities, as acceptable alternative forms of collateral

Banking laws and regulations in Kenya need to be differentiated to take into account the different methodologies and susceptibility to regulation of different tiers of the financial system—formal semi-formal and informal A two-tier system that recognises different market segments, institutions and proven lending technologies and delivery mechanisms can solve the current problem by addressing the roles of

1 Commercial banking institutions which have enormous resources but lack the technology and capacity to reach a newly emerging market for financial services (largely dominated by MSE owner-managers and the working poor) and
2 Successful micro finance institutions, such as K REP KWFT PRIDE, Faulu, CARE/Kenya and others, which have developed organisational capacity and effective mechanisms to deliver credit to the newly emerging market for financial services (largely dominated by MSE owner-managers and the working poor) but lack sufficient capital and legal capacity to mobilise domestic savings for loan funds

Intervention 3 2 – Ensure the Regulatory Framework Addresses MSE Needs

The financial market segment being targeted by the Sessional Paper has already created strong institutional frameworks (solidarity groups and informal financial associations) and alternative credit risk assessment criteria, but these are not linked to the mainstream financial market

Positive changes in fiscal and monetary policy in Kenya are necessary, but will not be sufficient conditions for releasing and redirecting credit to the micro finance market There has to be a change in bank commitment and culture by having board and staff who understand the financial needs of the less affluent segments of the financial market The Kenya Government should introduce regulatory reforms that recognise the idiosyncratic features of institutions engaged in providing micro finance services In line with this the course at the School of Monetary Studies should be expanded to reach all banking staff managers and directors It would also be necessary for the Government to determine the risks of micro finance lending and hence develop an appropriate risk classification system, weighting, provisioning requirements and an inspection programme to manage these risks

Moreover, in the absence of legal reforms directed at strengthening the relationship between commercial banks and the MSE sector further expansion of credit to the sector will depend on the extent to which new organisational innovations are able to substitute collateral and other constraints In this regard, the current wholesale lending arranged by DFID with the Cooperative Bank whereby well-run NGOs such as K-REP can access credit on fair terms to on-lend to the MSE sector can make a big contribution

Intervention 3 3 – Foster Collaboration between Commercial Banks and Micro Finance Institutions

In the recent past innovations linking micro finance institutions (MFIs) and commercial banks have opened opportunities for resources to be transferred from the latter to the MSE sector This alternative mechanism for delivery of credit to the MSE sector has a number of advantages and is easy to implement

MFIs and financial NGOs tend to have a close and intimate knowledge of their borrowers and the nature and extent of their personal business assets But lenders in the formal sector like banks and non bank financial institutions, cannot possibly generate this kind of knowledge about microenterprises and still make a profit on small loans lent at even relatively high interest rates Banks and MFIs should work together to create new institutional frameworks for assessing credit risks and obtaining security For example K-REP which already has experience, knowledge and capacity to deal with the MSE sector, can borrow from Barclays using its own assets and performance to secure loans, which it in turn retails to individual MSE owner managers through their solidarity/peer groups

For this proposal to work the potential conduits or credit intermediaries to whom formal credit institutions might lend, either individually or through consortia and who would be expected to on-lend to microenterprises need to be identified The possible criteria for selecting such intermediaries can include the following

- They must be resident or practicing in the community to be served
- They must have an established or acceptable credit rating that formal credit institutions can recognise
- They must have an intimate knowledge of microenterprises and their owners in the community to be served

- They must demonstrate trust, respect and confidence in the entrepreneurs and others in the community so that loan terms and obligations are honoured

The Government might wish to explore mechanisms for implementing this idea It will require

1 Arranging to explore and identify potential credit intermediaries
2 Bringing potential credit intermediaries for a particular community Kangemi for example together with representatives of formal credit institutions to discuss the desirability and feasibility of moving forward
3 Exploring with formal credit institutions the idea of establishing a credit consortium to pool funds to share risks and to centralise accountability
4 Identifying with other stakeholders two or three communities to serve as pilot projects
5 Offering loan guarantees to a consortium for its initial experimental efforts

Intervention 3 4 - Mobilise Funds for an MSE Credit System

Beyond this arrangement the Central Bank should create a wholesale on-lending fund from which many of the financial NGOs could borrow if they pass the test of institutional capacity and other reporting and regulatory requirements as will be defined in new legislation for micro finance For this purpose and for the purpose of translating the earlier proposals for establishing a venture capital institution an export credit guarantee insurance it is recommended that the Government create a rural/MSE finance department within the Central Bank This department in collaboration with the Nairobi Stock Exchange should be responsible for promoting the idea of a broad based commercial bank for the MSE sector and rural poor along the same lines proposed in the Sessional Paper

The rural/MSE finance department will also be responsible for overseeing the implementation of the following proposals made in Sessional Paper No 2 of 1992

- Investigate the issues and explore the options for creating appropriate regulatory and supervision framework for new financial institutions such as the proposed K-REP Bank
- Investigate and study the costs and risks associated with lending to the rural poor/MSE sector and use the results to educate the formal financial sector
- In collaboration with the School of Monetary Studies which is currently responsible for the activities of the College of Banking and Finance develop and oversee the implementation of appropriate courses in banking on the poor/MSE sector The Central Bank can introduce legislation that requires all

bank managers and directors to take some of these courses as part of the bank licensing requirements

- Actively mobilise credit from external and internal sources to create a pool of funds from which successful micro finance institutions, NGOs and banks with proven commitment to the sector can borrow for on-lending to the rural poor/MSE sector
- Develop a capacity for supervising and providing technical support to leading and successful MFIs in line with newly defined regulatory and supervisory banking laws and licensing requirements
- Organise forums where commercial banks and other MFIs can learn from each other and debate policies and regulations that hinder the flow of credit to the MSE sector

If the Government succeeds in mobilising financial NGOs and other interested individuals and institutions to set up a well-capitalised micro finance bank, this will demonstrate the possibilities and create the necessary competition to induce other banks to start lending to the MSE sector on commercial terms

Intervention 3 5 – Nurture Innovation in Bank Credit Systems

For commercial banks in Kenya to enter successfully into the micro finance market, they will have to make innovations that will allow a cost-effective analysis of creditworthiness, the monitoring of a large number of relatively poor clients and the adoption of effective collateral substitutes Moreover, given that micro finance differs so radically from traditional banking banks must recruit and retain specialised staff to manage these programmes And finally, banks must set up appropriate organisational structures in their current systems in such a way that the micro finance function is independent but is at the same time ready to respond to demands imposed by hundreds and thousands of very tiny transactions

Kenya can borrow ideas and experience from Ethiopia by creating regional, legally recognised micro finance institutions targeting the MSE sector and the rural poor and invite the public and multilateral and bilateral development agencies to buy shares or contribute equity capital to establish these regional MFIs Ethiopia has successfully established three such institutions since 1993

Micro leasing is a good and successful idea, which has been applied in Ghana to finance the purchase of fixed assets for the MSE sector in that country Leasing is a rapidly growing industry firmly established in the industrialised countries, which is potentially able to expand access of MSEs to credit in ways that overcome traditional collateral requirements and contribute to capital formation The experience of countries such as Pakistan demonstrates that it provides a good alternative to non-traditional collateral based lending with the equipment leased providing the collateral For this idea to succeed it will be necessary to change laws and regulations in force and integrate the special features of micro leasing into the new law

Finally although the idea of creating a credit-referencing scheme is being considered by SECA, it has not taken off to date One anticipated problem in implementing this idea is the likely position of the Kenya Bankers Association with regard to the conflict of customer secrecy and the sharing of information under a credit reference system The need for a credit referencing system will not be such a big issue if banks develop the internal capacity decide to commercialise their lending to the MSE sector or create appropriate networking with successful MFIs

CHAPTER FOUR

Physical Infrastructure

Crispin Bokea, Aleke Dondo and James Mutiso

Significant evidence is accumulating that physical infrastructure constrains the growth and development of micro and small enterprises in Kenya Circumstances differ widely between rural and urban areas and by type of business but there are many problems in common In the first place inadequate legally demarcated land for MSE operations and insecurity of tenure for worksites results in haphazard mushrooming of informal businesses in urban areas and frequent harassment by local authorities One major fallout of this is the limited access to electricity running water and sewer facilities which especially inhibits manufacturing catering, food processing and similar categories of MSE activities In many areas the lack of roads, electricity, telephone connections, etc is a double blow, as it often explains why business and financial services are unavailable in those areas creating a further constraint to business growth

The poor condition of Kenyan roads and the resulting high transport costs, has the effect of dampening MSE growth in a number of ways It increases the

What is Physical Infrastructure?

The World Bank defines physical infrastructure as services accruing from public utilities (power, telecommunication, piped water supply, sanitation and sewerage, solid waste collection and disposal and piped gas) and public works (roads and major dams, and canal works for irrigation and drainage) A Kenya Association of Manufacturers report defines infrastructure as adequate electrical power, access roads, water and sewerage, security of tenure of premises, telecommunications, and worksites In this study, physical infrastructure includes land and business workspace (e g , industrial premises of MSEs), water supply and sewerage, roads, communication facilities and power

KAM reports that two-thirds of Kenyan MSEs do not have access to water A marked difference was noted between the urban and rural enterprises however, with around one-half of urban MSEs being without access to either water or electricity compared with nearly three-quarters of rural enterprises In urban areas, enterprises buy water from kiosks, often at 4–5 times the price paid by those with piped water cost of goods produced by MSEs, making it difficult to attract customers locally It increases the cost of repair and maintenance especially for those MSEs in the transport businesses and it adds to the cost of goods produced locally for sale elsewhere Consumers are also discouraged from purchasing MSE goods due to the difficulties of reaching sites without access roads or footpaths

Underlying all of these is the lack of coherent local planning structures, which hampers the evolution of development nodes and thereby reduces the growth potential of MSEs

REVIEW OF EXISTING POLICIES ON PHYSICAL INFRASTRUCTURE

Policies adopted by the Government of Kenya on physical infrastructure for MSEs are contained in sessional papers produced over the years and in development plans

Sessional Papers

Out of the many sessional papers released so far four refer to physical infrastructure policies for MSEs Sessional Paper No 1 of 1986 Sessional Paper No 2 of 1992, Sessional Paper No 1 of 1994 and Sessional Paper No 2 of 1996 These are described in turn

Sessional Paper No 1 of 1986, Economic Management for Renewed Growth
This Sessional Paper was the first major policy statement that focused on the MSE sector in Kenya A more integrated and facilitative role was to be adopted by the Government under which the role of the private sector in development was recognised The major recommendation made in Sessional Paper No 1 of 1986 with respect to promoting infrastructure for MSEs was the establishment of the Rural Trade Promotion Centres (RTPCs) to provide infrastructure in the rural areas The idea was to stabilise rural–urban migration by creating an enabling environment that would attract and stimulate investments in the rural areas

The RTPCs were to be implemented jointly by the District Development Committees (DDCs) and the respective local authorities They would provide essential infrastructure facilities to support agricultural and other productive activities in the rural areas Such facilities were envisaged to include

- Water supply
- Power supply
- Telecommunications (telephone post offices)

- Market centres
- Youth polytechnics
- Access roads and footpaths

Sessional Paper No 2 of 1992, Small Enterprise and Jua Kali Development in Kenya

This Sessional Paper was the culmination of years of hard work under the small enterprise development strategy to the year 2000 and became the blueprint for the development of the MSE sector in Kenya It elaborated on a system of providing funds for *jua kali* development (sheds, training, technology and marketing) through the Ministry of Research and Technology It further recommended that the Government allocate land for MSEs, provide funds to the DDCs and local authorities for improving infrastructure for MSEs and require local authorities to carry out a needs assessment to determine the priorities of the MSEs in terms of infrastructure facilities The paper also called for the establishment of a *jua kali* fund under the Ministry of Research and Technology with a provision of Ksh50 million per year

Sessional Paper No 1 of 1994, Recovery and Sustainable Development to the Year 2010

This paper encouraged the setting aside of land in rural centres for MSE development It also advocated strengthening local authorities to enable them to plan and control physical development within their jurisdiction The recommended action plan had the following strategies

- Establishment of new serviced industrial parks accommodating 100 industries to address the constraint imposed by the shortage of land and infrastructure
- Construction of new industrial estates capable of accommodating 50–200 medium scale industries in key industrial centres

The recommendations indicated that although there had been criticism of the suitability of some previous Government policies regarding provision of access to physical infrastructure, there was nothing wrong with the policies themselves The problem was that the policy implementation strategies had been deficient

Sessional Paper No 2 of 1996, Industrial Transformation to the Year 2020

This Sessional Paper focused on the potential of the MSE sector in generating employment opportunities, creating a seedbed for future entrepreneurs and highlighting the sector's propensity to produce attractively priced products It further noted the need to provide the sector with commercially viable sites that can be leased or allocated to the sector and encouraged MSEs to graduate to medium-scale enterprises

Sessional Paper No 2 of 1996 recognised that lack of sufficient accessibility to infrastructure is a major disincentive to potential investors in most sectors of the economy and threatens the realisation of the goal of industrialisation Lack of secure worksites and spaces for the majority of MSEs has inadvertently led to low output and conflicts as these businesses are forced to operate on sites that are not suitable for their activities or are meant for other activities This leads to harassment of the sector and street battles between them and local authorities' law enforcers On the other hand, in the vast Kenyan rural markets, arbitrarily decided open-air market charges on MSE products affect the sector adversely

The Paper acknowledged that the provision of infrastructure is one of Government's major functions and responsibilities, and many policies for developing or improving have been made and should be reviewed The Paper declared that

- Government would, wherever feasible, provide infrastructure on a cost recovery basis and where capital costs cannot be recouped, operation and maintenance expenditures would increasingly be funded from user charges The private sector would be encouraged to engage in joint ventures with Government to undertake privately financed projects
- An immediate priority should be maintenance, rehabilitation and reconstruction of existing public infrastructure to satisfy the demand This would mean reviewing the various initiatives started over the years and suggesting possible remedial solutions before starting new programmes Care should be taken to ensure that all levels and subsectors of the industrial set up are catered for, with a progression mechanism built in
- Electrical fluctuations and breakdowns damage equipment, create production losses and consequently constrain growth of the production sector The high frequency of power failure coupled with prolonged durations of power breakdowns is a clear indication of overstretched power supply High investment costs inhibit establishment of more power generation projects The institutional reforms under way at the Kenya Power and Lighting Company are intended, in part, to address these issues
- The National Water Masterplan recently developed should take care of the MSEs' water needs at both individual and enterprise levels
- The Government would enact legislation to allow local authorities to subcontract out the provision of their water services to the private sector on a commission or franchise basis or alternatively, allow for setting up autonomous public bodies to do the same with strong private sector involvement

Development Plans

The 1974–1978 plan proposed to set up the Small Business Development Corporation (SBDC) with the mandate of providing such services as local market research, accounting and management The plan also advocated the involvement of local authorities in the provision of infrastructure as a bid to curb harassment of the sector's entrepreneurs Specifically the plan proposed the review of central and local government regulations inimical to informal enterprises

The Fourth Development Plan (1979–1983) carried more policy recommendations on MSEs but due to apparent gaps and weaknesses in both the policies and the implementation strategies the same policies had to be reiterated, albeit in a revised version in the subsequent plan (1984–1988) To avoid a repeat of events of the previous plan, a fully-fledged small industries division was established in the Ministry of Commerce and Industry to monitor the implementation of the MSE programmes and provide assistance to the Industrial Extension Services

With the launching of the District Focus for Rural Development Strategy, the district development committees (DDCs) were expected to play a major role in setting priorities for MSE needs and providing essential infrastructure facilities It was during the same plan period that the first Nyayo Sheds Programme was established in the urban areas under the supervision of the DDCs to provide workspaces for the MSEs

IMPLEMENTATION STATUS OF POLICIES

Despite the repeated emphasis in sessional papers and development plans on the development of physical infrastructure for MSEs, these policy statements too often failed to define clear objectives and set targets This left most of them as policy generalities rather than specific policies with measurable outputs Moreover, translation of policy statements tends to be crowded out by short term, action oriented work of a crisis-solving nature that is not backed by adequate resources For example the proposed SBDC was never established neither did the local government s regulations review exercise ever take place thereby allowing the harassment of MSEs by the law enforcers to continue unabated This section reviews the status of some of the policy directives

Land and Worksites

The Ministry of Research and Technology in line with Sessional Paper No 2 of 1992 has taken some encouraging steps towards providing access to suitable land for use by MSEs Through recommendations of the Ministry, the Government in 1994 established an inter-ministerial committee to address issues of procurement of land for MSE development in urban centres The committee consists of representatives from Ministry of Lands and Settlement, the Office of the President, Ministry of Local Government, Ministry of Research and Technology, Directorate of Applied Technology, and the Commissioner of Lands The terms of reference for the committee, contained in Cabinet Memorandum No Cab(93)30 of October 1993, were to ensure not only that land was made available in urban centres but also that it met the basic site allocation criteria

The land so acquired will remain in the custody of the Government under trusteeship of the Permanent Secretary of the Treasury until an independent organisation is established to take care of MSE facilities

Nyayo Sheds

The Government has in the past not only made land available for the sector but also provided funds for the construction of sheds, provision of electrical power, water supply and access roads and construction of ablution facilities using funds from the Jua Kali Fund established in 1988 through Legal Notice No 558 It should be noted, however, that the fund has had no replenishments from Treasury to the tune of the recommended ceiling of Ksh50 million yearly Moreover, only 25 of the more than 300 registered *jua kali* associations across the country have been allocated land The sites cover only 41 districts and were chosen without any selection guidelines or criteria from the relevant ministries

Rural Trade and Promotion Centres

This programme was originally implemented under the Ministry of Planning and National Development (MNPD) Its purpose as indicated earlier was to strengthen rural–urban linkages So far only eight RTPCs have been implemented due to lack of funds for the project The concept is ideal, but must be backed up by funds

KIE Sheds

Kenya Industrial Estates was established in 1967 and incorporated as a wholly owned subsidiary of the Industrial and Commercial Development Cooperation (ICDC) started earlier by the Government In 1978, KIE was reconstituted into a development finance institution responsible for promoting MSEs throughout the country It has developed industrial estates in major towns of Kenya The sheds were fully serviced and remained the property of KIE with a tenant/landlord relationship until the early 1990s when the scenario changed following a Presidential directive that the sheds be sold to their occupants

Access to Utilities

The policies that would enhance MSEs' access to water and sanitation are not integrated into the urban water supply programmes Without a reliable water supply MSEs cannot comply with environmental conservation requirements The road networks supporting MSE worksites are insufficient and poorly maintained—when they exist at all—which reflects policy priorities There is no clear-cut policy that addresses the issue of providing energy to MSEs leaving the power supply at an ad hoc and piecemeal level, and forcing the sector to use any available source of energy which at times results in pollution Moreover it is common to find *jua kali* enterprises tapping electricity for industrial purposes from a domestic building

Nor is there a specific policy for supplying MSEs with telecommunication services, which are absolutely essential for the growth of the sector In designing a telecommunication policy to address MSE needs, what should be emphasised is that the telecommunication requirements of micro and small enterprises are not homogeneous They vary across sectoral activities (manufacturing, trade construction etc) and those in a rural trading centre differ from those in major urban centres and cities Some small enterprises, for example need their own business phone and perhaps fax machines others, like taxi pools can be well served by a common call box

Critical Constraints, Weaknesses and Policy Gaps

The policy gaps under Sessional Paper No 2 of 1992 include lack of needs assessment for the MSE requirements, lack of field officers to oversee the programmes and poor selection of worksites for the sector Moreover, there has been only partial provision of the required facilities the development programmes have been highly politicised and funds have not been adequate to complete started projects Other constraints include

- Unavailability of suitable industrial and commercial land for MSE workspaces
- Limited finance in the district development fund for continued support of the development of rural trade and production centres in up-coming towns
- Lack of funds in the Jua Kali Fund under the Ministry of Research and Technology for the construction of sheds to accommodate the artisans
- Inadequate needs assessment at the district level and lack of consultation with the DDCs and small-scale businesses on actual infrastructure priorities

Thus, although Sessional Paper No 2 of 1992 provided the policy framework and agenda for implementation which was to be translated into actions within a period of two years, this has not been done todate No mechanisms were put in place for coordinating, monitoring and evaluating policy implementation processes, and there were no targets for implementation In many cases no specific government department was assigned to formulate and oversee implementation of the policies Furthermore, the design of the policy framework did not give the provincial and district administrations and the private sector any role in the implementation of various policies The result has been lack of adequate coordination and communication between the headquarters and the rural areas where most MSEs are found

THE ROLE OF LOCAL AUTHORITIES

The local authorities are the primary implementers of policy related to infrastructure for MSEs Among other things, they construct markets and other facilities, issue occupancy permits, and regulate access to utilities The absence of clear policy on the provision of infrastructure combines with conflicting priorities within the authorities to present formidable obstacles to MSE operations This section looks at the maze confronting MSEs in their dealings with local authorities

Land and Workspace

MSE work sites range from council markets, to open air markets such as sheds in Kamukunji or open spaces like the Globe Cinema roundabout Some are fully developed and served by basic infrastructure, while others comprise only the space to conduct business Their status varies from those developed and owned by the local authorities to those owned by private institutions e g , the Asian Foundation

The prescribed procedure for MSEs to get access to land entails a formal application submitted to the Nairobi City Council through the Director of City Planning Some successful applications have been endorsed or supported by the Ministry of Research and Technology and by councillors of the areas where MSEs are operating

The scarcity of land has restricted the number of beneficiaries through this formal process to very few MSEs The process also entails the identification of suitable land by the Directorate of City Planning, and the subdivision of the land into small plots that are then allocated to MSEs The allottees make a one-time premium payment plus a survey fee In Nairobi such development includes Kariobangi Light Industries and Gikomba Market where manufacturing and related commercial premises have been developed The City of Nairobi has also depleted its land resources through allocations that are not based on sound urban planning considerations This has led to scarcity of land for large and small industrial development, as prime land is allocated for other commercial activities Good examples are the Mworoto and Kigali Market areas in Nairobi where small-scale operators were evicted and the land allocated for office development

The other formal mechanism is for the MSE to identify undeveloped land on open spaces or wide road reserves and apply for a temporary occupation license (TOL) which gives a form of tenure that may be secure for up to 10 years These applications are received and processed by the chief valuer in the Directorate of City Planning The condition for issuing the TOL is the undertaking that the MSE will remove any structures and vacate the site as soon as the Council gives notice that the site is to be developed for the initial use for which it was intended An annual fee is paid for the TOL, services such as water and electricity may be provided if the Council gives a no-objection certificate to KPLC An alternative process for getting access to worksites is slightly less formal and entails exploitation of a loophole in trade licensing where the MSE applies for a license from the Directorate of City Inspectorate There are overlapping functions between the departments of City Planning Inspectorate and Treasurer with respect to TOLs, which is confusing for MSEs

The process of MSEs getting access to NCC markets entails a formal application for a stall or kiosk or space through the Directorate of Housing and Social Services Recent experience shows that traders tend to occupy sites adjacent to NCC markets and then apply for the plots This seems to work well where the MSEs use their elected representative to exert pressure on the Council to develop the extension of the market Due to financial resource constraints, the NCC has been unable to finance the construction of the stalls It has only allocated the stall site on a lease basis and the allottee then builds the structure The NCC has provided water drainage, security lighting car park area and garbage collection services The allottees pay a stand premium and thereafter pay annual rates and ground rent This model has contributed to the expansion of capacity in NCC markets at a time when the Council was not able to finance markets development

Some of the successful initiatives in the provision of work site are

- Maintenance and expansion of markets in the city at Maringo Jericho, Kariobangi Karen and Jogoo Road
- Promotion of private development of hawkers' markets at City Park, Jogoo Road and Langata Road
- Provision of sites at Kariobangi Light Industries and Maringo, Jericho and Karen markets
- Provision of serviced plots to MSEs at Kenyatta Umoja and Kayole markets
- Private (hawkers) market development of 720 stalls at City Park The Asian Foundation financed the project and NCC contributed 3 acres of land
- Demonstration site for MSEs at Kariobangi by NCC in partnership with UNIDO

- Work site for curio trading at Gikomba by NCC in partnership with MR & T
- Kibuye open air market implemented by Kisumu Municipal Council The market began as a spontaneous open-air trading area Later the council came in and provided fairly basic infrastructure services and facilities

In spite of these successes, efforts by local authorities to provide worksites or public markets have not been very effective Where attempts have been made to support the operations of the MSE sector, the impact has been reduced when suitability access and adequacy considerations have not been fully addressed The lack of vital services such as water and electricity is another discouraging factor for the MSEs, particularly those in welding and food trades

A broader issue is the councils' financial and managerial ability to implement capital projects Although a majority of towns identify markets as priority projects, very few have afforded such facilities without donor assistance This stems from lack of appreciation by local decision makers of project affordability and lack of discretionary revenues at the LA level Competitive pricing of commercial facilities to generate some profits, or at least cost recovery mechanisms, would contribute towards improvements and expansion of such facilities This has not been a consideration in setting realistic prices The appropriateness of the designs should also be responsive to users' willingness to pay Simple low cost structures that do not sacrifice the aesthetic appeal of facilities should be incorporated in the policy development for markets

Studies on hawking in Nairobi recommend the use of car parks, streets, back lanes and open spaces for trade by hawkers and note a lack of consistency in the NCC's implementation of similar recommendations The current mechanisms used by NCC to administer the scarce CBD trading space have not been geared towards revenue maximisation The approaches have resulted in resentment among MSEs and destruction of working capital of hawkers and small traders The CBD still constitutes the most advantageous location for MSE trade and ways should be found to facilitate their location as close to the CBD as possible

Water Supply

The handling of water by local authorities for domestic, industrial, commercial and institutional use is regulated by the Local Government Act (Cap 265) Section 178 Specific by laws can be enacted by individual councils to elaborate the prescribed behaviour of the various economic agents who deal with water and related sanitation A key aspect of the provisions in the law is the local authority's exclusive monopoly on all aspects of water and sanitation This implies the prohibition of other agencies from merchandising in water and related services without express, written authorisation by the council According to the World

Bank many of the current problems in water supply and sanitation are rooted in the over reliance on the public sector in the provision of these services This has proven inefficient and ineffective in a market oriented economy

For the water undertakers, the neglect of operations and maintenance has led to huge water losses resulting in inadequate supply Deficient water supply systems due to inadequacies of the systems, lack of new investments and lack of maintenance are a policy concern This situation arises from the failure by LAs to remit what they collect to the corporation For the water undertakers LAs have failed to devote surplus money from water revenues towards extension of the schemes and maintenance The tendency has been for local authorities to use general revenues from the water fund for payment of salaries and wages

MSEs are able to have access to water supply through application to the General Manager Water who authorises connection to approved sites and even to TOL sites on open spaces or on road reserves The NCC makes water available to an MSE upon application and payment of prescribed connection fees Supply is assured so long as regular payment of user charges is made The extension of water pipes and routine repairs to the water supply system may be contracted out to MSEs up to a value of Ksh10,000 The General Manager Water also licenses water vendors in areas of inadequate coverage by providing connections especially in unplanned settlements where water kiosks and potable water vending is a major business of MSEs

For MSE purposes especially those based in informal settlements water vendors have been key suppliers of water This water source is normally very expensive and often has no quality control policy consideration The NCC by laws on water provision for example only cover the formal areas leaving out the informal areas which are not legally recognised by the authorities With the latest focus on informal sector development liberalisation of water supply in informal areas should be considered Quality control and the regularisation of water vending already taking place remain responsibilities of the NCC

Sewerage and Sanitation

The concern of sanitation policy for MSEs is primarily the promotion of public health and hygiene in work sites Public lavatories by laws drafted in 1967 stipulate that local authorities take full charge in keeping the facilities clean and in a good state of repair Due to managerial constraints in many local authorities and lack of public discipline in using sanitation facilities, public toilets remain closed for long periods or they are inaccessible due to their filthy state Thus toilet facilities are often not accessible to MSEs

Moreover sewerage is less accessible to MSEs because of its complexity of construction and high unit cost of development In view of this the Nairobi City

Council (NCC) permits the construction and use of septic tanks and conservancy facilities where the main sewer lines are too distant The relative shortage of toilet facilities in MSE sites can be partially explained by this general situation of restricted supply The majority of peri-urban areas are not served by conventional sewer lines but use septic tanks and other conservancy facilities

The situation is made worse because the NCC has closed a number of toilets and allocated others to private developers There has been no experiment with privatised operation and maintenance of public toilets in Nairobi, although a number of—unregistered—exhauster services are run by MSEs The main sewerage system is inadequately maintained and there are frequent blockages leakages and broken pipes The foul effluent overflows onto the road system and onto the work sites of MSEs that are located on the flood plains of river valleys and other poorly drained areas

Solid Waste Management (SWM)

The procedures for collecting, transporting and disposing of garbage are elaborated in the Public Health Act (Cap 242) and endorsed in Section 272 of the Local Government Act Among its key provisions the law confers a monopoly on the local authorities for sanitation services generally and garbage collection in particular The law also prohibits any economic agent from handling garbage or providing a garbage collection service without express and written authority of the LA

The impact of the law is a serious backlog in cleansing services as evidenced by increasing garbage mounds all over the city The existing law has impeded the widespread entry of the private sector in this business and locked out potential competitors Nevertheless, garbage collection is an enterprise that has attracted MSEs in recent years

The access of MSEs to garbage collection services of NCC is no worse than that of other consumers The overall goal of the Council is to collect and dispose of an increasing proportion of the garbage generated The city's capacity for garbage removal can only cope with 25–30 percent of current demand Labour productivity is relatively low and the time input is inadequate Provision of working tools has been haphazard and the tools inappropriate for dealing with accumulated mounds of garbage The operation and maintenance of removal vehicles, tractor loaders and compacting equipment is poorly managed, with the result that it has proved impossible to keep the fleet on the road and in sound working condition The disposal site is full and located very far from the areas where garbage is generated There are no facilities at intermediate points for collection, sorting and packaging of garbage prior to transportation to the disposal site

During early 1997, the central government intervened in terms of issuing a directive on privatisation of garbage collection The city has responded by hiring one company to clean the streets, clear drains, and collect and remove garbage in the city centre/CBD This has taken the form of a management contract The measure towards privatisation may need to be improved with the introduction of further analysis and elaboration of the options that are feasible for NCC

There is inadequate capacity to monitor and supervise solid waste management by private companies There is also lack of clear standards of service delivery to which private firms could be held responsible Private collectors do not always adhere to the requirement that all garbage be disposed of at the Dandora dump site, which is a return distance of 40 km from the city centre The lack of garbage transfer policy equipment and facilities makes the transport element expensive and inhibits preliminary sorting and processing prior to disposal There is lack of equipment to clean and flush drains that are filled up with silt, which results in flooding of streets river valleys and MSE worksites The NCC should contract firms with specialised equipment and interest in drain cleaning, repairs and maintenance, which obviously is a potential business area for MSEs

The high degree of willingness to pay for improved garbage collection services is indicated by current private charges that are three times the Council charges The law needs changing and the LA policy on facilitating MSE participation in this enterprise should be elaborated For example, the council has not introduced any classification of solid waste The private company has to dispose of building debris and human waste in the absence of functional public toilets Moreover the lack of solid waste receptacles along the streets within markets and around residential premises in the CBD makes cleaning very difficult for the private companies

In the absence of a clear policy on the support services and campaigns geared at shaping the public attitude on cleanliness, the effort to privatise will not bear the desired results The accumulation of garbage and unsightly dumps certainly affects the marketing of MSE goods The policy environment at LA level for garbage collection and disposal needs to be addressed as a priority

Roads and Drainage

The existing policy on road maintenance is for LAs to maintain all local roads This policy from the supply side is implicit in the broad objective of improving the development and maintenance of the network of roads in the city This aspect of the policy entails private sector (including MSEs) involvement in the design engineering and implementation of road development and maintenance under the supervision of the City Engineer The roads function includes non motorised modes of transport such as cycle and pedestrian walkways and paths, which are more frequently used by MSEs The Kenya Urban Transport Infrastructure Programme (KUTIP) is currently providing technical support in transport planning and management to 26 local authorities

The road transport system, in particular the need for secure cycle tracks safe footbridges and foot paths and enhanced crossing-points, has been cited as the major component affecting transportation for MSEs The road network in Nairobi, though sufficient in extent, is in a deplorable state, resulting in serious economic costs Lack of urban management policies, poor physical planning and growing spatial constraints have aggravated this problem

The demand for road maintenance works and enhanced non-motorised transportation has not been met Non motorised transport (NMT) has been identified as a critical component of the KUTIP programme In Nairobi the programme has begun work on the Eastlands–Kibera corridor, which includes

- Outer Ring–Mumias South–Rabai–Jogoo–Tanga route
- Buru-Buru–Umoja route
- First Avenue Eastleigh–Jogoo–Likoni route
- Jogoo–Factory Street route
- Lunga Lunga–Nanyuki–Lunga Lunga route
- Langata Road

The proposal is to construct a comprehensive network for pedestrians and cyclists, initially on an experimental basis in some sections of this corridor Once completed, the NMT system is expected to benefit over 50,000 pedestrians and about 17,300 cyclists per day The NCC has no specific policy for promoting the development and maintenance of pedestrian walkways and cycle paths which are less complex to construct and are labour intensive and hence more suited to MSE capacity

There is also no coherent MSE policy on the maintenance of roads and drainage The process of expenditure management for road construction and maintenance is highly centralised at City Hall The system does not delegate adequate responsibility for expenditure management to the heads of departments at whose level MSEs might improve their chances of being considered for contracting The system does favour large volume contracts and large firms a factor that tends to neglect routine maintenance—which MSEs are capable of carrying out effectively

Private Sector Provision of Physical Infrastructure

A number of private firms and organizations assist MSEs through the provision of work spaces Such firms/organizations, who include the following, have voluntarily initiated their programmes as partners in development.

- *Coca-Cola Company* - provides MSEs with kiosks, vending trolleys and containers used as wholesale outlets, and also as a marketing strategy
- *British American Tobacco Company (BAT)* - provides vending kiosks to MSE entrepreneurs. The kiosks serve as retail outlets as well as a marketing strategy for the firm's products
- *The Asian Foundation* - supports infrastructure facilities in at least two markets for MSEs in Nairobi The facilities, known as hawkers markets, provide some sheds and basic water and sanitation requirements The Foundation would like to put up more facilities but unavailability of land is a major constraint The two facilities so far established are supposed to be maintained by the hawkers in collaboration with the local council, but are short of collaborative mechanisms

Both Coca-Cola and BAT construct kiosks at their own cost and allow MSEs with trade licenses to operate them The MSEs pay a deposit of about Ksh3,000 for security and a further Kshl,000 for services provided In order to get such an arrangement started, the council must give consent to the location and siting of the kiosk The business must provide trade licenses, and the beneficiary must (apart from selling milk products) sell soft drinks or cigarettes for the firms Finally, the business must be profitable and the premises surrounding the area

Energy, Electricity and Power Supply

Although the KPLC has the chief responsibility of providing electricity to business and residential premises, MSEs are expected to obtain a no objection note from the local authority before a connection can be made In the event that the MSE operators do not own the land, the LA would usually object to such connections Furthermore Section 182 of the Local Government Act mandates the LA to maintain the street lights on all adopted streets and along public utilities such as markets and bus parks This legal arrangement notwithstanding the current practice is for market users to provide the service because the local authorities often lack funds to do so On the other hand there is evidence from Nyeri that councils can play a very influential role in marketing MSE power needs and in negotiating low-cost and cost-effective ways of gaining access to power supply by MSEs

A related issue is the use of biodegradable and non biodegradable waste as an alternative source of energy Press reports indicate increasing use of plastic material in particular among poor urban households and MSEs, for cooking and boiling water The NCC sewage treatment plant at Kariobangi opposite Dandora has the capacity to produce a significant volume of methane biogas This could be used for lighting and cooking once it is liquified and stored in cylinders for domestic use

PROPOSED POLICY RECOMMENDATIONS

Interventions are suggested in the areas of land and workspace provisions role of local authorities, provision of utilities, conflict resolution and others

Intervention 4 1 – Ensure Availability of Appropriate Land and Workspace

Mechanisms for accessing sufficient funds for procurement and development of land, and the provision of essential infrastructural facilities and services, should be developed by all stakeholders, with the Government through the Ministry of Finance setting the pace

A World Bank report on Kenya's employment growth for poverty alleviation states that many firms in the MSE sector illegally locate on public or private land not currently in use This results in constant cases of harassment, including demolition of premises by the local authorities This situation constrains the growth of the MSEs in several ways

First, most MSEs obtain the largest portion of their business from people passing by who are attracted by the wares displayed, so if they are not close to town centres, they cannot generate sufficient sales to grow Second, lack of secure tenure disqualifies MSE entrepreneurs from commercial bank loans Third, the threat of harassment discourages reinvestment of profits, in several instances businesses that have installed electricity have had their stalls demolished The overall effect is a strong reluctance to invest, introduce new technologies improve product quality or expand

There are two possible long-term solutions The first entails development and management of sites on a commercial, but possibly not-for-profit, basis by the private sector The Government may contribute by leasing land to the developers at less-than-market rates (possibly rent-free) and granting tax exempt status to the development

The second solution entails carrying out surveys in all major urban centres where there is heavy concentration of microenterprises, with the purpose of identifying suitable public and private land that can be purchased or allocated for the MSE sector Necessary changes would then have to be made to the physical development plans for each of these towns, laying particular stress on the more efficient use of public open spaces

To support the efforts by the private sector to assist MSEs, the Government needs to work harder to create an enabling environment by, among others, clarifying land ownership issues and providing incentive packages to the private sector and NGO communities

Markets and worksites

Given the current fiscal constraints in local authorities, the innovative approach to provision of markets and other facilities will involve more participation of the private sector as a mechanism for improved services for MSEs The local authorities should consider and support available opportunities for transferring responsibilities for service delivery to the private sector It is proposed that LAs consider giving rates rebates for private developers who put up facilities specifically for use by MSEs LAs should be assisted to identify and formulate policies that will increase the efficiency of service delivery and management

In the medium term besides embracing the contribution of private developers in the provision of market facilities, councils should change their role in the area of revenue collection and operations of markets Since most market users belong to an MSE association policy should be developed where these associations assist in the operations of the market Progressive decentralisation of functions such as development improvement and maintenance of facilities is desirable for better service provision

The privatisation of market facilities has been proposed to the Nairobi City Council through the horticultural and wholesale market in Dandora area The thrust of this effort is to improve the market's efficiency Private management companies would undertake the operation of the market by leasing out the facility the NCC would get its portion of the profits and the company would retain its share Under this model the lessee will be expected to finance the working capital and replacement of consumable stores, whereas the council bears the responsibility of financing any new investments and debt service obligations To accommodate the stakeholders' interests, the participation of as many agencies as would be expected to trade at the facility should be taken into account in the design of the framework for operations and maintenance and in the general management framework Such stakeholders include representatives of the current Wakulima Market horticultural suppliers garbage collection companies security firms, etc

In view of the impending improvements of wholesale trade in agricultural produce at the proposed Horticulture Wholesale Market, the Ministry of Local Authorities should facilitate the redevelopment and dedication of Wakulima Market as an exclusive hawkers/retail market This would address the current NCC policy concern with keeping hawkers out of the CBD and provide for resettling MSE traders who would otherwise be displaced by the closure of the wholesale market facility at Wakulima

Formation of a national board of trustees

All suitably situated projects under the RTPC and *Nyayo* sheds concept should be completed with amendments where necessary This can only be done feasibly with the involvement of those who will use the facilities, but provision of all essential facilities would help The Ministry of Research and Technology and the Ministry of Planning and National Development should act on these matters

An independent organisation should be created to manage existing MSE physical infrastructure facilities with terms of reference as spelled out in Cabinet Memorandum No Cab (93)30 of October 1993 It is recommended that this independent organisation should comprise representatives of all key stakeholders

At the national level, a National Board of Trustees for the Jua Kali Infrastructure Project (JKIP)—to be charged with the management of both completed facilities and future ones—should be put in place urgently The board will tackle issues of tenancy agreement, security of tenure, lease conditions and allocations Its functions will include policy directions and operational guidelines for the project in addition to supervising its level of performance The Board of Trustees will also be responsible for decisions touching on major investment in the project from the funds generated through rent collection from the JKIP sites Ideally the Board will comprise individuals recognised by the public who have clean and untainted reputations and practice impartiality in handling public matters They will have philanthropic interests in matters affecting the informal sector and will themselves be involved with that sector in one way or another The Government if represented, should not have a veto power in management of the trust

The Board of Trustees will be responsible for ensuring that the policies and objectives of JKIP are met, by, among others

- Managing the JKIP in a commercial and financially sound and economically self-sustaining way Any possible financial surplus will be invested in the development of additional facilities and infrastructure to serve and promote the development of the micro and small enterprise sector
- In consultation with other relevant actors, preparing an overall strategy and guidelines to be followed by the implementing agencies

- Employing a Trust Secretary to perform prescribed duties and engaging the services of a National Managing Agent who will be responsible for overall project management and day to-day operations The Board of Trustees will supervise and monitor the performance of both the Secretary and the National Managing Agent
- Using its best endeavours resources and skills to manage, administer and develop the project in a proper, efficient and businesslike manner for the benefit of the informal sector while exercising due care, transparency and accountability
- Issuing policies and guidelines for proper management of the project on a viable commercial basis while at the same time helping management to avoid underutilisation, marginalisation and politicisation of the facilities

In its operation, the Board will work in close consultation and cooperation with the representatives of the local *jua kali* fraternity, the local authority, the local provincial administration representative and officials of the parent ministry to execute the following

- Take responsibility for and supervise the allocation of sheds to qualified small enterprise operators
- Determine the initial rent levels to be charged according to the size and location of the sheds
- Establish a formula for determining future rents

Strengthening of the inter-ministerial committee on land

In principle the Inter-Ministerial Committee on Land and Worksites for MSEs is in place but it needs to be strengthened and activated with the following terms of reference (1) to survey urban centres with a heavy concentration of MSE activity with a view to identifying and demarcating suitable public and private land for MSE activities (2) to work out practical modalities to facilitate the process of land acquisition by donor and private sector organisations that wish to develop infrastructure facilities for the MSE sector, (3) to develop a code of ethics for accountability of officials charged with use and management of public land, and (4) to investigate alternative forms of land tenure, including temporary rights of occupancy for one to three years, for MSE operators currently squatting on public land

Adoption of the Community Land Trust model

The Community Land Trust (CLT) is an organisation created to hold land for the benefit of a community or individuals within the community A democratically structured non profit corporation, with an open membership and a board of directors/trustees elected by the membership, CLT draws on experience from India, Sweden, Israel and the United States The Trust acquires land through purchase or donation to be held in perpetuity and removed from the speculative market After a planning process to determine the most appropriate use, the land is made available to individual households, cooperatives and other organisations through long term leases, which may be transferred to the lessee's heirs The lessees pay a lease fee, and they must use the land themselves—they cannot become absentee landlords The CLT model is a useful alternative to the current trend of private acquisition by individuals of government and trust lands in urban areas to address MSEs needs The inter ministerial committee on *jua kali* land should explore this concept for MSEs

Title deeds and ownership of allocated land

Ownership arrangements for land allocated for MSEs have posed problems to the Ministry of Research and Technology Initially the recommendations were that such land be allocated and issued in the name of the particular MSE association Problems arose, first from failure by the associations to raise enough moneys to pay the land rates and second from sale of the plots by unscrupulous association officials The Ministry then tried to put the title deeds under its name, but this could not be allowed by Cap 101 So the Ministry proposed that the Permanent Secretary of the Treasury be used to hold the land in trust for MRT This approach currently seems to be working

All land allocated to MSE associations should in the future be held in trust by a private stakeholder organisation such as the proposed national board of trustees

Intervention 4 2 – Strengthen the Role and Financial Capacity of Local Authorities

It is recommended that local authorities, since they strategically provide the most appropriate institutional framework for improving access to physical infrastructure by MSEs, work to strengthen their financial base Moreover, the Nairobi City Council should establish a department within City Hall to handle all matters relating to MSEs, the department should incorporate the needs of the sector into city development plans

In the same vein, it is further recommended that all local authorities should plan and revive the development of both open-air and closed market projects in all major towns Donors should support the authorities with development funds since the concept has been tried and found to be viable

Urban local authorities should investigate alternative forms of tenure for small businesses that are illegally occupying public land This may include temporary rights of occupancy of, say one to three years All urban local authorities should in addition, prepare practical plans for the period up to the year 2020—when 50 percent of Kenya's population will be living in cities and towns with the vast majority deriving their livelihood from MSEs By 2020 Nairobi's population is projected to be 8 million, about 80 percent of whom will depend on this sector for their incomes

The Ministry of Local Authorities should direct local authorities to set aside land for use by MSEs meeting the allocation selection criteria Returns showing council minutes allocating suitable facilities to the sector should be forwarded to the MLA with copies to the line ministries

There is excess demand for CBD space in NCC, and possibly in Mombasa and Kisumu Under this condition of excess demand, a price based system of allocating the CBD space would be attractive in terms of providing objective criteria for excluding a large number of traders from the CBD If the price mechanism entails the open bidding for space, it potentially could yield considerable revenue for council However, discussions with stakeholders revealed insufficient understanding of the concepts that are implied by the price based system The elaboration of the concepts and the system could be done in detail prior to proposing its adoption by councils, say through further research

Intervention 4 3 – Ensure Effective Provision of Utilities and Services

Water distribution and access

It is generally agreed that the constraint in accessing water is one of distribution, with the twin problems of illegal connections and persistent leakages (which result in an estimated 30 percent loss of total water produced per day) The maintenance and billing components of water distribution should be privatised to address both the unnecessary losses and the apparent high costs of management—which are passed on to consumers, especially in areas with a high concentration of MSE activities

Electricity supply to rural centres

The extension of power supply to MSE premises in informal settlements would generally result in improved lighting safety and security in neighbourhoods that are inhabited by low-income households The local authorities should encourage MSEs to go into ventures that will exploit alternative sources of energy such as sewage and solid waste and to adopt energy saving technologies, for example the manufacture of cooking devices that have high efficiency and are therefore cost effective

A deliberate effort should be made to incorporate broad recommendations that would address questions of access to energy in rural centres The current development plan recommends that the Ministry of Energy should accelerate the implementation of the Rural Electrification Programme according to recommendations of an ongoing study for the Rural Electrification Master Plan This move will invigorate MSEs in the rural areas and curb the rural–urban drift by artisans

Road maintenance and access

Once ongoing rehabilitation works have been completed, the routine maintenance issues should be institutionalised within local authorities by contracting out to MSEs the maintenance work for roads and drainage The LAs are already familiar with the contracting out of road maintenance in rural areas and this could be extended to include urban roads and their related drainage systems The LAs should upgrade their traffic management efforts and enforce the traffic code to stop trailers and multi-tonnage trucks from using residential access roads and the subsequent damage to roads and drainage The correct use of roads by the designated types of traffic should be enforced in parallel with timely maintenance of the road network

Further policy thinking should encompass the following

- According high priority to footpaths and cycle path development and maintenance
- According priority to development and maintenance of the drainage system through MSE contracts in order to promote capacity development for drainage maintenance

Management of waste disposal

Effective management of waste disposal is urgently needed, especially disposal of human waste, oil-based wastes and other forms of waste originating from MSE related activities A major recommendation is made for joint collaboration among local authorities public health officers and *jua kali* associations to ensure that provision of waste disposal facilities in all established *jua kali* sites and in all areas with concentration of MSE activity is a priority

Solid waste disposal is an area of "micro privatisation" that should be explored—that is, engaging MSEs themselves in collection and management of solid waste, including recycling, composting, power generation, etc Similarly micro privatisation of public toilets within the major urban centres and other local authorities, where this is viable, should be encouraged Appropriate measures targeting the management of these essential public utilities—at the least to make them user friendly—should be taken by all urban authorities

Intervention 4 4 – Introduce Arbitration and Conflict Resolution Mechanisms for MSEs

The establishment of a mechanism for continuous consultations on MSE development, as well as arbitration on conflicting interests, is another issue prominently recommended It is envisaged that such a mechanism would comprise a partnership between MSE associations and a liaison committee of local authorities and the community in general Further it is recommended that any demolition action of MSEs that may be considered by the City Council should be backed by written warrants from the Directorate of City Inspectorate The warrants should be duly authorised by the full Council and publicised in appropriate press notices before any action is taken

Intervention 4 5 - Cluster MSEs According to Activities

Clustering enterprises according to subsector activities is recommended as a viable strategy for providing physical infrastructure more cheaply since it would entail providing services to a single homogeneous group rather than to dispersed enterprises

CHAPTER FIVE

Entrepreneurship Development

G S Namusonge

An enterprise culture is an environment that prepares the community as a whole to take advantage of available business opportunities in the society It also provides support for entrepreneurs at all levels of development to realise their potential regardless of gender, colour or race It has been established that apart from money, business success depends critically on the personal attributes of the entrepreneur—self-confidence creativity, innovation and the drive to take risks Within this context entrepreneurship can be defined as a spirit of recognising opportunities and taking risks by investing resources in order to produce gainful results through creativity, innovation increased efficiency and productivity

An entrepreneur is a person who is able to identify business opportunities and implement actions to maximise those opportunities The entrepreneur initiates enterprise creation undertakes risks and manages resources to establish and operate a business enterprise that is capable of self sustenance Entrepreneurs are not necessarily born with all these attributes they can be taught to recognise and nourish their capabilities Entrepreneurship development then entails changing attitudes in a way that can inculcate in potential entrepreneurs the philosophy of winners that gives them a visionary focus

STAGES OF ENTREPRENEURSHIP DEVELOPMENT

For rapid economic growth and development a country requires a strategic approach to developing its entrepreneurs and enterprises An entrepreneurship approach can be used to harness the tremendous amount of human resource capabilities that exist in Kenya for faster economic growth Strategic entrepreneurship development and promotion of an enterprise culture can produce a mass of creative and innovative Kenyans capable of developing into high profile entrepreneurs and industrialists especially among women and youth who constitute the majority of the population Such a strategy can create many businesses and employment opportunities—including self employment—leading to improved standards of living, poverty alleviation and sustainable livelihoods

The big question is Who are Kenyan entrepreneurs? How many Kenyan entrepreneurs are there? Why have some entrepreneurs succeeded where many others have failed? How can we motivate our present and future generations in order to increase the numbers and success rate of Kenyan entrepreneurs? Kenya, like many developing countries, has no shortage of traders and informal microenterprises What it lacks is enterprising indigenous individuals engaged in small and medium enterprises that are capable of graduating into large enterprises

Understanding who entrepreneurs are, and what they do, provides an essential starting point for consideration of policies and strategies to improve the delivery of training and business development services to MSE entrepreneurs

The needs of entrepreneurs depend on the stages of entrepreneurial activity Different needs arise at different stages of entrepreneurship development Indeed the levels of knowledge, skill and attitude required vary not only with the sophistication and basic education of the entrepreneurs involved but as the business grows, with the entrepreneurs' recognition of the changing need for more formal learning The learning needs faced by entrepreneurs are classified into four stages of entrepreneurial development, as described below

Pre Start-up Stage

This is the stage during which an entrepreneur acquires general awareness and orientation towards small business and self-employment This pre start up stage of entrepreneurship involves identification of business opportunities, the need to acquire motivation and confidence and self appraisal of technical managerial and personal abilities At the pre start up stage, entrepreneurs recognise the need to increase their awareness understanding and insight into entrepreneurship as a career option Training programmes for this stage are done through awareness workshops as in the case of retirees women's groups, the unemployed and the underemployed Such training may also be provided in schools and colleges to reorient a curriculum to address the lack of an enterprise culture

Business Start-up Stage

This stage is also called business creation It involves testing a proposed business idea against the competence, attitude and interest of a potential entrepreneur At business start up stage, the potential entrepreneur makes a definite commitment to become self employed and begins preparing business plans with details of the operation of the proposed venture and the resource requirements The key factors involved in the business start-up stage include building motivation and commitment developing necessary managerial, technical and personal ability and acquiring the necessary physical and financial resources, including a business plan The main concerns in starting a business are validation of the idea, setting the scale of operation and mobilising the resources Training programmes at this stage of entrepreneurship development attempt to impart motivation and commitment to operate a business

Business Survival Stage

The business survival stage, also called the business maintenance stage, is the stage at which the entrepreneur has mastered the product and production process markets and basic management of the enterprise Interventions at the business survival stage include consolidating the production processes and product quality consolidating existing markets consolidating management and control systems in the enterprise, upgrading technical skills to maintain required standards refining production processes and systems, and upgrading marketing strategies to keep the enterprise operation on course

Business Growth Stage

The business growth stage involves the growth and development of self-employed businesses usually with fewer than ten persons As the entrepreneur gains experience possibilities for expansion and growth of the business become available and as small enterprises become larger, different business techniques and procedures are required in various phases of the business activity The training needs of growing businesses vary substantially and relate primarily to the development of broader aspects of management of the business, such as market diversification product design, marketing, and access to finance technology and networks

ENTREPRENEURSHIP DEVELOPMENT POLICY IN KENYA

The acquisition of relevant vocational technical and business skills is generally regarded in Kenya as one of the critical factors necessary for growth and development of micro and small enterprises For this reason the policy of providing technical and vocational training at the primary and secondary levels has been in place since 1986 when the MSE sector emerged as one of the key strategies in *Economic Management for Renewed Growth* Since then and especially subsequent to the publication of Sessional Paper No 2 of 1992 the Ministry of Research Technical Training and Technology (MRTTT) has provided the lead in promoting an enterprise culture in the country

Sessional Paper No 2 of 1992 contains a number of policies and strategies designed to remove the limitations faced by micro and small entrepreneurs, such as the low levels of business skills inadequate guidance, advice and counselling and inappropriate marketing and product design

Overview of the Policy Framework in Sessional Paper No 2 of 1992

To achieve the policy objectives set forth in the Sessional Paper the Government required the MRTTT, in collaboration with other relevant organisations, to undertake the following activities

- Introduce entrepreneurship education in degree and diploma programmes
- Conduct in-depth market surveys periodically to identify emerging skills and abilities needed in business
- Develop mass media techniques for dissemination of information on all phases of self employment and entrepreneurship
- Use innovative methods such as distance learning action learning groups self-instruction materials and short booklets on specific business problem areas
- Train MSE operators and their workers in technical, managerial and entrepreneurship skills and offer extension services/technical assistance in such specialised areas as accounting cash flow management, product development and use of appropriate technology
- Establish rural business centres in the small enterprise sector for information dissemination research product development and programme promotion
- Develop curricula for apprenticeship courses so that an organised approach to training can be adopted
- Provide incentives for graduates to continue attending short refresher courses pertaining to self-employment, entrepreneurship development and skills enhancement

Implementation Status of the Policies

Of the eight policy actions recommended in Sessional Paper No 2 of 1992 only the last four were partially implemented Even these were not properly interpreted and targeted to increase the number of indigenous entrepreneurs or improve the productivity of existing enterprises

As recommended in the Sessional Paper, training of entrepreneurs was introduced in a number of local universities, technical training institutions and youth polytechnics. A curriculum was prepared at the artisan, craft, technician and higher diploma levels and a new higher diploma programme and a two-year master's degree in entrepreneurship development were established. An Entrepreneurship Development Unit (EDU) was also set up within the MRTTT to provide policy guidelines in entrepreneurship training.

The first master's degree programme was introduced at Kenya Technical Teachers College (KTTC) in 1990 and later moved to Jomo Kenyatta University of Agriculture and Technology. The programme had as its goal to produce trainers, researchers and administrators with skills in entrepreneurship and enterprise development. This was a very strategic action for promoting an enterprise culture as stipulated in the Seventh National Development Plan (1994–1996).

According to a recent study, 41 vocational technical institutes in the country have introduced a three-year entrepreneurship education programme, graduating 55,000 students every year—of whom 85% go into self-employment. Some 66% of the MSc entrepreneurship programme graduates had already started their own enterprises at the time of the survey.

The favourable policy environment has spurred the establishment of a wide array of programmes in entrepreneurship development at many institutions and organisations. These include Kenya Institute of Business Training, Small Business Centres, the Micro and Small Enterprise Training and Technology Project, Kenya Management Assistance Programme (K-MAP) and Kenya Institute of Management (KIM). Others are Federation of Kenya Employers, TechnoServe, ApproTec, Export Development Agency (EDA), Strengthening Informal Sector Training and Enterprise (SITE), Small Enterprise Development and Employment Creation Organisation (SEDECO), Improve Your Business (IYB), Small Enterprise Professional Services Organisation (SEPSO), Small and Micro Enterprise Development (SAMED), Kenya Rural Enterprise Programme (K-REP), United Disabled Persons of Kenya (UDPK) and Kenya Entrepreneurship Promotion Programme (KEPP). Plan International, Undugu Society, Kenya Industrial Estates, ActionAid, Women Enterprises Development, Kenya Women Finance Trust (KWFT), Kenya National Chamber of Commerce and Industry (KNCCI), Jisaidie, Kenya Gatsby Charitable Trust, and Product Design and Development Centre are other organisations that provide entrepreneurship development services.

Pre start-up programmes

The first pre start-up training course in entrepreneurship development for micro and small enterprises was introduced at Kenya Technical Teachers College (KTTC) in 1990 using financial resources from UNDP. The trainees were expected to build capacity of the MRTTT to promote entrepreneurship in technical institutes and polytechnics. The course was then institutionalised at Jomo Kenyatta

University of Agriculture and Technology (JKUAT) in 1992 The overall goal of the programme was to provide learners with knowledge and skills to serve as trainers, researchers and administrators of programmes supporting small enterprise development A subsidiary goal was to equip learners with skills to enable them to start and develop their own enterprises

A higher diploma in entreprenuership was started at the Kenya Technical Teachers College to build the capacity of MSE support institutions The entrepreneurship training programme at JKUAT, which now offers a Master of Science in Entrepreneurship, initially started to train MRTTT personnel and to a limited extent Ministry of Education personnel to become teachers in technical training institutions Currently, the MSc entrepreneurship programme is equipping trainees with skills to enable them to set up and run their own businesses Pre start up training in technical skills is also offered in technical training institutes institutes of technology and national polytechnics as well as NGOs such as the Undugu Society

Business start-up programmes

Business start up training is offered by the Kenya Institute of Business Training (KIBT) and the 17 Small Business Centres (SBCs) established by MRTTT in some of the technical training institutions The services offered by SBCs include teaching of entrepreneurship for business start up training counselling, consultancy and networking Each centre has a standardised SBC brochure, a business start up programme SBC database, guidelines for identifying entrepreneurs from among graduating students and training needs and strategies for enhancing women's participation in entrepreneurship

At JKUAT 241 graduates have been trained in entrepreneurship and business start up These graduates are also receiving counselling services at the same university Out of the 241 graduates trained, 40 have started their own businesses The entrepreneurship unit is taught to students in technical institutes and diploma and degree programmes

Since the inception of the entreprenuership training activity, more than 100 graduates from Moi University, Mombasa Polytechnic, Kenyatta University and University of Nairobi have been trained in entrepreneurship and business start-up At Kenyatta University, there is an entrepreneurship unit for commerce and business studies for undergraduate students and plans for master's and PhD programmes in entrepreneurship development The Federation of Kenya Employers and the University of Nairobi are running attachment programmes to give university graduates industrial experience and entrepreneurial orientation The entrepreneurship unit in the Department of Quantitative Skills at Moi University offers the course to students in other departments At Kenya Technical

Teachers College, the entrepreneurship programme is taught to diploma graduates from polytechnics and focuses on providing entrepreneurship skills The products of the programme finally end up teaching in technical institutions The Entrepreneurship Department provides entrepreneurship service to the technical departments So far, KTTC has trained over 130 higher diploma graduates

Business survival and growth programmes

Business survival and growth training is being offered by a wide array of government agencies, private consulting firms and NGOs with activities in the MSE sector, including Kenya Institute of Management (KIM), Federation of Kenya Employers (FKE), TechnoServe ApproTec and K-MAP Courses offered include technology, counselling, bookkeeping accounting, marketing business management, extension services and production management In addition, the World Bank's Micro and Small Enterprise Training and Technology Project is addressing the training needs for growth of manufacturing businesses using technology, infrastructure and skills development interventions Training in both management and skills is being offered through a product-focused, market-driven voucher training programme Technology and business development vouchers will be provided to manufacturing businesses showing potential for growth and subsector studies are planned to identify technologies for development to leverage the greatest impact by subsector

Since 1988 the Government and the private sector both have been retrenching the work force Most of the re-deployed and retrenched employees are skilled and experienced The Government is collaborating with MSE support institutions to assist these former employees to venture into business Some of the most common institutional support programmes are offered by KIM, K-MAP SEDECO, KEPP KWFT FKE, KIE and KNCCI among others These institutions offer integrated services including advisory services on business creation marketing, operations management financial control and productivity improvement

Consultancy services are offered to the MSE sector by over 200 consulting firms Areas of assistance cover accounting feasibility studies market surveys, management audit, organisation and staff development planning, and preparation and appraisal of projects Consultants are also prepared to provide assistance for project implementation, plant and equipment maintenance design and improvement of production processes, and design of equipment such as *jikos* and fixtures Or they may help with installation of quality control systems prototype development and design, modification of machinery, and standardisation of products

One-on-one business counselling is mainly carried out by K-MAP where staff provide training and counselling for small businesses The organisation has a roster of over 600 counsellors in all subsectors It also runs business start-up programmes (especially for women), and survival and growth programmes in all subsectors for MSEs

IMPLEMENTATION WEAKNESSES AND GAPS IN POLICY

While entrepreneurship training programmes for micro and small enterprises are already being offered in a number of the universities and technical training institutions there has been poor coordination among these institutions This has led to duplication of activities and suboptimal use of scarce resources Furthermore the institutional focus and training approaches are carried out through programmes that are not complementary The existing training institutions have limited staff and inadequate capacity to provide training for a broad range of trades

In many cases the training provided by MSE support institutions fails to appreciate and address the emerging/changing needs of entrepreneurs Often, the training does not take into account entrepreneurs' needs for financial and technical assistance There is need to link the entrepreneur to financial institutions to ensure that services are provided as an integrated package

A survey of 15 small business centres located in training institutions revealed that the role of the SBCs is not clearly defined and understood by the implementors Heads of SBCs viewed them as an extension of formal training programmes and had not succeeded in securing adequate management efficiency More specific problems facing SBCs include inadequate physical facilities and equipment, inability to source funding, low enrolment, lack of an overall SBC coordination policy, and conflict between already established production units and SBC activities

Entrepreneurship training programmes have involved expansion of vocational and technical training in youth polytechnics, technical schools, institutes of technical training and national polytechnics However the informal sector in Kenya does not benefit from entrepreneurship training directly To fill this gap, a more comprehensive entrepreneurship development policy should have been considered and formulated to cater for every entrepreneur, regardless of educational background

The increasing numbers of players involved in providing skills training to MSEs are not guided by a coherent training policy In order to offer coherent training to MSEs the Government should have considered designing a long term training strategy and policy stating its role and that of the other players Such a policy should be geared towards promoting cost-efficient programmes

Kenya s 8 4 4 curriculum includes objectives that relate to the development of entrepreneurial skills and attitudes at pre-school primary, secondary and tertiary levels In practice, the concept of entrepreneurship education has been related to provision of employable attitudes and skills The assumption has been that after acquiring the trade skills, learners would be able to create their own jobs There is need to reorient the curriculum to include entrepreneurial skills which will give the confidence to use skills gainfully through creation of income-generating activities The inadequate recognition of on-the job training for MSEs through apprenticeship and the business creation programmes at the middle level also need to be addressed

One of the major gaps in the policy is the failure to recognise the importance of the institutional framework for entrepreneurship For instance if one of the attributes of an entrepreneur is the willingness to take risks in pursuit of profit opportunities then it is likely that many entrepreneurs will fail Yet Kenya's bankruptcy laws punish financial failure by denying the bankrupt civil rights Entrepreneurship also thrives where community participation takes place It is therefore imperative to initiate community based ventures with multiple effects

Entrepreneurship opportunities thrive best under the following conditions

- ***Conducive environment*** characterised by efficient physical and institutional infrastructure, simplified registration and licensing procedures, and investor friendly taxation

- ***Incentives and special schemes*** such as taxation and interest rates to attract individuals to invest in micro, small and medium enterprises Critical here is the availability of affordable investment and trading capital This is an area where the Central Bank Investment Promotion Centre, Capital Markets Authority and Nairobi Stock Exchange can develop new initiatives

- ***Easily accessible domestic and foreign markets*** where Kenyan products from MSEs are competitive This entails more emphasis on product design and development to increase quality based on changing world consumer trends, plus aggressive promotion and trade missions by the Ministries of Trade and Foreign Affairs and the Kenya National Chamber of Commerce and Industry

At the business start-up survival and growth stages the focus has been on business development services whose appropriateness needs diagnostic appraisal to establish the extent to which they are demand driven and value adding Important considerations such as support systems and incentives to facilitate entrepreneurs to exploit available opportunities are inadequate

PROPOSED POLICY INTERVENTIONS AND PROGRAMMES

In order to effectively implement the recommendations of Sessional Paper No 2 of 1992, and to remove constraints experienced by enterprise development programmes (EDPs), it is necessary to improve programme design, enhance the professionalism of staff in promotional institutions, and coordinate implementation of programmes to avoid duplication and increase effectiveness This will also ensure complementarity of entrepreneurship programmes raise their cost effectiveness and focus them on the needs of rural communities A number of interventions are proposed to accomplish this

Intervention 5 1 – Establish an Entrepreneurship Development Secretariat

In order to provide adequate coordination of EDP activities and avoid duplication of effort and resources, it is proposed that entrepreneurship development programmes in Kenya be coordinated by a ten member programme secretariat The Chair should be the Permanent Secretary in the Ministry of Planning and National Development The secretariat membership should comprise three private sector representatives, two NGO representatives, three donor representatives and two government officials These will be drawn from chief executives of Federation of Kenya Employers, Kenya Bureau of Standards, Kenya Association of Manufacturers, Export Processing Zones Authority, Jomo Kenyatta University of Agriculture and Technology Kenya Industrial Research and Development Institute, Kenya National Chamber of Commerce and Industry, and the Nairobi Stock Exchange Others will include Kenya Institute of Management, Kenya Women Finance Trust, Product Design and Development Centre FIDA, Ministry of Industrial Development and the Kenya National Federation of Jua Kali Associations The secretariat will meet once a month for the first year, and then quarterly in subsequent years Its activities should include resource mobilisation and monitoring and evaluation of performance of the enterprise development programme

Intervention 5 2 – Refocus School Curricula

In order to meet the needs of school leavers or to bring them more in line with national ideological aspirations, policy initiatives should be taken at national level to reorient curricula to introduce enterprise education in schools Given the actual complexity and scope of enterprise education, the reorientation could take one of three strategic options These are self employment promotion (SEP) through the core curriculum only, SEP through core curriculum as well as additional work-oriented subjects in the curriculum, and SEP through core and special subjects, with a further provision of extra-oriented subjects in the curriculum Each option can be worked out as a broad orientation to work, including self-employment, or as a more specific or focused preparation for business but adjusted to meet needs of alternative target groups such as pupils, youth and those participating in adult education programmes

To address specific needs of the various levels of entrepreneurs, it is proposed that the Regional Centre for Enterprise Development at JKUAT and other MSE support institutions be strengthened to provide training and entrepreneurship at pre start up, start-up, maintenance and growth stages for graduates of universities and technical institutes The regional centre should among other things design demand driven programmes and develop self-instruction materials The support accorded to the graduates of these institutions will facilitate expansion of the "missing middle" category of programmes—where such businesses employ more than ten employees Such programmes should be supported by provision of infrastructure, technology, finance training and other incentives

Intervention 5 3 – Install Entrepreneurship Apprentice Systems

It is proposed that an innovative apprenticeship system be established to impart technical and self-employment skills to graduates from polytechnics Kenya Management Assistance Programme Kenya Entrepreneurship Promotion Programme and other MSE support institutions should be strengthened to develop certification courses of six months and less The courses should cover all stages of entrepreneurship Other actors will be universities, polytechnics and technical institutions The outcomes would be developed courses, trained graduates of polytechnics and ultimately the number of businesses established

Intervention 5 4 – Conduct Research and Follow-up Studies

Action oriented research should be undertaken and tracer studies conducted to determine the effects of entrepreneurship training on career aspirations, job satisfaction and career choices of vocational and technical graduates The research is expected to identify specialised areas of EDP training

Intervention 5 5- Focus on EDP Sustainability

Donors have been active in supporting public institutions and NGOs providing services to the small enterprise sector UNDP, World Bank, USAID DFID and the

Netherlands Embassy are currently key players Such support will not continue forever and demand driven EDPs should be organised to ensure self-financing Fund raising could supplement the donor efforts, and entrepreneurs should pay a nominal fee to obtain the training A percent fee is being paid in the World Bank funded project in the Ministry of Technical Training

Intervention 5 6 - Strengthen Formal Entrepreneurship Training

To strengthen implementation arrangements for EDPs, existing institutions that already have training programmes should be focused and made responsive to various needs of the entrepreneurs Basic standards of training and resources need to be further strengthened These institutions include KTTC, the public and private universities, and national polytechnics

Intervention 5 7 - Direct Assistance to Entrepreneurs

A lot of ground has been covered by the introduction of entrepreneurship studies in most levels of education and training However, the training rarely goes beyond the gates of institutions, and no follow-up of graduates is undertaken The Government and specifically the MRTTT in collaboration with relevant institutions should go a step further in assisting graduates to start their own businesses Further assistance should be accorded to enterprises that exhibit growth oriented behaviour, especially for the acquisition of technology, technological skills and training in management of own enterprises

Intervention 5 8 – Reach Out to the *Jua Kali* Sector

Current pre start-up programmes reach only the 40,000 trainees enrolled in technical and vocational training institutions In order to create a more widespread enterprise culture, mechanisms should be put in place to reach the entrants to the *jua kali* sector so that they possess the right attitudes in preparation for self employment This implies starting enterprise education programmes at secondary school level, where the total enrolment is 640,000 students in 3,000 schools

Intervention 5 9 – Support the Creation of New Businesses

Most of the current interventions are directed towards existing enterprises Creation of new businesses has clearly been neglected The interventionists should work closely with the *jua kalis* to identify business opportunities that can attract funding especially from the financial sector Identification of these opportunities should be done by dıstrıcts whereby each dıstrıct ıdentıfies the opportunıtıes and seeks ınvestors

Interventıon 5 10 – Tap the Technıcal Skılls of Retrenched Employees

Retrenched graduates wıth technıcal backgrounds should be encouraged and assısted to undertake entrepreneurshıp development traınıng The people ın thıs target group brıng wıth them theır years of experıence ın productıon and other areas and theır severance packages would constıtute ready ınvestment capıtal Overall, graduates wıth technıcal and scıentıfic preparatıon constıtute a target group wıth the rıght preparatıon for entry ınto the sector

Interventıon 5 11- Focus on Subsector Requırements

Exıstıng ınterventıons are largely of a general nature and do not address the specıfic subsectors and constraınts and how these should be removed to enhance growth Closer attentıon should be paıd to products and subsectors wıth potentıal for growth Approprıate subsector packages and capacıtıes to delıver the same should be developed

CHAPTER SIX

Business Development Services

Joseph Ngugi

Entrepreneurship development is the process of inculcating creativity, innovation and drive in potential entrepreneurs to motivate them to take business risks and gain the self-confidence needed to establish businesses Entrepreneurial awareness is particularly important to enable micro and small enterprises (MSEs) to graduate from survival activities into large productive operations *Business development services* on the other hand refer to auxiliary services provided to micro and small entrepreneurs to improve and promote the performance of their businesses These services formerly referred to as non financial services include training, counselling mentoring advocacy consultancy advice information facilitating networks and subcontracting

WHO NEEDS BUSINESS DEVELOPMENT SERVICES

MSEs need different services at different stages of development While entrepreneurship programmes generally address the needs of potential entrepreneurs business development services target entrepreneurs at start-up survival and growth stages These services focus on three categories of constraints faced by micro and small entrepreneurs internal constraints such as low levels of business management skills external constraints such as unfavourable operating policy environment and access constraints such as inadequate or lack of access to markets technology and information

An entrepreneur who has made the commitment to establish a business needs further motivation business management skills and physical and financial resources for the planned business Business development services (BDS) programmes at start up provide information on business requirements and access to the required resources, including technology and markets

The needs of entrepreneurs at the business survival and maintenance stage include consolidation of production processes markets management and control systems Services are generally needed in upgrading business management skills and refining production techniques control systems and marketing strategies At business growth stage an entrepreneur has gained experience in running the business and has identified niches for expansion and growth Entrepreneurs at this stage look for services in market diversification product design, new production processes, modern control systems, finance and networks Programmes that provide business services address the identified needs and facilitate networking among MSEs for information sharing and lobbying

POLICIES ON BUSINESS DEVELOPMENT SERVICES IN KENYA

Sessional Paper No 2 of 1992 proposed improvements in the delivery of business development services to remove limitations faced by MSEs, from the lack of an enterprise culture and low levels of business skills, to inadequate programmes for guidance, counselling, marketing and product design These limitations have been caused by factors such as shortage of trained personnel lack of needs assessment and, in general an ad hoc approach to programme development

To achieve the policy objectives set forth in the Sessional Paper, the Ministry of Research, Technical Training and Technology (MRTTT), in collaboration with partner ministries and other relevant organisations, was required to undertake the following

- Conduct periodic in depth market surveys to identify emerging skills and abilities needed in business
- Identify new potential markets in rural areas with a view to initiating small enterprises
- Develop mass media techniques for disseminating information on all phases of self employment
- Train MSE operators and their workers in technical and managerial skills and offer extension services/technical assistance in specialised areas like accounting cash flow management product development and use of appropriate technology
- Establish rural business centres in the small enterprises sector for information dissemination research, product development and programme promotion

The Directorate of Personnel Management (DPM) was charged with the responsibility of setting priorities for training programmes for MSE development In particular DPM was to identify suitable women officers for training while ensuring that public sector organisations would make more use of existing entrepreneurs and artisans in their training programmes

The action plan (1992–1994) of the Sessional Paper required the Ministry of Information to identify and promote successful women entrepreneurs as role models and the Central Bureau of Statistics—a department of the Ministry of

Planning and National Development—to facilitate collection of data on women entrepreneurs To address the external constraints facing existing and potential micro and small entrepreneurs the Sessional Paper required the MRTTT and the Ministry of Culture and Social Services to initiate the formation of MSE sectoral associations for educating and lobbying for the MSEs' interests and concerns In addition an association of small enterprise development consultants was proposed to offer consultancy services required by MSEs

Access to markets was addressed by directing the Ministry of Commerce and Industry, in consultation with relevant organisations, to establish a subcontracting exchange programme The programme would promote private sector based subcontracting between small and large industries It would also encourage inter-industry linkages as a means of stimulating demand for and supply of MSE products and services The programme would also enhance capacity in product design and packaging to suit the demands and tastes of the export market as well as in production management technology materials costing and pricing The Ministry of Planning and National Development was required to initiate studies on the feasibility of subcontracting between large and small enterprises The Sessional Paper also proposed that the Government use public procurement procedures and regulations to assist MSEs to find markets for their products in the public sector

The Export Promotion Division of the Ministry of Commerce and Industry was required to ensure that overseas markets were actively searched for possible exports of MSEs' products and to disseminate information regarding these potential markets more widely In addition the District Development Officers of the Ministry of Industrial Development were to disseminate market information to MSEs

Access to technology was also a concern of the Sessional Paper The Kenya Industrial Research and Development Institute (KIRDI) in collaboration with universities and appropriate ministries was to identify MSEs technology research needs conduct research adapt and develop appropriate technologies and disseminate the results to MSEs An Inter University Industry Link Committee was proposed as a means of stimulating industrial and economic development

The Sessional Paper highlighted poor information gathering and dissemination including lack of adequate extension services and weak institutional infrastructure as two of the most serious problems relating to MSEs access to information It therefore proposed the use of existing institutions to facilitate improved mechanisms for information resource sharing research training and other promotional activities to enhance MSEs access to Information

STATUS OF IMPLEMENTATION OF POLICIES IN SESSIONAL PAPER NO 2 OF 1992

Programmes Addressing Internal Constraints of Entrepreneurs

Kenya has over 500 registered business development service providers They offer MSEs such services as business planning, cash-flow projections, auditing business skills training product design and development, business counselling, consultancy and business systems design Some of the leading service providers are Kenya Management Assistance Programme (K-MAP), Kenya Institute of Business Training (KIBT) Improve Your Business (IYB) and Kenya Institute of Management (KIM) District trade offices and small business centres provide similar services

The majority of these providers offer programmes that address the internal constraints of entrepreneurs, particularly training Their various training products include Improve Your Business (IYB) techniques, growth programmes, and competency based economies through formation of enterprise

Other initiatives for providing BDS are business one stop shops (BOSS) and business service centres (BSC) Business one-stop shops sponsored by DFID, are situated in Machakos Nairobi Thika and Kisumu, BSCs were started by TechnoServe under the auspices of the MicroPED project DFID helped to establish four institutions based on the BOSS concept and the MicroPED project has already established three BSCs, one each in Meru, Nairobi and Nakuru

BOSS and BSCs target start ups existing and potential entrepreneurs The BOSS concept aimed to provide a range of services that MSEs require under one roof but this proved to be less cost effective for a single organisation BOSS now uses linkages and referrals while specialising in provision of key services that have real demand in the market BSCs use a subsector approach to determine the most cost-effective BDS to enhance MSE growth create employment and increase household incomes

Another mechanism is the micro-business point project which is jointly proposed by United Nations Conference on Trade and Development (UNCTAD), Government of Kenya and UNDP The project is still on the drawing board and will soon be launched with an aim to fill some of the gaps perceived in the delivery of BDS in Kenya

A most recent innovation in business skills training is the use of vouchers in training introduced recently through the financial assistance of the World Bank The pilot voucher programme referred to as The Micro and Small Enterprise Training and Technology Project (MSETTP), seeks to improve entrepreneurs knowledge in production and technology for wood work, metal work and textiles and the repair technologies in motor vehicle mechanics

The Directorate of Personnel Management, through the sponsorship of donors and participation of the Department of Internal Trade of the Ministry of Trade, has initiated training programmes targeting MSE development The programmes give priority to women personnel and entrepreneurs The Department of Internal Trade assists in the identification of the participants for the training

The majority of BDS providers like KIM K-MAP TechnoServe and the Federation of Kenya Employers offer integrated programmes Except for the MicroPED project which targets the agribusiness subsector the programmes focus on *jua kali* artisans and offer mainly training at the expense of other business development services None integrate technical and managerial services and their inability to develop assistance programmes that address the real needs of MSEs makes these programmes less attractive to MSEs

One on one business counselling is carried out by most BDS providers K-MAP s counselling concept is based on the belief that large industries are also interested in the development of MSEs A number of large businesses, individuals and other MSE service providers contribute their staff time to K MAP to facilitate training and counselling of small businesses The organisation has over 600 counsellors in various business areas

Programmes Addressing External Constraints of Entrepreneurs

As recommended in Sessional Paper No 2 of 1992 the MRTTT facilitated the formation of 300 sectoral associations with 6,000 members located all over the country especially in urban centres and rural towns and an umbrella organisation—the Kenya National Federation of Jua Kali Associations (KNFJA) Another umbrella organisation referred to as the Kenya Organisation of Small and Medium Enterprises (KOSME) was formed when in fighting began among KNFJA members The roles of KNFJA are to assist in (a) recognising/identifying bona fide *jua kali* associations (b) processing application forms for *jua kali* artisans (c) identifying and addressing *jua kali* needs (d) allocating resources and benefits to genuine *jua kali* artisans (e) disseminating information and (f) lobbying for improved operating environment for its members

A number of subsector associations have also been established, notable among them being the Kenya Association of Metalworkers and Fabricators the Food Processors Association of Kenya and the Association of Kenya Textile Workers The Kenya Entrepreneurship Trainers and Consultants Association (KETCA) was formed in 1992 to provide standards for the provision of entrepreneurship training and consultancy in the country One of its aims was to develop a database of the lead consultants in entrepreneurship for linkages and referrals to the institutions and individuals demanding their services The association also collects and disseminates information on entrepreneurship in the country

Programmes Addressing Entrepreneurs' Access Constraints

In implementing the recommendations of Sessional Paper No 2 of 1992 the former Ministry of Commerce and Industry collaborated with K MAP to establish the Kenya Subcontracting and Partnership Exchange Programme The purpose was to facilitate subcontracting between large companies and MSEs During the programme period only 50 market linkages were established between MSEs and large firms

The National Council for Science and Technology established a task force to draw up a new policy paper on science and technology The policy paper was supposed to provide operational guidelines covering the selection transfer and regulation of foreign technology and was expected to be ready by the end of 1994 The University Industry Link Committee was also constituted to facilitate transfer of technology from university researchers to MSEs

The K-REP Arifu Centre for Information on MSEs was established in 1993 after an initial study commissioned by the Ministry of Planning and National Development and funded jointly by DFID and UNDP Arifu offers easy access to computer database files and hard copies of literature on MSE development in Kenya it has information on more than 2 300 titles, over 90 institutions and 120 projects

There are at least 32 databases containing substantial information on MSEs The most notable are the Information Services on Technological Alternatives for Development (INSTEAD) database which was sponsored by ILO under the Centre for Development Information (CDI) programme, and the Kenya Technical Training College (KTTC) database The CDI database has information on MSEs in Africa and other developing countries and can direct users to all other databases because they use similar network systems The KTTC database has over 10,000 items including a substantial amount of information on MSE resources and outreach

One constraint to information dissemination is the considerable ambiguity in the definition of MSEs with different studies adopting different approaches As a result MSE materials are classified differently by different databases, which makes retrieval of documents difficult even though they may be available

The Ministry of Research, Technical Training and Technology has been co sponsoring with British American Tobacco (BAT) Kenya annual exhibitions for products of MSEs in order to create market awareness of the products and improve the image and performance of the MSE sector This has been complemented by secondment of officers from the Department of Information to MRTTT to help in developing press releases and coverage of the proceedings of the annual exhibitions The sponsoring organisations cater for 60 percent and 40 percent of the total exhibition costs respectively

Four technical committees were also established to facilitate information sharing coordinate MSE programmes and monitor the implementation progress of the policy framework Each technical committee focuses on a particular range of policies and support services The policy technical committee is responsible for issues on enabling environment the credit technical committee is responsible for issues on access to credit the gender technical committee is responsible for gender issues, and the non-financial promotional programmes technical committee is responsible for monitoring the implementation of policies on business development services

POLICY IMPLEMENTATION WEAKNESSES AND CONSTRAINTS

The responsibilities for implementing some policy measures in Sessional Paper No 2 of 1992 were not allocated to any specific government ministry or private sector organisations, but were left open for the Government to implement In such cases, follow up for implementation was not undertaken

In some other cases the implementation of policy measures was assigned to organisations or government ministries with limited ability to reach all MSE target beneficiaries Moreover the Sessional Paper did not allocate resources for implementation or identify strategies for resource mobilisation This hindered the effective implementation of the policies contained in the Sessional Paper

There has been an increasing number of players involved in the provision of business skills training in the country but there is no coherent training policy Another major challenge to the delivery of BDS and training in this country is sustainability of the organisations offering these services Lessons learned from best practices in the delivery of BDS show that MSEs can afford to pay for variable costs of delivering BDS, although they are unable to pay for research and development Enhancing the sustainability of these institutions requires deliberate policy measures to encourage private sector organisations to support them including partnership between large organisations and BDS providers through win win strategies

Business service centres (BSCs) lack trained personnel autonomy from the government staff motivation linkages with private sector organisations and adequate funds These deficiencies make them ineffective in undertaking the crucial roles they were established to perform such as popularising entrepreneurship in the country Commercialising these centres would make them more effective in discharging their responsibilities

Some best practices in BDS could be effectively undertaken by private sector organisations However efforts to facilitate transfer of responsibilities for implementing MSE policy measures to the private sector have not been successful For example some Government institutions offering BDS like Kenya Institute of

Business Training, should by now have been privatised or made autonomous, but they still remain under the ambit of Government

The policy proposal to form sectoral associations did not involve the Attorney General's office which is well suited to facilitate the formation of the associations in terms of technical assistance and registrations Moreover, the policy did not involve relevant private sector organisations at the establishment stage of the associations

Conflict of interests and responsibilities lack of management skills and finances, and the politicisation of the activities of associations have made them unable to discharge their duties effectively For example it took KETCA one year to be registered and even after registration it did not take off due to lack of adequate funds The association had only Ksh60,000 for institutional set up and operation, which is hardly adequate

Efforts to promote subcontracting in Kenya have not been very successful either Poor quality products exorbitant pricing and MSEs failure to honour agreements are some of the limitations facing subcontracting arrangements Moreover although a number of market driven subcontracting arrangements do take place, for example between motor vehicle manufacturers and exhaust system manufacturers there does not exist a formalised mechanism for industrial subcontracting between MSEs and other large-scale firms in Kenya Attempts made by the subcontracting and partnerships exchange programme to overcome these problems failed due to the programme's inability to be self sustaining

Export promotion programmes and schemes that target MSEs have not materialised although similar programmes—which are out of reach of MSEs—such as export processing zones, manufacturing under bond and export finance facilities have been established for manufacturing industries with large initial investment outlays MSEs are still disadvantaged and unable to penetrate the international markets

Most Government departments in sectoral ministries and at the provincial and district level are not fully aware of the policies in Sessional Paper No 2 of 1992 Consequently, when translating national policy objectives to district plans and annexes, provincial and district officers do not take into consideration GOK policy priorities for the MSE sector The evidence for this is the lack of reference to Sessional Paper No 2 of 1992 in most district development plans

There is also duplication of duties and functions in the implementation, coordination monitoring and evaluation of MSE policy in the country The result is considerable overlap in the activities of the SSJKE Division Ministry of Research Technical Training and Technology, Ministry of Trade Ministry of Labour Ministry of Manpower Development and Employment and Ministry of Heritage Culture and Social Services This implies a need for streamlining duties among ministries and departments involved in implementation of MSE activities Moreover, none of the bodies charged with various aspects of coordination, monitoring and evaluation of MSE activities—from SSJKE to MRTTT to the four thematic technical committees—really has sufficient personnel and financial resources to undertake their tasks Representation of the division and MRTTT at the district level is also weak The National Coordinating Committee, formed to coordinate and evaluate implementation of MSEs in the country does not have representation or feedback from the districts on progress of implementation of MSE policies, resulting in further lack of coordination of the stated MSE policy measures The National Coordinating Committee and the four thematic technical committees only meet infrequently due to lack of resources for running their operations

Except for the initial time frame for early action, the policy framework in Sessional Paper No 2 of 1992 does not provide guidelines for implementation and effective monitoring and evaluation This has contributed a lot to lack of implementation of most policy measures Preparation of an implementation plan would have assisted in the identification of the capacity building needs of various organisations and resource mobilisation strategies Indeed, the main constraint to the implementation of the MSE policy framework is the lack of an implementation plan that addressed most of the other limitations identified above

PROPOSED POLICY INTERVENTIONS AND RECOMMENDATIONS

The focus of Government policy should be to improve coordination of policy implementation and programmes, reorienting BDS providers to focus on the real needs of MSEs, adopt a businesslike culture, desist from being supply driven, and become market-led and self-sustaining The following interventions are aimed at achieving this focus in the provision of business development services

Intervention 6 1 – Formulate a Long-Term Training Strategy

To address specific training needs of MSEs, the Ministry of Planning and National Development in collaboration with the Ministry of Research, Technical Training and Technology should coordinate development of a long-term training strategy that promotes cost-efficient, market driven programmes

In view of the success achieved by K-MAP other BDS providers should be encouraged to replicate voluntary counselling models in order to put extension consultancy and counselling services within reach of the majority of MSEs The relevance of the content and effectiveness of BDS programmes should be vetted to ensure that MSE training is more sector-specific and takes into account the particular needs and practical problems faced by different categories of MSEs

Intervention 6 2 - Broaden Support for BDS Programmes

Donors have been active in supporting NGOs and public institutions providing services to MSEs UNDP, World Bank, USAID, DFID and the Netherlands Embassy are currently the key players To enhance self sustainability of BDS providers, it is proposed that subsidies for delivery of BDS be minimised and that MSEs pay for direct costs of the services This will require development of market driven BDS programmes that address immediate specific needs of MSEs

Also deliberate policy measures should be instituted to encourage private sector organisations to support BDS providers Such measures should encourage partnering between large organisations and BDS providers, through win-win strategies A win-win strategy is where an intervention benefits both the BDS provider and the partner organisation

Intervention 6 3 – Provide Autonomy for Public Institutions

In order to orient public institutions providing BDS to respond quickly to MSE needs, address their internal limitations and become more flexible, these institutions should be autonomous from the government bureaucracy or sold to capable entrepreneurs Such institutions include Kenya Institute of Business Training (KIBT) KIRDI and business services centres

Intervention 6 4 - Build Capacity of MSE Associations

Most MSE associations were found to have weak capacity in terms of finance, management systems and qualified personnel It is proposed that in-house staff development training programmes be designed and networking among the relevant organisations encouraged

The affected institutions should contribute funds if capacity does not exist within themselves to source for external technical support to develop management systems External support from donors, Government and large companies should be provided only for funding of short-term technical backup, procurement of equipment and other physical facilities The associations should also address shortages of physical infrastructure and equipment by sharing the available facilities among themselves

In order to encourage formation of professional MSE development associations, KETCA should be supported to set up a secretariat and a database for lead consultants, and to operate for at least three years

Intervention 6 5 - Promote Relationships between Large Enterprises and MSEs

The policy framework cited some measures such as subcontracting, to create market opportunities for MSEs However, there are no deliberate government incentives to encourage larger organisations to work with MSEs It is therefore proposed that the Ministry of Finance provide tax incentives to large organisations to encourage supply or market linkages with MSEs Such arrangements will reduce the MSE burden of marketing because large organisations are able to undertake aggressive marketing and explore export markets

The Ministry of Finance should design and implement guidelines for procuring MSE products and services by the Government Additionally strategic business partnerships should be encouraged between large companies and BDS providers to facilitate market linkages BDS providers should be integrated into the production functions of the MSEs to offer quality control of the products and assist in systems development

With over 60 percent of MSEs engaged in trading, the Ministry of Research Technical Training and Technology and BAT should make it a point to incorporate MSE traders in their annual exhibitions

Sectoral associations should disseminate market information and organise cost-effective training programmes for their members on marketing strategies Donor funding should only be sought for development and marketing of non-traditional MSE products

Intervention 6 6 - Tap Export Markets

To enhance MSE access to export markets the Ministry of Trade in collaboration with other relevant ministries, NGOs and private sector institutions, should develop a programme to assist MSEs to improve their products access information on international market opportunities and improve their marketing strategies

Intervention 6 7 - Make Technology Available

To enhance MSEs access to technology, BDS providers should procure and offer the required technology for use by MSEs For example in Ecuador a BDS service provider has integrated itself into the production process of textiles, and micro entrepreneurs outsource certain specialised production functions from it This is a lesson that Kenyan BDS providers should learn and replicate where the role of the Government would be to facilitate research, adaptation and transfer of the appropriate technologies to BDS providers Such technologies are expensive a single MSE might not be able to afford to buy and if it did the technology likely would be under-utilised

The Inter University-Industry Link Committee should also be reconstituted to ensure technology information sharing between universities and BDS providers

Intervention 6 8 - Promote Sharing of Information and Experience

In order to enhance information sharing and experience the cataloguing systems of MSE databases should be harmonised to ease accessibility of MSE literature through computer software networks, both locally and internationally

Other important avenues for intensive experience and technical exchange that should be actively promoted are business internships and traineeships for MSE managers at well-run large private enterprises This approach, which is compared with apprenticeships, should promote significantly beneficial linkages between large enterprises and MSEs

The Ministry of Information and Broadcasting should start running programmes about successful role models in MSEs using television radio and print media

Intervention 6 9 - Expand Support to District Level

To develop district capacities to implement MSE activities, SSJKE development units should be established within the District Development Office in each district to coordinate implementation of MSE policies and programmes These units should liaise directly with SSJKE Development Division of the Ministry of Planning and National Development In addition, the Ministry of Finance should be requested to review all MSE programmes implemented by sectoral ministries in order to harmonise duties and functions among the ministries and departments involved in MSE activities

Intervention 6 10 - Improve EDP Planning Processes

To effectively coordinate and monitor implementation of MSE activities, implementation plans for each of the proposed policies and programmes should be developed with clear, objectively verifiable indicators, resources required and time frame These plans should provide guidelines for implementation and benchmarks for monitoring and evaluation

CHAPTER SEVEN

Markets and Marketing

Timothy Mbugua

Despite the significant role played by micro and small enterprises (MSEs) in Kenya s national development the sector has over the years experienced many binding constraints to the realisation of its full potential This fact is acknowledged by the Government in Sessional Paper No 2 of 1996, *Industrial Transformation to the Year 2020* Among the key constraining factors, though not explicitly identified in the policy paper, is the lack of markets for MSE products and services

Due to poor market research there is frequently a big discrepancy between the supply of and the demand for MSE products Over supply, often occasioned by too many enterprises producing too many similar products leads to dead stock and business stagnation On the other hand, failure to respond to market demand with the desired products in good time often takes business away from the MSEs to more established firms who are better placed to gauge market trends Thus unless MSEs can be assisted to come up with effective marketing and sales channels/techniques most of them are bound to continue performing at low levels or go out of business altogether

ASSESSMENT OF POLICIES/PROGRAMMES ON MSE MARKETS AND MARKETING

The focus on MSEs has gained momentum since the publication of Sessional Paper No 1 of 1986, *Economic Management for Renewed Growth* Among other measures the paper sought to provide mechanisms for disseminating information on market opportunities and appropriate production methods for small-scale manufacturing

A focused policy scenario came into being with the publication in 1989 of *A Strategy for Small Enterprise Development in Kenya Towards the Year 2000* However, no comprehensive policies were developed out of these general policy statements until the publication of Sessional Paper No 2 of 1992, when a broad coherent policy framework was attempted Noting that the interventionist approach taken in the past had not been successful, the Sessional Paper opted for a facilitative role for the Government which could concentrate on building infrastructural facilities and an enabling environment where entrepreneurs would emerge, develop and grow The paper did not, however, define the kind of enabling environment that could generate the anticipated vibrant culture of entrepreneurship Nor were guidelines given for creating the perceived environment—a scenario that undermines the ability of the related institutions to spearhead implementation

Markets and Marketing Strategies in Sessional Paper No 2 of 1992

To improve MSE products and hence their marketability, Sessional Paper No 2 of 1992 proposed that Government efforts focus on stimulating research based on proper needs assessment, identification of markets and use of appropriate technologies The following measures were proposed

- Government was to use public procurement procedures and regulations to help MSEs find markets for their products in the public sector No guidelines were issued to guide the administration and line ministries on how to go about this, however Moreover, because MSEs have limited knowledge of how to apply for government tenders and even less capital to enable them to qualify for large tenders, the MSE have not benefited much from the government procurement policy

- The Ministry of Research and Technology, in collaboration with relevant organisations, was to conduct periodic in-depth market surveys to identify emerging skills and abilities needed in business, especially in the MSE sector, conduct market surveys to identify opportunities for product diversification and new product development in the MSE sector, identify new potential markets in the rural areas with a view to initiating small enterprises, and develop mass media techniques for dissemination of information on all facets of self-employment and entrepreneurship

- Government was to provide a range of support services to stimulate market expansion for MSE products through improved linkages between large and small enterprises, exploitation of export opportunities, and entry of MSEs into the service sector These were to include widely-distributed market related information by District Industrial Development Officers in a manner that would ensure that all target groups were reached The target groups are not clearly identified, however and "market-related information" is not specified The Sessional Paper also suggested that the Government develop appropriate inter-industrial linkages through tax incentives and measures (not specified) as a means of stimulating demand for and supply of MSE goods and services and generating alternatives to imports The appropriate industrial linkages are not defined Further, studies on the implementation modalities of subcontracting between large and small enterprises were to be undertaken by the Ministry of Industry

The paper did not indicate which institutions were to collaborate with the Ministry nor what department within the Ministry was to be the executing agency Moreover, these statements were too general Who were the target groups? What qualifies as market related information? What are the appropriate industrial linkages? There was also no time frame, for instance on the subcontracting studies Suffice to say, however that though the Ministry of Industry (now the Ministry of Industrial Development) actually facilitated some subcontracting arrangements between large enterprises (e g , General Motors and East African Fine Spinners) and small ones, the programme died when UNIDO, who had funded it, ended their contract There was no particular department in the Ministry of Industry that was given this responsibility In the case of the District Industrial Development Officers (DIDO), these officers are not posted in about half the districts in the country Even in the districts where they are posted, they have not been effective in disseminating information due to lack of information and the necessary facilities, e g , computers, vehicles etc

The 1992 Sessional Paper also stated that promotional programmes would be geared to the expansion and introduction of both supplier and consumer markets so as to enhance the production capacities of MSEs The paper proposed a number of institutional arrangements

- The Ministry of Industry in collaboration with the appropriate institutions was to undertake detailed analysis of the private and government institutions involved in MSE development with a view to enhance their potential capacity and inter-linkages for promotion of marketing MSE products The Ministry would also facilitate a buyer-seller forum for MSE participation including those run by women

- The Ministry of Commerce, in collaboration with the Export Promotion Council, was to develop a strategy for the country's exports that would foster an environment that is more conducive to the creation and growth of specific marketing channels for MSE exports by formulating a national export policy for MSE goods and services, carrying out studies of overseas consumer markets on such aspects as product quality packaging and pricing, and providing specialised technical support and training to MSE exporters

To steer the development of MSEs away from their exclusive orientation towards the domestic market, the Ministry of Commerce, in collaboration with other relevant organisations, was also to develop training programmes for product design to suit the demands and tastes of export markets, for improved product packaging, and for imparting skills to entrepreneurs in production management, technology, material procurement, costing and pricing Again, the Sessional Paper failed to identify either the department within the Ministry of Commerce or the collaborating agencies that would be responsible for the execution of these objectives It also had no time frame for implementing the exercise

MSE sectoral associations were to be encouraged as a means of providing collective and cost effective material sourcing and marketing channels It was not, however, made clear who was to spearhead this "encouragement", who would be the key collaborators or how the sectoral associations would be coordinated

Implementation Status of Policies/Programmes

Despite the numerous policy statements about enhancing market access for MSE products, there are only a few tangible achievements on the ground This can be attributed to lack of funds and poor follow-up mechanisms for policy implementation

Market promotion for *jua kali* products has been achieved mainly through the initiative of the British American Tobacco (BAT) and the Ministry of Research, Technical Training and Technology (MRTTT) Theirs is a trade promotion arrangement that has led to the organisation of annual trade fairs for the last ten years with some reasonable impact The financing of these exhibitions has been shared between the MRTTT and BAT on a 60 40 ratio, respectively The National Social Security Fund (NSSF) and the Kenya Bureau of Standards (KEBS) have also been contributing support

But while this effort is laudable, it excludes the majority of MSEs by focusing on *jua kali* artisans only MSE operators in commerce, who include small traders and account for over 60% of the total MSEs in trade promotion activities for MSE products, are left out Considering that in past MRTTT–BAT exhibitions, participating MSEs did not pay any fees, the issue of sustainability remains in balance There is also need to have policy guidelines for how corporate bodies such as BAT can be encouraged to participate

But as an offshoot of this MRTTT–BAT endeavour, MSEs have come up with their own initiative through the National Jua Kali Exhibitions and Marketing Association (NJKEMA) MSEs are now able to exhibit their products privately, mainly at the Kenyatta International Conference Centre, without the funding of the Government or donors

Another initiative that can be directly linked to the MRTTT–BAT partnership is the NSSF Expo '98 Jua Kali Exhibition held jointly by the NSSF, MRT and the Kenya National Federation of Jua Kali Associations (KNFJKA) It was intended to promote a wide range of high quality products and services offered by the MSE sector Realising the potential of this sector where it has an interest, given that the majority of its retiring members invest their benefits in MSE related activities, the NSSF used its extensive infrastructural advantage to exhibit the MSE products This kind of relationship is important because in order to fulfil its role in providing social security to all Kenyan workers the Fund will in time have to review its conditions of membership so as to accommodate this category of workers

The Ministry of Research, Technical Training and Technology is also considering introducing more exhibitions that will expose other facets of the MSE sector, especially the technology side Marketing exhibitions have been received so well by MSE operators and consumers that it is felt that the sector also needs exposure of their technology for them to make a bigger impact in the market There are also plans to exhibit MSE products regionally, particularly in Uganda and Tanzania The MSE operators from the three countries will then be able to exchange ideas as well as expand the market for their goods

Another new development that is helping in the promotion of MSE products is the sales promotion centres, where MSE operators are coming together to rent a building/premise and sell their wares from there Though it is difficult to quantify the number of operators involved, it is important to note that more and more new buildings are being rented out to these operators for "sales exhibitions" There is a big advantage in this kind of arrangement because it is helping to remove hawkers and street traders from the streets This also goes further to show that given an opportunity MSEs can mobilise their own resources to develop their businesses This however, may not be necessarily as a result of current Government policies

There are also new business linkages between the large firms and the small ones A case in point is the Coca-Cola initiative As a strategy to boost sales, the company has developed various marketing outlets for MSEs where it has provided kiosks, vending trolleys (*mkokoteni*) and shipping containers used as wholesale outlets In Nairobi about 800 kiosks have been given out and there are plans to issue 300 more as Table 7 1 indicates

Table 7 1 Coca Cola market outlets for MSEs

Market outlets	No	Cost (Ksh million)
Kiosks	3 000	60
Containers *	56	12
Mobile trolleys	n a	1 5
Ice boxes/Push carts	n a	7

* Containers have been provided in Nairobi only
Source Keipet Consultants Ltd

BAT has been making similar arrangements, the tobacco company is building kiosks for small traders, who are then supposed to stock BAT products among other goods The traders are also required to maintain a clean environment around their compound

Even though Coca-Cola and BAT may not be directly responding to the government policy, this kind of business linkage goes a long way in promoting the sector and creating job opportunities More large firms should be encouraged to build such linkages with MSE operators

The Asian Foundation has set up two markets in Nairobi for MSEs involved in the sale of foodstuffs These are the City Park Hawkers Market, constructed in 1989 and accommodating 1,000 traders, and the Kibera Hawkers Market, which was built in 1996 and accommodates 500 traders The Foundation's efforts to build another market for women involved in *ciondo* weaving and other handicrafts were thwarted when the City Council allocated a private developer the plot that was targeted for that purpose Even though the Foundation is still willing to construct more of these market sites, its intentions are hampered by the unavailability of suitable land There is need therefore for the MSEs, through their associations, to supplement these efforts by purchasing private land after which the Foundation can put up the market sites

Another problem is that of maintenance Once constructed the markets are handed over to the City Council which should then maintain them But experience particularly with the City Park market shows that the Council does not do this and there are complaints of car thefts stalls whose floors are not washed and uncollected garbage The Foundation together with the traders, is in a position to maintain these markets if the ownership of the land is given to them rather than the Council

One major area of poor policy implementation stemmed from the role assigned to (expected of) local authorities Not only have they, for example failed to come up with MSE-friendly by-laws, but they have also been regularly antagonising hawkers and other MSE operators The local authorities have even failed to implement such simple recommendations as closing certain streets/ roads during off peak hours to provide a venue for MSEs to exhibit and sell their wares

Local authorities have also failed to allocate market centres for MSEs Often the sites given to MSEs are far from the main areas of traffic, thus making access by potential customers difficult This tends to undermine the viability of such centres, consequently causing the MSE operators to move away from the designated areas in their search for more effective sales outlets

To support MSEs, the policy to establish associations has been helpful and should be intensified However the emphasis should now be on sectoral associations as opposed to the present emphasis on site associations, i e , associations whose members are involved in different activities and whose only common bond is that they work from the same site A review of the current marketing system for MSE products is urgently needed if more effective strategies are to be formulated and implemented The review could include the benefits and limits of marketing through cooperatives NGO marketing networks (e g , Kenya Gatsby Charitable Trust ILO/Interco-op and Jisaidie), special government supported MSE institutions, MSE supermarkets/display centres and opportunities on the internet

Available information shows that market surveys for MSE products which used to be done for the benefit of the entire sector are now done only when a firm/entrepreneur makes a request Surveys on consumer tastes and preferences are rarely carried out Consequently, MSE product exposure to both local and overseas markets remains poor Intermediaries especially in the leather and craft industry have exploited the situation by buying from MSEs at very low prices, putting their trademark on the products, and selling in the local and overseas markets at very high prices Market research is needed into the current marketing system for MSE products and the possibilities for a collective marketing strategy, perhaps through the MSE associations Avenues such as marketing through the regional integration institutions in the Eastern and Southern Africa region, the information super highway, western media, etc , need to be explored

Other Policies on Market Promotion for MSEs

According to Sessional Paper No 1 of 1986, the Government was to

- Disseminate information on new products and production methods to potential producers via technical secondary schools and other channels
- Issue new regulations on tendering, requiring line ministries and district authorities to favour small-scale producers
- Revise building codes to encourage the use of materials that could be supplied locally by small firms so as to expand the activities of informal sector builders, especially those of low-cost housing

- Encourage MSEs in manufacturing and services to form cooperatives, through which they could obtain information and assistance on new technologies, access to credit, purchase of inputs and marketing of outputs

But because there were no clear guidelines or specific time frames little coherent action has been achieved, though a few personnel in the ministries and district offices have taken the initiative to favour MSEs in sourcing for certain government supplies

The 1996 Economic Commission for Africa paper, "Enhancing the Role of African Women Entrepreneurs in Regional Economic Cooperation and Integration", identified lack of access to markets as one of the major obstacles to MSE development, not only in Kenya but also in the whole of Africa The paper argues that the size of the market for many in the informal sector depends on personal relationships or the goods being customer designed The paper notes that domestic markets for most African countries are small, with a lot of limitations that inhibit MSE growth from reaping economies of large-scale production The paper states that women entrepreneurs must be assisted to grow and consequently take advantage of the existing regional market opportunities For this to happen, the paper advocates that national policies encourage freer internal and trans-boundary markets

The paper also stresses the importance of women entrepreneurs being able to access marketing information According to the paper, women entrepreneurs' limited education and restricted circles of contacts and networks have contributed to their inability to gain access to market information The paper recommends that women entrepreneurs be supported and assisted in obtaining relevant market information that can help them grow in their entrepreneurial undertakings

The need to address marketing problems as a way of ensuring rapid expansion of the MSE sector is also highlighted in a document entitled "Social Dimensions of Development in Kenya (1994) An Approach to Human-Centred Development and Alleviation of Poverty" The document argues that MSEs need to be provided with several assistance measures, among them marketing channels such as display rooms and regular exhibitions, if they are to develop and grow One of the proposed projects aims at strengthening the MSE production and retailing sector in terms of product diversification, productivity, technical standards, competitiveness and marketing (at national and international level), with a view to generating employment in the MSE sector

UNDP's 1995 Programme Support Document, "Programme for Poverty Reduction and Employment', states that the marketing challenge requires partnership between Government institutions and the private sector if the MSEs' products are to find their way to domestic and export markets It emphasises the importance of designing and developing products based on market surveys and research and of eventually disseminating to MSE operators information on selected and marketable products The document further states that all MSEs with marketable products and potential for growth need to be encouraged to become members of the Kenya National Chamber of Commerce and Industry (KNCCI) to benefit from its market information network

In a report in the *Daily Nation* of November 1996, UNIDO stated that African nations must continue to pursue export led growth and must therefore encourage cooperation at regional and subregional levels to enlarge their market size The report stressed the need for African countries to develop the technological base and technical skills to master new production processes if products from Africa are to compete on world markets According to the report, this entails satisfying the increasingly stringent standards for product quality as required by the global marketplace UNIDO cautions, however that if the organisations and the government capabilities are weak, the types of market improvements that are needed are unlikely to succeed in generating a significant improvement in the economic performance of Africa, Kenya included

A publication in 1997 by the International Trade Centre (ITC) noted that even though in many developing countries MSEs account for up to 90% of employment in the industrial sector and 60%–70% of the domestic industrial production on a rough estimate only 5%–10% of these businesses are engaged in export related activities There is therefore a vast export potential in the currently-not-exporting MSEs waiting to find expression But for the MSEs to be efficient exporters, they need to be properly motivated helped to acquire the necessary skills, supported by a strong infrastructure, and given the right advice and assistance The report concludes that in the present context of growing globalisation and integration of products and markets, these actions are essential

According to the current National Development Plan (1997–2001), Kenya is well placed to take advantage of markets in the Middle East Eastern and Southern Africa, the Far East North America, and Europe However both the public and the private sectors have failed to carry out effective marketing in these regions The plan says the development of these markets will be supported through the country s embassies and missions abroad The Ministries of Foreign Affairs, Trade Industrial Development, and Agriculture and Livestock Development and Marketing will be required to take a proactive and leading role in marketing The private sector will be supported in its efforts to gain access to new foreign markets

CONSTRAINTS, WEAKNESSES AND GAPS IN POLICY

The policy statements outlined in Sessional Paper No 2 of 1992 provided the framework along which identified institutions and government departments were expected to develop specific strategies for MSE development However, it is apparent that coherent action regarding access to markets by MSEs was never taken The implications of the shortcomings of the policy framework are consolidated in this section as they relate to policy implementation, problems in local markets and problems in gaining access to external markets

Problems in Policy Implementation

The areas of constraints that hinder the implementation of the policies in Sessional Paper No 2 may be summarised as

- Lack of clear guidelines on how various policies were to be implemented, e g , the government procurement system
- Lack of collaboration arrangements between the implementing and other institutions
- Inadequate capacity in some of the institutions that were expected to implement various activities, e g , the number of District Industrial Development Officers was inadequate for them to be able to effectively disseminate information on MSEs
- Resource mobilisation strategies were not identified to ensure the sustainability of various programmes, e g , the subcontracting arrangement died with the termination of donor support
- No time frame was given for the various programmes and activities which meant that no one really knew when it was appropriate to start or end the exercises

Problems in Local Markets

Clearly, inadequate access to markets is one reason many MSEs stagnate This is partly due to the following factors

- Narrow product range among the various MSEs, which leads to cutthroat competition and market congestion This is also evident in terms of horizontal rather than vertical growth by most MSE firms
- Poor quality products and lack of product improvement (development)
- Inadequate access to market information
- Poor product design, packaging costing and pricing
- Lack of access to the public sector market, which is one of the largest markets in any country
- Lack of physical markets and marketing channels (e g , exhibitions)

- Lack of subcontracting arrangements between large and small firms
- Weak market support arrangements, including weak linkages between established formal marketing institutions and MSEs
- Inadequate market research and development for MSEs

There is therefore need to formulate specific policies and strategies that can effectively support the development of market prospects for MSE products and services

Problems in Gaining Access to External Markets

The following factors hinder the MSEs from gaining access to external markets

- Inadequate export financing
- Policies for export promotion that are conflicting or uncoordinated and thus affect MSE products
- Lack of coordination of export promotion activities
- MSEs lack of knowledge about export promotion programmes
- Absence of a simple information source on the range of government promotion programmes
- Lack of information on environmental regulations and standards in potential export markets
- Lack of information on MSEs that are already exporting
- Lack of an institution that has targeted or identified export promotion opportunities for MSE products
- Poor export marketing strategies

PROPOSED POLICY INTERVENTIONS, MECHANISMS, STRATEGIES AND PROGRAMMES FOR INCREASING MSE ACCESS TO MARKETS

The performance and growth of small-scale and *jua kali* enterprises is to a large extent determined by their access to market opportunities Measures should therefore be taken to expand and create new market outlets locally, regionally and internationally for MSE products

Table 7 2 shows the value of some of the products that Kenya produced for the domestic and export market between 1986 and 1994 These are products that MSE operators can produce and take advantage of in the domestic regional and international markets

Table 7 2 Value of some Kenyan products produced between 1986 and 1994 for domestic and export market that can be produced by MSEs (*value in Kenya pounds*)

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Metal scrap	1 500	1 712	2 104	2 887	3 021	3 724	70	5 555	7 212
Leather	1 159	3 937	7 701	18 342	32 200	35 446	40 092	77 668	68 207
Textile yarns fabrics made up of textiles	3 641	4 182	8 827	4 321	9 678	20 396	20 940	52 649	79 019
Wood carvings	1 160	1 237	1 939	2 062	2 379	2 751	4 223	9 129	10 706
Steel doors & windows	94	153	190	7	113	100	155	339	466
Footwear	642	504	686	931	789	906	3 720	27 351	36 299
Chemicals	43 850	42 843	45 041	58 250	39 557	90 935	92 951	222 393	297 777
Wood products	1 171	1 146	1 242	2 869	773	853	1 394	11 390	19 456

Source Statistical Abstract 1995

Intervention 7 1 – Add Value to Products for Local Markets

A look at the list of MSE products reveals that many firms in the sector deal with basic trading activities, with relatively fewer involved in manufacturing production In the agricultural subsector, for instance, processing and canning of a wide range of perishable goods does not take place among MSEs Instead, many firms engage in wholesaling and retailing of food, drinks, tobacco and livestock products The value added portion of manufacturing is missing, yet processed products are likely to enhance market opportunities for the MSEs operating in the subsector

Various subsectors in the MSE face different problems in marketing Retailing in forest-based products, for example, is a notable feature of MSE operations Processing of forest-based products is taking place for woodcarvings, furniture and basket making, but most of the MSEs involved in this field are merely producers for large, expensive retailers who reap disproportionately higher rewards from product sales Poor marketing is partly the cause of low sales Market opportunities for furniture production could easily expand if government institutions procured items from the MSEs The Government should set standards of workmanship to ensure production of high quality goods

Processing of leather and production of leather products has expanded considerably in recent years, but the quality has to improve and prices have to be reasonable compared with similar products generated by large firms and those imported from other countries Leather belts produced by MSEs, for instance, have yet to reflect some of the better quality designs imported from abroad

In the chemical subsector, production of rubber and plastic goods has grown, but the range of products is narrow and limited This is an area that MSEs could exploit to their great advantage A wide range of children's toys is now imported The market is large, but MSEs have yet to acquire the requisite equipment and machinery to produce such plastic goods—this despite the fact that the technology is readily available With adequate financing, training and effective marketing toys and plastic teaching aids could be manufactured and sold in the local market Government procurement could generate a ready market for such goods in nursery, primary and secondary schools

In the metal subsector, market opportunities for metal furniture, grilles, gates household products, domestic hardware, and domestic machinery and tools have been rising over the last few years MSEs have to improve the quality of their product range and promote aggressive marketing The goods are not standardised and workmanship is poor The MSE associations could assist by organising the operators to use pool machinery and equipment for minimal fees Again, government institutions and schools could consume many of these products

Textile-based goods are also a potential source of expanding local market for MSE producers However, the subsector lacks consistency and quality uniformity for a wide range of products From blankets and pullovers to socks and uniforms, the MSE sector is likely to broaden its market opportunities if quality workmanship and variety are given a higher premium

The use of local raw materials to design earrings, necklaces, bracelets and other beauty ornaments has grown and the market for such items has also expanded Innovative designs and high quality workmanship are prerequisites for stronger sales in not only the local market but the external market as well In the production of earrings and bracelets for example copper wires are used that fade very quickly Some customers have even been affected by such materials, which can cause skin irritation Better materials like plastic strings to replace copper cords could improve market opportunities for earrings and bracelets

The MSE sector stands to gain from higher sales if deliberate efforts are made to create awareness of products through regular exhibitions trade fairs, advertisements and the proposed establishment of the information kiosk by the Kenya Rural Enterprise Programme (K REP) These initiatives should be accompanied by training programmes to impart marketing skills to MSE entrepreneurs Quality improvement is essential if the products are to secure wider market access The government, in collaboration with the private sector, should support training programmes in quality management and effective packaging

Invention 7 2 – Promote Business Linkages

Weak business linkages can be said to be one of the causes of poor market access by MSEs We can borrow a leaf from Namibia's programme for strengthening business linkages (Namibia Policy and Programme on Small Business Development) A similar approach should be adapted here to create business linkages between large and small entrepreneurs The Kenya National Chamber of Commerce and Industry (KNCCI) can play a major role when the envisaged trade information point becomes fully operational This programme could be designed as follows

- A national database of small businesses supplying goods and services will be established This will have details of the business as well as an indication of its supply capability and information on the range of products/services it can supply The database will be accessed locally through trade information centres to be established in various towns by the KNCCI
- The centres will be advertised widely and will maintain records of buyer needs as well as supplier performance
- In responding to buyer requests the centres will provide a list of suitable suppliers along with the details of the enterprise and its capability It will be up to the buyer to select the appropriate supplier, though centre staff will guide them on the process of selection

This process is expected to provide an additional channel for MSEs to reach potential customers For the purpose of sustainability, the beneficiaries should pay modest fees for the information provided

Intervention 7 3 – Promote Subcontracting with Large Businesses

Subcontracting and supply of ancillaries and components to larger exporters should be strengthened A needs analysis should be undertaken for the large organisations, to categorise their purchases of raw materials, products and services in terms of specifications and annual usage This information would be built into a computerised database to facilitate analysis and to allow the merging of similar requirements At the same time, the capability of the MSE in terms of products or services offered needs to be identified and evaluated and matched with the requirements in the database The scheme should be publicised to give ample opportunity to all those who may wish to participate

The Ministry of Industrial Development (MID) together with the Kenya Association of Manufacturers (KAM) could spearhead this endeavour There should be a close working relationship with the MSEs selected to participate Those who do not qualify should be referred to appropriate support agencies Those large businesses demonstrating strong commitment to the programme could receive a "National Award for Economic Development" This can include permission to use a logo for the award on the company's stationery and literature Such inter-firm cooperation can help to raise quality, lower costs and enable rapid product changes Indeed, the strength of Japan s manufacturing sector lies in its strong subcontracting networks particularly in machinery, textiles and the metal industries

Intervention 7 4 – Establish Suitable Market Sites

Suitable markets sites should continue to be identified and developed The private sector is expected to play a leading role in this The City Park and the Kibera Hawkers Market built by the Asian Foundation are good examples of such private sector initiative Similar markets can be built in the urban areas Instead of being the eyesores of popular conception, they can be designed to be attractive and yet low cost MSE operators have shown willingness to contribute towards construction of such sites and even in the purchase of suitable land The local authorities are therefore expected to play a major role together with the MSE associations and the Ministry of Lands (Department of Physical Planning)

Trade promotion efforts should also be encouraged Areas of the towns and cities like car parks and roads can be closed to be used by the MSE operators, e g , in the evening when motorists are not using the car park or weekends when traffic on some roads is not heavy The BAT and MRTTT initiative can be expanded to include all the subsectors of the MSE sector The operators themselves should also mobilise resources to supplement what BAT and MRTTT are providing for the purpose of sustainability MSE product supermarkets in the major urban centres can be created KNFJKA, other *jua kali* associations and the local authorities are expected to play a central role in these efforts

Intervention 7 5 – Conduct Market and Product Research

Market research and surveys are an important area of market development Various MSE associations e g , KNFJKA and institutions such as K-REP, Kenya Management Assistance Programme (K-MAP) Kenya Industrial Research and Development Institute (KIRDI) etc should come up with ways and means of exploiting the local and international markets Through market surveys of consumer needs and tastes, the associations can advise their members and mobilise them to produce the required goods and services The focus should be on expanding restricted domestic markets and gaining access to external markets

Organisations involved in market research for MSEs, e g , Jisaidie Cottage Industries, Kenya Gatsby Charitable Trust and others could use the KNCCI trade information points and the business kiosks to disseminate the marketing research information they may have Further, the Central Bureau of Statistics (CBS) needs to be encouraged to collect data on MSEs, their products and markets so as to provide input to MSE product research and strategic planning The MSE operators through their associations should also be encouraged to do simple but thorough market research, particularly for the domestic market before they go into production so as to avoid duplicated products flooding the market and leading to dead stock

Market information gathering and dissemination through the DIDOs, which is only done when funds are available, should be reinstituted as a priority There should be concerted efforts to provide the necessary information In particular the district departments in trade research and technology, planning, industrial development and social services should be provided with the necessary information on MSEs, particularly on markets, credit, technology, etc

Intervention 7 6 – Publish an MSE Directory

The KNFJKA and other *jua kali* associations should publish a directory of MSE firms/products and a market information journal with the support of the donors This directory would list all established/promising MSEs across the country and their products/areas of specialisation One variant would be to develop "MSE Yellow Pages " Ultimately, the publications will be expected to be self-sustaining through advertisements and purchase by the consumers The value of the directory could be greatly enhanced if the MSEs adopted effective marketing strategies—which are currently not in place The enterprises should be encouraged through Sensitisation campaigns to circulate as widely as possible newsletters that carry information on what is available Certain public procurement offices of the Government should be targeted for regular receipt of the newsletter or bulletin This would mean that government agencies are made aware of what MSEs can offer

Intervention 7 7 – Improve Product Design and Development

To improve the quality of MSE products and widen their range, product design and development should be strengthened Organisations such as the Artisan Trust, Kenya Gatsby Charitable Trust and Jisaidie Cottage Industry that have the capacity and know how in product design and development are the key institutions to carry out this exercise They should join with MSE associations to conduct training sessions in, e g , sisal metal, wood products etc

Intervention 7 8 – Create MSE Marketing Institutions

A Marketing Promotion Board should be created to serve the marketing needs of the MSE sector An analysis of the role of the Government and NGOs involved in trade promotion shows that these institutions do not adequately serve the marketing needs of MSEs and an alternative is needed Another possibility is for established institutions like the Export Promotion Council (EPC) KNCCI and the Export Processing Zone Authority (EPZA) to create departments specifically to handle the marketing needs of MSEs

Intervention 7 9 – Open up Access to Government Tenders

To enhance GOK procurement of MSE products and services the Ministry of Finance should introduce a tendering system where specified goods and/or value (e g , up to Ksh2 million) should be reserved for pre-qualified MSEs Where possible large tenders should be unpackaged to facilitate qualification and implementation by MSEs Alternatively, MSE operators should come together, e g through their associations and bind together so that they can meet the requirements of the large tenders Where appropriate, MSE product access could also be enhanced by the application of a preferential bias of say 5%–10% for the MSEs in the award of the tenders In addition, at the district level certain tenders could be restricted to the local areas to favour smaller suppliers/contractors Moreover, tendering procedures that require registration of suppliers/contractors should be relaxed Many MSEs are not registered companies because the process of registration is bothersome and relatively costly to such outfits Representative associations should train their members on the tendering procedures The enterprises should also circulate newsletters bulletins and letters to the government departments (most of whom do not know of the existence of many MSE products) carrying information on what they produce

Intervention 7 10 – Educate Kenyan Consumers

Kenyans in general need to be encouraged to consume MSE products instead of rushing for foreign-manufactured goods particularly those from East and Southeast Asian countries Sensitisation campaigns should be stepped up spearheaded by the Ministry of Information and Broadcasting Slogans like Buy Kenya, build Kenya should be slotted back in between the Kenya Broadcasting

Corporation (KBC) radio and television programmes The print media should also give MSE products positive publicity through for example discounted advertising rates MSE operators on their part should strive to produce high quality goods that can compete favourably with those from other countries The respective associations should sensitise their members on the need for advertising their products through the media For instance, KBC has introduced a kind of advertising where a number of advertisers are given a few seconds each to advertise their products This could be very appropriate for MSE operators because the charges are modest

Intervention 7 11 – Target the Export Market

One of the major functions of the MSE promotion board proposed above should be to target export promotion opportunities for MSE products The Board should also work closely with the Government particularly the Ministry of Foreign Affairs to facilitate contact between local MSEs and foreign markets sponsor trade fairs and exhibitions and collect and disseminate information for the MSE operators This would include among others, obtaining a list of imports of various countries, their respective volume and prices, estimates of transport costs and potential customers Kenyan embassies abroad can secure this information on behalf of MSEs and should do so as a matter of routine rather than responding to a specific request made by particular MSEs As part of its planning and marketing programme the Board should also offer short, introductory seminars on exports, covering the rationale for exporting the steps involved and the available export promotion programmes

The Export Promotion Council (EPC) is expected to play a crucial role in promoting MSE products abroad Though its mandate does not specifically address the MSE sector the Council does have a department that deals with MSE matters The Ministry of Trade through its trade development officers and commercial attaches the EPC through its Trade Information Network (TINET) and internet services and the Business Information Centre (BIC which is about to be inaugurated) should support and encourage market research in order to achieve growth in the domestic and external markets They will also provide the necessary business information about local and external market needs and requirements

Intervention 7 12 – Mount Trade Promotion Activities

The KNFJKA and other MSE associations should work closely with the EPC to promote their members products through exhibitions, trade shows, contact promotion programmes market surveys and investigations trade missions and solo Kenya exhibitions The EPC will also strive to find new market targets for the MSE products e g Middle East Central and Eastern Europe Southern and North Africa, North America, and Southeast Asia The KNCCI is also expected to avail effective export trade information through the trade information points This organisation needs to work closely with the EPC in information dissemination so that the two organisations supplement rather than duplicate each other s effort The Ministries of Trade, Foreign Affairs, Agriculture Livestock Development and Marketing in partnership with the private sector, should collaborate in market research on a continuing basis MSEs should be able to apply to the KNCCI to carry out market research Export insurance agencies can be approached to finance all or part of overseas markets

General exhibitions trade shows contact promotion programmes market surveys and investigations trade missions and solo Kenya exhibitions have helped to introduce Kenyan products to the market especially the external market Focus should now be on sectoral exhibitions for the promising sectors and subsectors For instance the metal work sector could hold an exhibition on the sector's products This would help to identify the potential customers and also the unique marketing problems faced by that particular subsector Furthermore, such forums can be the setting for establishing linkages and subcontracting arrangements between MSEs and large enterprises The EPC which has been organising external exhibitions the KNFJKA, NJKEMA and other MSE associations should work closely to organise these exhibitions

Intervention 7 13 – Provide Tax Incentives for Exporters

The Ministry of Finance should consider exempting from quantitative import restrictions those imports used as inputs in the production of exports This should also include raw material imports used for export production which could be exempted from tariffs Domestic firms providing intermediate inputs for export production should also be exempted from import duties An additional factor to consider is the exemption of exports from indirect taxes such as harbour charges This will not only benefit MSEs in export business but will also strengthen linkages for the MSEs that provide inputs to exporting firms

Production of export goods could be boosted if firms especially MSEs enjoyed substantial reductions in business income tax on profits derived directly from exports The MSE associations working closely with the Ministry of Finance should look for ways of reducing this tax on profits

Intervention 7 14 – Match Technology Acquisition and Product Improvement to Export Markets

Access to and upgrading of technology has a major impact on export capability Exporters need the latest production and packaging technologies to cater effectively for the requirements of international markets Companies with lower levels of technology are in many cases relegated to domestic markets KIRDI has a key role to play in developing appropriate technology for Kenyan MSE exporters This should be simple, inexpensive yet internationally acceptable technology Sectoral associations should therefore liaise with KIRDI for their members to benefit from the Institute's research work on the export market

MSE operators should be introduced to the International Standards Organization (ISO 9000) The Kenya Bureau of Standards (KEBS) should come up with a programme to assist the SSJKEs and exporters to address quality related issues and to publicise ISO 9000 so as to ensure that our producers are able to meet the internationally accepted quality standards In this era of globalisation and liberalisation, and with the revolution in information technology, the notion of time and distance has become irrelevant By a few punches on a computer keyboard, one can put an order for all kinds of goods from any part of the world The result is cutthroat competition in the world market, which means that only the very best will survive High productivity, high quality and high technology are of utmost importance to any exporter MSE associations should therefore work closely with KEBS the Weights and Measures Department of the Ministry of Industry and other such bodies to ensure that Kenyan exports are of high quality and standards

Intervention 7 15 – Create an Enabling Environment

There is need to create a conducive and enabling environment not only for the MSE sector but also for other sectors if the economy is to grow Presently among the most critical disincentives to the growth of the MSE sector are poor infrastructure harsh legal and regulatory environment, insufficient and inappropriate technical and vocational training, and insecurity

While the first three disincentives have been tackled elsewhere in this volume, the Government should seriously address the issue of insecurity It is generally believed that the clashes that engulfed parts of Coast Province contributed greatly to the decline in tourist arrivals in the country Many people have lost their jobs, and MSE operators, particularly wood carvers, small tour operators/guides and restaurants, those who sell foodstuffs to hotels and restaurants, and barbers and beauty shops serving the tourist, were affected adversely Though the situation has now been brought back to normal, it is important to ensure that such ugly incidents do not recur It is also incumbent upon the leaders of various shades to supplement Government efforts by sensitising the masses on the need for peaceful coexistence among various communities

The issue of an enabling environment also relates to the macroeconomic conditions mentioned elsewhere in the Sessional Paper A prerequisite for healthy MSE sector development is a favourable macroeconomic policy structure that ensures a stable national currency, controlled inflation and predictable exchange rates A sound commercial framework consisting of more open markets, cost-effective systems for delivery of credit and technical support, protection of intellectual property and the environment, and consumer assurance of quality is also essential for business formation and growth

There is need to reassess the impact of liberalisation particularly on local producers, e g , the textile subsector This is because total liberalisation has had a negative effect on local industries, particularly those that are agro-based The multiplier effects that emanate from this liberalisation can lead to the death of the agricultural sector, which is the mainstay of Kenya's economy Besides, our trading partners like the USA South Africa and the EU also exercise a measure of protection for their industries The 100% tax increase on imported sugar by the Minister for Agriculture should be extended to other commodities that can be produced locally

Intervention 7 16 – Encourage MSE Associations

The establishment of strong MSE associations should continue to be encouraged Sectoral and subsectoral associations can help not only in lobbying for members but can also be of great value in marketing For instance, an association that brings together all the small-scale fruit processors could help its members to produce under a common label which will help them to compete effectively with the large-scale enterprises This could be through enhancing their chances of acquiring credit where the association acts as a guarantor for the credit

The associations should also make use of the External Resources Department in the Ministry of Finance This is a facility that is hardly used by MSEs yet with a well presented business proposal, MSEs can acquire external funding through this facility It could also organise the members in catering for a large export order Such an association could even be in a position to stage an exhibition for the subsectors' products only MSEs should therefore borrow a leaf from strong associations like F-PEAK, which is able to provide various services to horticultural producers

Strong associations could also cater for the needs of MSE operators who constitute the "missing middle" This is the group of MSE operators, employing between 10 and 50 workers, who feel that they have outgrown the microenterprise associations but at the same time are not big enough to join the likes of KAM This group may be facing unique marketing constraints (e g , dwindling foreign markets, subsidised cheap imports dumped into the local market) that could only be catered for by an organisation that deals specifically with that category of MSE Various ministries dealing with the MSE sector, e g , the Ministry of Planning and National Development (MSE Division), Ministry of Research and Technology (Directorate of Applied Technology), Ministry of Agriculture, Livestock Development and Marketing (Marketing Department), Ministry of National Heritage Culture and Social Services (Women's Bureau), Ministry of Trade (Trade Department), Ministry of Industrial Development (Department of Industry), and the Ministry of Local Government, should be sensitising MSEs on the importance of such associations For instance they have the potential to mobilise funds through member contributions, which can be used to improve the marketing of their products

Intervention 7 17 – Formulate an Export Promotion Strategy

Above all else, the successful markets for MSE products will depend heavily on the scope and depth of an export promotion strategy The strategy itself should include an evaluation of foreign markets and an appreciation of how business is conducted abroad It should also entail the identification, evaluation, selection, and contacting of potential customers, agents, distributors and partners and the modification of MSE products to meet the special needs of foreign customers Other elements of the strategy should include conducting an advertising campaign abroad, arranging for shipping, insurance and customer clearance, understanding regulatory requirements of the export market, and arranging for export financing

CHAPTER EIGHT

Technology Policies and Strategies

Kenneth Aduda and Harry Kaane

Conventional economics, which has considerable influence on the way societies plan and manage themselves has had difficulties coming to grips with what technology is In many cases, economists and development planners have tended to reduce technology to hardware It is not uncommon (at least in the Kenyan context) to find planners who focus their technology development strategies entirely on the acquisition of hardware, without recognising that hardware is just one component of technology This approach oversimplifies as well as misplaces the knowledge component of technology

Kenya like any other developing country continues to rely on the industrialised countries as sources of new technology We have limited capacities to manage technical change, and more relevant technologies Furthermore our capacity to assimilate new foreign technologies is limited

Policies designed to promote technological development at various levels are either nonexistent in Kenya or not well defined In addition the pursuit of such policies, where they have been established, is constrained by the lack of appropriate institutional arrangements, lack of financial resources, weakness in the scientific and industrial systems and absence of links between research and productive activities

To put these issues into perspective the Kenya Industrial Research and Development Institute (KIRDI), with the funding of the International Center for Economic Growth (ICEG), recently concluded a detailed research study Drawing on this study this chapter highlights the technology situation in Kenya, existing technology policies and policy options and strategies that the study indicated can accelerate and sustain the development of the MSE sector in Kenya

TECHNOLOGY STATUS IN KENYA

Technologies are identified not so much by their functions as by their character we talk of mechanical technology biotechnology and information technology Most of the new technologies are science-intense and complex Thus technology cannot be reduced to hardware or machines It involves certain kinds of tacit knowledge embodied not only in hardware, but also in persons, organisations and cultural practices Generally, technology is a body of knowledge of techniques, methods processes and designs The knowledge is generated and applied within specific socio-cultural and economic contexts Here technology generation is conditioned by social factors In this sense technology can be defined as a social value

That technology and more specifically technological change—which is the generation development and diffusion of new technology—has transformed the socioeconomic fabric of Kenyan society is undisputed It is widely recognised that societies change and develop through the generation and application of technological innovations Since the late eighteenth century when the first industrial revolution began, growth in industry has always been led by breakthroughs in technology The level of industrialisation in a country is a good indicator of the technological development of that country Industrial development is at its infancy in Kenya Save for the few multinational companies in the medium and large enterprise category, most other enterprises particularly MSEs, use third to fourth generation technologies

Industrial technology development in Kenya is yet to take off Apart from a few isolated success stories, Kenya still relies heavily on imported technology The plant and machinery most MSEs use to produce consumer goods and services have nil technology (know-how) value For MSEs in Kenya to catch up with global technology levels the following steps will have to be taken

1 Encourage consumer goods manufacturing enterprises to acquire the latest technologies technologies that are efficient in use of materials and utilities in addition to being environmentally friendlier
2 Reduce the importation of embodied technologies in form of plant and machinery and increase the acquisition of disembodied technologies (know how), this will lead to the growth of industries producing capital goods
3 Develop national capacity in tooling, design and industrial engineering
4 Develop national capacity for the production of specialised software for the control of production processes
5 Harness and disseminate software on special talents and skills in arts, music, film, sports and other entertainment/recreation areas
6 Develop capacity to generate knowledge through research and development (R&D) for application in MSEs

MSEs in Kenya and other developing countries have yet to accomplish even level one in this hierarchy The newly industrialised countries have accomplished levels one and two and are currently going through levels three and four The developed countries are currently dominating levels four to six Experience shows that it is not practical to jump through the levels A country must first establish and sustain a strong base at the lower level and build on this foundation to establish the higher levels in a pyramid form

Desired Technology Status for MSEs in Kenya

Clearly Kenyan MSEs have yet to embrace all the dimensions of technology It is well understood and appreciated that plant and machinery can only produce the desired results if well combined with appropriate human skills, information and organisation structure This grey area needs a great deal of attention if our MSEs are to grow and thrive in a liberalised economy Policies and strategies will be required to force change in the sector for the operators to shift from thinking only of plant and machinery to taking an integrated approach that embraces all facets of technology

There are serious shortcomings in technology management According to the KIRDI study, most MSEs in the fields of food processing metal and metal products, wood products, leather and textiles, and stone carvings do not appreciate the link between the success of a product on the market and the technology used in the production of the product Less than 33% of the entrepreneurs have been educated beyond primary school level and practically all have no formal training in technology management Yet over 60% are dissatisfied with the technology they use and blame this on lack of information and resources Policy intervention is urgently needed to enhance awareness of the need for planned and increased investment in technology management

A majority of the MSEs are innovative and have the desire to improve their technologies, almost 90% of those contacted express this desire Many attempts at producing innovative products at both consumer and capital levels can be witnessed among the MSEs However, most of these do not attain any commercial value and it is clear that the innovation process is clogged This status quo needs urgent address, and appropriate policy measures need to be implemented to enhance successful innovation and hence growth of MSEs

Besides innovation and technology management, little formal information exchange takes place among the MSEs themselves and even other stakeholders in the sector Informal contacts and particularly copying of product designs within one production area are prevalent but very little exchange of technological information across the districts of Kenya takes place For the sector to grow faster, this trend needs to be reversed Information networks that allow not only national but international exchange of information are urgently needed Policy intervention is required to improve access to technological information by MSEs

Besides these primary issues there are other issues that retard technology development among the MSEs These include weak or ineffective technical support services and lack of access to utilities, particularly electricity Urgent policy measures are desirable to enable MSEs to have access to affordable electricity and technical support services from public institutions NGOs, and private small and medium consultants

Experiences from the Industrialised Countries

A comparison of Kenya and some of the industrialised countries, particularly the newly industrialised countries (NICs), shows a big gap in technology levels As explained earlier sustainable industrial growth is always preceded by growth in technology Since the eighteenth century technology has continued to evolve leading to the various industrial revolutions—nuclear, biotechnology space, computer and now information Industrialisation policies and strategies must therefore embrace technology policies and strategies

Kenya could learn a great deal by implementing some of the policies used by these countries to develop a strong technology base in their industrialisation processes Particular attention should be given to the experiences of India, South Korea and Japan It is a good practice in policy setting not to experiment with new ideas but to select already proven successful strategies and adapt them to one's own case This rule of thumb applies to technology development in underdeveloped countries as well

The NICs have endeavoured to enhance access to markets for MSE products through several policy measures This market support has guaranteed infant MSEs industrial growth and by extension sustainable technological growth Among the measures used are steps to strengthen linkages with medium and large enterprises and to protect shares of public markets

Other strategies include

- Dedicated agency for global technology forecasting
- Systematic improvement of standards in MSE products and practices
- Encouragement of backyard R&D
- Strong design and analysis bias in the education system
- Strong support for computer software development
- Incorporation of traditions and indigenous cultures into technology development
- Bias towards and development of ' copy and develop" strategy in technology development
- Dedicated department within Government to handle all MSE issues, e g , the SIDOs (small industries development organisation)

Although these are not new to many Kenyans most of them have not been implemented in this country This policy implementation gap between Kenya and the NICs is indeed responsible for the industrial and technological gap between these countries The proposed policy measures discussed later in this chapter are an attempt to bridge this gap

CONSTRAINTS TO TECHNOLOGY GROWTH IN KENYA

A study of MSEs in Kenya brings out two categories of constraints to technological growth that must precede industrial growth These are a lack of capacity among MSEs to identify seek and use appropriate technologies in their production and a non enabling environment that impedes access to technology

Limited Access to Technological Information

Information on where and how to source available technologies is hardly available to MSEs There are no networks in place between the MSEs and the developers of technology and policy makers Industrial and technology extension officers are frequently weak or ineffective

Equally weak is the capacity of MSEs to access and interpret the little information that is available Most of them do not read the daily newspapers which are often used as the medium for announcing new programmes and opportunities The language used (mainly English) is also a constraint

Due to expensive transportation ways in Kenya the mobility of MSEs is limited hindering them from accessing information This coupled with unaffordable or nonexistent communication ways, presents a major constraint to access to information

Limited Access to Technical Services

Inherently, most MSEs are built around the owner or pioneer entrepreneur who lacks the capacity to attend to all tasks of the enterprise They therefore rely heavily on support services from NGOs consultants and public institutions Such services include market development, product development and quality assurance technology management patenting and packaging The institutions expected to provide such services in Kenya are weak and lack the capacity to meet the demand

Non-Functional Innovation System

A functional innovation system is the key to the socioeconomic development of any nation This process ensures that market based ideas on new products and processes are translated into actual products and processes on the market For this to happen a complete cycle of the idea from the market to R&D based technology development, through respective engineering and industrial enterprises, to physical goods on the market, must take place This requires strong national or, where applicable, subregional institutions to support MSEs In less developed countries like Kenya such institutions must be established through public funds as they do not offer attractive business opportunities for private investment

Even where the institutions exist, there are very weak linkages between them and MSEs Moreover, there are no fiscal or monetary incentives for the few and isolated breakthroughs that have been witnessed This can be traced further to weak or nonexistent science and technology policy

The clogging of the innovation process has proved to be a big constraint to MSE growth, with the result that innovative ideas are not tapped for socioeconomic growth Policy intervention is urgently required to reverse this trend

Weak Linkages between MSEs and MLEs

The experience of industrialised countries has shown that the most effective and practical way of technology transfer to MSEs comes from the direct partnership with medium and large enterprises (MLEs) Such partnerships may take the form of subcontracting, joint ventures, licensing or franchise or leasing or hire

There are very few such partnerships among the local enterprises This state of affairs may be traced to a number of constraints poor standard of MSE products and technologies, lack of information on existing opportunities, lack of fiscal incentives for the MLEs to collaborate with MSEs, and lack of mechanisms or forums for exchange of information Policy intervention would go a long way to reverse this trend and enhance dialogue and collaboration among these groups

Lack of Vision in Technology Evolution

The idea of seeking and speedily adopting the newest technologies has not really taken root in Kenya This applies not only to MSEs but also to many policy makers and planners It is not unusual to read even in the most recent policy documents statements advocating labour intensive technologies The debate on whether to adopt labour or capital intensive technologies serves no purpose today, the world has changed to knowledge-based technologies as a long-term strategy for industrialisation Furthermore the understanding of appropriate technologies has changed to remove the linkage of this term to older generation or manual technologies Today it is understood in terms of its ability to produce market or demand led products

There seems to be a fear of new technologies among some policy makers and planners This fear may be allayed if one remembers the words of Rogers and Meyer no student of engineering, however science-based his courses may be, should forget his ultimate aim is 'the design of new equipment which is both more efficient in operation and cheaper to produce and maintain than its predecessor The natural resources of our planet are not unlimited' A reflection on this quote shows that poorer nations need to adopt the latest technologies as a means for the prudent management of their resources No new technology can find a market in today's competitive world if it is not based on Rogers and Meyer's thinking

As alluded to earlier technology continues to evolve in the long-term passage through various revolutions—like the "computer revolution" that has led to the ongoing 'information revolution" In Kenya today, industry and particularly MSEs lack guidance on the way forward in matters pertaining to technology development This has been traced back to the lack of a national system for technology monitoring and forecasting

Underdeveloped Entrepreneurial Skills

Enterprise is the key word to innovation Successful MSEs have been found to be those willing to seek and try new ideas New ideas require technologies for their implementation As technologies become more and more knowledge-based so must entrepreneurs become more knowledgeable Most Kenyan MSEs are characterised by key players who have not been educated beyond high school This is a major constraint to technology growth

On the other hand there are many graduates from universities and polytechnics plying the streets in search of employment The MSE concept does not require that everybody there be self-employed! There will always be self-employed and employed people and experience shows that the latter will always be the majority It appears prudent to inject better educated graduates into the MSE sector who will be the employers of their less educated colleagues The cost of skills and entrepreneurship transfer will be much less

Limited Access to Appropriate Technology

The ease with which MSEs may access technology is determined to a great extent by the availability of the local technology being sought The amount of embodied technologies produced in Kenya is limited This implies that most technologies have to be imported and hence cost much more in terms of both time and money The situation is even worse for disembodied technologies that come in the form of blueprints or software Practically all such technologies have to be imported

This sad picture is traced to weak R&D institutions in Kenya There is lack of capacity in both public and private R&D institutions Policy intervention is needed to reverse this trend and foster local technology development

Lack of Skills in Technology Management

At the enterprise level, keen attention has to be paid to selection acquisition and maintenance of technology Most MSE operators in Kenya do not consciously plan and manage their technologies However they still in one way or the other engage in the following activities of technology management identification, vetting negotiation, acquisition, adoption, adaptation and absorption and maintenance and nurturing

A study of the MSEs in Kenya shows that most of them are yet to appreciate that technology has a definite life cycle It is born nurtured, consumed and fades away As technology evolves over decades and centuries individual technologies undergo this cycle Systematic planning for the replacement of technology is urgently needed in our MSEs There is also need for them to appreciate that the value of technology is different from that of plant and machinery and that young technologies are inherently superior and hence cost more

The MSEs require most support in this field of technology management In addition to support services provided by NGOs and public institutions, there is need for the Government to create the necessary enabling environment The policies and strategies discussed in this chapter will therefore focus on providing an enabling environment that facilitates MSEs to manage their technologies

Limited Access to Electricity

Electrical energy is the most convenient and elegant form of energy Most processes today (also natural processes) are not only operated but also controlled and regulated electrically The consequence of this fact is that all modern technologies are based on electricity Unfortunately, most Kenyan MSEs have no access to electricity, and hence are hindered in technological growth

REVIEW OF EXISTING POLICIES AND PROPOSALS FOR CHANGE

Policy issues relating to technology have been covered in various documents particularly the sessional papers, development plans acts of Parliament and other national documents like the National Council of Science and Technology reports Most of the policies are not specific in addressing the issues of technology for the MSE sector but it is implied In Sessional Paper No 2 of 1992 *Small Enterprise and Jua Kali Development in Kenya* the Government declared its intention to support initiatives to promote subcontracting between large and small enterprises as means of technology transfer, support institutions involved in technology development and diffusion set up rural based information exchange centres to provide markets for MSE products, and carry out surveys on technical workforce capacity

The Eighth National Development Plan outlined the Government's intention to come up with programmes to assist MSEs and exporters to improve product quality The plan also called for setting up district based business information exchange centres, identifying technological and workforce requirements for the sector and strengthening institutions that support *jua kali* technologies This has yet to be done

The Science and Technology Act (Cap 250) lays the institutional framework for the promotion and development of science and technology In particular, it mandates KIRDI to conduct industrial research and development in industrial and allied technologies The Institute is expected to provide scientific and technological knowledge and services for the attainment of a level of self reliance in technology and for creating self-sustaining industrial development in Kenya

Successes and Gaps in the Existing Policies

As summarised above the Government has made a good effort to formulate policy objectives that—if fully implemented—would have a measurable impact on the growth of the MSE sector Even though most of these objectives are not targeted specifically at technology development they would indirectly enhance technology if implemented In this section some successes and failures in policy implementation are highlighted

Ongoing Government and donor supported programmes are making some progress in the implementation of the stated policy measures Notable here are the World Bank supported Micro and Small Enterprise Technology and Training Programme, the European Union supported Micro Enterprise Support Programme and the UNDP/Ministry of Planning programme as well as several others pioneered by such bilateral donors as United States Agency for International Development German Agency for Technical Cooperation and the British Department for International Development The services provided to MSEs through these programmes include product and market support training land and sheds micro finance and technical skills upgrading

In general most components of these programmes have been implemented or are currently being implemented and some progress has been made towards achieving the Government policy objectives Nevertheless little or no impact has been felt in the MSE sector

Several reasons have been advanced for the minimal impact made so far through Government intervention Notable are

- Policy formulation is not comprehensive
- Strategies for policy implementation are lacking
- Policies in the different ministries are isolated and not harmonised
- There is no strict monitoring and control of the implementation process
- No benchmarks are set at the planning stage
- Sessional papers are not translated into law in the form of Parliamentary acts, so they lack the necessary legal backing for implementation
- The private sector is not involved in policy formulation
- Specialised implementation agencies are not involved in policy implementation

These shortcomings in the Kenyan policy formulation and implementation process will have to be addressed in future policy making

Proposed Technology Policies

It is important at this stage to clearly differentiate policy objectives from policy implementation strategies Objectives are relatively easy to formulate but strategies require a thorough understanding of the environment in which the policy is to be implemented, particularly the capacity and ability of the implementing agent and the financial resources available for implementation

Policy implementation requires some tools and instruments These are discussed in the next section, this section looks at major policy objectives respective to the constraints enumerated earlier These objectives are to

- Create and strengthen networks among all stakeholders in MSE development to improve access to industrial and technological information
- Increase the capacity of both private and public sector service providers to improve the access of MSEs to technical services
- Foster strong linkages between MSEs and research and technology organisations (RTOs) particularly R&D institutions, to enhance the national innovation process
- Foster partnerships between MSEs and MLEs for rapid and sustainable technology exchange
- Set up a systematic approach to monitoring and forecasting of national and global technological evolution and revolution to expand our technological vision

- Nurture an entrepreneurship culture and good business practices among MSEs to foster their capacity to embrace new technologies
- Create an enabling environment for upgrading technologies to appropriate and cleaner production processes
- Improve technology management capacity among MSEs
- Improve MSEs' access to electricity

STRATEGIES FOR TECHNOLOGY POLICY IMPLEMENTATION

Good Practices for Policy Formulation

Experiences from the industrialised and newly industrialised countries have shown certain practices that could be transferred to Kenya The following list includes some examples of what seems to be absent in the Kenyan policy formulation process

- Sessional papers and national development plans should be backed by acts of Parliament to give the necessary legal environment for policy implementation
- Ministerial or sectoral policies should be harmonised with the national vision synergy across policies should be encouraged
- Policy objectives should be specific and preferably implemented through dedicated programmes overseen by dedicated implementation agencies, and should be time bound to five and ten-year periods
- Implementation should be left to private sector and specialised public agencies the Government should play the role of facilitator
- National policies should be comprehensive and should specify measurable success indicators
- Policy formulation should be based on research findings and should involve the private sector
- A national policy on the allocation of public funds should be put in place
- Plans should be based on and guided by anticipated funds allocation

Instruments and Tools for Technology Policy Implementation

In this section we propose some tools and instruments that need to be put in place as part of the policy implementation strategy or as a prerequisite to the implementation process We relate these to the constraints and policy objectives discussed earlier

Intervention 8 1 – Foster networking

This process can begin by classifying MSEs on the basis of levels of investment in technology The present classification according to number of employees is not suitable for monitoring technological growth and hence vertical growth of the MSEs Further, sectoral based MSE associations should be formed to facilitate technological information flow through the associations, and regular technology markets should be organised This is a cheaper alternative for technology information exchange

Intervention 8 2 – Institute technical support services

A National Industrial R&D Fund should be established, with both private and public R&D institutions drawing from this fund to develop technologies for MSEs Then, urgent action should be taken to strengthen capacity in private and public research and training organisations The existing public RTOs should be restructured and reformed to operate in line with good practices prevalent in the private sector This means that the budgetary allocation for R&D should be enhanced At least 1% of GDP should be allocated to R&D, out of which 20% should go to industrial R&D in line with the contribution of the industrial sector to GDP

Intervention 8 3 – Provide support for innovation processes

This will require several actions An S&T policy should be put in place, following the general guidelines given earlier, as well as an industrial technology policy Fiscal and monetary awards for innovation should be implemented and venture capital funds should be established

Intervention 8 4 – Foster partnerships with MLEs

Laws governing local and foreign partnerships and contracts should be enacted including among other things fiscal incentives to encourage MLE partnerships with MSEs Moreover, MSEs should be assisted to develop the capacity to seek and negotiate for partnerships

Intervention 8 5 – Monitor global technological changes

This can take place on two levels (1) an agency for technology monitoring and evaluation should be set up, and (2) capacity in MSEs to monitor and forecast technology should be developed

Intervention 8 6 – Build entrepreneurs' environmental awareness

An environment conservation policy with particular reference to MSEs should be formulated and implemented, with fiscal incentives enacted to encourage MSEs to upgrade to cleaner production As well, guidelines on importation of technologies should be developed and disseminated

Intervention 8 7 – Ensure the availability of electricity

Reliable electricity supply is essential to growth Capital costs for power connection to MSEs should be subsidised and the Rural Electrification Programme should be redirected towards this goal Serviced sheds should be provided where practical

Intervention 8 8 - Enhance technology management

This too can take place at two levels (1) a Technology Management Centre should be set up, and (2) regular seminars/workshops on technology management for MSEs should be organised

Indicators of Industrial Technology Growth in MSEs

How will we know if our good policy intentions are having any impact on the ground? A number of indicators have been identified for evaluating the effectiveness of existing policies and strategies Although many of these indicators were found to be of greater or lesser significance in the Kenyan scenario the following were validated in the field and confirmed to be of high priority among MSEs in Kenya

- Size and extent of the industrial and technological information network
- Number of enterprises upgrading their technologies (plant, machinery, skilled workforce)
- Number of new products resulting from the national innovation process
- Number of partnerships between small, medium and large enterprises
- Percentage of enterprises connected to electricity
- Number and quality of technical support service providers
- The gap between local and global technology levels
- Level of entrepreneurial skills

The level of development of these indicators is directly related to the intensity of knowledge-based technologies used in the sector under consideration A measure of the intensity or level of application of the indicators is a good guide to the level of development of technology in the MSE sector A policy intervention is deemed effective if it intensifies the growth of these indicators, viewed from another perspective policy interventions should be formulated and implemented in such a way that these indicators are enhanced

CHAPTER NINE

Gender Equity

Mary Kinyanjui and Kaendi Munguti

This chapter reviews the policy stance on gender issues in MSEs against information drawn from a recent study of more than 200 micro and small businesses in Nairobi, Kisumu Eldoret and Mombasa The study looked specifically at food processing, printing and garment making businesses with the idea of documenting information facts and figures on policies that affect gender involvement in the MSE sector Issues considered were business location land division of labour time and mobility, and the impact of gender on skill development, capital formation networking and other business functions

THE GENDER DIMENSION IN MICROENTERPRISE

In Kenya women s productive activities are concentrated in microenterprises in such ventures as hawking retail trade manufacturing and periodic market trade Despite the numerical dominance of women in microenterprises there are marked gender disparities and inequalities between men and women entrepreneurs participating in similar activities The disparities are found in business size product mix profitability business age technological development markets finance and business location In addition women and men entrepreneurs exhibit different characteristics in terms of age level of education, motivation and time spent in running the business

Women are concentrated in enterprises that conform to their traditional gender roles Food processing and garment making at the microenterprise level are largely seen as a female domain However this study reveals a remarkable presence of men in these activities Male entrepreneurs are taking up processing of non traditional food products such as juice making and popcorn making In Mombasa for example all the entrepreneurs in juice making were young men It is also interesting to note that where women have the skills they have made inroads into non-traditional female activities such as printing Both men and women entrepreneurs operated their enterprise as a fulltime occupation, even though women generally spent fewer hours actually at the business location Primarily this is because women have more household and family responsibilities to attend to

It appears that in most cases, male entrepreneurs began business with lower start-up capital This was true for Mombasa, Eldoret, Kisumu and Nairobi in the food processing enterprises In Kisumu men reported a higher mean start up capital in garment making than women, but in Mombasa men's investments in garment making were lower than those of the women entrepreneurs In printing, women in Eldoret reported a lower mean start-up capital than men, while the converse was the case for Nairobi Start-up capital was drawn from a range of sources associations, relatives, banks spouses and cooperative societies A larger number of women obtained their funds from personal savings merry-go rounds and non-government organisations (for example, Kenya Women Finance Trust KWFT) as opposed to their male counterparts Many of the men were beneficiaries of neither merry-go rounds nor NGOs

The marital status of entrepreneurs has been shown to be an important factor in access to credit and control of the business enterprise In many cases, the wife may operate the business, but the husband controls the money This can cause problems In the present study, nearly three quarters of the entrepreneurs interviewed were married but twice as many women as men were divorced/ separated or widowed In Mombasa, women entrepreneurs indicated that it was sometimes difficult to stay married while venturing into microenterprises and some said they had been forced to separate from their husbands One reason was the financial demands made by spouses which forced female entrepreneurs to draw money from the business, resulting in poor business performance This a gender concern that has its basis in unequal men–women relations perpetuated through patriarchal social structures It suggests that besides the external forces that militate against women s microenterprises forces within the household particularly the marriage union, constitute a major obstacle to the stability and growth of women-owned enterprises and their development in Kenya

For example rich entrepreneurial women are perceived as a threat to social order Most complaints advanced by spouses have to do with the long time spent at the enterprise site (especially by women) against what is perceived as the defined social roles of their partners within the household This raises the issue of role conflict which many couples apparently do not know how solve—hence disagreements squabbles and divorce Holding all other factors constant the microenterprise subsector appears to attract and cater for a considerable proportion of women who do not have a spouse s support—widows divorcees and other single mothers

My Day Begins at 2 O'Clock in the Morning

This is when I start preparing the *mahamri* and *mbaazi* that I sell in the marketplace Once I have completed cooking the food I leave my house at 5 a m so as to arrive at the site where I sell my foods at 6 a m I have to walk for about one hour at this time of the morning and I am always afraid of thieves and muggers I sell my food between 6 a m and 10 a m every week day and normally leave the business site at 10 a m I go home then to do the household chores which include cleaning the compound, getting water and cooking lunch for my children At 2 o clock I start preparing the *mbaazi* and then boil them Later in the afternoon I mix the flour for the *mahamri* in readiness for cooking I go to bed at about 10 p m and wake up at 2 a m I follow this routine five days a week

(*Mahamri* are buns made of wheat flour cooked in fat while *mbaazi* are dry cowpeas cooked in coconut milk *Kudodoa* is a manual process that involves sieving the cowpeas to remove dust especially stony particles before cooking)

Just finding a place to work is a problem for women Entrepreneurs in all four towns noted that it is generally more difficult for women to obtain business premises than it is for men The difficulties cited as impediments to women were lack of financial resources (59 percent) and women's lack of land rights (39 percent) Some of the entrepreneurs (10 3 percent) were of the opinion that bigger enterprises were generally more favoured in land allocation and as a result both women and men entrepreneurs with small enterprises were disadvantaged

In terms of obtaining specific locations for their enterprises 59 8 percent of the entrepreneurs both women and men, argued that premises were expensive to obtain which means that many enterprises were operating at the outskirts of the various towns Some 11 0 percent of the entrepreneurs noted that it was not possible to obtain suitable locations, while competition in getting premises was also cited as a problem The other problems facing entrepreneurs were lack of permanent premises power cuts harassment by either city or municipal councils and insecurity which has of late become a menace in Kenya s urban areas

Extortion and payment of bribes was termed a major drawback to business activities as were the insensitive policies of the municipal councils Entrepreneurs reported paying service charges to the local authorities yet the kiosks they operate in do not have the infrastructure to support business expansion For example honey processors at Kariokor market have no working space, storage space or clean safe water This limits their scope for expanding the shop floor production space to house large volumes of honey thus they are forced to produce honey in small batches in spite of their high production potential Similarly popcorn hawkers in Kahawa West and Githurai use low voltage popcorn poppers because the supply of electricity is meant for residential purposes Because these entrepreneurs cannot use higher voltage popcorn poppers for fear of power blackouts their volume of production and expansion is limited

In Kisumu, fish processors lamented the deplorable situation of the kiosks they operate from The kiosks which were built several decades ago, lack clean running water and a proper sewerage system a situation that leads to constant market closures in cases of disease outbreaks The kiosks have further suffered from many years of disrepair and neglect The fish processors are therefore forced to restrict their operations to mainly dry fish sales This means that they cannot offer fish varieties such as fillets and fresh whole fish as the market may demand The microenterprise fish mongers are losing out to macroenterprise fish traders with huge capital to purchase large coolers and refrigerators Thus it is important that municipal councils offer services commensurate with the taxes levied on the microenterprises, who constitute a large proportion of the firms that remit some of their income in the form of revenues to the councils The municipalities could play an important role in creating an enabling environment for the microenterprises thus removing the stigmatisation of such enterprises where they are merely seen as a nuisance

Enterprise performance, taken to refer to the entrepreneur's monthly or annual gross profits did not differ significantly by sector gender or location Mombasa-based male entrepreneurs in food processing reported a mean monthly gross profit of Ksh4 593 while female entrepreneurs' mean profit was Ksh5,675 In Eldoret, male entrepreneurs reported profits of Ksh37 661, while those of female entrepreneurs were Ksh27 800 In Kisumu the gross profits were Ksh3 454 for male entrepreneurs and Ksh4 150 for female entrepreneurs Female entrepreneurs in Nairobi reported a mean profit of Kshs30,257 while male entrepreneurs in food processing enterprises reported a mean profit of Ksh15 861 In garment making male entrepreneurs in Mombasa reported a mean profit of Ksh8,080 while female entrepreneurs mean profit was Ksh7 790

HOW SESSIONAL PAPER NO 2 OF 1992 SPEAKS TO GENDER ISSUES

Government policy and the strategy framework for addressing gender concerns and issues that affect women are contained in Sessional Paper No 2 of 1992 The paper acknowledges that gender equity among entrepreneurs in the small scale sector is undermined by the special constraints women face Among the constraints the Sessional Paper identifies are loopholes in the implementation of equitable laws particularly in employment and inheritance, as well as dıscrımınatory and often negatıve attıtudes and socıal practıces that lımıt equal partıcıpatıon of men and women ın all entrepreneurıal actıvıtıes

The Sessıonal Paper proposes polıcy measures desıgned to ıncorporate gender concerns ın cıvıc educatıon and to raıse gender awareness ın all sectors of the economy Polıcıes ın the paper call for the establıshment of complementary traınıng programmes on gender Sensıtısatıon usıng a varıety of channels—women's groups, churches cultural assocıatıons ınterpersonal communıcatıon the medıa formal workshops and semınars

Incorporatıon of the gender dımensıon ın the Sessıonal Paper acknowledges the numerıc balance of men and women the need to shıft focus ın response to the needs of women entrepreneurs, and the necessıty for affordıng all Kenyans—ırrespectıve of theır gender or socıal status—every opportunıty to realıse theır full development potentıal It acknowledges that dıfferences ın gender or socıal status must not degenerate ınto dıfferentıal partıcıpatıon of men women youth and the dısabled ın acquırıng access to natıonal resources

Implementatıon Status of the Gender Polıcıes and Strategıes ın Sessıonal Paper No 2 of 1992

Sınce the publıcatıon of Sessıonal Paper No 2 of 1992 the Government has pursued polıcıes and programmes ıntended to ımprove the welfare of all Kenyans ıncludıng adoptıon of strategıes that are sensıtıve to the needs of women and men youth and people wıth dısabılıtıes The Government has supported cıvıc educatıon and gender awareness programmes aımed at elımınatıng negatıve socıal cultural practıces and attıtudes towards women wıth gender Sensıtısatıon and awareness raısıng ınıtıated at all levels Apprecıable progress has been made ın many areas of gender concern and for the youth and the dısabled also

The most sıgnıfıcant progress has occurred ın educatıon and ın the revıew of exıstıng laws regulatıons practıces and customs that have the effect or purpose of ımpaırıng or nullıfyıng the recognıtıon enjoyment or exercıse by women ırrespectıve of theır marıtal status and on a basıs of equalıty wıth men of theır human rıghts ın the cıvıl polıtıcal economıc socıal, cultural or any other area

Legıslatıon ıs already ın effect to protect the ınterests of wıfe and chıldren by requırıng the consent of famıly members before land can be sold In addıtıon the law of successıon entıtles wıves and daughters to a share ın the estate—ıncludıng real property of theır husbands or fathers Notably no law exısts ın Kenya that prohıbıts women even when marrıed from sellıng or buyıng land under theır name or from accessıng credıt facılıtıes offered by eıther publıc or prıvate ınstıtutıons

Besides Government efforts to enhance gender equity, concerns for gender and special interest groups have been addressed by various non-government organisations and donors. There are already many projects funded by donors to benefit women, youth and the disabled directly. These are in various sectors—housing, environment, credit and finance, skills development, marketing, entrepreneurship development, poverty reduction, agriculture, industry and small business development. Concerted efforts are being made to further improve the status of women by resolving conflicts of different operative legal regimes while implementing the relevant legal aspects of the Nairobi Forward Looking Strategies and domesticating the Convention on Elimination of all Forms of Discrimination Against Women (CEDAW).

At the NGO level, the International Federation of Women Lawyers–Kenya Chapter (FIDA), OXFAM, Women, Law and Development in Africa (WILDAF), and Kituo Cha Sheria have all been active in developing materials for use by facilitators and trainers with groups of women to promote women's awareness of their rights and focus general legal education on the issues of violence against women. Indeed, many NGO projects provide aspects of non formal education as part of their community based projects in agriculture, health and population. Various public and private agencies that provide loans to farmers are also focusing more on the need for special measures to increase access to credit by women, the youth, the disabled and street persons in both rural and urban areas.

Policy Implementation Weaknesses

All these efforts to increase opportunities for gender and special interest groups in social and economic development have had diverse effects. Indeed, some of the impacts have been negative in nature because of the continuing social insensitivity to the need for equality of treatment for men, women, youth and the disabled. Thus, although gender equality is enshrined in the constitution, adequate efforts have not been made to put gender concerns into operation in national legislation and in social practices. Loopholes still exist in the application of some of the laws—particularly those pertaining to marriage, inheritance and employment—that undermine the achievement of gender equality in law and in reality and the responsiveness to concerns of the special interest groups.

Despite the remarkable achievements Kenya has made in the education sector for example, gender disparities persist in enrolment and retention rates (in favour of boys) within the secondary and tertiary cycles of education. Participation rates for disadvantaged children such as those from female-headed households, children with disabilities and children from street families are low. These disparities have contributed substantially to inadequate access and control of economic resources and mirror the breadth and depth of poverty among Kenyan women

Social norms are still characterised by cultural practices that accord lower roles and status to women than to men in most spheres Within the family—and despite the law—these norms are reflected in patterns of access and control of property and other resources, including inheritance practices that reinforce gender disparities Harmful traditional practices, particularly female circumcision and widow inheritance continue to expose women to serious health risks such as HIV infection and are key contributors to high maternal mortality Lack of gender disaggregated data on prevalence of diseases as well as of data on factors determining access to and use of health services continues to undermine vulnerable groups, particularly women Policies and programmes in the health sector do not adequately address the reproductive health needs of adolescent girls thereby rendering them more vulnerable than boys to sexual violence unwanted pregnancies and HIV infection

One of the most pressing challenges to achieving gender equity relates to the lack of full access to, control over and management of resources by women youth and people with disabilities This is manifest in their lack of access to finance and credit, their low representation in cooperative societies, and their lack of access to information and appropriate technologies Gender imbalances are also reflected in anomalies in women's labour force participation, which is higher and significant in the rural areas but substantially lower than that of men in urban areas Women s share in modern sector wage employment is only 26 percent (GOK *Economic Survey* 1997)

Women and other special interest groups especially people with disabilities and street persons suffer more from environmental hazards due to their direct dependence on natural resources Furthermore women's multiple roles as protectors as well as frontline users of environmental resources and their unique perceptions skills and greater knowledge of the management of the environment as compared with their male counterparts are overlooked in decisions about the use of environmental resources Both the resources and the decision making have remained largely a prerogative of men

THE PARAMOUNT CONCERN ACCESS TO FINANCE

Micro and small businesses the world over cite the lack of credit for start up and expansion as their number one problem This section looks at gender issues in the overall area of MSE finance in Kenya

Savings Mobilisation

MSE entrepreneurs have a hard time saving their earnings Their business returns are low and so are interest earnings on savings They have many dependents, and their income from the business must stretch to cover school fees, food, shelter and other basic necessities This is particularly difficult when business performance is poor Some entrepreneurs have been forced out of the habit of saving because of the increased cost of living, and others are constrained by the seasonality of their business which affects saving patterns Other reasons for not saving are small profit margins, high minimum balances for savings accounts required by banks and non membership in a savings organisation

Many entrepreneurs recognise that low savings hinders the growth of their enterprises Some of them observed that to encourage savings, it is important to avoid unnecessary competition among microenterprises by organising retailing systems This could be done by encouraging groups to build awareness among their members of the importance of saving According to some entrepreneurs the service charges and other local authority levies are too high, yet the entrepreneurs receive very little support from the local authorities, they say that both local and central government taxes should be reduced Other entrepreneurs suggested the encouragement of merry-go rounds as an alternative avenue to save while others thought that banks should be opened in the rural areas to improve accessibility of banking services Furthermore, minimum bank rates for savings should be lowered and procedures at the banks should be made simpler and less intimidating The improvement of the general economy was cited as a crosscutting issue

Gender and Access to Credit

Contrary to expectations—that women are more disadvantaged than men when it comes to obtaining credit—the study found that both women and men in the MSE sector are equally disadvantaged Microenterprises in general find it difficult to access credit Gender differences do arise in the social constructs of gender which have permeated the traditional credit market and tilted it to favour male entrepreneurs Moreover, women often do not even apply for credit because they are less confident about their access to credit and less informed about credit sources and application procedures In regions and towns with a proliferation of NGOs and other financial institutions however the credit market is being reconfigured in favour of female entrepreneurs in microenterprises A case in point is in Mombasa where the Kenya Women Finance Trust (KWFT) supports only women micro and small entrepreneurs This is a trend that should be encouraged keeping in mind the needs of male entrepreneurs as well

It is interesting to note that 40 7 percent of the male entrepreneurs reported that there are gender based differences in access to credit, the corresponding proportion of women was 59 3 percent These perceptions of gender differences in access to credit were associated with lack of collateral by women and discrimination against women, who are sometimes viewed as uncreditworthy The policy challenge involves reorienting socio-cultural constructs of gender and restructuring the credit market to arrest the gender differences in access to credit especially with regard to collateral Since the credit market has diversified in the recent past to include NGOs, there was a strong recommendation that men should also form groups in order to access credit from NGOs Some entrepreneurs from Mombasa proposed the formation of a Kenya Men Finance Trust (KMFT) to cater for men in microenterprises A strong proposition was also made that credit should be given to all deserving cases without gender considerations The Banking Act should have a provision that prohibits discrimination on the basis of gender It was also recommended that the business of an entrepreneur should be treated as the collateral Coupled with this, it was proposed that the Banking Act be reviewed and issues of security or collateral be de-emphasised

The Obunga Fish Processors

Obunga is one of the peripheral business locations in Kisumu The fish processors here have organised themselves into a group called Obunga Self Help Fish Mongers They purchase and make fish sales as individuals but become corporate on issues to do with large-scale credit and general training Profits are for individuals They share group leaders (officials) and are involved in merry-go-rounds The majority of these people are women, most of whom are illiterate or semi literate, only a few are literate There are very few men yet apparently they are the key officials (chair, secretary treasurer)

Many funding bodies like dealing with groups, so group loans are given Those who default do not suffer as individuals because the entire group s assets stand as security This means that those who pay faithfully suffer alongside the defaulters because interest for the loan goes up and each member pays this interest Most women, especially the illiterate, look at credit as a means of eventually risking the auction of the little they have They therefore never join other members of the group in taking credit

Entrepreneurs' Awareness of Government Policies on Credit

Some entrepreneurs in microenterprises do have some knowledge of government credit policies, with more male (54 5 percent) than female (45 percent) entrepreneurs being aware of such policies Even so, most are ignorant of specific government credit policies on microenterprises such as the *jua kali* shed construction, programmes and loan schemes, although they are vaguely aware of policies on lending bodies and institutions, youth development funds, training, and credit management, as well as government programmes for giving loans to registered groups The sources of their information are the radio, friends, civic leaders, local group meetings, visiting extension officers and researchers

Women's access to such information is more limited than men's Recent findings show that, generally, women do not have access to the radio and a large number do not attend public *barazas* (meetings) It is clear that there is no common channel for communicating government policies on credit programmes The policy question is, What avenues can be used to reach the large proportion of entrepreneurs who are not aware of or able to interpret government policies? The Government Printer is the sole distributor of policy documents, and the district development committees within the provincial administration should be the avenue for disseminating information and interpreting policies for entrepreneurs This study shows that none of the entrepreneurs seemed to have learned about credit policies from this source The question that arises, then, is how the development committees function and how they relate with the entrepreneurs who are supposed to be the recipients of their services

The majority of the entrepreneurs felt that there was need to be informed on the policies Some entrepreneurs noted that they are not able to interpret policies or understand how such policies benefit or affect them Those who seemed to understand about credit programmes noted that credit should be made on soft terms and be made easily available, that credit schemes should be expanded, and that interest rates should be reduced Others called for the implementation of the policies to assure that programmes reach the target groups Some suggested that other than funds, loans should be made in terms of materials to avoid diversion of funds

In general, the responses point to the need for policies that will enhance access to credit by micro entrepreneurs The gender differences that make it difficult for entrepreneurs—women and men—to access credit need to be addressed through specific programmes

GENDER AND ACCESS TO TRAINING

Skill development is a crucial component of enterprise development According to Government of Kenya policy statements, supply of skills is important and is to be achieved through establishment of polytechnic and other middle level educational institutions such as colleges and institutes The study revealed that more than three quarters of the entrepreneurs had not received any training, and that fewer women entrepreneurs than men had received training The low levels of formal education among women in Kenya may partly explain this finding, which may be indicative of some biases in the educational system that discourage female students from doing science-oriented subjects

Although there were slight gender differences in access to training, generally, a majority of the entrepreneurs in the microenterprise sector encounter difficulties in accessing training, irrespective of their gender Cost of training, reproductive responsibilities and the need for the husband's permission for women are some of the leading barriers that often make it difficult for women to access training courses Other obstacles are lack of qualifications and proximity to relevant institutions that would offer courses desired by these business owners and their employees The entrepreneurs thought gender differences in training could be addressed by ensuring that women were informed of the importance of training for enterprise development Information on training should be made available to all entrepreneurs, and training should be accessible to all—academically, geographically and financially

It must be noted that although a fairly large proportion of entrepreneurs expressed the need for training, it is not yet clear whether the need for training constitutes demand It has been observed that the social and cultural configurations of the business environment are important determinants of women s access to training Women are limited in their access to training by their reproductive roles and a household authority model that requires the wife to ask for permission from the husband Moreover, as suggested by a training official for an NGO, training should be taken to "where the entrepreneurs work" to reduce the amount of time and money spent away from the enterprise Thus, in order to actualise demand for training, there is need to take into account not only the price and accessibility of the training, but also the opportunity and transaction costs involved in the programme design

POLICY RECOMMENDATIONS

While the Government has committed itself to a gender-sensitive policy gender disparities continue to manifest themselves in access to (and ownership of) land, jobs, education, financial resources and participation in decision making especially those decisions affecting the status and advancement of women, youth and disadvantaged groups Compounding these inequalities is the fact that household and community work done by women, youth and disadvantaged groups is unpaid and therefore ignored in accounting systems and national surveys

In order to ensure gender equity, it is necessary to build capacity for effective gender mainstreaming in the Government, in the private sector and within communities by legislating a national policy on gender The objective of the national gender policy will be to ensure that gender sensitive policies are initiated at the macro level These gender sensitive policies will serve as the bedrock upon which sector specific gender policies, for example in MSEs, will be drawn

It is also necessary to strengthen existing gender sensitive advocacy programmes to ensure equal participation of women and men, as partners, in national development Progress in achieving gender equality will require the consideration and adoption of additional policies to improve the legal and social status of women through enhancement of their access to national resources including education, training, health care and jobs To ensure the implementation and achievement of recommendations made here, there is need for a national organisation to coordinate and implement policies related to microenterprises The organisation will serve the role of internal advocacy and will monitor the implementation of gender policies It will also help improve the rate of implementation of programmes and reduce wastage of funds and resources

Intervention 9 1 – Build an Enabling Environment

To address gender disparities still pervading the entire socioeconomic and socio cultural spheres, it is proposed that the Government take steps to build an enabling environment that nurtures the effective participation of women in social development at individual, family and national levels To achieve this policy objective, the Government should develop strategies to reach both men and women, highlighting the constraints posed by prevailing cultural norms and beliefs and the benefits to be accrued from uplifting the status of women The Government should also strengthen programmes for accelerating the implementation of gender sensitive policies in various socioeconomic sectors

Perhaps as a first step in this direction the Government should publicise the recommendations of the Task Force on Women's Rights, and in addition to initiating the necessary legal processes to revise existing laws and enact new ones, should set up a monitoring mechanism to check on any abuses and misinterpretations of the law that may arise

More specifically, it is proposed that the Government and NGOs work towards the removal of stigmatisation of microenterprises Local authorities should cultivate good relationships with small business women and men These authorities should also set up business worksites in periphery locations such as Kinoo in Nairobi, Kondele in Kisumu and Likoni in Mombasa and create the necessary infrastructure It is also important that local authorities enhance security, for example by creating neighbourhood watches to beef up the security offered by the police in fighting crime

The friendly environment for micro and small enterprise should be enhanced by sensitising government workers on the importance of female microenterprise entrepreneurs Based on the finding that harassment by local authorities is one of the constraints female micro entrepreneurs face the number of business inspectors should be reduced and teamwork encouraged among inspectors such as tax personnel licensing police municipal and council police and VAT officers while visiting MSEs Such collaboration would lead to improved collection of taxes and revenues while at the same time reducing the burden on MSEs The implementors of this recommendation would be local authorities, business organisations, *jua kali* associations and NGOs

An important aspect of the enabling environment would be the creation of a homeworkers and periphery outreach programme to serve women entrepreneurs working in their homes and those operating in the periphery This group of workers has been neglected by existing policies that target central business district entrepreneurs The outreach programme to be undertaken by government and/ or NGOs working with women entrepreneurs, would provide networking information and other services

The major thrust of the programme would be to encourage women entrepreneurs working from their homes to create a homeworker s association to represent their interests The association would carry out marketing and skill development programmes and enhance self learning processes among the entrepreneurs It would also serve as an instrument for creating awareness about the work activities of entrepreneurs in MSEs and act as an advocacy group It would provide a forum for joint action such as fund raising, lobbying and marketing The implementors of this recommendation would be NGOs and homeworkers themselves It is recommended that the Government and NGOs give support to the homeworkers association so as to develop it into a strong lobby group

Intervention 9 2 – Expand Credit Opportunities

Both women and men should be equally empowered to take advantage of technological developments market opportunities and credit facilities Financial institutions and cooperative societies should be encouraged to initiate special credit procedures that circumvent the current inaccessibility of credit and finance to women, youth and other disadvantaged groups

Furthermore access to credit should be enhanced through the creation of stable micro finance programmes Improved credit facilities for MSEs would enlarge the investment capital base and diversify sources of start up capital for both women and men entrepreneurs By enhancing sources of credit MSE growth and expansion would be realised, along with their potential for improving the national economy

To accomplish this it is proposed that the Government provide subsidies or insurance to banks financing business start ups in order to reduce financial risk

It is also recommended that NGOs and other MSE promoters hold seminars and workshops for financial managers in banks and other lending institutions to sensitise them to the need to finance MSEs, especially those owned by women

It is also proposed that local authorities provide space for MSEs that have acquired credit This will give the MSEs security of tenure, which in turn will raise the confidence of banks, financial institutions and NGOs in the MSEs as better credit risks

Intervention 9 3 – Build an Enabling Infrastructure

Business spaces and peripheral urban locations should be delineated for MSEs and existing business premises should be improved This will ensure increased numbers of safe and secure business premises, improved security for entrepreneurs, creation of a conducive, hygienic working environment, and improved business performance It is further recommended that entrepreneurs in MSEs be encouraged to promote linkages and networking Other recommendations are that business associations should build premises for their members while private developers should be encouraged to build workshops for small enterprises for hire

To achieve gender equality in the area of access to national resources the ongoing review of laws pertaining to land ownership and inheritance should be accelerated to educate both men and women on their rights

Intervention 9 4 – Fight the Stigmatisation of Women Entrepreneurs

Generally, women in MSEs are stigmatised It is important that women micro entrepreneurs be perceived positively by society and that more women be encouraged to enter into microenterprises The destigmatisation of women as entrepreneurs can be achieved by a systematic public awareness campaign which should be taken up by both government and civil society This will ensure that society accepts women entrepreneurs, seeing them positively as development agents and not just *mama mboga* The concerted effort of various community and professional organisations, local opinion shapers churches mass media and schools is crucial This can also be encouraged and achieved by rewarding successful women entrepreneurs through, among others, honorary certificates and award schemes

Intervention 9 5 – Improve Education and Training Opportunities

Women s success in MSEs must be rooted in the education system The Government should take necessary actions to enhance gender equality in access to all levels of education, to eliminate barriers to retention of girls at secondary levels and to reduce drop out rates for girls and boys In pursuing this policy, the Government should consider expanding the facilities needed to increase the participation of women students in science mathematics and technological courses at all levels, in addition to developing gender-sensitive curricula and education materials Educational facilities should also be improved for early childhood education and those catering for disadvantaged children

The Government should also take measures to increase the intake of women in institutions of higher learning, particularly those offering scientific managerial and technical skills and mount training programmes for women in all aspects of management entrepreneurial and marketing skills

Existing training institutions should be strengthened and new ones opened in up coming urban centres and rural areas to serve microenterprises The idea would be to make training and skill development more accessible to entrepreneurs in MSEs particularly women It is expected that such training would improve the production capacity of MSEs spark the creation of new MSEs and improve entrepreneur income It is also proposed that more facilities be provided in existing polytechnics and other training institutions and that the potential for mobile or rotating course institutes in the different urban centres be explored

Intervention 9 6 – Collect and Disseminate Gender Disaggregated Business Information

Many entrepreneurs in MSEs lack access to business information Steps should be taken by the public and private sectors to ensure a continuous supply of information to microenterprise entrepreneurs Such information should include training sources of credit productivity tips technology updates and market and policy issues

As a corollary robust gender disaggregated data on microenterprises should be collected and made available on a continuous basis This may be achieved by creating gender and microenterprise development units in public and private institutions such as universities The function of these units would be to carry out baseline surveys, policy research and development of policy analysis matrixes for gender and microenterprises

CHAPTER TEN

Environmental Management

Boniface F Makau

Over the last several years it has come to be realised that micro and small scale enterprises (MSEs) have a considerable impact on the environment individually and especially collectively Indeed, in terms of environmental impact per unit of production, MSEs equal or in many circumstances, even surpass bigger industry so that the impact of a large collection of MSEs is usually quite substantial Thus their environmental impacts are as much a concern as are the environmental impacts of the larger formal industries and other agents of development That concern moreover goes beyond the industries' home base MSEs are increasingly involved in the production of exportable goods These include small-scale horticultural producers fishermen and some manufacturers, whose products are subjected to stringent environmental requirements by the importing countries

MSE production methods create risks of accidents that can have serious effects on individuals communities and the natural environment The growth of MSEs can change the way of life of local populations which can lead to destructive pressure on the natural resource base and major conflicts in land use and ownership Other environmental impacts of the tremendous growth of MSEs in Kenya are substantial pollution of water air and soil as well as waste disposal problems The growth may also adversely affect areas that support valuable animal and plant life or vulnerable ecosystems, as well as areas of historic or socio cultural values e g the Kaya forests in Coast Province

The implication of all this is that while "small is beautiful small can also be ugly and dangerous Consequently environmental policies that are being formulated must be applied to MSEs as well as to other development activities in the country

WHEN SMALL CAN ALSO BE UGLY

Kenya s National Environment Action Plan (NEAP) observes that the unplanned development of small-scale enterprises has increased the discharge of pollutants including petroleum wastes into lakes rivers and other water bodies and that this has led to the pollution of water systems upon which life depends Some examples are the contamination of streams, resulting in limited utilisation of downstream waters and the destruction of fisheries

A number of studies and seminars have assessed the formulation and implementation of environmental policy for MSEs in Kenya One such study was undertaken in 1995–1997 on three small metalworking enterprises in Nairobi The research findings were presented at a seminar in 1997 the proceedings of which were published as *Cleaner Production and Small Enterprise Development in Kenya*[1] The report spelled out the causes of environmental problems of MSEs both internal causes in MSEs themselves and external causes The report stressed that in order for the management of environmental impacts to succeed among MSEs a partnership approach between Government local authorities NGOs other industries communities and the MSEs is imperative

The report highlighted the difficult circumstances MSEs are in They lack awareness of the fact that something needs to be done about their potential to pollute the environment They face severe financial limitations to the adoption of pollution control systems as well as intense competition in the absence of a level playing field in environmental obligations that would ensure that every operator faces similar costs They must also struggle with an inappropriate infrastructure and ablution facilities However while noting that pollution per unit of production may in many cases be higher in MSEs than in the bigger industries the report appreciated that materials recycling is a common and positive practice in MSEs Other issues raised in the report for the support of MSEs in environmental management include research backup by institutions such as the Kenya Industrial Research and Development Institute (KIRDI) the involvement of MSEs in planning forums and the formation of an MSE lobby group

Another study was undertaken by UNIDO in 1997 on *Ecologically Sustainable Industrial Development for the Jua Kali and Small Scale Industries in Kenya*[2] The report stressed that Kenya should expedite the adoption of an environmental law It called on *jua kali* enterprises to change to cleaner methods of production and exhibit greater respect for personal safety The report also recommended that *jua kali* owners and operators be exposed to training and awareness on the environment and that policies should include specific consideration of the *jua kali* sector in planning for the provision of water sanitation energy waste collection training etc The report said that environmental management systems (EMS) should be started in the industrial sector to permeate all enterprises and noted that general support for MSEs would yield better environmental practices in the sector

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[1] J Frijns and J M Malombe (eds) *Cleaner Production and Small Enterprise Development in Kenya* Centre for the Urban Environment Rotterdam and Housing and Building Research Institute University of Nairobi 1997

[2] M Tigani and P Kamau *Ecologically Sustainable Industrial Development for the Jua Kali and Small Scale Industries in Kenya* UNIDO Vienna 1997

More recently the International Center for Economic Growth (ICEG) organised two seminars one on the promotion of MSE access to physical infrastructure and the other on the status of informal property rights in Kenya The first seminar highlighted the critical role of infrastructure in the management and disposal of waste emanating from MSEs, including human waste chemical waste and oil based wastes The seminar called for joint collaboration among local authorities, public health officers and *jua kali* associations to ensure the provision of waste disposal facilities in all established *jua kali* sites and in areas with a concentration of MSE activity Discussions on the possibility of privatising public toilets were inconclusive but the Nairobi City Council (and, by implication all local authorities) was urged to improve the management of such public utilities so as to make them user-friendly

The other ICEG seminar on informal property rights highlighted the insecurity and costs associated with such rights Citing experiences from Chile and Haiti the seminar recommended further exploration of the possibility of designing a programme that progressively formalised informal property rights in Kenya so as to shield MSEs from arbitrary decisions and actions such as evictions The issue of competing rights was illustrated with the case of car washing which illegally taps into the piped water system and in the process contaminates the water supplied to surrounding residents In order to sort out this problem the car washers could form a group that would be officially allocated a water point from which to legitimately draw water without inconveniencing or endangering other users

The need for gender-sensitive policies in environmental matters in Kenya is a major concern Because of women s interaction with natural resources sustainable development would be greatly enhanced by taking into account their roles as environmental managers and giving them the necessary training and capacity building to be partners in the formulation and implementation of environmental policies Similarly it is critical to incorporate traditional village institutions in Kenya into environmental management systems In terms of MSEs specifically one may make the observation that women in the informal sector are involved in activities that generate a great deal of solid waste (garbage) and municipal waste (household effluent etc) Gender concerns are therefore quite pertinent to MSE environmental policies This also applies to village institutions in the rural areas where women are closely involved in production systems Similar observations could also be made about the youth

It should always be kept in mind that because of their comparatively small profit levels MSEs are usually unable or unwilling to spend on pollution mitigation investments—although MSEs have no monopoly on this attitude! There is therefore need for development of low cost technologies that are affordable by

MSEs Such technologies can be funded through credit facilities specifically targeted for environmental mitigation by MSEs

THE EXISTING POLICY FRAMEWORK FOR PROTECTING THE ENVIRONMENT

Despite the growing amount of literature on environmental policy in Kenya, there is as yet little emphasis on environmental issues in MSEs Sessional Paper No 2 of 1992, *Small Enterprises and Jua Kali Development in Kenya* said nothing about environmental issues Major policy documents such as development plans the policy framework papers and the Kenya National Environment Action Plan (NEAP) while addressing environmental issues in general, do not highlight the MSEs as a focus group as far as these issues are concerned

Notwithstanding the lack of specific focus on MSEs, environmental matters in MSEs can be said to have been addressed within the overall economic scenario in the country Therefore the issues addressed in other policy documents on the environment are as relevant to MSEs as they are to other sectors of the economy

Specific Policy Statements

Environmental management policy statements have been made in many official documents since independence Sessional Paper No 10 of 1965 *African Socialism and its Application to Planning in Kenya,* emphasised the conservation of natural resources and the creation of a physical environment in which progress can be enjoyed by all Similar statements have been repeated in other policy papers, including the national development plans, the policy framework papers and the Kenya National Environment Plan (NEAP)

The current development plan (1997–2001) states that the Ministry of Environment and Natural Resources (now Ministry of Environment) will coordinate development strategies for the use of resources, taking into account the need to manage and conserve the resources on a sustainable basis as the country moves towards higher levels of industrialisation The measures cited to achieve such environmental protection include the harmonisation, implementation and enforcement of laws for the management and sustainable use and protection of the environment, as well as provision of economic incentives and policies to encourage sustainable use of natural resources and ecological functions The plan also calls for an efficient national environment education and information system within easy reach of all users and enhanced cooperation with regional and international environmental programmes, treaties and agreements It commits the Government to building capacity within public and private sectors for integrating environmental concerns and calculations of benefits and costs into project design, implementation, evaluation and monitoring It emphasises the need for increasing resource allocation for environmental management, including limiting solid waste and pollution in urban centres through the Municipal Reform Programme and for making adjustments in taxation to encourage sustainable use, management and protection of natural resources Finally, the plan addresses the importance of establishing and applying standards to estimate the quality and quantity of emissions for which charges will be levied on the basis of the "polluter pays' principle

Other Environmental Provisions

Environmental issues are also addressed often coincidentally, through various acts The numerous regulations that deal with environmental issues are not always relevant since they were not originally designed to deal with environmental issues as now defined, and sometimes they contradict one another Moreover since most of these acts were formulated with a focus on themes other than environmental issues per se, most of them have very weak and often ineffectual provisions for sanctions and rewards for the protection of the environment

NEAP identified 77 such statutes that in one way or another touch on the environment and need to be harmonised or unified Some such as the Water Act (Cap 372) the Public Health Act (Cap 242), the Forests Act (Cap 385), the Mining Act (Cap 306) the Factories Act (Cap 514), and the Wildlife (Conservation and Management) Act (Cap 376), to name a few are more relevant than others

The Water Act (Cap 372) is a prime illustration of some of these concerns Under the Water Act, provisions are made for water standards and for the protection of our water resources against pollution The powers of the Water Act are vested in the Minister for Water Development who delegates to the Water Apportionment Board (WAB) as the custodian of the act The Director of Water Development serves as the technical adviser to the WAB In turn, the WAB has delegated some of its powers to the five area catchment boards, local authorities the National Water Conservation and Pipeline Corporation, and water associations As water undertakers, these bodies are not only expected to enforce the provisions of the Water Act on pollution but they are also empowered to make regulations for the prevention of pollution in their areas of jurisdiction The Health Act also addresses the protection of drinking water from pollution

Although the laws that address water pollution in Kenya are quite comprehensive, they are nevertheless deficient in certain areas (This is also true of other acts in other sectors) Proposals have been made to strengthen areas of weakness in the Water Act In particular, the Water Act did not provide for the WAB to

- Be consulted on all matters relating to the establishment of industry in sewered urban areas
- Require changes in industrial processes for the purpose of preventing pollution
- Order or direct the cleaning and restoration to the original state of the environment and to recover costs if any are incurred
- Issue guidelines for industrial processing and inspection of industries whenever deemed necessary
- Order for the separation of effluents in streams stoppage of use of toxic substances in industrial processes re use of water, and effluent treatment if necessary
- Order a standstill on any industrial operations or processes for the purpose of abating pollution
- Demand environmental impact assessments for new projects

The Water Act also does not provide for penalties that are stiff enough to serve as a strong deterrent to water polluters

ASSESSMENT OF POLICY IMPLEMENTATION STATUS

The overriding purpose of the NEAP was to provide the policy framework for unified legislation to deal with environmental protection in Kenya Some of the diverse legislation such as the Water Act is already undergoing review to rectify the weaknesses highlighted above The work of NEAP emphasised the need for the creation of a single autonomous agency with legal authority to coordinate and monitor environmental management matters It also called for harmonisation of the disparate sectoral laws through the enactment of a national umbrella environmental legislation

The NEAP effort has resulted in the formulation of the Environment Management and Coordination Bill If enacted into law this bill would bring the coordination enforcement and general promotion of environmental matters under one ministry with provision for strong coordination with other ministries and institutions Once established this act will supersede all other conflicting legislation on environmental issues It will establish systems for environmental impact assessment and for appeal against decisions made at various levels District environment committees will be established to deal with district specific environmental issues Environmental quality standards will be established and gazetted and appropriate sanctions and awards will be put in place to enforce these standards

There is concern however, that the biggest constraint in Kenya is that environmental matters are seen simply as add ons" and that there is a wide disparity between policy statements and action taken Like many other policy documents the 1996–1998 Policy Framework has benchmarks that have fallen behind For example June 1996 was the target date for the implementation of an action plan to put into operation the policies articulated in the Environmental Policy Paper Environmental legislation should have been presented to Parliament by September 1996

The proposed legislation is currently at the bill stage However a Ministry of Environment has already been established, and it is expected that the new ministry will spearhead the drive to enact the environmental legislation as well as to put in place the policy administrative and technical machinery for the implementation of the provisions of the proposed act and other matters relating to the environment

CONSTRAINTS TO THE IMPLEMENTATION OF MSE ENVIRONMENTAL POLICIES

One of the areas that is immediately outstanding is the need for coordination NEAP emphasised the importance of creating a single autonomous agency with legal authority to coordinate and monitor environmental management matters Major action has been taken along this way by the creation of the Ministry of Environment However, some of the key institutions or departments of the ministry have yet to be put in place These include technical, legal and monitoring departments as well as a system of environmental committees at various levels throughout the country and an appeal tribunal The absence of these institutions will seriously constrain the functioning of the ministry

Likewise the absence of national umbrella environmental legi ion to harmonise the multiplicity of laws that in one way or another touch on environmental matters has adversely affected the efficiency of environmental management Indeed the creation of some of the critical departments in the Ministry of Environment depends on the enactment of this legislation and the delay is tying the hands of the ministry in fulfilling its mission

Another issue at the root of most environmental problems surrounding MSEs is the management of waste disposal Many MSEs are situated on marginal lands next to river banks where they immediately empty discharges such as human and chemical waste as well as solid waste In order to address this issue adequately there must be provision for appropriate working space adequate water supplies functioning sewerage and drainage systems properly managed toilet/ablution systems proper access roads and appropriate energy sources that are least polluting to the environment The provision of infrastructure is mainly the responsibility of public bodies Much remains to be done for the minimum requirements to be met yet MSEs cannot keep their environment clean unless such infrastructure is in place

Financial considerations affect all stakeholders in the environmental milieu On the one hand the Government has to put in place a capacity for monitoring and enforcing environmental considerations Further, Government largely through local authorities, has traditionally been responsible for providing and maintaining a functioning infrastructure On the other hand, the MSEs have to meet the cost of effluent treatment disposal of waste and general maintenance of cleanliness in their premises The MSEs pass most of these costs to the consumer

Other constraints that need to be addressed include the paucity of training and public awareness on environmental issues and weak targeting of specific groups such as women who are major players in MSEs Affordable environmental protection technologies are lacking The physical planning by our local authorities (LAs) is poor Property rights among MSEs are informal at best, and the level of business initiatives by the private sector in environmental management is very low In short, there is little urgency about mainstreaming environmental matters in the everyday activities of businesses and individuals

PROPOSED POLICY INTERVENTIONS

Proposed interventions address coordination legislation and financial conditions as well as such issues as training, technology, information planning and gender, among others

Intervention 10 1 – Establish Concrete and Transparent Coordination and Institutional Arrangements

The most important action by Government to date on its commitment to environmental matters is the creation of a ministry solely responsible for environmental matters The challenges that face the Ministry of Environment are substantial The immediate challenges include putting in place a legal structure for the protection of the environment, finding ways and means for the nation to finance environmental protection and ensuring that environmental impact assessment becomes an integral part of project planning The ministry must also deal with existing blatant cases of environmental abuse and ensure effective coordination of the institutions dealing with environmental policy and implementation

Government recognises the potential and actual conflict between the objectives of promoting the growth of MSEs and the requirement that they maintain a clean environment—the potential of a clash of conflicting and powerful business interests and the potential for graft This requires that the ministry must be staffed with men and women of the highest integrity as the fight against entrenched interests will not be an easy one Equally important, public support for the ministry s work will be vital to the implementation of a successful environmental agenda for the country The media will have to be sensitised to support and highlight this work The ministry itself will have to carry out and be seen to be carrying out its work transparently and without fear or favour Only in this way can its mission succeed

The ministry should move quickly to evaluate and implement the proposed institutional and collaboration framework in NEAP One immediate requirement is to put in place the institutional arrangements for initiating monitoring and enforcing environmental standards, including environmental impact assessments These are in the process of being developed while others are dependent on legislation and will be put in place immediately upon the enactment of the proposed legislation as discussed below

Intervention 10 2 – Enact Appropriate Legislation Now

The NEAP identified 77 statutes that relate to the environment However as mentioned earlier many of these are only incidental to environmental concerns as their main focus is on other issues Government has therefore been in the process of preparing legislation to consolidate the legal requirements for an effective environmental policy It is now agreed that the enactment of this legislation is overdue and needs urgent action by Government Government should simplify this legislation to the minimum standards necessary for the protection and conservation of the environment and should steer away from introducing unnecessary and costly constraints to the operations of MSEs The Ministry of Environment should work with the Attorney General's office the Deregulation Unit of the Ministry of Planning and National Development, and other agencies to ensure that this requirement is met Furthermore the various statutes identified by NEAP should be examined to ensure that they do not conflict with the new environmental law

Intervention 10 3 – Ensure Effective Management of Waste Disposal

Many MSEs pay charges rates and various other fees to local authorities but many authorities do not meet their obligations to MSEs and the public at large in terms of providing the infrastructure necessary for the efficient disposal of waste The Ministry of Local Government and the local authorities should be called upon to address this matter urgently and to ensure that value for money is given by the local authorities

More specifically local authorities public health officers and *jua kali* associations should take joint action to ensure that waste disposal facilities are put in place in all established *jua kali* sites and in all areas with a concentration of MSE activities The provision for such facilities can be provided through a combination of public, private and NGO support—in other words, the burden need not be borne by government and local authorities alone More private sector involvement in waste disposal should be encouraged and promoted

On the serious issue of the dangers posed by the contamination of piped water through illegal operations of MSEs local authorities should take proactive steps to encourage *jua kali* operators to form groups around water points provided by the authorities for their use

Intervention 10 4 – Address Fiscal/Financial Considerations

Financial considerations call for a system of taxation and levies that must be applied judiciously in order not to undermine the financial base of the MSEs while at the same time not hurting the consumer of MSE products excessively However it must be pointed out that MSEs must meet or contribute towards the maintenance of a clean environment in their premises For their part public authorities must meet the expectations of those who pay for the various services

In addition financial institutions should be sensitised to consider providing credit specifically for environmental mitigation rather than imposing environmental conditionalities on credit in general The question of financing the capacity for monitoring and enforcing environmental considerations should receive high priority in government and ministry budgets

The other issues under this topic concern possible subsidies and economic incentives for MSEs to encourage positive environmental practices The NEAP has listed 20 possible incentives that should be studied and considered for application Among these are

- Extending tax relief and other benefits to encourage business and industry to use environmentally friendly technologies while imposing penalties to polluters
- Removing subsidies/incentives that work against sustainable developments
- Making adjustments in prices to reflect the relative scarcity of resources and to prevent environmental degradation
- Giving concessionary charges on electricity used in effluent treatment and disposal
- Adjusting budgetary allocations to reflect overall national environmental issues
- Charging economic rates for water use and effluent treatment
- Imposing pollutant charges on the basis of the polluter pays principle

- Providing soft loans for those installing pollution prevention equipment
- Including in national accounting the cost to the economy of environmental pollution and degradation in sectors such as agriculture, fishing, tourism, forestry, industry and mining
- Emphasising user rights and economic returns to the local communities to promote sustainable use of resources
- Reviewing and adjusting economic incentives and policies to keep up with technological and environmental changes

Overall the area of financial/fiscal considerations for environmental management in MSEs should be the subject of an immediate study in order to make specific recommendations in this complex area and come up with ways and means of how the nation as a whole can finance an effectively functioning environmental policy The study should identify expected sources of financing and how this can be met from the private sector, the public sector, donors and communities

Intervention 10 5 – Build Environmental Awareness Through Training and Public Education

Environmental awareness is progressively becoming an integral part of all industrial and agricultural courses from certificate to degree level, as well as in refresher courses for business people and farmers Ultimately an extension service for both industry and the farming community should be put in place to educate the owners and operators of enterprises on environmentally friendly practices The media should be strongly co opted into this endeavour This will enhance the possibility of the business community owning and being responsible for actions that damage or protect the environment as the case may be Only in this way can the public become the watchdog for environmental standards that will lead to reduced public costs for environmental monitoring and enforcement

Intervention 10 6 – Establish Environmental Research, Technology and Information Mechanisms

MSEs need affordable pollution control technologies The Ministry of Environment should develop an information gathering facility to assist enterprises in meeting their environmental obligations at the lowest cost possible This facility would generate data for public use and provide consultancy services to industry The facility would be the source for generating information for training and public awareness programmes as outlined above Research training and public awareness should indeed have very strong linkages The facility would work closely with the Centre for Research and Technology of the Ministry of Research Technical Training and Technology and with KIRDI to incorporate environmental training and technology development into the range of services provided to MSEs

Intervention 10 7 – Involve Women in Environmental Issues

Women are deeply involved in MSE operations both as owners of enterprises and as employed workers They also generate a great deal of municipal waste in households They provide meals at construction sites and in kiosks and are the main vendors of vegetables, chicken crafts and other wares/commodities They often feature very prominently in factory manufacturing lines and in the packaging business They form a large part of the local authorities workers who oversee the cleanliness of our cities and towns In the rural areas they are the backbone of the local and farming communities They are extensively involved in horticultural production processing and packaging where exacting standards are being demanded by the importing countries

Women clearly form a key constituency in environmental matters in MSEs There should be a strong focus on training women as environmental managers and as both receivers and carriers of the environmental message

Intervention 10 8 – Ensure Environmentally Friendly Physical Planning for MSE Activities

Industrial location policy should ensure the location of MSEs in areas that facilitate environmentally friendly disposition depending on their type of activities For example, industries that discharge effluent should whenever possible be located where they can least pollute rivers and water sources Those that consume a lot of water should be located in areas with least water problems Others require expansive compounds to avoid harmful and accident prone congestion This calls for astute and visionary physical planning and a resolute adherence to those plans Currently physical planning practices by the local authorities leave a lot to be desired This has been partly responsible for the inability to contain the environmentally dangerous slums that have risen with the massive population buildup in our towns These considerations should be taken into account in locating MSEs as well as determining the density of MSE establishments in a given area Ideally MSEs should be sited only after an environmental impact study has been done and the infrastructure has been fully planned and put in place

Intervention 10 9 – Require Environmental Impact Assessments

Environmental impact assessments (EIA) are the backbone of a pre-emptive environmental policy Although Kenya is in a hurry to industrialise through the significant contribution of MSEs failure to conduct an EIA before the establishment of a business could mean that the nation may pay dearly in future in terms of damage to the people and natural resources associated in one way or another with a particular MSE It is therefore important that the nation make EIAs a legal requirement before the approval of any formally registered MSE EIAs should also be carried out for MSEs coming up informally Local authorities NGOs, physical planners and other public officers should be familiar with the EIA guidelines in order to advise the informal sectors on what is environmentally acceptable or objectionable However, the EIA should not become a self-serving exercise or bottleneck to rapid investment EIAs should be simplified as much as possible and carried out rapidly especially in less complex MSE activities Data from previous similar activities should be used as appropriate to cut unnecessary delays and red tape The NEAP Secretariat has basically completed the preparation of EIA guidelines for Kenya These should include an indication of the bureaucratic process required for an EIA which should be minimised while at the same time obtaining the results required

Intervention 10 10 – Support Environmental Management Systems and Mainstreaming of Environmental Matters

Industry should be encouraged to develop environmental management systems that build a corporate culture of rewarding environment-friendly practices such as recycling of materials and keeping premises clean and well maintained Kenyan establishments for example, have a culture of leaving buildings unmaintained and unpainted for many years, the public sector being one of the major offenders This practice presents an eyesore to the public encourages a culture of filth and makes buildings amenable to electrical faults It also raises the chances of large numbers of deaths due to such factors as non-functioning escape routes and doors in case of accidents Added to this is the need to enforce building standards in order to prevent accidents from collapsing buildings

Mainstreaming of environmental matters into our everyday lives should be enhanced through the encouragement of environment-friendly systems in our enterprises and mandatory but not inhibiting environmental impact assessment practices This will lay to rest the general perception that environmental matters in Kenya continue to be "add-ons" rather than a central pillar of planning and development In a liberalised world where many leading countries have adopted strict environmental codes for their future survival, Kenya will need to bring a firm environmental discipline to bear on the growing MSE sector for the good of both the sector and the general public, who are the sector's consumers

Intervention 10 11 – Promote Commercialisation and Microprivatisation of Environmental Matters

For some time the concern for and enforcement of environmental issues have been regarded as yet another unwelcome bureaucratic intrusion into business matters These were seen by business purely from the perspective of legal and regulatory restrictions on business or as an irritating distraction from environmental pressure groups Thus environmental concerns have been heavily associated with punitive sanctions on industry

However more recently it has been apparent that the adoption of good environmental practices presents opportunities for good business in terms of provision of services, as well as of improved efficiency by producers This in turn enhances opportunities for the commercialisation of environmental services

Environmental business opportunities include garbage collection, cleaning services, provision of toilet/ablution facilities, manufacture of chemicals for waste treatment, manufacture and installation of gadgets for pollution control, landscaping services, materials recycling etc On the side of producers, it has been shown that producers who maintain a clean environment and make efforts to reduce pollutant waste tend to use more efficient production processes The potential of recycling waste also gives industry opportunity for further savings either by internal recycling or by selling or off-loading the waste to other recycling companies Further, industries that have a definite policy for reducing pollution can use this fact in promotional campaigns for their products In turn, companies in environmental business activities help to promote the environmental agenda in their commercial campaigns

The commercialisation and privatisation of environmental services should be developed as part and parcel of the industrialisation and privatisation policies The Ministry of Environment should link up with the other relevant institutions to work out strategies for developing this business potential and draw up a catalogue of potential businesses that can be taken up by entrepreneurs in this area, including MSEs A study should be undertaken as soon as possible on Microprivatisation of environmental services in MSEs as it is envisaged that Microprivatisation is a good alternative to subsidies and costly incentives

Intervention 10 12 – Urgently Address Immediate Pressing Problems

The following agenda for immediate problem-solving should be addressed as the country puts in place the longer term environmental management system

- Prohibiting discharge of untreated effluent into rivers
- Prohibiting dumping of toxic and hazardous wastes
- Collecting garbage systematically and managing dump sites effectively
- Rehabilitating toilet/ablution facilities
- Preventing illegal water tapping
- Rehabilitating sewerage systems
- Opening up clogged drainage systems
- Curtailing air pollution by smoking vehicles
- Carrying out rapid surveys at the grassroots level on the more pressing environmental problems of local communities and resolving these rapidly

If an impact can rapidly be made in these areas, then Kenya will have firmly entered into the domain of effective environmental management

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LIST OF ABBREVIATIONS

ALGAK	Association of Local Government Authorities of Kenya
ASK	Agricultural Society of Kenya
BAT	British American Tobacco
BDS	Business development services
BIC	Business Information Centre
BOSS	Business one stop shop
BSC	Business service centres
CBD	Central business district
CBO	Community-based organisation
CBS	Central Bureau of Statistics
CDI	Centre for Development Information
CEDAW	Convention for the Elimination of all Forms of Discrimination against Women
CLT	Community Land Trust
CSRP	Civil Service Reform Programme
DANIDA	Danish International Development Agency
DDC	District Development Committee
DDO	District Development Officer
DFI	Development finance institution
DFID	Department for International Development
DFRD	District Focus for Rural Development
DIDO	District Industrial Development Officer
DPM	Directorate of Personnel Management
DS	Deregulation Section (MPND)
EDA	Export Development Agency
EDP	Enterprise development programmes
EDU	Entrepreneurship Development Unit
EIA	Environmental impact assessment
EPC	Export Promotion Council
EPZA	Export Processing Zone Authority
EU	European Union
FIDA	International Federation of Women Jurists
FKE	Federation of Kenya Employers
GOK	Government of Kenya
GTZ	German Agency for Technical Cooperation

HIV	Human immunodeficiency virus
HRD	Human Resources Department
ICDC	Industrial Commercial Development Corporation
ICEG	International Center for Economic Growth
IDA	International Development Agency
ITC	International Trade Centre
IYB	Improve Your Business
JICA	Japan International Corporation Agency
JCI	Jisaidie Cottage Industries
JKA	Jua Kali Association
JKIP	Jua Kali Infrastructure Project
JKUAT	Jomo Kenyatta University of Agriculture and Technology
JLBS	Joint Loan Boards Scheme
KAM	Kenya Association of Manufacturers
KBC	Kenya Broadcasting Corporation
KEBS	Kenya Bureau of Statistics
KEPP	Kenya Enterprise Promotion Programme
KETCA	Kenya Entrepreneurship Trainers and Consultants Association
KFW	Kreditanstalt fur Wiederaufbau (German Development Bank)
KGCT	Kenya Gatsby Charitable Trust
KIBT	Kenya Institute of Business Training
KIE	Kenya Industrial Estate
KIM	Kenya Institute of Management
KIRDI	Kenya Industrial Research Development Institute
KLGRP	Kenya Local Government Reform Programme
K-MAP	Kenya Management Assistance Programme
KNCCI	Kenya National Chamber of Commerce and Industry
KNFJKA	Kenya National Federation of Jua Kali Associations
KNFU	Kenya National Farmers Union
KOSME	Kenya Organisation of Small and Medium Enterprises
KPLC	Kenya Power and Lighting Company
K-REP	Kenya Rural Enterprise Programme
KTTC	Kenya Technical Teachers College
KUTIP	Kenya Urban Transport Infrastructure Programme
KWFT	Kenya Women Finance Trust
KWAHO	Kenya Water and Health Organisation
LA	Local authority
LADP	Local Authority Development Plan
LGA	Local Government Act
MFAIC	Ministry of Foreign Affairs and International Cooperation

MFI	Micro finance institution
MIB	Ministry of information and Broadcasting
MID	Ministry of Industrial Development
MLE	Medium and large enterprises
MOF	Ministry of Finance
MOH	Ministry of Health
MOLA	Ministry of Local Authorities
MOLG	Ministry of Local Government
MOLS	Ministry of Lands and Settlement
MOPW	Ministry of Public Works
MOT	Ministry of Trade
MOWR	Ministry of Water Resources
MPND	Ministry of Planning and National Development
MRT	Ministry of Research and Technology
MRTTT	Ministry of Research, Technical Training and Technology
MSE(s)	Micro & small-scale enterprise(s)
MSETTP	Micro and Small Enterprise Training and Technology Project
NCC	Nairobi City Council
NGO	Non-government organisation
NISCC	National Informal Settlements Coordination Committee
NIC	Newly industrialised country
NJKEMA	National Jua Kali Manufactures Exhibitions Associations
NMT	Non-motorized transport
NSSF	National Social Security Fund
NWCPC	National Water Conservation and Pipeline Corporation
NYS	National Youth Service
ODA	Overseas Development Agency
PSIA	Programme Support Implementation Agency
PTA	Parent–teacher association
RTO	Research and technology organisation
RTPC	Rural Trade and Promotion Centres
SACCO	Savings and credit cooperatives organisations
SAMED	Small and Micro Enterprise Development
SBC	Small business centres
SBDC	Small Business Development Corporation
SECA	Small Enterprise Credit Agency
SEDECO	Small Enterprise Development and Employment Creation Organisation
SEFCO	Small Enterprise Finance Company
SEP	Self employment promotion

SEPSO	Small Enterprise Professional Services Organisation
SIDO	Small Industries Development Organisation
SITE	Strengthnening Informal Sector Training and Enterprise
SSJKE	Small-scale and *jua kali* enterprises
S&T	Science and Technology
STDP	Small Towns Development Project
SWM	Solid waste management
TINET	Trade Information Network
TOL	Temporary occupation license
UDD	Urban Development Department
UNCHS	United Nations Centre for Human Settlements (Habitat)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UNPK	United Disabled Persons in Kenya
USAID	United States Agency for International Development
WAB	Water Apportionment Board
WILDAF	Women, Law and Development in Africa