

**National
Micro and Small Enterprise
Baseline Survey 1999**

Executive Summary

Conducted by
Central Bureau of Statistics (CBS), International Center for Economic Growth
(ICEG), and K-Rep Holdings Ltd

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Inquiries book orders and catalog requests should be addressed to

ICEG Africa Program P O Box 55237 Nairobi (Kenya) Telephone (254 2) 241036/
215295 Fax (254 2) 223220 E-mail intcen@form-net com or

The Director Central Bureau of Statistics P O Box 30266 Nairobi (Kenya) Telephone
(254 2) 333970 or

The Managing Director K-Rep Holdings Ltd P O Box 39312 Nairobi (Kenya)
Telephone (254 2) 572422 Fax (254 2) 711645 E-mail krep@arcc or ke

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In 1999 the International Center for Economic Growth (ICEG) organised a national baseline survey of micro and small enterprises in Kenya in collaboration with the Central Bureau of Statistics (CBS) and K-Rep Holdings Limited. The survey was conducted from March 1999 through October 1999. The primary objectives of the survey were two-fold: first to update and expand on the information generated in the 1993 and 1995 surveys, and second to improve the reliability of estimates on the MSE sector's contribution to the Kenyan economy in terms of employment, incomes and gross domestic product. The results of the survey were presented and discussed at a dissemination workshop launched by the Vice-President Hon Prof George Saitoti on October 26, 1999.

According to the 1999 survey, there are about 1.3 million micro and small enterprises in Kenya employing an estimated 2.4 million people. The average income of enterprises surveyed was about KSh 6,000 per month, or 2.5 times higher than the minimum legal monthly wage for general labourers, which in 1999 was KSh 2,363. The share of the MSE sector's contribution to GDP was estimated at 18.4%. In terms of operational problems, the 1999 survey found that access to markets (34%) was the main constraint facing the micro entrepreneurs, followed by capital (18%). Other pronounced constraints identified by the survey were inadequate business support services, poor roads and transport, shortage of raw materials, interference from authorities, poor security, lack of work site, lack of skilled personnel, and power interruptions and inaccessibility. The survey findings further suggest that policy and programme attention or priority should increasingly target rural-based enterprises, which account for 65.6% of total MSEs.

The 1999 National Micro and Small Enterprises Baseline Survey was a fully collaborative effort between the following institutions: the Central Bureau of Statistics, the International Center for Economic Growth, and K-Rep Holdings on the implementation side, and the British Department for International Development, the United States Agency for International Development, and the United Nations Development Programme on the funding side. A number of individuals contributed significantly to the survey, among them six field supervisors from CBS, thirty enumerators, six data entry personnel, including Sam Kipruto who gave generously of his time for data analysis. I would also like to acknowledge the useful ideas contributed by Catherine Masinde of DFID, Zachary Ratemo of USAID, Isaiah Onyango, then of the Ministry of Planning and National Development, during the design of the survey, and Jasper Mani, Director of CBS, who effectively chaired meetings of the survey Steering Committee. Finally, on behalf of the survey sponsors, I wish to express special thanks to the principal technical team comprising of Aleke Dondo (K-Rep), Boniface Makau (K-Rep), Sam Oyombe (CBS), Prof Jacques Charmes (Universite de Versailles), Yacob Fisseha (Michigan State University), and Crispin Bokea (ICEG). These individuals helped to make the 1999 National MSE Baseline Survey a success.

Andrew Mullett
Director Africa Program
International Center for Economic Growth
November 1999

CHAPTER ONE

Introduction and Methodology

1.1 Background

Kenya is often noted as the country where the study of micro and small scale enterprises (MSEs) was first born under the rubric of informal sector some 27 years ago (ILO 1972). Although studies of limited scope and objectives have taken place over the years it is only in the 1990s that nation-wide studies focused on generating baseline data started to be implemented in the country. Two such studies were conducted in 1993 and 1995.

The first national baseline survey of MSEs in Kenya was conducted in 1993 by Development Alternatives Inc (DAI)—based in the United States of America—in collaboration with the Kenya Rural Enterprise Programme (K-REP) and the Central Bureau of Statistics (CBS) as a project of the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) study series funded by USAID. The findings from this study underscored the important role MSEs play in Kenya's development process particularly in the context of generating employment and income opportunities for the majority of poor people throughout the country. The 1993 survey was followed by a second MSE baseline survey carried out in May 1995 under the same institutional arrangements as in 1993. The 1993 MSE baseline survey revealed that there were approximately 910 000 MSEs employing up to 2.0 million people while the 1995 survey estimated the size of the MSE sector at 708 000 enterprises employing up to 1.2 million people.

Similar surveys conducted in Botswana, Lesotho, Malawi, Eritrea, Swaziland and Zimbabwe underscore the importance of the MSE sector in employment creation and income generation for the bulk of low-income workers. In Zimbabwe, for instance, a baseline survey conducted by McPherson et al. in 1998 found that there were some 860 000 MSEs outside agriculture and primary production employing approximately 1.65 million persons and a further 420 000 enterprises in agriculture and mining employing an additional 2.2 million persons.

While most of the general conclusions of the 1993 and 1995 MSE baseline surveys remain valid, the need was felt to update and expand the information and fill in any gaps in order to make reliable estimates of the sector's contribution to the Kenyan economy in terms of employment and incomes. The 1999 National MSE Baseline Survey was implemented as a fully collaborative

initiative of three institutions based in Nairobi namely the Central Bureau of Statistics (CBS) K-Rep Holdings and the International Center for Economic Growth (ICEG) Africa Region

1.2 Survey Objectives

The primary objective of the 1999 National MSE Baseline Survey was to update and expand the information generated from the 1993 and 1995 surveys and improve the reliability of estimates on the sector's contribution to the Kenyan economy in terms of employment incomes and gross domestic product (GDP)

More specifically the 1999 survey sought to measure the size and structure of the sector by estimating the total number of micro and small enterprises in the country in order to understand the various distribution aspects including type of activity subsector classifications rural-urban distribution size of enterprise and gender distribution

The MSE sector is believed to be providing the greatest opportunity for the absorption of the increasing labour force The 1999 National MSE Baseline Survey therefore measured the contribution of the sector to employment by analysing the composition and structural variations of employment by enterprise activity size status ownership skills and education and rural-urban aspects

Considering the prominent role attributed to the sector in terms of income generation for the poor the survey also assessed the contribution of the sector to income It also conducted a macroeconomic estimation of the total labour force and contribution to GDP

The 1999 National MSE Baseline Survey also analysed issues of entrepreneurship and business characteristics in the context of demand and supply of business support services including credit infrastructure (water electricity telephone roads) training and technology Finally the survey assessed business entry and closures constraints and recommendations

1.3 Survey Methodology

The 1999 National MSE Baseline Survey used household samples as a basis for determining and identifying those economic units that were to be interviewed in detail

The survey covered all economic activities performed by the household members as a main or secondary activity whether as dependents or own-account workers Where the main activity was identified as agriculture (or fishing or forestry) no more information was collected on this activity rather the focus was on the non-agricultural activities undertaken by farmers in parallel or off-season Thus where the main economic activity was non-agricultural and the member own-account or employer then the full questionnaire was administered to this activity as well as to

the other secondary activities undertaken by the individual

The coverage of the survey was national and a random sampling procedure based on the CBS National Sample Survey and Evaluation Programme (NASSEP) III sampling frame was adopted to ensure an appropriate representation for urban and rural areas. The rural stratum was further sub-stratified into four agro-ecological zones to take into consideration the diverse economic and demographic characteristics and make the sample more representative.

1.4 Sample Size

The proportions of households with enterprises in the strata obtained in the 1993 survey (cf Table 1.1 below) were applied to arrive at the number of households to be covered. Table 1.2 gives the derived number of households and clusters for the 1999 survey. Consequently a total of 146 clusters were selected from the NASSEP III sampling frame covering 14,408 households countrywide. This exceeded the 1993 MSEs survey by 33 clusters.

Table 1.1 Estimated Sample Size for the 1999 Survey

Stratum	Proportion of households with enterprises (p)	Estimated number of households (n)	Estimated number of clusters	Actual number of households
1 Nairobi-Mombasa	0.223	5,392	54	4,051
2 Cities over 10,000	0.346	2,876	29	2,463
3 Cities 2,000–10,000	0.594	1,033	10	971
4 Rural areas	0.231	5,107	53	4,742
Total	–	14,408	146	12,227

Source: National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

Given that the design of the 1999 National MSE Baseline Survey required a complete enumeration of the selected clusters, the survey teams interviewed all members of all households within the survey sites. Where the household members were absent, three call-backs were required in order to have the interview carried out.

Table 1 2 Distribution of Clusters by Stratum in the Three MSE Baseline Surveys

Stratum	Total no of clusters in stratum	1993 No of selected clusters in the sample	1995	1999	Coverage
Stratum 1	170	22	12	54	31.8
Nairobi	120	17	—	39	32.5
Mombasa	50	5	—	15	30.0
Stratum 2					
Cities over 10,000	200	29	19	29	14.5
Stratum 3					
Cities 2 000–10 000	*	14	11	10	100.0*
Stratum 4 Rural Areas	926	35	12	53	5.7
Substratum 4 Maize	—	—	—	10	—
Substratum 5 Tea/Coffee	—	—	—	13	—
Substratum 6 Sugarcane	—	—	—	7	—
Substratum 7 Other crops	—	—	—	15	—
Substratum 8 Pastoral	—	—	—	8	—
TOTAL	1 300*	100**	54	146	11.2

* In stratum 3 the master sample comprises only three clusters consequently the additional clusters had to be created in the field

* This figure does not include the 1993 fifth stratum for commercial and industrial areas

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

Table 1 3 Distribution of Selected Clusters by Region in the 1999 Survey

Administrative area	Total no of clusters in stratum	No selected clusters in sample	Population projection 1999 (in '000s)	% of total population
Nairobi	120	41	2,154	7.1
Central	177	12	3,983	13.1
Mombasa	(50)	(15)	(625)	(2.1)
Coast	162	23	2,453	8.0
Eastern	168	14	5,104	16.7
North Eastern	14	1	726	2.4
Nyanza	197	16	5,189	17.0
Rift Valley	344	29	7,273	23.9
Western	108	10	3,582	11.8
TOTAL	1 300	146	30,473	100.0

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

1 5 Definition of Micro and Small Enterprises

Micro and small enterprises as defined in this survey include the following criteria. The first is businesses employing up to 50 workers. *Employment* here does not necessarily mean salaried workers with wages; it refers to people working in the enterprise whether they are paid or not. The survey made a distinction between micro enterprises—business enterprises employing up to ten workers and including the working owner—and small enterprises—those enterprises employing more than ten and up to 50 workers. The term *micro and small enterprise* therefore covers a

range of establishments including informal sector activities which employ one or more persons and enterprises in the formal sector employing up to 50 persons. Whatever the site (home, street, mobile unit) an MSE may be undertaken as a main activity or as a secondary activity and may be permanent, temporary, casual or seasonal.

A second criterion of defining MSEs is based on enterprises that are essentially non-primary businesses, i.e. non-farm business activities excluding agricultural production, animal husbandry, fishing, hunting, gathering, forestry.

A third criterion of MSEs is farm-based business activities that involve some form of processing before marketing. Thus, if household members process their farm products and sell them from the farm, from the roadside or at a market, or if households are involved in buying and selling farm-based commodities, all these activities are considered MSEs. Thus, a farmer or the spouse who goes to the market to sell roasted maize (a form of processing) at the market-place or on the roadside is operating an MSE.

CHAPTER TWO

Magnitude and Structure of the Micro and Small Enterprise Sector

There are about 1.3 million micro and small enterprises in the country employing some 2.4 million people. The study shows that about 26% of the total number of households in the country are involved in some kind of non-primary activities, i.e. MSE activities that do not involve farming, fishing, and other primary production.

2.1 Geographical Distribution

Almost two-thirds of all MSEs are located in the rural areas, thus only one-third are found in the urban areas, even when urban areas are defined to include small or rural towns. About 17% are found in Nairobi and Mombasa. Table 2.1 shows the location of these enterprises in the different strata to which the country has been divided. Nairobi and Mombasa account for 9.7% of the national population.

Out of the total 1,289,012 MSEs in the country, Nairobi and Mombasa account for 204,280 of them, this is 15.8%. Compared to their population, Nairobi and Mombasa have a relatively high number of MSEs. Likewise, the rural areas contain over 80% of the total population and 65.6% of the MSEs. Thus, compared with

the other strata the major urban areas have a higher density of MSEs per given population

Table 2 1 Total Number of MSEs and Their Employment

Stratum	% of nat'l pop	MSEs		Workers		Mean
		Number	%	Number	%	
Nairobi and Mombasa	9.7	204,280	15.8	394,838	16.9	2.0
Other major towns	6.2	157,533	12.2	279,133	11.8	1.8
Rural towns	2.1	81,320	6.3	135,349	5.6	1.6
Rural areas	82.0	845,879	65.6	1,551,930	65.7	1.8
Total	100.0	1,289,012	100.0	2,361,250	100.0	1.8

Source: National MSE Baseline Survey 1999 (CBS, K Rep. and ICEG)

The average number of people working in each enterprise is 1.8. In Nairobi and Mombasa the average is 2.0 and in the rural towns it is 1.6. This shows that not only are the enterprises small (as is typical in many developing countries) but there is not much size difference between the four strata. Hence their percentage number of the national MSE employment closely resembles their percentage of the total number of MSEs.

The fact that the rural areas account for a large share of the total number of MSEs is not unique to Kenya. The corresponding percentages for other African countries are as follows: 69 for Botswana, 73 for Zimbabwe, 77 for Swaziland, and 80 for Lesotho (one exception is Eritrea where about 60% of MSEs are found in the urban areas).

2.2 Sectoral Distribution

Close to two-thirds (64.1%) of the MSEs are in the trade sector. This means that a large proportion of MSEs is involved in the buying and selling of goods and commodities to generate income. The sectoral distribution of the MSEs is shown in Tables 2.2 and 2.3. Manufacturing and services account for about 13% and 15% respectively. The collective group of bars, hotels, and restaurants accounts for 6% and construction accounts for less than 2% of the total MSEs. Manufacturing accounts for 10.2% of all MSEs in urban areas. It is clear from Table 2.2 that the dominance of trade is absolute both in urban and rural locations. However, while service activities are second in the urban areas, manufacturing activities are second in the rural areas.

The dominance of trade over the other sectors is not uncommon in many developing countries, though in some other countries manufacturing sometimes dominates the scene due to relatively easier access to raw materials, particularly in the rural areas. The rural areas account for a large number of the MSEs. Thus, about three-quarters (73.9%) of the manufacturing group, two-thirds of both the trade sector and bars/hotels/restaurants sector (66.9% and 67.5% respectively), about half (51.4%) of services and well

above two-thirds (70.3%) of the construction group are all found in the rural areas

Table 2.2 Sectoral and Urban-Rural Distribution of MSEs

Sector	Urban			Rural			Total	
	No	Col %	Row %	No	Col %	Row %	No	%
Manufacturing	45 019	10.2	26.1	127 745	15.1	73.9	172 764	13.4
Trade	273 738	61.5	33.1	552 410	65.0	66.9	826 149	64.1
Bars/Hotels/ Restaurants	24 888	5.9	32.5	51 789	6.5	67.5	76 677	6.0
Services	92 937	21.0	48.6	98 398	11.6	51.4	191 335	14.8
Construction	6,551	1.5	29.7	15 537	1.8	70.3	22 087	1.7
Total	443 133	100.0	34.4	845 879	100.0	65.6	1 289 012	100.0

Source: National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

2.3 Industrial Distribution

The distribution of MSEs according to the two-digit International Standards of Industrial Classification (ISIC) is shown in Table 2.3. The table breaks down the higher grouping of the MSEs discussed in Table 2.2. For example, it is clear from Table 2.3 that the

Table 2.3 Two-Digit ISIC Grouping of Urban/Rural MSEs

ISIC grouping	Number	Total employees	%	% urban	% rural
Food and beverage manu	35 653	80 795	3.4	28.9	71.1
Textiles and leather	63 216	87 597	3.7	40.8	59.2
Wood based manu	43,450	96 431	4.1	16.7	83.3
Paper and paper products	579	11,255	0.5	100.0	—
Earthenware manu	10 922	28,785	1.2	2.0	98.0
Hardware manu	10,096	25 268	1.1	38.5	61.5
Other manu	10 039	13,783	0.6	12.2	87.8
Construction	17,227	34 657	1.5	46.8	53.2
Wholesale trade	40 587	65 594	2.8	44.7	55.3
Retail	845 010	1,471,298	62.3	27.3	72.7
Bars/Hotels/Restaurants	85 851	185 252	7.8	44.0	56.0
Passage car service	17 265	32 139	1.4	73.1	26.9
Real estate	18 605	34 764	1.5	75.1	24.9
Professional services	11 332	36 434	1.5	66.8	33.2
Entertainment	3 414	9 613	0.4	82.0	18.0
Repair and other services	74 766	147,584	6.3	68.2	31.8
Total	1,289,012	2 361 250	100.0	34.3	65.7

Source: National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

Note: Any discrepancy from the retail total provided in Table 2.3 is due to some missing data for some observations and due to rounding errors in the database.

National MSE Baseline Survey, 1999

dominance of trade in Table 2.2 is due to retailing. Thus, at this more disaggregated level of presentation, the dominance of the rural areas is still evident. They account for at least half of the activities in 11 of the 15 groups, and in seven cases the rural areas contain two-thirds or more of the enterprises. Urban enterprises account for about two-thirds of the real estate agencies and are closer to two-thirds in public transportation services. In both urban and rural locations, retail activities account for about two-thirds of all MSEs. After retail, the urban areas have a high concentration of repair services, while the rural areas show increased presence of bars/hotels/restaurants in the services area. In the manufacturing sector, the production of textiles, cordage and leather are important in both urban and rural areas.

Numbers are not enough to gauge the overall importance of an MSE group. Employment, production and income levels must also be evaluated. Employment is discussed next, while indicators of production and income will be provided later in this summary.

Tables 2.4(a) and 2.4(b) provide a further disaggregation of the two dominant MSE activities, i.e. retail and repair services, according to the absolute number of enterprises, employment and mean monthly income. It becomes clear from Table 2.4(a) that general retail trade, buying and selling of agricultural pro-

Table 2.4 a Composition of MSE Retail Activity

	No of enterprises	No of employees	Mean income/month (Ksh)
Food, drink and tobacco	72,865	88,874	4,578
Butcheries	13,863	28,646	9,652
Oil and petrol	563	564	9,015
Textiles, soft furnishings, clothing, shoes	22,916	53,329	7,592
Building materials and timber	8,627	13,827	13,601
Photographic and pharmaceutical goods	843	844	4,467
General retail trade	253,057	542,035	4,973
Livestock	28,786	42,918	9,298
Agricultural produce	235,586	354,520	4,197
Paraffin and charcoal	22,232	48,471	3,229
Domestic hardware	8,884	11,705	11,693
Machinery tools	562	844	18,000
Ready-made garments	5,097	7,913	14,928
Second hand garments	60,102	103,961	5,256
Shoes and leather goods	5,987	6,835	5,291
Art and artifacts	860	861	3,934
Baskets (e.g., <i>kiandos</i>)	298	298	1,500
Newspapers/Magazines	3,711	6,677	5,902
General kiosks and groceries	98,451	155,017	3,028
Stationery and bookstores	1,720	3,161	8,137
Total	845,010	1,471,298	4,995

Source: National MSE Baseline Survey 1999 (CBS, K. Rep. and ICEG)

duce food and beverages and trade in second-hand garments are the four dominant retail activities

Table 2 4b Distribution of Repair and Service Activity

	No of enterprises	No of employees	Mean income/ month (Ksh)
Repair of footwear, other leather good	5,457	5 461	2 791
Electrical repair	4 028	5 771	2,091
Repair of motor vehicles and motor cycles	4,633	13 726	16 656
Watch clock and jewelry repair	845	1 970	17,814
Repair of bicycles	8 944	12 102	3 677
Other repair N E C	8,944	12 765	1 667
Laundry laundry services cleaning and dying	9 532	16 849	5,655
Barber and beauty shops	22 659	51,355	4,347
Photographic studios commercial photography	4 011	4 594	6 091
Hunting and tourist guide services	1 727	1,728	—
Personal services N E C (e g toilet and bath facilities)	281	1 406	100 000
Other miscellaneous personal services	860	861	21 602
Other services N E C	2 846	18 997	57,041
Total	74 766	147 584	7 354

Source National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

CHAPTER THREE

Employment in the Micro and Small Enterprise Sector

3 1 Total Employment

As shown in Chapter 2 MSEs in Kenya employ close to 2 4 million workers most of whom are found in the rural areas Only a third of the total MSEs originate in the urban areas (see Table 2 1) About 95% of those employed are regular workers who consist of working owners family members hired workers and apprentices The remaining 5% are non-regular workers consisting of part-time and casual workers almost all of the non-regular workers (97%) are casual workers

There are 1 7 million working proprietors or owners (see Table 3 1a) This is about 70% of all the employees in the MSE sector

Another 10% are the family members group. Thus 80% of the total MSE employment involves owners and their family members. Comparing urban and less urban areas, the proportion of working owners increases from 56.6% in Nairobi and Mombasa to 75.9% in the rural areas.

The regular hired group of workers, who account for 11.6% of total MSE employment, are of special interest as they are workers with wages. Their numbers may have significant implications for what is needed to create such paid jobs. About 60% of these hired workers are found in the urban areas, while Nairobi and Mombasa account for close to 40% of them.

From the point of view of training future skilled MSE workers (and possibly future entrepreneurs), another important group is the apprentice group. In Kenya, the apprentices form the same percentage of the total employment as in other countries. Thus 1.2% for Lesotho, 1.6% for Zimbabwe, 2.0% for Eritrea, and 5.4% for Botswana are not that different from Kenya's 2.2%.

Table 3 1a Distribution of MSE Employment Types

Stratum	Regular Workers					Non regular workers		Total
	Proprietors	Family	Hired	Apprentices	Total	Part-time	Casual	
Nairobi and Mombasa	223 668	30 347	106 495	5 620	366 130	1 405	27 303	394 838
Other major towns	183 144	23 824	47 647	6 254	260 869	744	17 520	279 133
Rural towns	95 720	10 165	12 424	1 412	119 721	282	12 800	135,349
Rural areas	1 177 326	179 534	105 303	39 705	1 501 868	863	49 199	1 551,930
Total	1 679 858	243 870	271 869	52 991	2 248 588	3 294	107 129	2 361 250

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

Table 3 1b Percentage Distribution of MSE Employment Types

Stratum	Working proprietors	Family members	Hired regulars	Apprentices	Part-time	Casual
Nairobi and Mombasa	56.6	7.7	26.9	1.4	0.4	7.0
Other major towns	65.5	8.5	17.1	2.2	0.3	6.4
Rural towns	71.9	7.6	9.3	1.1	0.2	9.8
Rural areas	75.9	11.6	6.8	2.6	0.1	3.2
Total	71.3	10.3	11.6	2.2	0.1	4.5

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

3.2 Size Distribution of Employment

As already indicated the average size of MSEs is about 1.8 regular employees. In the aggregate there does not seem to be much difference between urban and rural localities with respect to average size of enterprises. However there are no MSEs in the size ranges above 15 people either in the small towns or in rural areas (see Table 3.2). Similarly there are no MSEs in the other major towns stratum employing more than 25 people. Thus all the enterprises that employ more than 25 people are found in Nairobi and Mombasa.

If the size range 1–10 is considered micro in nature then nationally more than 99% of the MSEs in Kenya are of the micro group. In fact 97% of the enterprises are found in the size range 1 to 5. Even in Nairobi and Mombasa 98% are micro in size however the 2% non-micro account for over 4 000 enterprises. The distribution of MSEs among different size ranges of employment is shown in Table 3.2.

Table 3.2 Percentage Distribution of MSE Sizes

Size (persons)	Nairobi and Mombasa	Other major towns	Rural towns	Rural areas	Total %
1	68.6	73.5	74.4	69.50	70.1
2	16.9	14.1	18.5	18.8	17.9
3–5	11.5	9.3	5.0	8.2	8.7
6–10	1.4	1.9	1.7	3.1	2.6
11–15	0.9	0.8	0.4	0.4	0.5
16–25	0.3	0.4	–	–	0.1
26–50	0.4	–	–	–	0.1
Total	100.0	100.0	100.0	100.0	100.0

Source: National MSE Baseline Survey 1999 (CBS K Rep. and ICEG)

3.3 Sectoral Distribution of Employment

As already indicated due to the small size of employment per enterprise the percentage of employment contributed by any location or sector corresponds very closely to the percentage of MSEs accounted for. Trade is again the most dominant sector accounting for about 62% of the total MSE employment (it accounts for 64% of the total number of MSEs). However trade MSEs are relatively smaller in size than their counterparts in other sectors. If the last three entries in Table 3.3 are grouped together as services then both manufacturing and services account for about the same share (about 14%). Less than 70% of MSE trade employment is found in the rural areas. The relative division of MSE employment is almost identical with the relative division of the MSEs as given in Table 2.3.

Table 3 3 Distribution of Total MSE Employment by Location and Economic Sector

1-Digit ISIC	Urban			Rural			Country	
	Total employees	% urban	%	Total employees	% rural	%	Total employees	% MSEs
Manufacturing	92 465	11 5	27 0	249 738	16 1	73 0	342 203	14 5
Trade	417 725	51 8	28 4	1 052 886	67 8	71 6	1 470 611	62 4
Bars hotels restaurants	81 334	10 1	44 0	103 280	6 7	56 0	184 614	7 8
Construction	17 720	2 2	41 2	25 246	1 6	58 8	42 966	1 8
Transport	25 161	3 1	67 6	12 049	0 8	32 4	37 210	1 6
Real estate agencies	34 134	4 2	71 2	13 770	0 9	28 8	47 904	2 0
Professional services	140 781	17 5	59 7	94 960	6 1	40 3	235 741	10 0
Total	809 320	100 0	34 2	1 551 930	100 0	65 8	2 361 250	100 0

Source National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

3 4 Distribution of Male and Female Workers

At the national level about half (52 6%) of the total MSE employees are men. In each of the stratum too the share of males is about the same as the national figure (slightly above half) with the exception of the rural towns stratum which shows slightly higher than half for women. Thus there is no significant difference in the share of men and women among the four strata. Location does not favour one sex over the other in employment or business opportunities. The percentage distribution of men and women in each stratum is summarised in Table 3 4.

Table 3 4 Percentage Distribution of Men and Women in MSE Employment

Stratum	Male workers	Female workers
Nairobi and Mombasa	53 8	46 2
Major towns	52 3	47 7
Rural towns	44 2	55 8
Rural areas	53 0	47 0
Total	52 6	47 4

Source National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

Table 3 5 shows the pattern of male workers tending to work for male MSE owners and their female counterparts steering towards female owners. There is a clear pattern as almost 80% of the men work in male-owned MSEs and 68% of the women work in female-owned MSEs. Whether this is by preference of owners workers or both cannot be said for sure however there is the possibility of sex segregation by the kind of trade or work. The more traditional an MSE activity is perhaps the more gender mediated segregation of workers exists.

Table 3 5 Percentage Distribution of Male and Female Workers Among Gender of MSE Owners

Owner	Male workers	Female workers	Country
Male	79.6	32.1	57.1
Female	20.4	67.9	42.9
Total	100.0	100.0	100.0

Source: National MSE Baseline Survey 1999 (CBS K-Rep and ICEG)

3 5 International Comparison

In Tables 3 6 and 3 7 size distribution of Kenyan MSEs and their distribution between male and female owners are briefly presented. Looking at Table 3 6 about 70% of Kenyan MSEs are one-person unit operations as already indicated (that is there is only one person working in the enterprise). Compared with other countries Kenya has a slightly higher proportion of one-person MSEs. The proportion for Kenya seems to fall in the middle and is the same as that for Zimbabwe.

Table 3 6 Percentage Distribution of MSE Sizes in Select African Countries

Country	1-person	2-person	3-5	6-10	>11
Botswana	66	16	13	5	5
Eritrea	58	25	14	3	3
Kenya	70	18	9	2	1
Lesotho	80	11	7	1	1
Niger*	64	25	10	1	1
Swaziland	68	—	—	—	—
Zimbabwe	70	15	12	2	1

* The study in Niger covers only two regions which account for a third of the national population.

Source: National MSE Baseline Survey 1999 (CBS K-Rep and ICEG)

In Table 3 7 the focus is on the regional comparison of female ownership of MSEs among the different countries. From the table Kenyan MSEs have the second lowest share of female-owned MSEs. Only Eritrea has a lower share of women owners. Much higher percentages are shown for Swaziland, Botswana, and Lesotho. This outcome in southern Africa is most likely due to male household members going to South Africa as migrant workers.

In conclusion Kenya is one of those countries where employment and income generated by MSEs is a very important part of the economy. In subsequent discussion issues related to patterns of change, constraints, and current production capacity will be briefly discussed.

Table 3 7 Percentage Distribution of MSEs Owned by Women in Select African Countries

Country	Urban	Rural	Total
Botswana	–	–	76
Eritrea	60	40	43
Kenya	52	46	48
Lesotho	76	71	72
Niger	44	63	56
Swaziland	79	87	84
Zimbabwe	76	62	67

Source: National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

CHAPTER FOUR

Estimates and Trends of Micro and Small Enterprises in the Total Labour Force

4 1 Total Labour Force and Micro and Small Enterprises

For policy analysis purposes it is important to discuss employment in MSEs within the context of total labour force and measure the sector's contribution to the national accounts. The design of the 1999 National Baseline MSE Survey provides new and reliable results which are useful to achieve these aims.

The household section of the MSE survey allows for an assessment of the magnitude of the labour force and its trends across the past decade (Table 4 1). From 8 558 880 in 1989, the labour force increased to 13 146 757 in 1999, with an average annual growth rate of 5%. The share of women in the total labour force remained quite stable, at a high level by African standards (47.9% in 1989 and 46.7% in 1999). In the same years, the share of the rural labour force was 81.5% and 81.0% respectively.

Table 4 1 Magnitude and Total Labour Force in Kenya, 1989–1999

	1989	1999
Total labour force	8 558,880	13,146,757
Annual growth rate		5%
Urban unemployment	14.8%	14.6%
National unemployment	7.9%	8.5%
Women	47.9%	46.7%

Source: National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

Approximately 60% of those employed are in agriculture (primary production) 6.6% in industries 9% in trade and 24.6% in services (Table 4.2)

Table 4.2 Structure of the Labour Force in Kenya, 1999

Sector	Women		Men		Both	% of total labour force
	Number	%	Number	%		
Agriculture	4,173,071	60.9	3,503,515	58.5	7,676,587	59.8
Industries	143,069	2.0	703,362	11.7	846,431	6.6
Trade	539,586	7.9	613,645	10.3	1,153,231	9.0
Services	2,000,145	29.2	1,165,213	19.5	3,165,358	24.6
TOTAL	6,855,871	100.0	5,985,735	100.0	12,841,607	100.0

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

Table 4.3 presents the total population employed in MSEs outside agriculture. It is necessary to take into account only the main MSE owners because the secondary MSE owners are already counted in the total labour force. Employment in the MSE sector is then 1,881,010 regular workers or nearly 15% of total employment in the country and 36.4% of total non-agricultural employment. MSEs represent 100% of employment in trade (which means that there is an overlap between the formal sector and the MSE sector), 35.4% of the employment in industries and 12.9% of the employment in services (a low percentage due to the influence of the public and administrative sectors).

Table 4.3 Non-agricultural MSE Labour Force

Sectors	Women		Men		Both		% of MSEs
	Total employed	Employed in MSEs	Total employed	Employed in MSEs	Total employed	Employed in MSEs	
Agriculture	4,173,071	—	3,503,515	—	7,676,587	—	—
Industries	143,069	63,372	703,362	236,668	846,431	300,040	35.4
Trade	539,586	594,932	613,645	577,382	1,153,231	1,172,314	101.7*
Services	2,000,145	132,271	1,165,213	276,385	3,165,358	408,656	12.9
TOTAL	6,855,871	790,575	5,985,735	1,090,435	12,841,607	1,881,010	14.6
Total non agricultural	2,682,800	790,575	2,482,220	1,090,435	5,165,020	1,881,010	36.4

* Such a discrepancy is due to rounding off errors as one cannot expect to obtain equal figures from the households and from the enterprises in a sample survey.

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

In the 1999 survey, SEs with more than ten workers employ only 5% of total MSE workers. On this basis, an analysis of the total non-agricultural employment sector and the microenterprise (ME) sector (excluding small enterprises) leads to a residual balance amounting to more than 3.4 million. This balance comprises of the modern sector (public, administrative and private) which CBS follows up in its annual Economic Survey in 1999 employment.

4.2 Informal Sector and MSEs. Gaps and Overlaps

Although the 1999 survey focused on MSEs it is also necessary to consider the informal sector because at both national and international levels and for macroeconomic analyses of labour force and GDP the concept of *informal sector* is consistently and widely accepted Also comparative data are now available for many countries The two concepts are compatible provided they exclude incorporated firms from their scope and reconcile the microenterprises employing up to ten persons The question might then be raised as to whether some of the microenterprises should be counted in the formal sector

Three arguments can be presented in this respect the incorporated microenterprises are not included in the definition used for MSEs the international definition of *informal sector* is very flexible such that professionals for instance may or may not be included depending on national circumstances and practices Thirdly in a sample the size of the 1999 National MSE Baseline Survey the probability is low that professionals or formal microenterprises are significantly represented and it can easily be taken as negligible at the extrapolation stage

In 1993 the 15th International Conference of Labour Statisticians adopted an international definition of the *informal sector* in order to improve the measurement of the labour force In the same year the fourth revision of the System of National Accounts included the definition of informal sector as a major component for the measurement of production in the household sector The recommended operational criteria take into consideration legal status type of accounts and number of workers or registration While most of these criteria are included in the definition of informal sector by the annual Economic Survey the 1999 National MSE Baseline Survey defines the informal sector differently

In this respect the concept of MSE is theoretically broader than the concept of informal sector and the survey results inform of the importance of this gap no more than 154 267 workers are employed in small enterprises (SEs) with ten or more workers and this is 5% of total MSE employment Practically the MSE sector as measured by the 1999 survey is actually smaller than the informal sector for several reasons To begin with it is usual in an enterprise survey and especially when the interviewer does not administer the questionnaire on the worksite that owners underestimate the number of their employees (paid unpaid and non-permanent casual and part-time workers) Secondly domestic servants are included in the international definition of informal sector but these do not constitute MSEs in Kenya Also home-based workers have not been recorded as MSEs (and they are not actually MSEs) but they may or may not have been declared by the MSEs or formal firms which hire or sub-contract them Consequently this unobserved component of the labour force is referred to as the *informal-unclassified* component or the *invisible* workers

in the non-agricultural modern sector is estimated at 1 468 400 a figure that still leaves a balance of 1 9 million invisible workers Most of these unclassified workers are women in services (75%) Such a result calls for further investigations and improvements in the measurement of the various components of the labour force including the modern sector In many countries home-based work has increased as a means for firms (MSEs or non-MSEs) to sub-contract and escape legal fiscal and social duties (as those workers are not registered or declared) Although it is generally agreed that this form of employment is not very developed in Kenya it can also be emphasised that knowledge of such structures in the labour force has still to be improved

Table 4 4 Total Non Agricultural Employment, Employment in MEs (excluding SEs) and Residual Balance

Sectors	Women		Men		Both		Residual Balance		
	Total employed	Employed in MEs	Total employed	Employed in MEs	Total employed	Employed in MEs	Women	Men	Both
Industries	143 069	81 191	703 362	204 514	846 431	285 705	61 878	498 848	560 726
Trade	539 586	541 126	613 645	547 202	1 153 231	1 088 463	1 540	66 443	67 983
Services	2 000 145	118 081	1 165 213	234 494	3 165 358	352 575	1 882 064	930 719	2 812 783
Total non agricultural	2 682 800	740 533	2 482 220	986 210	5 165 020	1 726 743	1 945 482	1 496 010	3 441 492

Source National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

Table 4 5 Components of the Residual Balance

Sectors	Residual Balance			Modern Sector			Unclassified		
	Women	Men	Both	Women	Men	Both	Women	Men	Both
Industries	61 878	498 848	560 726	53 200	321 400	374 600	8 678	177 448	186 126
Trade	1 540	66 443	67 983	401 000	692 800	1 093 800	1 482 604	304 362	1 786 966
Services	1 882 064	930 719	2 812 783						
Total non agricultural	1 945 482	1 496 010	3 441 492	454 200	1 014 200	1 468 400	1 491 282	481 810	1 973 092

Source National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

This issue is important for the measurement of GDP because the national accounts and especially the accounts of the informal sector have to be settled on the labour force In other words invisible workers are part of an extended definition of the informal sector which would include workers not declared by their employers

It is generally assumed that the incomes from MSEs and especially from microenterprises (70% of which are one-person enterprises) are very low and that the potential for earning a living for investment and for growth is weak The results of the 1999 National MSE Baseline Survey give a more balanced view on average the micro and small entrepreneur generates a gross income (which includes own remuneration) of Ksh 6 008 per month (Table 4 6) The legal monthly minimum salary for general labourer amounted to Ksh 2 363 in 1999 hence the entrepreneur's income is 2 5 times higher than minimum wage and

compared to GDP per capita (K&1 003 in 1998 equivalent to Ksh 1 672 per month) it is 3.6 times higher. The lowest average income is observed in trade and the highest in services. As expected, the average woman's income is 57% of a man's.

Table 4.6 Average Monthly Income of MSE Entrepreneurs (Ksh)

	Manufacturing	Trade	Services	Mean
Women	3,634	3,455	12,872	4,344
Men	5,507	5,519	17,523	7,627
Both	4,869	4,370	15,730	6,008
In multiples of the minimum salary				
Women	1.5	1.5	5.4	1.8
Men	2.3	2.3	7.4	3.2
Both	2.1	1.8	6.7	2.5

Source: National MSE Baseline Survey 1999 (CBS, K Rep. and ICEG)

Even the salaries paid by MSE entrepreneurs to their hired workers are not as low as expected and assumed by economic analysts and researchers. The average wage amounts to Ksh 6,496 (Table 4.7) representing 2.7 times the minimum salary (4.5 times in urban areas and 0.8 times in rural areas). The average MSE wage is lowest in manufacturing (2.2 times the minimum salary) and highest in services (5.6 times).

Table 4.7 Average MSE Monthly Salaries (Ksh)

Manufacturing	Construction	Trade	Services	Urban	Rural	Mean
3,771	5,192	7,852	13,130	10,973	1,845	6,496
In multiples of the minimum salary						
1.6	2.2	3.3	5.6	4.6	0.8	2.7

Source: National MSE Baseline Survey 1999 (CBS, K Rep. and ICEG)

CHAPTER FIVE

Estimates and Trends in Gross Domestic Product

The National MSE Baseline Survey 1999 had as one of its main objectives the compilation of simplified accounts for the MSEs. Such accounts refer to the incomes of the entrepreneurs, their operating expenditures including purchase of raw material and payment of wages and taxes. These accounts have been duly adjusted for seasonal variations. The balance between revenues and operating expenditures results in value added, while the balance between value added and wages and taxes gives the entrepreneur's gross income (or operating surplus) (see Table 5.1).

Table 5.1 Simplified Monthly Accounts for Main and Secondary MSE Owners (in '000 Ksh for revenue and expenditures, in Ksh for value added per enterprise and per worker)

	Manufacturing	Construction	Trade	Services	Total
REVENUE	6 031 127	250,593	24,287 502	6,771 101	37 340 323
REVENUE—Stock Variation	6 211 582	254,461	26 275 880	7,225 621	39 967 545
Raw materials	1 098,168	35 041	2,321 913	1 036 196	4 491,318
Purchases for resale	3 513 167	114,034	16 659 662	1,571,826	21 858 690
Rent	81,231	6 742	326,053	191 100	605,126
Electricity	8,286	1 008	109,396	98 331	217,022
Water	3 616	—	50,424	46,038	100,078
Telephone	9 518	253	47 359	82,430	139 559
Insurance	339	—	20 398	117,504	138 240
Transport	181,855	6 050	1,155 825	232 458	1,576,189
Repairs/Maintenance	50 343	1 535	361 056	312,281	725 215
Other costs	119,160	1 412	381 743	151,955	654 269
VALUE ADDED	1 145 900	88,386	4 842 051	3 385 501	9 461 838
Salaries and Wages	297,837	75 937	527 524	550,016	1,451 314
NSSF	—	357	30 424	6,332	37 114
Licences and Taxes	71 227	705	532,198	112 244	716,374
GROSS INCOME	776,836	11 388	3,751,905	2 716,908	7,257 037
No. of enterprises	159,553	16 949	858 596	172,717	1 207 815
No. of workers	307,289	34 217	1 435 319	355,502	2 132 327
Mean size of enterprise	1.9	2.0	1.7	2.1	1.8
VALUE ADDED per enterprise	7 182	5 215	5 639	19 601	7 834
VALUE ADDED per worker	3 729	2 583	3 374	9 523	4 437
GROSS INCOME per enterprise	4 869	0 672	4 370	15 730	6 008
Stocks at start	917 741	45,865	15 250 377	1,977,461	18,191 444
Stocks at end	737,286	41 997	13 261 999	1 522,941	15,564,222
Stock variations	180 455	3,868	1 988 378	454 520	2 627 222

Source: National MSE Baseline Survey 1999 (CBS, K. Rep. and ICEG)

At the aggregate level GDP is obtained by summing up all value added generated by the economic units but at individual level these accounting procedures highlight the income earned by the micro and small entrepreneurs

Coming to the estimation of the contribution of MSEs to GDP a gross estimate is generated by simply applying the value added per worker in MSEs to the total number of workers in MSEs. According to this procedure the contribution of MSEs would represent 18.9% of the current GDP in 1998 (and 25.5% of non-agricultural GDP)

In order to improve the procedure two separate estimates have been generated. One on the basis of the results of MSEs owned as a main activity and a second one which considers secondary owners. The contribution of the MSE sector then drops to 18.4% of GDP and to 25.0% of non-agricultural GDP. This estimate still leaves the issue of the invisible labour force. If the unclassified labour force were taken into account say on the assumption of a value added per head (which would be one-quarter of the average from the survey) then the contribution of the MSE sector (the informal sector in a broad sense) would come to 30.2% of the total GDP.

The exercise in Table 5.2 is tentative and does not present definitive answers. The invisible labour force may well have been taken into account in the output generated by those enterprises which have not declared them. Part of the MSE sector may also have been accounted for in the current national accounts. If we assume that the MSE-informal sector is already taken into account in the current GDP at a level comparable with that in other African countries (Table 5.3) then it becomes possible to measure the underestimation of the GDP. However if we assume that no account has been taken of the sector then the current GDP should be enlarged by the exact size of the measured MSE sector and then this sector would represent only 18 to 23% of such GDP.

Table 5.2 MSE and Informal Sector Shares of GDP, According to Various Definitions

Definition of MSE sector	Value added (in Ksh million)	% of current GDP	% of non- agricultural GDP
Gross estimate	113,534	18.9	25.5
MSE sector main owners	97,725	16.2	22.0
MSE sector main and secondary owners	111,011	18.4	25.0
MSE sector main and secondary + informal unclassified	181,857	30.2	40.9

Source: National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

Table 5 3 Informal Sector GDP as a Share of Non-agricultural and Total Employment in Various Developing Countries

Country	Year	% non-agric employ	% non-agric GDP	% total employment	% total GDP
Tunisia	1995	48.7	22.9	37.8	20.3
Morocco	1986	—	30.7	—	24.9
Benin	1993	92.8	42.7	41.0	27.3
Burkina Faso	1992	77.0	36.2	8.6	24.5
Chad	1993	74.2	44.7	11.5	31.0
Ghana	1988	—	58.3	—	31.4
Kenya	1999	71.6	25.0	28.8	18.4
Mali	1989	78.6	41.7	13.3	23.0
Mauritania	1989	75.3	14.4	—	10.2
Mozambique	1994	73.5	44.8	7.6	38.9
Niger	1995	—	58.5	27.2	37.6
Senegal	1991	76.0	40.9	—	33.0
Tanzania	1991	—	43.1	19.6	21.5
Sub Saharan Africa*		78.2	42.5	18.4	27.8
South Africa	1995	18.9	7.2	16.6	6.9
Korea	1995	—	16.9	—	15.9
Philippines	1996	65.1	—	—	28.2
India	1990–91	88.2	48.1	34.4	32.4

* Non weighted arithmetical mean (without South Africa)

Source: Charnes J (1998) Informal Sector Poverty and Gender: A Review of Empirical Evidence, background paper for the *World Development Report 2001* Washington DC

Consequently the third estimate in Table 5.2 (18.4% of GDP) is the most refined and is therefore adopted by the 1999 National MSE Baseline Survey as the most reliable estimate of the MSE sector's contribution to GDP given that information on the invisible labour force is still unverified.

The methodology used to compute GDP has to be clarified and improved just as national accounts need a new momentum in order to address the issues raised by the estimation of the contribution of a few challenging sectors. For example, subsistence agriculture, the MSE sector, and the non-recorded invisible labour force seem to be increasing their share to GDP and not decreasing as rapidly as generally assumed. The results of the National MSE Baseline Survey 1999 should give an impetus to the pursuit of such an objective.

CHAPTER SIX

Micro and Small Enterprise Access to Support Services

There are an estimated 260 organisations—private and public national and international—with support programmes for MSEs in Kenya. Some of these organisations focus exclusively on enterprise development while others conduct a variety of other development activities in addition to MSE support programmes. These organisations vary considerably in size, visibility, effectiveness, and efficiency with which they deliver services to MSEs. In an attempt to understand the scope of these organisations, the 1999 survey enquired about the different types of assistance received by the MSE operators while in business. The operators cited both formal assistance of a financial or non-financial nature as well as informal assistance from family and friends. In general, there seem to be considerable support for MSEs in Kenya. However, as the data from the survey show, relatively few MSEs receive such support.

6.1 Supply and Demand of Credit

The 1993 Baseline Survey showed that only 9% of the MSEs had accessed credit and that only 4% of this credit was obtained from formalised financial channels (NGO microfinance schemes, commercial banks, SACCOs, etc). The survey noted that the bulk of the MSE credit (69.1%) came from informal savings and credit associations, mostly rotating saving and credit associations (ROSCAs), friends, and relatives. This finding compares with the 1995 Baseline Survey which showed that 10.8% of the MSEs had accessed credit and that only 3.4% of those received credit from formal sources.

Kenya currently has about 150 organisations with credit programmes for MSEs. Of these, 130 are NGOs. These organisations serve all regions of the country, although there are more in the urban areas. Evidence on the supply of credit by these organisations is increasing, but it is difficult to determine precise figures on credit extended to MSEs since commercial banks are under no legal obligation to report them, while some microfinance NGOs are reluctant to reveal their portfolios. Lack of this information is a serious handicap in the estimation of credit supply. This notwithstanding, various attempts have been made to estimate the volume of credit to MSEs.

Table 6.1 shows that only 10.4% of MSEs have ever received credit from any source. Overall, 89.6% of the MSE operators stated that they had never received credit. 2.8% reported having received loans from NGOs, 2.5% from ROSCAs, 1.5% from family and friends, and 1.5% from commercial banks. In Zimbabwe, a similar pattern emerged: 89% of MSE operators have never received loans for business purposes, 10% received credit from

family or friends 1% from formal credit institutions and less than 1% from money lenders (McPherson)

As shown in Table 6.1 roughly the same proportion of MSE operators reported not receiving credit in 1999 as in 1995 though the amounts received from the different sources vary. As compared to earlier years the proportion of loans from formal sources in 1999 was more (5.7% as compared to 3.4% in 1995 and 4% in 1993). This perhaps reflects the increase in numbers of support organisations providing credit to MSEs. Of the formal sources NGOs are the most important source of credit. This is reflected in the number of NGOs focussing their support on the provision of credit to MSEs which has increased from 46 in 1995 to 130 in 1999.

Table 6.1 Sources of Credit to MSEs (%)

Source	1993	1995	1999
None (no credit received)	85	89.2	89.6
Formal credit institutions, including NGOs	4	3.4	5.7
Cooperatives	—	—	1.2
NGOs	—	—	2.8
Commercial Banks	—	—	1.5
Government	—	—	0.2
Informal institutions	5	7.4	4.7
ROSCAs	—	5	2.5
Family and friends	—	2	1.5
Money lenders	—	0.1	0.1
Trade credit supplies	—	—	0.6
Total	—	100	100

Source: National MSE Baseline Survey 1999 (CBS, K Rep. and ICEG)

The demand for MSE credit in Kenya is the least studied aspect of the sector. To estimate the effective demand for MSE credit one needs to survey all sources of credit for MSEs and establish all the loans they have been able to make and those that they have rejected due to inability of the entrepreneur to comply with their requirements (other than for reasons of inability of the business to absorb and repay the loans).

Most institutions however do not maintain records of credit requests they have rejected. Even if one were to obtain such information the effective demand picture would only emerge if one included latent demand by MSE operators who demand credit but for one reason or another (e.g. self-censorship) do not present themselves for the credit.

Table 6.2 summarises the distribution of the loans required by size. First about 70% of the loans required do not exceed Ksh 20,000 (US\$ 285) and 96.3% do not exceed Ksh 100,000 (US\$ 1,428). Nonetheless about 36% of the respondents require loans that exceed Ksh 100,000. There does appear to exist a slight

difference between the size of the loans required by men and women. About 83% of the women entrepreneurs require loans that do not exceed Ksh 20 000 compared to about 36% of the men. Relatively larger loans are required by men and jointly-owned enterprises than by women.

Table 6 2 Percentage Distribution of the Overall Loan Requirements

Amount Ksh	Men		Women		Jointly-owned		All MSEs	
	No	%	No	%	No	%	No	%
0–1 000	3,519	11.4	2,348	7.2	–	–	5,868	7.5
1 001–5 000	2,026	6.6	10,831	33.0	288	0.9	13,145	16.7
5 001–10,000	1,164	3.8	3,304	10.1	2,333	7.6	6,801	8.7
10,001–20 000	4,379	14.2	10,854	33.1	4,664	15.1	19,897	25.3
20,001–50 000	11,429	37.1	3,497	10.6	4,395	14.3	19,321	24.6
50,001–100 000	4,439	14.4	859	2.6	2,046	6.6	7,344	9.4
100 001–500 000	3,530	11.5	1,145	3.5	1,165	3.8	5,840	7.4
500 000+	303	1.0	–	0.0	–	0.0	303	0.4
Total	30,789	100.0	32,839	100.0	14,891	48.4	78,519	100.0

Source: National MSE Baseline Survey 1999 (CBS, K Rep. and ICEG)

6 2 Business Support Services

The second most common form of MSE support is management and technical training. The former emphasises basic business skills and entrepreneurship. Organisations that provide such training do so to complement the specific occupational or artisanal skills that their clients already possess. In the case of technical (vocational) training, the emphasis is on equipping workers with practical skills such as carpentry, masonry, tailoring or weaving. Other MSE support includes technical assistance (TA) or business extension, marketing outlets, pre-constructed sheds, etc. TA is a broad label that includes assisting MSE operators with routine business practices such as bookkeeping and inventory costing and more specialised techniques of marketing, production and appropriate technology choice. In general, TA is given on a one-to-one basis at the business site. A few organisations provide marketing outlets for their MSE clients' products.

As shown in Table 6 3, only 7% of MSEs have received any form of non-financial assistance in the last four years (1995–1999) despite the increasing number of formal and informal organisations in the country offering all types of non-financial assistance. The 1995 Baseline Survey also reported that only 7% of MSEs had been reached with any form of non-financial assistance while the 1993 Baseline Survey reported that only 4% had been served. Access to non-financial assistance varies by sector. Of particular note is that 14.4% of the enterprises in the services sector have used non-financial assistance compared to 6.2% in manufacturing, 3.7% in trade activities and 3.4% in construction.

Table 6 3 Percentage Distribution of Non-Financial Assistance Received by Urban and Rural Enterprises

Type of Assistance	Urban		Rural		All	
	No	Col%	No	Col%	No	Col%
None	393 802	93 6	730 218	92 8	1,124 020	93 1
Management training	4 618	1 1	13 810	1 8	18 428	1 5
Technical training	6 304	1 5	12,084	1 5	18 388	1 5
Marketing assistance	5,497	1 3	8 631	1 1	14 128	1 2
Materials/Service assistance	7 183	1 7	12 084	1 5	19 267	1 6
Multiple assistance	2,051	0 5	6,905	0 9	8 956	0 7
Other	1,174	0 3	3,453	0 4	4,627	0 3
Total	420,628	100 0	787 186	100 0	1,207 814	100 0

Source National MSE Baseline Survey 1999 (CBS K Rep and ICEG)

6.3 Access to Infrastructure

A major constraint facing many MSEs in Kenya is the lack of adequate infrastructure. The term *infrastructure* relates to adequate electrical power, access roads, water and sewerage, security of tenure of premises, and telecommunications. Good infrastructure has the effect of promoting competitive private sector growth by lowering the cost of doing business.

Access to utilities is a proxy for the quality of infrastructure available to the entrepreneur. While easy access to utilities is important in all business activities, it is particularly critical in the manufacturing and services sectors where access to utilities may determine the type of technical processes to be used. From 1968 the Government of Kenya through the Kenya Industrial Estates put up hundreds of sheds for MSEs throughout the country, and these were complete with all required utilities. The National Council of Churches of Kenya made a contribution to the infrastructure issue by developing an "industrial area" for small-scale enterprises in Nairobi. Other more recent attempts at dealing with this issue include the Ministry of Research and Technical Training *nyayo* sheds. These have been a disappointment because they were not planned, were poorly located, and lacked utilities; consequently their impact has been low. More recently the GOK with the assistance of GTZ put up 600 sheds in five urban areas. Generally, however, MSEs are excluded from the town planning process; therefore land is seldom zoned exclusively for the needs of MSEs. The National MSE Baseline Survey 1999 established that infrastructure problems are more acute in rural-based enterprises.

CHAPTER SEVEN

Problems, Constraints, and Conclusions

What are the major problems and constraints faced by MSEs in Kenya? In order to provide answers to this question the survey asked entrepreneurs to report on the constraints facing their businesses and to rank these according to the perceived severity. It should be noted that these problems are the perceptions of the MSE operators interviewed and may not necessarily reflect the actual underlying problems.

While over 88.5% of the respondents reported on at least one problem (the most severe one) about 74% added a second severe constraint and 48.7% designated a third constraint in their responses. Of the MSE operators interviewed 11.7% reported having no business problem at the time of the survey.

Table 7.1 reports on the most severe constraints cited by entrepreneurs. Competition and lack of market problems include not having enough customers, having too many competitors, lack of product publicity, and lack of knowledge about what customers want. Lack of credit includes lack of operating funds and lack of collateral for credit. The point is often made that many other types of problems are mistakenly identified as issues of capital, poor management of inventories, raw material procurement, or of marketing, all appear as a credit problem. Lack of transport includes problems involving lack of roads, high transport costs, and poor road conditions. Shortage of raw materials inputs includes lack of raw materials or high cost of raw material. Problems such as harassment by local authority officials and troubles in obtaining business licences are included in the category of interference from authorities. Lack of worksites includes problems of unavailable or inadequate business premises or high rent. Labour unavailability and worker dishonesty are typical problems. Lack of electricity includes lack or expense of electricity connection, just as lack of water includes lack or expense of water connection. Other problems include poor health technology and access to training.

As shown in Table 7.1, access to markets for MSE products as well as problems involving access to finance constitute the most dominant and severe problems facing most MSEs surveyed in 1999. More than one-third (34.1%) of the enterprise entrepreneurs cited difficulties arising from market saturation or low demand for products. Further analysis shows that market-related problems are most severe in urban settings (61.5%) while 38.5% of the rural MSEs cited the problem.

The second most severe constraint reported in the survey relates to difficulties in accessing credit due to lack of collateral. 18.4% of all surveyed MSEs cited access to credit as a key constraint. Of these, 56.3% were in urban areas and 43.7% in rural areas.

Table 7 1 Most Severe Constraint(s) Faced by MSE Entrepreneurs in Kenya (%)

	Rural	Urban	All MSEs
Markets and competition	38.5	61.5	34.1
Lack of credit	43.7	56.3	18.4
Poor roads/transport	65.6	34.4	7.2
Shortage of raw material and stocks	49.4	50.6	6.8
Interference from authorities	19.2	80.8	6.0
Poor security	40.2	60.0	3.1
Lack of worksites	22.3	77.7	2.5
Lack of skilled labour	50.5	49.5	0.6
Power interruptions and inaccessibility to electricity		100	0.6
Poor access to water supply	59.2	40.8	0.5
Other	7.8	9.1	9.1
No problems	8	11.5	11.7
Total	-	-	100

Source: National MSE Baseline Survey 1999 (CBS, K Rep. and ICEG)

Besides markets and credit other problems of significance include transport (7.2%) inadequate raw materials/stocks (6.8%) interference from local authorities (6.0%) poor security (3.1%) and lack of worksites (2.5%). Problems also vary by stratum. Location appears to be a major issue determining the nature of problems facing MSEs and the severity of each of these problems varies according to location of enterprises. For instance problems associated with markets competition interference from local authorities lack of worksites and poor security are predominantly urban while problems related to accessing infrastructure facilities (water roads telephones etc) impose constraints for rural-based MSEs.

With respect to constraints grouped together under the residual category "other" 9.1% of the enterprises cited this as a constraint. The most important issues relate to accidents bad weather household responsibilities and personal health. Most MSEs operate in ways that are closely entwined with the household thus any crisis in the household becomes a challenge to the very survival of the enterprise.

In general there were four problems cited by all categories of enterprises. These relate to markets finance transport and legal/security concerns. It is not surprising that MSE entrepreneurs seem to be more constrained by shortfalls of working capital (18.4%) than by shortages of stock or raw materials (6.8%). These constraints are consistent with problems experienced by MSE entrepreneurs in other countries. For example Fisseha and McPherson (1991) and McPherson (1998) report that the four problems most frequently cited by MSE entrepreneurs in Swaziland and Zimbabwe are the same as those presented in Table 7.1.

Problems facing MSEs vary by sector. While access to market opportunities is the most severe problem affecting all sectors, it is most severely experienced by the trade, manufacturing and construction sectors. While inaccessibility to electricity and poor access to water supply are severe problems for the manufacturing subsector, they are cited less frequently by the other subsectors. Interference from local authorities, insecurity and lack of space appear to be trade subsector problems. Construction enterprises did not report any problems related to access to electricity, water or space. The service subsector faces constraints linked to capital and interference from local authorities.

For the most part, the pattern of problems reported in 1999 is quite similar to that reported in the 1993 and 1995 Baseline Surveys. However, the problems of lack of markets and competition appear more acute in 1999 as compared to the situations in 1993 and 1995. This may be attributed to the economic downturn of 1999 and increased competition due to entry of many operators, particularly in the low return MSE activities. Fewer MSE entrepreneurs cite input difficulties (most commonly the high cost of inputs) in 1999 than in 1993 and 1995, and a lesser proportion report lack of capital as their most pressing problem, perhaps reflecting the fact that the problem of markets is more actively felt in 1999 than in 1995.

Table 7.2 Most Severe Business Problems Reported by MSE Entrepreneurs (%)

	1993	1995	1999
No problems	18	6.6	11.7
Markets	30.1	24.2	34.1
Capital	14.2	32.7	18.4
Inputs	24.7	13.7	6.8
Interference from local authorities	4.8	4.1	6.0
Transport	7	11.2	7.2

Source: National MSE Baseline Survey 1999 (CBS, K Rep and ICEG)

In order to help meet the job demand of the country and improve the quality of life for the lower income class, the government as well as various development agencies have designed a number of support initiatives targeting MSEs and their contribution to alleviate the twin problems of unemployment and poverty. Thus, in the last seven years, there have been three nation-wide surveys of MSEs in Kenya and a number of similar studies, limited in scope and coverage. The 1999 National MSE Baseline Survey attempts to improve the empirical approach both by relating each MSE to each household member and by collecting data that would help estimate the contribution of the MSE group to GDP.

The 1999 National MSE Baseline Survey shows that there are close to 1.3 million MSEs employing approximately 2.4 million people. About two-thirds of the total number of MSEs are in the

trade group (wholesale and retail) A grouping of the MSEs into the two-digit ISIC shows that retail trade wood-based products in manufacturing repairs in services and bars hotels and restaurants in the catering group dominate the landscape of MSEs in the country With the exception of the repairs group the remaining three industries are found in the rural areas

Not only are almost all of the MSEs of the micro sub-group (i.e. those with total employment of ten people or less) but about two-thirds of them are found in the rural areas In fact about 70% of them are one-person enterprise units i.e. there is only one person working in the enterprise Hence about 70% of the total employment in MSEs is accounted for by owners working in the enterprises The average size is about 1.8 an average that is consistent with many other regional studies of MSE activities

The distribution of MSEs between male and female owners is about equal 51% are men and 49% are women The distribution of all workers (including owner-operators) is also about equal 53% men 47% women

The study also shows that the average income of a typical MSE operator is about Ksh 6 008 women earn less (Ksh 4 344) than men (Ksh 7 627) Furthermore the contribution of MSEs to the national GDP is estimated to be about 18%

In terms of MSE access to support services one must keep in mind that the demand for such services may vary by industry location size of enterprise and sex of the operator With respect to financial access the 1999 National MSE Baseline Survey shows that only about 10% ever received credit from any source yet lack of credit is one of the constraints most commonly mentioned This constraint should be seen against the fact that close to 40% of the enterprises require less than Ksh 10 000 and that almost 70% require less than Ksh 20 000 The main formal institution sources of credit were NGOs while the main informal sources were the ROSCAs

Despite the increasing number of formal and informal organisations in the country offering all types of non-financial assistance only 7% of the MSE owners have received any non-financial assistance The most common types of assistance received relate to management and technical training as well as marketing and specialised business services

Access to infrastructure including water roads and sewerage is reportedly very inadequate for industries utilities problems related to electricity and telephone are also mentioned by the larger and more specialised groups of enterprises

The most serious problem mentioned by MSE operators is the lack of adequate market for their individual business Lack of credit being second other serious problems include lack of security and poor cooperation from public authorities shortage of raw materials and problems related to worksite

By way of conclusion and from the facts extracted from the 1999 National MSE Baseline Survey it should be noted that special consideration is needed regarding the following issues

- Given that the majority of MSEs are found in the rural areas business support agencies need to increasingly adjust and supply their services to rural-based MSEs
- Given that demand for individual enterprise products or services is reportedly the most serious problem attempts should be made to improve product quality in order to effectively compete both in and outside the country and that possible support intervention could include selective extension services
- Due to complaints about local authorities and insecurity local workshops and meetings could be held to emphasise the importance of MSEs to the local economy and their contribution to national GDP and hence the need to create business relationships that would facilitate MSE growth
- Given that macroeconomic concerns impact enormously on the MSE sector the potential of MSEs to generate employment opportunities and incomes can best be realised once policy makers resolve key macroeconomic issues