

Micro and Small Enterprise Sector and Existing Support System with emphasis on High-Tech oriented Entrepreneurship in Kenya

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Abstract

The significance of Kenya's micro and small enterprises (MSE) activity has continued to grow since the sector was first brought to the limelight in 1972. In Kenya, it is now recognized that the promotion of the MSE sector is a viable and dynamic strategy for achieving national goals, including employment creation, poverty alleviation and balanced development between sectors and sub-sectors. Together, all this form the foundation of a strong national base and domestic production sector that is central to the government's vision of achieving a newly industrialized country status by the year 2020.

According to Kenya's National Development Plan (1997), the MSE sector has been growing in importance both as a source of employment as well as innovative technologies. However, industrial technology development in Kenya is yet to take off. Kenya still relies heavily on imported technology. The plant and machinery that most MSEs use to produce goods and services have little technology (know-how) value.

Due to the foregoing, the study reviews the current technological situation of the MSE sector in Kenya to determine the extent of government support services. The study also seeks to analyze how best this support can be delivered to help MSEs develop their technological capacities. The methodology that the study uses to achieve its objectives is documentary analysis and analytical narrative. The main finding of the study is that the major constraint in the MSE sector's ability to upgrade its existing technological base is lack of national support. This weakness has undermined the development of indigenous labor intensive and local resource-using technologies.

Key Words: micro and small enterprises, technology

1.0 Introduction

The significance of Kenya's micro and small enterprises (MSE) activity has continued to grow since the sector was first brought to the limelight in 1972. ILO 1972 provided the basis for the study of MSE in Kenya under the informal sector. In Kenya, it is now widely recognized that the promotion of the MSE sector is a viable and dynamic strategy for achieving national goals, including employment creation, poverty alleviation and the balanced development between sectors and sub-sectors. The findings of the 1993 MSE Baseline Survey underscored the important role that MSEs play in Kenya's development process, particularly in the context of generating employment and income opportunities for majority of poor people throughout the country. Indeed, the MSE sector provides employment for substantially more people than does the formal sector. 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 a newly industrialized country status by the year 2020 (Sessional paper No. 2 of 1996).

One of the most important challenges facing Kenya today is creation of sufficient employment opportunities. The MSE sector is expected to generate significant employment opportunities given the decline in the agricultural sector's capacity to absorb new labor force and the shrinking public sector. According to Economic Survey (2008) employment in the public sector declined by 3.4% in 2007. While MSEs have tended to absorb large numbers of unemployed people, they themselves are not able to generate reasonable remunerated long-term jobs. However, given an enabling policy environment and well-targeted technical support, the MSE sector can play a critical role in providing opportunities likely to stimulate sustainable economic growth.

Although it is recognized that the MSE sector has been growing in importance both as a source of employment as well as innovative technologies (National Development Plan 1997), the sector lacks national support to upgrade its existing technological base. This weakness has undermined the development of indigenous labor-intensive and local resource-using technologies.

The overall aim of the study was therefore to investigate the technological situation of the MSE sector in order to determine the extent of government support services and how this support has helped them develop their technological capacities. Although several studies have been carried out in the area of MSE renewed interest in the sector has arisen particularly because of three major issues: the sector has grown significantly in terms of size within the total labour force; its contribution to gross domestic product (GDP); and generation of income to majority of the poor. These three issues are important in design of policies aimed at reducing poverty and unemployment.

1.1 Role of MSE in Economic Development

The 1999 National MSE Baseline Survey estimates that 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 Kshs.6, 000 per month, or more than two times

higher than the minimum legal monthly wage for unskilled employees, which in 2006 was Kshs.2,536. The share of the MSE sector's contribution to GDP was estimated at 18.4 percent.

Table 1: Total Number of MSEs and their Employment

Stratum	% of National population	MSEs		Workers	
		Number	%	Number	%
Nairobi and Mombasa	9.7	204,280	15.8	394,838	16.9
Other major towns	6.2	157,533	12.2	279,133	11.8
Rural towns	2.1	81,320	6.3	135,349	5.6
Rural areas	82.0	845,879	65.6	1,551,930	65.7
Total	100.0	1,289,012	100	2,361,250	100.

Source: National MSE Baseline Survey 1999

The MSEs make significant contribution to economic growth and development, transfer and absorption of technology, employment generation and training of entrepreneurs. It is recognized that MSEs constitute a significant portion of the Kenyan private sector. They participate in overall investment, in production of goods and services, in taking risks, in perceiving and utilizing new economic opportunities and in developing business in the economy. In Kenya, MSEs have contributed to the extension of price-based signals into areas such as urban service delivery; garbage collection, urban transport, water distribution and manufacturing of a wide range of domestic and commercial appliances (Sessional paper No. 1 of 1986).

Employment in Kenya is predominantly rural and the majority employed is engaged in small-scale agriculture and pastoralist activities. However, the number of persons employed outside small-scale agriculture and pastoralist activities rose by 5.7% per cent in 2005 to 8,740.5 thousand persons in 2006 (Economic Survey 2007). Table 2 shows that employment in informal sector rose by 6.5% to 6,814.9 thousand persons between 2005 and 2006 and accounted for 78% of total persons engaged in 2006.

Table 2: Total recorded employment: 2002- 2006 ('000)

Sector	2002	2003	2004	2005	2006
Modern establishments					
Wage employees	1,699.7	1,727.3	1,763.7	1,807.8	1,858.4
Self employed and unpaid family workers	65.5	65.7	66.3	66.8	67.2
Informal sector	5,108.3	5,546.4	5,992.8	6,396.9	6,814.9
Total	6,873.5	7,339.4	7,822.8	8,271.5	8,740.5

Source: Economic Survey 2007

1.2 Attributes of micro and small enterprises

In this research, MSEs are defined to include enterprises employing up to 50 workers. Micro enterprises are business enterprises that employ up to 10 persons including the working owner. While, small enterprises refer to those businesses employing between 10 and 50 workers. All these enterprises therefore include informal sector activities (which employ one or more persons) and enterprises in the formal sector, which employ up to 50 persons.

Micro and small enterprises as defined above include street vendors, hawkers, artisans and traders in open-air markets. The definition also includes women entrepreneurs involved in selling vegetables, dressmaking, tailoring, retailing of clothes, hair salons and basket weaving.

Currently, 75 per cent of all new jobs are created in this sector because of ease of entry, as jobs can be created at one tenth of the cost of creating a job in the formal sector. The MSE sector requires less expensive infrastructure to flourish and to concentrate in open spaces that are not served by most trunk infrastructure. However, their contribution to overall employment is important. In Nairobi alone, more than 25 per cent of the population is employed in the sector (GoK 1997).

1.3. Rationale

Industrial technology development in Kenya is yet to take off. Kenya still relies heavily on imported technology. The plant and machinery that most MSEs use to produce goods and services have little technology (know-how) value. However, according to Kenya's National Development Plan (1997), the MSE sector has been growing in importance both as a source of employment as well as innovative technologies.

One of the major constraints in the MSE sector's ability to upgrade its existing technological base is lack of national support. This weakness has undermined the development of indigenous labor-intensive and local resource using technologies. Other factors that constrain the MSEs in their endeavor to boost their technological capabilities include: limited business skills among entrepreneurs, shortage of technological experts within the sector due to limited size of operations, lack of access to funding which limits resources for research and development, lack of formal links between academia and business which limits the scope for universities to help the sector to upgrade their skills, and lack of adequate information on demand for products and this undermine their ability to plan (Sessional Paper No. 2 of 1992). There is therefore need to investigate the extent of government support to the MSEs in their endeavor to upgrade their technologies. This study is important in that it would enhance the understanding of the existing national support services to MSEs, identify technological gaps facing MSE and suggest policy measures to close such gaps.

1.4 Research Objectives

The broad objective of the research is to document the existing government support services to MSEs and draw policy implications for future support efforts. The specific objectives are:

- i. To investigate the extent of government support services to MSEs
- ii. To identify the technological gaps facing MSEs in Kenya

1.5 Methodology

The research has reviewed existing studies and policy documents on the MSE sector in Kenya, and it mainly relied on documentary analysis and analytical narratives in order to fully address the issues raised. The study took stock of the various forms of government support that is relevant to MSE development in order to understand the gaps in government support services and specify policy options to fill the gaps. This was conceptualized into two broad questions: what kind of support and how well the support is delivered.

What kind of support? This involved analyzing different forms of government support services and the scope of these support services, the stakeholders involved and constraints being experienced.

How well did the support perform? The success or failure of the support service was evaluated in terms of analyzing the outcome indicators

2.0 Technology Development

2.1 Overview

There is a growing concern that the standard of living of many Kenyans has been declining overtime. For example, in the rural areas it is estimated that the number of people living below the absolute poverty line has increased from 40.2 % in 1982 to 46.4% in 1992. Annual growth rates of employment have fallen from 3.6 per cent between 1964 and 1973 to 1.9 per cent in the 1990s (GoK, 1997). According to Economic survey (2009), the number of people living below the absolute poverty line stood at 46% in 2008 and about 40% of Kenya's labor force is unemployed.

Researchers generally agree that the only feasible way that Kenya can meaningfully improve the welfare of the people is through industrialization. Although short-term measures may be necessary, industrialization is the only way that many people can be employed and poverty alleviated on large scale (Sessional paper No. 2 of 1996). Whereas this requires different strategies, micro and small enterprise must constitute one of the key pillars of this endeavor. All this will not be achieved unless the MSE sector is able to adopt better production and distribution technologies that enable it to increase efficiencies, improve quality and diversify products. Despite the policy action already in place, the use of fairly rudimentary technology and poor quality products indicate that technology is still a major issue.

2.2 Technological gaps in Kenya

Technology involves knowledge embodied not only in hardware, but also in persons and organizations. Kenya, like many other developing countries, continues to rely on industrialized nations as sources of new technology. However, there is limited capacity to manage technical change and more relevant technologies.

Policies designed to promote technological development at various levels are either not well designed or are non-existent. In addition, the pursuits of such policies, where they have been established are constrained by lack of appropriate institutional arrangements. This problem is further compounded by shortage of financial resources, weakness in the scientific and industrial systems and absence of links between research and productive activities.

Kenya still relies heavily on imported technology. The plant and machinery most MSEs use to produce consumer goods and services have little technology (know-how) value. According to *the National Development plan 1997 – 2001*, the informal sector has been growing in importance to Kenya both as a source of employment as well as innovative technologies. However, technological inefficiency, poor tools, limited access to market and lack of national support have constrained the sector's ability to upgrade its existing technological base to boost their productivity and income. The weaknesses have undermined the development of indigenous labor-intensive local resource using technologies.

2.3 Technology development for MSEs

The degree to which MSEs in Kenya will be able to grow and transform into efficient and competitive enterprises for industrialization depends on the extent to which they are able to acquire better technology. The main way the sector can contribute to Kenya's industrialization is through technological transformation of production and distribution processes.

The Government of Kenya through national developments plans has outlined policies aimed at enhancing the access of MSEs to relevant technology. The focus has been on the development of a technology culture, promotion of entry of more enterprises into manufacturing, upgrading existing technologies, and diversification of product range. While key achievements have been made in this direction, a lot remains undone. The sector is still characterized by low productivity, low product quality, lack of diversification in product range and the dominance of trading activities. A number of factors contribute to inadequate implementation of policies: ambiguity of past policies, institutional weaknesses, poor coordination and over-reliance on donor funding.

2.4 Constraints facing MSE in Kenya

MSEs are influenced by a number of factors as they try to boost their technological capabilities: First, lack of business skills among entrepreneurs. Second, lack of

technological experts within the enterprises due to limited size of operations. Third, lack of access to funding limits resources for research and development in the enterprises. Fourth, lack of formal links between academia and business limits the scope for universities to assist the sector to upgrade their skills (Sessional Paper No. 2 of 1992).

An assessment of the MSE sector in Kenya also reveals that there are other major constraints that contribute to low technological development. These include; limited capacity of MSEs to use available technology, inappropriate technology and poor coordination.

The technological capacity of MSE sector is low due to low levels of education and training among entrepreneurs. *The 1995 MSE baseline Survey* indicates that over 75 per cent of entrepreneurs have primary level or no education and this limits the range of technologies available for adoption. The Survey also shows that most MSEs in Kenya experience lack of financial resources to acquire available technologies. This is attributed to low profitability and limited accessibility to financial services. These together with high cost of technology limit the MSE's access to available technology. In addition, lack of supportive infrastructure, limits the capacity of MSEs to adopt certain types of technology that require utilities and electricity.

MSE's access to relevant technologies is constrained by low investment in research and development of new technologies and products and poor linkages of MSEs to sources of new technologies. While efforts have been made in technological advancement at the public universities, the magnitude of such efforts has been insufficient to the needs of the sector. The poor linkages between research and development institutions make it difficult for findings on new products and technologies to go beyond libraries and workshops.

3.0 Existing Micro and Small Enterprise support programs

3.1 Overview

Since the last decade there has been a renewed interest in the promotion of MSE as an important sector for Kenya's economic development. The Government of Kenya, Non-Governmental Organizations and external donor agencies have supported the MSE sector through implementation of various development strategies and support programs. Some of the programs include the support to develop Kenya Rural Enterprise Programme (K-Rep) into a financially sustainable microfinance institution, improving the provision of financial services by microfinance institutions and other organizations, improving the regulatory environment for the MSE sector, developing the capacity of various MSE support institutions to respond to the needs of MSEs for financial and business development services. Other programs focus on research, project preparation and data collection.

3.2 Credit Services

Finance makes an important contribution to MSE development. However, access to credit has been identified as a major constraint affecting the growth of MSEs. The 1999

National baseline survey show that the majority of Kenya's MSEs operate without any form of credit.

Table 3: Source of credit to MSEs (%)

Source	1995	1999
None (no credit received)	89.2	89.6
Formal credit institutions	3.4	
Co-operatives	-	1.2
NGOs	-	2.8
Commercial banks	-	1.5
Government	-	0.2
Informal institutions		
ROSCAS	5.3	2.5
Family and friends	2.0	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)

In recognition of the financial growth constraints of MSEs, the government outlined various policies to correct the situation. These took the direction of loanable funds to the MSE sector and coordination of effort between the various players.

To increase the amount of loanable funds to the sector, policies were directed at increasing the number of financial institutions, allowing more institutions to access savings for on-lending and reducing government borrowing from local financial institutions. For better coordination of efforts, a forum was created through which the Central Bank of Kenya and financial institutions could regularly meet to identify appropriate ways of meeting financial needs of the sector.

Achievements have been made in easing availability of funds to the sector. The number of institutions providing financial services to the MSEs has steadily increased from less than 40 in 1992 to over 150 currently. Thus progress has been made in increasing the amount of funds available for on-lending to the sector.

3.3 Infrastructure Services

Availability of efficient physical infrastructure is a major determinant of production costs, production quality and timely response to market requirements. These are key aspects of growth and expansion of any sector. Physical infrastructure – business workspace, water supply, sewerage facilities, roads, postal and telecommunication services, and electricity – has been identified as one of the most critical constraints in the development of MSE in Kenya. Major infrastructure problems revolve around access to suitable business premises, and connection to basic utilities. All these combine to make unfavorable environment, which affect decisions on investment, adoption of new technologies, quality improvement, and long-term plans for expansion.

3.4 Discussion and Policy Recommendations

The main role of the government in economic activities is to support the formulation and implementation of policy mechanisms to achieve price stability and promote competitive market mechanisms in order to enhance the participation of the private sector. One of the main ways the government support the MSE sector is through formulation of appropriate policies.

The MSE sector in Kenya has so far achieved increased accessibility to finance. However, a lot still need to be addressed. There are critical areas that require urgent policy action. Policies geared towards integrating microfinance industry are currently dominated by the provision of credit with very little effort to identify or develop mechanisms for saving services. Saving services are critical by MSEs, as a source of loanable funds to financial institutions, and as a method of mobilizing savings for productive investments.

Legal and regulatory framework is a major impediment to the provision of deposit-taking services by most microfinance institutions. The Banking law should be reviewed to allow specialized microfinance institutions to provide financial intermediation services to MSEs.

In the area of infrastructural services, once work site is made available for MSEs, sufficient funding should be availed for its proper development. Previous attempt to develop work sites were unsuccessful because the government defaulted on its annual allocation for the purpose. The commitment should be reactivated and incentives should be given for participation by private sector and donor organizations interested in developing land for MSEs.

The work sites to be developed should have all basic utilities. However, many MSEs will, for a long time, continue to operate outside these areas. Efforts should therefore be made to make utilities available to MSEs operating outside the designated areas. The maintenance and billing of water distribution should be privatized, especially in areas that have high concentration of MSEs. This will address the distribution incompetencies of the local government. With regard to electricity, the policy framework outlined in the current National Development plan on implementation of rural electrification program is a good step. However, efforts should be hastened to privatize the energy sector. This will rid the sector of inherent inefficiencies that have continued to stifle the implementation of rural electrification.

4.0 Conclusion

Over the last three decades, various government policies and programs have been designed to address the technology needs of the MSE sector in Kenya. Among the policy documents are Sessional Papers No. 2 of 1992 and 1996 which have outlined various technological transformation measures. The government has made a good effort to formulate policy objectives that would have a measurable impact on the growth of the

MSE's sector. Even though most of these objectives are not targeted especially at the technology development they would indirectly enhance technology.

Ongoing government and donor-supported programs have made some progress in the implementation of the stated policy measures. Notable are the following: World Bank supported MSE technology and training program, The European Union supported micro support program and UNDP/Ministry of Planning. The services provided include product development, market support, training, land sheds, microfinance and technical skills upgrading. However, Government intervention has had minimal impact due to various reasons. For instance, strategies for policy implementation are lacking, policies in the different ministries are not harmonized and there is no strict monitoring and control of the implementation process.

The analysis of technological situation of MSEs in Kenya reveals that more remains to be done in technology development. For MSEs in Kenya to catch up with the global technology levels, the following steps for implementation should be taken:

- Encourage consumer goods manufacturing enterprises to acquire the new technology, which is efficient in use of material and environmentally friendly;
- Reduce importation of embodied technologies in form of plant and machinery and increase the acquisition of disembodied technologies;
- Develop national capacity in tooling, design and industrial engineering; and
- Set up an institutional framework to boost business management, organizational skills and talents of entrepreneurs

In conclusion, these issues of implementation must be addressed forthrightly for Kenya to tap the full dynamism of the MSE sector, achieve sustained economic growth and pull its people from the mire of poverty.

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