The Place of Micro and Small Enterprises in Achievement of Kenya’s Vision 2030

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Micro and small enterprise (MSE) sector has been recognized worldwide for its role in wealth generation, employment creation, and poverty reduction. The study focused on MSEs located in Makueni district of Kenya. A descriptive research design was used to carry out the study. Stratified random sampling technique was employed to select a sample of 50 micro and small entrepreneurs out of the target population. A questionnaire consisting of both quantitative and qualitative questions was the main instrument for collecting data. Quantitative data were analyzed using the SPSS software. The study found out that despite the government’s effort to promote the MSE sector, mushrooming of many service providers and the central role of MSEs in employment creation, MSEs in Kenya fall below the levels required to meet challenges of the increasing basis for competition. The study recommended that the government need to construct adequate industrial parks in rural areas to address challenges associated with unavailability of business premises and provide them with accessible, cheap, and adequate loans.

Keywords: micro and small enterprises (MSEs), movers of MSEs to industry, role in wealth generation, Kenya’s vision 2030, government policies

Introduction and Research Objectives

Micro and small enterprise (MSE) sector has been recognized worldwide for its role in wealth generation, employment creation, and poverty reduction. According to the Kenya’s economic recovery strategy for wealth and employment creation, the sector contributes about 18% GDP and plays a critical role in easing foreign exchange constraint, penetrating new markets, and stimulating growth and development particularly in the rural areas. The sector also acts as the seed bed for entrepreneurial pursuits and complements the process of adjustment in large enterprises by bringing backward and forward linkages for products and services previously

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not available in the market.

**Employment Trend in MSE Sector in Kenya**

The employment trend of the small enterprise sector in Kenya between 2000 and 2003 is noticeable. In 2003, total employment was estimated at 6.4 million persons. This growth in employment was almost entirely attributable to the increase in employment in the small firms whose growth rose from 3.3 million in 2000 to 4.6 million in 2003 (GOK [Government of Kenya], 2004b). Table 1 gives a summary of employment trends in Kenya between 2000 and 2003.

**Table 1**

**Contributions of MSEs to Employment Creation**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>1,743,200</td>
<td>1,753,800</td>
<td>1,760,700</td>
<td>1,742,500</td>
</tr>
<tr>
<td>Small and medium enterprises</td>
<td>3,353,500</td>
<td>3,738,000</td>
<td>4,150,900</td>
<td>4,624,400</td>
</tr>
<tr>
<td>Total</td>
<td>5,096,700</td>
<td>5,492,600</td>
<td>5,911,600</td>
<td>6,366,900</td>
</tr>
</tbody>
</table>


If the target to industrialization by the year of 2030 is to be achieved, then the GOK will have to aid and encourage MSEs to play a major role in providing the additional jobs. MSEs in the manufacturing sector offer considerable attraction to people willing to invest money, time and effort in building a business. Such enterprises promise bigger returns on investments especially in terms of employment creation and boosting the incomes of Jua Kali entrepreneurs and their workers as seen in Table 2.

**Table 2**

**Contributions of MSEs to Employment per Sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing sector</td>
<td>779,900</td>
<td>861,800</td>
<td>934,200</td>
<td>1,029,800</td>
</tr>
<tr>
<td>Construction sector</td>
<td>109,500</td>
<td>125,900</td>
<td>133,200</td>
<td>139,500</td>
</tr>
<tr>
<td>Services sector</td>
<td>1,924,400</td>
<td>2,145,600</td>
<td>2,405,200</td>
<td>2,691,400</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>95,900</td>
<td>106,800</td>
<td>120,600</td>
<td>135,600</td>
</tr>
<tr>
<td>Community &amp; social sector</td>
<td>291,700</td>
<td>329,100</td>
<td>369,500</td>
<td>418,200</td>
</tr>
<tr>
<td>Others</td>
<td>152,100</td>
<td>169,600</td>
<td>188,200</td>
<td>210,000</td>
</tr>
<tr>
<td>Total</td>
<td>3,353,500</td>
<td>3,738,800</td>
<td>4,150,500</td>
<td>4,624,500</td>
</tr>
</tbody>
</table>


**Statement of the Problem**

Despite the central role of MSEs in employment, industrial transformation, and poverty reduction, the competitiveness and growth prospects of MSEs fall below the levels required to meet challenges of increasing and changing basis for competition (Moyi & Njiraini, 2005). A survey carried out by the Ministry of Commerce and Industry in 1985 on skills development through the Kenya Industrial Estates showed that out of 20 trainees given management and technical training skills with an aim of helping them succeed in their enterprises, only two were considered to be successful in terms of employment creation, increase in assets, and increase in profits. Likewise, the baseline survey of 1999 estimated that 80% of the MSEs failed within their first three years after starting up (GOK, 2001). This research study aimed at finding reasons for this high failure rate amongst MSEs. Specifically, the study was to investigate the extent that the government has shaped MSE’s
destiny toward achievement of Kenya’s vision 2030.

**Objectives**

The paper aimed at finding out:

1. The extent that the government has assisted the MSEs to access and make use of available credit facilities;
2. How the government’s legal and political environment has shaped MSE’s destiny toward achievement of Kenya’s vision 2030.

**Importance of the Study**

**To the government.** The findings will be of great assistance to the GOK as it will give guidance to develop suitable policies and engage competent business development agencies (BDS) to help MSEs improve their technological capabilities and become innovative to improve the quality of their products to survive. This will also enable the MSEs to move to the next level in industry and assist in achievement of Kenya’s vision 2030.

**To beneficiaries.** Information from this study will be useful to both potential and practicing entrepreneurs to realize their weaknesses/shortcomings and rectify them to maximize beneficial effects for their businesses.

**Assumptions of the Study**

The study assumed that government policies have not done much to shape SME’s destiny toward achievement of Kenya’s vision 2030 and that more is needed to improve its successes. It was further assumed that the respondents to the interview would provide sincere and honest information and views.

**Definition of Terms**

This study used key terms with the following concepts:

1. **MSEs**
   An MSE is an undertaking which employs between 1 and 20 employees, with capital investment of not more than kshs 30 million. Operational and administrative management lies in the hands of one to three persons who usually make major decisions;

2. **Jua Kali sector**
   These are the MSEs in Kenya who operate under the scorching sun, though sometimes with a temporarily improvised grass or polythene thatch to shade them, hence the term “Jua Klali”. Most of these are informal;

3. **Appropriate technology**
   It is the technology that is suitable to the needs of an MSE operating in the labor intensive, low-skill spheres and using local materials and resources.

**Research Methodology**

The study focused on MSEs located in Makueni district of Kenya. A descriptive research design was used to carry out the study. Stratified random sampling technique was employed to select a sample of 50 micro and small entrepreneurs out of the target population. A three-part questionnaire consisting of both quantitative and qualitative questions and an interview schedule were the main instruments for data collection. Validation of the questionnaires was carried out to guarantee its efficiency. Both quantitative and qualitative data were collected to reveal the strengths and show the main themes. Quantitative data were analyzed using the SPSS software.
Research Findings and Discussions

This section compares findings from the study vis-a-vis literature review from other research papers and contributions of various authors, national development plans, government sessional papers, and other policy documents in the development of entrepreneurs and small business enterprises. To conform to research objectives, the section’s subtopics were arranged under “accessibility and use of business credits” and “legal and political influence on MSE’s destiny toward achievement of Kenya’s vision 2030”.

Accessibility and Use of Business Credits

The first objective of the study was to determine MSE’s accessibility and use of business credits. Acquisition of financial services by MSEs may be looked at under two main categories:

1. Lack of tangible security which can be used as collateral. This is normally complicated by existence of inappropriate legal framework that does not recognize innovative strategies for lending to MSEs;

2. Limited access to formal finances due to unemployment, low GDP, and insufficient capacity from the government to deliver financial services to MSEs; save for the youth enterprise fund.

Based on interviewees’ responses, most entrepreneurs perceived that accessibility of financial resources affected their MSE’s performance fairly well. While credit and finance on their own do not create economic opportunities, they provide people and businesses with the capacity to exploit such opportunities whenever they occur. For MSEs, access to credit and finance can at times pose a great challenge especially at a critical moment when it is required to finance inventories or raise working capital for the enterprise to deal with its immediate needs. Likewise, lack of access to credit is reported in many studies to account for excess capacities in MSEs (Enos, 1992; Awe & Tan, 1995). Evidence from MSEs’ surveys in Kenya indicates that enterprises that have access to finances have survived longer and are also able to expand more than those without access (GOK, 1997).

The scatter diagram constructed from interviewees’ responses (see Figure 1) showed an over-all positive correlation between access to finances and MSEs’ performance (increased output).

![Figure 1](image-url)
These findings are similar to Gichira (2002) in that the measure of survival and success-solvency, net income, growth in assets, employment creation, etc., are all measured in monetary terms and rests around the firm’s financial management.

From the bar graph that represents respondent’s views (see Figure 2), most respondents felt that their MSEs needed funding at cheap interest rates to be able to compete favorably with others. These findings are also supported by the Ministry of Youth Affairs and Sports’ objective of increasing young entrepreneurs’ access to loans through the Youth Enterprise Development Fund (GOK, 2006).

**Youth Enterprise Development Fund**

The fund was conceived by the government in June 2006 as a strategic move toward arresting unemployment which is virtually a youth problem (GOK, 2006).

According to the Ministry of Youth Affairs circular (GOK, 2007), the fund has the following objectives:

1. To provide loans to existing micro-finance institutions (MFIs), registered non-governmental organizations (NGOs) involved in micro-financing, and savings and credit co-operative organizations (SACCOS) for lending to youth enterprises;
2. To attract and facilitate investment in micro, small and medium enterprises, oriented commercial infrastructure such as business or industrial parks, and markets or business incubators that will be beneficial to youth enterprises;
3. To support youth-oriented micro, small and medium enterprises to develop linkages with large enterprises;
4. To facilitate marketing of products and services of youth enterprises in both domestic and international markets;
5. To facilitate employment of youth in the international labour market (GOK, 2006).

While allocating the youth fund, the government recognized the fact that skills’ acquisition is necessary...
but not sufficient to improve MSEs’ performance through technology adoption.

Youth enterprise development fund has been in operation for three years now. However, very little seems to have been achieved in terms of curbing the high unemployment rate as schools, colleges and university fresh graduates far outdo the little achievements from the Youth Enterprise Development Fund and the Women Enterprise Development Funds in Kenya, save for the famous KKV (Kazi Kwa Vijana—Jobs for the Youth) which is only temporary. Similarly, no documentation is available regarding development of linkages to MSEs with large enterprises.

**Legal and Political Influence on MSEs**

For a competitive MSE to thrive, an enabling legal environment is imperative. Despite a significant achievement in legal reforms within the government sector; a number of existing laws and regulations still remain cumbersome. They include the following:

1. Laws applied by many local authorities are not standardized and appear, in most cases punitive to technological adoption by MSEs;
2. A lot of bureaucratic and lengthy processes of transacting business with government agencies adversely impact the operations of the MSEs;
3. The single business permit (SBP) system launched in 1999 is not yet operational and the fees are too prohibitive;
4. Centralization of business name registration in Nairobi poses problems for MSEs located in rural areas;
5. Similarly, a requirement for MSEs to give their physical address poses a serious problem to those without permanent physical location. All these result in high cost, forcing many entrepreneurs to stay without registration.

Based on interviewees’ responses regarding conformance to legal requirements, most MSEs (43.7%) said that they were performing very well as a result of being able to conform to legal requirements. In turn, this improves their MSEs’ competitiveness fairly well. A scatter diagram constructed from respondent’s views on the other hand showed very little positive correlation between MSEs’ performance and conformance to legal requirements. When asked to suggest intervention measures to fulfill legal requirements, most respondents felt that the best way to help them is by the authority reducing license fees. These views are shown in Figure 3 below.

Other narrations from the study revealed that most MSEs consistently encounter harassment from local authorities and government officers’ over-attempts to operate on un-used lands, and that the daily license fees charged by local councils are normally too exorbitant for the MSEs to afford. When there is court dispute, the judicial system is normally complex, expensive and time-consuming and sometimes unfair. It also makes sub-contracting, franchising and other business arrangements impossible amongst MSEs.

Finally majority of MSEs have no legal title deeds for the site on which they operate and they can therefore not invest in their work sites. Absence of security tenure denies them access to credit. Policies regulating the provision of power, roads and water, coupled with difficult building standards compound their insecurity.

In his paper on approaches to industrialization strategic planning in Kenya, Koech (2009) observed that for the Kenya government to be able to realize its vision 2030, there is a need to:

1. Shift the government’s focus from agro-based to tech- and knowledge-based economy;
(2) Streamline and rationalize the generation, acquisition and utilization of technology;
(3) Embrace research and development for economic development;
(4) Harmonize national industrial research programmes and linkages;
(5) Increase research and development funding from 0.3% to 2% of GDP;
(6) Empower the Ministry of Trade and Industry to drive the industrialization process, with Kenya Industrial Research and Development Institute (KIRDI) as a key player.

Summary of the Findings, Conclusions, and Recommendations

Summary

The Kenyan’s sessional paper No. 2 of 1992 and 2005 clearly summarizes the problem of MSEs in Kenya as follows.

MSEs have restricted levels of technology, in appropriate technology and inadequate institutional capacity to support adaptation and absorption of modern technological skills. Such enterprises suffer from lack of information on existing technologies and are exposed to a weak environment that hampers coordination and transfer of technology. They have no way of gauging appropriateness of technology. In addition, there is a wide gap between the suppliers of technology and the end users of technology products. (GOK, 2004a)

Effective transfer of technology is therefore not taking place in the country because decisions relating to cost aspects rest with multinational corporations (GOK, 2004a).

Financial resource management. Most respondents felt that financial resources management affected their MSEs’ performance fairly well. The scatter diagram showed an overall positive but weak relationship between financial resources management and MSEs’ performance. A close look at Pearson’s correlation matrix
revealed a weak absolute correlation coefficient of 0.256. For intervention measures suggested to ease challenges in financial resources management, respondents said that they needed to be funded at cheap interest rates.

**Ability to secure good business site.** Most respondents felt that their ability to secure good business site affected their MSEs’ performance very well. From the scatter diagram, there was a weak positive relationship between ability to secure a good business site and MSEs’ performance. Pearson’s correlation matrix also showed a weak absolute correlation mean coefficient of 0.219. On the major challenges regarding business location, respondents said that business rent was very high and that to get a business premise in a good site was very hard. Key intervention to ease their problem of business location was for the authority to construct cheaper industrial parks.

**Conformance to legal requirements.** Most respondents felt that technology was enabling them to conform to legal requirements which were impacting their business performance very well. From the scatter diagram it seemed that there was a very weak correlation between MSEs’ performance and conformance to legal requirements. Pearson’s correlation matrix illustrated an equally weak correlation between the two variables of an absolute mean coefficient of 0.285. For the key challenges on conformance to legal requirements, respondents said that they were being charged too high license fee. For intervention measures suggested to assist MSEs fulfill legal requirements, respondents recommended reduction of license fee by authorities.

**Conclusions**

Despite the government’s effort to promote the MSE sector, mushrooming of many service providers and the central role of MSEs in employment creation, MSEs in Kenya fall below the levels required to meet challenges of increasing basis for competition. The major challenges affecting MSEs in Kenya include the following:

1. They are not able to manage their financial resources since accessibility of credits is very hard and when given, interests on these are very exorbitant;
2. They are not able to operate at a profit since their business rent is very high and to get a business premise in a good site is very hard;
3. MSEs have restricted levels of technology, inappropriate technology, and inadequate institutional capacity to support adaptation and absorption of modern technological skills. Such enterprises suffer from lack of information on existing technologies;
4. Likewise, conformance to legal requirements is almost impossible because of too high license fee.

**Recommendations**

Some recommendations are as follows:

1. To enable MSEs cope with challenges of financial resources, it is recommended that the GOK provide them with accessible, cheap and adequate loans;
2. To cope up with challenges associated with unavailability of business premises, it is recommended that the government should construct adequate industrial parks in rural areas of the country;
3. Finally, it is necessary for government’s intervention in form of provision of emerging quality improvement techniques and creation of MSE linkages and networks.
References


