

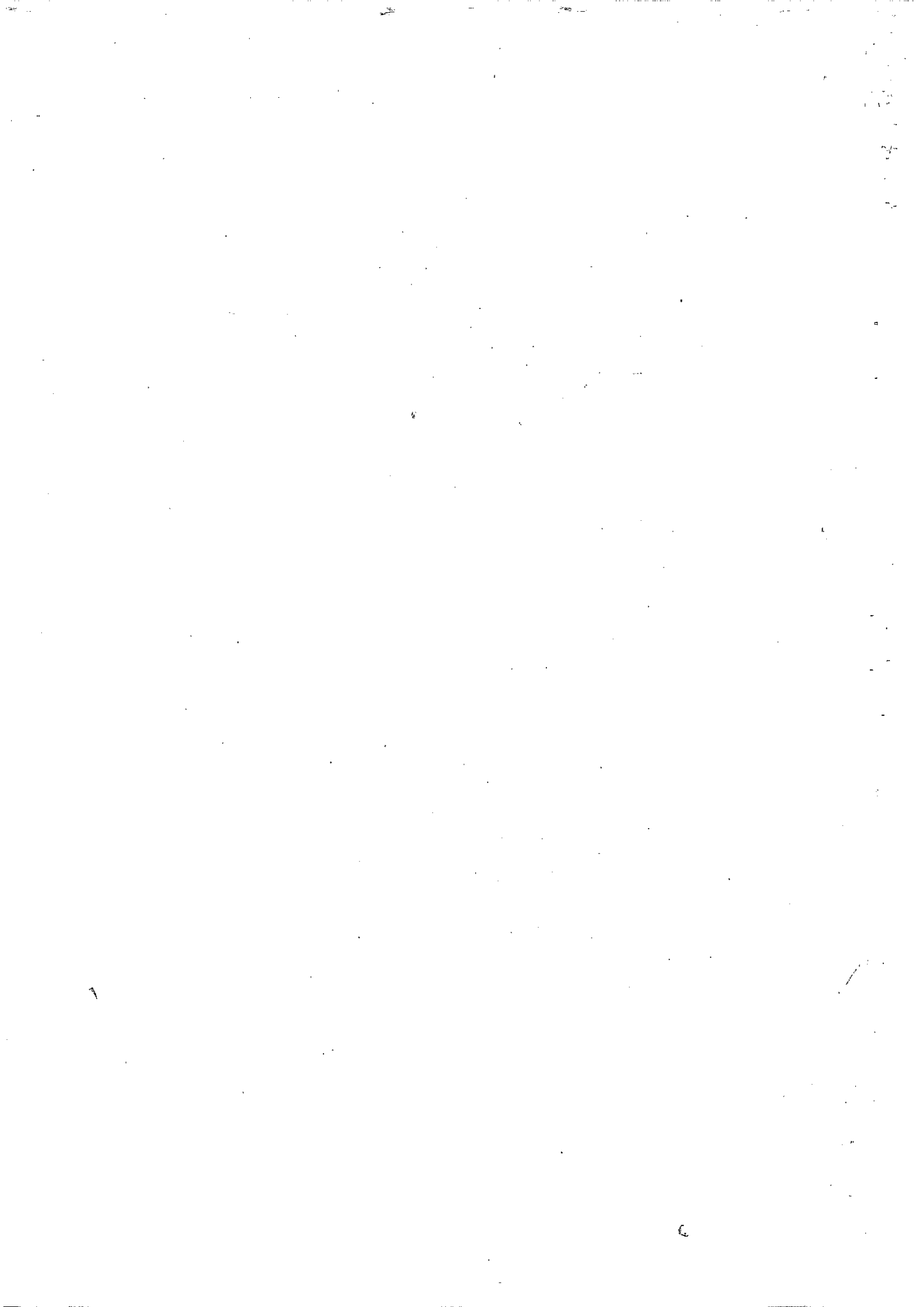
**SESSIONAL PAPER NO. 2 OF 1992
ON
SMALL ENTERPRISE AND JUA KALI
DEVELOPMENT IN KENYA**

MARCH, 1992



TABLE OF CONTENTS

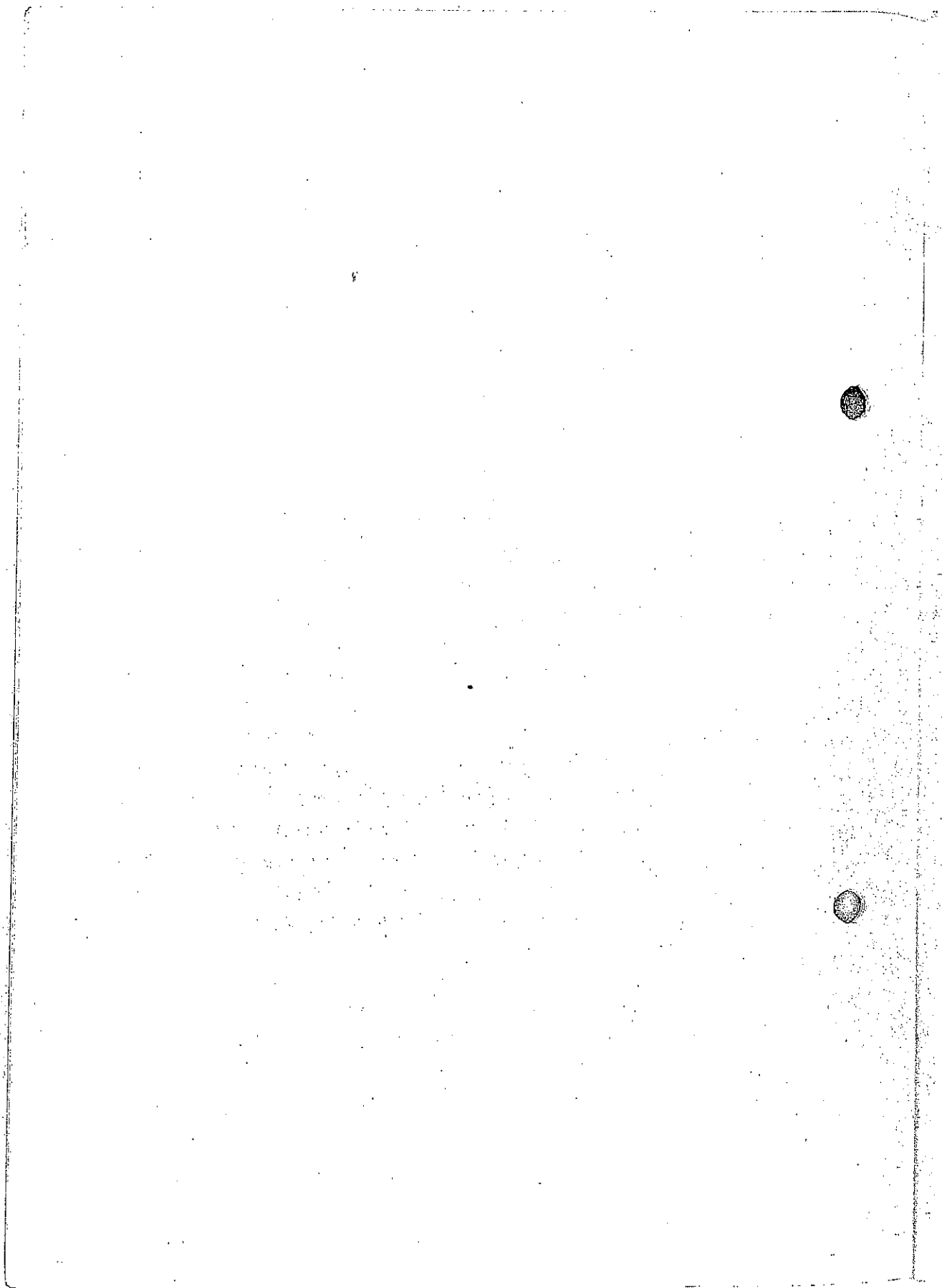
	Page
PREFACE	iii
CHAPTER 1 ROLE OF SMALL SCALE AND JUA KALI ENTERPRISE SECTOR IN THE KENYAN ECONOMY	1
CHAPTER 2 IMPROVING THE ENABLING ENVIRONMENT	6
CHAPTER 3 GENDER-SPECIFIC ISSUES	13
CHAPTER 4 CREDIT FOR THE SMALL SCALE AND JUA KALI ENTERPRISES SECTOR	17
CHAPTER 5 NON-FINANCIAL PROMOTIONAL PROGRAMMES	23
CHAPTER 6 AGENDA FOR ACTION	31



PREFACE

0.1 This Sessional Paper provides a policy framework for promoting Small Scale and Jua Kali enterprise development in Kenya. It is based on the work of a special task force established in March, 1987 by Government to review all policies to promote the sector. In particular, the task force reviewed current local authority by-laws and other regulations governing small and Jua Kali enterprise activities to create a healthy legal and regulatory climate by eliminating existing constraints.

0.2 The paper is divided into six chapters. Chapter one discusses the role of the sector in the Kenyan economy in relation to the current overall development policy and strategy. Chapter two highlights policy measures to improve the existing policy and regulatory environment. Chapter three focusses on gender-specific issues. It is indicated, for example, that women as a sub-group in the small enterprise and Jua Kali sector face certain problems that are unique to them and these have been given special attention. Chapter four discusses policy measures to improve access to credit facilities. Although a fairly reasonable amount of loanable funds are available within existing Commercial Banks and other Non-bank Financial institutions, Small Scale and Jua Kali enterprise operators still find it difficult to access these resources. Chapter Five discusses measures to improve provision of non-financial promotion programmes, based on proper coordination among implementing institutions and cost-effectiveness of the programmes. Chapter six provides agenda for action within a period of 12-24 months after the adoption of the Paper.

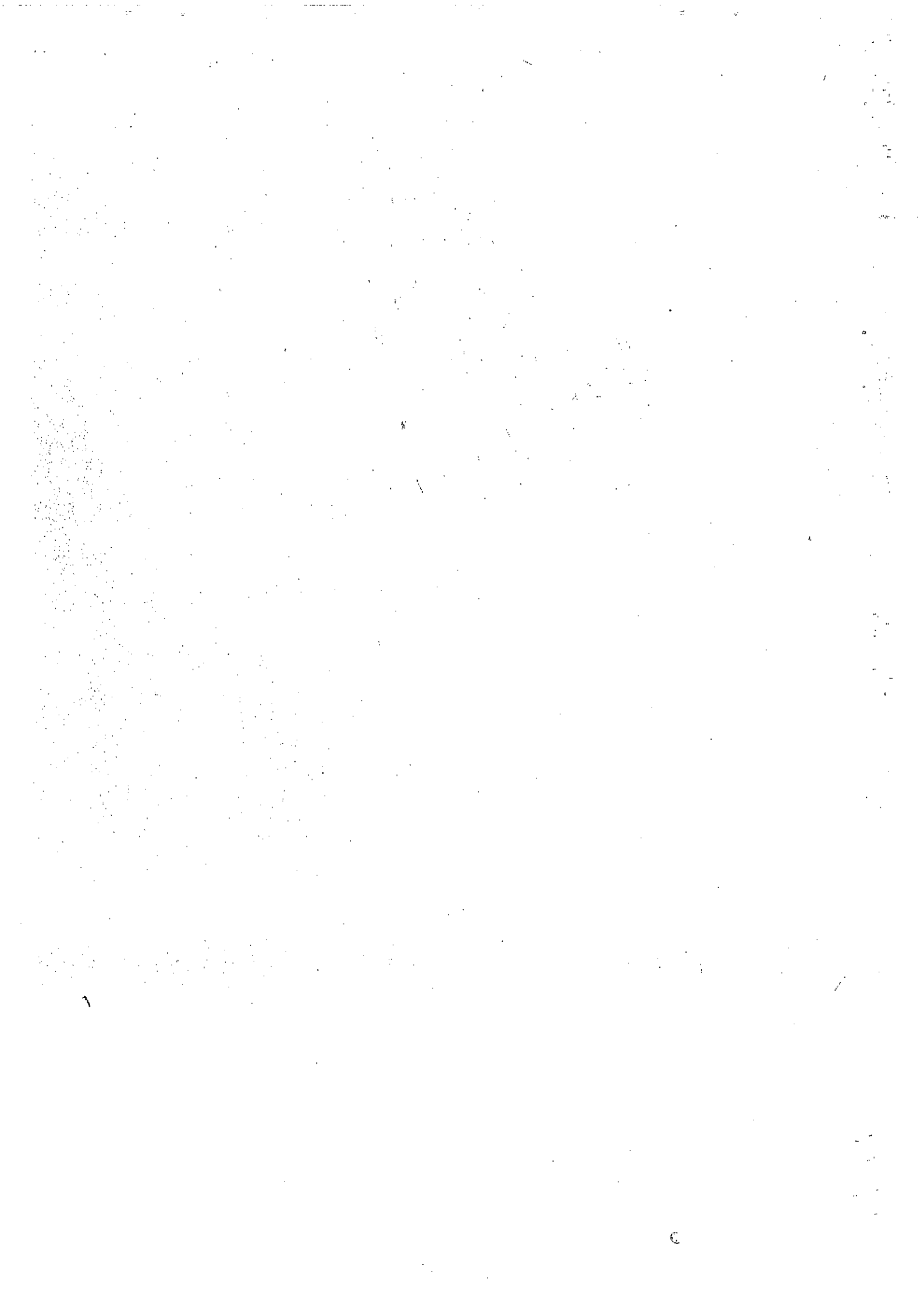


CHAPTER ONE

ROLE OF THE SMALL SCALE AND JUA KALI ENTERPRISE SECTOR IN THE KENYAN ECONOMY

1.1 Development of the small enterprise sector was highlighted in both the Sessional Paper No. 1 of 1986 and the Sixth National Development Plan (1989 - 1993) as a primary means of strengthening Kenya's economy. The sector includes all enterprises employing between 1-50 workers. In the Sixth Plan, new employment creation over the five year period, 1989-1993, is targeted at 1.9 million jobs. Of these, approximately 31 per cent or 587, 000 jobs are expected to be created in the small scale and Jua Kali enterprise sector. Even under the most favourable conditions, this task will take extra-ordinary efforts. Besides strong support from the Government through economic, financial and regulatory policies which reward enterprise and through the provision of adequate infrastructural facilities, more active private sector involvement will be required if the above mentioned employment goals are to be realised.

1.2 Since independence in 1963, very substantial funds have been spent to implement Government policies and programmes, and to build institutions specifically aimed at promoting the small enterprise sector. However, the results to date have not been satisfactory due to poor coordination among implementing agencies. In addition, many programmes have not been based on adequate needs assessment. As a result, much of the growth of the small enterprise sector has therefore been spontaneous, especially among Jua Kali enterprises. However, the sector has already reached a stage at which further growth is not possible without strong and effective support from the Government, the aid agencies, the business community and the people at large, ... all acting in coordination. One indication that spontaneous growth can not adequately develop the sector is that only very few of the small enterprises have actually been able to graduate into the formal sector.



1.3 The following are the major benefits of the small enterprises.

- (i) Significant contribution to the economy in terms of output of goods and services;
- (ii) Creation of jobs at relatively low capital cost, especially in the fast growing service sector;
- (iii) development of a pool of skilled and semi-skilled workers who are the base for future industrial expansion;
- (iv) Strengthening forward and backward linkages among socially, economically, and geographically diverse sectors of the economy;
- (v) Creating demand as well as supply, as it has been established that 90 per cent of rural enterprise products are marketed directly to rural households;
- (vi) Contributing to increased participation of indigenous Kenyans in the economic activities of the country;
- (vii) Offering excellent opportunities for entrepreneurial and managerial talent to mature, the critical shortage of which is often a great handicap to economic development;
- (viii) Supporting industrialisation policies that promote rural-urban balance;

- (ix) Increasing savings and investment by local Kenyans and encouraging use of local resources, thus leading to more effective use of capital; and,
- (x) Adapting quickly to market changes.

1.4 Because of the significant contribution by the sector to development, the Government has developed new strategies and programme promotion. These include the recently launched Rural Enterprise Fund.

1.5 The approach taken by Governments in most developing countries in the past has been primarily interventionist. The underlying premise of most of these efforts was that if there was a problem, the preferred method for solving it was to initiate a Government assistance programme or establish a Government organisation to do so.

1.6 The approach has been generally disappointing, mainly because of the delays associated with Government bureaucracy everywhere. However, some little development has no doubt been achieved, but only at high cost in terms of resources. Therefore, a change from the costly interventionist strategy is now considered to be a more appropriate future role for Government. As a facilitator, Government will concentrate on creating the infrastructural facilities and the economic environment in which entrepreneurs can emerge, develop and grow.

1.7 As the available information implies, the overwhelming bulk of employment is created through private sector enterprise and initiative. Moreover, the importance of the private sector in economic development and employment creation will actually grow in future because of the structural adjustment policies of liberalisation and privatisation.

1.8 On its part, the private sector needs to be more active and receptive in making use of available opportunities for promoting its own interest. In the past, there has been too much reliance on the Government to provide leadership and direction for small enterprise development. With a view to changing this attitude of dependence, associations of small enterprise entrepreneurs are being formed. These associations will be encouraged to promote the interests of their membership through activities such as: training on specific business topics; lobbying for specific concerns on behalf of their membership; promoting professional and social relationships among members; and conducting studies and surveys for its members.

1.9 The general approach will be to encourage the small business sector to be more involved in providing for its own needs. In addition, sub-contracting between large and small enterprises will also be encouraged to provide a new avenue through which larger firms can provide training and credit to the small enterprises with whom they deal.

1.10 The Government on its part will continue to provide some essential services to assist in the development of the small enterprise sector. However, the enterprises will be expected to contribute part of the cost of such services and assistance.

1.11 The entrepreneur in the community is a primary contributor and mobiliser of resources to develop the economy, a provider of employment for others, and a stabilising factor in society. Compared to other developing countries, the number of Kenyan manufacturing firms employing 10-50 persons is relatively small. In the interest of balanced industrial development, there is need therefore to increase the enterprises in the category which represents the "Missing Middle" in Kenya's manufacturing and industrial sector.

1.12 A key factor explaining the low number of the small scale enterprises may have been a lack of role models, particularly among the indigenous Kenyan population. The existing entrepreneurial base is small and there is a need to develop entrepreneurship capability on a larger scale so that increasing numbers of people can become entrepreneurs.

1.13 Entrepreneurs are the ones who provide goods and services and employment for others which in turn leads to healthy and viable economic communities. Self-employment has to be viewed as a highly respectable occupation. Strategies to develop the entrepreneur and improve his image will include training, awards to outstanding ideas and innovations, best use of local resources, optimizing labour intensive technologies and developing the best product for either the local or the export market.

CHAPTER TWO

IMPROVING THE ENABLING ENVIRONMENT

2.1 A tightly regulated economy works to the disadvantage of small businesses. While the larger businesses have the capacity and resources to get round the regulations when necessary or bend the rules in their favour, small enterprises get caught in them and are frequently excluded from the mainstream of economic activity. In order to assist the growth of the SSE sector, the Government will continue to pursue the structural adjustment policy of de-regulation and liberalisation.

2.2 The Government is already encouraging rapid development of the small enterprise sector by providing a number of investment incentives. Such incentives include the following:

- (i) Investment allowances for establishing new factories outside Nairobi and Mombasa;
- (ii) Exemption from import duties on capital machinery for small enterprises located in rural areas, where the cost of machinery does not exceed K.Shs. 20 million;
- (iii) Establishment of a District Development Fund (DDF) in June 1987, with the objective of providing the enabling infrastructure through the development of Rural Trade and Production Centres (RTPC) in selected small towns;
- (iv) Establishment in December, 1989, of a Rural Enterprise Fund which has already been allocated to the Districts to finance Jua Kali entrepreneurs; and,

- (v) Providing finance through the Jua Kali Fund in the Ministry of Technical Training and Applied Technology for the construction of Nyayo sheds to accommodate "Jua Kali" artisan workshops located in rural centres.

2.3 Further, Government will divest itself of its present direct involvement in promoting the small enterprise sector and be more involved in providing the physical infrastructure and information networks in which small enterprises can operate efficiently.

2.4 Relaxation of quantitative import restrictions in favour of tariffs has also helped the small enterprises since, more often than not, they do not have the influence to gain access to the limited supply of imported raw materials and spare parts, in a regime of quantitative import restrictions.

2.5 To enable the Government continue to expand its programme of infrastructure development, particularly through the District Development Committees (DDC), the following specific measures will be adopted:

- (i) Adequate needs assessment will be conducted at the district level in close consultation with DDCs and small business associations on the actual and prioritised requirements of infrastructure which will enhance development and growth of small enterprises;
- (ii) Local groups of artisans will be encouraged to form associations to make easier the administration of assistance programmes; and,

- (iii) Industrial land will be made available to small enterprises within the designated industrial sites to construct and instal their own facilities. In this context, the construction of sheds for Jua Kali enterprises and other assistance programmes will be provided on the basis of needs assessment in order ensure that they relate more to artisan needs.

2.6 As it has already been observed, many entrepreneurs are either unfamiliar with or unaware of available technologies. In some instances, small enterprises simply have no way of gauging the appropriateness of technologies. Government, through its appropriate institutions, can play a useful role by arranging for the provision of more information on technology options. To address the problem, Government efforts will focus on stimulating research based on proper needs assessment, identification of markets and use of appropriate technologies. In this regard, the following measures will be taken:

- (i) Kenya Industrial Research and Development Institute (KIRDI) will be oriented to assume additional responsibilities for modifying and adapting foreign technologies;
- (ii) A machine tool industry will be established in the private sector as a further step towards the development of production-related technologies;
- (iii) Government will use the public procurement procedure and regulations to support small scale and Jua Kali enterprises find market for their products in the public sector; and,

- (iv) KIRDI, in collaboration with Universities and appropriate Ministries, will identify technology research needs of the small enterprise sector; conduct the necessary research; adopt and develop appropriate technology and widely disseminate the results to the small enterprise sector. Government will also consider appropriate incentives to individuals and firms who provide support for such research, development and demonstration.

2.7 The future of the small enterprise sector depends on the rate of market expansion through improved linkages between large and small enterprises, exploitation of export market opportunities, and entry of small scale enterprises into the service sector. In order to achieve rapid growth, it will be necessary to provide the following supportive services:

- (i) Based on the published District Profiles and other already existing information sources, market related information will be more widely disseminated by District Industrial Development Officers in a manner which will ensure that all target groups are reached;

- (ii) Development of appropriate inter-industrial linkages will be encouraged through tax incentives and other measures as a means of stimulating demand for and supply of SSE products and services and generating alternative to imports; and,

- (iii) Studies on the implementation modalities of subcontracting between large and small enterprises will be undertaken by the Ministry of Industry.

2.8 Promotional programmes will be geared to the expansion and introduction of both supplier and consumer markets so as to enhance the production capacities of SSEs. The Ministry of Commerce, in collaboration with appropriate SSE promotional institutions, will:

- (i) Undertake detailed analyses of the private and government institutions involved in SSE development with a view to enhancing their potential capacity and inter-linkages for promotion of marketing of SSE products; and,
- (ii) Facilitate a buyer-seller forum for small scale enterprise participation including those run by women.

2.9 Although there exists a fairly well planned strategy to develop the country's exports, the existing policy instruments are not specifically aimed at SSE exports. As a result, the general environment is not very conducive to the creation and growth of specific marketing channels for SSE exports. To deal with the problem, the Ministry of Commerce, in collaboration with the Investment Promotion Centre, will:

- (i) Formulate a national export policy for SSE products and services;
- (ii) Carry out studies of overseas consumer markets including aspects such as product quality, packaging and pricing; and,
- (iii) Provide specialised technical support and training to SSE exporters.

2.10 Currently the small-scale enterprise programmes lack effective institutional guidance and co-ordination which are essential for their success. In order to eliminate this constraint, the Ministry of Planning and National Development will provide the necessary institutional backup and establish a more cost-effective coordinating mechanism.

2.11 In order to enable the local authorities, who are better placed in identifying investment opportunities and needs of small scale entrepreneurs in their respective areas, make tangible programmes for small enterprise development, Government will continue to assist them in the preparation of development plans and projects for improving infrastructural facilities under their jurisdiction.

2.12 Small enterprise sectoral associations can be effective in providing information, training, and investment advisory services to member entrepreneurs. More importantly, these associations can be very useful in providing collective and cost effective material sourcing channels and marketing outlets for products. Therefore, more sectoral small scale enterprise associations will be encouraged to ensure rapid take off of small enterprise development programmes. In addition, an effective mechanism for gathering, analysing and disseminating information will be put in place by existing relevant private sector and government institutions.

2.13 Although some supportive measures have already been taken, to ease some constraining regulatory framework for business, the following other measures will be taken by relevant Ministries. in consultation with the AG's Chambers:

- (i) A Comprehensive review of all pertinent Acts and in depth analysis of the extent to which such Acts

have adverse impact on the SSEs, either directly or indirectly;

- (ii) Review of licensing arrangements and building codes for small enterprises with a view to relaxing any of them that hinder SSE businesses; and,
- (iii) Restructuring those clauses of the Employment Act which restrict access to employment by women in certain industries other than for medical and environmental reasons.

CHAPTER THREE

GENDER SPECIFIC ISSUES

3.1 While in many respects the problems, challenges and opportunities are similar for male and female entrepreneurs operating a small business, women nevertheless face a number of special constraints which call for urgent remedial action.

3.2 Although the laws of Kenya provide for equality between men and women, in practice women are still disadvantaged. For example, the Employment Act restricts most women from running businesses in their homes or being hawkers. Although inheritance laws were revised with the Succession Act of 1981, women have rarely actually inherited land and other property in their own right. This means that they lack title deeds which are still the most commonly used forms of security for borrowing money.

3.3 Education on its own does not guarantee successful entrepreneurship, but it enhances the women's ability to embark upon non-traditional entrepreneurial activity, to link up with technological innovation in production or to penetrate into organisations and institutions that contribute to policy or programme development or SSEs.

3.4 Lack of time due to the multiple roles of women in Kenya constitutes another major constraint in women's participation in SSE. The traditional delineation of labour persists with women assuming the entire responsibility for child care, the largest share of family activity in the provision of food, water and fuel-wood and the general maintenance of the homestead, in addition to their other economic activities. Women are also overburdened with frequent pregnancy and child-birth which take their toll on health.

3.5 Certain social attitudes and practices also reduce the effective participation of women in SSE. Traditional and modern marriage practices tend to view women as subordinate to and dependent on their husbands. It is for this reason that married women are denied housing allowances which constitute a significant portion of a worker's earnings. For similar reasons, family land and property is frequently registered in the names of men. These are all deep rooted cultural factors which will take a long time to change. It is necessary, therefore, to take these factors into consideration in planning and programme design.

3.6 Banks and financial institutions have traditionally had a negative attitude towards women and they assume that women are supported by their husbands. Those borrowing money need their husbands' clearance if they are to borrow easily. Yet, facts are that women usually are better borrowers than men and their pay back rates much higher. Single mothers are especially good in paying back their loans. Women can often be better entrepreneurs as well because of their attention to people and detail.

3.7 As many constraints are caused by negative attitudes which men hold towards women, there is a need for specific intervention in the form of sensitization or public education. Successful women entrepreneurs will be identified and highlighted in the media to act as role models. The real facts about women's use of credit, their contribution to the national economy and resources will be made known. In a similar vein government officials, bankers and women themselves will be sensitized with special training and media packages. The Women's Bureau of the Ministry of Culture and Social Services will take the lead role in the implementation of this programme.

3.8 Traditional SSE development institutions will need to adjust their operations to take note of the needs of women

entrepreneurs. The majority of existing financial institutions are located in urban areas while the majority of women entrepreneurs live in rural areas. As a result, most women are totally unfamiliar with institutional banking and credit systems. The creation of smaller financial institutions for revolving funds and mobile banks with outreach programmes is already in progress but needs to be accelerated.

3.9 Currently, information on women's involvement in SSE is virtually non-existent. To correct the situation, the Ministry of Culture and Social Services has already initiated surveys on women's activities. This programme will be intensified since it is only through awareness of levels of women's involvement in SSE, their survival rates, and constraints faced by them that appropriate programmes for their support can be developed.

3.10 The introduction of appropriate technology should diversify women entrepreneurial activities by orienting them away from the perennial sewing, embroidery and handicrafts to the production of more marketable and more remunerative items. In this context, it will be necessary to develop technology which women entrepreneurs can afford and which they can learn to use and maintain with ease. In addition, continued provision of basic needs nearer home will result in women entrepreneurs having more time for their SSE activities.

3.11 The organisation of women into groups, self-help or otherwise, has provided to some extent a viable structure through which women can support each other and benefit from development initiatives. Of particular significance in this regard are the women's income generating projects that are organised as women's groups enabling supporting agencies and extension personnel to reach more women while at the same time allowing more women to learn together and encourage each other. Group approaches in SED have,

however, revealed major problems arising from the original concept of womens' groups activities as social welfare projects rather than business ventures. Most of the so-called income-generating activities are non-starters while the groups themselves do not lend themselves to the spirit of entrepreneurship. Considering the current policy emphasis on womens' groups and their role in bringing women to the threshold of mainstream SSE, there is an urgent need to rethink and redefine their role.

3.12 Women need to know more about their rights, inheritance laws, how to form women's groups, how to form a company, and how to get into tendering and sub-contracting. The Public Law Institute, the Women's Bureau and related Ministries and private sector organisations will hold legal awareness seminars. The media will also highlight pertinent issues through the radio and newspapers. The employment of a multi-media approach will ensure that many more women entrepreneurs are reached.

3.13 One of the most striking features characterizing women entrepreneurs, especially in rural areas, is lack of information and awareness on SSE matters. Existing official channels of communication do not necessarily reach all women. There is need therefore to employ a variety of channels including women's groups, churches, cultural groups, and interperson communication, in addition to the mass media and formal workshops and seminars.

CHAPTER FOUR

CREDIT FOR THE SMALL SCALE AND JUA KALI ENTERPRISE SECTOR

4.1 Since independence, Kenya has witnessed considerable growth in financial institutions some of which have been specifically designed for lending to the small and medium enterprise sector. These include Kenya Industrial Estates (KIE), the Joint Loan Board Scheme (JLBS), and the Small Enterprise Finance Company (SEFCO), which is a private company. In addition, other institutions have developed within their portfolio special credit programmes for the same sector and these include Industrial and commercial Development Corporation (ICDC), Kenya Commercial Bank Ltd., Barclays Bank of Kenya Limited and National Bank of Kenya Limited. Other sources of limited credit to this sector have been from over 600 Non-Governmental Organisations (NGOs) registered in the country and a few small enterprise associations.

4.2 The volume of credit to the Small Enterprise Sector by specialised institutions since independence is estimated at Kshs. 1,112 million, as indicated in Table 1.

Table 1

Small and Medium Enterprise Loan volume of DFIs Since Independence

Lending Institutions	Approximate Loan Amount (K. Sh. million)
KIE	500
ICDC	372
JLBS	170
SEFCO	70
Total	1112

Source: KIE, SEFCO, ICDC, Ministry of Commerce, 1988.

4.3 It is difficult to determine how much has been loaned to the small enterprise sector by commercial banks and other non-bank financial institutions because their reporting to the Central Bank of Kenya does not specifically require this information. However, it is known that their loans to small scale and Jua Kali enterprise sector represents a small fraction of their total loan portfolio. A relatively modest increase in this fraction would imply a very large increase in the total loans available to the small enterprise sector, amounting to several times the loans of all the above mentioned DFIs taken together.

4.4 Problems of lending to small enterprises occur at three different levels: first, at the level of the small borrower who lacks experience with credit institutions; second, with the financial organisations which are not predisposed to lending to small enterprises; and third, at the level of existing regulations which limit the total funds available for on-lending. The main areas of concern include inadequacy of loanable funds, stringent collateral requirements and the negative attitude of lending institutions towards SSE borrowers.

4.5 Increased flow of loan funds to the SSE and Jua Kali sector from the financial sector, especially commercial banks, will be achieved only if banks perceive lending to the sector as a financially attractive part of their lending portfolio. It will thus be necessary to allow banks to charge competitive interest rates on SSE loans, with adequate margin to cover the relatively high costs of administering such loans. Recent moves to deregulate interest rates in the commercial banking sector are expected to provide the necessary freedom to banks in this regard.

4.6 To ensure increased flow of loan funds, the Government will intensify its efforts to acquire supplementary soft foreign loans for

on-lending to public and private financial institutions for lending to the SSE and Jua Kali sector.

4.7 Banks and Development Finance Institutions provide certain services to their SSE clients before and after extending credit. These services are expensive and include preparation of feasibility studies, project appraisal, project implementation, project supervision, training, rehabilitation and other management advisory services. Unlike the DFIs, commercial banks are not allowed to levy any charges for these services. To enable the commercial banks integrate these services into their lending programmes, the Government will consider allowing them to charge reasonable fees for the services rendered to their SSE and Jua Kali clients.

4.8 Medium and large scale firms including banks and DFIs contribute towards the Training Levy Fund, from which they are reimbursed for expenses incurred on training of their own employees. To develop the SSE entrepreneurs, the Government will revise the application of the Industrial Training Act so as to accommodate the use of the fund by banks and DFIs for training of their SSE clients. In addition, the Ministry of Technical Training and Applied Technology, in consultation with the Treasury and the Directorate of Personnel Management, will establish a special training fund for SSEs and Jua Kali entrepreneurs. Contributors to this fund will include Government, the private sector, and the donor community.

4.9 To ensure efficient operation, the above changes deserve constant review. In this regard, the Central Bank will put in place a consultative forum where banks will continuously review the various policies and regulations that otherwise hinder the flow of credit to the SSE sector. The Central Bank will, through the same forum, initiate studies on comparative risks and costs associated with lend-

ing to the SSE sector in Kenya in order to lay the groundwork for future policies in the banking sector.

4.10 At present the Development Finance Institutions are not authorised to take deposits. To enable them attract and accept saving deposits from the domestic market as the primary source of funds for lending to the SSE and Jua Kali sector, the Government will work out an appropriate arrangement for the institutions.

4.11 Government's level of borrowing from the local financial institutions affects the overall level of loanable funds available for use by the private sector. Government will, therefore, continue reducing the internal financing of budget deficits in order to release more resources to the private sector. The proposed consultative forum under the auspices of the Central Bank will be used to regularly review with the banks the necessary relative increase of their SSE lending, in order to ensure that some of the freed up resources are redirected to this sector.

4.12 During the past decade, the general policy of Government in attracting foreign loans for the private sector has been to pass the foreign exchange risk on to the final borrower. This has tended to discourage the business community from borrowing when the loans are designated in foreign currencies. The policy in this respect has changed recently. Government now does and will in future continue to bear the foreign exchange risks in order to stimulate the flow of funds from external sources to the business community through the local financial institutions.

4.13 Exports by the SSE and Jua Kali sector have been insignificant. One of the reasons is inadequate export financing arrangements. Consequently the Government, through the Central Bank, will explore modalities of establishing an export credit guarantee

insurance scheme. In addition, the possibility of establishing an SSE export credit fund will be explored.

4.14 Generally, all lending institutions require collateral for securing their loans. The SSE and Jua Kali borrowers are often unable to provide the required collaterals, which are rigidly stipulated in Central Bank guidelines. To tackle this problem, the Central Bank, in collaboration with commercial banks and financial institutions, will review the lending regulations and procedures with a view to making the collateral requirements more flexible and responsive to credit needs of the SSE and Jua Kali sector.

4.15 Credit guarantee schemes have been used to a limited extent in Kenya, and with some success, for purposes of alleviating the collateral problem and thereby increasing the flow of credit to specific target groups including Jua Kali artisans, youths, women etc. These schemes have been mainly donor funded and although they are generally not a complete solution to the problem of credit risks, Banks, NBFI's, DFIs and SSE associations will be encouraged to initiate more of these schemes. In addition, the Government will undertake a study on the viability of setting up a broad-based national credit guarantee corporation. Commercial Banks will be encouraged to subscribe to it.

4.16 The banking system has tended to be conservative, especially in their dealing with SSE borrowers whom they consider as risky with high credit delivery costs. To overcome this negative attitude of bank officers towards SSE borrowers, the College of Banking and Finance, in consultation with the Central Bank, will develop appropriate curricula for providing two types of courses:

- (i) reorientation workshop for bank officials with special emphasis towards the potential in lending to SSEs and special target groups; and,

- (ii) training of credit officers in appraisal and supervision of term-loans to SSEs on the basis of cash flow lending as opposed to collateral based lending.

4.17 In addition, the Central Bank will ensure that:

- (i) banks introduce the above courses in their internal training programmes; and,
- (ii) top bank officials participate in workshops, seminars, round tables, lectures, study tours etc. in order to increase awareness of the importance and viability of lending to SSE and the potential of the various target groups such as women, artisans etc.

4.18 Further, the Central Bank will ensure that banks and financial institutions provide integrated training packages for SSE clients by introducing and strengthening their business advisory service departments, including possible subcontracting for such services to other specialised institutions.

4.19 Finally, Ministry of Planning and National Development, in collaboration with relevant institutions, will explore the possibility of setting up a venture capital institution for SSEs, to enable them obtain more equity capital.

CHAPTER FIVE

NON-FINANCIAL PROMOTIONAL PROGRAMMES

5.1 Besides a conducive policy environment and adequate credit, small scale enterprises require various non-financial services at different stages of their growth. These include managerial and technical training, counselling, consulting, marketing, extension, programme design, programme implementation and evaluation, use of technology and quality production. The following problems have been encountered in regard to these services:

- (i) lack of enterprise culture;
- (ii) poor quality programmes;
- (iii) non-coordination of programmes;
- (iv) high cost of NFPPs;
- (v) inadequate involvement by private sector;
- (vi) lack of sub-contracting; and
- (vii) inability to exploit market opportunities.

5.2 An enterprise culture is an environment that prepares the community as a whole to take advantage of the available business opportunities in society and provides supportive measures for entrepreneurs at all levels of development to realise their potentials, regardless of sex.

5.3 Role models of successful entrepreneurs in society can influence potential entrepreneurs to go into self-employment and at the same time inspire those already in business to do even better.

Existence of networks and forums for business contacts enhances interaction of successful entrepreneurs with potential and emerging ones, thereby positively influencing the latter to go into business. In addition, the education system has the potential to contribute greatly to entrepreneurship culture and development through supply of more and better prepared graduates who are well tuned to self-employment and entrepreneurship. In order to promote a more dynamic enterprise culture, the universities and other training institutions will introduce entrepreneurship education in their degree and diploma programmes. In addition, the Ministry of Technical Training and Applied Technology, in collaboration with other relevant organisations, will:

- (i) conduct in-depth market surveys periodically to identify emerging skills and abilities needed in business, especially in the small enterprise sector;
- (ii) provide training to entrepreneurs and their employees in the choice and use of new technologies, especially those that are appropriate for small enterprises;
- (iii) conduct market surveys to identify opportunities for product diversification and new product development in the small enterprise sector;
- (iv) identify new potential markets in rural areas with a view to initiating small enterprises;
- (v) develop mass media techniques for dissemination of information on all phases of self-employment and entrepreneurship;

- (vi) use innovative methods such as: distance learning, action learning groups, use of self-instruction materials, and short booklets on specific business problem areas;
- (vii) establish rural business centres in the small enterprise sector for information dissemination, research, product development and programme promotion. Such centres will be established in locations particularly those that are accessible to women; and,
- (viii) develop curricula for apprenticeship courses so that an organised approach to training will be adopted. Graduates of apprenticeship programmes will be accorded, on cost-sharing basis, opportunities to continue attending short refresher courses pertaining to self employment, entrepreneurship development and skills enhancement.

5.4 Inadequate needs assessments conducted before programme design and execution, have resulted in serious mismatches between institutions implementing programmes and the intended beneficiaries. Prior to implementation, success criteria have not been established such as number of permanent jobs created, increase in size of business, or incremental value-added generated which focusses programme design on factors that are significant for achieving a high measure of impact. To improve programme design and evaluation, better needs assessment and participative forms of programmes design will be developed. To achieve this objective:

- (i) The Ministry of Planning and National Development will contract appropriate local consultancy

organisations, e.g. Universities, to develop a small enterprise project "design manual" to be used by implementing agencies. This manual would inter alia contain information on aim oriented planning methods, needs assessment methods, how to involve target groups, identification of indications of success methods and tools for monitoring implementation stages; and,

- (ii) The Office of the President and the Ministry of Planning and National Development will monitor compliance with existing government SED policy guidelines as and when programmes or projects are implemented in the country.

5.5 Provision of adequate manpower resources in terms of professionally qualified staff in both the private and public sectors is vital for effective entrepreneurship programmes at start-up, operation and expansion phases of businesses. To improve the level of professional staff in promotional institutions, greater effort will be made to train and recruit more professionals including female professionals. To this end:

- (i) Promotional organizations, both public and private, will be encouraged to devote a larger portion of their resources to staff training and development;
- (ii) NGOs will be encouraged to expand their training functions to assist other promotional agencies in small enterprise staff development on a commercial basis and to develop special training programmes for women entrepreneurs;

- (iii) The Directorate of Personnel Management will give priority to training programmes aimed at small enterprise development and identify suitable women officers for training; and
- (iv) Promotional agencies, in particular public sector ones, will make more use of existing entrepreneurs and craftsmen in their training programmes in order to add a more practical dimension to the training. Women entrepreneurs will be especially identified.

5.6 There are many organisations operating isolated small enterprise development programmes throughout the country which leads to wastage of financial and human resources through duplication of activities. An umbrella organisation to coordinate the activities of the various organisations so as to maximize the benefits of non-financial programmes does not exist. To increase the effectiveness of the programmes and enhance complementarity, the following measures will be taken:

- (i) The Ministry of Planning and National Development will collaborate with existing relevant institutions to facilitate improved mechanism for information sharing, research, training and other promotional activities;
- (ii) The sectoral Ministries (Industry, Commerce, Culture and Social Services, Technical Training and Applied Technology) will critically review their portfolio of SSE related programmes. The Ministry of Planning and National Development will coordinate the activities of sectoral Ministries for consistency with the national development priorities;

- (iii) The Ministry of Technical Training and Applied Technology will provide training to entrepreneurs and their employees in technical and managerial skills as well as entrepreneurship;
- (iv) The Ministries of Industry and Technical Training and Applied Technology will assist SSEs with extension services in areas such as accounting, material procurement, stock control, cash-flow management, production planning and control; and
- (v) The Ministries of Industry and Technical Training and Applied Technology will provide appropriate training and in some instances technical assistance in such areas as feasibility studies, machinery sourcing, installation and maintenance, product development and diversification and the use of appropriate technology. In order to enhance complementarity of services and their effectiveness, it is vital to deliver the assistance as a package. It is also important that all the assistance is need-driven and the programmes self-sustaining.

5.7 The resources available for non-financial promotional programmes, whether from Government or non-governmental sources, are limited. Therefore, it is necessary to screen and select those SSEs which have the highest potential for benefitting from Non-Financial Promotional Programmes. This will enhance the cost-effectiveness of such programmes. Also, greater attention will be given to least cost promotional programmes and to rigorous evaluations, in order to rationalise such programmes.

5.8 To improve on the cost-effectiveness of non-financial promotional programmes, over-subsidisation will be reduced and

greater attempt made to develop programmes and projects that are self financing. In this regard, the Office of the Vice President and Ministry of Finance will:

- (i) establish within the External Resources Department, a small scale enterprise development section to ensure that donor programmes are complementary to each other so that resources are utilised in the most efficient manner; and,
- (ii) rationalise the allocation of resources in accordance with the national strategy for SSEs as stated in the Sixth National Development Plan.

5.9 The SSE entrepreneurs have little control and knowledge of external factors that affect their businesses such as taxation, licensing and the legal structure. The formation of sectoral associations proposed earlier can play an important role in educating and lobbying for the interests and concerns of their members. In this regard, the Ministries of Commerce, Industry and Technical Training and Applied Technology will facilitate the formation of more sectoral associations for the benefit of SSE entrepreneurs. In addition, the Ministries of Industry and Technical Training and Applied Technology will facilitate the formation of an association of Small Enterprise Development consultants with a view to providing small businesses with consultancy services that they need.

5.10 Subcontracting is an instrument for promoting inter-industry linkages which lead to:

- (i) fuller utilisation of installed capacity;
- (ii) manufacture of better quality products through the comparative advantage approach;

- (iii) imparting expertise; and,
- (iv) employment creation.

5.11 Currently, subcontracting mechanisms are underdeveloped primarily because Kenya's industrial base is small and the economy is still consolidating. To promote sub-contracting, the Ministry of Industry has already initiated the establishment of a subcontracting exchange. The exchange, as a private sector initiative, will promote inter-industry linkages by providing information and advice on possible avenues of co-operation. In addition, organisations assisting SSEs will be encouraged to promote inter-organisational linkages by sub-contracting some of the activities to others who are better placed in providing such services.

5.12 The development of the SSE sector has been generally oriented towards the domestic market. Little attention has been paid so far towards the promotion of exports. In order to expand the demand for SSE products, it is necessary to explore the export market. As the export markets demand stringent quality standards and competitive pricing, the Ministry of Commerce, in collaboration with relevant organisations, will develop a training programme aimed at:

- (i) proper product design to suit demand and taste of the export market;
- (ii) improvement in product packaging; and
- (iii) imparting skills to entrepreneurs in production management, technology, material procurement, costing, and pricing.

CHAPTER SIX

AGENDA FOR ACTION

6.1 In the preceding chapters of this Paper, the following factors have been identified as inhibiting the development of the small enterprise and Jua Kali sector:

- (i) Lack of coherent policy guidelines and unfavourable regulatory environment;
- (ii) Inadequate physical infrastructure;
- (iii) Limited markets for the sectors' products and services;
- (iv) A weak institutional infrastructure;
- (v) Poor information gathering and dissemination, including lack of adequate extension services;
- (vi) Lack of policy on gender specific issues;
- (vii) Poor access to capital;
- (viii) Lack of an enterprise culture;
- (ix) Poor project and programme planning and implementation; and
- (x) Lack of managerial skills.

6.2 A wide range of policies and strategies aimed at removing or alleviating these constraints have been outlined in this paper. In this chapter, however, only those policies which require significant

speeding up or other changes in implementation are mentioned. They are taken as an agenda for priority action within a time-span of 12-24 months after the adoption of this Paper and are as follows:

- (i) The Government will continue to pursue the policy of import liberalisation by replacing quantitative import restrictions by tariffs and also by bringing the average rate of tariff down over time (ch.2);
- (ii) As part of its programme of infrastructure development, the Government will undertake the following measures:
 - Conduct a needs assessment on the actual and prioritised requirement of infrastructure which will enhance the growth of small enterprises (ch.2),
 - Encourage local groups of artisans to form associations to benefit from rural electrification programme financed by Government through the Electricity Development Fund;
 - Make available more industrial and commercial land to small enterprises to instal their own facilities (ch.2), and
 - Ensure that the construction of sheds for Jua Kali enterprises are undertaken on the basis of needs assessment so that the resources provided supplement artisan needs (ch.2).
- (iii) The Ministry of Research, Science, and Technology, through its parastatals and the University-In-

dustry Link Committee, will provide guidelines for technology development, transfer and use (ch.2);

- (iv) Methods will be developed to identify technology research needs of the small enterprise sector, conduct the necessary research and widely disseminate the results to the small enterprise sectors (ch.2);
- (v) The government will use the public procurement procedure and regulations to support SSEs in pursuing innovativeness and production of high quality goods and services (ch.2);
- (vi) The inter University - Industry Link Committee will be promoted as a means of stimulating industrial and economic development (ch.2);
- (vii) Market information will be more widely disseminated by District Industrial Development Officers in a manner that will ensure that all target groups are reached (ch.2);
- (viii) The Export Promotion Division of the Ministry of Commerce will ensure that overseas markets are actively searched for possible exports of Kenyan small enterprise products. It will also disseminate more widely information regarding these potential markets (ch.2);
- (ix) The Ministry of Planning and National Development will initiate studies on the feasibility of subcontracting between large and small enterprises (ch.2);

- (x) The Ministry of Commerce will facilitate formulation of a national export policy (ch.2);
- (xi) The Ministry of Planning and National Development will establish and strengthen a more cost-effective coordination mechanism for existing and new small enterprise programmes among the various implementing institutions (ch.2);
- (xii) Government institutions which are effectively involved in small enterprise development will be given priority in budgetary allocations based on performance (ch.2);
- (xiii) Local Authorities will be allocated more funds through existing programmes to be used in improving infrastructural facilities under their jurisdiction (ch.2);
- (xiv) Government will encourage the formation of more small enterprise associations to facilitate more effective use of programme assistance provided (ch.2);
- (xv) A comprehensive review of all pertinent regulatory Acts will be undertaken to investigate in detail the extent to which such Acts either explicitly or implicitly impact negatively on SSEs (ch.2);
- (xvi) Licensing arrangements for small enterprises will be reviewed with a view to relaxing any arrangements that hinder SSE's business, in particular those requirements that relate to licensing and rigid building codes (ch.2);

- (xvii) Studies will be undertaken to ascertain the levels of women involvement in SSE activities including their successes and constraints so that appropriate support can be developed. (ch.3);
- (xviii) Awareness seminars at all levels will be organised through institutions such as the Public Law Institute, the Women's Bureau, related Ministries and private sector organisations to inform women on inheritance laws, how to form business concerns and on tendering and sub-contracting (ch.3);
- (xix) The Women's Bureau will formulate a national policy on the role of women in social-economic development (ch.3);
- (xx) The Central Bank will assist the College of Banking and Finance to develop appropriate curriculum for re-orientation and sensitisation of bank officials towards SSE needs and training of bank officers in appraising SSE projects, with emphasis on lending on the basis of cash flows as opposed to collateral based lending (ch.4);
- (xxi) The Central Bank, together with the College of Banking and Finance, will organise workshops, seminars, round tables, lectures, study tours etc. in order to expose bank officials to the importance of SSE and Jua Kali sector as clients with a major potential impact on the national economy (ch.4);
- (xxii) Banks and financial institutions will be encouraged to publicise their activities and to open up new

branches as a means of mobilising savings and attracting a wider clientele (ch.4);

- (xxiii) The Central Bank will issue new guidelines and procedures on lending to the small scale enterprises and Jua Kali sector with deliberate infusion of flexibility to facilitate use of other forms of security including movable assets and warehouse receipts (ch.4);
- (xxiv) Banks, DFIs, NGOs NBFI's and trade associations will be encouraged to develop a wider variety of credit guarantee schemes, especially for special groups such as professionals, women, Jua Kali artisans, retirees etc. (ch.4);
- (xxv) The Office of the Vice President and Ministry of Finance will commission a study on the viability of setting up a National Credit Guarantee Corporation in order to cushion financial institutions against credit risks involved in lending to this sector (ch.4);
- (xxvi) Commercial Banks will be allowed to charge reasonable fees for special services offered to their customers, including feasibility studies, project appraisals, training, supervision, and general counselling etc;
- (xxvii) The Ministries of Technical Training and Applied Technology and Industry will take the necessary action to have the Industrial Training Act amended in order to extend its use to cover the training of SSE clients (ch.4);

- (xxviii) The Central Bank will form a consultative forum with banks and financial institutions which will in future be an important nucleus and source of recommendations on Government policies to be adopted in order to increase flow of credit to this sector (ch.4);
- (xxix) Loanable funds will be increased through concerted efforts by banks and financial institutions to mobilise savings locally. In particular the Central Bank will encourage DFI's to adopt policies of attracting deposits in the domestic market as a primary source of funds;
- (xxx) The Office of Vice-President and Ministry of Finance, the Central Bank, NGOs and donors will develop innovative and diversified lending programmes and schemes as a means of attracting funding especially for special target groups such as professionals, women, retirees, artisans etc. (ch.4);
- (xxxi) The Central Bank will explore modalities of establishing an Export Guarantee Insurance Scheme and an SSE Export Finance Fund (ch.4);
- (xxxii) The Office of the Vice-President and Ministry of Finance will make special efforts to ensure that foreign loans earmarked for the SSE and Jua Kali sector are designated in local currency and where this is not possible the Government will bear the foreign exchange risks (ch.4);

(xxxiii) The Ministry of Planning and National Development will explore the viability of creating a venture capital institution for SSEs (ch.4);

(xxxiv) The Ministry of Technical Training and Applied Technology will:

- Develop and implement innovative curriculum materials and methods for training needs related to self-employment and entrepreneurship (ch.5);
- Establish rural business centres for information dissemination, research, product development and programme promotion (ch.5); and,
- Portray and popularise entrepreneurship positively in society through media campaigns (ch.5).

(xxxv) The government will:

- Use existing institutions to facilitate improved mechanism for information sharing, research, training and other promotional activities (ch.5);
- Ensure through the Ministry of Planning and National Development that a review of SSE programmes within the sectoral Ministries is undertaken (ch.5); and,

- Through the Ministry of Planning and National Development ensure complementarity and integration of assistance packages intended for SSEs (ch.5).
- (xxxvi) The Ministries of Industry, Technical Training and Applied Technology and Culture and Social Services will initiate the formation of:
- SSE sectoral associations;
 - NGO association on specialised services; and,
 - Association of SSE consultants.
- (xxxvii) The Ministry of Industry, in consultation with relevant organisations, will initiate the establishment of a sub-contracting exchange (ch.5); and,
- (xxxiii) The Ministry of Commerce will restructure existing export promotion mechanisms with a view to making them more effective (ch.5).