

CONSTRAINTS FACING THE MICRO AND SMALL ENTERPRISES

A Case Study of Selected Small Enterprises in Mwiki,
Kasarani

By

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REG. No. D53/7696/02

A Research Project Submitted In Partial Fulfilment of the Requirement of
the Degree of Masters of Business Administration (Entrepreneurship
Option)

Kenyatta University.

August, 2005

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*Constraints facing
the micro and small*



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DECLARATION

This Research Project is my original work and has not been submitted in any University for defence or award of a degree.

Signed *Obwocha* Date *26/09/05*

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SUPERVISORS APPROVAL

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ABSTRACT

The essence of this research was to determine the major constraints that influence the development of Micro and Small Enterprises in Mwiki-Kasarani. During the past two decades a lot of attention has been drawn to the important role that MSEs play in employment creation. The government and other key players have taken positive steps to create an enabling environment to support the creation and existence of MSEs. However the growth and development of this sector has stagnated. Many entrepreneurs fail for reasons unrelated to the underlying viability of the business, but instead for reasons such as the inability to manage cash flow and lack of skills. The purpose of this study was to determine the constraints facing the micro and small enterprises in Mwiki. The literature review looked at the existing constraints, which inhibit the operations of MSEs and some of the positive measures that have been instituted by key players. The study used descriptive survey and simple random sampling to create an appropriate sample. Data was collected using questionnaires, interviews and through observation and then analysed using descriptive statistics.

The study found out that the major constraints and the causes of the constraints facing MSEs in Mwiki were due to lack of training in basic business skills, inaccessibility to information and appropriate technology, cumbersome compliance procedures and regulations, high

taxation, insecurity, unwillingness to take financial risk and inaccessibility to credit facilities, high cost of electricity and frequent blackouts.

The study concluded that the MSEs in Mwiki require support services as identified by the study to overcome these constraints. Therefore a concerted effort between the local community of entrepreneurs, policy makers and NGOs is recommended to facilitate growth and better business performance.

ABBREVIATIONS

MSEs	Micro and Small Enterprises
O E C D	Organisation of Economic Co-operation and Development
I L O	International Labour Organisation
NGOs	Non- Governmental Organisations

ACKNOWLEDGEMENT

First and foremost I wish to thank the residents of Mwiki, Nairobi for the support they accorded me during the period of collecting data. Secondly, I wish to thank Kenyatta University for all the support. More particularly, I wish to single out my supervisors: Dr. George Gongera and Ms' Lucy Kavindah for their dedication and support in supervision through the period of my project proposal writing, data analysis and final report writing. Their knowledge was very valuable to the shaping of my proposal, research techniques and report writing.

Also I wish to extend my sincere thanks to all the post-graduate colleagues during my time at Kenyatta University for the support and constructive critique they provided towards my work that actually and tremendously improved its content, form and general outlook.

Lastly but not least I wish to thank my family members for all the support they accorded me during the time of this project.

DEDICATION

This project is dedicated to all my family members. They include my dear husband, Dr. Bernard Otoki Moirongo, children Vaneyck, Violet and Ruth Kwamboka respectively.

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CHAPTER ONE

INTRODUCTION

1.1 Background

For over a decade, Kenya has been facing a worsening employment crisis, in the face of a rapidly growing labour force. Public sector hiring has slowed and the growth of the large modern sector has stagnated, Attention has turned to the Micro and Small Enterprise (MSE) sector as a provider of employment. The births of new enterprises and expansion of existing ones is rapidly increasing. The Government and Non-Governmental Organisations pursue programs of assistance to Micro and Small Enterprises (MSEs) in expectation that, they raise incomes and welfare levels among low-income people and generate the much-needed employment, (Mann, et, al 1999).

In Kenya there is a growing recognition of the economic and social contribution of MSEs as articulated and envisaged in the various government policy documents, (Sessional Paper No. 2 of 1992, The Sixth National Development Plan 1989-1993 and Seventh National Development Plan). Between two-thirds and three-fifths of all new businesses terminate during the first five years, (Gibbs, 1998).

The Government of Kenya has chosen to support the MSE sector by providing an enabling environment and support programs that develop this sector. These Support programs entail financial aid, training, consultancy services, technology and association building (Kantor, 2001: Ayiemba et al). Since independence, substantial funds have been spent to implement government policies and programs and to build institutions specifically aimed at promoting the small enterprises sector. However, the results have not been satisfactory due to poor co-ordination among implementing agencies. (Sessional Paper No. 2 1992)

Recent studies have shown that MSEs in developed and developing countries are affected by similar constraints though to different extents, (Levitsky: 1996). Schiffer et al., (2001) and Beck et al., (2002) in their survey of over 80 developed, developing and transitional economies found out that small enterprises experience significantly higher growth obstacles in several areas such as financing, taxation and regulation, corruption, political and legal.

The growth and development of the small enterprise sector depends on whether there is a level playing ground between small and large enterprises among other factors. It has also been established that, other than money, business success is most critically dependent on personal attributes like: self-confidence, creativity, innovation, and drive to take risks

1.2 The Problem Statement

It has been observed that MSEs are all over estates in urban areas as well as in rural areas. This is due to the fact that there are many unemployed people and who find it easier to involve themselves in MSEs. As mentioned above, they are easier to initiate with any level of capital, skill, education, in any form of structure or building, and not many regulations are involved or are required to be observed. However, these MSEs hardly grow or expand, cannot sustain themselves, neither do they create the employment they were intended for in terms of sustaining salary for those involved. This implies that whereas there is demand for MSEs, there exist constraints that hinder their establishment. It is therefore the intention of this research to establish these constraints.

Despite the concerns that MSEs researchers have devoted on the subject of constraints affecting MSEs, little consideration has been directed towards exploring the nexus of constraints. Some of these constraints emanate from the low-income levels, which reduce the propensity to save. This means that there is little or no income for starting or to expand business. This also translates to low demand for goods and services. Poor infrastructure, lack of electricity and other social facilities lead to fear and insecurity, lack of skills, poor implementation and co-ordination of Government policies are major limiting factors to the small businesses, (Kinyanjui, 1996).

According to a study by International Center for Economic Growth (ICEG), MSEs require a variety of auxiliary business development services to promote and improve the performance of their businesses such as training, advice, consultancy, information, networks and subcontracting.

In the light of the above it is necessary to carry out this study to determine the constraints which affect the small enterprises operating in the region and what support programs they need to maximise their business opportunities.

1.3 Purpose of the study

The purpose of the study is to determine the constraints facing Micro and Small Enterprises operating in Mwiki –Kasarani of the Nairobi region.

1.4 Objectives of the Study

- a. To identify the constraints facing MSEs in Mwiki, Kasarani.
- b. To identify the causes of the constraints identified in (a) above;
- c. To establish the support services programs MSEs in Mwiki require in overcoming these constraints.

1.5 Research Questions

From the above research objectives, the research questions are:

- a. What are the constraints that face the MSEs in Mwiki?
- b. What Support programs do MSEs in Mwiki require to overcome these constraints?

1.6 Significance of the Study

This study is expected to benefit various stakeholders in the promotion and development of MSEs for income generation, poverty eradication and creation of employment.

The government as the major key player has formulated various policies (Sessional Papers) to promote the activities of MSEs. This study therefore is of importance to the government in guiding planning, resource allocation and also in reviewing some of the policies.

Also this study assists the government to assess the success of the implementation and coordination of the policies on MSEs.

This study is also of importance to other development partners and/or NGOs, such as, K-REP, K-MAP, ILO, and World Bank in pointing out which areas they can offer assistance in relation to MSEs program support.

The study findings and recommendations are of interest to the MSEs themselves especially on how they can overcome the constraints and the support services available.

1.7 Limitations and Assumptions of the Study

- a. Some respondents as in most researches were unwilling to divulge all information required, and
- b. Due to lack of enough funds, a wider sample would not be picked and this limits the generalisation of the findings to the whole country or a bigger region so to speak

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section looks at the existing constraints affecting MSEs and the intervention mechanisms that have been instituted by key players in the informal- sector.

MSEs in different regions whether in developed or developing countries face somehow similar constraints. However, these constraints differ in magnitude depending on the countries (Levitsky, 1996: Beck et al., 2002). Although in developing countries MSEs face many constraints than those in developed countries. A tightly regulated economy works to the disadvantage of small businesses. While the larger businesses have the capacity and the 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, (Sessional Paper No. 2, 1992).

In Kenya some of the constraints identified, which inhibit the growth of MSEs, include:

- Lack of knowledge and relevant skills;
- Low value of housing;
- Access to credit;

- Technology development; ✓
- Access to land and infrastructure; ✓
- Access to markets and market saturation; ✓
- Compliance costs; ✓
- Legal regulatory framework; and ✓
- Gender equity ✓

These constraints have briefly been discussed as follows:

2.2 Lack of Knowledge and Relevant Skills

Lack of relevant skills inhibits the growth of potential MSEs compounded by the deficiencies in basic education (Mayoux, 1995 and Levitsky, 1996). Many entrepreneurs tend to be less likely to have had education and experience relevant to starting and managing a business and thus less potential for success. Due to lack of physical facilities, equipments, trained personnel, ill-defined management, the small business centres have not enjoyed institutional sustainability in promoting entrepreneurship in most areas. This is compounded by poor coordination of training programmes leading to duplication of activities. There is also lack of inter-industry linkages, which is due to poor product quality, failure to honour agreements by MSEs.

2.3 Low Value of Housing

Potential entrepreneurs live in rented accommodation. This inhibits enterprise growth given that housing is an important source of collateral for many start-ups. Most of the work sites for entrepreneurs are rented so they cannot use it as collateral. Most of the structures are low cost structures that do not sacrifice the aesthetic appeal of facilities that should be incorporated in the policy development for markets (Bokea and Mullei, 1999). In most of these areas, lack of other physical infrastructure facilities such as electricity, telephone connections are often the main reason why businesses and other financial services are unavailable in those areas.

2.4 Access to Credit

Working capital is the most common constraint identified by entrepreneurs of existing small businesses. To access working capital, micro-entrepreneurs often borrow from informal financial sources, such as, family, friends, suppliers, or local moneylenders who charge relatively high interest.

Entrepreneurs often have difficult gaining access to credit (Abuodha, 1996). In some cases this is due to the smaller loans requested by entrepreneurs, which are not profitable for the formal financial institutions to deliver. In other instances banks may not have enough information

about clients making them unwilling to lend money due to perceived risks involved. Lack of collateral and small credit requested also make banks not to lend to MSEs.

Low incomes and limited savings constraints start-ups, expansion and growth of business. Typically, most enterprise start-up finance comes from own-resources, family or friends. Due to the limited access of MSEs to credit and financial services, few of them graduate to medium and large enterprises (ILO, 1989). Lack of proper assessment of loan beneficiaries gives inaccurate information to financial institutions. Most of the MSEs are ignorant of the credit and financial services available.

A small percentage of poor people have access to financial services other than moneylenders, while a few others going into small enterprises have access to loans or saving facilities. Felsestain and Schwartz (1993) in their study on constraints to small business development concluded that the major constraint facing all entrepreneurs at the start up and sustained operations stages, is a shortage of capital. In their research, lack of capital was cited as a principal obstacle by over seventy percent of the respondents.

World Bank lending for MSEs provides credit under the assumption that financial markets are working imperfectly and that lack of access to available finance is a critical constraint on the MSEs' growth (Webstar 1992).

2.5 Technology Development

This brings about technology transfer and development of skills. The improvement of technology results in high quality production, leading to an increase in sales. Lack of a comprehensive industrial technology policy in Kenya has contributed negatively to the vertical growth of MSEs. The major consequences have been and still are the difficulties experienced by MSEs to access appropriate technologies (Bokea & Mullei 1999). This is due to lack of partnerships and linkages between the micro and small enterprises on one hand and medium and large enterprises on the other. In spite of the usefulness of such partnerships, technology transfer is considered to be a primary problem (Bokea and Mullei 1999).

The MSE sector is characterized by the use of inappropriate technologies, which has resulted in a non-competitive and low quality products, limited variety and product diversification, and high costs of production (ICEG).

Lack of effective means for disseminating information to informal and formal MSEs on new products and techniques that are within their capabilities is a primary constraint to their growth. Most of them have a low propensity to seek out new information coupled by their low level of education and experience-based approach to learning (OECD 1998). Lack of an enabling environment to facilitate technology development and transfer, inadequate and limited access to appropriate technology and

business support services, and limited capacity to absorb and use available technology still remain a challenge to the MSEs (Nolana, 2002).

2.6 Access to Land & Infrastructure

Lack of land and security of work space for MSEs have far reaching and inhibiting effects on their growth and sustainability, land not just space, but legal use of it is the overriding constraint on insecure informal MSEs. Their main problem is the constant hazard eviction that introduces the elements of having no incentives to invest on equipment or to try to upgrade skills or production process (ILO 1999). Similarly, for small-scale enterprises and established micro enterprises, low availability of suitable premises constrain MSEs that are growing rapidly or moving into new markets. In crowded areas where there is limited space for micro and small enterprises that are too big for backyard operation, investments in low-cost facilities for rent have a payoff in facilitating growth of MSE (Ikiara, 2001). This concurs with the Government's findings as cited in its official document that inappropriate physical infrastructure poses a major challenge to the MSEs and these include things like low or ineffective access to the supply of electricity, poor maintenance of access roads to MSEs premises, inadequate availability of industrial land/sites, stalls/sheds (GOK, 1996).

2.7 Access to Markets and Market Saturation

Lack of markets for MSE products and services is explicitly identified in the Sessional Paper No. 2 of 1996 on industrial transformation to the year 2020. Due to poor market research, there is frequently a big discrepancy between the supply of and the demand for MSE products. Over supply, often occasioned by too many enterprises producing too many similar products leads to dead stock and business stagnation. Also failure to respond to market demand in line takes business away to more established firms (Bokea and Mullei 1999).

Access to markets for both final goods and inputs for MSEs results from lack of information (Downing, 1990 and Loucks, 1999). Market saturation is also a major problem for MSEs related to lack of innovation.

Sectoral clustering, that is, an excess of firms in easy-entry markets requiring limited capital and skills leads to cut throat competition (OECD, 2002). Entrepreneurs who maintain and develop contacts with other entrepreneurs tend to outperform those who don't, due to limited social and business networks. Lack of sub-contracting partnership exchange programme to facilitate transfer of information and exposure leaves MSEs lagging behind.

2.8 Compliance Costs

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Compliance costs relate to the time and money involved in learning about and meeting government regulations and the cost of receiving informal penalty costs from things like favours requested by government officials (O E C D 1998).

Constraints that have been cited, in relation to compliance costs include high interest rates on loans charged by commercial banks, high taxation levels in management, failure to acquire new technology, political disruptions such as the recent demolition of kiosks (Sisule, 2001 and Ikiara, 2001), and poor physical infrastructure.

World Bank defines physical infrastructure as services accruing from public utilities, such as, power, telecommunication, piped water supply, sanitation and sewerage, solid waste collection and disposal and piped gas and public works, which comprise of roads and major dams and canal works for irrigation and drainage. The poor status of such facilities and the associated high costs similarly inhibit the development of MSEs.

2.9 Legal Regulatory Framework

Despite the efforts to consolidate the process of trade licensing and business registration, the entire legal and regulatory harmonisation remains a nightmare. Examining laws, regulations and procedures have frustrated MSEs from competing on equal footing with more established businesses (Development Plan, 1994-1996). Little progress has been

made in the areas of business registration of names, business regulation, labour laws and insecurity of tenure for MSEs. Laws and institutional procedures to protect rights and interest of local operators in the MSEs do not exist.

2.10 Gender Equity

In Kenya, gender bias and disparities are evident especially in limited access, control and management of resources by women. Women enjoy less than full access to land ownership, factors of production, such as, land, jobs and credit facilities. They also do not have full access to markets, information and technology. Women entrepreneurs are constrained by such discriminatory laws affecting credit, land, employment and deep-rooted cultural practices, social norms and negative male attitude. Since most MSEs are owned or operated by women then such constraints relating to gender equity feature prominently.

2.11 Intervention Mechanisms

Many intervention mechanisms have been put in place in order to counter the constraints, which affect MSEs. ILO refers to them as developmental activities, that is, technology, marketing, finance, training and extension, labour and social aspects and association building (ILO 1986; 97). These interventions are broadly referred to, as a framework for judging the current capability and interest of the society in the new small business

development (Gibb, 1981), that comprises of four interventions listed below.

- 1) Policies
- 2) Assistance activities
- 3) Recognized needs of Entrepreneurs
- 4) Institutional framework

Policy refers to the explicit statements made by the government and other organizations in support of the informal sector. Such policies tend to depict this sector as a vehicle for economic development and a source of employment and income. Examples of such statements include sessional papers and development plans.

In Kenya the government came up with Sessional Paper No. 1 of 1994, Sessional Papers No. 2 of 1992 and Sessional Paper No. 2 of 1994. The Sessional Paper No. 2 of 1992 on Small Enterprises and Jua Kali development in Kenya (Kenya, 1992) in Chapter Six identifies constraints affecting MSEs as lack of coherent policy guidelines and unfavourable regulatory environment, inadequate physical infrastructure, poor information gathering and dissemination, including lack of adequate extension services, lack of an enterprise culture, poor project and programme planning and implementation and lack of managerial skills. Although the paper reported that the agenda for priority action within a

life span of 12-24 months after adoption of the paper was to be undertaken, the process remains incomplete and MSEs still experience the same constraints (Wegulo, 1997).

The Sessional Paper No. 1 of 1994 on recovery and sustainable development to the year 2010 (Kenya, 1994) reported that MSEs were to be given land near commercial centres. Despite Land being made available, the issue of genuine title deeds showing the real owners remains controversial. This has led to clashes between entrepreneurs and other people interested in this land. The Sessional Paper No.2 of 1996 on industrial and transformation to the year 2020 noted that despite the effort of the government, donors, and other private sector organizations to support and promote development of the MSE sector in Kenya, a number of policy constraints continue to inhibit the sector realization of its full potential (GOK, 1996).

In spite of these papers reporting the constraints and measures to be adopted to solve them, their frameworks are too general and difficult to implement. Also these frameworks are hardly followed by budgetary allocations or the institutions to implement them thereby rendering them mere rhetoric (Maitha et al, 1997).

Assistance frameworks are support programs, which are put in place to overcome the constraints affecting the informal sector. Such programs include training, consultancy services, marketing, technology, and

monitoring and credit schemes. Some of the programs that have been initiated to assist entrepreneurs to overcome constraints they experience include credit schemes by K-REP, training programs by K-MAP, World Bank and United Nation Development Program (UNDP) and Association Building in Small Enterprises by International Labour Organization.

Various task forces have been formed to review Nairobi City Council By - Laws, such as, Task Force on Land Reform, Inter-Ministerial Consultative Committee on Rationalisation of Trade Licenses, and the Committee for the Improvement of Small Business Environment (Bokea and Mullei, 1999). Various attempts have been made to make land available, work space and infrastructure facilities for MSEs, such as, the open-air markets and the market stalls of the Local Authorities.

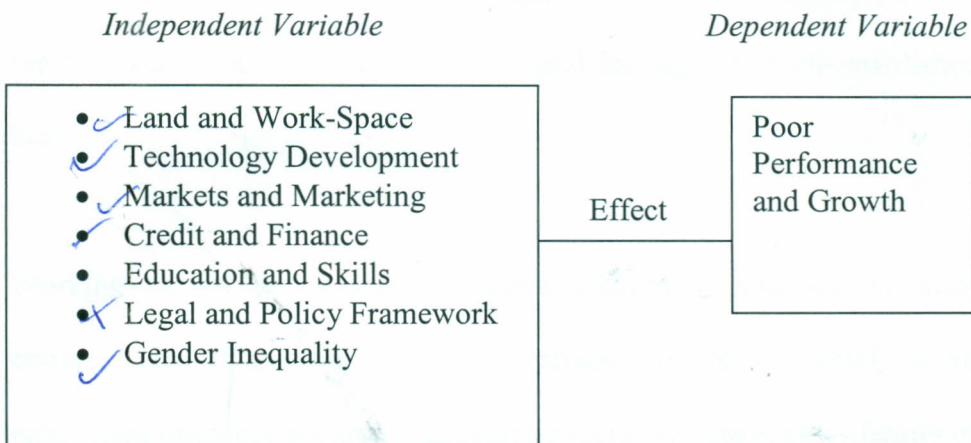
Recognized needs of the entrepreneurs can be considered from the view point of society as a whole and at the level of local community as well in terms of requirements of group or individuals wishing to start a new enterprise. Existing programs articulate these needs or institutions interested in informal sector work in order to overcome constraints affecting them.

Recognitions of MSEs in the organisational structure of most Local Authorities are neither here nor there. This also brings about the problem of lack of facilitation and no proper regulation and management.

2.12. Conceptual Framework

It is evident from the literature review that the performance and growth of MSEs is influenced by various independent variables such as markets, technology, knowledge and skills, availability of credit and finance, work space, gender and regulatory/policy framework as illustrated in figure 2.1 below.

Figure 2.1 Conceptual Framework showing Independent and Dependent Variables



Source: Researcher, (2005)

Generally performance and growth are measured by amount of sales and by the number of employees or a number of persons benefiting from the business. Good performance is judged with increased sales and poor performance by low sales. Lack of suitably located land, workspace and infrastructure facilities impedes growth of MSEs. Most entrepreneurs lack modern technology. Due to limited education and lack of information,

they are unable to access, absorb and use appropriate technology that is available and this in turn affects their overall performance. Education sharpens and improves the entrepreneur perceptions to be able to initiate enterprise creation, undertake risk and manage resources/business to a level of self-sustenance. Lack of training of entrepreneurs slows down skill development. Limited skills and use of appropriate technology has resulted in non-competitive and low quality products, limited variety and high cost of production for MSEs. Unfavourable government policies and regulation have adverse impacts on the MSEs. Such policies have denied the MSEs a chance to compete on an equal footing with well-established business.

Working capital is the most common constraint identified by most entrepreneurs of existing micro- enterprises. To access capital, micro enterprises often borrow from informal financial sources such as family or friends, local money lenders who charge very high interests and this hinders their growth.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive survey method to enable generalization of data to be made and also to allow collection of data by use of interview schedules (Mugenda et al., 1999).

3.2 Target Population

This study was carried out in Mwiki-Kasarani on selected businesses. The target population was all businesses, which had been in existence for a minimum of two years. There were 240 businesses registered with the Jua Kali association of Mwiki. This list was screened to establish those that had been in operation for over two years.

3.3 Sampling Strategy

The study sample was obtained from the target population of 240 businesses. The researcher used simple random sampling to obtain a representative sample. This method was preferred because it permitted the researcher to generalize the results to a larger population with least bias. Under this method also each and every item in the population had an equal chance of inclusion in the sample or an equal chance of being selected.

3.4 Data Collection

This study employed the use of both primary and secondary data. Questionnaires, personal interviews and observation were used to collect data. Questionnaires were administered and the researcher waited for them to be filled. In cases where the respondents were semi-illiterate the researcher used personal interview and observation to fill the questionnaire. Also drop and pick method was used to distribute the questionnaire.

3.5 Data Analysis

Data was analysed using descriptive statistics. First step in the analysis was to classify and tabulate the information collected. After tabulating the information was presented in form of diagrams and/or tables in form of descriptive statistics, such as, percentages, frequencies, means, etc., to facilitate comparison of data. These are well illustrated in Table 4.1 to 4.11 in Chapter Four and in the Appendix.

3.6 Expected Output

This project has established the nature and causes of the constraints that inhibit the growth of small businesses and what could be done to facilitate their expansion and sustainability. MSEs need training and relevant skills to be able to compete in the liberalized markets/economy. Skills and access to technology are also necessary and need to be availed to MSEs

and make them sensitive to the changing and demanding markets. It is also expected that the government could have well trained implementing agents sensitive to the needs of MSEs. To close the gap between MSEs and the government by establishing regional offices where MSEs consult, get information on policies and any other assistance. It is also necessary for the government and other development partners to give support programmes or assistance frameworks. These support services should be made affordable or some free of charge to encourage the growth and development of MSEs. These services should be made accessible, close to the MSEs, to be decentralized to local towns and markets. These issues have been articulated better in the conclusion and recommendations.

CHAPTER FOUR

4.0 Results and Data Analysis

This chapter presents the findings on the constraints affecting entrepreneurs in Mwiki in reference to each of the factors studied. The findings also present the respective causes of the constraints where appropriate. A sample of seventy-two respondents out of a total of two hundred and forty was used to provide required information. This was 30% of the total population.

4.1 Access to Premise Workspace

Access to premise or workspace was rated as a major constraint by most of the entrepreneurs with actual results indicating that it is very costly. Most of the entrepreneurs operated from rented space with a few which were self owned. 65% of the business premises were rented, 18% owned by parents, 11% self owned 2% relative as shown in table 4.1

Table 4. 1: Access to Premise

Access to premise	Frequency	Percentage
Self	8	15
Parents	13	18
Rented	47	65
Relative	4	2

Source: Field Data

This shows that non-availability and lack of access to adequate space inhibits the growth of MSEs in Mwiki that consequently translates to low performance. This is due to high cost of space and land or high levels of poverty.

In terms of work-space, the space available for rent is very small and costly. Most of the businesses operate in area of less than four- square metres. This means that growth and expansion is a dream for most of them because it will translate to acquiring more space and paying more in terms of rent and the returns may not pay off.

4.2 Credit Accessibility

Access to credit amongst MSE entrepreneurs has been regarded as a major constraint (Kibas, 1995). This study discovered that the inability to access credit had a descriptive a statistic of 83 percent of respondents rating access to credit as a major constraint to enterprise operation. This is illustrated in Table 4.2 below.

Table 4.2: Access to Credit

Access to credit	Frequency	Percentage
Very hard	59	83
Hard	7	10
Easy	3	4
Very easy	2	3

Source: Field Data

These results signify that, there is a strong relationship between enterprise growth/performance and availability of capital/or access to credit. This also means that entrepreneurs who do not access credit, do not expand and hence not responsive to greater performance.

The study explored whether actually the respondents have tried to get loans from any source. Majority were affirmative that they've tried but in vain because of the stringent conditions such as long procedure, lack of collateral, and lack of guarantors as all of their relatives and friends/colleagues decline to act as guarantors. While others have a phobia that they will be auctioned if they default, so they have never even tried to apply for one. As such they were content with the self help Mary-go-rounds.

Some women respondents claimed that they have been denied credit because of scanty information about their backgrounds and as such there is that element of discrimination. These findings are in agreement with (ILO 1999) ICEG and KREP.

4.3 Access to Training & Skills.

Skills and training are important for the success of an enterprise. This study discovered that training is not very necessary to most of the entrepreneurs in Mwiki except for a few who operate specialized business like salon, tailoring, barber shops, and cyber café. Table 4.3 below shows

that 24% of the respondents have some form of training while 76% of them have none. The majority of those with some training operate specialized businesses like salon, tailoring and cyber cafes.

Table 4.3: Training and Skills

Training	Frequency	Percentage/ Input
Yes	17	24%
No	55	76%

Source: Field Data. 2005

Table 4.4: Reasons for not Training

Training	Frequency	Percentage
Costly	28	38
No time	16	22
Not necessary	26	35
Unavailable	4	5

Source: Field Data. 2005

It would appear that lack of training and skills is not a major constraint to MSEs in Mwiki since there only exists two scenarios; one of the specialized training for specialized trades that constitute 24% and no training for all other general businesses. Also most of the respondents were adamant to undertake training because they claim their businesses does not need training or special skills as illustrated in Table 4.4.

However, lack of basic bookkeeping skills has been cited as a problem because some could not tell how much profit they make in a month. Some form of training is therefore necessary and this concurs with Kinyanjui (1996) who discovered that lack of skills and training impedes enterprise performance.

4.4 Markets

Table 4.6 illustrates that restocking of business is not regular and takes place after long duration of time whereas, Table 4.5 illustrates that the market is not good. Therefore it is appropriate to infer that the influence of access to and availability of markets on enterprise performance has strong and positive relationship. 43% and 35% of the respondents indicated that their businesses are poor or fair respectively. 19% and 3% said that the businesses are good and very good as illustrated in Table 4.5 below.

Table 4.5: Markets

Market for goods/services	Percentage
Very good	3
Good	19
Fair	35
Poor	43

Source: Field Data. 2005

Table 4.6: Restocking Frequency

Restocking	Frequency	Percentage
Daily	12	17
Weekly	19	28
Two weeks	17	25
Monthly	21	30

Source: Field Data. 2005

Table 4.6 shows how often the businesses are restocked. The restocking parameter indicates the performance of the business. The findings show that most entrepreneurs experience a problem in marketing their goods and services. Most entrepreneurs attribute this to lack of demand, due to the low-income class of people who reside in the area. Lack of market for products is regarded as a major problem in Mwiki because they are located in low value markets where there are few barriers to entry. These findings concur with the findings of (Dawson 1997). This is a problem attributed to poverty and low level of earnings.

4.5 Policies and Regulations

Policies are normally expressed in government documents, such as, sessional papers and development plans. Most entrepreneurs are not aware of the government policies as a result they are not responsive to policies

relating to MSEs. This problem is attributed to lack of knowledge and information on the policies related to the MSE sector.

As illustrated in Table 4.7 below taxation procedures pose a major constraint to entrepreneurs' performance with actual findings indicating that at least 73% of the respondents find it extremely hard to comply with the taxation procedures.

Table 4.7: Policies and Regulations

Taxation	Frequency	Percentage
Very costly / very hard	51	73
Costly / hard	10	14
Fair / easy	7	10
Not fair / don't know	2	3

Source: Field Data. 2005

The findings indicate that over 87% of the respondents are not comfortable with the taxation requirement whereas, only 10% of the respondents are comfortable with it. These findings suggest that taxation procedures are a limiting factor to enterprise performance and growth in Mwiki. These results matches well with those ones of Beck et al., (2002).

4.6 Compliance Cost

Compliance cost involves the expenses incurred by a businessperson in order to register the business, or get licenses. The table below shows how compliance costs were rated.

Table 4.8 Compliance Costs

Compliance cost	Frequencies	Percentage
Costly	53	74
Fair	15	21
Not fair	4	5

Source: Field Data. 2005

74% of the respondents indicated that it is very costly to register a business and time consuming, while 21% of the respondents find it that fair. These results signify a negative casual relationship between compliance costs and enterprise performance. This means that compliance costs inhibit enterprise performance in Mwiki.

4.7 Access to Information & Technology

Technological development or capability is the systematic application of scientific and other organized knowledge to practical tasks, through three basic modes, that is, imitation, adaptation and innovation (OECD).

Most respondents indicated that lack of access to general information is due to lack of interest in search of the information and non-availability of the information itself as illustrated in table 4.9.

Table 4.9: Access to Information and Technology

Access to information and technology	Frequency	Percentage
Availability	7	10
Not available	54	77
No interest	9	13

Source: Field Data. 2005

The findings indicate that a total of 90% of the respondents do not have access to information and technology. This clearly shows that there is lack of appropriate technical skills among entrepreneurs. They lament that they do not know where to get information and for those who have access to the information indicate that it is a long process to access that information.

However, a number of entrepreneurs in Mwiki do not see the need to adapt new technology because of the nature of their business, since they only deal with simple consumer products and therefore think that no extra knowledge is required to sell items, such as, vegetables, cereals, etc. While those in the service business show keen interest in embracing new technology, which happens to be missing. The findings indicate that lack of information and technology is a major constraint to most entrepreneurs in Mwiki.

4.8 Government Rating on Provision of Services.

The respondents were requested to rate the government on how well it has provided an enabling environment for MSEs in provision of services, such as, training, credit facilities, sheds/stalls, electricity, marketing of the products, information and technology, security and infrastructure. Generally the government scores poorly in the provision of these services. The results are compiled in Table 4.10 and briefly discussed afterwards.

Table 4.10 Government Rating on Provision of Services

Services		Very well	Well	Fairly	Poor
Training	Frequency	0	5	17	52
	Percentage	0	7	23	70
Credit	Frequency	0	0	0	51
	Percentage	0	0	0	100
Sheds/stalls	Frequency	0	0	0	67
	Percentage	0	0	0	100
Electricity	Frequency	0	2	27	43
	Percentage	0	3	37	60
Marketing	Frequency	0	0	5	69
	Percentage	0	0	7	93
Information & technology	Frequency	0	6	9	54
	Percentage	0	9	13	78
Security	Frequency	2	11	18	37
	Percentage	3	16	27	54
Infrastructure	Frequency	3	9	17	39
	Percentage	4	13	25	58

Source: Field Data. 2005

70% of the respondents indicate that there is no training offered by the government. 23% of which indicated that the training is fairly provided were quick to point out that training opportunities are very scarce and expensive since they have to pay indirectly to secure a place even though the colleges are free, for instance, in the National Youth Service.

Electricity is available in the area but expensive to install and use. For those that have access to it, complained of black-outs during peak hours

hence its unreliability. This means that access to power is a major constraint to many entrepreneurs in Mwiki both for operation of the business and security purposes; thus consequently contributing to poor enterprise performance.

Provision of information and technology has been rated poorly by 78% of the respondents. Most respondents expressed either ignorance or lack of interest while others complained of unavailability of information at regional offices. One has to go to the headquarters to access such information and before one gets it, a lot of time is wasted for being referred from one officer to another. Similarly, provision of security and infrastructure are poorly rated at 54% and 58% of the respondents respectively as shown in Table 4.10.

4.9 Support Services and Programmes Required by MSEs in Mwiki to Overcome the Constraints

The respondents were requested to rate services compiled for this aspect, such as, lowering of taxation, improving of security and markets, facilitation of credit, and provision of electricity, information and technology, work- space, and training in regard to their importance for the purpose of improving their MSEs. Table 4.11 compiles the findings for this aspect.

Table 4.11 Table on Support Requirements

Services		Very important	Important	Fairly important	Not important
Lower taxes	Frequency	51	9	7	3
	Percentage	73	13	10	4
Improve Security	Frequency	53	8	6	2
	Percentage	77	11	9	3
Credit	Frequency	38	25	9	1
	Percentage	52	34	12	1
Electricity	Frequency	41	23	5	0
	Percentage	60	33	7	0
Information & Technology	Frequency	31	29	9	1
	Percentage	44	41	13	2
Work space	Frequency	56	15	0	0
	Percentage	79	21	0	0
Training	Frequency	12	29	18	11
	Percentage	17	41	26	16
Market	Frequency	28	29	12	7
	Percentage	37	38	16	9

Source: Field Data. 2005

All the above services were regarded very important. The provision of an enabling environment by the government and other stakeholders therefore has a positive relationship with enterprise performance. Enterprises in Mwiki need support systems that will bridge the gaps in production, demand and availability of goods and services. These findings concur with (Gibb: 1981) who advocates for the intervention mechanisms in form of institutional support.

CHAPTER FIVE

5.0 Conclusion and Recommendations

This study explored the constraints faced by the MSEs in Mwiki Kasarani area of Nairobi. The results show that there is a strong relationship between the constraints and enterprise performance. It is also indicative that provision or availability of some of factors, such as, training, market information and technology and markets may not necessarily lead to better enterprise performance. Enterprise growth and better performance is constrained by such factors as lack of credit, limited workspace, security and high taxes among others.

Most of the respondents were of the view that if adequate workspace is provided at reasonable cost by the government, they can do better business by investing extra or more resources. Also if the procedures and requirements of applying for credit facilities are made easier, they can innovatively start up new or alternative businesses or expand the existing ones.

Although most financial institutions are appealing to MSEs to apply for short-term loans, entrepreneurs tend to shy off without even trying to inquire about the conditions required and the procedures. They are

attached to the traditional feeling that if their businesses fail, everything they own will be taken away.

Also, respondents were requested to provide suggestions to policy makers and stakeholders as regards to their needs. These are some of the suggestions they came up with:

- I. Relaxing laws which discriminate against small scale businesses, for instance operating licenses, business name registration,
- II. Be provided with work-space at subsidized rent, and
- III. To be given special electricity rates.

This study recommends the need to improve security in the area. To improve security in Mwiki area this study recommends the formation of vigilante groups to work with the police and chiefs to reinforce order.

There is also need to start a vocational training centre to train the youth who have dropped out of school or school leavers to get jobs or equip them with basic skills that can enable them to start and manage their own businesses.

The government and other proponents of MSEs need to set up an information centre that is accessible to the people to disseminate information. This centre should offer advisory services on various issues like government policies on MSEs, importance of loans, basic managerial

skills and bookkeeping, avail some literature on appropriate technology with illustrations and practical demonstrations if possible.

Another suggestion is for NGOs to provide pre-loan training to reduce cases of defaulters and monitoring expenses. More research is needed in this area because the study did not investigate the details of the causes and effects.

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Appendix A: Work Plan

Phase 1.	Pilot study and adjustment	1 week
Phase 2.	Data collection	4 weeks
Phase 3.	Data analysis	2 weeks
Phase 4.	Report writing and compilation	2 weeks

PHASE	DESCRIPTION	NO. OF WEEKS							
		1	2	3	4	5	6	7	8
1	Pilot Study and Adjustment	■							
2	Data Collection		■	■	■	■			
3	Data Analysis					■	■		
4	Report Writing and Compilation						■	■	■

BUDGET

COST OF PROPOSAL

1	Printing and Typing @ Shs 40/= per page	2000.00
2	Photocopying @ Shs 3/= per page of 12 copies	2500.00
3	Binding	800.00
4	Travelling	5000.00

PROJECTED COST OF THE PROJECT

1	Travelling Expenses	8000.00
2	Cost of Processing Data	6000.00
3	Cost of Typing final document	1000.00
4	Cost of Printing and Photocopying final document	2000.00
5	Cost of Binding final document	1000.00
6	SUB-TOTAL	28300.00
7	Contingencies (10%) of sub-total	2830.00
	TOTAL COST OF PROJECT	31130.00

Appendix B: Questionnaire

The objective of this study is to identify the constraints that inhibit the growth and expansion of micro and small businesses. This questionnaire is expected help collect necessary data for analysis

All information obtained vide this questionnaire will be treated with utmost Confidentiality and used for academic purposes only.

Kindly fill in the information required as accurately as possible.

Your co-operation will be highly appreciated.

Instructions

Where necessary tick appropriately. In other cases please provide the information in the space provided

Background Information

Questionnaire

No.....

Date.....

Name of respondent.....

Name of Business.....

Gender of Respondent:

Male

Female

What level of educational do you have?

- No formal education
- Primary education
- Secondary education
- College education
- University education

You fall between which ages?

- a) Less 30
- b) 31-50

c) Over 50 years

1. Who owns the business? (Please tick)

a) Self

b) Parents

c) Wife

d) Husband

e) Any other (Specify please).....

2. For how long have you been in business?

a) Below two years

b) Two to four years

c) Above four years

3. Whom does this premise belong to?

a) Self

b) Rented

c) Parents

d) Relative

4. (i) Approximately what is the area of your shop?

a) Less than $4m^2$

b) $4m^2$ to $10m^2$

c) Above $10m^2$

(ii) How much rent do you pay every month in Ksh.?

a) Less than 5000

b) 5000- 10,000

c) Above 10,000

5. How did you get capital to start the business? (Please tick)

a) Personal Savings

b) Loan from a Cooperative/Bank

c) Family and Friends

6. Indicate the value of your business according to table below

Starting Capital (Ksh.)		Below starting capital now	Same as starting capital now	Above starting capital now
----------------------------	--	-------------------------------	---------------------------------	-------------------------------

	Tick one			
Less 10,000				
10,000-30,000				
31,000-50,000				
Above 50,000				

7. How easy is it for you to access a loan from banks or financial institutions?

- a) Very hard
- b) Hard
- c) Easy
- d) Very easy

8. How many licenses do you require to start and operate a business?

- a) 1 to 3
- b) 4 to 5
- c) More than five

9. i) How long does it take to get business licenses?

- a) Less than a week
- b) Two weeks to one month
- c) More than one month

ii) How costly are the licenses?

- a) Very costly
- b) Costly
- c) Not costly

iii). How often are the licenses renewed?

- a) One year
- b) Two years
- c) Three years

10. i) Are there other levies or indirect taxes from the Council/Government?

a) Yes

b) No

ii) If yes, how costly?

a) Very costly

b) Costly

c) Not costly

d) Don't know

11. i) Do you have any form of training? (Please tick)

a) Yes

b) No

ii) If yes to (i) above, is the training assisting you to do business

better? a) Yes b) No

iii) If no to (i) above, why?

a) Training is costly

b) There are no training opportunities

c) Don't have time for training

d) Training is not necessary

12. i) How is the market for your goods/services?

a) Very good

b) Good

c) Fair

d) Poor

ii) How often do you add stock?

a) Daily

b) Weekly

c) After two weeks

13. Rate the government in providing the following by ticking the appropriate box.

	Very good	Good	Fair	Poor
Training				
Credit				
Security				

Sheds/Stalls				
Electricity				
Communication facilities				
Marketing & information				

14. What kind of assistance would you like to receive from the government or other organisations in order to improve your business?
(Tick according to importance)

	Very important	Important	Fairly important	Unimportant
Lower tax				
Improve security				
Improve social services				
Lower the rents				
Lower license fees				
Assist in marketing				

The end

Thank you

Appendix C

Summary of Data Collected

		Background Information				
Age		<30	30 - 50	>50		
Frequency		21	27	24		
%		29	38	33		
Q1		Self	Parents	Wife	Husband	Other
Frequency		29	11	6	17	10
%		40	15	8	24	14
Q2		<2 yrs	Between 2 & 4	>4 yrs		
Frequency		0	31	41		
%		0	43	57		
Q3		Self	Rented	Parents	Relative	
Frequency		8	47	13	4	
%		11	65	18	6	
Q4 (i)		<4	4_10	>10		
Frequency		56	11	5		
%		78	15	7		
Q4 (ii)		<5000	5000-10000	>10000		
Frequency		43	17	12		
%		60	24	17		
Q5		Personal savings	Loan	Family/friends	Don't know	Personal savings
Frequency		28	24	13	7	39
%		39	33	18	10	
Q6		Start	Now below	Now same	Now above	
<10000		16	5	2	9	
10000-30000		27	7	9	11	
30000-50000		18	3	13	2	
>50000		11	5	3	3	
Loan			Family/friends	Don't know		
33			18	10		
		All in %				
Start		Now below	Now same	Now above		
22		31	13	56		
38		26	33	41		
25		17	72	11		
15		45	27	27		

% Of all	Now below 28	Now same 38	Now above 35	
Q7	Very hard	Hard	Easy	Very easy
Frequency	28	36	6	2
%	39	50	8	3
Q8	1_3	4_5		
Frequency	47	25		
%	65	35		
Q9	<wk	1wk-1mth	>1mth	
Frequency	11	43	18	
%	15	60	25	
Q10 (i)	V costly	Costly	Not costly	Not know
Frequency	51	10	8	3
%	71	14	11	B
Q10 (ii)	1yr	2yrs	3yrs	
Frequency	63	7	2	
%	88	10	3	
Q10 (iii)	V costly	Costly	Not costly	Not know
Frequency	44	13	11	4
%	61	18	15	6
Q11 (a)	Yes	No		
Frequency	17	55		
%	24	76		
Q11 (b) (i)	Yes	No		
Frequency	13	4		
%	76	24		
Q11 (b) (ii)	Costly	Unavailable	Unnecessary	No time
Frequency	28	4	26	16
%	39	6	36	22
Q12 (i)	Very good	Good	Fair	Poor
Frequency	3	13	31	25
%	4	18	43	35
Q12 (ii)	Daily	Weekly	After 2 wks	Monthly
Frequency	12	9	13	17
%	17	13	18	24

Q13	Training	Credit	Security	Sheds/stalls
Very high	0	0	5	0
High	5	8	10	8
Low	9	13	45	31
Very low	58	51	12	33

Q14	Lower Tax	Improve Security	Improve Social Services	Lower Rent
Very important	60	20	32	27
Important	10	40	35	27
Fairly important	2	11	5	11
Not-important	0	1	0	7

Communication facilities	Information & marketing
3	5
21	15
42	36
6	17

Assist in marketing
12
29
21
10

Appendix D: Letter of Introduction