

**FACTORS AFFECTING PROVISION OF NON-FINANCIAL BUSINESS
DEVELOPMENT SERVICES BY NON-GOVERNMENTAL ORGANIZATIONS'
TO MICRO AND SMALL ENTERPRISES IN NAIROBI**

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BY

BETH WANJIRU MWANGI

SUPERVISOR

MR. JACKSON MAALU

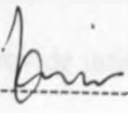
A management Research Project submitted in Partial Fulfilment of the Requirement of
the Degree of Masters of Business and Administration (MBA) degree.

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DECLARATION

This research is my original work and has not been presented for a degree in any other university

Signed  Date 31/10/2001

Beth Wanjiru Mwangi

This research project has been submitted for examination with my approval as university supervisor

Signed  Date 31/10/2001

Jackson K. Maalu

Lecturer

Department of Business Administration

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List of Abbreviations

Appro Tec	=	Appropriate Technologies for Enterprise Creation
BDS	=	Business Development Services
CBE	=	Community based enterprise
CBS	=	Central Bureau of Statistics
DFID	=	Department for International Development, Government of The United Kingdom (previously ODA)
GOK	=	Government of Kenya
ICEG	=	International Centre for Economic Growth
IYB	=	Improve Your Business
K – MAP	=	Kenya Management Assistance Programme
KREP	=	Kenya Rural Enterprise Programme
KWFT	=	Kenya Women Finance Trust
MFI	=	Micro Finance Institution
MSEs	=	Micro and small enterprises
MSETTP	=	Micro and Small Enterprise Training and Technology Project
NGOs	=	Non governmental organizations
SAMED	=	Small and Micro Enterprise Development
SITE	=	Strengthening Informal Sector Training Enterprise
TPCSI	=	Training and Production Centre for the Shoe Industry
WED	=	Willpower Enterprise Development

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ABSTRACT

This study was conducted with the objective of finding out the factors that affect provision of business development services by Non Governmental Organizations to micro and small enterprises (MSES) in Nairobi.

MSEs play a significant role in employment creation and economic growth in Kenya. However, their growth is hampered by a myriad of problems. To promote their development and growth, the government has enacted policies. Numerous projects offering business development services have been initiated in collaboration with donors and other non-governmental organisations to address the constraints facing the MSEs.

The focus of the study was on all NGOs that offer business development services in Nairobi. However, two private companies offering business development services were included in the study because of their semi-NGO status. The study had two main objectives: -

- (i) To establish the strategies used by NGOs offering business development services (BDS)
- (ii) To document the factors that affect provision of BDS by NGOs to MSEs

Earlier studies have shown that only a small percentage of MSEs have had access to any business development services. Even though the amount of donor and government funds being channelled into the sector has continued to grow, the number of MSEs having access to these services remains small. Additionally, an earlier study found that the business development services offered by NGOs are not perceived to be relevant by

MSEs operating in Nairobi City. The study therefore sought to find out the factors that affect provision of business development services by NGOs to MSEs in Nairobi. This is because NGOs are the dominant players and they have the longest experience in MSE development in Kenya.

A census was carried out of all NGOs offering business development services in Nairobi. Primary data was collected through personally administered structured questionnaires. The study targeted respondents were drawn from the management ranks of these organizations, ranking from business development managers and above.

The data obtained in the study was then coded and fed into the computer. An SPSS computer package was then used to analyse the coded data. Through this package, the data was tabulated in the form of frequencies and percentages. These descriptive statistics were used to analyse the first objective above. The second objective was analysed using a factor analysis model. Using the model, a priority list was derived of the factors affecting provision of business development services.

The study results showed that NGOs have developed various strategies to address issues of sustainability. Most of them rely on more than two sources for their funding requirements to hedge against risk of closure in case one source dries up. Budgetary controls are observed and they maintain lean staff structures. Most of them maintain links with associates drawn from both the public and the private sector, who are called upon to perform specific duties whenever need arises. Other measures include introduction of cost sharing, recovery of all costs from services offered, operation of

production units and other income generating activities to supplement donor funding. However, the study found there are many challenges facing these NGOs in their efforts. These include:- resistance to change by MSEs who have got used to getting free services funded by donors; inability to attract and retain highly qualified staff due to financial constraints; low education levels of MSEs operators causes communication problems as they are not able to articulate their needs; and access to MSEs who are located in remote and sometimes insecure places while others have no fixed abode. Additionally, the delivery of business development services by these NGOs is severely affected by a combination of factors. These include: general economic trends, legal trends, political trends, technological trends, influence of funding agency, recovery of costs, demand by MSE operators and strategic positioning in that order. The fact that demand by MSEs ranks a poor seventh was perceived to contribute partially to the findings of the earlier study that had found that MSEs do not perceive business development services offered in Nairobi to be relevant. The study concluded there is need to build the capacity of the NGOs to address the factors affecting delivery of business development services so that they can be demand driven

1.1 BACKGROUND

Interest in the development of micro and small enterprises in Kenya gained momentum as a possible remedy to the stagnation of economic development and escalating unemployment problem in the early 1970s and the early 1980s. However, the main impetus came from ILO Mission to Kenya in the early 1970s (ILO, 1972).

The ILO mission report followed trends in the developed economies in favour of small enterprise development. In the 1950s and 60s, small firms were written off as out of date forms of economic activity (Stoker, 1996). The trend was towards large firms due to perceived economic benefits attributed to economies of scale from mass production techniques and global marketing techniques. However, there was a shift in managerial thought in the 1970s. There was increased research into the behaviour of small firms and by the late 1970s and 80s there was a shift of emphasis from a managerial to an entrepreneurial economy in which growth was being fuelled by small and medium enterprises. The revival of small enterprises began in the U.S.A. in the 1960s and since the late 1960s the creation of new jobs has shifted from the country's largest organisations to small and medium sized firms.

The ILO Mission Report on Employment of 1972, which highlighted the contribution made by the informal sector, formed a base for subsequent government policies to enhance the development of the MSE sector.

The 1974-79-development plan laid down proposals for the implementation of small-scale industry policy: provision of direct assistance to small business over Kenya; and establishment of an organisation that would give extension services to the small enterprises. The 1979-83-development plan improved on this plan by recognising the need to create and strength institutions and schemes for assistance of small enterprise sector. The 1984 – 88 development plan envisaged a full-fledged Small Industries Division in the Ministry of Commerce and industry.

To argument the 1984-88 plan, the sessional paper no.1 of 1986 on Economic Management for Renewed Growth was developed as a blue print for the renewal of economic growth. The paper emphasised the growing importance of the informal sector in economic development in terms of employment generation. Sessional paper No.2 of 1992 on small enterprise and Jua Kali development in Kenya sought to create an enabling environment in which small-scale enterprises can thrive. It also highlighted the need for both financial and non-financial support services to the sector in order to create an entrepreneurial culture in Kenya.

Unfortunately, the growth of the sector has been hindered by a myriad of problems. A lot of resources have been channelled to the sector through NGOs, public as well as private sector institutions that offer both financial as well as non financial support services to MSEs in order to overcome the constraints hampering development of the sector.

Although the amount of resources spent and the number of institutions offering support services to the sector has continued to grow, accessibility to these services remains the

preserve of a few entrepreneurs. There are approximately 1.3 million MSEs employing some 2.4 million people. However, only less than 10% of these enterprises have had access to any form of formal support from the existing providers of either financial or non-financial support to MSEs. (CBS et al 1999)

Over the last decade, MSE development programs have emphasised the provision of credit to address lack of capital while less attention has been paid to provision of business development services (BDS) such as marketing assistance; training and technology supply services (Barton 1997). This has resulted in a lopsided development marked by a growth in impressive initiatives to address lack of capital while the other support services i.e. BDS appear to have been left lagging behind. This situation is worrying in view of the fact that access to credit is only one of the problems encountered by MSE. Access to growing markets, new technologies, and appropriate training is often as important as or more important than financial constraints (ibid). It is therefore imperative that MSEs have access to BDS if effective development of the sector is to be achieved.

Although various studies have been carried out on the problems facing MSEs, few studies have been carried out on the support services offered to MSEs to promote effective development of the sector. Most studies carried out have looked at financial support services while studies on non-financial support services remain few. A recent study on perception of existing support services by MSE operators in Nairobi concluded that available services are not perceived to be relevant (Wakah, 1999). However, the study found there is a high and growing demand for business development services.

This study sought to establish the strategies used by non-governmental organizations in provision of business development services (BDS) and the factors that affect delivery of these services to meet the demands of the growing number of MSEs. Two private companies and one donor project were included in the study to give a more balanced view of the MSE market place.

For purposes of this study, micro and small enterprises (MSEs) have been defined in line with the definition adopted by the 1999 National Baseline Survey of MSEs (CBS et al 1999) because it contains the most recent data pertaining to the MSE sector in Kenya. The definition includes all businesses employing up to 50 workers, whether paid or not. Micro enterprises refer to those business enterprises employing up to ten workers while those employing more than ten and up to 50 workers are categorised as small enterprises. It covers both informal as well as formal sector employing up to 50 people, irrespective of site (home, street, mobile unit). Additionally, a MSE may be undertaken as a main activity or as a secondary activity and may be permanent, temporary, or casual.

1.2 Role of small and micro enterprises

MSE's continue to play a significant role in economic development of Kenya because of their growing contribution to employment generation and gross domestic product. By 1999, there were 2.4 Million people employed in the MSE sector while the sector's contribution to GDP was estimated at 18.4% (CBS et al 1999). These figures reflect a remarkable growth compared to the 1993 and 1995 surveys which indicated the sector employed 2million and 1.2 million people respectively. The growth in employment opportunities is particularly impressive in view of the fact that the overall economic

growth rate has been declining steadily over the same period with the GDP declining from 4.3% in 1990, 2.3% in 1991, to a dismal 0.2% in 1993. The projected "growths of 6-7% after 1995 were never realised and 1999 recorded a dismal 1.4% growth rate in GDP.

The resilience of the MSE sector in the face of declining economic performance in Kenya has attracted the government's attention to the sector as a possible remedy to reduce the growing unemployment problem. Consequently, the potential inherent in the sector is acknowledged in Sessional paper no.2 of 1996 on industrial transformation to the year 2020 in which it is included as an integral part of the industrial sector. The paper notes the importance of the informal sector extends beyond employment. This is because it provides a "point of entry" for many Kenyan entrepreneurs into the manufacturing and service sectors as well as a "testing ground" for development of low cost products.

1.3 *Problems facing Micro and Small Enterprises*

Despite the various policies drawn up to support the development of the MSE, it continues to be dogged by a myriad of problems. Various studies have been carried out to determine the problems facing the sector. Mbuvi (1983), Maalu (1990), and Kilonzi (1992) looked at the various problems facing MSEs and make it necessary to offer support services to enhance their growth and development. Problems identified by the various studies include: lack of capital, lack of business experience and training, high level of dead and slow moving stocks, poor record keeping and financial management, low demand, saturated markets, inadequate management skills and harassment from local authorities.

The key concerns facing the sector have been categorised into three: - lack of capital, inhibiting enabling environment, and poor non-financial promotional programmes (NFPPs) (Kibera 1996).

(a) An inhibiting Enabling Environment. This environment has a highly controlled regulatory system, inadequate infrastructure; limited markets and results in poor access to appropriate technologies by entrepreneurs (GOK/ILO/UNDP, 1989)

(b) Lack of Finance i.e. Investment and working capital funds- this is caused by the stringent collateral requirements, scarcity of "bankable" proposals, low liquidity levels of banks, and the high cost of lending to small enterprises.

(c) Poor non-Financial Promotional Programmes (NFPP) - The various promotional agencies operating at policy, enterprise and change agent levels of influence are not cost effective, are poorly integrated, are implemented without adequate assessments of target groups and lack private sector investment (GOK/ILO/UNDP 1989). At the enterprise levels, entrepreneurs do not have access to technical, managerial and entrepreneurial training. At this level, there is also a serious lack of information. At the institutional (change agent) level, entrepreneurs do not carry out an adequate need assessment and therefore do not always select suitable techniques for assistance, for example in the selection and preparation of entrepreneurs. At policy level, attitudes approaches and skills of entrepreneurs, change agents and policy makers have not been adequate.

McVay (1996) used a BDS framework to identify constraints facing MSEs along a continuum from internal to access to external. These constraints were categorized into: poor management and technical skills (internal); inadequate technology (internal / access); disadvantageous market structures (access / external); poor infrastructure (access / external); and government over –regulation, harassment, among others (external).

The categories of interventions corresponding to these constraints include; training, technology development and dissemination, marketing, infrastructure, advocacy and policy reform, multiple services interventions (sub sector development, co-operatives, associations and networks, business development centres. etc) *ibid.*

1.4 Paradigms in Micro and Small Enterprise Development

Due to the economic importance attached to the MSE sector, different models have been pursued to enhance its development in the last three decades. During the 1960s and 1970s, the Community Based Enterprise (CBE) paradigm was adopted. Development efforts focused on assisting groups or communities to generate their own sources of income. The approach did not target individual entrepreneurs and this inhibited innovativeness and efficient management. Consequently, it was abandoned in favour of the integrated approach to Small Business Development (SBD) paradigm in the early 1980s to the late 1980s. Under the SBD model, support to MSEs included credit, training, marketing and technical assistance to individual entrepreneurs in an attempt to address the multiplicity of problems faced by small enterprises (or at least the major ones). (Theocharides and Tolentino. 1991)

The fundamental difference between the CBE and SBD approach was that it focused at individual owned enterprises as opposed to community ownership of businesses. However, both approaches had a poor financial self-sufficiency base, which meant they had a very low capacity of extending their services to large numbers of those in need, and this limited their impact.

The minimalist approach to small and micro-enterprise development (MSE) paradigm in the late 1980s to early 1990s replaced the SBD paradigm. The criticism of the integrated approach, which revolved around the cost effectiveness of delivering services, helped to shape the new model. The model emphasised the need to focus and separate (at least operationally and administratively) the functions of financial and non-financial services. A new objective of transforming MSE support projects into commercially viable institutions was introduced. Emphasis was placed on the private sector approach at both the client level and the support institutions level. It is on the basis of these new innovations that the current generation model of micro-finance for the provision of financial support services has been developed. Non-financial services such as training, technical assistance and business counselling were unfortunately, relegated to secondary position.

The innovations made in provision of financial support services through provision of credit and savings facilities to MSEs in order to overcome constraints posed by lack of capital have been remarkable. The development of the micro finance model has explored new horizons, beyond micro enterprises, by putting emphasis on savings as a major

intervention in itself as opposed to being complementary to credit. The success of the approach is demonstrated by the recent conversion of K-Rep, from a micro finance institution (MFI) to a commercial bank, and, the growth of MFIs like Kenya Women Finance Trust and Faulu Kenya.

While the performance of the minimalist credit schemes and subsequent development of MFI is well documented, few studies have been carried out on development of BDS to document what has been happening since the minimalist credit model was popularised. However, the few studies carried out have indicated clearly that MSEs access to BDS providers has remained limited and their services remain a preserve of a few entrepreneurs.

Development of micro finance without BDS will lead to minimal growth of enterprises because of the failure of minimalist credit to effect an upgrading in productive capacity or productivity. Additionally, MSEs generally face a range of constraints other than finance, including access to improved technology, raw materials, skills training and information on market opportunities (Dawson and Jeans, 1997). Availability of credit without corresponding BDS to upgrade the capacity of MSE will not only lead to inefficient and possible misallocation of resources; but a flooding of MSE markets characterised by low values added activities, productivity and incomes as well. In view of the fact that marketing is the most severe business problem reported by MSE entrepreneurs in Kenya, representing 34.1% of all problems (CBS et al), it is apparent provision of credit alone will not spur the growth of the MSE sector. It could also be a signal that problems of saturated low value markets are already at our doorstep and they must be addressed, not

wished away. We must then concur with Smillie (1991) that "credit is certainly a missing bridge on the road to development and technology is another, but alone, they provide only part of the solution".

Consequently there is a need to offer complementary BDS to MSEs to increase the effectiveness and impact of credit. BDS providers must therefore come up with innovative strategies in offering BDS to build the capacity of MSEs to identify opportunities to source, install and operate equipment; to apply skills and techniques to the production process; and to respond to changing market conditions.

Despite government efforts aided by a growing number of donor agencies and Non governmental agencies as well as private sector institutions to assist the MSEs overcome some of the factors inhibiting their growth, the number of MSEs benefiting from these support services continues to be dismal. In 1995, only about seven per cent of MSEs had been reached by any form of non-financial assistance. Additionally, only 2 percent of MSEs had received non-financial assistance from formal institutions (Daniels, et al 1995). By 1999, only 7% of MSEs had received any form of non-financial assistance in four years (1995 – 1999) despite the increasing number of formal and informal organisations in the country offering all types of non-financial assistance. (CBS et al. 1999). Unfortunately few studies have attempted to look at provision of BDS to MSEs to explain the limited accessibility of these services to MSE operators.

In view of the recent research findings on perceptions of services offered, and the continued small number of MSEs benefiting from formal BDS despite increased funding

for the purpose, this study will seek to establish through research the factors affecting provision of BDS by NGOs in Nairobi.

1.5 RESEARCH PROBLEM

The minimalist approach to MSE development has led many NGOs to concentrate on either provision of financial support (credit) or non-financial support. (business development services) Those concentrating on provision of credit have moved on to micro finance and commercial banking thus proving that provision of financial services to MSEs is not only a sustainable venture but a profitable one as well. This has opened the sphere of operation to all the poor people, be they business operators or not. It has also opened windows of opportunity for exploring new savings and credit products to address a wide range of financial services for poor communities.

Unfortunately, the provision of business development services appears to have been lagging behind. Although there has been much growth in interest and expansion of services in recent years coupled with a proliferation of BDS service providers, existing programmes serve only a fraction of the MSE market: the programmes viability depends on continued access to outside funding, a source that would do great harm if it dried up suddenly and unexpectedly; and little has been done to systematically evaluate the efficiency and effectiveness of programmes and internal funding of such efforts.

The changing operating environment raises a number of questions for NGOs providing BDS. What strategies are they using to position themselves in the changing environment in order to meet the needs of MSEs?

A recent study by Wakah (1999) showed that the need for relevant BDS as perceived by MSE owner managers in Nairobi is very high and requirements for BDS far exceed their supply. However, available BDS were not perceived to be relevant). These findings have highlighted a need to review how BDS are offered in Nairobi.

What factors affect the provision of BDS by these NGOs that may have affected the perceptions of MSE operators on their relevance, and probably explain why they have not been able to meet the high and growing requirements for BDS?

While developments in the delivery of credit and developments taking place have been documented, few studies have been carried out on provision of BDS thus creating a gap in the existing body of knowledge on developments taking place in the delivery of BDS. This study therefore seeks to bridge the identified gap by looking at strategies used by NGOs to offer BDS and the factors affecting provision of BDS.

1.6 OBJECTIVES OF THE STUDY

- (iii) To establish the strategies used by NGOs offering business development services (BDS)
- (iv) To document the factors that affect provision of BDS by NGOs to MSEs

1.7 IMPORTANCE OF THE STUDY

The growth of the MSE sector continues to play a significant role in economic development, particularly in view of the dismal performance of the formal sector. All the support that can enhance further growth of the sector should therefore be encouraged because of the sector's contribution towards income and employment generation and subsequently, poverty eradication

The study will be important to the following: -

The providers of non-financial business development services - This includes the government agencies; non-government organisations and private companies. They will be able to critically evaluate the services/ products and their outreach strategies to MSEs.

The users of non-financial business development services - These are the MSE owner managers. They will get to understand the selection criteria adopted by BDS providers and thus prepare and position themselves more appropriately to benefit from available services / products. They will also gain an understanding on what services are available for them. They are also likely to benefit from improved outreach strategies that may be adopted by BDS providers.

The Government -The government has identified the MSE sector as an integral part of industrialisation to be attained by the year 2020. The findings of the study will be useful in the development of a strategy framework within which BDS can be made available to potential and existing MSEs to enhance further growth in order to facilitate the industrialization process.

The donor community - A lot of donor funds are channelled through NGOs to support the growth of MSEs. This study will give the donor community an insight into some of the factors that affect provision of BDS and thus prompt them to evaluate the NGOs they choose to work with more objectively, and prompt them to identify interventions that may improve delivery of BDS.

The academic community - This study will add to the body of knowledge available in the area of MSE development. It will also form a basis for further research in the area of non-financial services and provision of BDS

1.8 Organisation of the study

The research project is organized in five chapters. Chapter one (which is already developed above) consists of the background, the statement of the research problem, objectives, and importance of the study. Chapter two consists of the literature review on business development services.

Chapter three deals with the aspects of research design, namely, population of the study, sample design, data collection methods and instruments of data analysis. Chapter four deals with research findings after the data was carried out, while chapter five deals with summaries, conclusions and recommendations resulting from the study. It also addresses the limitations experienced in the study and recommendations for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Provision of BDS has been identified as a certificate in the development of the MSE sector. Their importance lies in the fact that they lubricate the engine of MSE development as they help business overcome various performance constraints (Ayiemba et al 1999).

Provision of BDS may be considered at three levels; the micro level, to develop client responsive services; the meso- level to support efficient, cost effective and viable local service providers; and macro level to ensure the existence of a conducive policy and regulatory environment for MSE development (Tanburn, 1999). Donor and government interventions can work at any of these levels.

The continued growth of MSE has attracted a number of assistance programmes both from the government as well as donor agencies. There exists over 500 BDS providers and the majority of them target MSEs (ICEG 1999). These have been established through programmes and / or project sponsored by the government in partnership with donors and NGOs. The key programmes include:- Small Business Centres (SBCs) established at some of the technical training institutions by the MRTT and T; the Business Service Centres (SBCs) under the micro PED project sponsored by United States Agency for International Development (USAID), and the world bank funded micro and Small Enterprise Training and Technology Project (MSETTP).

Education and Training interventions include programmes and projects initiated to enhance production and management efficiency and effectiveness within MSEs. for example, management training to improve business management skills. Aspects usually included in these training programmes are; formulation of business plans and proposals, record keeping, sourcing for funds, cash and debt management. The aim is to build the capacity of MSE operators in an effort to enhance / promote business growth.

According to research (Mc Grath et al 1995) development of MSEs in Kenya has been severely hampered by the lack of an entrepreneurial culture. This has been traced to the education system since independence, which tended to reflect education as the gateway to prestigious white colour jobs. The formal education system's traditional mission was to facilitate progress through higher levels of education and training to attain a formal sector job. Consequently, the informal sector emerged on the margins of the formal industrial system. Those who found themselves obliged to be self employed were often those whom the formal education system had rejected; either through lack of space, finance or ability. Formal training is now targeted for those who have not failed, but are regular students and trainees in schools, training centres and colleges. The intentions are that those with high levels of education and training should consider self-employment and the informal sector as a possible destination of first rather than last resort (Mc Grath et al 1995).

Majority of MSEs (80%) are owned by people who have at least some formal education. 23.2% have secondary education while only a small percentage (1.2%) are fairly highly educated, having completed A levels or University education. The level of education

appears to be a significant factor in determining the chances of the proprietor taking advantage of business training opportunities (Mead and Musinga 1995).

Failure to build goodwill by most small enterprises can be attributed to lack of sufficient levels of education, lack of practical training, myopia on the proprietor's part and hard economic times (Michira 1998). Pre-training helps to minimize start up and business development problems. It reduces the probability of failure by new firms within the first three years from 80% to 40%. Courses of between one to two days are more valuable as information awareness raising sessions as they help entrepreneurs note the possible risks facing their businesses thus leading them to understand the need for training on how to solve those problems. Consequently, the Chris Argyris notion of "double cycle learning" which stresses that learning is both a way of creating awareness and promotion of an inquisitive mind that is perceptive enough to anticipate other future encounters and possible solutions results (Mc Grath et al 1995).

Marketing interventions seek to address market related constraints. These have been grouped into two broad categories: those affecting MSEs at the input phase (the phase after production) and those affecting them at the output phase (ICEG 1999). Constraints at the input phase affect MSEs capacity in product development and design, and the acquisition of suitable raw material and finance for production thus constraining the capacity of the enterprise to produce commodities that are of high quality, price and quantity that can create a competitive edge against products offered by competitors. At the output phase, constraints affect MSEs capacity in quality control, packaging, transportation, and market information.

Policies that have been identified as necessary to overcome the marketing constraints include: establishment of all trade information points in all major towns through the Kenya National Chamber of Commerce and Industry; the provision of market infrastructure by local authorities, the strengthening of the capacity of the Export Promotion Council, the proposed Small Enterprise Development Authority and other institutions involved in marketing services, training and exposure of MSE operators on product design, packaging and quality management, amongst other policy issues.

Information services seek to meet MSEs' need to access timely, reliable and relevant information on market opportunities, potential buyers, prices, sources of inputs, production technologies and government regulations for them to survive in the increasingly globalized and competitive world. Whereas remarkable achievements have been made, accessibility to timely and reliable information, both at the support institution level and at the MSE level, continues to be a major impediment to the growth of the MSE sector (ICEG 1999). This has been made more critical by the liberalization of the economy that has meant MSE products have to compete against the entire global market.

At the MSE level, three major types of information are required: information on production technologies; information on markets (for both inputs and outputs) information on available support services and the regulatory environment within which they operate. To address these key issues, four broad areas of policy intervention are required namely:- policies for strengthening the country's capacity to acquire new knowledge and information on issues related to the sector; increasing the sector's capacity to absorb information; creation and strengthening of the institutional structures

for information dissemination; and improving the overall accessibility of telecommunications infrastructure.

2.2 Lessons that have emerged on provision of BDS

Following studies on BDS, general lessons have been learned that apply across BDS programs (Angell, 1999; Ashley, 1992; Atwood and Baviston, 1987; Tanburn, 1996; USAID 1995, Working Group on Business Development services, 1996; McVay 1996). These include: - services should be demand driven not supply driven; an accurate needs assessment is an important first step. Involvement of potential clients is required; a focus on particular sub sectors or services helps develop services that are more relevant than services designed for a general audience; institutions should specialise in providing a few services, and create linkages with other institutions who can provide complimentary services; service delivery should be business like; programs need to reach scale, which is often achieved through “leveraged interventions; and, programs need to develop sustainable service delivery mechanisms, usually through NGOs or the private sector.

Consequently, all BDS should also be “tailor made” i.e. specific and relevant to target group; participatory in approach i.e. allow flexibility in design; maximise outreach; build on demonstrated initiative i.e. build on what is already there rather than supplanting it with an imported vision or model; systematic in approach and programme integration i.e. though BDS providers do need to have a significant focus in their activities, there is need for a broader strategic awareness; focus on cost analysis i.e. should include costs in their analysis of performance by allocating costs to different activities so that they can relate

outcomes of BDS interventions with the input costs; have an element of impact assessment built into them as an integral part of the programme; apply the principle of subsidiarity i.e. delegate responsibility to the lowest possible level to those who are closest geographically and socially to MSEs themselves (Donor Support Working Group, 1997).

Every BDS intervention has to address sustainability issues from the outset at two levels, the level of impact (in relation to MSE) and the level of BDS provider. Two points have been made in considering how the sustainability principle should be applied; first, the priority in BDS should be to support interventions which appear to offer a credible path to sustainability, through, for example, incorporations into private learning mechanisms or commercialisation of services; i.e. which are finite, offering a realistic end of donor involvement; secondly, interventions which do not offer a finite end need to be clear about their rationale and have a realistic strategy for long-term support.

The growing interest in BDS has been prompted by the growing realization that the problems facing MSEs can only be addressed through a holistic approach and the spread of minimalist credit on its own will therefore not suffice. This has already been demonstrated in practise, for instance, a USAID review of 32 research and evaluation reports found that while credit can have an important role to play in enabling micro enterprises to survive in the face of economic crisis, few experience sustained growth (while) a majority grow only a little and even out, or maintain their operations at a constant level (Sebstad and Chen, 1996). This is mirrored in another study that reported that 'it was unusual for credit to trigger a continuous increase in technical sophistication.

output or employment: it was much commoner for each of these variables to reach a plateau after one or two loans and remain in a steady state (Hulme and Mosley 1996)

Writing on the same subject Berger (1989) noted, "The preference for direct credit programmes has developed despite little evidence of the net impact of these programmes on poverty"

Emerging evidence points to the need to develop business development services alongside provision of credit for effective development of MSEs. Dawson and Jeans (1997) looked beyond credit at BDS and the promotion of innovation among small producers. They found that in recent years, minimalist credit has become the predominant form of support to small producers while the role of business development services has diminished. They argued that while there are obvious immediate benefits in minimalist credit schemes, these are in many cases neither particularly deep in terms of their impact nor sustainable over time. Secondly, the poorest often derive few or no benefits and can, in fact, be disadvantaged as a result of credit schemes.

Smillie (1991) describing the impact of minimalist credit programme run by Care in Kenya had the following to say: -

" The project has proved that women can be good credits risks. They are increasing their incomes and building a savings cushion. But there is little or no value added in what they do, no increase in productivity, no reduced dependence on external sources of supply ... women borrowers assuredly make the best of their loans but their endeavours are limited to the narrow confines of the world to

which they are generally restricted. That is why so many never get beyond traditional handicrafts, food processing and petty trade... without tried investment opportunities based on sound technical information and knowledge. minimalist credit programmes for women will result in minimal improvements."

Maalu et al (1999) carried out an impact assessment of the Women's Enterprise Development (WEDCO) project based in Western and Nyanza provinces of Kenya and found there was weak evidence of a link between receipts of a first loan and growth in business profits, although this was barely sufficient to cover loan repayment cost. No direct significant impact was detected of participation in WEDCO on individual income growth or business employment growth, thus leading the team to conclude that "...the 'rules of thumb' for income and employment generation used in WEDCO and other micro-finance appraisal documents are likely to have been excessively optimistic".

Dawson and Jeans (1997) concluded that though credit has made a major break through and exceeded the expectations of many, in terms of impact and effectiveness, it has proved somewhat disappointing thus leading to the emergence of a more prominent role for BDS in MSE support. More sophisticated and lucrative markets exist that MSEs do have the capacity to enter, given appropriate support. Recent trends towards increased liberalisation and structural adjustment have opened up significant new market opportunities for MSEs. Currency devaluations have led to (often-significant) increases in the cost of imported goods of all kinds. The break-up of parastatal monopolies in many countries has created further market space, which small producers have the capacity to penetrate; and the lowering of trade barriers has created many export

opportunities, particularly in the field of non traditional agricultural exports. With large industries frequently characterised by high levels of import dependency, both for their equipment and spares for their raw materials, the greater reliance of MSEs on domestic resources offers them a competitive advantage in this new market place.

According to the same study, the response of MSEs to the emerging opportunities has, however, been generally weak. Yet where appropriate support has been available, MSEs have shown a tremendous capacity for innovation and growth. They have been able to make a substantial contribution to the achievement of key social and economic goals, including employment generation, improved incomes and equity, indigenous technological learning and import substitution (Dawson and Jones 1997)

Parker and Torres (1993) carried out the first baseline survey of micro and small enterprises in Kenya which revealed there were over 900 000 MSEs employing nearly 2 million people or 16% of the population of working age. Very few enterprises had received business assistance of any type. Of the 9% that had received financial assistance, only 4% used formal credit sources, with the majority relying on informal channels. Only 1% of enterprises received non-financial assistance such as training or marketing assistance. They drew the following conclusions with regard to appropriate strategies in provision of support services to MSEs in Kenya: -any strategy to assist the MSE sector should focus on assisting enterprises with 11 or more workers for two reasons: one, this is how to reach those enterprises that provide 93% of the sectors' jobs; and two, this is the population from which tomorrow's small enterprises will emerge; any strategy that attempts to reach this population must both attempt to reach rural businesses

and home based enterprises, due to their sheer numbers, general invisibility, and involvement of women; women entrepreneurs face a different set of constraints than other entrepreneurs, which should be taken into account in strategy development; finally, at least in the short-run, micro enterprise development will unavoidably be tied to the development of the agricultural sector (Parker and Torres, 1993)

Daniels et al (1995) conducted a similar survey and found that only a small minority of MSEs had benefited from any form of credit or non-financial assistance. Only about ten percent had received any credit while only about seven percent of the entrepreneurs reported having received any form of non-financial assistance and much of this (4.8%) was in the form of informal advice (Daniels et al 1995).

The status of MSE access to support services continues to be dismal. By 1999 only 7% of MSEs had received any form of non-financial assistance in four years (1995 – 1999) despite the increasing number of formal and informal organisations in the country offering all types of non-financial assistance. Only 7% and 4% reported having received any form of non-financial assistance in 1995 and 1993 respectively. (CBS, et al 1999)

2.2 NGOs as MSE Development Agencies

It is the perceived ability of NGOs to reach the most disadvantaged section of society that has attracted most interest, particularly from donors (McGrath et al 1995). NGOs differ from government agencies in that they have a much clearer focus on the informal sector.

To understand the operations of NGOs, it is important to understand some of the key principles upon which these operations are based. Camay and Gordon (1997) have listed the following as the key NGO principles: **Autonomy** – The following three factors will make an NGO better to retain its autonomy; a clear mission statement to which the NGO adheres, transparent and effective internal governance, diversified funding sources; **Accountability** is inextricably tied up with autonomy in that if an NGO fulfils its responsibility of accountability to various parties, they are more likely to respect its autonomy; **Sustainability** - organizational sustainability requires effective management systems and successful program activities; **Leadership** of the organization must be visionary, responsive, open to change and effective at motivating staff; **The need for ongoing capacity** – building within the organization, with skills enhancement opportunities for staff, career paths which provides incentives for good performance and general sense of “professionalism” will produce the atmosphere necessary for organizational suitability (Camay and Gordon 1997).

A lot of donor funds have been channelled towards development of MSEs through NGOs who have enjoyed a lot of support both from donors and the government because of their perceived effectiveness of working with targeted groups especially disadvantaged ones (Harvers, 1991). Reasons that have been advanced in favour of NGOs as development agents include: - flexibility and responsiveness to target group needs, innovation, creativity and willingness to experiment in ways that government agencies are unable to do with their standardised “blue – print plan” projects and they are much better positioned to mobilise popular participation as they operate close to their target groups. (Ibid)

Harvers contradicts Nyoni (1987) who while commenting on NGO performance in Zimbabwe writes. "... national NGOs, which seek from the centre to address the needs and aspirations of the poor are equally doomed to ineffectiveness by starting from too large a scale and thus remaining too remote from the local circumstances of the village to be of real relevance at that level. (Nyoni, 1987 P. 51)

Participation as perceived by Harvers is equally difficult to achieve and sustain. Although NGOs have a lot of potential in this area, the potential is often not realised. (Fowler, 1988) Participation should be seen as two ways; involvement of the poor in the project design and execution, but also participation of intermediary NGO in the poors' struggle for equity, human rights and democracy (Clarke, 1992) Clarke suggests clearly that NGOs may not be as participative as popular literature suggests because their field staff exercise much of the decision-making rather than the local people themselves. An NGO's survival as a whole is totally dependent on "customer" satisfaction for its survival. Be it those micro and small entrepreneurs who are prepared to forgo a day's earnings to attend one of the NGOs training sessions, or the donor agencies who support them; continued custom is dependent on satisfaction with the product. (Harvers, 1991)

Staff motivation is also particularly important in micro enterprise development, where target group may have little previous experience of business. If they do not care, this attitude is soon conveyed to and will rapidly break down the commitment of the person he or she is trying to work with (Harvers, 1991). Though he does not give empirical

evidence Harvers and other authors have noted NGOs are plagued by the following weaknesses: -

Policy orientation – NGOs sometimes put social consideration before economic viability and the interests of the community. These values sit awkwardly with the approaches commonly adopted by small enterprise programmes which have generally worked with those who can make most of the assistance, measured in economic rather than social terms and have generally found it easier to work with individuals rather than communities; *Evaluation* – NGOs avoid quantitative impact assessments and consideration of long-term sustainability; *Capacity gap* – many NGOs are under staffed and / or do not have the skills and experience necessary to expand operations or sometimes even to adequately achieve current objectives. (Burbank, 1991) while personnel costs are often seen as “costs to be minimised and not an essential resource for the organizations future development (Havers, 1991); *leadership and succession* – there is need to build NGO management structures where strategic planning and major decisions are shared responsibilities and where the founders’ succession is planned (Burbank, 1991); *auto business culture* – NGOs are built in highly ideological foundations and values, which make them, attract “ideologues” as employees (Harvers 1991). For many of these, “business is a cultural villain – the enemy”. Therefore it is difficult for such NGO employees to embrace even micro-business support without modifying their ideology values. The employees may therefore face an ethical dilemma of personal integrity. Burbank noted while such attitudes may be prevalent in UK and USA, there is little evidence that such bias exists in Kenya; *lack of programme integration* – many NGOs in small enterprise development do not have integrated programmes of support with credit, training, consulting, etc (Harver, 1991).

There are differences of opinion among different authors on what support is more crucial than others. Some seem to give more weight to training and other auxiliary services rather than financial support in form of credit. Harvey and Harpers seem to perceive training to be more important than credit. There has been no conclusive research on the matter: *programme expansion* – NGOs have difficulty in expanding and broadening their scale of work. (Burbank 1991). But there is nothing that precludes their pursuit of strategies aimed at large-scale consequences, as demonstrated by a rich experience (Brown, 1989).

Burbank noted there are three factors necessary to start and maintain any development organization; people, information and in most cases money. Committed staffs are often the critical constraint to growth of services from an organisation. The staff-sustaining capacity of an organisation can in part be analysed by the sources for people and money. For many development organisations, there are three broad sources of money and people; local sources through donations, gifts, etc, sources from the organisations operations, or “expatriate” sources literary from outside the country (Burbank, 1991). Effective organizations must be able to meet their recurrent expenditure, replacement capital, funds to start up new operations including the organizational start, and expansion or replication expenditures that are necessary to expand existing operations and / or to move into new geographic areas with the same programme.

Like all organizations, NGOs are dependent on the environment in which they operate for survival. They are constantly struggling to maintain their autonomy and control over

their own objectives and programs, while at the same time balancing pressures from their constituencies, donors, governments, and other partners (Camay and Gordon, 1997)

While a lot of donor funding towards the development of MSEs in Kenya has been channelled through NGOs, a rapidly changing environment in the last decade has posed a new set of challenges, which calls for drastic changes in strategy if these NGOs are to survive. Costs have continued to rise in the face of growing competition for fewer donations and grants, there is growing confidence in the power of competition and the profit motive to promote efficiency and innovation and the sources of funds available to non profits are shifting to favour more commercial approaches (Andreasen 1996).

Since NGOs are dependent on the continued support of their constituents, donors, governments as well as other stakeholders for survival, they must position themselves strategically in order to meet the additional expectations. Additionally, they must craft strategies that will place them in a unique and valuable position i.e. they must adopt competitive strategies and deliberately choose a different set of activities to deliver a unique mix of value.

This is a very challenging task because service is a strategic concern. Unlike products, services are transient – they are consumed there and then (Irons, 1994). Consequently, in provision of BDS, strategy cannot be defined and laid down in minute terms but must be a guide which not only governs every action, but it is in turn influenced by those actions. In this situation, top managements' role continues beyond originating strategy to guiding the implementation and learning from this, and setting the example.

Success in any undertaking comes from strategies that ensure that an organization has a purpose, and that resources are used to achieve this aim effectively and consistently, over time (Ibid). BDS providers can only do this through people, both staff and customers (MSEs). Staffs have the responsibility not only to execute plans, but they are virtually the focus of activity if service is to be delivered consistently (Ibid)

Similarly, the MSE market place has changed. Historically, those who found themselves obliged to seek employment in MSEs were often those whom the formal school system had rejected, either through lack of space, finance or ability (McGrath et al 1995). However, structural adjustment programmes implemented in the 1990s have resulted in restructuring of both private and public organization thus leading to retrenchment of well-educated people before retirement age. This group has resorted to the MSE sector as a source of livelihood.

Faced by these challenges, NGOs must identify strategies to deliver BDS in ways that do not create dependency on their constituencies as well as potential sources of income in order to become sustainable. They must also design appropriate programs to cater for the new group of MSE entrants.

Aspects of NGO activity, which are receiving increased attention as criteria for support include the following: - ability to scale up the operations in order to have a wider outreach and to replicate their successful projects; cost effectiveness; while NGOs have always been perceived to implement projects at lower cost than public agencies, this has

not been documented; now donors and governments want evidence as to whether in fact NGOs can deliver services in a more cost effective manner. (Camay and Gordon 1997) Unfortunately, no conclusive studies have been carried out to date to provide this evidence.

Burbank (1994) carried out a survey of NGOs as small business development agencies in Kenya and concluded there seemed to be no strategic thinking or theory of what the right mix of agencies and programme strategies might be to ensure that client needs are met. He found that while NGOs are working through out the nation to assist the MSE sector, only a small percentage of Kenya's total MSEs are being assisted by NGOs principally involved in MSE assistance. For instance, in 1992, agencies said that they served roughly 40,700 clients or beneficiaries of more than 900,000 estimated small and medium enterprises. The survey also found that many of these NGOs had religious affiliations, which suggests that "values" are indeed very important, at least as a motivation for institutional creation if not for employee motivation. 63% of the agencies had their programmes designed in part by "experts" and 53% "copied other programmes," suggesting NGOs involved in MSE development are not as innovative and creative as the literature claims. There was also evidence for another theory that most NGOs are "herd" creatures that adopt whatever the newest vogue is in development thinking and whatever the donors seem to be supporting. Half of the agencies surveyed chose MSE programme areas without any beneficiary participation while forty two percent (42%) of agencies said that clients had "no input" into the design of MSE programme. While majority of the agencies claimed to work with the "poor", operational definitions of poverty were ill defined for most agencies. The survey found most agencies are working with existing

small and micro business operators who may be poor but are not the most vulnerable. Agencies trying to cover larger geographical areas could be paying a high price in transportation and management overheads for covering more territory but they do not appear to be either: (a) more effective from the evaluations read nor (b) more able to cover large numbers of beneficiaries which might be reasonable "trade off". Interestingly, the cost of reaching the wider dispersion of rural beneficiaries seemed offset by lower costs in rural areas so that rural programmes were among the cost efficient.

Harper (1998) used an analogy of Dakota tribal wisdom in commenting on strategies used in enterprise development in Africa. Dakota tribal wisdom says that when you discover you are riding a dead horse, the best strategy is to dismount. However, in business generally and enterprise development in Africa in particular, the tendency has been to try other strategies with dead horses. These include: buying a stronger whip; say things like, 'this is the way we have always ridden this horse'; declare that horse is 'better, faster and cheaper' dead; or get the horse a website. Consequently, efforts over the past three decades at enterprise development have not yielded significant impact or growth. The problem is not merely one of efficiency in terms of input – output ratios and the functioning of support institutions and services, but also one of effectiveness in terms of relevance and appropriateness of strategies employed.

According to Harper (1998) the case for a serious strategic rethink of enterprise development in Africa is heightened by the challenges and implications of globalisation. Given that the strategies to date have not yielded the desired results and that the

development path of the continent is now heavily dependent on the MSE sector, there is now a pressing need to dismount the dead horse and search for proven alternative solutions.

On the face of it, Harper's criticism seems grossly unfair and it's tempting to pinpoint at progress made in MSE development over the past three decades. However, in the absence of any documented in-depth research into the strategies adopted and their impact, both at the micro, meso as well as the macro level, it is difficult to respond appropriately. Probably, emerging research findings may just prove that BDS providers are riding a dead horse.

The sources of funds available to non-profits are shifting to favour more commercial approaches. Most donors choose to limit their funding to short periods in an effort to press grantees to become increasingly self-sufficient. In the face of rising costs, more competition for fewer donations and grants and increased rivalry from for-profit companies and individual consultants entering the MSE sector, NGOs must think more strategically about their role and the services they offer. This means they must look for ways that do not create dependency in their constituencies. Similarly, they should evaluate potential revenues for all beneficiary groups service and products in order to be sustainable. This means that strategies must be adopted which guide supply in terms of demand, a skill that is called for, rather than just continuing programmes without checking where the demand is.

CHAPTER 3: RESEARCH DESIGN

A census survey was used for this study

3.1 Population

The population of interest was all the non-governmental organizations offering business development services to MSEs in Nairobi. Twenty-five (25) of these NGOs offer business development services in Nairobi. Nairobi was chosen as the area of study because it hosts the highest number of NGOs and most of the existing BDS who have a national outreach have their head offices in Nairobi.

3.2 Sampling

Since the total number of NGOs providing BDS in Nairobi is only twenty-five, a census was carried out. The BDS providers in Nairobi are located in both the central business district as well as the outskirts of the city of Nairobi.

Thus all the twenty-five NGOs were included in the study. Respondents were staff of the NGOs in the ranks of management.

3.3 Data collection procedures

Primary data was collected through administration of structured questionnaires. The questionnaire was administered through personal interviews conducted by the researcher as well as drop and pick in cases where it was not possible to hold personal interviews.

3.4 Data analysis.

Descriptive statistics were used to determine the strategies used by organizations to offer non-financial BDS in Nairobi and the extent of usage. Tabulations, frequencies were used. Factor analysis was used to determine the influencing factors on delivery of BDS and to form the basis for prioritisation. An SPSS package was used for this purpose.

Factor analysis is used for classifying a large number of interrelated variables into a limited number of dimensions or factors. It also identifies the underlying constructs in the data, which are termed factors. The input to factor analysis is usually set of variable values for each respondent in the sample. Factors that influence delivery of BDS were allocated the following values:

1= Extremely weak 2= Weak 3= Somehow Weak 4= Strong 5= Strongest

Values attached by respondents (five cases) to variables attributed to such factors were inputted in form of a matrix.

Factors scores: One output of a factor analysis program is value for each factor for all respondents termed as factor scores.

Factor loadings: This is the co-relation between factors and variables. They are used to interpret the factor in the sense that the higher the loading, the more the variable explains the factor.

Communality: Shows the proportion of the variables variation to the total variation that is involved in the factors.

Eigen values: is the sum of the squares of its factors loadings and shows the amount of variable extracted by the very factor.

Variable – explained percentage: Help to determine the number of factors to include the quality of their representation of the original variables. Hence, the factor with the highest percentage of explained variance presents the most parsimonious representation of the variable and is prioritised first.

To improve interpretation of the principal component extraction, a rotation scheme in factor analysis – varimax rotation (Aaker and Day, 1990) was used until there was a clear association between the variables attribute to delivery of BDS and the underlying factors. Churchill (1991) noted that there is empirical evidence, which indicates that varimax tends to produce (factor) loadings that are more interpretable. Others who have validly used the model include: Tarus (1997) and Wagoki (1998)

4.1 Profile of Respondents

A total of twenty (20) BDS providers were interviewed for this study. This represents 80% response rate from the population of study. Eighteen of the respondents were registered as NGOs while two were registered under the companies act.

Fifty percent (50%) of the respondents have been operational for the last ten years thirty percent for eleven to twenty years while the rest are more twenty years. The last five years reflect a high inflow into the sector of thirty percent as illustrated in Table 1. This can be attributed to the increase in the amount of donor funding channelled to the sector that has given rise to implementation of numerous projects. The growing number of BDS providers over the last ten years can be explained by the implementation of government policies to promote the MSE sector as articulated in sessional paper NO. 2 of 1992. Since then concerted efforts have been made by the government in collaboration with major donors to implement projects targeted at the MSE sector.

Table 1: NO. of years in operation

Number of years	Frequency	%	Cumulative freq.
0 - 5	6	30	30
6 - 10	4	20	50
11 - 15	3	15	65
16 - 20	3	15	80
21 - 25	1	5	85
26 - Above	3	15	100
Total	20	100	

Source: Research Data

Similarly, the low percentage of 15% of BDS providers over 20 years can be attributed to lack of clear government policies on MSE development prior to the early 1970s.

4.2 Strategies used in provision of BDS

40% of the organizations have 30 –50 employees while 30% have 11 –30 employees. Only 15% have more than 50 employees as shown on Table 2. These figures appear rather small considering provision of BDS is a labour intensive activity due to the need for personalised attention, and the high number of MSEs operating in Nairobi. However, it was reported by 60% of the NGOs that a lean organization structure is one of the strategies adopted by most of the organizations in a bid to keep costs low

Table 2: Number of employees

Number of employees	Frequency	%	Cumulative freq.
01 - 10	3	15	15
11 - 30	6	30	45
31 - 50	8	40	85
Over 51	3	15	100
Total	20	100	

Source: Research Data

To supplement the activities of the full time employees, most of the organisations rely on Associate Consultants who are called upon when need arises e.g. in case of project implementation or performance of a consultancy assignment. Business counsellors drawn from larger companies were found to be gaining popularity. Extensively used by K-MAP, the concept has grown to the extent that training of business counsellors has been incorporated as a regular course by some of the BDS providers. 15% reported they

conduct counsellor training for their associates. However, in the absence to technical developments in the MSE sector, delivery of BDS remains labour intensive and the lean staff structures make it difficult to reach a high number of people, as the Organizations are fairly small themselves. Use of extension / field staff and volunteers has not been fully exploited, though it is not clear why this has not worked in provision of BDS while it has become common feature in the minimalist credit approach.

4.2.1 Role of mission statements

Only thirty five percent of the organizations indicated they have a mission statement. Out of this, only ten percent have had to change their mission statements since inception. In the absence of the profit motive that drives profit-making companies, a mission statement is a strategic tool in providing a focus and direction for the organization, as well as rallying support from clients as well as donors.

The level of involvement during the development of the mission statement was found to be quite low, with the management involved in forty five percent of the times and rest of the staff 27.5 percent. MSE operators were only involved in 17.5 percent of the times.

Table 3: How the mission statement was developed

	N0 of times	%	Cumulative %
Participation by MSE operators	7	17.5	17.5
Staff	11	27.5	45
Donors	4	10	55
Management	18	45	100
Total	40	100	

Source: Research Data

The limited involvement of MSE operators was attributed to language barriers that make communication difficult. Many clients are only conversant with their mother tongue and cannot express themselves adequately in either Kiswahili or English. Sometimes there is no staff member who understands the local language and has to rely on interpreters who may not be very good in English themselves, which takes a lot of effort thus causing a lot of frustration to all parties

Another problem is administrative barriers / political interference – there is a lot of mistrust of NGOs by government officials which makes it difficult to operate effectively

The mission statements are mainly communicated to employees through informal means by way of work discussions and talks as shown in the following table. Only in 30 percent of the organizations are newsletters / magazines used.

Table 4: Means used to communicate mission statement to employees

	<u>Freq.</u>	<u>%</u>	<u>Cumulative %</u>
Talks	12	26	26
Newsletter/Magazine	6	13	39
Memoranda	10	21	60
Work Discussion	19	40	100
Total	47	100	

Source: Research Data

As shown on Table 5, the most commonly offered service was found to be training, with a frequency of 21.4% followed by information at 17.8%, marketing (13%) and credit (12%). Though popular with BDS providers, a lot of difficulties were cited in trying to market training to MSEs. Due to its intangibility and the inability of MSE operators to

relate it to sales in the short run, its benefits are not readily appreciated. Inability to add value to the training was a major impediment cited by the BDS providers. Innovation has been low, development of training materials is too expensive while most of the organisations operate under serious financial constraints. This means the same training materials are used over the years without taking into account fundamental changes taking place in the business environment e.g. globalisation and advances in technology.

Table 5: Business Development Services offered

	N0.	%	Cumulative %
Credit	10	1.2	12
Training	18	21.4	33.4
Consulting	9	10.7	44.1
Promoting marketing	11	13.1	57.1
Information	15	17.8	74.9
Counselling	9	10.7	85.6
Technology	9	10.7	96.3
Sub-contracting	3	3.7	100
Total	84		

Source: Research Data

Though, not part of BDS, credit was found to be offered 12% by the organisations involved in the study. This means they are still using the integrated approach that has lost favour as a development model because of cost and sustainability issues. Those offering credit considered the service as an important source of revenue because of ability to recover interest charges. However, where offered, it appeared to be the dominant activity thus relegating BDS to second place.

The least offered BDS offered was found to be subcontracting. Yet subcontracting has proved to be a resounding success in TPCSI where it has been implemented. Equipped with the most modern, appropriate technology, it is a resource centre for existing industries who use it on subcontracting basis. Through technical and marketing assistance from UNIDO, TPCSI has recently made authentic "African Look" sandals that have penetrate the international market with tremendous success.

Most the organizations offer multiple services with fifty per cent offering between five and six different services.

Table 6: Combination of services offered by organizations

No. Of services offered	Frequency	%	Cumulative %
1 - 2	4	20	20
3 - 4	5	25	45
5 - 6	10	50	95
Above 6	1	5	100
Total	20	100	

Source: Research Data

Organisations network with others offer different services. 70% of the organizations network to get technical assistance while 60% network in marketing and advisory services.

The NGOs were found to be working in collaboration with others in the same sector who offer services they do not have. These type of networks have evolved due to the multiplicity of problems facing individual MSE operators, and yet each of the NGOs only offer a limited number of services.

Table 7: Type of Networks maintained

Type of Network	Frequency	%	Cumulative %
Financial assistance	8	16.7	
Technical assistance	14	29.1	16.7
Marketing assistance	12	25	45.8
Advisory	12	25	70.8
None	2	4.2	95.8
Total	48	100	100

Source: Research Data

Table 8: Frequency of Networking arrangements

No. Of types of Networks	Frequency	%	Cumulative %
0	1	5	5
1	4	20	25
2	7	35	60
3	3	15	75
4	4	20	95
5	1	5	100
Total	20	100	360

Source: Research Data

Other services offered by these organizations include: exhibitions, net working with other Organisations. Advocacy, Collaborating/ Networking with NGO's, Infrastructure Development and drainages as well as product development.

Majority of the organizations have a branch in Nairobi or one of the major towns (70%) while 30% have branches in rural towns or other rural areas. The rationale for this distribution is not very clear in view of the fact that more than 65% of the MSEs are located in rural areas (CBS et al 1999)

Table 9: Location of branches

Location	No.	%	Cumulative %
Nairobi and other Major Towns	22	70	70
Rural Towns and other Rural areas	12	30	30
Total	40	100	100

Source: Research Data

However, according to the respondents, decisions on where to locate a branch are usually based on needs assessment (47%) of the times, while customers' requests account for 29.4 % of the times as shown on table 10.

Table 10: criteria used in deciding where to locate a branch

Decision	No.	%	Cumulative %
Government Directive	3	8.8	8.8
Carried out a need assessment	16	47	55.8
Request by local leaders	5	14.8	70.6
Customer's request	10	29.4	100
	34	100	

Source: Research Data

There is clear customer focus in most of the NGOs with 60% attaching more importance to spending as much time as necessary with each customer, rather than trying to reach as many customers as possible. This demonstrates their commitment to quality and personalized services. Working procedures are also flexible enough to satisfy all their customers, with 65% of the organizations having flexible rather standard procedures.

Similarly, it is considered more important to treat each customer individually, as opposed to letting them know they are all treated the same and 80 % of the organization strive to fit with the way their customers work.

Strategies used for cost recovery include: charging for services, cost sharing and consultancy services, charging administration an membership fees, using volunteer services, seeking sponsorships, and charging interest on loans offered along BDS. Table 11 shows the frequency with which each of the strategies is used. Cost sharing is the most popular with 35.2% followed by consultancy services with 16.8%.

Table 11 Strategies for sustainability

Strategy	Freq.	%	Cumulative %
Cost sharing	18	35.2	35.2
Consultancy services	9	17.8	52
Membership fees	6	11.1	63.1
Volunteers	5	9.2	72.3
Sponsors	3	9.2	81.5
Interest in loans	10	18.5	100
	54	100	

Source: Research Data

Most of the organizations have a monitoring and evaluation system in place with 73.5% of them carrying out periodic appraisal of achievements and end of project evaluation, and 26.5% carrying out impact assessments.

Table 12 : Type of evaluation systems

Evaluation systems	Frequency	%	Cumulative %
Periodic appraisal of achievement	14	28.6	28.6
Mid term evaluation	8	16.3	44.9
End of project evaluation	14	28.5	73.5
Impact assessment	13	26.5	100
Total	49	100	

Source: Research Data

Planning is considered to be important with 80 % of the organizations ranking it as quite important or totally important, thus it plays a central role in their operations.

Table 13: Role of planning

Rank of planning	Frequency	%	Cumulative freq.
Not Important	0	0	0
Little Important	2	10	10
Important	2	10	20
Quite important	10	50	70
Totally Important	6	30	100
Total	20	100	

Source: Research Data

Eighty five percent of the organizations have a board of directors. Sixty percent of the boards of directors have between four and eight directors, indicating most of the organizations have a broad management base.

Table 14: Boards of Directors

No. Of Directors	Freq.	%	Cumulative freq.
4 -10	12	60	60
11- 20	4	20	80
Over 20	1	5	85
NA	3	15	100
Total	20	100	

Source: Research Data

4.2.2 Strategies for sustainability

Most of the NGOs depend on a multiple of sources for their funding requirements as illustrated by Table 15. This strategy has been adopted because of the declining funds from any one donor, and the need to reduce risk of terminating projects in case one donor pulls out. While 29.8% of the organizations get funding from international donors, it is encouraging to note that 31.6 percent of them are able to generate some revenue from their operations. This may be an indicator that the issue of sustainability is being pursued.

Table 15: Sources of finances

Source	Frequency	%	Cumulative %
Local Donors	8	14	14
International Donors	17	29.8	43.8
Operations	18	31.6	75.4
N/A	14	24.6	100
Total	57		

Source: Research Data

Finance continues to be one of the major constraints facing development organizations in Kenya. Inability to pay good and attractive salaries lowers staff morale that affects delivery of training. 60% of the organisations indicated they have a problem of high staff turnover which impacts negatively on service delivery. Clients resent having to confide their business problems / secrets with new staff as it takes time to build a good working relationship. When they find the usual staffs are no longer there, an element of mistrust is sown.

Most of the organizations have come up with different strategies in order to survive. Though some progress has been achieved, this has not been without problems. Strategies that have been adopted include the following:-

Introduction of income generating activities e.g. the YMCA has encouraged each of its branches to start an income-generating project. This has led to the introduction of a wide range of activities in the different areas. While those in urban areas have introduced services such as libraries, photocopying and telephone services, those in rural areas have started activities like dairy farming. Revenue generated is used to subsidize training and other so that more people can be served

The need to generate revenue has seen NGOs acquire an entrepreneurial streak, thus setting an example for MSEs by "walking the talk". This aspect is well captured in one of the NGOs who have established an export division and they have workshops for various tasks. The export division sources for orders in the export market and then subcontracts their clients to produce the required goods. To ensure their products remain

competitive. clients are trained in product development thus developing a mutually beneficial relationship. While this NGO is able to make some money to supplement the dwindling donor funds, the clients have a ready market for their products that guarantees their livelihoods

Other NGOs have been assisted by donors to build their capacity and place themselves more strategically in the market place in order to compete more effectively and achieve sustainability. The case of the Training and Production Centre for the Shoe Industry (TPCSI) is definitely worth mentioning. Started in 1994 as a joint project of UNIDO, All Africa Leather Project, Kenya Association of Manufacturers, Kenya Tanner's Association and Kenya Footwear Manufacturers Association, TPCSI has greatly enhanced the quality and value of products made by the shoe industry thus making them competitive in the international market. The wide network it has established with all the shoe and leather goods factories in the region has benefited the industries in that they now complement each other in terms of services.

Provision of consultancy services has also been introduced by many of the NGOs as a revenue generating activity, and they are now offering services like project management, appraisals, evaluations, market research and promotion to other NGOs and donors. As a matter of fact, donors have become a very lucrative market for consultancy assignments because of their ability to pay unlike MSEs. One of the NGOs actually confirmed they no longer target MSEs directly because they cannot pay them. for the last two years they have depended on consultancy assignments from donors for survival. This view was confirmed by the two NGOs offering BDS on commercial basis.

Though they intended to target the MSE market directly when they commenced operations, their inability to pay for professional services and high incidences of bouncing cheques issued by them have seen the company implementing of donor funded projects in the MSE sector on consultancy basis rather than focusing directly on the MSE operators. This could be one factor responsible for the perceived irrelevance of available BDS by MSEs as established in Nairobi (Wakah 1999). While consultancy services ensure sustainability, the trend is likely to undermine development of relevant and cost effective BDS because NGOs no longer have an incentive to reduce the cost of their services to attract more MSEs. Thus in the quest for sustainability, the visions and missions for which these organizations were formed may become gradually blurred.

Efforts to recover programme costs are also hampered by a distorted MSE market. While NGOs are expected by donors to recover some of their program costs, the same donors are implementing bilateral projects through the government that are fully funded. To compound the problem further, different donors have different programmes, which make implementation by NGOs difficult, if not outright impossible. One example quoted was that of the World Bank funded Voucher Training program and the DFID funded Mwezi Kali 11 project. Whereas in the voucher-training programme, entrepreneurs are expected to pay just ten percent of the cost, in the Mwezi Kali project, implementing organizations are expected to recover more than thirty percent. Since the target is the same MSE market, entrepreneurs do not see why they should pay an NGO for a service that is being offered at highly subsidized rates by the government. This is perceived to be a serious problem. One of the NGOs which has been trying to implement a BDS project

in Kirinyaga reported progress has been very slow because people were reluctant to pay Ksh 4000 charged while they were paying Ksh 1000 under the voucher training programme. Another NGO that piloted one of the BDS projects actually expressed their reservations about phase two of the project to the donors since they felt that reducing the fees they have been charging on full cost recovery basis would undermine their efforts to attain sustainability. At the time of the study, they had not started implementing phase two of the project though other organizations were implementing it. The differences in fees charged can be attributed to differences in costs as illustrated by the Micro Enterprise Development Scheme (MEDS), which is a bilateral project between the Danish government and the Kenya government. Piloted with Taita Taveta Jua Kali Project between 1994 and 1997, the project is to be replicated in Kwale, Makeni, Thika and Kitui. While the project was fully funded by the Danish government, the government of Kenya committed itself to implement the project by providing personnel, offices and an enabling environment. The use of an already existing network reduces operational costs that are ordinarily incurred by NGO thus making the MSE playing ground more uneven for NGOs in these areas.

Another strategy adopted is dropping some of the courses that have been offered traditionally and introducing new ones e.g. CITC and YMCA have information technology, catering motor mechanics while some old course like carpentry, leatherwork, plumbing, painting and sign writing have been dropped out.

However implementation of these strategies is wrought with problems, for instance, Once fees are introduced, the organizations face a lot of competition from the private sector.

They are unable to compete because of financial constraints which results in lack of training materials at times

In addition to the above, other challenges reported as that have hindered the implementation of effective strategies include the following: Leadership – some leaders lack basic training and management skills and there are insufficient resources to upgrade them; membership organizations are expected to identify their members' needs. This is easier said than done. Several problems are encountered in trying to bring about change. People are needed to mobilise communities, which is an expensive affair; the onset of donor fatigue in the last few years has led to a decline in funding leading to closure of some programmes; failure to implement change with changing times e.g. through product and technological developments development leading to monotony of course offered; and historical reasons associated with donor-funded projects – there is lot of resistance to introduction of charges. Some people drop out of the projects altogether because “free” things had only attracted them

For those working in slum areas (60%) there is a strong misconception that donors give money for the poor free of charge. so many people do not see any reason why they should pay for services offered by donor funded projects. Funds would be required to sensitise people on sustainability of the projects. but the organizations do not have funds for such.

Communication is another major problem – for NGOs with a branch network, some clients are located in remote areas and to reach them is expensive and time consuming. The poor infrastructure makes it difficult to travel and sometimes people have to travel by

air, which is very expensive. Telephone / faxes are either not reliable, or they are totally absent in some areas. This was cited by 70% of the NGOs.

Another major problem is poverty – some students can't pay fees while poor people can't pay membership fees to any organization. For such people, their priorities when it comes to payment will depend on how quickly a purchase can be turned into a sale. Thus, while they may be willing to pay for technical skills, or marketing services, they may not be willing to pay for training in management skills, as they cannot perceive how this will be turned into a sale.

4.3 FACTOR ANALYSIS (PRIOTISATION)

Factor analysis was performed on part C of the questionnaire, in order to prioritise the factors that do have the most influence on the delivery of BDS by NGOs. This part of the questionnaire had 29 variables for the 5 responses on the factors that influence the delivery of BDS. Samples of the questionnaires are attached in appendix 1. A statistical package SPSS (Statistical Package for Social Sciences) was used to analyse this data.

The results are presented on table 16 here below:

Table 16: Summary statistics

Variable	Mean	Std Dev
1	3.93	.73
2	3.21	.70
3	3.21	1.12
4	3.86	.53
5	3.64	.93
6	3.00	.96
7	3.57	.85
8	4.43	.65
9	3.21	.80
10	3.57	.76
11	4.14	.86
12	3.93	.92
13	3.50	.85
14	2.79	.80
15	3.71	.91
16	3.71	.91
17	3.93	.83
18	3.64	.93
19	4.07	.62
20	2.57	.94
21	4.07	.62
22	3.93	.83
23	3.50	.94
24	3.29	.91
25	3.79	.70
26	3.71	.83
27	3.93	.73
28	3.86	1.03

Source: Research Findings

The strongest influencing factor for the matrix questions was represented by a score of five (5) variables while weakest influence was represented by a score of one (1)

The table above shows that variables 8, 11, 19 and 21 had highest mean scores with score above 4.00. This is because NGOs felt strongly that strategic positioning, assessment of clients' needs, complementing and expanding existing services, and building on

demonstrated practice were the factors mostly influencing delivery of BDS. The standard deviation does not show a wild variation of the answers to questions by the respondents. To generate the factors, a correlation matrix was therefore necessary, and the results are shown on table 17:

Table 17 above shows the correlation matrix of the twenty-nine variables, which were contained in section c of the questionnaire. This is the basis of generating factors and shows the Interco relation among variables. For high correlation, the number should be either close to 1 or -1. Zero indicates no correlation. For example, variable 1 has a low correlation with variable 6 at -.060 with variable 10. However, it has a fairly high correlation with variable 22 at .676. This shows how factors are grouped together through correlation by the model.

Table 18: Initial output: Variable, communality and Eigen values

Variable	1	2	3	4	5	6	7	8....	29
Communality	1	1	1	1	1	1	1	1...	1
Eigen values	6.9	4.8	3.7	2.7	2.5	1.8	1.7	1.1...	0
% variance	24.6	17.1	13.1	9.5	8.9	6.5	6.0	4.0...	0

Source: Research Findings

Table 18 above shows the initial output of variables, communality and eigen values of the initial factor matrix. The communality is the proportion of the variables' variation to the total variation that is involved in the factor. There is full contribution of the variable to the factors as 1 or 100% indicates all. The eigen values show that there are eight main factors with the following contributions:

Factor 1...	24.6% of the variation
Factor 2...	17.1% of the variation
Factor 3...	13.1% of the variation
Factor 4...	9.5% of the variation
Factor 5...	8.9% of the variation
Factor 6...	6.5% of the variation
Factor 7...	6.0% of the variation
Factor 8...	4.0% of the variation

Factor 1 explains 2.6 percent of the dimension of delivery followed by factor 2 with 17.1% up to factor 8.

Table 20 shows the Rotated Matrix. Varimax, which is an orthogonal type (Kaiser, 1958) of rotation was performed. Varimax rotation attempts to simplify the columns of factor matrix by making all values close to either 0 or 1. This final matrix represents the terminal solution and it stands for both a pattern and a structure matrix with the coefficients representing both regression weights and correlation coefficients of factors that describe a given variable. In the varimax-rotated matrix, factor 1 is heavily loaded

by variables 8, 11 and 20. Variable 18 and 26 loads factor 2 heavily. Variable 13 heavily load factor 4. Factor 5 is heavily loaded by V10. Factor 6 is heavily loaded by variable 1. Factor 7 is heavily loaded by variable 2. The factors are listed here below.

Factor identification

- Factor 1: General economic trends
 Strategic positioning
 Assessment of client's needs
 Maximising outreach
- Factor 2: Legal trends
 Capacity of MSEs to access infrastructure
 Building on demonstrated practice
- Factor 3: Political trends
 Evaluation of services / programs
 Staff motivation
- Factor 4: Technological trends
 Education level of the MSE operator
- Factor 5: Influence of funding agency
 Collaboration with other BDS providers
- Factor 6: Recovery of Costs
 General economic trends
- Factor 7: Demand by MSE operators
 Legal trends
- Factor 8: Strategic positioning

Table 21 illustrates the total variance explained

5.1 CONCLUSIONS

This study had two objectives: the first was to establish strategies use by NGOs in provision of BDS in Nairobi while the second one was to document factors that influence delivery of BDS.

The study revealed that training is the most common BDS (90%) while subcontracting is the least offered (15%). However, most of the BDS providers offer a multiple of services, with fifty five percent offering more than five different services. (Research findings, Table 5)

The study results showed that NGOs have developed various strategies to address issues of sustainability. Most of them rely on more than two sources for their funding requirements to hedge against risk of closure in case one source dries up. Budgetary controls are observed and they maintain lean staff structures. Most of them maintain links with associates drawn from both the public and the private sector, who are called upon to perform specific duties whenever need arises. Other measures include introduction of cost sharing, recovery of all costs from services offered, providing consultancy services, charging administration fees and membership fees, using volunteers as well as charging interest on loans issued. Some organizations started production units and other income generating activities to subsidize cost of services offered and to supplement donor funding. However, the study found there are many challenges facing these NGOs in their efforts. These

include resistance to change by MSE ; who have been used to get free services funded by donors, inability to attract and retain highly qualified staff due to financial constraints. low education levels of MSEs operators causes communication problems as they are not able to articulate their needs. access to MSEs who are located in remote places and sometimes insecure places and others who have no fixed abode, as well as distortions in the MSE market place, mainly arising from lack of harmony among the different MSE programmes. Additionally, the delivery of business development services by these NGOs is severally affected by a combination of factors. Through a factor analysis model, the following factors influencing delivery of BDS were identified:: general economic trends, legal trends, political trends, technological trends, influence of funding agency, recovery of costs, demand by MSE operators and strategic positioning in that order.

General economic trends have the highest percentage of explained variance (24.650) thereby presenting the largest representation of variables affecting delivery of BD by NGOs in Nairobi (table 20). According to the findings therefore, it is the priority factor. Legal factors, political trends, technological trends, influence of funding agency, recovery of costs, demand by MSE operators and strategic positioning follow in that order. The fact that demand by MSEs ranks a poor seventh was perceived to contribute partially to the findings of the earlier study that had found that MSEs do not perceive business development services offered in Nairobi to be relevant.

Though BDS providers have a clear focus on the individual needs of their customers, and they have flexible systems to accommodate client needs, they are subject to a

wide range of factors, which continue to hamper their operational efficiency and effectiveness. Consequently there is need to build the capacity of the NGO to address the factors affecting delivery of business development services so that they can be demand driven

Table 19: prioritisation of factors

Factor	% Variance	Cum. Freq	Order of priority
General economic trend	24.650	24.650	1
Legal trends	17.151	41.801	2
Political trends	13.755	54.956	3
Technological trends	9.547	64.503	4
Influence of funding agency	8.927	73.426	5
Recovery of costs	6.478	9.904	6
Demand by MSE operators	5.974	85.877	7
Strategic positioning	4.037	89.914	8

Source: Research Findings

The general economic trends strongly affect the strategic positioning of the NGOs, assessment of clients' needs as well as ability to maximise outreach. When the economy is performing well, there is a tendency for economic activities to mushroom because people have the purchasing power. Similarly, when it is performing poorly, there is a decline in economic activities due to decline in purchasing power of people and as scarce resources are used up to meet basic necessities for survival. Since the economic performance of the Kenyan economic has been on a steady decline in the last five years, performance of NGOs in the MSE market place has been severely affected. The last three years were cited by all the NGOs as being particularly difficult. This was attributed to drought associated with the *la nina* phenomenon that has prevailed through out the country. The effect has been a dismal economic

performance, with 1999 recording a dismal economic growth rate of 1.4% only. Thus, though several programs have been drawn up within this time and the amount of donor funds channelled into the sector has been growing (Ayiemba, et al 1999), outreach has not been maximised. It is therefore imperative to build the capacity of BDS, particularly at this time, in order to meet the growing demand for BDS and to have a wider out reach.

There is also need for NGOs to be more proactive and seek strategies to stimulate the demand for BDS by NGOs. This is an expensive exercise and donors in collaboration with the government should play a leading role in view of the limited resources NGO have to operate with. Donors can actually learn something from venture capitalists as suggested by Ryan and Grossman (1996) in dealing with NGOs faced by a multiplicity of challenges. They should consider expanding their missions from investing only in program innovation to investing in the organizational needs of non profit organizations as well;. in addition to providing funds, they can lengthen grant terms to allow NGOs to build up organizational strengths, and they can create new classes of grants that allow for organizational effectiveness. NGOs should in turn articulate their organizational needs when applying for grants; when applying for grants they should apply to donors known for long term grants; and they should create plans that justify long term support from donors. Mission statements that reflect their values will go along away in garnering support.

5.2 RECOMMENDATIONS FOR FURTHER STUDY

The study found that delivery of BDS is influenced by eight key factors namely, general economic trends, legal trends, political trends, technological trends, influence of funding agency, recovery of costs incurred, demand by MSE operators and strategic positioning.

Further research should be carried out on each of these factors to determine the most appropriate strategies for coping with the challenges they pose to both NGOs and MSE operators, and how NGOs can build their capacity to have a wider outreach.

5.3 LIMITATIONS OF THE STUDY

Key limitations of this study were lack of resources to carry out a more detailed research.

Time constraint also hindered the researcher from enlarging the area of study to include the outskirts of the city of Nairobi.

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APPENDIX 1 - INTRODUCTION LETTER

Beth Wanjiru Mwangi
P. O. Box 42918
Nairobi

8th September 2000

Executive Director,

P. O. Box
NAIROBI

Dear Sir / Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH PROJECT

I am a postgraduate student in the Faculty of Commerce, University of Nairobi, pursuing a Master of Business Administration (MBA) degree programme. In order to fulfil the degree requirements, I am currently undertaking a management research project on 'FACTORS THAT AFFECT PROVISION OF BUSINESS DEVELOPMENT SERVICES TO MICRO AND SMALL ENTERPRISES (MSEs) BY NON GOVERNMENTAL ORGANIZATIONS (NGOs) IN NAIROBI'. The focus of the study is delivery of non-financial support services to micro and small enterprises in Nairobi.

Your organization is one of the major NGOs offering business development services to MSEs in Nairobi and I would highly appreciate it if could spare some time to kindly complete the attached questionnaire. I would prefer to have a personal interview with you so that I can clarify any issues that may not be clear.

Attached please find a copy of an introductory letter from the University of Nairobi.

Please be assured that the information provided will be used strictly for academic purposes only. Thank you for your valuable cooperation.

Yours sincerely,

Beth W. Mwangi

APPENDIX 2 - QUESTIONNAIRE

Section 1:

1. Name of NGO _____
2. Year of establishment _____
3. Nature of the NGO _____
4. Size at the time of establishment in terms of: -
 - Number of employees _____
 - Number of branches _____
 - Number of members _____
5. Size today in terms of: -
 - Number of employees _____
 - Number of branches _____
 - Number of members _____
6. Sources of finance
 - Local donors _____
 - International donors _____
 - Operations _____
 - Other (specify) _____

Section 2:

1. a) Do you have a written mission statement for your NGO? Yes / No
b) Have you had to change your mission statement since your establishment?
Yes / No
2. How was the mission statement developed?
 - Participation by MSE operators _____
 - Staff _____
 - Donors _____
 - Management _____
3. How is the mission statement communicated to employees?
 - Talks _____
 - Newsletter/magazine _____
 - Memoranda _____
 - Work discussions _____

3. Please indicate the business services offered by your organization. Tick as appropriate.

- Credit _____
- Training _____
- Consulting _____
- Marketing _____
- Information _____
- Counselling _____
- Technology _____
- Subcontracting _____
- Other: (specify) _____

5. In what areas of Kenya are your branches located?

- Nairobi _____
- Other major towns _____
- Rural towns _____
- Rural areas _____

6. Do you operate similar programmes in all of these areas?

Yes _____ No _____

If no, which programmes do you operate in these areas?

Area	Service

7. Please indicate the number of people who have benefited from your programmes in the last five years

Number of actual beneficiaries

Group Description	1999	1998	1997	1996	1995
Male					
Female					
TOTAL					

8 a) How did you decide which areas to go to? Please tick as appropriate.

Government directive _____
Carried out a need assessments _____
Request by local leaders _____
Customer's request _____
Other (specify) _____

b) How did you design the MISE programme model?

Copied others _____
Expert design _____
Baseline needs assessment _____
Other: (specify) _____

c) How do your target groups participate in the ongoing management of MISE programme? Please tick as appropriate.

Board membership _____
Advisory group _____
Ongoing meetings with groups _____ (frequency?) _____
Staff contacts _____
Others: _____

e) What sorts of programme monitoring system if any do you have? Please tick as appropriate.

Budgetary _____
Physical Inspections _____
Quality Control Groups _____
System of delivery that has impact monitoring systems _____

f) What sort of programme evaluation systems do you have? Please tick as appropriate.

Periodic appraisal of achievement _____
Mid term evaluation _____
End of project evaluation _____
Impact assessment _____

g) Please indicate the type of cooperation that you maintain with other NGOs and other MISE supporting institutions by ticking as appropriate.

None _____
Financial assistance _____
Technical assistance _____
Marketing assistance _____
Advisory _____
Others (please specify) _____

9 Please provide a breakdown by year for the types of people that you have employed in the MSE programme?

	1999		1998		1997		1996		1995	
	PD	VL	PD	VL	PD	VL	PD	VL	PD	VL
Executive Directors/Officers										
Senior & Middle level Managers										
Field Workers										
Secretaries										
Clerics										
Drivers, Messengers, Watchmen										
TOTAL										

Key

PD = Paid

VL = Volunteers

11. Do you charge fees for services offered? Yes / No _____

If yes, how do you determine the fees? _____

b) Please indicate the percentage of costs recovered for each of your activities in the last five years

	1999	1998	1997	1996	1995
Personnel					
Total MSE administration costs					
Total NGO overheads					

(e) How much financing have you received from donors in the last 5 years?

YEAR	1999	1998	1997	1996	1995	TOTAL
AMOUNT						

12. What strategies do you have for cost recovery (sustainability)?

13. Do you have a capacity building programme for your staff? Yes ____ No ____

If yes, please indicate what the programme entails.

Staff training _____

Attachments _____

Cross-visits _____

Others (specify) _____

Please indicate the frequency of the programme for the different cadres of staff.

	Management staff	Operations staff	Office support / staff
Staff training			
Attachments			
Cross-visits			
Others			

14. For the following pair of questions, please indicate the part of the questions that is most applicable to your organization.

1. (a) It is important that we deal with as many customers as possible
- OR
- (b) We should spend as much time as is necessary with each other customer
-
2. (a) Our work procedures should be flexible enough to satisfy all our customer
- OR
- (b) Our work procedures are standardised but meet the needs of most of our customers

3. (a) It is important to treat each customer individually
 OR
 (b) We make sure that customers know that they are all treated the same
4. (a) Customers need to fit in with the way that we work
 OR
 (b) We need to fit with the way our customers work

15. Please indicate the extent to which you agree with each of the following statements?
 1= strongly agree: 2= Agree: 3= somehow disagree 4= disagree
 5= strongly disagree

It is important:

- | | | | | | | |
|----|---|---|---|---|---|---|
| 1. | That we concentrate above all on achieving set targets (e.g. number of clients) | 1 | 2 | 3 | 4 | 5 |
| 2. | That I consider the views of those I work with or who work for me | 1 | 2 | 3 | 4 | 5 |
| 3. | That we have set procedures, which stick to at all times | 1 | 2 | 3 | 4 | 5 |
| 4. | That people are told precisely what they have to do | 1 | 2 | 3 | 4 | 5 |
| 5. | That my immediate manager is someone that I can use to help achieve my goals | 1 | 2 | 3 | 4 | 5 |
| 6. | That people are given a chance to try out their own ideas | 1 | 2 | 3 | 4 | 5 |

16.

(a) What is the size of the board of directors in your organisation?

_____ members

(b) What would you consider to be its role in the planning process in your organisation? (Please tick where appropriate).

- Not important _____
 A little important _____
 Important _____
 Quite important _____
 Totally important _____

Section 3: Please indicate the strength of each of the following factors in influencing the delivery of business development services in your organisation

Please tick as appropriate.

Key

1= Extremely weak 2= Weak 3= somehow weak
4= Strong 5= Strongest

1. General economic trends	1	2	3	4	5
2. Legal trends	1	2	3	4	5
3. Political trends	1	2	3	4	5
4. Technological developments	1	2	3	4	5
5. Influence of funding agency	1	2	3	4	5
6. Recovery of costs incurred	1	2	3	4	5
7. Demand by MSE operators	1	2	3	4	5
8. Strategic positioning	1	2	3	4	5
9. Strategies used by other BDS providers	1	2	3	4	5
10. Collaboration with other BDS providers	1	2	3	4	5
11. Assessment of Client's needs	1	2	3	4	5
12. NGO capacity	1	2	3	4	5
13. Capacity of the MSEs					
a) Education levels	1	2	3	4	5
b) Language barriers	1	2	3	4	5
c) Financial status	1	2	3	4	5
d) Level of technology	1	2	3	4	5
e) Access to information	1	2	3	4	5
f) Infrastructure	1	2	3	4	5
14. Evaluation of services/ programs	1	2	3	4	5
15. Volunteer services	1	2	3	4	5
16. Staff motivation	1	2	3	4	5
17. Identification of market opportunities	1	2	3	4	5
18. Potential to achieve large scale impacts	1	2	3	4	5
19. Complementing and expanding. not Duplicating existing services	1	2	3	4	5
20. Maximising outreach	1	2	3	4	5
21. Building on demonstrated practice	1	2	3	4	5
22. Participatory approaches	1	2	3	4	5
23. Networking with other BDS providers	1	2	3	4	5
24. _____	1	2	3	4	5
25. _____	1	2	3	4	5
26. _____	1	2	3	4	5
27. _____	1	2	3	4	5
28. _____	1	2	3	4	5
29. _____	1	2	3	4	5
30. _____	1	2	3	4	5

APPENDIX 3: LIST OF PARTICIPATING ORGANIZATIONS

<u>Name of NGO</u>	<u>Year of Establishment</u>	<u>Nature of NGO</u>
1. Jisaidie Cottage Industry	1981	Charitable Organization
2. Site	1996	Development Organization
3. Kenya Gatsby Trust	1996	Small Scale Business
4. Christian Industrial Training Centre	1958	Training Institution
5. KSTES	1986	Registered Under Society
6. K-Map	1986	Limited Liability Company
7. St John's Community Centre	1957	Community Development
8. K-Rep Holdings Limited	1984	Na
9. Approtech	1991	Na
10. Improve Your Business	1984	Service Provider
11. Willpower Enterprise Development	1995	Profit Making Company
12. Technoserve -Micro-Ped	1997	Development Institution
13. Pride Africa	1999	Micro-Credit
14. Training & Production Centre For the shoe industry (Tpsi)	1994	Na
15. Med Micro-Enterprise Development	1996	Project By Danish Embassy
16. African Regional Centre For Computing	1996	Internet Service Provision
17. Kenya YMCA	1961	Youth Membership
18. Undugu Society	1975	Non Profit Ngo's
19. CRS	1996	Religious
20. SAMED	1987	Profit Making Company

Appendix 4: DEFINITION OF CONCEPTS

1.2.1 *Small and micro enterprises*

There is no universally accepted definition of a small business. (Scarborough and Zimmerer 1991) Various definitions have been used depending on the purpose of and the persons doing the measuring. One study of small enterprises found more than 50 different definitions in 75 countries (USAID, 1983) Some of the yardsticks that are commonly used are total number of employees, total investment and sales turnover (Kibera 1996)

Total number of employees is by far the most commonly used yardstick especially with regard to the manufacturing sector where output is directly linked to the number of employees. It has been argued that this measure is inflation proof and transparent. Another measure is total investment – there has not been a satisfactory definition based on this indicator because sales turnover alone does not imply the efficiency of the firm nor the output relative to input (Ibid).

The use of any of the above measures is not universal across the globe. For instance, in the United Kingdom, the definition of a small business could be anything ranging from 5 to 200 employees depending on the industrial sector (Stoker 1996) In the United States, the Small Business Act of 1953 defines a small business as “one which is independently owned and operated and not dominant in its field of operations” (Ibid)

In Africa since all businesses are small when compared with their counterparts in the developed economies, business firms are usually divided into finer categories (Kibera 1997) For instance, in Kenya, businesses with 11 to 50 workers are labeled small enterprises and all firms employing between 51 and 100 workers are categorized as medium sized enterprises (Gray et al 1996)

Different authors have defined small and micro enterprises in different ways, for example:

“Micro and small-scale enterprises are normally business activities geared towards generation of income activities. A small business is any business that is independently owned or operated, is not dominant in its field, and doesn't engage in new or innovative practices. Innovative strategic practices, and / or products characterize an entrepreneurial venture” (Vesper, 1990; Drucker, 1985)

For purposes of this study, micro and small enterprises (MSEs) have been defined in line with the definition adopted during the 1999 National Baseline Survey of MSEs (CBS et al 1999) because it contains the most recent data pertaining to the MSE sector. The definition includes all businesses employing up to 50 workers, whether paid or not. Micro enterprises refer to those business enterprises employing up to ten workers while those employing more than ten and up to 50 workers are categorized as small enterprises. It covers both informal as well as formal sector employing up to 50 people, irrespective of site (home, street, mobile unit). A MSE may be undertaken as a main activity or as a secondary activity and may be permanent, temporary, or casual.

1.2.2 *Business Development Services*

There are non-financial business promotional services. They include training, research, counselling and advice, consultancy services, information provision, technology development and transfer, business linkages and infrastructure provision (E.H.O. Ayiemba et al 1998). However, for purposes of this study we shall restrict the definition

to include only the following: training, counselling and advice, consultancy services and information provision

This is because information based BDS are the most severe constraints cited by entrepreneurs (CBS et al 1999). More than one third (34.1 percent) of the entrepreneurs cited difficulties arising from market saturation or low demand for products.

1.2.3 Entrepreneurship

This is the ability to identify business opportunities and implement policies to maximise those opportunities by creating a new business venture, assume the personal and business risks associated with the new business and continue to actively manage its operations (ICEG 1999)

1.2.4 Entrepreneurship development

Entails the inculcation of creativity, and innovation and drive to potential entrepreneurs to take business risks, and to gain the self-confidence necessary for establishing business (ICEG 1999)

1.2.5 Non-Governmental organizations (NGOs)

These are non-profit, privately owned organisations that operate independently of government. In many cases, NGO activities are based on volunteer efforts and they depend on voluntary contributions in terms of labour and materials as well as financial assistance. (Camay and Gordon 1997) There are various types of NGOs offering different types of services. Camay and Gordon consider the following to be the essential characteristics for an organisation to qualify as an NGO; they are non-profit, rely on voluntary contributions, are independent of government, and have a service orientation. The main differences between non-profit NGOs and other service providers is that they are not profit driven and they are treated differently from profit making organizations for tax purposes. While profit making organizations strive to maximise profit, NGOs strive to achieve the mission for which they were founded. Consequently, the mission statement of an NGO is of paramount importance to the extent that it defines the scope of activities.

1.2.6 Strategy

Different authors have defined strategy differently. A strategy is a set of decision – making rules for guidance of organizational behaviour (Ansoff 1990). Strategy summarizes the way an organization chooses to relate to its environment for long-term survival and growth. It reflects the choice of the key services that an organization will perform, and the primary basis for distinctiveness in creating and delivering such a service (Newman et al). Strategy is the creation of a unique and valuable position, involving a different set of activities (Porter 1998). The essence of strategy is in the activities choosing to perform activities differently or to perform different activities than rivals.

1.2.7 Competitive strategy

Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value (Porter 1998)

1.2.8 Strategic positioning

Strategic positions emerge from three distinct sources, which are not mutually exclusive and often overlap (Porter 1998)

- i. Variety based positioning – based on the choice of product or service varieties rather than customer segments. This positioning makes economic sense when a company can best produce particular products or services using distinctive sets of activities
- ii. Needs based positioning – arises when there are groups of customers with differing needs, and when a tailored set of activities can serve those needs best. It can also arise when the same customer has different needs on different occasions or for different types of transactions. Differences in needs will not translate into meaningful positions unless the best set of activities to satisfy them also differ
- iii. Access based segmenting – access can be a function of customer geography or customer scale – or of anything that requires a different set of activities to reach customers in the best way.

1.2.9 Mission statement

A mission is the fundamental purpose that sets a firm apart from other firms of its type and identifies the scope of its operations in product and market terms (Pearce and Robinson 1997). Among non-profit making organizations, mission statements typically identify both the audience and the product or service being offered. They serve boundary functions, act to motivate both staff and donors, and help in the process of evaluation of the organization (Oster, 1995)