GROWTH AND PERFORMANCE OF SMALL SCALE
ENTERPRISES IN SMALL URBAN CENTRES: A
CASE STUDY OF MIGORI'S MANUFACTURING SUB-
SECTOR

BY

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JULY 1990
DECLARATION

This Project is my original work and has not been submitted for a degree in any other University.

Signed: ____________________________
(Student)

This Project has been submitted for examination with my Approval as the University Supervisor.

Signed: ____________________________
(Supervisor)

Date: ____________________________
DEDICATION

To My Parents -

THE LATE OWUOR GARI

and

MAMA DORCAS ACHIENG OWUOR
ACKNOWLEDGEMENT

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TITLE OF THE PROJECT</td>
<td>(i)</td>
</tr>
<tr>
<td>DECLARATION</td>
<td>(ii)</td>
</tr>
<tr>
<td>DEDICATION</td>
<td>(iii)</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>(iv)</td>
</tr>
<tr>
<td>TABLE OF CONTENT</td>
<td>(vi)</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>(xii)</td>
</tr>
</tbody>
</table>

## 1.0 CHAPTER ONE

1.1 Introduction  1
1.2 Statement of the Problem  2
1.3 Justification of the Study  11
1.4 Objectives of the Study  13
1.5 Study Hypothesis  14
1.6 Scope of the Study  15
1.7 Study Limitation  16
1.8 Study Operational Definitions  17
1.9 Research Methodology  18
   1.9.0 Reconnaissance Study  18
   1.9.1 Informal Interviews  19
   1.9.2 The Questionnaire  20
   1.9.3 Secondary Data  22
   1.9.4 Data Analysis  23
# Chapter Two

## 2.1 What is Small Scale Enterprises

## 2.2 Characteristics of the Small Scale Enterprises (informal sector)

## 2.3 Origin of the Informal Sector Enterprises in the World

## 2.4 Management

## 2.5 Role of the Informal/Small Scale Enterprises

## 2.6 Informal Sector and Related Policies in the 1990's and Beyond

## 2.7.0 Small Scale Enterprises Policy in Kenya - Introduction

## 2.7.1 Policy Survey Since Independence

# Chapter Three

## 3.1 Study Area

## 3.2 History and Development of Migori Urban Centre

## 3.3 Commercial Services

## 3.4 Hotel Services

## 3.5 The Periodic Market

## 3.6 Financial Institutions in the Urban Centre
3.7 Migori Urban Centre in Its Regional Setting 78
3.8 Population Growth Within the Centre's Hinterland 79
3.9 Wage Employment in Homa Bay and Migori Urban Centres and Within the Hinterland 83
3.10 Related Agricultural and Industrial Activities Within the Centre's Hinterland 86
3.11 Overview of the Small Scale Enterprises in Migori Urban Centre 90

4.0 CHAPTER FOUR

4.1 Growth of Small Scale Enterprises 95
4.2 Expected Income and Small Scale Enterprises 100
4.3 Income in Small Scale Enterprises 102
4.4 Savings in Small Scale Enterprises 109
4.5 Initial Capital Required to Start up Small Scale Enterprises 115
4.6 Employment in the Small Scale Enterprises 126
4.7 General Net Income Equation 132
4.8 General Savings Equation for the Sample 140
5.0 CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1.0 Findings on Growth Factors 146
5.1.1 Employment, Training and Income 147
5.1.2 Factors Influencing the Performance of the Enterprise 149
5.2 Conclusion 151
5.3 Recommendations 162

BIBLIOGRAPHY 168

APPENDIX
LIST OF TABLES

Table 1  Sample Frame
Table 2  Sample Distribution Within the Different Categories of Study
Table 3  Population of Migori Urban Centre
Table 4  Population Profile of South Nyanza District
Table 5  Divisional Population Projection
Table 6  Population Projections by Age Group
Table 7  Wage Employment and Projection Within Migori and Homa Bay (two main centres)
Table 8  Labour Force and Employment Estimation
Table 9  Values of Foodcrops, Cashcrops and Livestock
Table 10 Year of Starting Enterprises
Table 11 Reasons for Starting Enterprise
Table 12 Reasons for Leaving Previous Employment
Table 13 Reason for Location of the Particular centre (Migori)
Table 14 Expected Income and Small Scale Enterprises
Table 15 Mean Monthly Incomes per Type of Enterprise
Table 16  Mean Monthly Savings from Business
Table 17  Savings Per Type of Enterprise
Table 18  Initial Capital to Start Up Enterprise
Table 19  Distribution of Initial Capital
Table 20  Problems at Start of Business
Table 21  Expansion Problems
Table 22  Initial Capital per Type of Enterprise
Table 23  Full time Employment in Small Scale Enterprises
Table 24  Full time Employment per Type of Enterprise
Table 25  Factors Determining Number of People Employed
Table 26  Casual Employees
ABSTRACT

The study reported in this project, investigated the factors responsible for the growth and those affecting performances of small scale enterprises in small urban centres, more specifically those of the manufacturing sub-sector.

The study also sought to evaluate the impacts of governmental policy and programmes, the non-governmental programmes and general economic changes; how they attribute to the growth and performance of small scale enterprises in small urban centres where retail and agriculture in the hinterland form the main sources of income.

The study sampled from within the manufacturing sub-sector of the small scale enterprises, namely, carpentry, metal fabricators, shoe makers, tailors, and lastly, tin smiths. The quantitative data from the above were subjected to frequency, Z-test, t-test and regression analysis, so as to identify the determining and affecting factors.

The findings from the study, led to the following conclusions.
1) that the growth of the small scale enterprises in the centre is as a result of demand resulting from;
   
   i) the growth of population within the town and the hinterland;

   ii) the growth in the economy of the town, regional and that of the national economy that has contributed to an increased disposable income overtime.

   iii) the general government policy of District Focus for Rural Development has encouraged the entrepreneurs to invest in their local areas.

2) that growth is also as a result of supply related variables, namely;

   i) an improvement in the policy environment that favours the small scale enterprises;

   ii) the availability of infrastructural services; water, electricity, roads and
telephone have made it possible to trade i.e. buy and sell.

iii) the growing population has assured constant supply of labour at affordable rates and entrepreneurial skills too.

iv) the implementation of certain economic policy more specifically Structural Adjustment Programme constricts the economy, i.e. formal employment, disposable income and then encouraging people to try and look for ways of subsisting; and lastly,

v) that the sub-division of agricultural holdings is also a factor on the growth of these enterprises in the centre.

3) performance of the enterprises was notably affected by lack of institutional credit facilities, management skills and competition coming from formal multinational and national companies. Availability of raw materials and skills are not much of a problem since the acquisition of capital allowed an entrepreneur to circumvent them.
Based on the above conclusions, recommendations on the paper thus, address both external and internal constraints to the small scale enterprises as outlined in the recommendation section.
1.0 CHAPTER ONE

1.1 INTRODUCTION

Urbanization is a natural product of economic development, thus as a country develops, urbanization in terms of numbers of urban centres and percentage population living in urban centres increases. Sessional paper number one of 1986 - notes that by the year 2000, 26 to 29 percent of the total population (about 9 to 10 million people) will be living in urban centres in Kenya. One thing that is apparent is that rural-urban drift is not to register any appreciable decrease up to the year 2000 or may be even beyond. As a result, it is important for planners to recognize the urgency for an integrated urban programme to address the many eminent problems that characterize urbanization such as provision of affordable housing units, sanitation facilities and unemployment in the urban areas which is the main focus of this study.

Given the constraints that have continued to besiege the country's agricultural sector, rising rural population growth rates, drought and
consequently falling agricultural production/performance together with, rural-urban drift due to the illusionary lure of the urban areas as a focus for good job opportunity places and the current Government policy of district focus for rural development; the magnitude of unemployment tend to be more pronounced in the urban areas (both small and large) than in the rural areas. In the rural areas, family holdings tend to engage the labour of every able bodied person's in whatever small task there is. But in the urban areas such disguised employment becomes more difficult, since wage employment can less easily be shared and opportunities for self-employment are limited. (Ndewa, 1986)

In trying to address the above problems of unemployment, the Government of Kenya has tried different ways, among which is the development of small-scale enterprises (informal sector) in both major and minor urban areas (centres) all in the hope of improving the social well-being of the nationals.

1.2 STATEMENT OF THE PROBLEM

Kenya like all developing countries after inde-
pendence faces high and rising unemployment problems more so in the urban areas. As such, employment generation is one of the major political topics in present day Kenya given that unemployment problem became more open and has accelerated particularly since the early 1980's. This kind of situation is noted to result from a combination of general economic stagnation, shared by almost the entire sub-saharan Africa, and the impact of the World Bank/IMF advocated Structural Adjustment Programme which has caused a relative reduction of wage employment in the so-called modern sector and a decrease of average real incomes. (Billetoft, 1989)

Kenya's case is further worsened by high and rising population growth rates of about 3.8% p.a., together with relative scarcity of arable land in greater parts of the country as opposed to other parts of Africa. Due to the above development, the extent of poverty within the urban centers and rural areas is likely to have increased over the past few years, and rural-urban migration, primarily towards middle-sized towns, has been increasing. (G.O.K. 1986, ILO 1986). The population growth rates above have a strong implication of
unemployment as it contributes to the growth of labour force. According to the Sessional Paper Number One of 1986 (GOK 1986), the total labour force in Kenya was estimated at 7.5 million then and is anticipated to reach 12 million by the end of the century. Formal wage employment accounts for about 15 percent of the total labour force. With the above rise, in labour force however, some additional 250,000 additional jobs have to be created annually in order to maintain the employment situation at its present level. But the current pattern of wage employment is chiefly based on first-stage import substitution and Government sponsored employment for which further growth potentials are pre-emptied. As a result, the potential for future labour absorption in the modern sector will, therefore, be limited at least in a short and medium term perspective. (ILO 1986).

Apart from the above likely causes of unemployment in urban centres, the situation is further exacerbated by some of the policies that the country has adopted and continue to pursue, for example, the education policy adopted in the immediate post independence era was and until recently remained
biased towards "white collar jobs" concentrated in a few urban areas. (Kabagambe 1983) Efforts to repeal the policy to be in line with the country's real life situation have been directed towards promotion of technical training in the form of Youth Polytechnics, so as to equip the majority of Kenyan youth with viable technical skills. Experience from tracer studies gives impression that like the first educational policy, the approach still enforces mass migration to the urban areas in search of wage employment contrary to the popular view that it makes the youth stay in the rural areas. (Yambo 1986).

In addition, the development strategy currently pursued by the Government of Kenya - District Focus for Rural Development (DFRD) - is an urbanizing policy approach, hence creating more urban centres in the precess - thus, high urban unemployment rates in small urban centres. (Obudho and Aduwo 1989)

With the modern sector in 1988 accounting for about 22.5% of the working population in the urban centres (compare with 12.5% in informal sector) and the labour force growing at the rate of 3.7% or
more per annum, then it is not therefore, surprising that many of our small urban centres are experiencing high and rising unemployment rates. In 1988, for instance, employment in the modern sector of the urban economy was recorded as employing 924,000 and this is projected to grow at a rate of 5.5% per annum to the year 1995. Relative to that employed in the small scale enterprises (informal sector), 441,000 people and is expected to grow at a higher rate of 13.1% (GOK 1989) then the small scale enterprises (SSEs) sector of the urban economy is a better way of creating more employment, in the small urban areas.

Under the above circumstances, many governments, including the Kenyan Government, have expressed great expectation for the potential that the small scale enterprises have. This is so because the country's employment projection to the year 2000 indicates further that 75% of all jobs created in the urban areas will be in the small scale sector, and that upto or above 50% of all rural employment will be in the non-farm sector. (GOK 1986). These views are based on the inherent dynamism and considerable capacity to absorb and train large numbers of youths, especially in small urban centres where there is continuous sub-
division of agricultural holdings and rapid population growth.

In Kenya, inspite of the continuous sub-division of agricultural land, and rapid population growth, rural urban migration have tended to shift from the larger urban centres to small urban centres. This could have only resulted from the ability of the rural economy to be able to absorbe the greater part of additional labour, achieved only through an intensification of land-use in small holder agriculture or more recently the enhancing/growing volume of non-farm incomes in the rural areas.

CBS (1981/82) note that there has been a rapid growth in the number of non-farm employment in the small urban centres. According to their findings, more than half of the rural households are engaged in at least one non-farm activity, and that in the recent times the proportion that off-farm incomes account for in the rural incomes has greatly increased to as much as one-third of total rural household incomes. Concluding that in Kenya today, about 10% of the rural population exclusively receive their basic income from running some kind of non-farm enterprise.
It is against the above background that small scale enterprises of manufacturing nature in small urban centres are viewed in this study. We know that these enterprises perform the two main roles, mainly; as a device against poverty and a provider of goods and services to the rural people. It is thus, desirable from several points of view to try to strengthen the position of these small scale enterprises in small urban centres. To do this, this particular study analyses the growth underlining factors within the small urban centres, in this case Migori, and also the performing affecting factors in Migori. We therefore, ask what are the main factors responsible for the growth of small scale enterprises of manufacturing type in Migori. And what are the main factors that affect the performance of these enterprises in Migori. Inherent to the double approach to the enterprises in the Migori are; what are the major qualities of the small scale enterprises that make it grow? Can rural non-farm activities grow independently of expansion in agricultural incomes and the corresponding levels of purchasing power or the growth has something to do with a change in rural incomes? Or do they wholly depend upon the level of farm incomes and the rural
incomes in general? And lastly, what are the factors that affect/determine the performance of these enterprises in Migori?

Growth of small scale enterprises in either the big urban centres is noted to be a factor of supply and demand variables. In any area, the growth of small scale enterprises has been argued to be due to the low initial capitals required to start operating them, their orientations towards local demands, their flexibility in terms of inputs and products. But evidence from studies elsewhere note that they originate in response to, demand and supply variables within a given setting as outlined below. In general, Ashe in AID (1985) note that a probable local setting for the growth of small scale enterprises entails:

1) A growing population and improving economic conditions translating itself into the local market growing opening up new opportunities for the entrepreneurs.

2) Political conditions at the national level have to be stable to allow business owners make longer-range plans and investments.
3) The Government policy must be pro; small enterprises, thus making it easy for the entrepreneurs to acquire legal requirements of the micro-enterprises, more access to services such as credit and business advice and raw materials.

4) Infrastructure (roads, electricity, and water), commerce (banks, suppliers of raw materials, markets and services) have to be adequate in the local setting.

5) Entrepreneurial skills have to be inbuilt into the traditions of the locals or be made in service form to the locals; and lastly,

6) the centres must have good links with other markets.

These variables above are noted to be conducive for the growth of small scale enterprises in a given area. This study tries to see whether they form part of the complex variables responsible for the growth of these enterprises in Migori. It is therefore, important that factors that are responsible for the growth of small scale enterprises of
manufacturing category in Migori be researched into and those affecting the performance identified and possible remedies advocated for. Given that in the last decade the growth in number of variety of small scale enterprises in the small urban centres has been quite high. (GOK 1986) It is therefore, important that factors influencing the growth of these enterprises be analysed in detail, given that many studies have concentrated on their origin in the major urban centres of the developing countries.

The study problem is therefore, to research into the factors that are responsible for the growth (variety and numbers) and development of the small scale enterprises in Migori Centre, and those that are affecting the performance of these enterprises in Migori.

1.3 **JUSTIFICATION FOR THE STUDY**

Currently, the Government policy places alot of importance on the role to be played by small urban centres in creating rural urban linkages, i.e. between the agricultural sector and related urban services. In this policy framework, the Government stresses
that the small scale enterprises form the link for the above desired Government policy by providing farm inputs, tools, repairs and basic rural household services to the rural folk who are quite detached from the main urban centres where formal sector enterprises provide/offer these services. Further, the informal sector enterprises in these centres in most cases are a reaction to the needs of the people and the services are offered at affordable prices by the rural people too. From the above point of view an analysis of the growth of small scale enterprises is one of the many possible ways through which one can give policy proposals to help the Government policy of - District Focus for Rural Development (DFRD) - that places a lot of emphasis on the role of small urban centres in enhancing rural development.

Secondly, the Kenya Government has shown a lot of interest in the small scale enterprises (informal sector) as a way of creating more employment opportunities, in the urban centres of the country following the impacts of the economic stagnation and the World Bank/IMF structural Adjustment Programme, all which have meant that unemployment has risen in the main urban centres, a possible reaction is
an urban-rural migration creating more unemployment problems in the small urban centres as Migori. This coupled with sub-division in the agricultural holding and high rural population growth rates then has meant further that acute unemployment problems are likely to appear in centres such as Migori, more than before. It is therefore, important that the related organizational and institutional constraints that can influence the implementation of such a policy be researched into.

And lastly, there is acute need to gauge policy results for example, the World Bank/IMF Structural Adjustment Programme (SAP) and how it has affected the rural economy in connection with the growth of the small scale enterprises in the small urban centres.

1.4 OBJECTIVES OF THE STUDY

The study has the following objectives:-

(a) To examine the factors that influence/affect the performance of small scale manufacturing enterprises in Migori;
(b) to examine the contribution of small scale enterprises in fostering the development and growth of the small urban centres, that of their hinterland and hence rural development in general;

(c) to evaluate the impacts of Government and Non-Govermental Organizations Programmes undertaken to develop the small scale enterprises and lastly,

(d) to suggest possible ways and management policy proposals in view of the identified, positive and negative factors as pertains to the sector in Migori.

1.5 STUDY HYPOTHESIS

1) The growth of small scale enterprises in Migori is out of the desire to be self-employed in a non-farm activity rather than a reaction to unemployment and underemployment within the centres and within the hinterland.

2) The anticipated income in small scale
enterprises by the entrepreneurs is not responsible for their growth in Migori.

3) Growth within the manufacturing sub-sector of small scale enterprises is not determined/influenced by the type of enterprise.

4) Growth of manufacturing sub-sector of small scale enterprises in Migori is not influenced by:

a) availability of credit facilities, and
b) management skills.

1.6 SCOPE OF THE STUDY

The main focus of the study is to analyse the factors that have influenced the growth of small scale enterprises (manufacturing sub-sector) in Migori Urban Centre. The study has therefore, analysed the related economic, social and policy forces and how they have and are manifesting themselves in creating an atmosphere that is conducive for the growth of these small scale enterprises.

It is therefore, important to note that even
though the study concentrates within the town, certain related aspects from the region have been taken into account, for example, the population growth rate within the urban centre's hinterland have been analysed in the study. This is done so as to bring some regional dynamics/forces that affect small scale enterprises (informal sector) within Migori Urban Centre.

1.7 STUDY LIMITATION

In the course of carrying out the study, a set of obstacles were recognized. First, time was not sufficient enough for the study to incorporate all the variables that would have made the study more comprehensive. As a result, we do expect some gaps to appear in certain areas of the work.

Second, the subjects of the study in this case (the entrepreneurs) were not all aware of the importance of the study. As a result, some of them were outrightly unwilling to give the information and refused to take part in the survey. This forced us in most cases to avoid the sampled cases and just pick on the neighbouring entre-
preneurs. Apart from those who were unwilling there were also cases of those who were willing to give information except that they could not remember all the details. For example, most of the entrepreneurs were not keeping business records and therefore, could not give the precise income amounts, total invested capital and others were totally unaware of their cash flow patterns. As a result, most of the data got in those cases were estimates of what the entrepreneurs thought were their incomes, etc. As such, in the analysis, certain cases had to be adjusted or be left out altogether for the analysis to be done.

Due to the nature of the information collected, the data analysed was cumbersome and in most cases time wasting. As a result, certain aspects of the study were analysed at the percentage level even though we would have preferred to go further with the analysis.

1.8 STUDY OPERATION DEFINITIONS

Small Urban Centres

Used in the study to refer to towns with a
population of between 5,000 to 10,000 people and whose function is predominantly administrative, with the dominating economic activity within the centre basically retail but with an active agricultural hinterland.

Small Scale Enterprises (Informal Sector)

These terms are not strictly speaking identical but are used here interchangeably to denote a heterogeneous group of manufacturing enterprises ranging from part-time non-agricultural activities, directed towards the local market, to formal modern small medium sized enterprises employing up to 15 people in the centre. (This definition is preferred for the study because of the overlap in the two concepts).

1.9 RESEARCH METHODOLOGY

Various investigation techniques were used in the study as outlined below.

1.9.0 Reconnaissance Study

A reconnaissance survey of the economic activities
that take place in the urban centre was carried out. This was done to enable the researcher have a first hand experience of the physical conditions under which the small scale enterprises within the urban centre operates. During the survey, the researcher visited different enterprises located within the town, from which the manufacturing sub-sector of the small scale enterprises of the town was selected and studied.

This survey covered some minor urban and market centres within the hinterland. This allowed the researcher to ascertain if the assumed linkages between these enterprises within the market centres and Migori Urban Centre were true. In the process this also allowed the author to have a brief assessment of the agricultural potential of the study area/Migori Urban Centre hinterland.

1.9.1 Informal Interviews

Informal interviews were conducted with Government Officials like the District Trade Officer and those of relevant organizations within the town. Such interviews covered the top officers from Migori Urban Council, the District Officer and other related Government officials. The interview
covered managers of such organisations like the branch manager of Kenya Commercial Bank, the Kenya Chamber of Commerce officials and other related Non-Governmental Organizations that are involved in the field of investigation, for example, an official of the Kisii Catholic Diocese.

1.9.2 The Questionnaire

This method was used to gather information from the people involved in the manufacturing sub-sector of the small scale enterprises within Migori Urban Centre, namely, the metal fabricating firms, carpentry firms, the tailors, shoe making firms and lastly, the tinsmiths. The questionnaire was designed such that it addressed the principle problems facing the small scale enterprises in the Centre and its role in the development of the Urban Centre and that of the hinterland.

Stratified sampling was used in the administration of the questionnaire. This therefore, involved the division of the enterprises within the manufacturing sub-sector of the small scale enterprises into groups of categories as outlined above. From each of the above groups, indepedent
samples were selected disproportionately (this allowed the researcher to make use of different fractions to manipulate the number of cases selected in order to improve further efficiency of the design). The sampling fraction was based on the view that a third of the population was to be sampled. Thus, each category had a third of its population sampled randomly to select the enterprises to which the questionnaire was administered. The total population of the manufacturing enterprises in the Centre were 201. The composition was as shown in Table 1 below.

Table 1: Sample Frame

<table>
<thead>
<tr>
<th>Nature of Enterprise</th>
<th>No of Entrepreneurs</th>
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<tr>
<td>Carpentry</td>
<td>27 x 3 = 81</td>
</tr>
<tr>
<td>Metal fabrication</td>
<td>15 x 3 = 45</td>
</tr>
<tr>
<td>Tinsmiths</td>
<td>5 x 3 = 15</td>
</tr>
<tr>
<td>Shoe makers</td>
<td>8 x 3 = 24</td>
</tr>
<tr>
<td>Tailors</td>
<td>12 x 3 = 36</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>201</strong></td>
</tr>
</tbody>
</table>
Based on the sampling fraction of 0.3 of the population within each category then the questionnaires were conducted as shown in Table 2.

Table 2: Sample Distribution Within the Different Categories of Study

<table>
<thead>
<tr>
<th>Nature of Enterprise</th>
<th>No of Entrepreneurs sampled randomly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carpentry</td>
<td>81 x 0.3 = 27</td>
</tr>
<tr>
<td>Metal fabricators</td>
<td>45 x 0.3 = 15</td>
</tr>
<tr>
<td>Tinsmiths</td>
<td>15 x 0.3 = 5</td>
</tr>
<tr>
<td>Shoe makers</td>
<td>24 x 0.3 = 8</td>
</tr>
<tr>
<td>Tailors</td>
<td>36 x 0.3 = 12</td>
</tr>
</tbody>
</table>

**TOTAL SURVEY SAMPLE** 67

1.9.3 Secondary Data

Secondary data was collected through a review of existing library literature related to the study. This, the researcher used to build a suitable framework upon which the study is based. Information was therefore, gathered from relevant pamphlets, journals, office reports and written texts.
1.9.4 Data Analysis

Different analytical techniques have been used throughout the analysis process, these are frequency distribution technique, percentages, Z-test, t-test and regression.

i) Z-Test

The data developed from the frequency distributions was further reclassified and gave us the classes/groups of frequencies. In order to test for certain aspects of the data, the Z-test has been carried out. This is done in the stages of the analysis where there are attempts to test for significant difference between two or more means in the data and when the sample size being considered is large enough.

\[
Z = \frac{\mu_1 - \mu_2}{\sigma_1^{2} + \sigma_2^{2}} \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}
\]

where: \(\mu_1\) and \(\mu_2\) represents the means of the two variables from the sample.

\(\sigma_1^{2}\) and \(\sigma_2^{2}\) represents the standard deviations.
of the variables from the sample.

\( n_1 \) and \( n_2 \) represents the sample sizes of sample 1 and 2, respectively.

\[ \text{ii) } t\text{-Test} \]

Where the sample size is small, i.e. less than thirty the t-test has been used to test for any significant difference between the two means in question.

\[
t = \frac{\mu_1 - \mu_2}{\sqrt{\frac{n_1 + n_2}{(n_1 n_2)}}}
\]

where; \( \mu_1 \) and \( \mu_2 \) represents the means from the sample variables respectively.

\( n_1 \) and \( n_2 \) sample sizes of the variables in question 1 and 2 respectively.

\( S \) represents the combined standards deviations of the two variables of the sample.

\[
S = \sqrt{\frac{(n_1 - 1)^2 + (n_2 - 1)^2}{(n_1 + n_2) - 2}}
\]
iii) **Regression**

The multivariate regression model has been used in the analysis stage to test the impacts of a set of variables in the data. More specifically, it has been used to test a set of independent variables against a dependent variable. The model for a regression model with more than one independent variable is:

\[ Y = a + b_1x_1 + b_2x_2 + b_3x_3 + \ldots \]

The equation for the sample regression line is:

\[ \hat{Y}_{x_1x_2x_3} = a + b_1x_1 + b_2x_2 + b_3x_3 + \ldots \]

where; \( \hat{Y}_{x_1x_2x_3} \) is the conditional mean given the value of \( x_1 \), \( x_2 \) and \( x_3 \).

\( b_1 \), \( b_2 \) and \( b_3 \) represents the slopes of the curve, viewed from different angles.

\[ \ldots \] upto infinity combination of \( b_1 \) and \( x_1 \).
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 WHAT IS SMALL SCALE ENTERPRISES?

Different terms have been used to describe the subject of interest in Kenya. Amongst the policy makers following the International Labour Organisation (ILO) report of 1972, the term "informal sector" was adopted as the official name. Amongst the practitioners, the actual people working in the sector, the term "jua kali" has been the trade mark. When the phrase is applied to the economic field, it acquires a different connotation, in its simplest form, the term refers to those economic activities conducted in the open sites in which people work wholly exposed to harsh environmental hazards like heat from the sun, rain and dust. (Obonyo 1988)

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CHAPTER TWO

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In different countries, these activities (small scale enterprises) are defined differently so as to fit the prevailing socio-economic conditions. In Kenya perhaps the most acceptable definition of the small scale enterprises (informal sector) so far has been that provided by Kenya's Central Bureau of Statistics (1984) in its statistical publication on employment and earnings; as follows:

"This consist of semi-organized unregulated activities largely undertaken by self-employed persons in the open markets, in marketstalls, in undeveloped plots or on street pavements within urban areas (centres). They may or may not have Licences from local authorities for carrying out such activities as tailoring, carpentry, blacksmithing, grocery, kiosks, meat and maize roasting, sale of apparel and shoes, open air restaurants, repair of footwear, car repair, shoe shining, hair cutting, etc."

ILO (1972) defined the small scale enterprises as activities that escape enumeration in official
statistics, which still happens but in small urban centres. Ryan (1986) defined the activities of the sector as those enterprises outside the tax net but cautioned that this is different from tax evasion by the formal sector registered enterprises. But this definition does not hold much truth given that informal sector (SSE's) in Kenya pay various types of fees and charges to Municipal and Council authorities.

As noted above, the two terms "informal sector" and small scale enterprises have been used in Kenya interchangeable. In the strict sense of both words, they are not identical. But in this study, they will be used interchangeable to denote a heterogeneous group of enterprises ranging from part-time, non-agricultural activities, to formal modern small scale enterprises that employ between zero to twenty employees. This approach is chosen here because the town where the study is being conducted is quite a small town and like in all urban centres within the developing economies, peasants tend to straddle between non-farm enterprises and farming. Generally, these are not large enterprises and in some cases are either reliant on the family labour or
a few employees. Apart from the above, the term "informal" would not allow for the inclusion of some of the enterprises which are small but largely are registered with the central government agencies.

2.2. Characteristics of the Small Scale Enterprises/Informal Sector

As with its definition to delimit its characteristics is also controversial but views converge on a few key salient features. Thus, International Labour Organizations (ILO) 1972, note that the sector is heterogeneous, with participants not only in petty trading but also repair, light manufacturing, transportation, services, house building and other any activities that helps in the urban economy work.

Ashe in AID (1985) and Pedersen (1989) note that the informal sector is not a homogeneous sector rather it consists of activities of both trade, service and production. As far as technology is concerned, Pedersen notes that these enterprises may be based on very different technologies and have different relations to the rest of the economy.
He notes that they may be subcontracting enterprises, small petty trade and production enterprises on the local market typically with no or single employee outside the family, and with very small investment. In terms of labour capital ratio, he notes that these enterprises are characterized by high labour intensive relative to capital. This view is supported by Ashe in AID (1985) which note that the start up capital for these enterprises is often very low, often coming from personal or family savings seldomly being financed by established financial institutions. Thus, ILO (1972), Ashe in AID (1985) all agree that the enterprises are characterised by high labour intensiveness relative to capital. This view is supported by the USAID 1986 which note that the start up capital for these enterprises is often very low, often coming from personal or family savings seldomly being financed by established financial institutions. Thus, ILO (1972), Ahe in AID (1985), Sanyal (1989) and Pedersen (1989) all agree that it is marked by high entry rates with a similar marching mortality rate in both big and small urban areas.

It is therefore, noted that small scale enterprises/
informal sector as used in this paper is characterized by low initial start up capital, heavy reliance of family savings, high degree of labour intensiveness, high degree of diversity on activity of involvement, and lastly, varying levels of operations. But all in all, the small scale enterprises from which the study is based on has a similar characteristics as those reviewed above.

2.3. Origin of the Informal Sector Enterprises in the World

Different scholars have different views on the origin of the informal sector/small scale enterprises in the world. Sanya B. (1988) argues that these development can be traced back to the 1952 United Nations Declaration; then she argues:

"development was equated with economic growth through rapid industralization; this would provide employment in the urban areas for the bulk of the population, whose income and consumption would increase, thereby releasing them from rural poverty traps."
To the above argument there was no uncertainty in the deductive logic. This is so because it had already been proved in the historical experience of the western developed countries to be true. She notes that for implementation of the same strategy in the developing countries Sir Lewis A. had provided the best conceptual framework for the people who viewed development along the above line. Sir Lewis, she notes argues in a paper entitled "Economic Development with Unlimited Supply of Labour" had proposed that;

"Development would require industrialization, agricultural modernization and urbanization, which the developing countries could achieve only by fully exploiting the existing inequalities in sectoral, spatial and social relationships. Sectorally Lewis argued, industry was to receive investment priorities over agriculture because of the difference in the rate of return between the two sectors. Spatially investment locations were to be concentrated in large urban centres, which provided economies of scale and agglomeration benefits."
Socially entrepreneurial class — whom Schumpeter had identified as a driving force behind every expansionary economy was to be encouraged to save and invest so that the rest of the country could be employed".

For the implementation of the above, Sanyal notes;

"It was to be encouraged through increased efforts of rural-urban migration. This had the desired effects of transforming the abundance of small, subsistent farmers into low-cost urban industrial work force. This transformation was considered essential on two counts. First, it alone could reduce the overpopulation of rural areas, thereby reducing the percentages of the "disguised unemployed" in agricultural activities and increasing the per capita income and consumption of the remaining households. Secondly, the disguisedly unemployed could be productively utilized in the urban workforce, where they would create a
competitive labour market. This the argument went on would reduce wages, thereby strengthening the competitive advantage of these countries in the international market foreign exchange, earned as a result of increased comparative advantage, could be used to purchase capital goods with which to modernise the industrial base."

Ferrin and Sanyal (1986) notesthat as the implementation of the above grand plan was taking place coupled with colonial oriented policies in the developing countries, "unemployment and underemployment" registered a steady increase despite increased output in the developing countries across the world. They note that apart from the above happening non-wage employment begun to surface in the developing countries in the early 1960's and it went unobserved by the economist then. The view prevailing among the economist then was that it represented a transitory phase in the overall process which would eventually disappear with full-scale industrialization.
Thus, Harris and Todaro (1970) developed a migration model that assumed that non-wage employment was merely a stepping stone, a holding ground for a labour force waiting to be ultimately intergrated in the formal wage economy of the city. ILO (1972), Sinclair (1978) and USAID (1985) contrary to the views postulated in Sir Lewis's model of economic development above noted that for the developing countries, the low level of industrialization relative to the level of urbanization and land alienation in some cases, has meant that formal wage employment has been growing much lower than that of urbanization in contrast to what happened in the developed countries. And this has meant for developing countries a large unemployment and underemployment in the main cities. Faced with the above situation, the rural-urban migrants resorts to non-wage employment and thus a rapid growth of small scale enterprises (SSEs - informal sector).

The above ILO (1972, Sinclair (1978) and AID (1985) note that the origin and growth of small scale enterprises (informal sector) in developing countries is a response by the urban unemployed to the employment
crisis in the cities, towns, urban centres and villages following the adoption of the Sir Lewis's model of rapid economic growth in the developing countries. The AID (1985) note further that small scale enterprises (informal sector) are not only an urban phenomenon but that in the rural areas of developing countries, for example Kenya, non-farm employment makes up to 28% of rural employment. The report notes further that those involved in these activities in the smaller towns in the developing countries are those whose farms are small to support them or are altogether landless.

In analysing the origins of small scale enterprises in Kenya, McCormick (1988) notes that:

"Today's urban small-scale enterprises is however a product not only of general forces of development, but also of historical situations and relationships specific to Kenya. Like anywhere else in the world, capitalism takes root with the progressive separation of capital and labour. On one hand, it requires the appropriation by a few
of the means of production, and
on the other, the creation of a class
of wage labourers."

Thus in Kenya, the European colonization opened
the way to European settlement and Asian commerce.
This development she notes resulted in a landless
class of wage labourers in the form of African
migrants. She notes that the European alienation
of land followed the same development framework
developed by Sir Arthur Lewis as discussed earlier.
Thus, the African landless as he was and a family
to feed was forced to the urban areas in large
numbers in search of wage employment in the
European and Asian owned firms.

Obudho (1984) notes that the urbanization policy
adopted by the colonialist tended to favour the
productive areas. He notes that with land
alienated the Africans, then many African men,
left their "reserve areas" for long or short
periods to work for wages either in urban areas
or capitalist firms. This process he notes
hastened even more when independence came and thus,
Kenyan urban centres experienced more rapid
urbanization than industrialization and hence the
rising army of the urban unemployed in Kenya in the 1960's and the appearance of the non-wage employment in the main urban areas of the country.

Elliot's (1975) refers to the participants in small-scale enterprises as the "urban excluded". This group he notes is composed of the relatively uneducated and unskilled squeezed out of the formal sector, he further notes that excluded from the full time employment in the formal sector by the interaction of the two processes, namely; slow growth of employment and the rapid increase of those seeking employment, at their level they have always turned to small scale enterprises.

In most countries, Elliot's contends that between a quarter and half of the urban labour force is excluded from employment in the modern sector, giving an indication of the chances that the remaining might be engaged in the small scale enterprises.

Rondinelli (1982) notes that while urbanization in the developed countries was triggered and caused by industrialization, urbanization in the now developing countries has been much more rapid than the level of industrialization could justify.
This when coupled by the rural development policies that some of these countries have adopted, i.e. 'growth pole', in Kenya, has led to even more urbanization in small urban areas which actually have no industrialization taking place in them. This together with rapid population growth since independence, he notes results in a lot of unemployment and underemployment leaving only non-wage employment as the only solution to urban migrants.

As evidenced by the brief review of the origin of small-scale enterprises in the world, it should be noted that no clear view exists given that others argue that, "since it occurs even in western developed countries and some Eastern Socialist countries then it has its origin in a general 'global crisis' of capitalism which requires lowering wages in the developed and developing countries." (Ferrin et al 1988) Whatever view one adopts, Kenya's case seems to approach closely to that which attribute the origin on the United Nations equating economic development and economic growth as outlined earlier.

This view approaches closely to what the colonial authorities did in Kenya, i.e. they sectorally
favoured industry relative to agriculture, secondly, they took advantage of selective spatial development (urbanization) by concentrating those activities in large urban areas and finally, socially, Whites, Asians and a few Africans acted as an entrepreneurial class. This left the majority of the local population with no means of fending for their families and migration to the towns. In the towns industrialization could not create enough employment which then finally led to the mushrooming of the non-wage employment (informal sector) as detailed in the ILO 1972 Report.

2.4. Management

Views of management within the small scale enterprises have always proved controversial. McCormick (1989) note that views of management in small scale enterprises in the developing countries are always misjudged. She notes that both researchers and development organizations working with every small business fail to relate the practice to the general strategies, stressing instead management practises proven helpful in the western context.

In her view, enterprises whether small or big have
been proven to perform better some without records and others with. In her study on Kenyan small scale enterprises she found the management of most of the entrepreneurs very high scoring an overall score of 61.00 on her management score scale.

Ashe in AID (1985) views management skills as lacking in the small scale enterprises because according to him, skills may be adequate as long as business do not expand significantly, management becomes a problem as business begin to add employees and expand in scale and production. The report further notes other management problems that sector experience are not of their own making though they are management, but they arise from lack of properly developed institutional credit, a hostile policy, environment, limited access to raw-materials and supplies and finally, marketing. These the report note might be related to individuals themselves but some arise out of Government policies which they cannot control.

Pedersen (1989) and Ondiege (1989) in referring to the environment of operation of most of these enterprises note that they operate under conditions
of uncertainty and continued risk under the above conditions. Pedersen notes that for many developing countries it has been found that entrepreneurs prefer to spread their investment on many small projects in different sectors. This approach of business is noted to be characteristic for the African entrepreneur. And that such an investment behaviour is claimed to be different from that of the European entrepreneur, who are noted to concentrate the investment on a single or a few large projects so as to allow him exploit economics of scale better than the African entrepreneurs.

Ndegwa et al (1985) in discussing the issue of employment in the developing countries noted that in many parts of the developing countries the income of many households are found to be governed not by one mode of production but frequently changing combination of agricultural income, formal sector wage employment and informal sector activities and thus, agreeing with Pedersen's views.

Ferrin et al (1986) agree with the view by stating that the purpose of small scale enterprises is to contribute towards family capital accumulation. And that reproduction of most households in the
developing countries may be secured by a combination of agricultural activities, wage labour in either the formal or informal sector. They note further that where the reproduction of entrepreneurial household is based on agriculture, the small informal activities will often be designated so as to supplement seasonal surpluses of farm labour and exploiting seasonal variation in local resources and markets. Unfortunately, he contends that the availability of wage labour and the prospects of the small enterprises often do not supplement each other. Instead, periods where wage labour is scarce also tends to be periods where it is difficult to develop small prosperous business because the market is low and competition fierce and hence giving the management problems related to marketing. (This should be tested for small scale centres in Kenya).

Pedersen (1989) apart from the above views notes that the family structure also influence the ability to accumulate capital. He notes that where the successful entrepreneur is met by customary obligations that faces the African entrepreneur it affects his ability to accumulate capital and hence its expansion and performance altogether. In other parts of
the world he notes that family organization rather operates as a mutual obligations. Amongst the people of South Nyanza there is a closely knit communal views and hence this affects capital accumulation, the capitalist way. On the economic front are those which are related to insufficient funds from the financing agencies (that is if they are there). In this case, they exist but they have not reached the people. Policies adopted by the government in the past has led to alot of harassment to these entrepreneurs, sometimes demarcated sites for them have alot of ownership problems.

In trying to cope with the above they have adopted a 'spread effect' of investing in many businesses to try to avoid loosing; marketing and materials remain a problem, for the small scale enterprises in both large and small urban centres since competition from well established enterprises is widespread.

2.5. Role of the Informal/Small Scale Enterprises

Ever since the International Labour Organization (ILO) 1972 highlighted the role of informal sector,
different studies have been conducted across disciplines to try to further support the ILO view. Thus, ILO (1972), Ashe in AID (1985), Sanyal (1985), Ondiege (1989), Ferrin et al (1989) and McCormick (1989) all agree to the view that these enterprises have a vital role to play in our economy. All the above agree that these enterprises are vital as source of income and employment especially to the disadvantaged in both rural and urban. Secondly, is that they provide goods and services to the poor at the rural and urban areas. Thirdly, they all agree that they are a major source of skill and entrepreneurial training, particularly for the poor; fourthly, all agree that the informal sector enterprises offer an optimal mix of capital, labour and energy that the developing countries which are capital deficient actual can best afford; fifthly, that informal sector business provide an important link to modern manufacturers and rural areas; and that these enterprises by being resilient they are capable of withstanding the international economic order vagararies. Finally, these enterprises are noted to be important in the ability to mobilize cash flows.

Rondinelli (1986) and Ondiege (1986) note that the small
scale enterprises are important for the economy of the smaller urban centres, since they usually cater for the local market conditions. The two further note that the sector offers leeways through which developing countries can enhance rural-urban balance and industrialization whereby they will be providing employment and promoting industrialization in rural areas by the rurals themselves. This is an important role that the sector has to play in regional planning, the above argue.

Despite the above good and positive views on what the sector can do for the national economy there are scholars who are pessimistic about its role. Leys (1975) and Kaplinsky (1975) argue that the informal sector is primarily a system of intense exploitation of labour and is a parasite of the formal sector in the sense that it uses its waste materials, e.g. tin candles made from oil cans.

Despite conflicting roles that can be attributed to the sector it should be noted that the sector actually survives in a co-existence with the formal sector as it subsists on it when it "poaches" technicians from it. That notwithstanding, the sector has played different roles in individual and national
development and will continue as greater potentials exist when one views the informal sector in its regional perspective. Potentials exists for it to be the basis for appeal for regional development approaches since they are owned and operated by those in the regions themselves.

2.6 INFORMAL SECTOR AND RELATED POLICIES IN THE 1990'S AND BEYOND

Like all economic activities, small scale enterprises are effected by economic policies, that a country adopts. Haggblacle et al (1988) note that governmental policies influences non-agricultural enterprises through effects on inputs and output market. Policies that affect the labour market, interest rates and growth policies all cumulate and interact to form a system of incentives to which entrepreneurs respond. Exchange rates, tariffs, import duties and interest rates affect the price of capital used by entrepreneurs, minimum wage and government salary structures all affect the price of labour they contend.

From the early 1980's Kenya has been implementing World Bank's structural adjustment programme that has
alot of implications to the general economy. Noor Mohammed (1987) notes that this has been done to reintroduce growth in our national economy which as Ferrin et al (1986) note has not been growing rampantly as it was in 1960's. The current Decade from the 1980's they note is marked by negligible or negative growth and increased poverty. In responding to the above, the Kenya adopted the SAP's of World Bank Programme.

Serageldin (1987) note that the World Bank Structural Adjustment Programme (SAP) are meant to reintroduce and to restore adequate self-sustained economic growth, within the African economies. On the impacts of the above programmes, he notes that in the short run it will hurt the urban poor and rural poor most, but in long run it will stabilize the economy and reintroduce growth in the rural agricultural sector which is the main stay of the economics of most African countries.

Serageldin (1988) note that in the rural areas, the policies have resulted in gross incomes of certain households going up. But for the non-farm households (rural traders where small scale enterprises fall) there are no expected direct gains although increased
farm incomes should spill over into increased demand for other products and services. In the urban areas, Serageldin notes, real incomes in the formal sector are expected to decrease in short run due to the effects of the programme. Unemployment is also expected to rise as governments implement the programme. As for the informal sector, the slow down in the urban formal sector production will hurt it, he contends.

Serageldin (1989) agrees that the above is true but that it will be compensated for by growing demand for informal sector services/products from the rural areas where at least the policy hopes the incomes will rise.

Sanyal B. (1989) on the contrary argues that as much as the rural incomes will rise this will be countered by a reduced rate of rural-urban migration. Thus, in the long run she argues, the increased rural population will reduce the incomes as more people squeezed from the urban areas prefer to stay in the rural areas. As a result, in real terms the assumed rise in rural incomes on per capita basis is not true. She goes further to note that the contraction of employment in the urban formal sector also means
that more people will enter the informal sector and hence reducing the take home profits at a time when the price of essentials are up. This she argues will enhance the mortality rate of the small scale enterprises in both small and big urban centres.

In view of the above situation, Ferrin et al (1986) note that there are two opposing views to the informal sector enterprises. First is the view that the current conditions are ideal for evolutionary growth of the informal sector in the developing countries. This is based on the fact the contraction of the formal sector will give the informal sector an opportunity to expand its operations, they argue, coupled with price increase on formal sector inputs, then the formal sector will loose its competitive edge over the informal sector. Furthermore, as the formal sector product prices rises and the real income of urban workers declines, then the urban worker will change its expenditure patterns relying more on repair and inexpensive goods, which are usually provided by the informal sector. The second view, Ferrin notes, is the view that the decline of the formal sector will adversely affect the informal sector. This is so because sub-contracting to and
and purchasing from the informal sector by formal sector is also expected to decline. Apart from that a contraction in the number of formal sector workers is expected to reduce the purchase of goods from the informal sector. Finally, the relatively lower rate at which labour is absorbed in the formal sector is assumed to increase pressure on the informal sector from new entrants to the urban economy. This will saturate the market with suppliers in the informal sector she argues, pessimistically, consequently, lowering the already slim profit margin for most producers.

As can be seen from the above dynamics, the national and international economic policies find their way into informal sector enterprises. In Kenya, the implementation of World Bank's Structural Adjustment Programme is expected to affect the incomes and employment opportunities. This will reflect itself most likely in the rising unemployment and may result in urban-rural migration to either the rural areas or the small urban centres.

Impacts of this are not known, but may be assumed as one of the underlying factors for the growth of the informal sector in small urban centres as the
study tries to investigate - the growth factors in the small urban centres as far as the informal sector is concerned.

2.7.0 SMALL SCALE ENTERPRISE POLICY IN KENYA

Introduction

As far as small scale enterprise (informal sector) are concerned in Kenya, not much as been done to incorporate it in the countries multi-sectoral development planning. In the past two decades starting from the time the International Labour Organization (ILO) (1972) carried out a detailed study of the sector in the country, a lot of literature has been added to it, but the sector has only received government attention during the current national development plan - which was based on the Sessional Paper Number One of 1986.

On the contrary, before the paper was published, the small scale enterprises (SSEs) suffered from a relative negative public image despite the fact that the sector had so many positive characteristics and a vital role to play in our country's economic development.
Policy Survey Since Independence

The Kenya Government strategy for industrialization after independence was based on the need for an expanded overall output - industrial development policy was for the formal sector especially those industries that were viewed to support the then policy of import substitution. (Industrial Review October 1988)

At a lower scale, the government established the Kenya Industrial Estates to look into ways of financing and giving technical aid to medium sized enterprises. The small scale enterprises were not included anywhere within the government policy systems.

The 1970-74 Development Plan laid emphasis in the development of medium sized industries as a major strategy for the alleviation of the employment problems. The main focus of such a policy was to provide the opportunity to "Kenyanise" commerce and industry, a view that was held to be quite important for the future economic development of the country. As such, small scale enterprises used in this study were not included within the official policy framework.
In 1972 the International Labour Organization (ILO) conducted a detailed study of the informal sector (small scale enterprises) in Nairobi. The report detailed out how this (informal) sector could promote growth of incomes and employment in the expanding cities, of the developing countries.

The Government of Kenya in 1973 reacted to the ILO report in an accommodating manner in their Sessional Paper on Employment. (GOK 1973) The paper accepted the views of ILO and promised that the "government will in future devise policies that will promote the growth and development of the informal sector" so that it could play its rightful role in economic development.

Thus, in the 1974-79 Development Plan the informal sector received considerable attention. Thus, in this plan (1974-79) the government policy stressed the need for laying emphasis on the promotion of small scale enterprises. This government policy outlined was to be strengthened through the establishment of industrial estates, rural industrial development centres and the promotion of indigenous African entrepreneurs, within the small scale enterprises.
To achieve the above objectives the policy as outlined by the development plan were to take three forms; first, the government was to review central and local government regulations that were incinical to small scale enterprises.

Secondly, the government was to direct assistance to small business enterprises all over the country and lastly, the government was to establish an organization that was well equipped to administer and provide extension services to the small scale enterprises.

In the development plan (1974-79), the government "was to review all general industrial and commercial policies as well as regulations with references to their impact on small scale enterprises". Built in such reviews was to see how certain aspects of the sectors for example manufacturing could be reserved mainly for small enterprises.

On the quality, quantity and coordination of services to the small businesses, a new corporation to be known as Small Business Development Corporation was to be established. The aim of such an organization was to coordinate all extension services,
research and development as would have been required by the small scale enterprises.

However, it should be noted that up to now no such organization exists. Even if it would have existed it was geared towards medium sized enterprises, rather than the small scale enterprises (informal sector) as used in this paper.

The Development Plan (1974-79) further observed that Kenya Industrial Estates would be strengthened to cover all small scale enterprises in even smaller urban centres but this is noted not to have been successful as detailed in the International Labour Organization (ILO) evaluation report of 1984.

The 1979-83 Development Plan just like the one preceding it, recognized the potential role of the small scale enterprises (informal sector) in promoting economic growth throughout the country. Thus, the plan outlined a set of policy guidelines to be undertaken for the implementation and promotion of the informal sector.

This include firstly, a massive expansion of KIE services at least one facility in each of the 43
districts by the end of the plan period; secondly, a fund of KShs. 50 million to assist the informal sector enterprises to enable them to take advantage of the facilities available with KIE network and other industrial development agencies. Thirdly, the Government advocated for a programming and evaluation sector within the Ministry of Commerce and Industry, to assist the District Development Committees in the preparation of coordinated programmes for informal sector (SSEs) manufacturing drifts. Fourthly, the Government advocated the centralization of the tendering system to districts so that small scale enterprises in the various localities could get priority of supplying required goods and services within their areas. Fifthly, a wide variety of training programmes such as village polytechnics, management training advisory centres, etc. to be offered by the Government to small business entrepreneurs. Sixthly, the Government was to provide the establishment of credit guarantee schemes for loans given by commercial banks to small scale enterprises.

Despite the fact that all the above could have helped the small scale enterprises. Apart from the first and the second, the rest were not fully
implemented. Thus, the policy did not at the end of the day achieve its desired objectives.

The 1984-88 Development Plan, apart from stressing the above (as 1979-83 Development Plan), had the Government commitment, "to the establishment of a full fledged small-industries division in the Ministry of Commerce and Industry to monitor the implementation of small industries development programme and to provide assistance to the industrial extension services in collaboration with the project studies division. As it stands today, the division exists but the effectiveness is yet to be gauged.

As the implementation of the 1984-88 Development Plan was taking place, the Government came out with a publication - Sessional Paper Number One 1986 on economic management for renewed growth. The Sessional Paper makes it clear that "sector (informal) will feature more prominently in the country's future development strategies and that it will shoulder a much heavier responsibility than hitherto", in trying to make the sector play its rightful role in economic development. The paper notes that a number of factors both macro and micro affect the performance of the informal sector enterprises. The Government
note that in order to stimulate their growth, then macro-economic policies have to be instituted aimed at the economy as a whole. The Government paper therefore, recognises "that farm productivity and incomes, for example, must be raised so as to stimu-late the demand for goods and services provided by the informal sector". The idea is that since the sector tends mainly to cater for the needs of low income groups in both rural and urban areas, increased incomes would ensure effective demand for informal sector goods. The second, macro-economic policy that the Government outlines as important for the sector is the lowering of tariffs on raw materials, semi-processed goods and inputs, with a bias, towards those used widely by the informal sector. The lowering of tariffs the Government hopes would ensure that the cost of the inputs in production and therefore, the price of the final product would remain reasonably low for the low income consumers and thus, ensuring a constant effective demand. The third macro-economic policy that the Government intends to follow has to do with investment incentive. As outlined in the Sessional Paper (GOK 1986), the Government has opted for an "investment incentive structure, that encourages the substitution of labour for machinery and will thus, boost small scale
activities that are characteristically labour intensive".

In the Paper (GOK 1986) the policy further outlines that macro-economic policies will be complemented by efforts to provide direct assistance to individuals and small scale business. To this end, the Government policy recognizes the need for financial assistance. As a result, initiatives are now being undertaken to expand access to credit facilities for informal sector businesses. Also efforts are being undertaken to disseminate information on market opportunities and appropriate production methods for small scale manufacturing. Further efforts being undertaken by the Government include the expansion of Youth Polytechnic Training and focus on appropriate skills and management techniques; and to relax current restriction on informal sector activities. (GOK 1986)

On technical and vocational training at all levels the paper notes that "there is need to correct the inverted pyramid in Kenya labour force, where university trained managers are supported by too many unskilled workers and too few well trained technicians and artisans. To this end, the policy
advocates for the expansion of technical training at all levels.

The Government of Kenya for the last five years has an educational policy that is geared towards providing the youth with vocational and technical education through the 8-4-4 system of education (primary, secondary, etc) to be self-supporting. (Industrial Review October 1988). This view is adopted by the Government in the expectation that it will graduate to be self-employment in the micro-enterprises sector of Kenya’s dynamic economy.

In the education policy, the incorporation of technical training is hoped to achieve the following objectives, firstly, the provision of increased opportunities for school leavers that will enable them to be self-supporting; secondly, that it will allow the development of practical skills and attitudes which the trainees to income earning activities; thirdly, that it will allow for the provision of technical knowledge and vocational skill necessary for the manpower development; and lastly, that it will allow for the production of person who can translate scientific knowledge into solution of
environmental problems. For these forms of training to serve Kenya's developmental needs effectively. The government has reorganized and rationalized such that the principal goal is to ensure that all institutes of technical education (of all levels) offer referent course for graduates whose career will be primarily in the informal sector (small scale enterprises).

Thus, the policy has outlined that Youth Polytechnics and other training centres are orienting their courses towards specifically identified local needs and skill shortages.

The Government policy in the Sessional Paper (GOK 1986) reiterates that a special task force be established to review all policies to promote the informal sector. Currently, the task force is in the process of being formed. The task force one operational will carry the following duties; review current local authority by-laws and other negotiations governing informal sector activities by eliminating unnecessary constraints, recommending an appropriate scale of licence fees and charges, and protecting street hawkers and self-employed people from over-zealous policing.
Development Plan 1989-93 had little for small scale enterprises except that the Government was to launch small scale development programmes. This is done by the publication of "A strategy for small scale enterprise development in Kenya: towards the year 2000 (GOK 1989). This publication which outlines Kenya's current Government policy, recognizes all the factors that are considered to affect the small scale enterprises and give ways through which the Government hopes to face them off (approach).

First, in the paper it is noted that the small enterprises is affected by what is termed as enabling environment (Government macro-economic policy and resources allocation). The main problems that are addressed have deficient policy framework, inadequate infrastructure, limited market and cumbersome laws and regulations. To alleviate the above problems, the Government intends to implement the following; firstly, there is the on going process of strengthening the institution's capacity of government to generate policy recommendations on a continous basis; secondly, the Government through the programme of rural trade and production centres is expanding physical faci-
lities/infrastructure, i.e. electricity, industrial sites, roads, etc. to make the physical access of minor towns suitable for informal sector entrepreneurs; thirdly, the Government is expanding the use of appropriate technology for example, enhancing research into the same, organizing technology fair, etc; fourthly, the Government is expanding markets for small scale enterprises products by supplying market information, preferential treatment to small scale enterprises in according tenders, etc. And lastly, to improve the legal environment the Government is improving laws and regulations, i.e. relaxing licencing and registration, ammending the banking act and other relevant legal requirements that have proved quite incimical to the small scale enterprises in the past.

Secondly, the small scale enterprises are noted to be constrained by what the Government calls investment and financial constraints. The main problem that the small scale enterprises encounter in credit acquisition are noted to be inadequate loanable funds, for the entrepreneurs in the sector, modifying collateral requirements will provide appropriate incentives for banks to lend to entrepreneurs in the sector and finally, orient financial decision-
makers to small enterprise promotion.

Lastly, the Government intends to address non-financial promotional programmes by developing an enterprise culture, introducing entrepreneurship education and finally, to improve the quality of the above.

As it stands now, the current Government policy in its entirety, i.e. both the sectoral, education, agriculture and small scale all work in favour of small scale enterprises on paper. The effectiveness will depend to a greater extent on the implementation and other international economic order issues to a greater extent, i.e. the structural adjustment programme seem to affect the sector in the bigger towns and kind of favour the sector in the small urban centres.
CHAPTER THREE

3:1 Study Area

Migori urban centre is located in South Nyanza district, Nyanza province. At the district level its the second major urban centre - and the new headquaters of the upcoming Migori district. The urban centre is approximately 200 km from Kisumu municipal council and about 450 km from Nairobi the capital city. Following the recent boundary changes the urban centre has an area of about 4 km$^2$ from 2.5 km$^2$ in 1985 and is only 13 km away from the Tanzania border.

In terms of altitude the centre is approximately 5020 ft above sea level on the high Eastern side and about 4000 ft at the low points along the river valley. The urban centre is also approximately 34°E and 1° North. The centre is located in the area with a climate that is predominantly inland equatorial climate
modified by the effects of altitude, relief and the influence of convectional currents from lake Victoria. Because of the lakes cooling influence, temperatures range between a minimum of $14^\circ C$ and a maximum of $25^\circ C$. Rainfall shows considerable variation within the hinterland of the town. Within the hinterland and the centre rainfall occurs in two maxima during the months of March, April and May giving the long rains, October to November the short rains with the dry season being September - February and June - September.

3:2 History and development of Migori Urban Centre

The present Migori urban centre had its origin in the 1934 when the colonial government started to operate the first Ministry office in this part of the district (Ministry of agriculture). Between 1934 - 1937 the first five shops were established in the place now occupied by the centre (Okwanyo 1935) within the same period the first bridge was built to connect the southern part of the town
with the northern part namely the Migori bridge and a police post established some 2.5 km away from the current commercial centre to the eastern side of the town on the slopes of Kadika hills. As the development of the centre continued as the colonial authorities wanted to boast the centre commercially apart from being a designated administrative centre.

Hence in 1951 the government decide that Kababu market which was already an established market centre for the region approximately 5 km away from Migori centre then, be moved to the newly designated administrative centre (Migori urban centre now). With this decision taken a few Indian businessmen who were operating from Kababu market moved to Migori to further enhance the development of the centre. The selection of the sight then apart from being enhanced by the colonial government desires was further enhanced by the fact the centre lie on the main road to Tanzania from Kisumu relative to the off-road Kababu market. As all this
development was taking place other government ministries moved to the centre in order to offer their services.

Thus by 1953 the colonial government declared Migori a trading centre with the present market place sufficiently being the centre for the periodic market which was operating on fridays and mondays.

In 1955 the colonial government in a move to ease administration declared the then Migori trading centre the divisional headquarters with a district officer seat (the first D.O being a whiteman Mr Miller). Initially the town was dominated by the local Luos and Basubas but in the early sixties the town saw the influx of Luhyas, Somalis, Sudanis and Arabs, so that the groups have intermarried to give the present centre a multi-tribal outlook.

In terms of physical development the first town development plan for the centre was made in 1964. As per that time (1964) only
the southern part of the town was planned being the market place and the major point where local shops were located. Within it's early development the centre had the African centre - the periodic market site - and the Indian centre - being the place where specialized commercial trade was taking place - hence the name of the sector of the town as the trading centre as opposed to the African 'market centre'. As the town developed this clear division of the 'market centre' and the 'trading centre' disappeared and the town as a whole developed into the big trading centre with a single market place. By 1989 Migori urban centre had over 300 shops, and virtually all of the relevant government ministries are represented in the town now.

Apart from just the physical growth, the centres population has also shown marked growth with-time. By 1969 the centres population was slightly less than 2000. By 1979 the centres population had reached about 6,000 people (census 1979). In 1983 physical planning
department estimates had the population at 10,000 persons.

Table 3a

Population of Migori Urban Centre;
1979 - Census.

<table>
<thead>
<tr>
<th>Total population</th>
<th>Male</th>
<th>Female</th>
<th>= of household</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,236</td>
<td>3,153</td>
<td>3,083</td>
<td>1,3301</td>
</tr>
</tbody>
</table>

3b

Population Projection Migori Urban Centre

<table>
<thead>
<tr>
<th>Low projection '000</th>
<th>Growth rate % P.a</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2 2.6 3.9 12.6</td>
<td>6.00 6.00</td>
</tr>
</tbody>
</table>

3c

<table>
<thead>
<tr>
<th>High population '000</th>
<th>Growth rate % P.a</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.7 4.3 16.8</td>
<td>7.00 7.00</td>
</tr>
</tbody>
</table>

Sources: Physical planning department - 1978
What is apparent is that the projections underestimated the population growth rate of Migori town. This fact is supported in that even at the high projection of 7% growth rate p.a. the resulting figure of 4,300 by 1980 was far much below the figures achieved for the 1979 census (6,223). Okwanyo (1985) calculating the growth rate using the equation.

\[ P = A \left(1 + \frac{r}{100}\right)^n \]

showed that the actual growth rate for Migori town between 1969 to 1979 was 9 p.a. thus using his findings as a projection rate then by the year 2000 Migori's population will be 38,000 as opposed to the very conservative figure of 16,800 person of the same year by the physical planning department.

The high growth rate experienced by Migori centre during the growth period of 1969 - 1979 is attributed to a number of factors. First, and foremost is the immigration resulting from the establishment of south
Nyanza a sugar company in Awendo, which resulted in the movement of a greater percentage of the disturbed population moving to Migori town and its environs. This movement also changed people's lifestyle as those who were once rural based moved to Migori town to try their hands at the business opportunities that the town offered. Apart from those who were business oriented others found it just worthwhile to settle within Migori town itself.

The other factor was the ujamaa policy in the neighbouring Tanzania. Following the declaration of the new policy in Tanzania in the early 1970's a few people left Tanzania and moved into Kenya. The only place that offered the best opportunity was Migori urban centre as a result most of the people settled in the town. Within the environs of the urban centre a greater immigration also flowed in from the already congested Kisii district, and other people migrating as far as western province. Even though most settled within the rural areas they have business interest in the centre (Migori) hence a few factors in the growth rate of the town.
Lastly, being a border urban centre it offered a number of opportunities for those willing to trade across the border, thus a greater percentage of businessmen staying in Migori town.

All these growth sources coupled with recently increased centres boundaries then mean an even greater population falling within the new town boundaries.

3:3 Commercial services

Within the Migori urban centre, there are wholesale shops catering for the needs of retailers in the centre itself, and retailers in the smaller market centres that depend for their supply on these wholesalers. Wholesalers within the town fall within those who are specialized on daily household buys. In the category of hardware wholesalers there are 14 such enterprises in the centre about 20 wholesalers traders in the other category.

Some of the leading wholesalers in the centre
are government run parastatal - Kenya National Trading Company (KNTC), the farmers run Kenya Grain Growers Co-operative Union (KGGCU) doubling as retail and whole. These two are the major once but are surported by a host of individual enterprises. Retail services number above 400 shops and kiosks in the centre all offering various retail services to it's populace and that of its hinterland.

In terms of location most of the retail shops and wholesales are located within the towns main central Business District (CBD).
All the wholesale stores are located in the northern part of the centre. Most of the whole-sale and retail services in the centre were recently started. A study conducted by Okwanyo (1985) showed that 64% of the current business were established in the early 1980's, 33% in the late 1970's and 3% of the respondents had opened their business in 1960's.
3:4 Hotel Services

The centre has two tourist class hotels namely, Girango lodge established in the late 1960's in the southern tip of the centre and Gilly hotel established in the late 1980's on the northern side of the centre. These are supported by small - food serving cafes and shops which number above 20 in the centre.

3:5 The periodic market

This forms an important economic activities of the centre. Migori has one open air market where the periodic market operates. This market operates on daily basis for the town residents and those from it's close environs. For those from it's deep hinterland the periodic market proper operates on Fridays and Mondays. This brings business people with their wares from as far as Kehancha (12 km) and Macalder (28 km) Muhuru Bay (30 km) and Awendo (26 km) away. The open air market is approximately one acre in area and is located in the southern
sectors of the town - which was initially referred to as the African sector. The open air market is owned by the South Nyanza county council. The facility offers the centre for trade and produce from the immediate hinterland and those from far away, it's an important aspect of the economy of the urban centre, since most of the people who trade in the centre are small scale enterprises falling within the service sub sector, these trade off their wares to the local residence and farmers and in turn earn an income which they spend to purchase the daily needs some of them from the manufacturing sub sector, of the small scale enterprises of the centre.

3:6 Financial institutions in the Urban centre

In the urban centre there is a fully fledged Branch of Kenya Commercial Bank and Barclays Bank are about to start operating a Branch whose physical facility is almost through. Apart from the above Banks there is the
cosmopolitan finance house, which undertakes the provision of loans. The Agricultural Financial Co-operation (AFC) giving loan to farmers in the centres hinterland for agricultural development. There is the Post Office Savings Bank which is operating a savings account. The above institutions apart from Kenya Commercial Bank (KCB) are new institutions in the centre and their impact cannot be gauged. An interview with the manager of Kenya Commercial Bank revealed that about 35% of wholesale and shop retailers are financed by the Bank.

3:7 Migori urban centre in its regional Settling:

The major urban centres in south Nyanza district are Homa Bay, Migori, and Kehancha. Homa Bay centre is the largest and was recently elevated to the level of a town council. It's the largest centre in terms of population from the 1979 census and also in terms of industrial firms.
Migori urban centre is the second largest centre in South Nyanza district with an estimated population of about 10,000 and above people, it's also the busiest centre in the district (even more than the district headquarters). This is due to the fact the centre, has a richer hinterland than any other in the district with sugarcane and Tobacco being the main cash crops. This is further supported by the fact that the centre is located on the international route to Tanzania and is only 13 km from the Tanzania border.

3:8 Population growth within the centres hinterland

According to 1979 population census, South Nyanza District had a total population of 817,601 people. The population was distributed in the district per division as shown.

Table 4

Population profile of the district 1979
Table 4

<table>
<thead>
<tr>
<th>Division</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kendu Bay</td>
<td>105,908</td>
<td>12.9</td>
</tr>
<tr>
<td>Oyugis</td>
<td>106,995</td>
<td>13.1</td>
</tr>
<tr>
<td>Ndhiwa</td>
<td>95,767</td>
<td>11.7</td>
</tr>
<tr>
<td>Migori*</td>
<td>85,354</td>
<td>10.4</td>
</tr>
<tr>
<td>Kehancha*</td>
<td>85,082</td>
<td>10.4</td>
</tr>
<tr>
<td>Nyatike*</td>
<td>75,369</td>
<td>9.2</td>
</tr>
<tr>
<td>Mbita</td>
<td>84,688</td>
<td>10.4</td>
</tr>
<tr>
<td>Rongo*</td>
<td>86,113</td>
<td>10.5</td>
</tr>
<tr>
<td>Rangwe</td>
<td>92,325</td>
<td>11.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>817,601</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Migori urban centre's hinterland proper

Source: C.B.S. Population Census (1979)

Population projections for the district using 1979 as the base year give a total figure for the divisions in the district as table 5.
Table 5

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kendu Bay</td>
<td>159,018</td>
<td>174,299</td>
<td>179,701</td>
<td>185,224</td>
</tr>
<tr>
<td>Oyugis</td>
<td>170,753</td>
<td>176,089</td>
<td>181,546</td>
<td>187,126</td>
</tr>
<tr>
<td>Ndhiwa</td>
<td>152,838</td>
<td>157,613</td>
<td>162,498</td>
<td>167,493</td>
</tr>
<tr>
<td>Migori*</td>
<td>136,214</td>
<td>140,470</td>
<td>144,824</td>
<td>149,275</td>
</tr>
<tr>
<td>Kehancha*</td>
<td>135,783</td>
<td>140,026</td>
<td>144,366</td>
<td>148,803</td>
</tr>
<tr>
<td>Macalder*</td>
<td>120,202</td>
<td>124,040</td>
<td>127,884</td>
<td>131,815</td>
</tr>
<tr>
<td>Mbita</td>
<td>135,157</td>
<td>139,380</td>
<td>143,700</td>
<td>148,116</td>
</tr>
<tr>
<td>Rongo*</td>
<td>137,427</td>
<td>141,723</td>
<td>146,114</td>
<td>150,605</td>
</tr>
<tr>
<td>Rangwe</td>
<td>147,344</td>
<td>151,948</td>
<td>156,658</td>
<td>161,472</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>1,304,736</td>
<td>1,345,587</td>
<td>1,387,291</td>
<td>1,429,929</td>
</tr>
</tbody>
</table>

* Migori urban centre's hinterland proper

Source: South Nyanza District Development Plan 1984-1993 (GOK)

As can be seen from the above table, the figures show a general increase in population towards the years to come. As far as Migori urban centre is concerned it is located within the division with a very high population concentration already. The urban
centre's hinterland includes the divisions of Rongo, Nyatike, Kehancha and Migori itself. All these give the urban centre a hinterland of about 600,000 people forming the proposed Migori District with Migori as its headquarters.

The Projected Population for South Nyanza District by Age Groups is shown in the table below.

Table 6: Population Projections by Age Groups

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>1985</th>
<th>1988</th>
<th>1990</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>218,430</td>
<td>234,367</td>
<td>246,002</td>
<td>254,670</td>
</tr>
<tr>
<td>5</td>
<td>38,058</td>
<td>40,938</td>
<td>43,334</td>
<td>49,966</td>
</tr>
<tr>
<td>6-13 (pri)</td>
<td>269,649</td>
<td>296,733</td>
<td>313,560</td>
<td>335,534</td>
</tr>
<tr>
<td>14-17 (sec)</td>
<td>110,628</td>
<td>123,094</td>
<td>131,247</td>
<td>141,601</td>
</tr>
<tr>
<td>15-19 (L forces)</td>
<td>520,544</td>
<td>579,113</td>
<td>622,528</td>
<td>695,116</td>
</tr>
<tr>
<td>60 +</td>
<td>38,626</td>
<td>42,053</td>
<td>44,558</td>
<td>48,685</td>
</tr>
<tr>
<td>15-49</td>
<td>254,537</td>
<td>283,191</td>
<td>304,217</td>
<td>33,771</td>
</tr>
</tbody>
</table>

Annual Growth % rate

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% rate</td>
<td>3.25</td>
<td>3.19</td>
<td>3.14</td>
<td>3.07</td>
</tr>
</tbody>
</table>

Source: District Data File Handbook (1987)
3.9 Wage Employment in Homa Bay and Migori Urban Centres

Table 7

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Homa Bay</td>
<td>693</td>
<td>518</td>
<td>546</td>
<td>741</td>
<td>3171</td>
<td>3069</td>
<td>3137</td>
</tr>
<tr>
<td>Migori</td>
<td>123</td>
<td>165</td>
<td>240</td>
<td>346</td>
<td>335</td>
<td>318</td>
<td>339</td>
</tr>
</tbody>
</table>

Source: Employment and Earnings in Modern Sector CBS GOK (1986)

In public sector employment the district has 7,000 people (minus teachers) which is 1.2% of the total labour force. The growth target set is 3.5% which will result in 1,225 more public servants employed. This falls short of the labour force demands (labour force population 1990 - 622,528) projected to grow at the rate of 3.14% per annum from the 1990's overall. This thus, shows the minimal role that the public sector can play in wage employment opportunities for the district and the two major urban centres if it were to be rallied on.
For the district as a whole, it has approximately 5,000 people working in the medium size farms, i.e. banks and factories. Thus, for the district to relieve unemployment within the two major urban centres, by 1993 primary school age will be 335,534, an increase of 38,801. The same applies for the secondary school students, who will increase from 123,094 in 1988 to 141,661 in 1993. The increase has a bearing on the number of classrooms required, equipment and facilities that support education. This to an extent shows the market opportunities that the small scale enterprises have in future.

Another interesting aspect of the population dynamics is that of the persons in the labour force in the district and thus, Migori projected employment demands. As can be seen from Table 8, the projected labour force was 579,113 in 1988; this will rise to 695,116 people by the year 1993. This give an increase of 116,003 people for whom the district has to provide employment. Wage employment opportunities are concentrated in the two major urban centres of the district as shown in the Table 4.
Table 8

Labour Force and Employment Estimations; 1988/93

<table>
<thead>
<tr>
<th></th>
<th>1988 (Number)</th>
<th>1988 (% labour)</th>
<th>Target annual growth rate %</th>
<th>1993 (Number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1,226,105</td>
<td>47%</td>
<td>3.7%</td>
<td>1,429,929</td>
</tr>
<tr>
<td>Labour Force</td>
<td>579,113</td>
<td>100%</td>
<td>4.0%</td>
<td>695,116</td>
</tr>
</tbody>
</table>

Employment Estimates

A) Non-Wage Labour:

<table>
<thead>
<tr>
<th></th>
<th>1988 (Number)</th>
<th>1988 (% labour)</th>
<th>Target annual growth rate %</th>
<th>1993 (Number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>7,000</td>
<td>1.20%</td>
<td>3.5%</td>
<td>8,313</td>
</tr>
<tr>
<td>Large scale firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium small</td>
<td>5,000</td>
<td>0.86%</td>
<td>4.5%</td>
<td>6,125</td>
</tr>
</tbody>
</table>

B) Informal Sector

<table>
<thead>
<tr>
<th></th>
<th>1988 (Number)</th>
<th>1988 (% labour)</th>
<th>Target annual growth rate %</th>
<th>1993 (Number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small scale enterprises</td>
<td>1,400</td>
<td>2.41%</td>
<td>4.0%</td>
<td>16,800</td>
</tr>
<tr>
<td>Informal sector</td>
<td>4,700</td>
<td>0.31%</td>
<td>5.0%</td>
<td>5,875</td>
</tr>
</tbody>
</table>
C) **Agricultural/Livestock Employment**

ADC Farm

Large farm/ ranches

co-operative farms

Landless

famine

Relief

schemes

Small-holders

(70,660 hldgs) 488,401 84.34% 3.3% 583,151

Fishing 59,952 10.35% 5.0% 74,940

Source: District Development Plan South Nyanza; 1989/93

The DDC (1989-93) stresses the important role to be played by the private sector (formal), fishing industry, agricultural employment and puts even greater emphasis in the small scale enterprises (informal sector). This therefore, shows what role this sector is to play now and in future and pressures acting for and against its growth. (Refer Table for district labour force and employment estimates 1988/93).

3.10 **Related Agricultural and Industrial Activities Within the Centre's Hinterland**

Agricultural activities form the main stay of the
economic activity of Migori's hinterland. Like other parts of the rural Kenya, most economic activities are made up of thousands of small farms and acres of the open grazing land. These provide for the rural people of Migori the subsistence base. Many farms are small mainly because of fragmentation of holdings through inheritance and influx of new migrants into the area.

Migori's hinterland agriculturally covers the whole area that administratively fall within the division of Rongo, Migori, Kehancha and Nyatike. The first three divisions are in the high and medium potential areas of South Nyanza District. And are the main and sole producers of maize, Arabica coffee and tobacco respectively. The main cash crops grown are sugar cane within Migori and Rongo divisions to supply the Sony Sugar (Company) factory with the 26 km of Migori Urban Centre. Tobacco is grown in Kehancha, Migori and Rongo Divisions. These two crops earned the hinterland a total of KE 10,485,040 in 1985. At the district level the earnings from agriculture were as shown in Table 9.

As can be seen from the table, agriculture earned
Table 9: Values of Food Crops, Cash Crops and Livestock

<table>
<thead>
<tr>
<th>Value in K£</th>
<th>Per Capita (Kshs)</th>
<th>Household (Kshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food crop</td>
<td>25,742,270</td>
<td>421.22</td>
</tr>
<tr>
<td>Cash crop</td>
<td>10,485,040</td>
<td>185.30</td>
</tr>
<tr>
<td>Milk Products</td>
<td>10,694,575</td>
<td>190.74</td>
</tr>
<tr>
<td>Livestock</td>
<td>1,787,104</td>
<td>31.92</td>
</tr>
<tr>
<td>Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTALS</td>
<td>48,708,989</td>
<td>829.80</td>
</tr>
</tbody>
</table>

District Development Plan, 1989-1994

the district a total of 48,709,989 Kenya pounds.

It should be noted that about three quarters of the agricultural income was earned within the centre's hinterland. Thus, in real per capita income for the centre's hinterland is much higher than the district value and that even household income is again far much higher.

Food crops grown in the centre's hinterland include maize, sorghum, rice, potatoes, cassava, beans, irish potatoes and peas: To the subsistence
farmer within the centre's hinterland, these are not grown as foodcrops only but also they act as a major source of cash. (Brann and Kennedy, 1986)

Another major source of financial income is fishing along the western side of the hinterland. This forms a major source of income for the people of Nyatike Division who border Lake Victoria and those from the hinterland are engaged in the trade. Unfortunately, it forms an area which has not been exploited to the right capacity. It therefore, offers a major leeway for increasing the incomes of the centre's hinterland. In terms of employment the agricultural sector, especially the small holders is the largest single employer in the entire district with 448,461 people, and hence even within the centre's hinterland.

In terms of industrial activities, the Migori hinterland is not as rich relative to the agricultural sector. South Nyanza Sugar Company and BAT Leaf Treating Centres in Oyani and Rongo form the major industrial activities within it. The South Nyanza Sugar Company employ over 2000 people directly and thus, a major source of income.
The BAT Leaf bulking stations employ again over 500 people directly. Apart from the above, there are small scale enterprises in the market centres, within the centre's hinterland. This directly or indirectly depend on Migori's commercial sector for their daily inputs.

3.11 Overview of the Small Scale Enterprises in Migori Urban Centre

As noted earlier, Migori is a small urban centre with a population of approximately 10,000 people. The urban centre is more administrative than commercial. Within the centre there is no big industries or enterprises except the medium Migori Sisal Processing Plant and Suna Bakery. Small scale enterprises dominate the centre as the main economic activities. These activities (SSEs) can be categorized briefly into the following sub-sectors.

1) Service small scale enterprises
2) Manufacturing small scale enterprises
3) Construction small scale enterprises

Service Small Scale Enterprises

These are defined as enterprises that for example,
service, i.e. doctors, advocates, tea/eating houses, retail shops stocking different types of commodities, vendors of various fruits, vegetables, block stones, etc., within Migori Centre. This category of enterprises dominate in terms of location; they (mainly shops, tea/eating houses, doctors, and advocates) are housed within most of the permanent structures within the centre. Vendors of fruits and vegetables operate in the open market of the centre and is heavily dominated by women.

Construction Small Scale Enterprises

These may or may not be declared to the authorities and they may or may not have any particular knowledge of the building trade. In terms of operation they recruit temporary labourers providing tools and purchasing raw materials but in most cases the necessary funds are allocated by the owner of the structure to be constructed. In Migori, they are heavily supplemented by groups of craftsmen. These are people/persons grouping together spontaneously and without any other mutual commitments for a given job. The team in most cases comprises two masons, one or two carpenters and tailors.
This group of craftsmen in Migori will generally take the person who found the contract the boss and it will be upon him to determine the number of workers to be recruited and on sharing of the profit. Apart from the two above, this sub-sector is also dominated by family teams of piece workers. Like group craftsmen they are also in most cases Jacks of all trades. It is in most cases two or three masons from the same family. The members in most cases look for work as soon as contract is obtained they will then recruit one or two labourers to help see the contract through.

**Manufacturing Small Scale Enterprises**

This form the subject of the study. They are described here as the enterprises involved in the process whereby one or more substances are transformed into a new product. (United Nations 1971) The census carried out during the study revealed that more than 300 such enterprises in the urban centre with ten or few employees. Included here are the general category of textile work, i.e. tailoring, dressmaking, knitting and sewing of textile products. In the centre, they actually form the largest group within the manufacturing sub-sector of the small scale enterprises.
Carpentry, the second largest group within the sub-sector, mostly involves the fabrication of furniture, fabrication of doors, windows and other wood related structures like the prefabricated roofs, shopshelves to hold stocks, etc. The third group within the sub-sector include the metal fabricating enterprises; this produce the metal boxes, metal furniture, small hardware, metal doors and window frames; iron gates, cooking itensils and charcoal stoves. This is a relatively new line of enterprises in the town following the availability of electricity in the early 1980's. The fourth group of enterprises within the sub-sector includes the shoe makers and repairs. They number about 30 in the centre and are mainly involved in fabrication of leather into shoes, bags and baskets and finally, carrying out shoe repairs. Lastly, in the small scale manufacturing category, are included tinsmiths. These are also involved in metal fabrication but at a lower scale where electricity is involved and the main products are tin candles, hoes and jembes as well as metal boxes and cooking utensils, as shown in the photograph below.
4:0 CHAPTER FOUR

DATA ANALYSIS

4:1 Growth of Small Scale Enterprises

Out of a survey of 67 small scale enterprises (SSE's) of manufacturing type in Migori urban centre, most of the enterprises were started between 1980 and 1989. Within the last decade (1980 - 1989) a total of 47 enterprises were started in the centre. The first half of the decade had 20 enterprises and the last had 27 enterprises.

Table 10

<table>
<thead>
<tr>
<th>Year of starting Enterprise</th>
<th>No. of Enterprises</th>
<th>% of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1970</td>
<td>10</td>
<td>14.9</td>
</tr>
<tr>
<td>1970 - 74</td>
<td>2</td>
<td>3.0</td>
</tr>
<tr>
<td>1975 - 79</td>
<td>8</td>
<td>11.9</td>
</tr>
<tr>
<td>1980 - 84</td>
<td>20</td>
<td>29.9</td>
</tr>
<tr>
<td>1985 - 89</td>
<td>27</td>
<td>40.3</td>
</tr>
<tr>
<td></td>
<td>67</td>
<td>100.0</td>
</tr>
</tbody>
</table>
As to why the enterprises were started the majority of the entrepreneurs cited some of extra income (58.2%) as the main reason for starting the enterprise. Second to extra source of income as a factor in the start of the enterprise was the urge to be self-employed.

Table 11 gives the distribution of reason for starting enterprise.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-response</td>
<td>3</td>
<td>4.3</td>
</tr>
<tr>
<td>Extra income</td>
<td>39</td>
<td>58.2</td>
</tr>
<tr>
<td>Self-employed</td>
<td>19</td>
<td>28.4</td>
</tr>
<tr>
<td>Popularity of business</td>
<td>6</td>
<td>9</td>
</tr>
</tbody>
</table>

Of the respondents who were employed before 51.7% of them gave as reason for leaving previous employment the urge to be self-employed as can
Reasons for leaving Previous Employment

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>30</td>
<td>44.8</td>
</tr>
<tr>
<td>Retirement</td>
<td>7</td>
<td>10.4</td>
</tr>
<tr>
<td>Better pay</td>
<td>7</td>
<td>10.4</td>
</tr>
<tr>
<td>To be self-employed</td>
<td>19</td>
<td>28.4</td>
</tr>
<tr>
<td>Closed down</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>67</td>
<td>100</td>
</tr>
</tbody>
</table>

It's apparent from Table 12 that the majority of those who were previously employed started these enterprises out of the urge to be self-employed. Entrepreneurs viewed self-employment as capable of allowing them to have control over their time and finance.
Entrepreneurs had different reasons for locating their enterprises in the centre, the majority of the respondents ranked proximity to market as the main factor determining their location in the centre. This was followed by the locality (i.e. the respondents' home area happens to be the area where the centre is located), availability of plot came third in the respondents' ranking and respondents specified that it only had a role when the centre is viewed in relation to other smaller centres (refer table 13).
Entrepreneurs had different reasons for locating their enterprises in the centre, the majority of the respondents ranked proximity to market as the main factor determining their location in the centre. This was followed by the locality (i.e. the respondents' home area happens to be the area where the centre is located), availability of plot came third in the respondents ranking and respondents specified that it only had a role when the centre is viewed in relation to other smaller centres (refer Table 13).

Table 13  N= 67

<table>
<thead>
<tr>
<th>Reason for location</th>
<th>Ranking of reason</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R - 1</td>
<td>R - 2</td>
</tr>
<tr>
<td>Locality</td>
<td>26.4%</td>
<td>6%</td>
</tr>
<tr>
<td>Proximity to Market</td>
<td>44.8%</td>
<td>32.8%</td>
</tr>
<tr>
<td>Source of raw-material</td>
<td>4.5%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Availability of plot</td>
<td>20.9%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

Reason for Locating Enterprise in this particular town
It is therefore apparent that market availability whether perceived or real has a very strong influence on the growth of the small scale enterprises in the centre. The market component should be seen in the light of the income expected to be earned by an entrepreneur in a ready market situation. When the entrepreneurs were asked whether they were willing to transfer their enterprises to either small or large urban centres, differing opinion were given. Half of the respondents were willing to transfer their enterprises, half would prefer to move to a bigger centre relative to Migori. The once who opted to transfer to large centres cited their perceived views of increased market opportunity. Those who were willing to move to a small centre also cited perceived increased market opportunity arguing that in the small urban centre their will be reduced competition in the small centres, hence they would still take advantage of the available market. These views by the entrepreneurs whether willing to transfer to small or larger urban centres further points to the importance entrepreneurs in centres like Migori attach to the perceived market
availability, since they expect this to translate itself into high income for them.

4:2 Expected income and Small Scale Enterprises

Table 14
Frequency distribution of actual income compared to expected income (if in formal employment)
N=67

<table>
<thead>
<tr>
<th>KSH VALUE</th>
<th>ACTUAL INCOME(%)</th>
<th>EXPECTED INCOME(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1000</td>
<td>55.2</td>
<td>32.8</td>
</tr>
<tr>
<td>1000-2000</td>
<td>14.9</td>
<td>19.4</td>
</tr>
<tr>
<td>2001-3000</td>
<td>9.0</td>
<td>26.9</td>
</tr>
<tr>
<td>3001-4000</td>
<td>4.5</td>
<td>1.5</td>
</tr>
<tr>
<td>4001-5000</td>
<td>16.4</td>
<td>6.0</td>
</tr>
<tr>
<td>5001+</td>
<td>0</td>
<td>13.4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

\[\bar{X}_A = 3098 \quad \text{MaxA} = 30300 \quad n_1 = 67 \quad \sigma^2 = 3556\]

\[\bar{X}_E = 3341 \quad \text{MaxE} = 30500 \quad n_2 = 67 \quad \sigma^2_E = 5626\]

\(\bar{X}_A\) and \(\bar{X}_E\) represented mean actual monthly income and mean expected monthly income respectively.
Max_A and Max_E represents the maximum actual and expected monthly incomes, n_1 and n_2 denoting sample sizes S_A and S_E, standard deviations of actual monthly incomes and expected monthly incomes respectively. We use the Z-test to test for any statistical difference between the two means. Reason being that the sample size of it is considered large enough to be tested using a Z-test. From table No. 14, the mean expected incomes appear to be greater than mean actual incomes. Even from the percentage distribution a greater proportion of the sample expected a higher income than what they were earning. The Z-test statistics (0.2988) is less than the critical value of 0.475, thus showing that there is no significant difference between the two means at 5% level.

On the base of the Z-statistics therefore these entrepreneurs do not stand a chance of earning a better salary (pay) than what they are earning in their enterprises in Migori. If they themselves perceived the above to be the true case of their situation then this enhances their chances of staying in self-employment rather than moving out to be self-employed and earn approximately the same salary given the liberty
that goes with self-employment.

Secondly, the mean actual incomes and the mean expected income of the entrepreneurs of Kshs. 3098 and Kshs. 3341 respectively are quite high relative to what the national economy pays for people with their kind of labour in the formal employment, this will then discourage the entrepreneurs from joining formal employment and encourage them to stay in their self-employment, where their actual incomes are relatively higher.

4:3 Incomes in Small Scale Manufacturing Firms in Migori Town:

Contrary to the popular views that on the incomes of small scale entrepreneurs in small centres like Migori, it was not very low. On average entrepreneurs mean monthly incomes in the sector were Ksh. 3098. The lowest figures for the incomes were recorded as zero, but this is due to lack of record keeping of cash flow by the entrepreneurs who notably for the study preferred to transfer resources from one form
of investment to the other. The maximum earnings within the sector in Migori was Ksh. 30,300/=.

When one consider the mean monthly incomes of Kshs. 3098 for the centre then it looks more attractive to encourage people to join, even to those who have formal employment in the centre. From the survey it was noted that some of the entrepreneurs in the sector in the centre are still holding formal employment within the public sector. Most of the entrepreneurs apart from those who are still holding employment also hold formal employment as manual labourers or in the formal sector as employees before they left their previous employment to venture into self-employment.

As noted in the earlier parts of this chapter the incomes from the small scale enterprises in the centre are definitely higher even by the national economy standards. This has the net effect of even attracting lower cadre of professionals like cases noted in the survey of teachers and one university graduate joining in the sector. It is therefore notable at this level to say that if one or any of the factors that enhance market and hence net
incomes can be enhanced then horizontal expansion of these enterprises will continue to occur in the centre.

Table 15

Mean Monthly incomes per type of Enterprise:

<table>
<thead>
<tr>
<th>Class in Ksh.</th>
<th>Metal Fabrication</th>
<th>Tailoring</th>
<th>Carpentry</th>
<th>Tin smiths</th>
<th>Shoe making</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>26.7</td>
<td>8.3</td>
<td>11.1</td>
<td>40.0</td>
<td>0</td>
</tr>
<tr>
<td>1-1000</td>
<td>26.7</td>
<td>83.3</td>
<td>22.2</td>
<td>40.0</td>
<td>62.5</td>
</tr>
<tr>
<td>1001-2000</td>
<td>20</td>
<td>0</td>
<td>18.5</td>
<td>20.0</td>
<td>12.5</td>
</tr>
<tr>
<td>2001-3000</td>
<td>6.7</td>
<td>0</td>
<td>18.5</td>
<td>20.0</td>
<td>0</td>
</tr>
<tr>
<td>3001-4000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4001-5000</td>
<td>6.7</td>
<td>0</td>
<td>7.4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5000+</td>
<td>20</td>
<td>8.3</td>
<td>13.5</td>
<td>0</td>
<td>25</td>
</tr>
</tbody>
</table>

\[
\bar{X} = 1736 \quad \bar{X}_2 = 1516 \quad \bar{X} = 5061 \quad \bar{X} = 620 \quad \bar{X}_5 = 2953
\]

\[
6_1 = 2160 \quad 6_2 = 27277 \quad 6_3 = 7845 \quad 6_4 = 837 \quad 6_5 = 4087
\]

\[
n_1 = 15 \quad n_2 = 12 \quad n_3 = 27 \quad n_4 = 5 \quad n_5 = 8
\]

The values in table 15 show mean monthly incomes per type of enterprise, the percentages show
the distribution of entrepreneurs per type of enterprise per income class. In terms of percentage distribution there is no much difference for the type of enterprise and incomes. That is a greater majority of the entrepreneurs earn less than Ksh. 2001, irrespective of the type of enterprise. From the mean monthly incomes it appears that entrepreneurs in the carpentry category have a relatively higher incomes than the rest of the entrepreneurs, and the tinsmiths appear to have the lowest mean incomes of all the categories.

We used t-test to test for any significant statistical difference between the means of all the five categories of enterprises. The t-statistics shows that between metal fabrication and tailoring there is no significant difference between the mean income (t-cal is 0.0313 and t crit is 0.6840). Thus the mean incomes of Ksh. 1736 and 1516 for metal fabrication and tailoring respectively are considered relatively close if not equal. Between Metal fabrication and the rest the t-statistics showed that there is a difference
between the mean incomes as shown below by the values of t calculated which are greater than those of t critical.

<table>
<thead>
<tr>
<th></th>
<th>t Calculated</th>
<th>t Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal Fab and Carpentery</td>
<td>1.5966</td>
<td>0.6810</td>
</tr>
<tr>
<td>Metal Fab and Tinsmiths</td>
<td>1.1052</td>
<td>0.6880</td>
</tr>
<tr>
<td>Metal Fab and Shoe</td>
<td>0.8440</td>
<td>0.6860</td>
</tr>
</tbody>
</table>

In the case of carpentry the incomes are significantly greater than those of metal fabrications and the same is true for shoe makers. In the case of tinsmiths the incomes are far much less than those of metal fabrication.

Incomes from tailoring shows no statistical difference from those mean incomes of carpentry, tinsmiths and shoe makers given that the t calculated in all the cases is less than t critical as can be seen below.
In the case of carpentry relative to tinsmiths and shoemakers, the incomes again show no statistical difference at 5% as can be seen from t values below. (This is a particular)

<table>
<thead>
<tr>
<th></th>
<th>t-Calculated</th>
<th>t-Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailoring and Carpentry</td>
<td>0.6283</td>
<td>0.6810</td>
</tr>
<tr>
<td>Tailoring and Tinsmith</td>
<td>0.0721</td>
<td>0.6910</td>
</tr>
<tr>
<td>Tailoring and Shoemakers</td>
<td>0.0669</td>
<td>0.688</td>
</tr>
</tbody>
</table>

Special case in this study which shows the inbuilt weakness of dealing with mean value in the statistical analysis since they pull down the average as some cases recorded no incomes).

Between tinsmith and shoe makers there is a statistical difference between the mean incomes (t-Cal. is 1.2404 as opposed to t critical 0.697). This shows that the mean incomes earned by the shoe makers is significantly greater than those earned by tinsmiths.
Relative to the national economy a greater percentage of the entrepreneurs seem to earn an income that would make them qualify for the middle income group (Kshs. 3000 – 5500 CBS 1989) coupled with the fact that they are earning the above incomes in relatively small urban centre (Migori) which allows straddlings between farming and non-farm employment then they have a gross income more than what middle income groups in the national economy earns.

On this basis therefore for people joining small scale enterprises they stand a better chance of improving their standards of living and their general wellfare especially in the small urban centres.

Apart from the mean incomes of the tinsmith entrepreneurs of Kshs. 620 (which is slightly above the minimum casual labourers wages presently over Kshs. 566) the rest of the enterprises offer a mean monthly incomes far much above what the national economy pay.

Age though not a very important factor seems to affect the type of enterprise one starts, the
majority if not all who were operating the tin-smiths were above 50 years of age and their enterprises started before 1975. The young and better educated opted for carpentry and metal fabrication where the mean age was 26 years and the mode was 27 years.

4:4 SAVINGS IN SMALL SCALE ENTERPRISES

Table 16

Monthly Savings from business

<table>
<thead>
<tr>
<th>Kshs. Value</th>
<th>Percentage distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>55.2</td>
</tr>
<tr>
<td>1 - 500</td>
<td>32.3</td>
</tr>
<tr>
<td>501-1000</td>
<td>1.4</td>
</tr>
<tr>
<td>1001-1500</td>
<td>1.4</td>
</tr>
<tr>
<td>1501-2000</td>
<td>4.4</td>
</tr>
<tr>
<td>2001+</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mean Monthly savings Kshs. 450 - 493
Maximum savings within this sector Kshs.10,000
Mode = 0
Standard deviation = 134.799
Table 16 shows the savings pattern in the small scale enterprise sector within the centre. Average monthly savings is given as Kshs. 450.45, the majority of the entrepreneurs as indicated by the mode in table 16 are non-savers (in the formal sense) but argued that extra incomes were used to invest in other enterprises like buying livestock leasing farms - when question of why not save regularly was asked - the majority of the entrepreneurs cited family commitment and low net incomes from their businesses as major factors in their not saving. The savings index (mean monthly savings) should be seen in the light of the importance that it plays in the refinancing of the enterprises. This kind of view is so because the majority of the respondents rely on their income as the major source of subsequent finance for business expansion.
### Table 17

**Savings per type of Enterprise**

<table>
<thead>
<tr>
<th>Class in Kshs.</th>
<th>Metal Fabrication</th>
<th>Tailoring</th>
<th>Carpentry</th>
<th>Tinsmiths</th>
<th>Shoemakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>66.0</td>
<td>58.3</td>
<td>44.4</td>
<td>60</td>
<td>62.5</td>
</tr>
<tr>
<td>1-500</td>
<td>20</td>
<td>33.3</td>
<td>40.7</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>501-1000</td>
<td>0</td>
<td>8.3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1001-1500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>12.5</td>
</tr>
<tr>
<td>1501-2000</td>
<td>6.7</td>
<td>0</td>
<td>7.4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2000+</td>
<td>67</td>
<td>0</td>
<td>7.4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

\[
\bar{x}_1 = 200 \quad \bar{x}_2 = 183 \quad \bar{x}_3 = 386 \quad \bar{x}_4 = 160 \quad \bar{x}_5 = 737
\]

\[
SD = 273 \quad SD = 304 \quad SD = 847 \quad SD = 347 \quad SD = 1987
\]

\[
n_1 = 15 \quad n_2 = 12 \quad n_3 = 27 \quad n = 45 \quad n_5 = 8
\]

Max Kshs. 10,000 Min = 0

From table we can conclude further that the majority of entrepreneurs across the different type of enterprises are non-savers. It appears from table 17 that entrepreneurs in the carpentry tend to save relative to other categories. We therefore conducted a t-statistic
test to test for any different between the mean savings of the enterprises at 5%.

From the analysis the following t - statistics were derived.

<table>
<thead>
<tr>
<th></th>
<th>t-Calculated</th>
<th>t-Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal Fab and Tailoring</td>
<td>0.157</td>
<td>0.684</td>
</tr>
<tr>
<td>Metal Fab and Carpentry</td>
<td>0.8230</td>
<td>0.6810</td>
</tr>
<tr>
<td>Metal Fab and Tinsmith</td>
<td>0.980</td>
<td>0.688</td>
</tr>
<tr>
<td>Metal Fab and Shoemakers</td>
<td>1.246</td>
<td>0.686</td>
</tr>
</tbody>
</table>

As can be seen from the above t - values, there is no significant difference between mean savings from the Metal fabrication and that from tailoring. Between metal fabrication and the rest there is a significant difference between the mean savings, with those of carpentry being significantly greater than the mean savings from metal fabrication and those tinsmiths and shoe makers being significantly less than the mean savings from metal fabrication.

The mean savings from tailoring had no statistical significant difference to mean savings by tinsmith
entrepreneurs, but there is significant
difference between the mean savings from tailoring
and those of carpentry and shoe makers. With
the last two mean savings being significantly
greater than the mean savings from tailoring,
as can be seen from the $t$-statistics below.

\begin{center}
\begin{tabular}{lll}
\hline
 & $t$ - Calculated & $t$ - Critical \\
Tailoring and Carpentry & 2.333 & 0.681 \\
Tailoring and Tinsmiths & 0.159 & 0.691 \\
Tailoring and Shoe makers & 0.961 & 0.688 \\
\hline
\end{tabular}
\end{center}

Savings from carpentry were recorded to be sig­
nificantly different from those by the tinsmiths
and shoemakers as can be seen from the $t$-values
below. This therefore:

\begin{center}
\begin{tabular}{lll}
\hline
 & $t$ - Calculated & $t$ - Critical \\
Carpentry and Tinsmith & 1.666 & 0.668 \\
Carpentry and Shoemakers & 0.9236 & 0.683 \\
\hline
\end{tabular}
\end{center}

Means that the mean savings by entrepreneurs in the
carpentry category are significantly above
those by tinsmiths and shoemakers. Between the
shoemakers and tinsmiths the mean savings were
not significantly different as can be deduced from the calculated t-value of 0.633 as opposed to the critical value of 0.697. Thus their mean savings or the ability to save appear to be the same as the mean values depicted in table 17 appear to differ. Statistically it has been proved (above) not to be significant.

From the above analysis it should be noted that those enterprises that have the ability to save more than the rest (notably carpentry has the highest ability) are then in a better position to expand more than the others since as noted earlier the major source of finance for expansion is through refinancing from incomes earned by the entrepreneur from the enterprise. From the sample the savings ability vary, depending on the type of enterprise, but the general savings amounts is very low. This can be attributed to the fact that across the enterprises the sole factor of operation is more of subsistence
as opposed to capital accumulation even though the entrepreneurs themselves think it is due to the low incomes that they earn.

17.9% of the entrepreneurs who were saving were going so in form of commercial banks or with post office. 1.5% of the savers were doing so by investing in other forms of enterprises i.e. buying assets which they could dispose of easily in times of financial needs. 4.3% were saving at home in different forms. The pattern of saving forms gives an impression that the entrepreneurs in the centre are aware of the role of savings as those who were saving with the commercial banks cited that they hoped to be able to use their cash flow patterns in their account to be given an overdraft or a loan (but were unaware of loaning conditions by the banks).

4.5 Initial Capital Required to start Enterprises

Several views on small scale enterprise initial capital requirement hold true for Migori as can be seen from table 18.
Table 18

Distribution of initial capital required to start the enterprises

<table>
<thead>
<tr>
<th>Class Kshs.</th>
<th>Percentage distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 1 - 500</td>
<td>25</td>
</tr>
<tr>
<td>2. 501 - 1000</td>
<td>11.9</td>
</tr>
<tr>
<td>3. 1001 - 1500</td>
<td>6.0</td>
</tr>
<tr>
<td>4. 1501 - 2000</td>
<td>4.5</td>
</tr>
<tr>
<td>5. 2001 - 2500</td>
<td>1.5</td>
</tr>
<tr>
<td>6. 2501 - 3000</td>
<td>0</td>
</tr>
<tr>
<td>7. 3001 - 3500</td>
<td>0</td>
</tr>
<tr>
<td>8. 3501+</td>
<td>46.3</td>
</tr>
</tbody>
</table>

X = 13933  Min = 60
Mode = 1000  Max = 99,999

The modal class though 1000, the majority of the entrepreneurs (53.7%) required initial capital less than Kshs. 2500/= . This is by notional or area standards is noted to be quite a low sum of money which is in tune with the general opinion
that one of the underlining factors for the rapid horizontal expansion of small scale enterprises is the low initial capital required for the start of the enterprises. Due to the low initial capital required for the start of the enterprises it's noted that the entrepreneurs do not need elaborate financial plans and assistance to start running any enterprise. When the question of initial capital required for business was put to the entrepreneurs a greater proportion of the sample (73.1%) answered that the initial capital was from their own savings. 22.4% got their initial set-up capital from friends only 15% got their initial start-up capital from financial institutions as can be seen from table 19. The initial capital, the respondents noted was used in rent payment, purchase of machines and working stock, since the initial stages most of the enterprises were run by unpaid family workers/members.
Table 19

Distribution of initial capital

<table>
<thead>
<tr>
<th>Source of Capital</th>
<th>Proportions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own savings</td>
<td>73.1</td>
</tr>
<tr>
<td>Borrowing from friends</td>
<td>22.4</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>1.5</td>
</tr>
<tr>
<td>Government Landing Agency</td>
<td>0</td>
</tr>
<tr>
<td>Partnership</td>
<td>3</td>
</tr>
</tbody>
</table>

As much as the initial capital for the enterprises is noted to be relatively low by national and regional standards, when the entrepreneurs were asked to rank what the initial problems were at the start of business, the majority of the entrepreneurs 93% ranked inadequate capital as the main problems at the start of the business. Other notable problems are statutory requirements and other skill-related problems.
As noted in the earlier parts of the study, initial capital dictated the size of the enterprise both in physical and raw-materials terms, thus entrepreneurs argued that if capital is available transport and raw-materials need not to be a problem since they can then easily hire the productive aspects in the business.

Table 20

Initial problems of starting the Enterprise

<table>
<thead>
<tr>
<th>Problems</th>
<th>R-1</th>
<th>R-2</th>
<th>R-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inadequate start up Capital</td>
<td>93</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2. Shortage of skill</td>
<td>3</td>
<td>19.4</td>
<td>4.5</td>
</tr>
<tr>
<td>3. Statutory Requirements</td>
<td>3</td>
<td>43.3</td>
<td>35.89</td>
</tr>
<tr>
<td>4. Suitable location Materials</td>
<td>0</td>
<td>23.9</td>
<td>23.9</td>
</tr>
<tr>
<td>5. Transport and Raw</td>
<td>0</td>
<td>11.9</td>
<td>34.3</td>
</tr>
</tbody>
</table>

Table 21

Current Enterprise expansion problem \( N = 67 \)

<table>
<thead>
<tr>
<th>Problem</th>
<th>Rank-1</th>
<th>Rank-2</th>
<th>Rank-3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lack of adequate Credit facilities</td>
<td>67.7</td>
<td>4.5</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Demand Lacking</td>
<td>Competition</td>
<td>Management Problems</td>
</tr>
<tr>
<td>---</td>
<td>----------------</td>
<td>------------</td>
<td>---------------------</td>
</tr>
<tr>
<td></td>
<td>12.9</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>16.4</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

Approximately half of the enterprises/entrepreneurs were of the opinion that their businesses were not expanding, of those whose businesses were expanding, they cited marketing (in terms of good products and good location) as the important instrument in increasing the number of sales on daily and monthly basis. Of those whose businesses were not expanding ranked lack of adequate facilities as the major limiting factor, this was closely followed by lack of adequate demand for products, competition was ranked third by the entrepreneurs as can be seen from table 21.

The entrepreneurs pointed out that lack of enough capital limited them when it comes to purchase of raw materials, hiring labour and
installing better and more efficient machines for production. Demand to the majority of the entrepreneurs was not constant but they pointed that peak periods vary, for tailors most of them recorded good business when schools were opening, end of month and harvesting of tobacco and sugar cane. Metal fabricators and carpentry recorded good business during the harvesting of tobacco and sugar cane, coinciding with the period when a greater majority of the hinterland's population have earned from the sales of their products. Competition was more prevalent within the shoe making where the entrepreneurs pointed out the influence of Bata and other shoe companies as having interfered with their market. The tailoring enterprises were greatly affected by 2nd clothes which the majority of the tailors noted affected their businesses greatly.
Table 22

Initial capital per type of Enterprise

tailoring and carpentry. Only 20% of the

<table>
<thead>
<tr>
<th>Class</th>
<th>Metal Fabrication</th>
<th>Tailoring</th>
<th>Carpentry</th>
<th>Tin Smith making</th>
<th>Shoe making</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kshs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-500</td>
<td>13.4</td>
<td>58</td>
<td>22.2</td>
<td>20</td>
<td>12.5</td>
</tr>
<tr>
<td>501-1000</td>
<td>13.4</td>
<td>16.7</td>
<td>7.4</td>
<td>20</td>
<td>12.5</td>
</tr>
<tr>
<td>1001-1500</td>
<td>0</td>
<td>0</td>
<td>7.4</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>1501-2000</td>
<td>0.7</td>
<td>8.3</td>
<td>3.7</td>
<td>0</td>
<td>12.5</td>
</tr>
<tr>
<td>2001-2500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2501-3000</td>
<td>0</td>
<td>0</td>
<td>7.4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3001-3500</td>
<td>0</td>
<td>0</td>
<td>3.7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3501-4000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4000+</td>
<td>67</td>
<td>16.7</td>
<td>46</td>
<td>0</td>
<td>62</td>
</tr>
</tbody>
</table>

\[
\bar{x}_1 = 18,970 \quad \bar{x}_2 = 1659 \quad \bar{x}_3 = 16,988 \quad \bar{x}_4 = 3,170 \quad \bar{x}_5 = 19,379
\]

\[
SD_1 = 24115 \quad SD_2 = 2977 \quad SD_3 = 28,170 \quad SD_4 = 4558 \quad SD_5 = 21,485
\]

\[
n_1 = 15 \quad n_2 = 12 \quad n_3 = 27 \quad n_4 = 5 \quad n_5 = 8
\]

Max = 99,999

Min = 60

As can be seen from table 22, Metal fabrication shoe making, and carpentry enterprises required a high mean initial start-up capital relative to
tailing and tinmiths. Only 20% of the tinmiths enterprises required initial capital of above Kshs. 4001. The high initial capital required for the carpentry, metal fabrication and shoe making can be attributed to the cost of working tools and the raw materials. Apart from the above, the three kind of enterprises also require more than one employer at the time when they were starting off. This initial capital in this case included the cost of hiring specialized labour in most cases we tested for significance between the different means for all the enterprises using a t - test. There is no significant difference between the mean initial capital of metal fabrication as compared to those of tailoring, carpentry and shoemakers as can be seen from the t - values below, but there is quite some significance.
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Between carpentry and tinsmiths there is significant statistically difference in the mean capital required as proved by the t-statistics of 1.001, as opposed to lack of significant difference between initial capital for carpentry and shoemakers. Between tinsmith and shoemakers also exist statistical difference as proved by the t-statistics of 1.632.

This analysis proves that far less capital is required to start operating tinsmith enterprise as opposed to the others. As such due to the low initial capital for tinsmith one would expect it to be the easiest to start and thus fastest growing in numbers in the centre.

Contrary to the above view there are only 15 for the entire centre (Migori), relative to carpentry with a total number of 81 enterprises yet with the highest initial capital requirement.
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Contrary to the above view there are only 15 for the entire centre (Migori), relative to carpentry with a total number of 81 enterprises yet with the highest initial capital requirement.
The average full time employment was approximately 2 persons per firm, maximum employment reached 9 persons for a metal fabrication firm which was involved in carpentry as well and was producing in large quantities. Even though the majority of firms had only one paid employer, it should be noted that unpaid family labour was not accounted for in the above.

It is also important to note that of the firms that employed above 3 on full time employment it was noted that these were firms which had been given financial assistance from small enterprises company of Kenya (SEFCO). Thus we can only suggest that the number of people employed per firm seems to have a correlation (though not proved) with the total investment. Based on the low initial capitals invested in these enterprises then relative to formal employment creation that requires an average of Kshs. 16,000 to create one formal employment (G.O.K 1986) then the small scale enterprises in this centre (still requiring a far much
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Of all the enterprises 74.6% were involved in apprentice training, the greater proportion of those in training being in carpentry and metal fabrication, followed closely by shoe making. Tinsmiths enterprises showed no training or apprentice apart from family members helping in. Apprentice involvement was relatively low in tailoring enterprises. The sample showed that virtually all the enterprises
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Good business was ranked 2nd most important factor with the majority citing space (location within) the town as not a very important relative to the first two. Thus based on the ranking by the majority of sample respondents of capital as the major determinant of the number of persons employed in the enterprises, and the close association that exists between availability of credit facilities and a number of people employed. Then for the centre (Migori), it is likely that total capital available for investment in these enterprises determines the ability or the number of labourers employed.

**Table 26**

**Frequency distribution of casual/apprentice Labour in small scale enterprises**

<table>
<thead>
<tr>
<th>No. of Labourers</th>
<th>% Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>74.6</td>
</tr>
<tr>
<td>2 - 3</td>
<td>16.4</td>
</tr>
<tr>
<td>4 - 5</td>
<td>6.0</td>
</tr>
<tr>
<td>6 - 7</td>
<td>1.5</td>
</tr>
<tr>
<td>8+</td>
<td>1.5</td>
</tr>
</tbody>
</table>
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<td>6.0</td>
</tr>
<tr>
<td>6 - 7</td>
<td>1.5</td>
</tr>
<tr>
<td>8+</td>
<td>1.5</td>
</tr>
</tbody>
</table>
that exists between the six above variables a multivariate regression was run with the help of SPSS package. With this multivariate analysis we are able to capture the cross effects between the independent variables as relates to the dependent variable.

**Equation one (1)**

\[
\text{Income} = f (\text{cred, land acreage, MBR, TOP,})
\]

(and education)

\[
LV37 = f (LV29, LV47, LV5@, LV65 \text{ and } LV68)
\]

\[
R^2 = 0.41
\]

\[
F = 5.48632 \quad \text{Significance F = 0.0291}
\]

\[
\text{4 auction}
\]

\[
LV37 = f (3.61918 - 0.258 + 0.173 + 0.301 + (1.965) (-1.038) (0.66) (1.269) \\
0.489 - 0.168 \\
(2.626) (-0.648)
\]

The above equation represents the co-efficients and the t values for the income function derived from our heterogeneous data collected from the small scale enterprises sub-sector in the study area (Migori). The F statistics (5.436) is significant at 5% level implying
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Auction

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Maintenance of business record is significant at 20% level but for our analysis at 5% it is not. And from the regression equation it shows that it is positively related to income and that a change from not keeping records to keeping records is most likely to have about 30% increase on the income an entrepreneur will earn. The probable explanation for the variable not being significant at 5% could be due to the fact that those who were keeping records were giving the right information as opposed to those not keeping records who were unaware of their cash flow patterns and thus giving false and inflated figures thus distorting the equation.
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from 50,000 to 100,000. This amount of credit gave these five cases a mean monthly income far much above the rest, showing clearly that income is affected by credit availability.

Credit availability impacts on income stems from its being able to allow the entrepreneurs to take advantage of mass purchase of raw-materials, use of modern machines and hire labour to help in production. In short credit availability improves an entrepreneur's cash balances, making it easier for a firm (enterprise) to acquire investment.

Level of education is not significant at 5% and shows a negative sign in relation to income probably meaning that as one spends more time in school the income goes down. This paradox can be explained from the fact that those who spend more years in school started their business recently and are most likely to have done so through financial assistance from relatives etc. As their businesses are not yet making good profits as they are yet to pay off the loans from friends.
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patterns of the small scale enterprises. Based on the value and the co-efficient we can only surmise that either one of the following relations exists between land and small-scale enterprises. The first is that, there is no direct shift of resources from land to small scale enterprises and vice versa, secondly, that land in this particular area is not viewed as an economic asset. This last view is supported by the fact that the majority (85%) of the entrepreneurs in the centre declared that they had no other enterprise despite that they were involved in commercial farming of tobacco and sugar cane. Lastly the positive relation between the two variables the income and land acreage in the equation can only be interpreted that as land acreage rises income rises too again further contradicting our earlier view that land and small scale enterprises have no shift of resources. This aspect of the equation suggests a remote exchange of resources between the two variables that our equation did not pick out clearly in terms of significance.
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heterogeneous sample data. The F statistics (5.486) is significant at 5 percent level implying that the model used is well specified. The $R^2$ (0.21) is quite low alluding to the fact that there are other variables affecting savings which are not in our equation.

From equation two it is apparent that at 5 percent level only level of education is significant on savings, and the rest are not at 5 percent level. Change from one given number of years in school to another according to equation two is most likely to change (increase) income earned by an entrepreneur by about 32.7 percent of the initial level. Level of education from the equation has a direct positive relation to savings. Education makes one aware of savings forms available and the associated benefits of savings with either a commercial bank, post office and other financial formal saving institutions.

Dependents is not significant at 5 percent level, and it is inversely (-ve) related to savings as can be seen from the equation co-efficient. That is as the number of dependents, i.e. change by one unit from the regression then the savings rate is
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of their incomes to these enterprises. But this is not to be a rare set up in Africa as detailed in the literature review; notably that family relations in Africa do not allow capital accumulation for the benefit of a vertical expansion of a given enterprise.

Land is not significant at 5 percent level but it is positively related with savings. From the equation a unit change of land acreage is most likely to affect the savings rate of an entrepreneur by about 14.9 percent of the initial savings amount. As noted in equation one of this section, this can only mean two things; either no shift of resources between two modes of reproduction, i.e. land and the small scale enterprises or that land is not regarded by the entrepreneurs to be of any value commercially. Thus, any income from agriculture i.e. from tobacco and sugar cane are not included in the enterprise transactions. Whichever is the case agriculture seems to have played a factor and continues to play a role in the growth of small scale enterprises, in Migori, given that most of the enterprises started from own savings and that half of the sample 36 out of 67 respondents had not worked elsewhere apart from farming, leads one to
of their incomes to these enterprises. But this is not to be a rare set up in Africa as detailed in the literature review; notably that family relations in Africa do not allow capital accumulation for the benefit of a vertical expansion of a given enterprise.

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options but to stay in the enterprises which offered higher pay. The need for extra income and the urge to be self-employed are also noted as factors that influence the entrepreneurs to start these enterprises and leave previous employment respectively.

5.1.1 Employment, Training and Income

The small scale enterprises studied were noted to be a major source of employment in the small urban centres. This is so because virtually all the enterprises were owner operated on full time basis and were the main source of employment to the owners. Apart from the owners, most enterprises had an average employment rate of 1-2 to full time employees, with a higher rate of casual employment when the enterprises expected good business. Employment rate was found to be heavily influenced by the total invested capital, credit availability as the few cases with credit facility showed higher employment rates relative to those without. Employment rate was further identified as being type of enterprise dependent. That is certain types of enterprises specifically carpentry, metal fabrication and shoe making showed higher employment rates
relative to tailoring and tin smiths.

Apart from direct employment, the small scale enterprises were noted to be a very good ground for training opportunity. The majority of the current entrepreneurs if not all had their training as employees or apprentices under a former employer of small scale nature. The sampled enterprises showed an apprentice rate of 1.2 per enterprise, i.e. those who are undergoing training as they work.

Incomes earned by the entrepreneurs in the small scale enterprises was noted to be three times as that which the formal economy was paying for employees with their (small scale entrepreneurs) level qualification, thus capable of attracting entrepreneurs and keeping them in the sector in the centre. Incomes earned in the sector was identified to be dependent on the type of enterprise with mean monthly incomes increasing as follows; tin smiths, tailoring, metal fabrication, shoe making, and finally carpentry. On the average, the mean incomes were still higher than what the national economy would pay for services that these entrepreneurs could offer if they were in formal employment.
Employees' incomes were noted to be dependent on the net incomes from the enterprises, those with high net incomes paid their employees an averagely higher salary relative to the others, thus, employee earnings tended to depend on type of enterprise increasing as the net of incomes of the enterprises rises as listed above.

Land holdings in the study areas' hinterland was noted to be increasing with age. Thus, the older practitioners had averagely large farms (land acreage) relative to their younger compartrists. This is because of the fact that a rising number of holdings have been sub-divided to very small farm sizes down the generation; giving an average acreage of 3-4 acres of land per farmer which under the prevailing environmental conditions and agricultural practices of the people around the centre are not enough to support the population.

5.1.2 Factors Influencing the Performance of the Enterprises

Different factors affect the performance of these enterprises, i.e. the net income. In Migori, it was clearly identified that type of enterprises
was one of the factors that determine how best an enterprise performs. Educational level of the entrepreneur was identified as an important factor and influences the performance of a given enterprise relative to those without. Record keeping affected the performance of the enterprise as it showed the general cash flow of the enterprise for those keeping records.

Credit availability also affects the general performance of the enterprise, the few entrepreneurs (cases) with financial assistance showed higher incomes relative to those without. Number of dependants was shown to affect the performance of enterprises negatively. As those with more children were shown to have a low mean monthly income and very low savings. Total land acreage owned was identified and showed not to affect the performance of enterprises since most of the entrepreneurs showed that agriculture was not viewed as having commercial value and it was further noted that there was no shifting of resources between small scale enterprises and agriculture of any significant value (at least as per the survey); though it was significantly noticed that agriculture had effects on the growth of the enterprises since
it was the major source of initial capital for the majority of the entrepreneurs.

5.2 CONCLUSIONS

Different views exist as to why there is rapid growth in the small scale enterprises in both large and small urban centres. Economists use economic reasons as the major cause of rise in numbers of these enterprises in the last three decades. Others are of the view that some inherent characteristics of these enterprises for example, the low initial capital is one of the main reasons for the rapid rise in numbers, others argue that change in governmental policy over the last three decades is the main factor. From the study it is concluded that growth of these enterprises in Migori is due to the following variables.

1) First, that the growth of these enterprises in Migori is out of the fact that the population of the centre and its hinterland having grown rapidly overtime. The increased population is noted to have enlarged the market potential within the centre and its hinterland. It is this increased market
potential that attracts the entrepreneurs to locate within Migori Centre.

2) Secondly, apart from the increased market potential in terms of size, the local economy and that of the national economy have also been growing overtime. As for the local area, the introduction of tobacco growing and that of sugar cane in the last two decades changed the incomes of the area residents considerably. Thus, the perceived market potential in terms of market at the local level has overtime proved to be effective. Wage employment within the centre and the hinterland has also increased at a rapid rate within the last two decades, thus, also increasing the effective demand overtime for these products. At the same time, the national economy showed growth in GDP per capita from K£ 179.73 to K£ 289.15 reflecting the net change on the effective demand at the national level to be positive.

3) Thirdly, the policy environment that the government has adopted overtime, i.e. encouraging the local institutions to buy their needs from
within their local areas has boosted the image of these products first and thus, they have proved quite attractive to the local population who have adjusted by also buying most of their products from these people and hence an increased market. By even sub-contracting to these extrepreneurs the Government has further opened for these people a market that was dominated by few large urban centre based enterprises. This has further increased the demand for small scale products and hence growth in numbers.

4) Fourthly, the policy change overtime has seen the Government getting directly involved in the provision of sites for these entre­preneurs. Migori is such a centre where a jua kali shed has been constructed for use by these people. Though not currently in use, the direct Government involvement on site provision in the centre has meant a reduced harassment by the urban local authorities to the practitioners who are located in areas where before they would have been evicted. Thus, the relaxation and the wellcome attitude from the central government has lessened so
many demands that initially used to hinder these enterprises from working freely and without fear of being harassed.

5) Fifthly, the government policy has changed considerable in other areas like saw milling. This has allowed local saw millers to make timber cheaply available for the entrepreneurs as can be seen from plate number one. This has reduced timber cost for the carpenters considerably.

6) Sixthly, the improvement of infrastructural facilities like telephones, electricity and roads have made trade between Migori and other centres such as Kisumu and Kisii alot easier. Electricity has allowed use of modern machines in the area and hence reducing labour cost considerably. Telephones have made it easier for the businessmen to come in groups and make group orders which are then delivered to their firms either from Kisii and Kisumu at a reduced rate. And thus making access to raw materials generally easier. Thus, the availability of better infrastructural facilities lower cost of acquiring raw materials and thus, reduce
production cost. With reduced cost then, entrepreneurs can produce goods in large amounts and lower their prices ensuring even a large number of clients can afford.

7) Seventhly, the population growth rate within the area (Migori and its hinterland) has been more rapid than the creation of employment opportunities. This increased labour force overtime within the town and hinterland has meant lack of employment through time, thus, this has only left the inhabitants of the town and hinterland with one option, namely, joining the small scale enterprises either as employees, operators or as apprentices who later on can graduate to start theirs and hence growth.

8) Eightly, within the hinterland agricultural land holdings has been going down overtime, this has meant reduced incomes from agriculture. This decrease in holdings size have reached a point where some households are no longer able to meet their basic food requirement and hence have turned to small scale enterprises as entrepreneurs or employees to earn extra income and subsidize their financial commitments.
which they are not able to fulfil from agriculture alone. About a quarter of the respondents claimed currently to be entirely without access to land unless they buy later.

9) Ninethly, at the national the economy is constructing under the weight of World Bank/IMF Structural Adjustment Programme (SAP), this meant that employment opportunities are shrinking, and those on employment will most likely loose their employment. Chances are that they will pick on self-employment within the small centres. In the study area, a small percentage (15%) started their enterprises because wherever they were working closed down. As SAP closes on our economy, we should expect more of those cases to arise, since the programme is noted to most likely result in reduced rate of rural-urban migration as employment opportunities are reduced in major urban centres.

On employment, training and income, the survey concluded that:

1) In the small urban centres, the small scale
enterprises are the main employment sources both in form of ownership employment and in the provision of employment opportunities. On employment it was noted further that part-time employment by civil servants or those in other forms of formal employment was also common.
amounting to about 10 percent of the respondents in the survey.

2) Certain types of enterprises, namely carpentry and metal fabrication provided more employment opportunities than/relative to tailoring, shoe making and tinsmiths.

3) On incomes, the average earnings, i.e. mean monthly incomes of the entrepreneurs in Migori was noted to be relatively lower to what their compatriots earned in the larger urban centres for example, Nairobi (CBS 1989). Despite the above, the incomes were still three times what the entrepreneurs would earn if they were in formal employment in big urban centres (ibid). Within the different categories of enterprises, there was no substantial variation between the incomes but from the urban mean incomes, entrepreneurs in carpentry and shoe making had relatively higher incomes than the rest and those from tinsmiths had the lowest. On employees, the monthly salaries ranged between KShs. 600 - 800 in most enterprises, but few cases where employees had added responsibilities received/or had salaries to the tune,
of KShs. 2,100/-. Between the enterprises existed little differential salaries for the employees, though employees in the metal fabrication and carpentry earned a relative higher salary.

4) Most operators were noted to have gone for either formal/or informal training in line with their trade. The majority of the operators/entrepreneurs attained their skills through informal training within the centre or outside when working as apprentice in similar types of enterprises. With formal training only noted as a recent phenomenon from the Youth Polytechnicas programmes, as it was much more prevalent among the young than the old. As such, informal training is noted to have played on important/major role of skill acquisition in the centre and hence a factor in the growth of the small scale enterprises.

On factors affecting the performance of small scale enterprises in Migori it was noted that;

1) For tailoring, shoe making and metal fabrication, availability of raw materials was noted to be
a major factor. All the above listed categories relied on raw materials which in most cases had to be bought from far places/other centres and the wholesalers within Migori could not provide enough stock to last the entrepreneurs along time, as such, constantly they had in some cases to wait for parts required before they are delivered.

2) Competition was a noted factor within certain categories for example, in Migori, the local light metal fabricators (tinsmiths) faced serious competition not only from formal industrial products but also from petty producers in large urban centres (like Kisumu making identical products - kitchen utensils, tin lamps, charcoal burners, etc). Given the advantage the petty producers in the large urban centres had, they were then better placed/favoured as they had cheap supply of scrap metal in abundant quantities. Competition was noted to be even more fierce in tailoring and shoe making which are hard hit from mass produced commodities, which are available at almost any open-air market or from one of the many shops. The ready made garments both 'first and
second hand' have affected the demand for women and men's wear. Most shoe makers complained about competition not only from Bata and United, but also cheap plastic footwear and these affect the survival of the shoe making entrepreneurs.

3) The operation patterns of the enterprises greatly depends on the economic activity of the centre. Demand for products showed a remarkable seasonal variation. The majority of the enterprises operate throughout the year, but the business peaked immediately after harvest of sugar cane and tobacco and other crops. For tailors, it was remarkably high during times when schools were opening. In all the different categories, business slackens in periods before a new harvest.

4) Management in form of book keeping affected business as it showed cash flow patterns of an enterprise. This allowed the entrepreneurs to keep track of his/her spending patterns. Level of education was significantly influential on the incomes earned by an entrepreneur. This is probably due to the awareness that education
creates in an individual and his/her general environment.

5) Credit/financial assistance was quite low and therefore, could not be properly reflected in the equation. All the same credit assistance was positively correlated with the income and general performance of the enterprises. Of the few cases with genuine credit assistance (5 in all) the net incomes were a mean of KShs. 10,000 per month. These few entrepreneurs explained this high income from the point of view that credit availability allowed them to take advantage of the use of modern machines, hire labour at appropriate time and the best, acquire raw materials at reduced prices since most of the purchases were organized by the backing financial institutions.

5.3 RECOMMENDATIONS

The study therefore, recommends a set of policies with the ultimate objective of first generating additional demand for the products of these enterprises and those meant to increase the productive rates of these enterprises. As such, here are
suggested policies that are demand oriented and those that are supply oriented.

3) Supply Oriented Policies

First, there is urgent need for the provision of credit at rates that the entrepreneurs can afford to pay comfortably, at the same time which will secure financial institutions to advance financial assistance to these people. If implemented such a policy will relieve the current pressing financial problems that the sector faces in Migori. (Refer Appendix VII-IX)

Secondly, once credit is given it should not be seen as an end in itself, rather it should be part of an integrated programme with good follow up from both the financing institution/agency and the local business advisory centre be established to help the entrepreneurs keep track of business performance so that they are able to repay promptly and make the same assistance available to others. The follow up is suggested in the light of credit schemes that have collapsed elsewhere due to lack of repayment or from the borrowers having other
problems which prohibited their growth.

3) Thirdly, the central government through the appropriate ministry should reorient the current research priorities in technological institutions specifically to assist small scale enterprises. Currently our Youth Polytechnic programmes are still taking more of formal education orientation. We should therefore, reorient it towards local needs so that these people can operate within the local areas.

4) Fourthly, there is urgent need to train the small scale entrepreneurs and workers in better management practices and production related skills. Management skill in form of book-keeping is capable of making an entrepreneur aware of financial flow pattern. Given that most of the entrepreneurs just learnt the art through apprenticeship, then there is an urgent need to give them basic management skill and techniques, relevant to their main areas of operation.

5) Lastly, on the supply side, there is urgent
need to encourage the entrepreneurs in the small centres (Migori) to form trade organisations and co-operatives to help them in protecting and promoting their interest. The rationale for the above urge is simply that co-operatives and trade organizations are capable of not only providing more bargaining power for their members in buying inputs and selling products, but also give a sense of group solidarity that can facilitate action in other spheres of activity. At a more micro-scale like that of the study co-operatives can be used to bargain for credit availability since they can be effective ways for easing repayment as group members can provide collective guarantees for loans. In some cases the overhead cost of providing loans can be reduced significantly by lending to groups rather than to numerous individual with no collateral.

Demand Oriented Policies

1) There is need for the central government to adopt policies that will increase the growth of the formal sector and thereby increasing the amount of disposable income, in a way increasing
the actual demand for produce from the sector.

2) Secondly, the government should encourage the formal sector to sub-contract the small scale enterprises by giving tax incentives to those formal sector enterprises that sub-contract the small scale enterprises. The underlying principles is to subsidize the formal sector for incurring additional risks and problems, additional cost, in sub-contracting to the formal sector.

3) Even though protection has failed to bring growth and development in other spheres, in our economy in the small scale enterprises, we would advocate that the government increase the cost of capital and other inputs items currently purchased by formal firms that refuse to sub-contract small scale enterprises. Thereby reducing the competitive edge with which the formal sector dominates the market. If possible the Goverment should forbid the formal sector to produce certain goods and services, which can be produced by the small scale enterprises only.
4) And lastly, the public sector should take the lead in generating additional demand for the small scale enterprises' products by first making sure that the public and quasi-public organizations make some of their orders from small scale enterprises which can produce them. Secondly, the Government departments with offices in Migori should purchase exclusively from these small scale enterprises, i.e. furniture and such other items.
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July 19 1989
July 21 1989
July 25 1989
June 12 1990
June 25 1990

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Sept 14 1989
Good Morning/Afternoon

My name is

I am from the Department of Urban and Regional Planning, University of Nairobi. I am visiting people in this town asking them questions about small scale enterprises. The information will help in my completion of M.A. Project report.

I would be grateful if you could help me in answering these questions.

Thank you very much.
GENERAL INFORMATION

1) Name of Respondent:

2) Position of respondent in establishment.
   Owner
   Employee
   Relative
   Others (specify)

3) Name of Enterprise:

4) Year when project was started:

5) What is the principle activity?

Operating Characteristics of Enterprise

1) Type of Enterprise
   (a) Sole Ownership
   (b) Partnership
   (c) Co-operative
   (d) Any other (specify)

2) If not Sole Ownership, with how many other people do you own the business? a) Why?
3) Does the enterprise have:
   (a) a fixed location
   (b) variable location
   (c) any other (specify)

4) What type facilities are available?
   a) Water  yes/no
   b) electricity  yes/no
   c) telephone  yes/no
   d) postal address  yes/no

5) Under what type of structure is the enterprise operating?
   a) open air
   b) corrugated iron shed
   c) wooden structure
   d) cement structure
   e) any other (specify)

6) Is the structure where enterprise is located,
   a) fully owned by the enterprise
   b) partially owned
   c) rented
   d) neither owned nor rented (specify)
7) If not rented:
   a) given by Town Council
   b) Tolerated by private owner
   c) allowed by private owner
   d) any other (specify)

8) If rented, how much is the rent per month?
   KShs.

9) Why is the enterprise located at its present centre (indicate three according to priority)
   a) proprietor lives here
   b) proximity to market
   c) proximity to supplier of raw materials
   d) availability of transport
   e) proximity to similar enterprises
   f) easy access to plot
   g) allowed by Town Council
   h) other (specify)

10) Would you be prepared to move to a different Town? yes/no

11) If yes, would you like to move to,
    a) a bigger town than this
    b) a smaller town than this
12) What are your reasons for wanting to move your business from this town?

market

labour

raw materials

capital

any other (specify)

13) If you do not want to move from your business from the town, what are the reasons?

Socio-Economic Characteristics of the Entrepreneurs

1) Age ______

2) Sex __________

3) Marital Status: Single

married

If male and married, number of wives

4) Have you received any other training since

5) Any children? yes/no

6) If yes, how many?
7) Any other dependents? yes/no

8) If yes, how many?

9) What type of help do you give your dependents?
   cash
   non-cash (specify)
   If cash, how much per month? KShs

10) Do you reside in the town? yes/no

11) If no, approximately how far away do you live from here? Kms.

12) Do you have any formal education? yes/no

13) Could you please tell us upto what levels?
   none
   primary
   secondary/non-technical
   village polytechnic
   others (specify)

14) Have you received any other training since leaving school, for example apprenticeship training? yes/no

15) If yes, specify
16) If it were possible, would you like to further your training to improve your business? yes/no

17) If yes, which type of training?
   General education
   a) accountancy
   b) managerial skills
   c) use of modern machines
   d) technical skills
   e) any other (specify)

18) If no, why not?

Employment and Income

1) Have you been employed before? yes/no
   a) if yes, what was your previous occupation?
   b) why did you leave your initial trade?
      i) better pay
      ii) to be self-employed
      iii) other (specify)

2) What do you consider as your net monthly income from this business? KShs.
   How do you compare it to the previous income?
   higher same other (specify)
4) Supposing you were employed doing the same kind of work that you are doing, how much money (salary) would you demand per month? KShs.

5) Do you regularly save any income from your business? yes/no

6) If yes, about how much in a month? KShs.

7) If yes, how do you save?
   a) post office
   b) co-operative
   c) ordinary bank
   d) at home
   e) through lending
   f) remittances
   g) any other (specify)

8) If no, why?

Other Income Generating Assets

1) Do you undertake any other income generating activity/activities apart from this job? yes/no

2) If yes, which activity/activities? (specify)
3) Where are they located? (other towns, etc)
(specific)

4) Do you know the total earning(s) from these
other activities in a month? yes/no

5) If yes, how much per month? KShs.

6) If no, why? (give reasons)

7) Do you own land anywhere in the country?
yes/no

8) If yes, how many acres? Acres

9) Have you got a title deed for your land?
yes/no

10) If yes, would you use it as a collateral to
improve your business? yes/no

11) If no, why not?

12) Why do you begin this enterprise?
Management of Enterprise

1) What do you consider as the three most important difficulties in establishing your business? (arrange in order of importance)
   a) lack of capital
   b) skilled workers
   c) finding suitable working premises
   d) high licence fee
   e) any other (specify)

2) If you had problems, how did you overcome them (provide three solutions)
   a) assistance from friends and/or friend
   b) from partnership
   c) borrowed money (state from who)
   d) any other (specify)

3) Do you keep business records? yes/no

4) If yes, why?

5) If no, why?
   a) I have mental knowledge of performance of business
   b) records not necessary
c) I cannot write or read

d) any other (specify)

Labour

1) How many people are engaged in the enterprise?

<table>
<thead>
<tr>
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<th>When I started</th>
<th>Now</th>
<th>When business is low</th>
<th>When business is good</th>
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<tbody>
<tr>
<td>a) good</td>
<td></td>
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<td>b) fair</td>
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<td>c) poor</td>
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<td>d) very poor</td>
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<td>e) If any other (specify)</td>
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2) How many of these people are currently engaged as

a) paid employees

b) working proprietors (co-owners)

c) unpaid family workers

d) apprentices or learners

e) any other (specify)

3) Does your enterprise experience any difficulties in recruiting labour? (state which period)

a) yes, always

b) yes, sometimes

c) no, never

If yes, skilled non-skilled
4) What form does the difficulty take?
   a) financial
   b) shortage of skilled labour
   c) any other (specify)

5) What factors determine the number of persons in the business (indicate three factors in order of importance)
   a) capital invested
   b) good business
   c) space
   d) if any other (specify)

Capital

1) How much did you require to start this business? KShs.

2) What was the initial source of financing for the business?
   a) own savings
   b) borrowed from friends/relatives
   c) contributions for others (joint operators)
   d) commercial banks
   e) government agency (specify)
   f) any other (specify)
3) How do you obtain money for major improvements for the business?
   a) income from business
   b) loans from relatives
   c) loans from banks
   d) loans from money lenders
   e) government agencies
   f) any other (specify)

4) Have you ever borrowed money for this business? yes/no

5) If yes, about how much? KShs., and from whom?

6) If not, why?

7) Do you find problems with the loan repayments? yes/no
   If yes, how do you solve it?

Market

1) How does the enterprise sell its goods?
   a) directly to its customers
   b) indirectly through other enterprises, e.g. co-operatives (specify)
2) In general, who buys most of the goods and services sold by the enterprise?
   a) household/individual
   b) other informal sector enterprises
   c) formal sector enterprises
   d) co-operatives
   e) others (specify)

3) In general where (geographically) do you sell your products? Name three most important ones and the distance.

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<tr>
<th>Area</th>
<th>Distance</th>
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</table>

4) Does the enterprise operate throughout the year? yes/no

5) If no, why?

6) Which periods of the year are your busiest and why?
7) Do you have trouble when goods produced for sale stay for long without being sold out? yes/no If yes, why?

8) Are there many other enterprises engaged in similar activities in this area? 
   a) yes 
   b) no 
   c) few 

9) If yes, what is the approximate number?

10) Do you consider marketing of products a major factor in the number of goods sold? yes/no 
    If yes, why do you think so?

Problems of Business Expansion

1) Is your business expanding? yes/no 
   If no, which, in order of importance from most to least difficulty, are the three major obstacles that now prevent your business from further expansion? (rank according to order of importance)
   a) lack of loan facilities
   b) not enough clients (lack of demand)
   c) non-payment of debts
d) unfair competition from large enterprises

e) lack of management skills

f) heavy licences

g) lack of skilled personnel

h) lack of adequate or irregular supply of raw materials

i) any other (specify)
Plan to encourage small enterprises

Kenya's growth of the small enterprise sector has been spontaneous, rather than as a result of deliberate strategies within the small Government policy framework. Business Writer DANIEL KAMANGA, reviews a policy paper launched last week, with a view of changing the existing scenario.

Minister for Planning and National Development, Dr. Miraa Onyonka, in launching "A Strategy for Small Enterprise Development in Kenya" — a joint effort of the Government, the International Labour Organisation (ILO) and United Nations Development Programme (UNDP) — highlighted the need for an immediate review of Government policy on small enterprises to create a more favourable environment for its growth.

Onyonka's speech, read on behalf by his Assistant Minister, Prof. Abdi Ogle, dwelt on the paper in many areas. The efforts endeavours to provide guidance to both the Government and private sector on how small enterprises can be encouraged to grow and fulfill the expectations held on them in Sessional Paper I and the sixth Development (1989-1993) Programme...\n
Dr Onyonka: A new approach.

technological obstacles and cumbersome laws and regulations.

To alleviate these problems, the paper proposes the strengthening of institutional capacity of the Government to generate policy recommendations on a continuous basis. There is also need for liberalisation of the existing regulatory system by allowing a managed liberalisation of the exchange rate against other major currencies, reducing overall protection of industries, revising the tax structure, exempting sales taxes from small enterprises, extending the use of training levy, increasing the interest rates and the withdrawal of price controls.

The paper further calls for the expansion of the physical infrastructure programme-particularly in the Rural Trade Promotion Centres (RTPCs) through the construction of RTPCs, this can also be enhanced by reducing the cost of being connected to rural electrification networks.

Expansion of use of appropriate technology can be achieved by having research institutions develop appropriate technologies and make adaptations to imported technologies. The need to develop a machine tool industry, identify the technological needs of small enterprises and the organisation of technological fairs are also underlined.

The persistent problem of constrained market for small enterprise products is also discussed and the following proposals given:

• supplying up-to-date market information;
• giving preferential treatment to small enterprises in awarding tenders;
• developing export markets;
• establishing adequate legislation for the promotion of sub-contracting between large and small enterprises;
• decentralising market boards to accommodate small enterprise participation;
• developing a national, comprehensive and coherent small enterprise development policy.

The paper calls for the improvement of laws and regulation by relaxing licensing and registration procedures, amending the Banking Act so as to allow shares to operate as valid security, amending Patent Registration Act and remove the registration requirements in the United Kingdom, revising local laws to become more favourable to business and revising sales tax treatment for the small scale enterprise products.

The main problems encountered by small scale enterprises in acquiring credit are identified as inadequate loanable funds, stringent collateral requirements for banks to lend to the sector and negative perception of the sector by banking institutions.

Solutions to fix and working capital credit include the establishment of a special fund for the sector...
small enterprises hold key to new jobs creation

Organisations and individuals in the public and private sector will have their research on the small enterprise sector greatly eased following updating of statistics by a government report published in May and released last week. Business Writer Daniel Kamana gives highlights.

The report singles out the Jua Kali from the small enterprise sector and shows that its growth is a reflection of the spontaneous - as opposed to deliberate - strategies within an overall government policy framework that the sector has taken. The highly participative planning process is reflected in the fire of their presentation. The report says with rapid and continued investment, the small enterprise sector is virtually 100 per cent of Kenya's economy. It is not to paint a grim picture of the sector, but it shows how important this is. The report does that only 1.4 million small enterprises would be needed to achieve this.

The report points out the Jua Kali from the small enterprise sector, the report points out the need for private sector involvement in agriculture. Statistics indicate that agriculture provides for nearly 35 per cent of the current labour force and is a major source of foreign exchange earnings.

The report suggests that major emphasis be given to the private sector initiatives in the promotion of agri-businesses and the development of the rural economy. On general economy projections, the report says the country's population will be approximately 35 million by the year 2000. The country will have about 78 per cent more people than lived in the country in 1984. The report forecasts that unless workers can be attracted in large numbers to jobs in small urban centres and farm-based enterprises to build at least six cities the size of present-day Nairobi, the rural population will be plagued by uncoordinated subdivision of land, migration to marginal urban areas, and lower-than-average incomes and food shortages, the report says.

With a target GDP growth of 5.6 per cent a year up to the year 2000, rapid growth of the sector will have to be generated by:

- Selling more goods and services and thus creating jobs sufficient to absorb the rapidly expanding work force;
- Raising rural incomes and increasing productivity in agriculture for the country to be self-sufficient in food;
- Creating new export markets;
- Providing jobs and good living standards for people engaged in rural non-farm activities and;
- Developing a dynamic jua kali sector to provide jobs at low costs to cater to the needs of people at all economic levels and restructuring the industry to increase productivity and jobs.

Without over-emphasising the importance of the jua kali sector in the economy, the report says the small enterprise sector employs over 70 per cent of the work force in the small enterprise sector.

The report also says that there is little conflict between the planned growth and income distribution in Kenya; "because growth is planned to be primarily sustained by raising the productivity and incomes" of those in the small enterprise sector.

Existing World Bank estimates reveal that nearly six million jobs will need to be created between 1985 and the year 2000. With a decade to go, the report says that this is a reminder that this is running out. A section on employment creation says that an additional 4.2 million jobs will need to be created in the rural areas and 1.6 million in the urban areas. There will be a net loss of 27 per cent and 41 per cent increase in jobs in urban and rural areas respectively.

The report provides the sectoral composition of additional employment by the year 2000. Of significance is the 2.1 million non-farm jobs expected to be created in the rural areas. The urban informal sector is expected to create over 1.2 million jobs.

To underline the importance of the small enterprise sector, the report points out that of the anticipated 5.9 million new jobs to be created by the year 2000, about 3.4 million or 57 per cent will be in the small enterprise sector.

In addition to employment creation, the report points out that the small enterprise sector is most effective in reducing income disparities, promotion of indigenisation of technology and achievement of a more equitable rural-urban balance by slowing down rural-to-urban migration.

Before getting into the statistics, it is important to realise that the report is a documentation of virtually every aspect of the small enterprise sector. It draws a high correlation between small enterprises located in the rural areas and agriculture.

The correlation is clearer with surveys for the Ministry of Planning and National Development which show that there are currently about 600,000 people employed in 350,000 small enterprises. The report says that about 50 per cent of those employed are in the rural areas and the other 50 per cent in the urban areas.

It is difficult to establish a universal categorisation or ready comparison of performance between enterprises. The report says that analysing problems of the small enterprise in Kenya is complicated by differences and ambiguities in terminology.

But the sector's problems cannot outweigh its importance. Its ability to cover different types of activities that respond to a wide palette of market opportunities makes it unique in the way outside facilitates linkage with other sectors.
Wage earners get Banking Bill boon

By B. A. KARAJMU

The forthcoming introduction of mortgage securities financing and its respective financial instruments, whose operational modalities are still on the drawing board, will alleviate the plight of financing their residential homes.

The facility implies loan transfers and consequent securitisation and will be regulated by the forthcoming Banking Bill.

A mortgage backed security is typically a bond or similar instruments issued by the public to specially formed companies to finance the purchase of a portfolio of loans secured by mortgages on single homes. The borrowers are changed as security for the repayment of the bond.

The sale of the loan is intended to free up the capital of the seller further loans. It comprises the following:

- An established mortgage lender with a number of loans to sell.
- A public limited liability company formed to purchase the loans.
- A prospectus.
- A trust creating the facility for the acquired mortgages for the issue of the bonds.
- The prospectus has to enter into two further agreements, namely:
  - A subordinated loan agreement under which the seller of the loans agrees to lend the borrower some loan to enable the borrower to pay certain start-up costs.
  - A servicing agreement under which the seller of the loans agrees to administer the loans on behalf of the buyer.

In addition, issuers have also to create either a true sale or an effective assignment originating from certain "guaranteed" cash flows and cash flow insurances. The buyer gets a guaranteed capital but a high credit risk.

A rating is an objective assessment of the likelihood of monthly payment of principal and interest on the bonds. As such, it is an important component (but not the only one) in the decision of an investor to buy or sell.

The advantage of securitisation for the seller, lies in the structure of the bonds and the buyer, lies in the structure of the bonds.

The numerous authorities may require that such loan transfers by institutions be regulated by the Banking Bill.

Such rules will have to ensure that the borrower of such clearly identifiable to the extent that the seller's risk for the loan and the buyer's risk for the loan are changed as security for the repayment of the transferee.

The same analysis and considerations apply in regard to the transfer of completed loans. Where an interest in loan agreement, including an underwritten commission in the agreement, the commission to be paid by the seller is the buyer's risk.

A servicing agreement under which the seller of the loans agrees to administer the loans on behalf of the buyer.

Wherever the transfer of the bonds is used, the corresponding future loan portfolio will be included in the risk asset ratio and the transfer of obligations, from the seller to the buyer.

Where the seller remains in the chain of ownership and the risk asset ratio is in the buyer's risk. The risks sold by the seller to the buyer can be assigned and the assignment should be either a legal or equitable assignment. There are four or more methods of transfer in this type of situation.

- Novation - where the authorities and the seller agree that the risk has passed to the buyer.
- Legal assignment - where the authorities and the borrower agree that the risk has passed to the buyer.
- Equitable assignment which the authorities and the borrower agree that the risk has passed to the buyer.
- Sub-participation - this is not been used in the mortgage backed securities but would normally be regarded as transferring the risk to the borrower.

Loans to be transferred will be removed from the sellers risk structure by novation or by legal assignment, providing the seller warrants that the buyer has been instructed to buy the loan.

It can also be transferred by equitable assignment if the authorities are satisfied that the risk has passed to the buyer.

Finally, it can be removed by sub-participation, but under the condition that the effect of the documentation in real is that the risk has passed to the buyer.

In this regard the authorities will usually expect the buyer to have acquired a charge over the bonds purchased.

However, some guidelines for the sellers and services should be laid down so as to assist this facility to materialize.

The transfers should not contravene the terms of the loan agreement transferred. And they should be made without interest in the risk of the buyer.

They should have no obligation to repurchase, except where there are exceptional circumstances.

It should be explained between the buyer and the seller in the assignment not in obligations in the event that the loan is transferred.

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In his budget this year, Finance Minister, Prof. George Saitoti, did not sideline the small and medium scale enterprises. Business writer ERIC SAGWE explains how some of the budget proposals will benefit the Jua Kali sector.

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Some of informal sector now recognised in Kenya

The government has recognised the informal sector job opportunities as a base of technological progress. The creation of the Ministry of Technical Training is a result of the need to utilise the potential of the Jua Kali as one of its accomplishments. The Ministry of Technical Training as one of the ministry policies is evidence of the business with which the Government views the Jua Kali operators.

The principal role of the Ministry of Technical Training is to guide the Jua Kali operators to utilise their activities so that their contribution to the national economy is maximised. To be able to define the Jua Kali Operators, the Ministry had to first define what a Jua Kali is, identify its users, and then formulate the development programmes. There is no clear-cut definition of a Jua Kali. In Kenya, a Jua Kali is synonymous with the informal sector. The sector is defined differently by different people. The definition, therefore, depends on the target group. The informal sector, which is the Jua Kali, includes small enterprises of 1-9 people in self-employment, family businesses, partnerships and small independent workers in the non-structured economy.

The national definition of Jua Kali is now being changed. The definition will now be the need to utilise the activities so that their contribution to the national economy is maximised. To be able to define the Jua Kali Operators, the Ministry had to first define what a Jua Kali is, identify its users, and then formulate the development programmes. There is no clear-cut definition of a Jua Kali. In Kenya, a Jua Kali is synonymous with the informal sector. The sector is defined differently by different people. The definition, therefore, depends on the target group. The informal sector, which is the Jua Kali, includes small enterprises of 1-9 people in self-employment, family businesses, partnerships and small independent workers in the non-structured economy.

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BAT to boost jua kali sector

By Patrick Mwangi

THE jua kali sector's potential as Kenya's main employer and a source of an industrial revolution is receiving increased recognition both within and outside the country, and the government's efforts to boost that sector into meaningful expansion are beginning to draw support from the local private sector.

BAT Kenya, one of the largest companies in the country, has expressed its wish to help the government in its efforts to promote that sector by co-sponsoring exhibitions of jua kali products all over the country.

Lack of promotion of the sector has been identified as one of the major constraints to its growth. The obvious need for promotion and guidance in the sector is evident from the considerable progress it has achieved since attaining government recognition.

However much remains to be done before jua kali can be rescued from its current assumed low-class sector image to that of a sector with skills enough to have their goods marketed anywhere and expose it as a major creator of jobs.

For that purpose, the Ministry of Technical Training and Applied Technology, formed chiefly to cater for the sector, defines it broadly as consisting of small enterprises of up to nine people engaged in business in the non-structured economy.

A survey carried out by the ministry in Kisumu and Nairobi revealed that the average jua kali earns between Shs 7,000 and Shs 10,000 per month. But while the figure may seem considerable, it is earned in piece meal, making it impossible for the jua kali to know how much he gets or save any of it.

BAT aims at finally generating sufficient local and international interest resulting in major policy shifts and orientation for the permanent guidance of the sector.

The company's immediate objective, however, is to enhance the image of the sector and create market awareness of its (jua kali) products to consequently improve its performance.

The proposed joint sponsorship between the ministry and BAT will see a close working relationship between the two bodies and will have both of them sharing the responsibilities and costs.

The ministry will form the core of the inter-governmental committee on which BAT will be represented and will co-ordinate all the district and provincial backup for the exhibitions.

The proposal has the ministry as the main appellant for publicity of the exhibitions through the government information organs while BAT will write the press releases and organise other press materials like posters, banners and bunting.

It is further proposed that the Ministry will, through the provincial administration be responsible for the selection of the artisans from the divisional levels for the proposed provincial exhibitions and also arrange for their accommodation, transport and shall pay for the fuel and allowances of the drivers as per government regulations.

It has been further proposed that a touch of glamour be added to the exhibitions through provision of entertainment by selected cultural troupes. The transportation of the troupes will be the same as that of the artisans while BAT will provide their meals.

It is also proposed that the two bodies will jointly select a guest of honour for the exhibitions and be jointly responsible for the speeches at those functions.

BAT will further contribute towards the construction of the infrastructural facilities for the exhibitions and it is proposed the image of the two bodies be projected as such, even without eclipsing the focus on jua kali.

The proposition further states the need to form a ministerial committee composed of the Permanent Secretary in the Ministry, a representative from the Office of the President, the Ministry of Culture and Social Services, and BAT. It is further proposed that provincial jua kali exhibition committees comprising the Provincial Commissioners as patrons, their deputes as chairmen, District Commissioners, provincial heads of departments and BAT as members, be formed.
The necessary security. Tradi-

tor. lend ing and seldom grant loans on

e enures. The credit programme will

provide Business Advisory services to sub-borrowers. Three commercial banks namely, Kenya Commercial Bank, Standard Chartered Bank of Kenya Ltd. and Standard Bank of Kenya Ltd. have selected to administer the credit programme. They are due to their country-wide networks. The project is expected to be highly attractive to borrowers in view of its competitive terms.

Commercial Bank launches “Golden Account”

Kenya’s largest banks, Kenya Commercial Bank Ltd., launched a new Account entitled the “Golden Account” on December 15, 1986. As of this scheme, account holders will first time in Kenya have the flexibility of making withdrawals from any of the more than 230 outlets of the bank throughout the country, and earn indivisibly higher interest rates than cash rates set by the government, as they maintain a minimum of KShs. 20,000 at any given time. The introduction of the new account is an indication of people’s changing needs and to the level of the country’s economic development and the Bank’s intention to providing high quality and allowing easy mobilisation of savings in the country.

A CREDIT SCHEME FOR THE INFORMAL SECTOR – “JUA-KALI”

Background

The informal sector has in recent years received considerable attention from the Kenya Government. As indicated, the informal sector is important in providing employment and income opportunities for the growing number of Kenyans. The sector is composed of small enterprises, often run by individual entrepreneurs, who operate from informal locations such as sheds, stalls, and public spaces.

However, the informal sector faces several challenges, one of which is the lack of access to finance. Entrepreneurs in the informal sector often lack the necessary security to secure loans from commercial banks. As a result, they tend to rely on informal credit sources, such as informally secured loans, which carry higher interest rates and pose a risk of default.

To address this issue, the government has introduced the JUA-KALI scheme, which is designed to provide credit to small businesses in the informal sector. The scheme is administered by the Government in collaboration with the Private Sector.

The JUA-KALI scheme is a joint loan board scheme that aims to provide credit to artisans and small businesses in the informal sector. The scheme is designed to assist artisans and small businesses in the informal sector with the necessary capital to operate or expand their businesses. The scheme is administered by the Government in collaboration with the Private Sector.

Foreign Banks

First National Bank of Chicago, a subsidiary of First Chicago Corporation, has been incorporated in Kenya. Its finance company, First Chicago Kenya Finance Limited, has become a subsidiary of the First Bank and changed its name to First American Finance Company Limited.

Standard Chartered Bank PLC has been incorporated into Standard Chartered Bank of Kenya Limited with effect from January 1, 1987. The new bank intends to offer shares to the public at an ‘appropriate future date’. This would bring to two the number of commercial banks to go public.

Background

The informal sector has in recent years received considerable attention from the Kenya Government. His Excellency The President’s various visits to Gikomba and Kariokor “JUA-KALI” sites in Nairobi and subsequent construction of sheds in these places which are now used by local artisans indicates the Government’s growing interest in the sector.

The first official focus on the sector came from the International Labour Organisation Mission to the country in 1972 which described the sector as important for economic development and recommended several policy changes to assist it. In 1973, the Government in its Sessional Paper No. 10 on Employment accepted these recommendations and these were reflected in the 1974-78 Development Plan.

However, it was not until 1986 when the Government came out with definite proposals as articulated in the Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth. This was followed by the announcement in the 1986/87 Budget Speech of the intention to set up a “JUA-KALI” fund to provide credit and other assistance to enterprises in the sector. Most of these operate from make-shift premises and in the open air and are commonly referred to as “JUA-KALI” enterprises.

One of the major problems facing informal sector entrepreneurs is lack of adequate capital to operate or expand their businesses. In almost every case, the financial requirements of their enterprises are met from personal savings. They do not have access to commercial banking resources because they lack the necessary security. Traditionally, banks insist on secured lending and seldom grant loans on the basis of anticipated cashflows alone. In addition, entrepreneurs in the sector often lack accounting and management skills and are therefore unable to present convincing investment proposals to banks. Banks also consider lending to this sector to be relatively less attractive. This is because of the high costs of information gathering and administration involved and the higher risk of default.

So far, financial assistance to the sector has come mainly from Non-Governmental Organizations. These organizations have also provided valuable extension services which have helped in reducing the risk of default. Government financial assistance has been channelled through the Joint Loan Board Scheme. The Scheme, which has given preference to those engaged in manufacturing activities, is reported to have experienced high rates of default.

The “JUA KALI” Scheme

The Government through the Kenya Commercial Bank (KCB) has developed a comprehensive credit scheme funded by the United States Agency for International Development (USAID) to assist artisans in the informal sector. Under the scheme, KShs. 2.5 million will be made available for lending through KCB. USAID will also provide funds to cover the Bank’s administrative and other costs. This scheme will be restricted to Nairobi and the surrounding areas to facilitate closer
vision and monitoring. Depending on the experience, the concept may be extended to other towns in the country.

**Borrowers**

Eligible to borrow from the fund will be indigenous Kenyans who own commercially successful "Jua Kali" enterprises, especially in manufacturing and services sectors. The entrepreneur must be the owner of the enterprise and preferably be skilled in one trade. Examples of eligible enterprises would include butchers, blacksmiths, butchers, locksmiths, electrical repair shops, mechanics, hand-artisans producing such goods as baskets and carvings, spinners, tailors, vegetable charcoal vendors and small traders (dukas). Funds provided will not necessarily be used for refinancing existing loans.

**Terms of Borrowing**

Interest rate charged on the loans will be the prevailing 14% per annum and will be subject to regulations and guidelines of the Central Bank of Kenya. The maximum size of the loans will not exceed three hundred thousand shillings and the repayment period will be up to 3 years. The Central Bank will not necessarily insist on normal security requirements. Instead, chattels of the borrowing enterprises will be created over assets of the borrowing enterprises. Borrowers will be expected to execute a standard loan agreement. The assets financed will remain the property of the Bank until the loan is fully repaid.

In addition to administering the funds, KCB will provide extension services to successful applicants.

**Initial Reaction**

The scheme has been received with great enthusiasm. To date, 360 potential borrowers have been identified whose loan requests exceed KShs. 17 million. This is already far in excess of the KShs. 2.5 million which is available under the "Jua-Kali" fund. In disbursing the loans, attempts will be made to reach as many beneficiaries as possible.
The allure of the one-storey building of the People’s Bank of Nigeria is the first “poor man’s bank” in Nigeria. In front of the building, carpenter Mustapha Sanusi jokes for a place in the queue of scores of other artisans and small scale businessmen and women who came to seek application forms for loans from the bank.

“I need naira 500 (KShs 500) to buy equipment to complete a job I’m doing,” says Sanusi, who can neither read nor write. A commercial bank had turned down his application for a loan because he could not provide collateral and besides, the money he needed was ‘too little’.

The country’s military ruler, Maj Ibrahim Babangida, says the People’s Bank is an indirect scheme for income generation and redistribution among the country’s poor, many of whom cannot get credit from commercial banks for reasons similar to Sanusi’s. The bank, which is a grassroots financial institution owned by the Government, is targeted at the poorest Nigerians who live below the poverty line.

It gives out minimum loans of naira 50 (KShs 50) while the maximum it can lend is naira 200 (KShs 200). No collateral is needed. Apart from a service charge of 5 per

A Nigerian bank is providing loans to small businesses in the slums. Despite fears that it is backing unsecured creditors, Newsweek Africa’s KINGSLEY MOGHALU writes, business is booming and loan repayments are prompt.

Burden

Poor Nigerians have borne the greatest burden of the economic Structural Adjustment Programme (SAP) started by the Babangida government in 1986. The stringent reform measures have led to deteriorating living standards due to the weakened purchasing power of the naira which has been devalued by 80 percent. Subsidies on fuel and utilities have been withdrawn leading to price increases in all sectors of the economy. The minimum wage still remains at its pre-SAP level of naira 125 (KShs 125) a month.

Against this backdrop, the People’s Bank, which started in 1989 and now has branches in many of Nigeria’s 21 states, is seen as a godsend opportunity for poor Nigerians. “I can’t believe this,” says Cecilia Osogbo, a tailor and mother of five, who borrowed naira 1,000 (KShs 1,000). “The loan has given me business. It’s a boost so badly needed.”

Tal Solarin, an outspoken critic of the Babangida government who has been appointed the bank’s chairman, told the Newsweek Africa he was happy that the government has realized that structures operating in the country have not served the purpose of the ordinary people.

Banking exclusively aimed for the poor has been successful in India, Malawi, Pakistan, and the Federal Republic of Germany. To be inspired by the success of Bangladesh’s Grammen (Rural) Bank which operates in over 7,000 Bangladesh villages and serves the banking needs of some 300,000 households in the country’s rural areas.

Despite the rave reviews that have welcomed the People’s Bank in Nigeria, the scheme is dogged with problems. “How do you make it self-sustaining, or is it supposed to be a Father Christmas?” asks Claude Eackley, Shell Oil Company management trainee.

Most analysts in Lagos do not think that the bank should be run as a charity. They stress that by its very nature, the bank has to be unprofitable in its methods.

Gimmick

“Banking for the poor is social banking, the profit motive is not the driving force,” says Lagos economist analyst O.B.O. Olubolade.

Ado Ojo, Dean of the Business School at the University of Lagos, told Newsweek Africa that the People’s Bank is just a gimmick to cover up the genuine problem of feeling the pinch of the SAP. He believes there is no authoritative evidence of the bank’s viability.

The criticism of the scheme is that the minimum and maximum lending range of between US$50 and US$255 is too small to help extend the leading ceiling in the coming years. Still, the small sums being disensed have clearly helped many of the poor artisans and businessmen.

An initial fear has been that of repayment defaults by loan recipients which would make the bank unviable and lead to its collapse. But this is rejected by Ibiyi Ajibola, Attorney-General and Minister of Justice. “Poor people are more honest than the rich,” he says. “The percentage of loan repayment will be higher than in our normal banks.”

The figure so far support Minister Ajibola. An excellent repayment rate of 91.3 percent has been recorded by the bank. Bank officials revealed that although naira 300,000 was expected to be repaid within the first month of its existence, the beneficiaries repaid naira 250,000.

“It’s amazing,” Maria Sokenu, the bank’s national co-ordinator told Newsweek Africa. “The rate of repayment is fantastic.”

She added that loan beneficiaries do not wait for a year before they pay back “because they know as soon as they pay back, they become eligible for a bigger loan.”

The low default rate is attributed to the generous terms. To obtain a loan, applicants must belong to a professional or trade group of 15 people. The group recommends the beneficiaries for loans of naira 50,000. It acts as an informal guarantor to its other members while the bank pays back on schedule.

Impressed

So far, the People’s Bank is impressed with the bank’s success and has approved an extra US$25 million for its activities. The bank plans to establish 170 new branches in 1990 alone. Its success has attracted the attention of the African Development Bank (ADB), which plans to inject funds into it.

Inside a bank: A Nigerian venture into “social banking” appears to be paying off.

Planning to set up “community banks” in rural areas, it will provide initial capital for the bank’s take-off, but unlike the People’s Bank, the equity capital for community banks will come mostly from villagers who will be required to form into groups to get loans. Together with a rural bank started by Central Bank of Nigeria in 1977, the minority banks will take care of the credit needs of Nigeria’s poor.

Analysts say that banking for the poor is “an economic imperative” for a developing country such as Nigeria where most of the population live below the poverty line. To overcome prevalent poverty, Obasaju argues, economic considerations for the