

UNIVERSITY OF NAIROBI

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**SMALL AND MEDIUM ENTERPRISES IN REGIONALISM: A COMPARATIVE
STUDY OF KENYA AND RWANDA**

BY

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Declaration

This research project is my original work and has not been presented for a degree/diploma in any other University or any other ward

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I confirm that the work reported in this project was carried out by the candidate under my supervision

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Dedication

To my loving wife Lilian and my dear children Mercy, Victor and Purity who have been a great encouragement to my life.

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Table of Contents

Declaration	ii
Dedication	iii
Acknowledgement	iv
Table of Contents	v
Abbreviations	vii
List of Tables	ix
List of Figures	x
List of Appendices	xii
Abstract	xii

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction	1
1.2 Background to the Study	1
1.3 Statement of the Problem	5
1.4 Objectives of the Study	6
1.4.1 Specific objectives	6
1.5 Literature Review	6
1.6 Summary of Literature Gaps	11
1.7 Research Questions	12
1.8 Justification of the Study	12
1.9 Conceptual Framework	12
1.9.1 Entrepreneurship Theory	13

1.9.2 Free Trade Theory	14
1.9.3 Conceptual Model.....	14
1.10 Research Methodology.....	16
1.11 Chapter Summary.....	17

CHAPTER TWO

THE CHALLENGES FACING THE SMES IN BUSINESS ENVIRONMENT IN RWANDA

2.1 Introduction	18
2.2 General Overview of Rwanda.....	18
2.3 Business Environment in Rwanda	19
2.4 Rwandan Private sector.....	22
2.5 Policy, Legal, Institutional and Regulatory Framework in Rwanda.....	25
2.6 SME support systems in Rwanda.....	27
2.7 Challenges facing SMEs in Rwanda	31
2.8 Chapter Summary.....	33

CHAPTER THREE

CHALLENGES FACING THE MSE SECTOR IN KENYA

3.1 Introduction	34
3.2 Business Environment in Kenya	34
3.3 MSE Sector Support in Kenya	38
3.4 Rights to Own Property in Kenya	42
3.5 Access to credit in Kenya.....	43
3.6 Institutional Framework for Businesses in Kenya	44

3.7 Micro and Small Enterprises Challenges in Kenya.....	47
3.8 Chapter Summary.....	49

CHAPTER FOUR

A COMPARISON OF BUSINESS ENVIRONMENT AND CHALLENGES

FACING SME IN RWANDA AND KENYA

4.1 Introduction	50
4.2 Comparison of Business Environments	50
4.3 Comparison of SME sector support in Kenya and Rwanda.....	52
4.4 Comparison of Overall Policy Environment in Kenya and Rwanda	53
4.5 Comparison of Legal and Regulatory Frameworks	55
4.6 Comparison of SME Sector Support in Kenya and Rwanda	57
4.7 A Comparison of Challenges Facing SME Sector in Kenya and Rwanda.....	59
4.8 Chapter Summary.....	60

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction.....	62
5.2 Summary of Findings.....	62
5.3 Conclusion	64
5.4 Recommendations.....	65
5.5 Suggested areas of further research	66
Bibliography	67

Abbreviations

BDS	Business Development Services
CEO	Chief Executive Officer
CIPIT	Centre for Intellectual Property and Information Technology
CMP	Common Market Protocol
DSG	Deputy Secretary General
EAC	East African Community
EACISO	East African Confederation of Informal Sector Organization
ECOWAS	Economic Community of West African states
EDPRS	Economic Development and Poverty Reduction Strategy
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GOR	Government of Rwanda
ICBT	Informal Cross Border Trade
ICDC	Industrial and Commercial Development Corporation
ICT	Information Communication Technology
KEPSA	Kenya Private Sector Alliance
KIAC	Kigali International Arbitration Centre
KIE	Kenya Industrial Estates
KIM	Kenya Institute of Management
KIPI	Kenya Industrial Property Institute
MERCOSUR	Mercado Comun de Sur (Southern Common Market)

MOU	Memorandum of Understanding
MSE	Micro and Small Enterprise
MSEA	Micro and Small Enterprises Authority
MSMEs	Micro Small and Medium Enterprises
NAFTA	North American Free Trade Area
NTBs	Non-Tariff Barriers
OECD	Overseas Economic Community Development
PIN	Personal Identification Number
RDB	Rwanda Development Board
RNRA	Rwanda National Resources Authority
RPSF	Rwanda Private Sector Federation
RRB	Rwanda Reconciliation Barometer
RWF	Rwandan Francs
SACCOs	Savings and Credit Cooperative Organization
SADC	Southern African Development Community
SG	Secretary General
SME	Small and Medium Enterprises
UON	University of Nairobi
USD	United States Dollar

List of Tables

Table 1: Economic Security findings of the RRB survey.....	20
Table 2: SMEs Categorization in Rwanda.....	23
Table 3: Production System Categorization of SMEs	24
Table 4: World Banks Doing Business Report for Rwanda 2014/2013.	30

List of Figures

Figure 1: Conceptual Model	15
Figure 2: Annual registered companies in the period 2009-2013 in Rwanda.....	28
Figure 3: World Bank Kenya business climate ranking	46
Figure 4: The World Bank Doing business index rating for Kenya	47

List of Appendices

Appendix 1: SME Study Interview Guide	71
Appendix 2: Schedule of Interviews	73

Abstract

The Small and Medium Enterprises (SMEs) dominate private sector enterprises in all the East African States. The SME sector in the region is considered as the engine of economic growth. The sector requires to be supported by a good trade development policy and other support systems. The Small and Medium Enterprises face numerous challenges during the initial stages of establishment and even as they develop. The SME challenges in Kenya and Rwanda manifest differently. Unique challenges such as lack of confidence in leadership, economic insecurity, evolving and shifting governance structures have indirectly impacted negatively in the SMEs establishment and development both in Kenya and Rwanda. However the two countries are at different policy, legal and regulatory framework dispensations. The prevailing business environment in each country directly affects the performance of Small and Medium Enterprises. There is need therefore to critically examine the business environment and sector performances in both countries with a view of finding out the circumstances behind either success or failure of SMEs. The study sought to examine and compare the business environment and the challenges facing the SME sectors in Kenya and Rwanda to establish what influences the sector performance. The objectives were to: examine the challenges facing the SME sector in Rwanda; examine the challenges facing the MSE sector in Kenya; and compare and contrast business environment and SME sector performance in Kenya and Rwanda. The findings may be used by policy makers of Kenya and Rwanda in finding ways of creating a favorable and supportive business environment for small and medium enterprises in both countries. Academia also will find the findings beneficial. The study employed both qualitative and quantitative research designs. Data was gathered through interviews, group discussions, reviewing of printed materials and electronic documents. In Rwanda, the study found that Rwanda has developed a more holistic business environment but it has taken the SMEs time to internalize the environment for their own establishment and development. It revealed that it requires more than a good policy, legal and regulatory framework for a vibrant SME sector to develop. In Kenya, it found that despite the unfavorable business environment existing in Kenya, there is a growing SME sector. It established that other non-policy support interventions and societal attributes and endowments are some of the crucial ingredients for a strong SME sector development. The study found that that there are common challenges in the two countries SME sectors such as lack of skills and expertise, inadequate information and capacity to analyze market information, access to credit and poor sector coordination and lack of quality control in Standard of products developed by the sector. The study recommends common and unique challenges should be addressed through sectoral specific policies and strategies. The study further recommends that the future work in SME and entrepreneurial development should examine in more detail the interplay between public governance such as country specific institutional factors and the societal role in developing entrepreneurship.

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

This chapter presents the background to the study, the statement of the problem under study and outlines the study objectives and questions. The chapter reviews the available literature on small and medium enterprises in regionalism and identifies the gap in the literature. The chapter also presents the conceptual framework and research methodology.

1.2 Background to the Study

Regionalism which is the formal cooperation between geographically proximate and interdependent states is a concept that has been in practice in the world over after the 2nd World War. It has been used as a strategy to achieve economic goals and long term strategic objectives¹. Among its objectives is the creation of an enabling environment for various reasons such as trade, development of infrastructure, improved security and to increase bargaining power in the global arena². The most common form of regionalism is economic integration whose key objective is to increase intra state trade and take advantage of expanded markets and inherent natural resource endowments. Examples of such regional economic arrangements are; North American Free Trade Area (NAFTA) ,

¹ Burfisher, Mary et al: Regionalism: Old and New Theory and Practice. International Food policy Research Institute, MTID discussion paper No. 65 February 2004

² Masahiro, Kawai and Ganeshan Wignaraja: Regionalism as an Engine of Multilateralism: A case for a Single East Asian FTA. ADB Working Paper series on Regional Economic Integration. No.14. February 2008

European Union (EU), Economic Community of West African States(ECOWAS) and East African Community (EAC).

The East African Community is a regional cooperation in the horn of Africa made up of five member states of Kenya, Uganda, Tanzania, Rwanda and Burundi. The Community was established through a treaty signed by the Presidents of the initial three EAC countries (Kenya, Uganda and Tanzania) on 30th November, 1999 and was acceded to by Rwanda and Burundi in 2007. The objective of the member states was to strengthen co-operation among the member states in areas of economics, culture and politics.³ However, the performance of the regional economies depends on aggregation of systematic business and environmental forces for them to function effectively.

Systems has been put in place to guide relations between member states in trade which includes harmonization of policies and trade regulations by development of agreements and protocols such as EAC Customs Union and Common Market Protocol. In a free market environment, different categories of enterprises get involved in trade. Researchers in the field of entrepreneurship categorize the business enterprises using business sizes, investment levels or turn over. The common categories include large, medium, small and micro enterprises.

There is no uniformly agreed definition of Micro, Small and Medium Enterprises (MSMEs) in the region. In dealing with the small business sector, formal and informal enterprises are lumped together as SMEs particularly in Rwanda where micro businesses

³ EAC Secretariat: The Treaty for the Establishment of the East African Community, EAC Secretariat (2002).

constitute 92.6 percent of all the enterprises⁴. The two countries whose SME sector is the focus of this study define each category of small business differently. In Kenya, small businesses are considered as those employing between 10 - 49 persons, medium enterprises as those employing between 50-99 persons⁵. While in Rwanda those considered as micro enterprises employ between 1 and 4 persons, small enterprises employing between 4 and 30 persons while medium enterprises considered as those employing between 30 and 100 persons⁶. Statistical evidence indicates that SMEs in both countries constitute more than 90 percent of all private enterprises. To be more specific in Rwanda, the SMEs take up 98 percent of all businesses and 41 percent of all private sector employment⁷.

In Kenya there are an estimated 7.5 million SMEs that provide 80 percent of total employment and contributed 92 percent of new jobs in 2008⁸. A Survey done in 2011 in Rwanda affirms that SME sector in the country is relatively young with 48.7 percent of SME having been started in the past three years. In addition the survey shows that micro enterprises in Rwanda constitute 92.6 percent of all enterprises. In contrast, the Kenyan SMES have a long history of existence; the government's consciousness of the need to

⁴ Mushahara ,Herman, Akorli Felix and Rukamba shakila: Capacity Building Interventions, Entrepreneurship, Promotion of SMEs In Rwanda, University of Rwanda (2014)

⁵ Capital Markets Authority: Capital Raising Opportunities for SMEs: The Development of Micro _CAP Security in Kenya ,CMA, January 2010

⁶ Government of Rwanda: Ministry of Trade and Industry; Small and medium Enterprises (SMES) Development Policy, June 2010.

⁷ Government of Rwanda: Ministry of Trade and Industry; Small and medium Enterprises (SMES) Development Policy, June 2010.

⁸ Economic Survey (Kenya) 2009 ,Government Printers, Nairobi

develop policy direction for the sector could be traced back to 1986 when it first developed a Report on Economic Management for Renewed Growth. The report was closely followed in 1989 by “The Strategy for Small Enterprises Development in Kenya”⁹

The SME sector in as much as it dominates the private sector of the two EAC member states faces challenges with regard to the sector development that depends on prevailing business policy environment and support systems existing in the country. Although Rwanda has been recognized for its dramatic transformation of business environment, other internal and external factors have impacted negatively in hindering the sector from making significant progress. On the other hand despite the existence of policy instruments and a well establish sector, the SMEs in Kenyan still faces challenges in integrating into the regional value chains because of inadequate support systems and other inherent limitations that are common to the sector. Historical and cultural background as well as the prevailing political atmosphere will continue to influence the performance of the sector.

This study seeks to examine and compare prevailing enterprise and business environments as well as supporting or constraining systems which affect SME sector performance in the two East African Community member states namely Rwanda and Kenya. The two were chosen because of the strategic roles they have played and continue

⁹Wanjohi, Anthony: SME policy in Kenya: issues and Efforts in Progress. SME Sectors in Kenya, Kenya Projects Organisation (KENPRO), Kenpro Papers Porto (2010)

to play in shaping intra EAC trade. Other factors considered were the size of the economy and historical and cultural backgrounds. In the EAC, Kenya is the biggest economy, is a pioneer member of the community and the most democratic country while Rwanda is French speaking land locked country and is one of the fastest transforming economies in the region despite being a small economy.

1.3 Statement of the Problem

The Governments of Rwanda and Kenya have prioritized SME sectors as vehicles to deliver economic growth and development and to create employment. The Small and Medium Enterprises face numerous challenges during the initial stages of establishment and even as they develop. The SME challenges in both countries manifest differently. In Rwanda, the sector is largely informal and considered as lacking inability to catch up with the accelerated pace of policy, legal and regulatory framework transformation.

In Kenya the Micro and Small Enterprises (MSE) challenges manifest in weak and poorly designed policy, poor sector coordination and implementation, inadequate consultation in policy formulation, lack of public private dialogue and poor enforcement mechanism. However the two countries are at different policy, legal and regulatory framework dispensations. The prevailing business environment in each country directly affects the performance of Small and Medium Enterprises. The study therefore sought to critically examine the business environment and sector performances in both countries with a view of finding out the circumstances behind either success or failure of SMEs.

1.4 Objectives of the Study

The main objective of the study was to examine and compare the business environment and the challenges facing the SME sectors in Kenya and Rwanda to establish what influences the sector performance.

1.4.1 Specific objectives

The Specific objectives of the study were;

1. To examine the challenges facing the SME sector in Rwanda.
2. To examine the challenges facing the MSE sector in Kenya.
3. To compare and contrast business environment and SME sector performance in Kenya and Rwanda

1.5 Literature Review

In the age of globalization, there has been an increasing desire for the developing economies to want to “catch up” with the industrialized world through regionalism as a vehicle for economic growth. The United Nations Conference on Regionalism and New International Economic Order of May 1980 supported the formation of regional trade arrangements. Regional cooperation is considered as concerted actions aimed at lessening discrimination in certain areas of common interest¹⁰.

¹⁰ Naceur Bourenane, et al: Economic Cooperation and Regional Integration in Africa: Proceedings of the Symposium on Economic Cooperation and Regional Integration, Algiers, Algeria, Academy of Science Nairobi, 1992

The key argument behind regional economic cooperation is expansion of market spaces, increased competition and increase in market efficiency. Such regional trade arrangements are found in various parts of the world. In North America there is North American Free Trade Area (NAFTA), there is the Southern Common Market (MERCOSUR) in South America, European Union in Europe and many others. On the African continent examples of regional trade arrangements include; South African Development Community (SADC), Economic Community of West African States (ECOWAS) and East African Community.

The East African regional cooperation was born out of the Treaty for the Establishment of the East African Community which was signed by the three Heads of State from the Republic of Kenya, Uganda and the United Republic of Tanzania on 30th November 1999. The Treaty came into force on 7th July 2000¹¹. Two other member states, the Republic of Rwanda and Burundi in 2007 acceded to the Treaty and joined the Community. The regional economy has an estimated population of 141 million people and a combined Gross Domestic Product (GDP) of over US\$100 billion¹². The member states of EAC have overtime reported considerable progress in intra-regional trade.

The intra EAC trade grew from \$1.81 billion in 2004 to \$3.54 billion by the end of 2009, an increase of 96 percent. However, even with the reported progress in trade, the dynamic effects of cooperation still depend very much on the kind of business

¹¹ The Treaty for the Establishment of the East African Community, EAC 2002 ,EAC Publication 1

¹² East African Community Secretariat Facts and figures July 2013 , Arusha Tanzania PP3

environment promoted by individual member states and the community at large¹³. It is worth noting that the East African Community member states economies are characteristically dominated by SMEs. Therefore the development of the SME sector holds a significant potential to contribute to the region's growth through its greater participation in Regional Value Chains (RVCs).¹⁴

The SME sector is an explicit feature of all free markets and is central to spontaneous development of market capacities and market systems. The sector carries great hopes and great burdens in the evolution of all transitional economies such as those of the member states of the EAC. However the reported intra EAC trade is conducted not by the SMEs but by African Multinationals and Transnational Corporations based in these countries. In the region, the SME Sector faces many limitations and has to contend with operation barriers related to political, cultural, language and business policy environment. Empirical evidence from the region indicates that the sector operates in economies with dissimilar economic structures anchored on historical and cultural backgrounds as well as unfortunate happening like the Rwanda Genocide.

The challenges facing the sector include the dichotomy of formal and informal business enterprises, lack of sustainable drive, weak culture of innovation, lack of inherent comparative advantages, inadequate flexibility to adapt to changing market demands,

¹³ Brabant Josef: Economic Integration Among Developing Countries –Toward a new Paradigm : In Economic Cooperation and Regional Integration in Africa

¹⁴ Lim, Hank. and Fukunari, Kimura.: The Internationalization of Small and Medium Enterprises in Regional and Global Value Chains. ADBI Working Paper 231 (2010). Available: <http://www.adbi.org/working-paper/2010/07/29/3972.intl.enterprises.regional.global.value.chains/>

high taxation and transport cost as well as inadequate skills and expertise. In addition there exist limitations in ICT technology; networking and access to finance that reduce the SME competitiveness. Furthermore the SME sector will require outliving protectionist tendencies by some states, difficulties in identification of foreign business opportunities, limitations in capacity to locate or analyse markets, inability to contact potential customers and lack of managerial time¹⁵.

Studies by OECD have indicated that as a prerequisite to successful economic integration, the participating economies should have had similar economic structures, income levels and high level of trading among themselves prior to cooperation. A case in point is the European Commission which had met all these conditions before formation of the Union¹⁶. The EAC member states did not have the benefit of sharing a similar environment and is therefore bedeviled by suspicions emanating from its previous experiences in the failed first Regional Cooperation efforts in 1977. A wide variation in business policy environment exists among the member states of the community.

The Kenyan Government in 1992 published the MSE Policy Report popularly known as Sessional Paper No. 2 on Small Enterprises and *Jua Kali* Development in Kenya¹⁷. This paper was preceded by a report on Economic Management for Renewed Growth in 1986 and while a similar report called The Strategy for Small Enterprises Development in

¹⁵ OECD: Top Barriers and Drivers to SME Internationalisation, Report by the OECD working party on SMEs and Entrepreneurship, OECD (2009)

¹⁶ *ibid*

¹⁷ Wanjohi, Anthony: SME policy in Kenya: issues and Efforts in Progress. SME Sectors in Kenya, Kenya Projects Organisation (KENPRO), Kenpro Papers Porto (2010)

Kenya, Towards the Year 2000 was released in 1989 placing Kenya way ahead of others in policy development for the sector. On the other hand Rwanda in 2010 developed a SME Policy in readiness to integrate her SMEs into the regional value chains.

The policy environment notwithstanding, each member state is known to have implemented institutional and regulatory reforms to simplify doing business in their countries. A Global index on the “Ease of doing business” has ranked Rwanda globally at number 52 while Burundi was ranked number 159. The other member states of Uganda, Kenya and Tanzania were ranked number 120, 121 and 134 respectively¹⁸. The average ranking for EAC was placed at 117 according to 2013 report¹⁹. These global ranking on the “ease of doing business” indicates a wide variation in “Regulation Gap” within member states of the EAC.

The EAC economic instruments continue to put pressure on national governments to adopt them or approximate their national instruments and policies to the regional instruments. In such circumstances, policy realignments and support systems need to be put in place to help integrate the national to regional value chains²⁰. However there is noticeable disconnect between what happens at the regional level with what happens at the national level. Because of lack of enforcing mechanisms, member states implement voluntarily interventions they consider beneficial to them and resist the unfavourable

¹⁸ World Bank and IFC; Doing Business in the East African Community 2013; Smarter regulation for Small and Medium –sized Enterprises; Comparing Business Regulations for Domestic firms in the East African Community and with 185 Economies. (2013)

¹⁹ *ibid*

²⁰ Stefanovic I, Milosevic, D and Miletic, S: Significance and Development Problems Of SMEs In Contemporary Market Economy. Serbian Journal of Management Vol.4 (1) 2009 127-136.

ones by introducing Technical and Non Tariff Barriers (NTBS) to trade. Regional cooperation however is credited with creation of institutional framework. However regional cooperation has encouraged SME Internationalisation and networking leading to opportunity seeking through discovery, enactment and evaluation.

Regional Cooperation has created fora for holding joint event such promotion of East Africa as a single tourist destination. Moreover regional economic cooperation has expanded the market space in the region. Informal Cross Border Trade (ICBT) is gradually being transformed into formal business which is considered a positive for regional cooperation²¹. Not all is positive with regional economic cooperation because the cooperation breeds conflict over inter State distribution of gains from integration²²

1.6 Summary of Literature Gaps

From the ultimate review, it is evident that the challenges facing SMEs in Kenya and Rwanda have not been adequately explained and understood. Due to some dynamics in business environment in both countries, the study has established that there is need to explain and understand some of the challenges and success that these countries experience. There is also a need to examine impacts of economic transformation that overlooks need for domestic support systems. By comparing the two environments, the study will find out the advantages of each and also gather information on how the

²¹ Grail research: The East African Community; It's time for business to take note. Grail research, January 2012

²² Onwuka , R and Sesay ,A The future of regionalism in Africa. Macmillan Publishers (1985)

nationals and citizen's historical, economic and political backgrounds affect entrepreneurship.

1.7 Research Questions

1. What challenges do the SMEs in Rwanda face?
2. What challenges do the SMEs in Kenya face?
3. How does the business environment in Rwanda compare with that of Kenya?

1.8 Justification of the Study

The findings of this study may be used by policy makers of Kenya and Rwanda ways of creating a favourable and supportive business environment for small and medium enterprises in both countries. In addition the findings can suggest to the academia areas to consider besides policy, legal and regulatory framework for the establishment of a vibrant SME sector. Further the findings can suggest areas for further investigations particularly on issues related to societal structures and community endowments that directly or indirectly influence development of the Informal sector. To the general public, the study seek to inform them on the areas of advocacy and dialogue between the government and the Informal Sector stakeholders in order for the countries to develop sector specific policy instruments and support structures for the SMEs sector.

1.9 Conceptual Framework

The main purpose of this study was to examine the business environment and challenges faced by SME sector in the two member states of the EAC .The study compared the

business policy environment, the challenges facing the sector as well as the sector performance in Kenya and Rwanda. The study was guided by two theories of trade: the Entrepreneurship Theory and Free Trade Theory.

1.9.1 Entrepreneurship Theory

The proponents of Entrepreneurship theory are Stevenson and Jarillo²³. They define entrepreneurship as a behavioral characteristic of people to take advantage of opportunities to acquire added value for themselves or their preferred firms. McClelland in his contribution to the theory argued that entrepreneurial behaviour is embedded in individual personality stemming from his or her upbringing. Stevenson defines entrepreneurship as a process by which individuals by themselves or through organizations pursue opportunities without regard to the resources they hold.

This theory was applied in this study to help explain why entrepreneurs prefer taking only opportunities that are within their resources and prefer not to take risks beyond their ability regardless of the prevailing business environment. Secondly the theory helped to explain why certain communities easily embed the culture of entrepreneurship even when operating in unfavourable policy, legal and regulatory environment. The theory offers an explanation as to why certain individuals are reluctant to seize business opportunities when they perceive a lack of economic security arising from historical experiences. From the theory, it is easy to identify trading opportunities and entrepreneurial behaviour,

²³ Karackhardt, David: Entrepreneurship Theory and Practice; Official Journal of US association for Small Business and Entrepreneurship Vol. 19 No 3 (1995)

economic drivers and obstacles to SME that may arise in the process of establishing a strong SME sector²⁴.

1.9.2 Free Trade Theory

The proponent of free trade theory is David Ricardo. Free trade theory seeks liberalization of markets and considers market forces of supply and demand as the controlling forces in the market. According to Ricardo, free trade could be definition as the unrestricted purchase and sale of goods and services. The Free Trade Theory's focuses on commodity exchange between trading entities by leveraging on the principle of comparative advantage both in cost of production and distribution of the tradable product²⁵.

This theory was applied in this study to explain how the status of policy, legal and regulatory frameworks affects the development of the SME sectors both in Kenya and Rwanda. It was also applied in understanding the regulatory behavior of imposing changes in business climate and the role of political support for SME sector development.

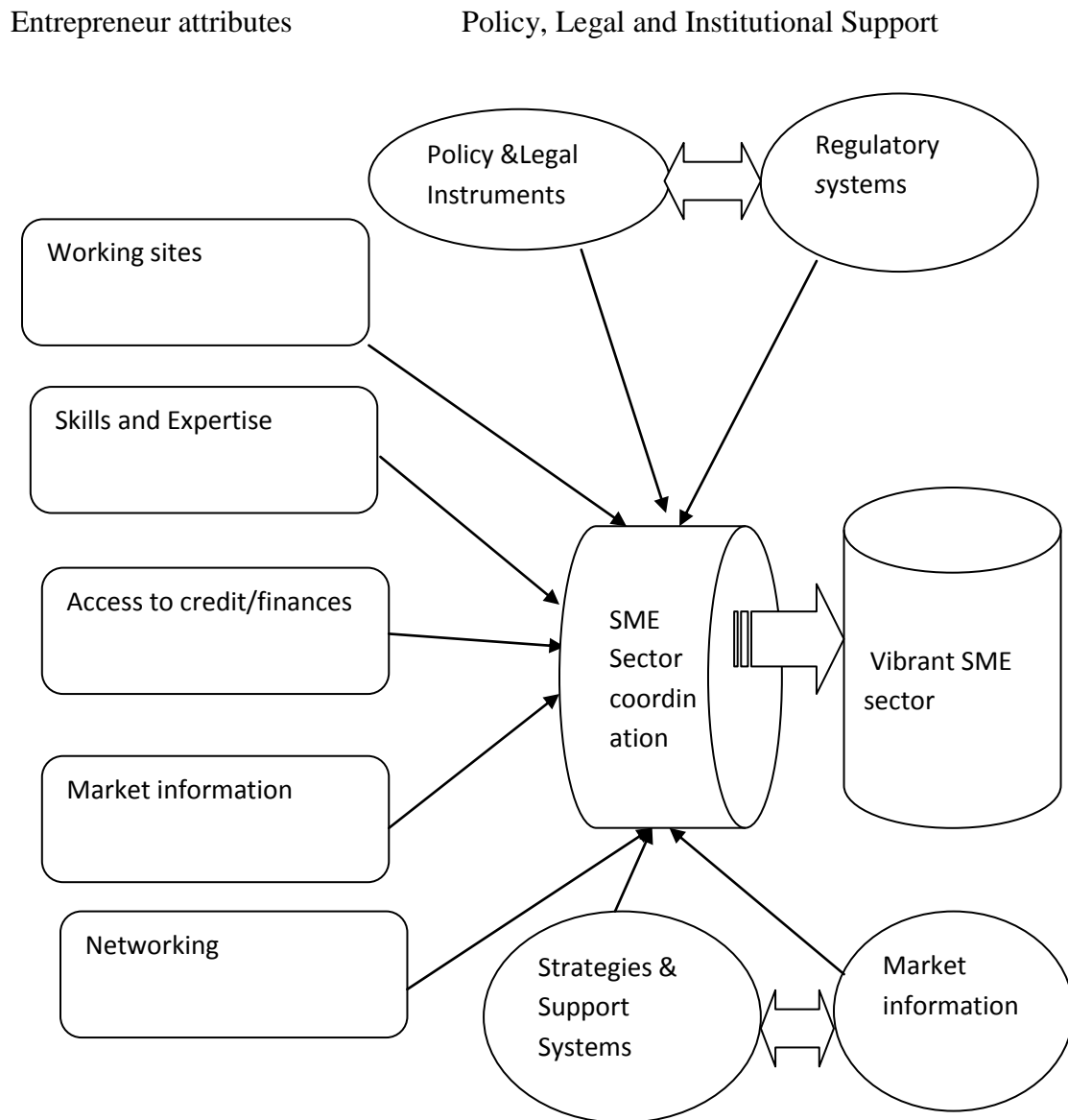
1.9.3 Conceptual Model

The following model in figure 1 is a representation of the relationship between the different variables derived from the two theories that have been applied in this study

²⁴ ²⁴ OECD: Top Barriers and Drivers to SME Internationalisation, Report by the OECD working party on SMEs and Entrepreneurship, OECD (2009)

²⁵ Economic insights: David Ricardo: Theory of International Trade. Federal Reserve Bank of Dallas, Volume 9 number 2

Figure 1: Conceptual Model



Source: Researcher, 2014

1.10 Research Methodology

The study employed both qualitative and quantitative research design based on primary data and secondary data that were gathered through interviews and group discussions. Data was gathered through reviewing of printed materials and electronic documents. According to Mugenda and Mugenda, the interview method for primary data collection which is the oral administration of a questionnaire or interview guide is important because it is undertaken through face to face interaction between the researcher and the subject. The researcher used interview schedule as the main data collection tool²⁶. The interviews were held with key informants selected from organisations that directly deal with the informal sector such as government departments and agencies that are mandated to deal with SMEs and also private sector umbrella bodies.

Secondary data which was used to supplement primary data, was gathered using desk top research through reviewing policy documents, economic reviews, business journals, online materials, newspaper articles, data from World Bank and National Bureaus of Statistics. The study gathered both qualitative and quantitative data and applied descriptive statistics to analyse the data gathered. The study findings are presented in chapter two, three and four while chapter five presents the study's summary of findings, conclusions and recommendations.

²⁶ Mugenda and Mugenda, Research Methods: Qualitative and Quantitative Approaches (acts Press1999) P.83

1.11 Chapter Summary

This chapter has covered introduction and background of the study, statement of the problem, objective of the study, review of literature, literature gap, Research methodology, justification of the study conceptual framework and research methodology.

CHAPTER TWO

THE CHALLENGES FACING THE SMES IN BUSINESS ENVIRONMENT IN RWANDA

2.1 Introduction

The chapter covers the policy, legal, institutional and regulatory framework that governs commerce and trade in Rwanda. It examines the Government's broader vision of economic transformations at the domestic level and endeavors to investigate the operating status of SMEs in Rwanda. The chapter also explores the Government of Rwanda's support initiatives and systems as well as the policy interventions that have been provided to support the SMEs establishment and development. It outlines the challenges the SMEs that the SMEs must overcome for them to succeed.

2.2 General Overview of Rwanda

Rwanda is a tiny land locked East African State whose total surface area is 26,388 square kilometers and has a population of 11.4 million people. It is the second smallest economy in the EAC with an estimated worth of 5.6 billion American dollars. By proportion the Rwandese economy is estimated to be approximately an eighth that of Kenya which is estimated at 44.10 billion American dollars. Despite its small size and economy, Rwanda is one among the EAC member States that has the second largest per capital GDP of 632 American dollars behind that of Kenya that is estimated at 994.3 American dollars²⁷. As a result of economic transformations, the business environment in Rwanda is ranked

²⁷ World Bank Indicators (2013)

ahead of Kenya by 75 positions according to the World Bank doing business index that ranks the country at position 54 out of 185 countries²⁸.

2.3 Business Environment in Rwanda

Rwanda stands out as a success story of post conflict reconstruction in Africa. The pre-genocide Rwandan economy was an “administered economy” that restricted trade and foreign exchange transactions. A significant change in the management of the economy was undertaken after 1994 genocide. The Government of Rwanda embraced market economy and subsequently set in motion the process of trade liberalization and transformation of monetary and financial regimes²⁹. An economic transformation was and still is a top priority of the Government of Rwanda. The Government’s commitment to transform the business environment is clearly captured in its development blueprint; Vision 2020 and the Economic Development and Poverty Reduction Strategy (EDPRS). The Government targeted private sector development and regional integration as vehicles for delivering Vision 2020. The private sector in Rwanda is particularly vulnerable because of the country’s history³⁰. For example the Rwanda Reconciliation Barometer (RRB) was a survey conducted 2010 by the Rwanda National Unity and Reconciliation Commission. The RRB revealed that some members of the community perceived existence of some form of economic insecurity due to the previous injustices meted on them. The survey findings revealed that 25.2 percent of the sampled population agreed

²⁸ World Bank *Doing Business Report.2014*

²⁹ Malunda Dickson and Serge Musana : Rwanda Case Study on Economic Transformation. Rwanda Institute of Policy Analysis and Research (IPAR). 2012

³⁰ National Unity and Reconciliation Commission: Rwanda Reconciliation Barometer, October 2010

that there was a likelihood of losing property in the future (as shown in table 1) with 7.3 percent strongly agreeing that the likelihood of loss was actually there³¹.

Table 1: Economic Security findings of the RRB survey

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't Know
In Rwanda, all people have an equal opportunity to make a living	27.8	42.5	3	21.7	3.8	1.1
It is likely that I will lose my house or land in future	7.3	25.2	7.4	40	16.5	3.4
All people benefit equally from government service delivery	21.6	47.3	3.9	19.5	5.3	2.3

Source: RRB Survey Report, 2010

Table 1 in the third row shows the level of agreement that in future there was a likelihood of losing property. The ingrained fears of economic insecurity may manifest in certain sections of the community rejecting the idea of engaging in trade and investment opportunities. However, according to the findings, a high percentage of 40 disagreed on the likelihood of losing property in future which was an indicator of the confidence the majority of the people have in economic security.

The Government of Rwanda had taken cognizance of the adverse socio - economic consequences of the genocide such as the loss of a generation of professionals that included entrepreneurs³². The Government therefore had to deal first with rebuilding of

³¹ National Unity and Reconciliation Barometer: Rwanda Reconciliation Barometer (RRB) Government of Rwanda 2010

³² Website: www.transconflict.com/2013.02/rwanda . Visited on 8th August 2014

the social fabric destroyed by the genocide before any work on improving business policy could start.

To start with the Rwandan Policy of National Unity and Reconciliation had to be formulated. The policy introduced “*Gacaca*” a popular participatory reconciliation initiative that was introduced to bring together the survivor of the tragedy. The existence of the perceived economic insecurity was confirmed by youth leaders who thought that such inevitable after a tragedy of that magnitude but they argued that the Government had taken all the necessary measures to improve economic security through *Gacaca* programme that has greatly suppressed the fears³³. The Government thereafter undertook significant structural changes in the economy that targeted as a matter of priority the private sector.

The researcher based on the available information concludes that the transform process in Rwanda is still an ongoing process that requires adequate time to assess the long term impacts of the change in business environment. The study reveals that some form of social fabric has been established and community structures strengthened. The study affirms that business environment has significantly improved but the pace of social transformation lags behind the pace of business environment changes. Drawing from the convictions of a Rwandan small trader, the SMEs establishment is still constrained by other governmental programmes such as national cleanliness campaign that has removed the informal traders from the Central Business Districts in Rwanda. The study deduces that the economic instruments formulated are highly valued by the government but they

³³ Rwandan Group Discussion (4th September, 2014)

are not fully appreciated by the informal SMEs which are required to be registered for them to operate legitimately.

2.4 Rwandan Private Sector

The private sector activities and investments in Rwanda for the first 30 years of independence were low but during the last 20 years, the sector has been re-energised and is gradually expanding as it internalizes the economic transformations that the Government has introduced³⁴. In Rwanda it is difficult to delineate SME from Private Sector because they dominate all enterprises. A survey carried out in 2011 found out that 96.5 percent of the all enterprises are MSMEs and that 48.7 percent of them were less than three years old. Statistics indicate that in Rwanda, the Micro Enterprises constitute 92.6 per cent of all enterprises, Small Enterprises make up 6.9 per cent and Medium Enterprises constitute 0.4 per cent while large establishments account for only 0.1 per cent.

The official categorization of enterprises as captured in the Rwanda SME policy is based on number of employees that an enterprise engages, capital investment and capital turnover as shown in table 2. A World Bank Review and Assessment of SMEs done in 2010 estimated that there were approximately 72,000 Micro and Small Enterprises , 200 Companies with between 10-30 employees and approximately 50 large enterprises in Rwanda³⁵. From the statistics, it is evident that the private sector in Rwanda is largely

³⁴ Malunda Dickson and Serge Musana: Rwanda Case Study on Economic Transformation. Rwanda Institute of Policy Analysis and Research (IPAR). 2012

³⁵ Review and Assessment of Micro and Small Enterprises(MSSEs) in Rwanda, World bank, May 2004

informal. The World Bank data of 2010 revealed that out of the 72,000 SMEs in Rwanda only 25,000 were registered³⁶. Another study by the Rwanda Private Sector Federation (RPSF) indicates that 80 percent of the informal sector enterprises are rural based.

Table 2: SMEs Categorization in Rwanda

Size of Enterprises	Net Capital investments in million FRW	Annual Turnover in Million FRW	Employment Number(full time)
Micro Enterprises	Less than 0.5	Less than 0.3	Less than 3
Small Enterprises	0.5 to 15	0.3 to 12	3 to 30
Medium Enterprises	16 to 75	13 to 50	31 to 100
Large Enterprises	More than 75	More than 50	➤ than 100

Source: MINICOM, 2008

Table 2 is a representation of the official government criteria for categorization of enterprises in the country. The official categorization actually differs with the

³⁶ World Bank (2014). Rwanda Overview of April 09

categorization provided for example by the Rwandan Private Sector Federation (RPSF).

Table 3 represents the RPSF categorization that is based on Production System³⁷.

Table 3: Production System Categorization of SMEs

PRODUCTION SYSTEM				
Home based production	Dispersed Production – small scale		Factory Type – organized & structure	
Informal	Informal/Formal Enterprises – units in transition to small and medium		Formal – organized enterprises	
Family Production	Micro-Enterprises	Small Enterprises	Medium Enterprises	Large Enterprises
Artisans; Home base food; Preparations/Processing; Banana, sorghum Beer; Basket weaving, etc.	Organized artisans; Formal & Informal units; Production – open air Market place; Retail shops.	Organized operations in a specific building-factory type; Associations, etc.	Organized-structured formal enterprises; Modern; Registered companies.	Organized-structured formal enterprises; Modern; Registered companies.
Family labor	Less than 10 employees	10-30 employees	30-100 employees	100 or more employees

Source: RPSF Strategic Operating Plan, 2005-2007

The two types of categorizations captured in table 2 and table 3 share a common boundaries where both categorization s place SMES as enterprises with less than 100 employee but disagree on the number of employees for micro and small enterprises. In addition, the RPSF categorization broadens the boundaries of the formal sector to include small enterprises.

³⁷ Rwandan Private Sector Federation: Strategic Operating Plan 2005-2007. February 2005

From the sector statistics, the study can clearly deduce that SMEs in Rwanda are largely informal with more than 92 percent of them being micro enterprises and based on the fact that majority of them are not registered, their informal nature places them way beyond the reach of formal processes. The study considers the Rwandan SME sector young and deficient of the capacity to take advantage of the favorable business environment. The above two categorizations of SMEs in table 2 and table 3 is an indicator of lack of uniformity and common understanding between the government the Private sector umbrella body.

2.5 Policy, Legal, Institutional and Regulatory Framework in Rwanda

The changing business environment is work in progress according to the Chief Executive Officer (CEO) of RDB. The CEO attributes the changes to the dynamic leadership of President Paul Kagame of Rwanda³⁸. The development in 2010 of the SME policy was to provide a framework upon which the government would develop the small and medium enterprises, facilitate SMEs to access business development services, increase their access to credit, simplify fiscal and regulatory framework all these efforts were geared towards improving the domestic business environment³⁹. The SME policy provided a clear commitment of the government to promote SMEs and entrepreneurship.

The overarching policy documents in the country are the Rwandan Vision 2020 and the Economic Development and Poverty Reduction Strategy (EDPRS) which were both mid-

³⁸ Interview with RDB CEO

³⁹ GOR: Small and Medium Enterprises (SMEs) Development Policy. Ministry of Trade and Industry. June 2010

term policy instruments to guide implementation of the Government's long-term development agenda. The development of these policy documents was informed by a growth, diagnostic and investment climate analysis that the government had conducted. The diagnostic analysis recommended to the government to establish an institution to manage and develop the private sector, initiate a systematic reduction of business operating costs as well as to invest in the private sector's capacity to innovate. In line with those recommendations, the Rwanda Development Board (RDB) was established to offer coordination and promote entrepreneurship.

Further Inter-agency collaboration was recommended by an RDB report 'Understanding Regulations for Small and Medium Size Enterprise' which upon implementation has made RDB to work closely with other sector stakeholders such as the Private Sector Federation, Ministry of Commerce and Rwanda Cooperative Agency to inculcate an entrepreneurship culture to the Rwandese. The RDB also provides a networking platform through which forward and backward linkages by the SMEs is encouraged⁴⁰.

The East African Conference of Informal Sector Organization (EACISO) appreciates the significantly improved business environment in Rwanda but is apprehensive that the Informal SME sector may require more time and increased capacity to take advantage of the environment. This study revealed that the focus of the business environment in Rwanda still addresses the formal component of the SME Sector. The informal section of the SME represented by family production and dispersed production may not find adequate policy space in the Rwandan scenario.

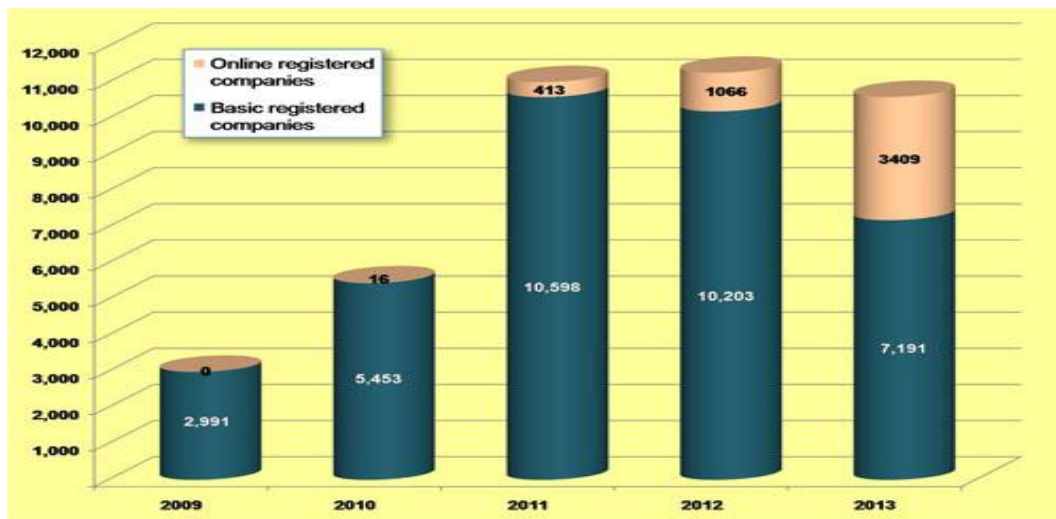
⁴⁰ Ministry of Finance and Economic Planning (Rwanda) 2007.

2.6 SME support systems in Rwanda

The Government of Rwanda has embarked on numerous policy and support interventions geared towards improving the SME and overall private sector development. The Government has intervened to reduce bureaucratic processes and procedures that required long periods of time in order to encourage faster private sector development in the country. Examples of processes simplified are property registration that was simplified by decreasing the number of days required to transfer property. Business “start up” process was simplified by limiting the notarization requirements, introduction of standardized Memorandum of Associations, introduction of enabled online publication, consolidated name searches, simplified registration fee payment, tax registration procedures were shortened among many others. Currently it takes only 6 hours to register a company and costs 15, 000 Rwanda Francs (Rwf) if done through the basic process of registration but if registration is done online, it would take less time and is cost free⁴¹. These provisions have resulted in increased online business registration significantly as shown in figure 2.

⁴¹ Malunda Dickson and Serge Musana: Rwanda Case Study on Economic Transformation. Rwanda Institute of Policy Analysis and Research (IPAR). 2012

Figure 2: Annual registered companies in the period 2009-2013 in Rwanda



Source: Dickson Malunda and Serge Musana IPAR, 2012

Figure 2 above shows the incremental change in online business registration in Rwanda. None the less, Figure 2 reveals that majority of the registrations are still conducted through the basic process registration system. From 2011 the businesses registered more than doubled while the online registration tripled in 2013.

To further improve the business environment, process and procedural interventions were introduced to quicken the processes. Examples of such process interventions are; simplifying land title processing by introduction of electronic title processing system and introduction of One-Stop Center at the Rwanda Development Board to make the process easier⁴². Other interventions include; the provision for registration of movable securities that could be used as collateral for loans and locating the Office of the SME Registrar at

⁴² ibid

the Rwanda Development Board. The office of the Registrar has embarked on digitizing all the mortgage archives dating back to 2009.

So far more than 30,000 mortgages have been registered, 28,169 movable securities and 1,804 immovable securities have been registered. The time spent on getting credit has dramatically reduced. The government has introduced Electronic Single Window to facilitate faster clearing exports and imports⁴³. The Government in addition has facilitated the process of getting connected to electricity where one could be connected to the grid within 30 days of application, further she has reduced process documentation, customs clearance, and technical handling at ports and terminal handling had been made easier.

In terms of legal support, the Government of Rwanda has enacted the Secured Transaction Act and the Insolvency Act to provide a wider range of assets that can be used as collateral for loans. The two legal instruments have improved the disputes' settlement mechanisms and are complimented by out of court enforcement of collateral mechanisms. The Government has created specialized commercial courts to help resolve conflicts of insolvency and liquidation of companies in addition to instituting the Kigali International Arbitration Centre (KIAC) to facilitate faster out of court settlements through arbitration. A new company law was enacted in Rwanda to strengthen investor protection.

The law provides for greater corporate disclosures, director liability and shareholders access to information. Overall, the World Bank Doing Business Reports have

⁴³ Edward Ojulu: New Imports Clearing System makes doing business Easier, Rwandan Focus, August 6th 2012

acknowledged the progress Rwanda has made in improving business environment. The country in 2014 report was ranked 54 out of 185 countries.

Table 4: World Banks Doing Business Report for Rwanda 2014/2013.

Index	DB 2014 Rank	DB 2013 Rank	Change in Rank
Starting a Business	9	8	↓ -1
Dealing with Construction Permits	85	122	↑ 37
Getting Electricity	53	52	↓ -1
Registering Property	8	62	↑ 54
Getting Credit	13	24	↑ 11
Protecting Investors	22	32	↑ 10
Paying Taxes	22	25	↑ 3
Trading Across Borders	162	160	↓ -2
Enforcing Contracts	40	40	No change
Resolving Insolvency	137	166	↑

Source World Bank Data, 2014

Table 4 above compares Rwanda's World Bank ranking for year 2014 and year 2013. Out of the 10 ranking indices, the country improved in six and dropped in three. Overall the country improved its ranking in most ranked indices which is an indicator of continuous improvement.

To improve credit access to SMEs, the Rwanda Development Bank was started to provide credit and business development services. In addition Kenya Banks such as Equity bank whose business development model is based on reaching out to small traders have improved access to credit for the Informal sector and SMEs.

The study has indicated that the support systems for the SME in Rwanda so far are considered satisfactory for the development of the SME particularly the Small and medium enterprises that have graduated from the Informal Micro enterprises. However, basing on statistics where Micro enterprises are placed at 98 percent of all enterprises, it then means that the System Support for the private sector may not adequately benefit the informal sector

2.7 Challenges Facing SMEs in Rwanda

According to the Chief Executive Officer of the Rwanda Development Board the umbrella body for SME development in Rwanda, the SMEs are still struggling to survive despite the improved business environment. The situation has persisted despite Rwanda being ranked second most improved country and second easiest place to do business in Africa⁴⁴. Other challenges facing the SMEs according to the CEO include lack of skills

⁴⁴ World Bank Doing Business report 2013

and expertise in certain areas of doing business⁴⁵. However the biggest challenge for SMEs in Rwanda is the limited access to finance which is attributed to the risks inherent in SME lending⁴⁶. An invisible challenge is the apparent reservations by certain section of Rwandans about matters related to economic security. This challenge is well capture in the Rwanda Reconciliation Barometer (RRB) survey of 2010 that revealed a significant size of the population have economic insecurity fears. In addition other systemic challenges may be ingrained in other national programmes like cleanliness campaign that has led to the small and informal traders being relegated to working sites outside the CBD.

The study generally has noted a sense of urgency in the style of transforming the business environment in Rwanda. The urgency to transform may be interpreted as a coping survival mechanism that emerged with the realization of the threat of extinction or societal collapse attributed to the experience and fears of a repeat of the past tragedies⁴⁷. The urgency may also be driven by a need to catch up and forget the bad history; it may also be fueled by President Kagame's determination and drive to create a future for the country. In as much as this assumption may hold true in some cases, the Rwandan case was different as the society was still on a recovery process that needed adequate time to heal and come to terms with the past.

⁴⁵ Mugisha, Steveson: RDB CEO vows to address SME challenges. Rwanda Focus November 11 2013

⁴⁶ Nyesiga ,Dias: Lack of Markets Hurting SME Growth . Rwanda Focus, (Nov 28, 2013)

⁴⁷ Daszko, Marcia and Sheila Sheiberg: Survival is Optional only leaders with new knowledge can lead the transformation www.mdaszko.com/theory_of_transformation_final_to_short_article_Apr05.pdf Accessed on 1 September 2014

2.8 Chapter Summary

Most of the SMEs in Rwanda are informal and are at early stages of development. They may be considered as “Start Ups” because majority of them are less than three years. The startups normally are at early registration phase, or at product or services development stage or at market research stage or at early stages of system set up. The country has significantly changed and improved the business environment for the SME. However this has not in the short run translated into a dynamic sector as majority of the SME are still informal, they lack the necessary capital and are disadvantaged as majority of the SMEs are rural based. Some of the challenges faced by SMEs such as access to credit have slowly improved with the establishment of Rwanda Development Bank and infiltration of the Rwandan economy by Kenya banks that have a long experience of lending to SMEs.

CHAPTER THREE

CHALLENGES FACING THE MSE SECTOR IN KENYA

3.1 Introduction

This chapter examines the prevailing business environment in Kenya and how it has changed over the years. The Government of Kenya has had SME related policies that have been implemented since early years of Independence. In addition it had put in place policy interventions that have encouraged and initiated the establishment of various types of SMEs despite the uncoordinated and weak legal and institutional framework. The chapter explores the policy environment as well as societal and governmental support systems that have contributed to the establishment of a growing and dynamic SME sector. It also critically examines the challenges experienced in the establishment and development of the SMEs in Kenya. In Kenya, the sector deals with MSEs because most the medium enterprises are considered to have transited or are in the process of transiting to the formal sector.

3.2 Business Environment in Kenya

Kenya has the fastest growing private sector compared to other member states of the East African Community. Unlike other member countries, the Government of Kenya had recognized the potential of the MSE sector in employment creation and poverty reduction in its numerous policy documents. According to a senior official at the State Department of East African Affairs, the focus of the SME sector in Kenya is on the informal subsector of Micro and Small Enterprises (MSE). The sector in the Kenya is commonly

referred to as *Jua Kali* because most of the businesses are conducted on open air spaces. The term *Jua Kali* refers to a full range of enterprises employing between 1-49 workers in all sectors.

The sector according to the East African Confederation of Informal Sector Organization (EACISO) comprises of *Jua Kali* Artisans, Small traders, Service providers and Agribusiness. A survey done in 1999 revealed that 64.3 percent of the MSEs were in trade, 14.8 percent were in services, 13.4 percent were in manufacturing while 7.7 percent were in other activities. It is estimated that the informal sector constitutes 98 percent of all businesses in the country. The sector employs over 80% and is currently receiving a lot of government attention because it is considered an instrument for resolving the crippling unemployment challenge especially for the youth⁴⁸.

The SME Sector does not take care of only the informal businesses but according to the Director Economic Affairs, State Department of East African Affairs it also involves a sizeable proportion of the formal business. Way back in the late 1980's and early 1990 the government started formulating policy guidelines for the sector. The Sessional Paper No 2 of 1992 on Small Enterprises and *Jua Kali* Development in Kenya emphasized on the need to create an enabling environment through an appropriate legal and regulatory framework as well as providing support and facilitative measures to promote the growth

⁴⁸ Website: SMEs in Kenya, http://www.entrepreneurstoolkit.org/index.php?title=SMEs_in_Kenya. Visited on 12th August 2014

of the sector. However, the sector faces monumental challenges of poor and weak policy coordination and implementation⁴⁹.

It is estimated that there are 7.5 million MSEs in Kenya. The sector's contribution to the Gross Domestic Product (GDP) has increased from 13.8 per cent in 1993 to about 40 per cent in 2008. The sector contributes over 92 per cent of the new jobs created annually according to the Kenya National Bureau of Statistics⁵⁰. However the sector contributes only 20 percent of the total GDP⁵¹. This implies dismal performance for the subsector, despite its potential to contribute to employment, income and equity in Kenya. The development trajectory of the subsector thus requires a system that holistically fosters MSE development. The new Micro and Small Enterprises (MSE) Act, 2012 provides for a window of opportunity through which the evolution of MSEs should take place. This chapter examines the business environment and the challenges facing the SMEs in Kenya.

Overall, the business environment in Kenya has been characterized by uncoordinated policy implementation that has yielded mixed economic fortunes. With unfavorable policy and legal framework coupled with lack of enforcement mechanism, the SME sector in Kenya is in limbo. Secondly, the Constitution of Kenya 2010 sets the country to gear up for additional licensing changes. It has split licensing roles between National

⁴⁹ Sessional Paper No.2 of 2005 on Development of Micro and Small Enterprises for wealth and Employment Creation for Poverty Reduction

⁵⁰ National Bureau of statistics (2010). Kenya

⁵¹ African Economic Outlook, 2011 report

and County Governments⁵². The Micro and Small Enterprises in Kenya has got to deal with unfavorable policy, legal and regulatory environments according to a senior official of Micro and Small Enterprises Authority (MSEA) in Kenya. According to the senior official of MSEA, entrepreneurship culture is strong in the country but has not been fully exploited. The resources may be available but access to them is limited. The Government of Kenya and international organizations had devised programs to improve the situation but neither have the MSEs owners nor their economic opportunities substantially improved because of the challenges the sector faces. Entrepreneurs and workers in the Jua Kali sector have been disorganized and have no voice because of lack of recognition for their associations⁵³. Policy formulation processes have not had extensive consultations thus they miss out on specific needs of the stakeholder and they lack ownership by entrepreneurs⁵⁴. However the sector continues to be a major employer and it positively contributes to national economic growth.

The efforts to improve the institutional framework and coordination of the policy implementation by National Government will most likely be lost under the devolved system of government as each county legislates on new county laws. As County Governments seek ways to raise revenues, it is likely that the SMEs will have to contend

⁵² Economic Survey, 2013. Kenya: Government Printer

⁵³ Orwa ,Bani : Jua Kali Associations in Kenya: A force for Development in Kenya and Reform: Reform Case Study, No 0701, Center for international Private Enterprise, January 2007

⁵⁴ Sessional Paper No.2 of 2005 on Development of Micro and Small Enterprises for wealth and Employment Creation for Poverty Reduction: Nairobi. Government Printer

with increased charges and levies. The County Governments are more likely also to further encroach on the SMEs work spaces.

3.3 MSE Sector Support in Kenya

The Government of Kenya's policy support to the SME sector portrays a mixed basket of opportunities. The government appears sensitive to *Jua Kali* needs as it has developed numerous policy documents highlighting importance of the sector. In guiding and promoting the sector, the government has passed laws, allocated funds, has built market such as *Muthurwa* Market in Nairobi and *Jua kali* sheds which are scattered in the whole country. However minimum impact has been realized due to implementation difficulties or unresponsiveness on the part of government agencies and officials. The Kenya's development blue print Vision 2030 aspires to improve (SME) productivity and innovation. One of its strategies is to strengthen SMEs to become the key industries of the future.

The official policy framework in Kenya has been enshrined in the Sessional Paper No 2 of 2005: Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. This is the policy paper that informed the development of the Micro and Small Enterprise (MSE) Act (2012) to institutionalize the Policy in Kenya. The MSE Act was to provide legal and regulatory framework for the MSEs by creating the Office of the Registrar of MSEs. It provided for the formation of MSE Associations and Umbrella Organization, establishment of Micro and Small Enterprises Authority, Micro and Small Enterprises Fund and Micro and Small Enterprises Tribunal for the management of the unstructured sector.

According to a senior official of Micro and Small Enterprises Authority, one year down the line after the Establishment of the MSE Authority, the MSE Fund and the MSE Tribunal have not been operationalised. However, the sector is supported by numerous laws among them; Science, Technology and Innovation Act, 2013, Cooperative Act and Micro and Small Enterprises Act 2012.

The Government in addition to providing the policy, legal and Institutional framework to coordinate and promote the development of the sector has provided the fast growing sector with various support initiatives. The sector has also taken advantage of the existing culture of entrepreneurship and the proactive nature of Kenyans to establish itself. Some MSEs particularly those in manufacturing have been receiving support from the government and the private sector. The Kenya Industrial Estates (KIE) Ltd was established in 1967 as a subsidiary of Industrial and Commercial Development Corporation (ICDC). The KIE's major role in the sector has been promotion of indigenous entrepreneurship by financing and developing small and micro enterprises. It has provided Business Development Services (BDS) and established industrial parks throughout the country⁵⁵.

The Kenya Industrial Research and Development Institute (KIRDI) under the Ministry of Industrialization and Enterprise Development have played a key role in training and offering business incubation programmes for industrial entrepreneurs⁵⁶. The Government over the years has greatly contributed to skills development for the young Kenyans

⁵⁵ Website: www.kie.co.ke

⁵⁶ Website: www.kirdi.go.ke

through the National Youth Service programme, a paramilitary outfit that trains artisans and plant operators who thereafter join the informal and formal sectors of the economy. The private sector also offer support and coordination through the Kenya Private Sector Alliance (KEPSA) which is an umbrella body that advocates for private - public dialogue and provide support for the sector⁵⁷.

Kenya is endowed with a strong Cooperative Movement whose contribution to enterprise development is big. The cooperative movement is associated with the development of a saving culture in Kenya. The Cooperative movement is vibrant and dynamic; it is credited for controlling 43 percent of the GDP. The Savings and Credit Cooperative societies (SACCOs) have been a good source of financing particularly for the organized groups. In addition, the banking and Micro-finance sectors have come to the aid of the sector by creating units that target lending to the small and medium enterprises. Examples of such institutions include among other equity bank, K- Rep Bank and Micro Finance Institutions (MFIs) such as GroFin Kenya that are known to work with MSEs⁵⁸. But challenges of collateral and poor financial record keeping and management have made MSE credit worthiness low in addition to making them high risk creditors.

The sector has managed to survive for a very long time because of the support it has received from various support initiatives. The support has assisted the medium enterprises to transit from informal sector to the formal sector without which it would

⁵⁷ Ong'olo David and Odhiambo Samson: SMEs Development in the Devolved Governance System: Policy Options for Institutional and Regulatory Reforms in Kenya, Trust Africa, Policy Brief, No 1 /2013

⁵⁸ Mbogo, Steve: Kenyan SMEs Hungry for funding. The East African, 9th February 2013.

have been difficult to achieve. The Government has allowed the sector to continue operating without demanding licenses and without paying taxes. Overall the Kenyan financial sector has directly and indirectly supported the sector especially the formal sector in providing credit.

The government has taken measures to alleviate and reduce challenges facing MSEs in Kenya. For example one of the key challenges in formalizing business enterprises was centralization of company and business names registration in Nairobi. For businesses to operate legitimately they must comply with business rules as set by the National Government or by the specific County Government in which the business is located. Enterprises in Kenya require a number of trade licenses for them to be considered legitimate. It is a requirement to formalize all businesses by registration in accordance with Business Names Act (Cap 265).

Registering a business in Kenya is a lengthy process. The process of registration requires for a name search in the Registrar General's office at *Sheria* House and name reservation which is done at a cost. The applicant must produce several documents such as; the National Identification Card, Personal Identification Number (PIN) for tax purposes and other professional qualification documents which is a prerequisite for registration. For those from outside the city of Nairobi, this arrangement poses a big challenge.

To incorporate a company in accordance with the requirements of Companies Act (Cap. 486), the process starts with a name search, reservation of the name just as for registration of a business name. The Registrar of Companies will then require several documents such as Articles of Association, statement of capital and declaration of

compliance with the Companies Act among others. The Government has reduced the process making it possible for a company to be incorporated in less than 30 days. In 2009, records at the Registry of Companies were digitized providing for small businesses to apply and pay for licenses online

A business permits is a basic requirement for a business to operate in Kenya. Business permits are issued by the county governments and they vary depending on the type of business, number of employees, and size of the company's premises. The license fee is payable to the local authority's Licensing Department. The license fee has not been harmonized as different counties charge different fees for the same services.

3.4 Rights to own property in Kenya

In Kenya, property ownership is provided for and protected by the Constitution of Kenya Chapter 4, Bill of Rights Article 65 which provides for rights to acquire and own property by Kenyans⁵⁹. Property protection is also provided for by Company law while industrial property rights are covered by Kenya Industrial Property Institute (KIPI). The Centre for Intellectual Property and Information Technology (CIPIT) together with international conventions cover intellectual property rights in Kenya. In the World Bank ranking on protecting investors, Kenya in 2014 was placed at number 98 out of the 185 countries indexed.

To facilitate resolution and sharing of property, Kenya does not have a specific law. Most of the disputes are settled through application of the company laws; however a new

⁵⁹ Constitution of Kenya 2010 Nairobi ,Government Printer

Insolvency Bill 2014 has been prepared and is waiting to be tabled in parliament. All these laws are not SME specific but are general in nature covering the legal issues and procedures in handling cases of insolvency.

3.5 Access to credit in Kenya

In Kenya, access to credit by SMEs has been a major challenge. This is despite an expansion in lending to MSEs by Commercial banks and dedicated MSE sub-units in most banks. A 1995 survey of MSEs found out that up to 32.7 percent of the entrepreneurs' surveyed mentioned lack of capital as their principle problem, while only about 10 percent acknowledged that they had received credit⁶⁰. Kenyan MSEs have continued to experience difficulties in accessing credit despite the increasing financial inclusion and Kenyan Commercial banks being ahead of their counterparts in terms of the share of lending to MSEs in their portfolios simply because of the high cost of credit⁶¹.

To blame for the above undoing is keeping of poor quality financial records by the MSEs and their informal status therefore locking out many of them from accessing credit. However, the informal sector has continued to receive financial support from the political regimes in Kenya. Each Kenya political regime according to the Chairman of CISO (Kenya chapter) is identified with at least one support initiative for the SME sector. President Daniel Moi's regime introduced Jua Kali sheds; President Mwai Kibaki's regime is associated with introduction of the Youth and Women Development funds

⁶⁰ Daniels, L, and Musinga, M: Employment and Income in Micro and Small Enterprises in Kenya, Results of 1995 Survey

⁶¹ Mungai, Christine: High Cost of Credit Slowing Growth of Kenya's SMEs, say World Bank. The East African Thursday December 19th 2013

while President Uhuru Kenyatta's regime is associated with introduction of the *Uwezo* Fund.

3.6 Institutional Framework for Businesses in Kenya

While the government in Sessional Paper No. 2 of 1992 acknowledged the potential of the MSE sector in employment creation and poverty reduction, no institutional mechanism for identifying and resolving policy conflicts and for overseeing implementation of policies and programmes was put in place⁶². However, through Presidential Circulars No 2 of 1999, No 2 of February 2003 and No 3 of July, 2003 to improve coordination MSE activities are still spread over various Government Ministries and Departments.

The Kenyan Government's Micro and Small Enterprises Act (2012) has established an institutional framework for the management of the Sector. It has provided for Micro, Small, Enterprises Authority (MSEA) and Umbrella Organisation in an attempt to organize the otherwise unstructured and disorganized sector as well as provide for sector representation. The Office of the Registrar of MSE will be in charge of registering the enterprises. Other institutions it has created include MSE Authority, a fund and a tribunal. The new arrangements have collapse the functions previously undertaken by numerous government departments and agencies.

The Kenya Institute of Management (KIM) has been offering professional services to the SME sector through its Small and Medium Enterprises (SME) Centre that was

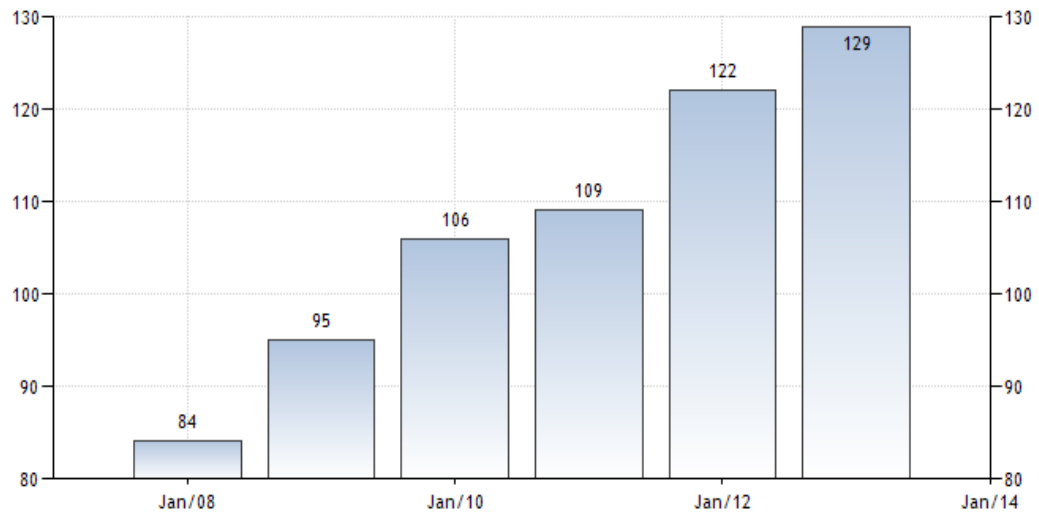
⁶² Sessional Paper No 2 Of 2005 on Development of Micro and Small Enterprises for Wealthy and Employment Creation for Poverty Reduction. Government Printer Nairobi

established in 1987 as a strategic business unit to promote professional management practices in the SME Sector. The sector however must continue working with Registrar of Companies, State Department of Commerce, Kenya Revenue Authority and the County Governments.

The Kenya Constitution 2010 has however introduced a two tier governance structure that has opened up more challenges especially with licensing and management of the sector. In addition the County Government Public Finance management Transition Act no 8 of 2013 provides that county governments continue imposing rates and charges.

Overall the World Bank rating for Kenya business climate has been declining over the years. Figure 3 below bears the testimony of the trend.

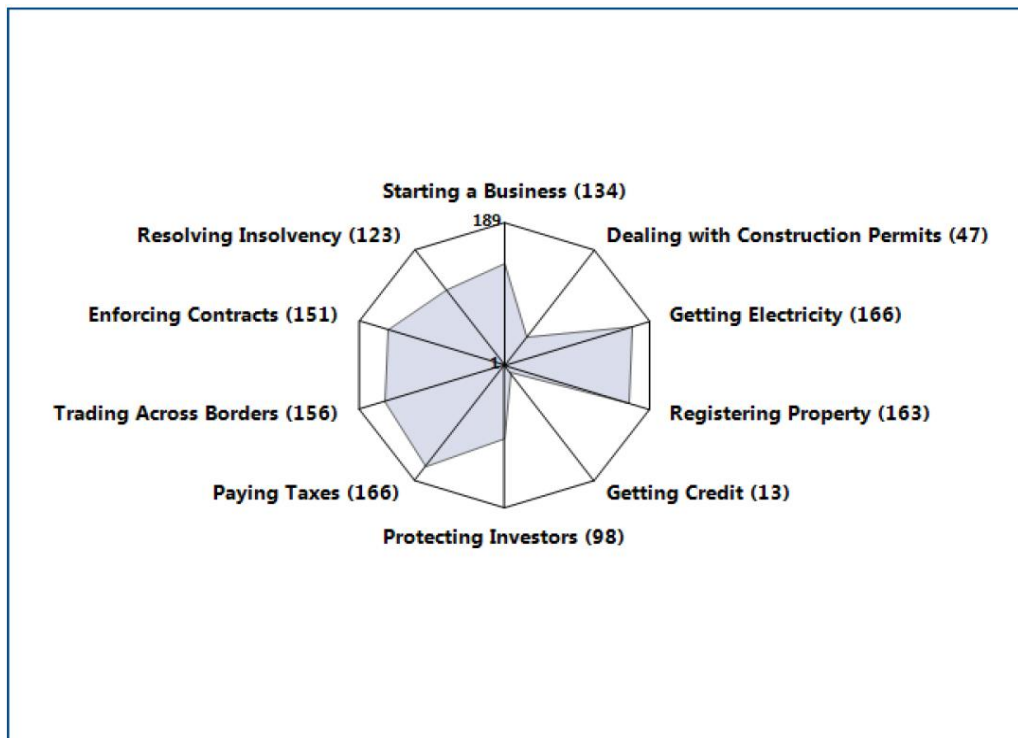
Figure 3: World Bank Kenya business climate ranking



Source: World Bank Data

In the Business climate ranking, Kenya has dropped 45 positions in the global ranking on doing business within a period of 6 years with about half of that within the last three years of the new constitution. Figure 3 above shows a trend of continuous decline in business environment in Kenya over a number of years.

Figure 4: The World Bank Doing business index rating for Kenya



Source: Doing Business database.

3.7 Micro and Small Enterprises Challenges in Kenya

There are three key challenges facing MSEs in Kenya. According to a senior official for Regional Integration in the State department of East African Affairs these challenges are; limitations with regard to market information, quality control for the MSE sector products and the high cost of production. The three have reduced the sector's competitiveness in the regional trade. The new Constitution of Kenya introduced the devolved system of governance that has split the licensing role between the two levels of government. This development could result in increased number of licenses, rates and

charges⁶³. The unfavorable and poorly coordinated policy frameworks continue to negatively impact on the SME sector by having too many departments and government agencies regulating the sector. Other persistent challenges are lack of clear demarcation on institutional mandates, inadequate inclusivity on the part of SME stakeholders in policy development process, lack of access to credit and lack of central coordination mechanism⁶⁴.

There are unique operational challenges emanating from the inability to secure business premises or working spaces for the SMEs. The working spaces are frequently encroached on by the private developers who displace the Jua Kali artisans⁶⁵. Another unique challenge is the lack of inadequate private and public dialogue at the two levels of government. The business environment in Kenya according to World Bank data has steadily declined.

From the researcher's observation, it is difficult to clearly tell pinpoint the driving forces behind SMEs development in Kenya. Although Kenya may be considered as having a fast growing SME sector, the sector is not clearly definition. However the trend in Kenya of subdividing work spaces and establishing stalls whose sizes of businesses fall within the SME categorization is probably driven by premise owner to make more money than the culture of entrepreneurship. Another dimension of the SME development may be the

⁶³ Economic Survey 2013, ,Government Printer, Nairobi

⁶⁴ Capital Markets Authority: Capital raising Opportunities for SMEs: the Development of Micro-Cap Securities markets in Kenya. January 2010

⁶⁵ Orwa ,Bani : Jua Kali Associations in Kenya: A force for Development in Kenya and Reform: Reform Case Study, No 0701, Center for international Private Enterprise, January 2007

establishment of micro enterprises by retirees, parents and guardians to keep the graduates from secondary and tertiary institutions occupied. The SMEs development may also be considered as products middle level private and governmental institutions training artisan particularly the National Youth Service, Village Polytechnics among others.

3.8 Chapter Summary

Despite the fact that the Kenyan MSE sector is not well coordinated and lacks policy implementation mechanisms, it is however a fast growing sector. Still under the unfavourable prevailing policy and legal framework the sector's medium enterprises have continually transformed from informal to the formal sector which may be attributed to previous governments, private sector strategies and support in the last 50 years. However, the MSE sector development has experienced inappropriate policy design, weak implementation framework and failure to institute and effectively monitor policy implementation. The policy formulation process was government driven without adequate consultation with relevant stakeholders. However, in 2012 the Government enacted a law specifically creating the legal and institutional framework for MSE development and coordination.

CHAPTER FOUR

A COMPARISON OF BUSINESS ENVIRONMENT AND CHALLENGES FACING SMES IN RWANDA AND KENYA

4.1 Introduction

The chapter compares the business policy instruments that guides, coordinates and regulates the business environment both in Kenya and Rwanda. The chapter compares the two countries' SME policy provisions in the respective country's development blueprints Kenya Vision 2030 and Rwanda Vision 2020. The chapter explores and compares the sectorial policies regulating and coordinating SMEs in both countries. In addition policy interventions and support strategies for the sectors are also compared. The chapter equally compares how each country has simplified the previously laborious processes and procedures in business formalization and access to services.

4.2 Comparison of Business Environments

The two governments have formulated policies, legal instruments and strategies to manage and spur development of the SME sectors. They have pursued different pathways in an effort to arrive at similar goals. The policy focuses in the two countries are different. Rwanda overall focus is on broad economic transformations targeting the entire private sector while Kenya focuses on infrastructural development that would support the establishment of Micro and Small Enterprise⁶⁶. In Rwanda you may not be able to delineate SMEs from the larger private sector because the SMEs constitute 98.8

⁶⁶ Wanjohi, Anthony: *SME policy in Kenya: issues and Efforts in Progress. SME Sectors in Kenya*, Kenya Projects Organisation (KENPRO), Kenpro Papers Porto (2010)

percent of all enterprises⁶⁷. Kenya on the other hand has a well-structured private sector with layers of medium and large enterprises which constitutes the formal sector of the economy. However she also has a big informal sector that comprising of Micro and Small Enterprises (MSEs).

The SME sector development is highly prioritized in the two countries but differences emerge on the way each country tackles the challenges facing the sector. The differences in approaches are captured by respective country's development blueprints, Vision 2020 and Vision 2030 for Rwanda and Kenya respectively. Moreover the differences are much clearer in the respective sectoral policies and strategies as each is tailored to address specific intervention areas. The Government of Rwanda for example targets initiating and grooming the “startup” enterprises while Kenya targets improving infrastructural development and improving institutional capacity for better coordination. As manifested by the two countries' Development Blue Prints, Rwanda targets to transform the economy from being agrarian based to a knowledge-based economy with ICT as the key economic driver while Kenya endeavours to revitalize the manufacturing and value addition subsector.

The SME Sector in both countries mirror to a large extent the state of the respective economy. The Kenyan economy for example is reasonably well diversified and structured while the Rwandan economy is relatively small and narrow based. It is estimated that the Kenyan economy is approximately eight times the size of Rwandan economy. The mainstay of the two economies is agriculture but the Kenyan economy has diversified

⁶⁷ Government of Rwanda: *Small and medium Enterprises (SMES) Development Policy*, Ministry of Trade and Industry, June 2010

into manufacturing and service provision. The Economy of Kenya is largely private sector driven and has a significant presence of multinational entities while the Rwanda economy enjoys a lot of government support. Before the genocide, the Rwanda economy was an “administered and controlled” economy but the country has embraced a market economy which has seen the emergence of private sector enterprises that were previously suppressed⁶⁸. In contrast the Kenyan formal sector has continued to enlarge as more small and medium enterprises continue to transit to the formal sector.

4.3 Comparison of SME sector support in Kenya and Rwanda

Statistics reveal that micro enterprises in Rwanda constitute 92.6 percent of all the private enterprises while a meager 0.4 percent of the enterprises fall under large enterprises’ category. The Rwanda Small and Medium Enterprises Business Guide indicate that the country is still in the process of promoting a culture of entrepreneurship. Creation of the entrepreneurship culture is being pursued through various projects such as *Hanga Umurimo* Project that was rewarding 10 best business plans on every district with startup or expansion capital. Other initiatives to achieve the objective include; the Business Plan Competitions to identify and provide funding and technical support to young and start up Rwandan entrepreneurs⁶⁹.

The Rwandan SME sector is relatively young and is still at early stages of development, a senior official of the RDB confirmed that the government was in the process of taking up

⁶⁸ Malunda Dickson and Serge Musana: Rwanda Case Study on Economic Transformation. Rwanda Institute of Policy Analysis and Research (IPAR). 2012

⁶⁹ Rwanda Development Board : Small and Medium Enterprises, Business Guide

measures to address the challenges facing the struggling to survive sector. In an attempt to organize the sector, the Government of Rwanda had placed the sector under the management of the Rwanda Development Board (RDB) that is mandated to coordinated private sector development in the country.

The Kenyan MSE sector which is large meanwhile continues to transit from informal into the formal sector. The Government of Kenya realized the need for a coordinated sector and has been in the process of putting in place a legal and institutional capacity to regulate, coordinate and promote the sector. By enacting the Micro and Small Enterprises (MSE) Act (2012) the government provided for the establishment of a Micro and Small Enterprises Authority (MSEA), MSE Fund and MSE Tribunal. The Authority and related institutions established by the Act are however at the formative stages because they are hardly one year old⁷⁰. However, the new structures have not completely removed the mandates of the various departments and government agencies particularly during the transition phase.

4.4 Comparison of Overall Policy Environment in Kenya and Rwanda

The SME policy development was a top priority of the Government of Rwanda. This is evident in the provisions and targeted intervention areas as captured in the *Rwanda Vision 2020* and in the *Economic Development and Poverty Reduction Strategy (EDPRS)*. The Government of Rwanda had developed also the sectoral policy; *The Small and Medium Enterprises (SMEs) Development Policy 2010* to promote and coordinate the

⁷⁰ Interview with a Senior Official of Micro and Small Enterprises Authority (Kenya) 2014

sector⁷¹. Implementation of the policy was complemented by a host of other business related policies such as Trade Policy (2006), Industrial Policy (2006), Handicraft Policy (2006), National Policy on Promotion of Cooperatives (2006) and National Microfinance Policy and Implementation Strategy (2007) among others.

The Government of Rwanda's policy approach was to develop "SME clusters" by leveraging on inter-firm collaboration⁷². Judging from the pace of policy development in Rwanda, it is easily observable that the Government has in an accelerated manner developed the various policies to transform the domestic environment for example all the above cited policies were all developed within a year which is a clear indication that is an urgency to change the business environment.

The Government of Kenya on the other hand had targeted economic growth to be driven by the private sector. Her development blueprint, Kenya Vision 2030 targeted infrastructural development, transformation of macroeconomic and financial systems to propel growth in the private sector. The Kenyan development blue print however does not single out or target SME sector alone for major transformations. The only SME specific target was to build capacity for the sector managers and construct a few Model SME Parks as Vision 2030 flagship projects.

The Government of Kenya has always been consciousness on the need to develop the sector. As early as the first decade of Kenyan independence, the support for the sector has

⁷¹ Malunda Dickson and Serge Musana: Rwanda Case Study on Economic Transformation. Rwanda Institute of Policy Analysis and Research (IPAR). 2012

⁷² GOR; Small and Medium Enterprises Development Policy 2010

provided; Kenya Industrial Estates (KIE) was established in 1967 under Companies Act Cap 486 to promote, finance and develops Micro and Small Enterprises. A Policy Paper *the Strategy for Small Enterprises Development in Kenya; towards the year 2000* was developed in 1989 and in 1992 the Government developed *Sessional Paper No. 2 on Small Enterprises and Jua Kali Development in Kenya*. However, the official Kenyan policy on SMEs is *Sessional Paper No 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction*.⁷³. The Sessional Paper informed the creation and enactment of the Micro and Small Enterprises (MSE) Act (2012).

4.5 Comparison of Legal and Regulatory Frameworks

The private sector development in both countries have been guided and regulated by numerous trade related legal instruments. The Government of Rwanda has revised its entire policy and legal framework as part of the “Second Generation” reform agenda targeting revision of business laws to inject a new impetus into the private sector. The revised laws included Income Tax and Customs Laws, the Investment Promotion Act, the Land and Labour laws. A new Company Law has been enacted to strengthen investor protection. Other laws revised included Companies Act (2009), Competition and Consumer Protection Policy and Act as well as the Organic Law Determining the Use and Management of Land in Rwanda.

⁷³ Interview with senior official of Micro and Small Enterprises Authority

The Government of Rwanda has established the Rwanda Development Board (RDB) to promote entrepreneurship culture and coordinate the sector in collaboration with other private sector umbrella bodies such as the Private Sector Federation, Rwanda Cooperative Agency among others. The Government has also undertaken policy interventions to simplify the previously lengthy and bureaucratic processes by introducing for example Electronic Land Title Processing Systems, simplified businesses registration procedures and introduction of Electronic Single Window to simplify Goods clearing at ports of entry and exit.

Kenya on the other hand has had numerous legal instruments to regulate and manage the private sector. These instruments include; Business Names Act (Cap 265), Companies Act (Cap 486), Cooperative Societies Act (490), Sacco Society Act (2008) as well as Intellectual Properties Protection Laws among others. Due to the many government departments and agencies administering the instruments, the procedures and processes have resulted in requirement of many licenses and permits for a business to be considered legitimate. The Government has however consolidated and revised the system. The Government has established the Micro and Small Enterprises Authority to support the informal Jua kali sector and reorganize the sector. Also revised was the Cooperative law. However a critical examination of process of development of sector's legal instruments and policies clearly indicate to a very slow process of sector transformation. Moreover the sector according to a senior official of CISO has at times resulted to violent means such as violent demonstrations and street fights with the police to demand their rights.

4.6 Comparison of SME Sector Support in Kenya and Rwanda

The success of SMEs is attributed to contributions of various factors legal and non-legal. The establishment of Kenya Industrial Estates (KIE) and Kenya Industrial Research Development Institute (KIRDI) by the Government of Kenya are examples of long term support to the industrialization and manufacturing sector. In the two countries, political regimes are acknowledged as having supported the sector. A former Secretary General, East African Community, Amb. Juma Mwapachu affirmed that political entities interest in sector is attributed to the size of votes the sector commands⁷⁴. The regimes use various interventions to endear themselves to the sector by promising support to the unemployed youth and women. Each political regime in Kenya according to the Secretary General of the East African Conference of Informal Sector Organization is associated with certain support interventions. President Daniel Moi's regime is associated with Jua Kali sheds that were scattered all over the country; President Mwai Kibaki's regime is associated with Youth and Women Development Funds. He is also associated with development of Small Trader Markets such as Muthurwa Market in Nairobi and other open market stalls in many market centres in Kenya while President Uhuru Kenyatta is associated with Uwezo fund.

Another source of support in Kenya is the Cooperative Movement and the saving and credit Society Organisation (SACCOs) that have become a way of life with many Kenyans. The Kenya Community is also involved in small investment groups called

⁷⁴ Mwapachu, Juma: SME as Strategic Drivers of African Social and Economic Development: Challenges and Policy Prescriptions. African Governance, Leadership and Management convention, Mombasa, 5th – 9th August 2012

Chammas which has also contributed to financing the SMEs. The Banking Sector has not been left behind as certain Kenyan banks have been modeled to work with and support the SME sector for example the Equity Bank, K- Rep Bank, Kenya Women Finance Trust (KWFT) among others.

The Rwandan Government on its side does not have a long history of support for the SMEs but in the last 20 years, massive economic transformations have taken place in Rwanda which has impacted on the SME sector by increasing institutional capacity and improving policy, legal and regulatory support for the sector. The reform program initiated under Rwanda's first Poverty Reduction Strategy Program (PRSP) targeted social sector development to lay the foundation for improved service delivery for human development and growth. In particular, support for the sector started with setting up of the Rwanda Development Board, a one-stop centre for coordinating the sector and promoting private sector development in the country. Other sector support interventions include formulation of the Strategic Investment Plan and the Industrial Master Plan to create industrial zones within the country⁷⁵.

A more sector specific support programme was the establishment of a Savings and Credit Society *Umurenge* SACCO which has a nationwide savings scheme for mobilising financial resources at the small administrative unit called *Umurenge*, the citizens savings are topped up by the Government when it reaches a targeted level. The resources so generated were used to finance small traders. On credit access improvement, the Government of Rwanda has introduced the Rwanda Development Bank to provide credit

⁷⁵ Rwanda Development Board: Small and medium Enterprises Business Guide

and offer business development services to SMEs in addition to introduction and promotion of Information Communication Technology⁷⁶. However, the SMEs in Rwanda stands to benefited from Kenya Banks with regional presence that has units lending to SMEs and is operating in Rwanda.

4.7 A Comparison of Challenges Facing SME Sector in Kenya and Rwanda

There SME sectors face certain common challenges in both countries such as lack of skills and expertise, inadequate information and capacity to analyze market information, access to credit and poor sector coordination. Also common to both countries' sectors are challenges related to application of quality standards to their products. According to a Kenyan industrialist it is lack of a culture of applying standards to their products that reduces their competitiveness⁷⁷.

Unique challenges are easy to point out in each country for example in Kenya the MSE sector has to contend with bureaucratic and lengthy processes of transacting business with the government, cumbersome laws and regulations applied by both levels of government, inability to secure business premises or working spaces inadequate consultations in policy formulation and implementation, lack of public private sector dialogue and dialogue among the two levels of government. In Kenya the sector has experienced poor policy coordination and implementation.

⁷⁶ Malunda Dickson and Serge Musana: Rwanda Case Study on Economic Transformation. Rwanda Institute of Policy Analysis and Research (IPAR). 2012

⁷⁷ Waitathu Nicholas: Small enterprises Urged to adopt Global standards to win Customer Confidence. The Standard, Tuesday, August 19, 2014

The unique challenges in Rwandan SME sector include; perceived economic insecurity; informal nature of the sector and the fact that the sector is considered young when compared to others in the region. The sector was expected to move in tandem with the pace of the economic transformations that took place in the country that included adopting English language as an official language after joining EAC in 2007. Also unique was to Rwanda was the accelerated pace of economic transformations that did not provide adequate time for sector to make the necessary adjustments and internalize the changes. The sector is also limited by inadequacy of entrepreneurs and limited market opportunities offered by the small economy.

The World Bank doing business report 2014 summaries the business environment in both countries based on policy and process variables. The report places Rwanda ahead of Kenya but in practice, the two sectors are incomparable because the Kenyan sector is far more developed than the Rwandan one. Overall the policy, legal and regulatory framework in Rwanda is more comprehensive although it was done in a short period of time, however the Kenyan policy development process has been time tested and takes advantage of a variety of inherent support systems to bring it to where it currently stands.

4.8 Chapter Summary

This chapter has compared the business policy instruments that guides, coordinates and regulates the business environment both in Kenya and Rwanda. The chapter compared the two countries' SME policy provisions in the respective country's development blueprints Kenya Vision 2030 and Rwanda Vision 2020. The policy focuses in the two countries are different. Rwanda overall focus is on broad economic transformations

targeting the entire private sector while Kenya focuses on infrastructural development that would support the establishment of Micro and Small Enterprise.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter sought to reexamine the three specific objectives set for the study and to ascertain to which extent the task set out has been met. The chapter also sought to expose the responses to the three research questions earlier set to guide the study. Secondly the chapter stipulates clearly the conclusions drawn from the study and offers recommendations based on the findings of the study.

5.2 Summary of Findings

Based on the objective number one the study revealed that the SME sector in Rwanda is largely informal, it's young and is struggling to survive even in the highly rated best business environment in the EAC region. The study reveals that Rwanda has development a more holistic business environment but it has taken the SMEs time to internalize the environment for their own establishment and development. Secondly the study has reveals that it requires more than a good policy, legal and regulatory framework for a vibrant SME sector to develop. Thirdly it reveals that the pace of development of the business policy environment was rather too fast for the small and medium enterprises to catch up with. It found that although Rwanda has been in the process of providing policy and system support for SME to establish and develop, there are ingrained inherent economic insecurity perception that could have negatively impacted on the SMEs establishment and development in the country.

Based on the Second Objective the study established that Kenyan MSE sector is not well coordinated and lacks policy implementation mechanisms. The study however established that despite the unfavorable business environment existing in Kenya, there is a growing SME sector. The study established that other non-policy support interventions and societal attributes and endowments such as existence of a strong cooperative movement and a well-structured and proactive small investment groups are some of the crucial ingredients for a strong SME sector development. The study revealed that the Business Environment in Kenya has been on a declining trend and is likely to get worse under the current constitution that has introduced a devolved system of governance. Further the study has revealed inconsistencies with the business policy development and lack of participatory processes in the policy formulation.

Based on objective three, the study has established that there are common challenges in the two countries' SME sectors such as lack of skills and expertise, inadequate information and capacity to analyse market information, access to credit and poor sector coordination and lack of quality control in Standard of products developed by the sector. The study has single out some unique challenges for each country's sector, such as economic insecurity, low capacity of SMEs to catch up with accelerated pace of economic transformation, inadequate time for internalization and adjustments and insufficient entrepreneurship culture in Rwanda. Unique to Kenya the study has established that devolved system of Governance, poor sector coordination and bureaucratic and lengthy processes and procedures in relating with the Government. Further the study has revealed that it requires more than a good policy environment for

SMEs to thrive; Persistent support, political goodwill and systemic support are required for a vibrant SME sector.

5.3 Conclusion

World Bank ranked good business environment has not in the short run translated into a strong SME sector. A favorable business policy environment does not automatically lead to development of the SME in Rwanda, there are other historical and circumstantial factors and endowments that would encourage or discourage development of the SMEs. The development of entrepreneurship culture and internalization of business environment may require unspecified periods of time for them to be ingrained into the society. Relatively new business policies and policy support interventions' effectiveness are time tested to prove their efficacy and long term impacts. The SMEs in Rwanda are still struggling to survive in the short run despite the improved business environment in the country. In every community there are some ingrained and inherent attributes or factors that influence entrepreneurial behaviour of certain individuals which is embedded in individual's personality and that it stems from their past history or up bring in accordance with entrepreneurship theory.

The research concludes that there are other factors that can positively influence the establishment and development other than the policy environment. The Kenya case study reveal that although there is unfavourable and uncoordinated policy framework in Kenya, other societal endowments have kept the SMEs going for many years. The study has also revealed that SME establishment and development are mirrored by the state of the economy. Because Kenya economy is stronger in the region likewise its SME are better

established than those from weaker economies. The study concludes that a good business environment is created when participatory approaches become part of the policy development process. The Kenyan policy development has overlooked specific needs of the SME sector which has resulted in their work spaces getting encroached by private developers.

The research concludes that there are common and unique challenges affecting SMEs in both countries. Overall the policy, legal and regulatory framework for guiding and coordinating business in Rwanda is more comprehensive than that of Kenya. Kenyan policy development process has been slow, has been time tested and that SMEs takes advantage of a variety of inherent support systems for them to remain afloat.

5.4 Recommendations

The study recommends that a thorough diagnostic survey should always be conducted before business policy development is formulated because such a survey informs policy particularly on inherent and more difficult challenges which may be deeply rooted in society's past history since they are likely to have significant impact on community behaviour. And secondary the survey will identify sector specific needs which when addressed increased internalization and ownership of the policy.

The study recommends that for a strong and sustainable SME sector, a wider accommodation of unconventional mixture of approaches are necessary to address the SME Sector specific needs and create synergy between business policy developers and stakeholders in order to take advantage of societal preferences and endowments.

The study recommends common and unique challenges should be addressed through sectoral specific policies and strategies. Further the study recommends that the future work in SME and entrepreneurial development should examine in more detail the interplay between public governance such as country specific institutional factors and the societal role in developing entrepreneurship.

5.5 Suggested areas of further research

Even with these findings, further studies should be conducted to establish the impact of an accelerated policy development on SME performance and a further study to investigate factors responsible for SME establishment by examining in more detail the interplay between public governance and societal internalization of policy for SME performance.

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Appendix 1: SME Study Interview Guide

Date of interview

Interviewee Biodata

Name of Interviewee

Rank / designation

Job description

The organization/agency

Duration of work with the Organization/agency

Interview Questions

Does your work in any way deal with the informal sector of the economy?

How do you differentiate between Informal and formal sector?

- What are some of the challenges facing SME in your country?
- How have you been affected by the challenges mentioned above?
- How have you mitigated these challenges
- In Comparison to the business environment in Rwanda and Kenya, what are some of the lessons that we can draw?
- What type of enterprise do you categorise as SMEs?
- What is the history of the sector in your country?
- How are SMEs categorized in your country?

- What is the size of the SME subsector in your country's economy?
- How are they organized?
- What is your experience with the sector?
- What policy legal institutional and regulatory framework exists for the SME Sector
- What is your country's SME policy?
- What laws regulate the sector?
- What type of coordination does the sector have, which institutions do it?
- What challenges does the Sector face?
- What policy interventions has your government taken to improve the Sector?
- Are there Unique Challenges for the sector in this country /what are they?
- Are there any governmental or private sector support systems for the sector?
- In your opinion what is the performance of the sector in your country?
- How do you compare your country's SME sector with others in the EAC region
- What else would you want me to know about SMEs in your Country?

Appendix 2: Schedule of Interviews

Date	Type of Interviewee	Target
Organisation		
Early July 2004	Directors in MDA	MDAs
Mid July 2014	Senior Officials	SME Umbrella
Bodies		
August 2014	CEOs	Coordinating
institutions		