

FACTORS THAT DETERMINE FORMATION AND PERFORMANCE OF  
SMALL SCALE BUSINESS ENTERPRISES IN BUNGOMA TOWN.

BY

LEONARD SIMIYU MULONGO, B.A (HONS) NAIROBI.

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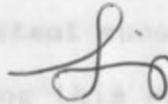
NAIROBI

JUNE, 1993.

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**DECLARATION.**

**THIS THESIS IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY.**



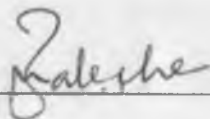
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**SIGNED**

**LEONARD SIMIYU MULONGO.**

**(CANDIDATE).**

**THIS THESIS HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS UNIVERSITY SUPERVISOR.**



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**SIGNED**

**ZACHARIAH MALECHE.**

**(SUPERVISOR).**

DEDICATION.

This Thesis is dedicated to my late father Patrick Mulongo who after having struggled to see his son go through all the stages of education, never lived to harvest what his son had planted in education. To my mother and my Brothers and Sisters for their moral support. Their constant encouragement in away inspired me in accomplishing this work.

### ACKNOWLEDGEMENT

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Special thanks to my Supervisor Mr. Zachariah Maleche who helped me in moulding this Thesis right from its initial stage to what it is now. Much thanks also go to the Small Scale Entrepreneurs in Bungoma town for the relevant information pertaining to this study. Sincere thanks go to my uncle Mr. Benard Songwa for the accommodation which provided a conducive working atmosphere for the accomplishment of this study. Last but not least to my two research assistants Jane and Makokha for their support in data collection.

Whichever support I was accorded in the fulfilment of this study, I stand responsible for anything concerning this thesis.

MULONGO.L.S.

JUNE 1993.

**ABSTRACT.**

This study is aimed at examining factors that determine Formation and Performance of Small Scale Business Enterprises in Bungoma Town. In examining these factors, both Primary and secondary data were used. Data on the background of study area and some of the literature and Government policy guideline for instance were obtained through secondary data. The existing enterprises, their characteristics and factors behind their formation, and performance were obtained from primary data through sample surveys.

From the baseline surveys done in the Town, it was established that the town had a great potential in the development of the entire spectrum of informal sector activities. This potentiality was explained by the steady increase in the towns population which meant an increased demand in some of the small scale enterprise products in the town. The location of the town along the major transportation lines and the presence of Manufacturing Industries such as Nzioa, Panpaper and Mumias were also established as some of the factors that contributed to the existence of these activities in the town.

The study also established that formation of

The study also established that formation of these enterprises in the town was a function of the entrepreneurs perception. Desire to create an independent form of earning for instance was among the factors behind formation of these enterprises. Perceived earnings among the various enterprises played also a major role in formation. Availability of operation capital, conducive working space, good marketing channels, availability of working tools were observed as some of the factors that could determine the performance of a given enterprise.

Based on the above findings, the study has suggested some policy implication that could assist policy makers in creating an anabling environment towards the development of Small Scale Business Enterprises not only in Bungoma Town but also in other upcoming Towns.

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## CHAPTER ONE

### 1.0. INTRODUCTION:

There exists a picture of appalling contrasts in the world in which we live. This picture is widely expressed in the variation of resources endowed to us by nature. "While a few people or countries are immensely prosperous, a large proportion of world population subsists below the poverty line," Onyango (1985). This problem is especially serious in most developing countries to an extent that providing the basic necessities is not a priority.

Faced with this obstacle, the major challenge most leaders or development planners are facing today is how to guide the economy towards evolving a suitable structure aimed not only at providing the basic needs such as shelter, food and clothing but also generating employment to its people.

In the Kenyan context, increasing the supply of entrepreneurs and expanding the pool of entrepreneurial talents has become a key ingredient in promoting economic development. However owing to the poor entrepreneurial base among the local people in the modern or formal sector, which is largely dominated by foreign investors, much emphasis in entrepreneurial development is being geared or focused in the small scale enterprises that are felt as an avenue in evolving the necessary structure that can generate the peoples wants.

Since independence, the Kenya government has experienced rapid and momentous transformation in every sector of its economy as highlighted in the Development plan of 1974-1978. Good examples in this development plan have been cited in small scale agricultural based industries, small scale manufacturers, service industries and the wide spectrum of the informal sector. With such changes taking place together with the rapid population growth being witnessed in the country, it is unquestionably necessary for the country to acquire a rapid rate of growth in addition to diversifying into various areas of income generating activities to meet the emerging challenges of development.

Tracing back from the first development plan of 1966-70 up to the current plan of 1989-93 together with the Sessional papers that have been advanced since independence, the government has shown keen interest in developing the small scale enterprises. It has designed procedures on how to facilitate entrepreneurship in these enterprises either by initiating several programmes like the Rural enterprise Fund or by directly engaging itself in constructing Sheds aimed at providing a working environment to the entrepreneurs engaged in the sector.

All these concern being shown by the government



or development planners however can be best understood or facilitated if the plight of the entrepreneurs is well understood otherwise the initiative would end up being meaningless. Some of the goals that have been advanced by the government in the development of entrepreneurship in the small scale enterprises in the majority of urban centres are:

- Creation of jobs at relatively low cost especially in the fast growing service sector.

- Development of a pool of skilled and semi-skilled workers who are the base for future industrial expansion.

- Offering excellent opportunities for entrepreneurial and managerial talent to improve on the critical shortage of what is a great handicap to economic development; and

- Increasing savings and investment by local Kenyans and encouraging use of local resources thus leading to more effective use of scarce capital.

- Improvement of forward and backward linkages among the social, economic and geographical sectors of the economy. For example linkages in the agricultural and the small enterprises that serve it.

In spite of the concern being shown by the government in the mobilisation of the small scale enterprises in evolving a suitable structure for both

social and economic development, there is a need for the government to find out ways in which the performance of the enterprises can be sustained at a level that can help in realising the expected benefits from them.

It is on this basis therefore that this study is conducted in order to examine those factors that determine entry and performance of entrepreneurs in the small scale enterprises with the centre of focus being Bungoma town.

## 1.2 STATEMENT OF THE PROBLEM:

The important role played by entrepreneurs in economic development has been well recognised in economics literature as highlighted in the work of Charlesworth (1974) on increasing the number of entrepreneurs among the Buniputro people in Malagasy. The entrepreneur has been described by various authors in the same work of Charlesworth as "the economic agent who initiates all means of production geared to assist the concerned government in solving some of its unemployment problems Say (1921); the individual whose function is to carry out new combination called enterprises Schumpede (1934); the individual who undertakes to initiate, maintain or organise a profit-oriented business unit for the production of distribution of economic goods and services Drucker

(1989).''

His role is recognised as critical to economic development because he performs four vital economic functions Charlesworth (1973).

- He takes the initiative in combining the resources of land, capital and labour in the production of a good and service.

- He has the chore of making basic business policy decisions that is those non-routine decision which set the course of business enterprise;

- He is an innovator. The one who attempts to introduce on a commercial basis new products, new productive techniques or even new forms of business organisations;

- He is a risk bearer. He has no guarantee that he will make a profit.

Basing on the above attributes accorded to entrepreneurs and focusing on the need for entrepreneurial skills in evolving an economy that is suitable for providing the basic needs to the local people, there is a need as such to establish how/ and or what enables or hinders an entrepreneur to start or continue or succeed once he or she has started an enterprise. The major question to ask is why the entrepreneurs act as innovators, risk bearers, role models in mobilising resources aimed at developing the economy.

This study therefore intends to examine the factors that determine entry and performance of the small scale enterprises in Bungoma Town. This is crucial because most studies which have been done on small scale enterprises since 1972, although they have been an avenue towards guiding our leaders in formulating policies suitable for the creation of more employment opportunities especially in major urban centres like Nairobi, little has been covered about the factors that determine entry and performance of these enterprises especially in most of our upcoming towns.

Owing to the fact that most entrepreneurs operate under certain conditions that are favourable to the performance of their enterprises and given the need for employment growth in our urban centres, there is a need at least to establish a conducive or suitable environment for investment in the small scale enterprises but only after identifying the felt needs required by the entrepreneurs.

Rempel (1974) argues that most participants in the entire sector of informal sector belong to the community of the poor as such they tend to be attached to the city in order to gain entrance in the formal sector of employment. Even though Rempel's views help in explaining why Kenyan men and women who through will-power, and at times super-human effort without the least assistance from the formal sector of the

country join the small scale enterprise sector, it leaves a gap to be filled especially in identifying those factors that really determine the entry of these entrepreneurs in this field. Filling this gap in one way or another can assist in creating a suitable or workable environment that can sustain the entrepreneurs in the small scale sector.

While contributing in a seminar on technological development in informal sector, Bwisa (1991) noted that the development of small scale enterprises seem to depend entirely on their capability to attract entrepreneurs to invest in them. This capability however can only be achieved if the motivating factors behind formation and performance are determined in order to encourage or lay a structure suitable for their growth.

### 1.3 STUDY OBJECTIVES:

This study attempts to undertake the following specific objectives:

1. Identify the type of small scale enterprises in Bungoma town and find out their scope of distribution

and operation characteristics.

2. Examine factors determining formation of the enterprises in the Town. Here attempts will be made to establish those factors that motivate business owners in initiating their various enterprises.

3. Examine factors determining performance of small scale business enterprises in the town. Here the focus is on establishing how the enterprises are sustained once they have been started.

4. To recommend policies aimed at stabilising formation and performance of small scale business enterprises in the town and other urban centres in the country.

#### 1.4 STUDY HYPOTHESES:

1. Entry into small scale enterprises is a function of the motivating factors which are either economic, social or political aspects.
2. Performance of the enterprises depends largely on the availability of market, Managerial skills, education or training, operation capital, conducive working environment and government or external assistance.

### 1.5. SCOPE OF THE STUDY:

The study addresses itself to small scale business enterprises in Bungoma town discussing in detail the factors behind formation and performance of the enterprises in the town. The small scale Business enterprises studied fall under the following three categories:

- manufacturing
- service sub-sectors
- trade and commerce

Under manufacturing the following items are covered, tailoring, metalwork, woodwork, black smiths and tinsmith while in service sub-sector the items covered are motor vehicle repairs and battery charging, hair cutting, shoe shining, hair braiding, bicycle repair and key cutting. In trade and commerce the following activities are covered:

- selling of secondhand clothes
- trading in food stuffs
- kiosk operation

The choice of the above items was made in relation to the limited resources and shortage of time available for the research. The above categories of small scale enterprises have also been highlighted as some of the sub-sectors with potential of growth as far as the small scale enterprises are concerned.

This thesis is organised in seven chapters. The first chapter covers the introduction to the study within which the statement of the problem, objectives, hypotheses are highlighted. Literature review, conceptual framework, Research methodology and data analysis and limitation encountered also fall under this chapter.

Chapter two focuses on the policy background to the small scale business enterprises. It highlights among other issues the development of the small scale enterprises in Kenya, and the policy guidelines that have been advanced in favour of the development of this sector. Information on the area of study together with the development of the small scale business enterprises in the town also appear in this chapter.

Chapter three on the other hand addresses itself to the first objective of the study highlighting among other things the existing characteristics of the small scale business enterprises in the town. It covers such aspects as the spatial distribution of the enterprises together with the characteristics of the entrepreneurs involved in the formation of these enterprises.

Chapter four addresses itself to the factors determining formation of the enterprises highlighting the reasons behind the initiation, factors that



contributed to formation, some of the limitations encountered in setting up the kind of business enterprises and some of the perceived handicaps that hinder entry into the enterprises. It also addresses itself to the first hypothesis of the study.

Chapter five on the other hand highlights the factors determining performance of the enterprises. It also focuses itself to the second hypothesis of the study.

The remaining two chapters addresses themselves to the policy implications and summary plus conclusion respectively. Chapter six for instance discusses the findings and recommendations of possible policy directions while chapter seven gives a summary and conclusion pertaining to the study.

#### 1.6. LITERATURE REVIEW:

Studies on small scale business enterprises have attracted quite a number of researchers both from within and outside Kenya. This is especially true in relation to the amount of work which has been done particularly after the 1972 ILO publication about employment and income generation in relation to the informal sector, in Kenya.

In all these studies which have been conducted by

various scholars, there has been no general consensus on the definition of the small scale business enterprises. Majority of studies have tended to define the sector on how well the definition suits their objectives.

For instance the enterprises have been defined as;

- a) based on the independent activities of a set of highly competitive traders who relate to one another mainly by means of an incredible volume of ad hoc acts of exchange (Geertz 1963);
- b) based on peasant enterprise (Franklin 1965), and
- c) composed of a wide range in size, scale and nature of the activities according to Hartz (1973).

According to Aleke Dondo et al (1986) most scholars view the term as being elusive, controversial and hard to understand. One singer has been quoted as saying that the Informal sector unit that comprises the small scale enterprises is like a giraffe, it is hard to define or describe, but "you know one when you see one". From this observation one may conclude that the small scale enterprises have no clear definition.

Another scholar Hernado de Soto (1989) defined these activities as a set of economic activities that are at their core fundamentally permissible and are carried out in away that is not in compliance with current government law. Thus an entrepreneur conducting

a permissible form of business according to Kiteme (1992), but does not have a licence because he/she has not fulfilled the bureaucratic forms required by the local government, is part of the small scale enterprise.

In spite of the variations that have come up in the definition of these activities, the activities in this sector as stated in the ILO Report (1972) share some or all of the following characteristics:

- they have easy entry and rely on indigenous resources;
- they are owned by the indigenous entrepreneurs;
- they have a small scale of operation;
- they use labour intensive and adopted technology;
- they use skills not always requiring formal schooling; and
- they operate on unregulated and competitive markets (ILO 1972, p.6; Mcgee 1976).

Based on this report, the term small scale enterprise was also seen to describe that portion of the urban economy that provides a whole host of goods and services on which city life depended, from the self-employed artisan to the shoe shiners, cart pullers among other activities.

Following the above definition, these activities can be interpreted to imply that they are meant for the Urban poor who can acquire them at a low cost.

This assumption, however, does not apply particularly owing to the role being played by these activities in the development of the economy. Today the mention of the word 'Mutumba' is not only limited to the urban poor but encompasses almost everyone.

What comes out clearly concerning the definitions put forward indicates that these definitions are defined along the social and economic lines. Among the issues that have been advanced socially in defining small scale enterprises, include, the level of skills required in the enterprise among other things. According to Noormohammed (1983), these activities are defined to relate to the most disadvantaged persons in the society. Although this to an extent carries some relevance as far as education is concerned this equation has changed tremendously as an increasing number of professionals are joining the sector.

Definitions of small scale enterprises based on the social aspects have also tended to reflect the entrepreneurs involved themselves. Neil Nelson (1984) looked at the entrepreneurs characteristics and came out with the conclusion that these activities are meant to create some form of living to the most disadvantaged people. She gave an example of prostitutes.

Researches that have based there definition on the economic aspects have ended up with a list of

quantifiable aspects. Such quantifiable measures include the number of employees, sales turnover, capital required both initial and operation, assets employed, market areas among other factors. Harper (1984) for instance stated that the number of employees as an indicator of small scale enterprises has become the most commonly used measure in Industrialised countries owing to its immediate attractiveness for simplicity. Ng'ethe (1991) basing his definition on economic aspects operationalized the informal sector to 'small scale activities employing nine and less people and that other characteristics of the sector are built into the activities as they emerge'.

Although Ng'ethes' definition is clear, it can create some contradictions particularly in areas where the informal sector is meant to include professionals such as doctors and dentists who operate their clinics as a formal though small in employment numbers. From the survey carried out on identifying the strategies for the development of small scale enterprises, it was established that majority of the enterprises engaged more than 10 people. This therefore implied that when using Ng'ethes' definition, it should be born in mind that some enterprises because of their nature, employed more than 9 people.

Basing on the environmental aspects such as

location, spatial distribution of enterprises among other things, the studies done reveal that the majority of the enterprises tend to locate anywhere thus they do not have a limit as to where to be located so long as there is availability of market. Among such studies that have been conducted in such way include Kaberere's (1985) where he concluded that these activities tend to locate anywhere so long as there is market. This was in relation to his study carried out in parts of Central Kenya. Whichever way the definition is taken, what is important is how well the definition facilitates formation and performance of the enterprises. From the information put forward many people have been encouraged to start or enter these activities because as per the factors highlighted they feel their problem can be solved. However all this depends on the entrepreneurs perception and that is why it is necessary to examine why and how entrepreneur enter the enterprises. The definition used in this study is based on the Sessional paper No.2 of 1992 on smallscale and Jua kali enterprises. Where these activities are seen as being labour intensive, providing goods and services at an affordable price.

#### 1.7. Formation and Performance:

Literature concerning the formation and

performance of the small scale enterprises is quite limited. Going as per Holland's writing, (1974) although there has been a substantial amount of research on this subject, still many of the determinants of success are still unknown and much of the field extension effort is still far from productive.

The literature that has been put forward concerning this matter has to a large extent emphasized the significance of these enterprises other than what contributes to the formation of these enterprises.

Rempel (1974) argues that most participants in the entire sector of informal sector belong to the community of the poor as such they tend to be attached to the city in order to gain entrance to employment in the formal sector. From this contribution starting of such enterprises is seen acts as a stepping stone to the modern sector. Even though Rempel's views help in explaining why Kenyan men and women who through will power, and at times super-human effort without the least assistance from the formal sector, join the small scale business enterprises sector, it leaves a gap to be filled especially in identifying what those who are actually not poor anticipate to get once they have started these enterprises.

While contributing in a seminar on technological

development in informal sector, Bwisa (1991) noted that, the formation or development of small scale enterprises seem to depend entirely on their capability to attract entrepreneurs to invest in them. This argument implies that the formation of these enterprises is normally attributed to the enterprises characteristics. However, whether these characteristics are manifested in the economic, social, or environmental aspects is what is still to be addressed.

Attempts on trying to find out the factors of formation and performance of Small Scale Business Enterprises however does not only concern the recent data. As argued by Kamau (1965), the need to raise money for the hut-tax was in itself one of the factors which led most Africans to starting there various enterprises during the colonial time. Although his emphasis was to a large extent focused on the trade and commerce, this same views can be utilised in examining what determines entry into the other sub-sectors of the sector such as manufacturing.

According to Harper (1984) the constant interaction existing between the already established entrepreneurs and the upcoming entrepreneurs in the small scale enterprises can also contribute to the formation of small scale business enterprises. Citing an example from one of his writings about the African



entrepreneurs during the colonial days, he argues that in spite of the small market and government apathy or active discouragement, African traders started to operate in 1930s after having worked as buying agents for Asians.

Somerset and Marris (1971) stress that the Kikuyus were particularly motivated to go into business because of their traditions of trading with the Maasai, and their proximity to wealthy settlers during the colonial period. Holland on the other hand stresses that more Africans entered small scale business enterprises during the colonial days for it was one of the very few independent economic activities which were in any way open to them.

Hearn in his Study of the problems of the African traders written in 1955, writes of "100 great influx of African traders in recent Years". This influx was not so much caused by positive encouragement but it occurred because of a significant reduction of the constraints which had so far held back such development.

The rising incomes, the decline of subsistence farming and the rapid growth of towns and cities as suggested by Harper (1974) also gives an indication as to why entrepreneurs initiate their various enterprises. In the Kenyan context for instance one of the reasons that have been advanced by policy

makers has been that the development of small scale enterprises can contribute to employment opportunities and also solve the problem of rural urban migration. Harpers contribution however does not fully explain why a man/woman who has regular employment elsewhere is always anxious to deploy his savings in the small scale business enterprises in spite of the fact that he has already had employment.

It is even interesting to compare the motives for initiating business of large scale with those of small scale enterprises. Marris and Somerset in one of their studies established that 43 per cent of the larger scale businessmen started their business because they saw an opportunity in them on the other hand only 2 percent of the small scale business enterprises mention this as the reason. Their major motives were as follows: to "make money" while others were only interested in re-enforcing their position in their home areas thus providing a centre where he/she could talk to his friends.

From the above analysis of Somerset and Marris, it comes out clearly that formation of the small scale enterprises does not only refer to the income to be generated but it is also socially motivated. This can be argued further to imply that those entrepreneurs who normally initiate these enterprises while already having some formal employment do so in order to

strengthen their social status at their various community levels.

Studies done elsewhere have different reasons that can also contribute towards a theoretical framework. Kilby (1976) while carrying out a research in Ghana came out with this discussion. A small scale enterprise in Ghana is seen not as an asset, to be cherished and passed on to one's heirs, but as a temporary activity from whose profits genuinely heritable assets such as land and buildings, can be acquired. Bauer went on to say that in West Africa "Africans" frequently do not regard small scale business enterprises as an occupation but regard it as a part of existence. This however may not apply completely to East Africa, but if business enterprise is believed to be a part of existence, it can hardly be a subject matter for conscious decision making, any more than is existence itself.

While reacting to the above sentiments, Harper (1974) noted that it is not the intention to portray small scale business enterprise as an almost unconscious activity carried out more by reflect action than by intelligent thought. He goes further to argue that it is necessary to correct the impression that small scale business enterprises in Kenya, or anywhere else, are almost restless entrepreneurs who are only prevented from enormous

success because of some missing ingredients of capital, training or other forms of assistance.

In contributing to the factors contributing to formation of small scale enterprise Kaberere (1987) commented that squatting by landless and unemployed people has resulted in the mushrooming of the informal sector businesses. He therefore stresses the consequence of the inability of most people to secure employment in the formal sector as a major reason for starting these enterprises. A study carried out by a working party on the Development of small scale enterprises in (1989) went further to add that the informal economy is the people's spontaneous and creative response to the state's incapacity to satisfy the basic needs and the most elemental aspirations of impoverished masses. Although this contribution can contribute towards a theoretical framework, it should also be noted that there are some other entrepreneurs who initiate business with different motives.

Studies concerning the performance of the small scale business enterprises have tended to highlight first the problems encountered in the operation, among others. In almost all studies the issue of an enabling environment has been highlighted very much. As part of the government's initiative to encourage the development of these enterprises, several financial institutions for instance Kenya Industrial

Estates have been established with a hope of providing processing loans and sheds for a better working atmosphere. Kaberere (1987) for instance stressed that a conducive working environment thus emphasising the relevant infrastructure at the working place as some of the ingredients. This may be true but it also depended on the various types of enterprises involved.

Harper (1974) on the other hand stressed the qualities of the entrepreneur operating the business. Capability and honesty of the entrepreneur in the given enterprise is seen as a crucial factor.

The amount of investment in an enterprise came out also in Marris work as part of the factors determining performance.

Garlicky (1959; p113) while contributing to business development in Kumasi discovered that while lack of capital both initial and working has been attributed to the failure of most enterprises in various studies, his research established that business expansion was more effectively limited by the time of the owner and his family to the business than by shortage of capital since non-family participants could not be trusted. In Garlick's contribution unlike what was stressed by Kaberere, sustainability of an enterprise was more of a social factor than finance and his views agreed with Somerset's findings that majority of entrepreneurs end up employing non

relatives.

From the outlook of the various studies that have been discussed concerning the formation and performance of the small scale business enterprise, a conceptual framework can be generated showing some of the factors perceived for the study.

#### 1.8. Conceptual Framework:

The formation and performance of the small scale business enterprise can be conceptualized to be influenced by a number of factors. As observed from the literature review, these factors tend to reflect the social, economic and the physical aspects. Among the social factors have the demographic aspects highlighting among others the marital status, number of dependants, and family size. The entrepreneurs social background for instance level of education, kind of training are also part of the factors.

On the side of economic factors that can explain the formation of the small scale enterprises include sources of income, affordability and the enterprises characteristics.

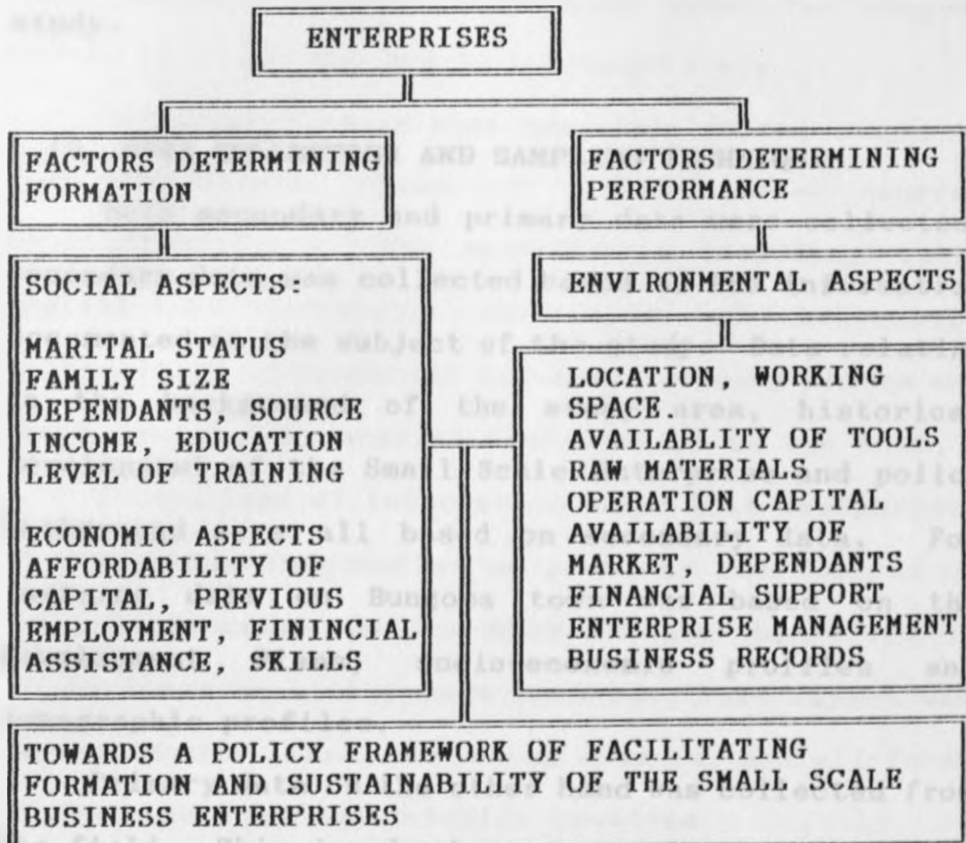
Performance of the enterprise once started can be conceptualised to revolve around such factors as the skills received either formally or informally, starting capital, operation capital, marketing aspects, accessibility to infrastructural facilities,

availability of raw materials, tools for working, place of work and business management.

In summary both factors determining formation and performance of the enterprises revolve around the entrepreneur's social and economic characteristics on the one hand, and the enterprises themselves and the externally induced factors on the other hand.

For any policy framework concerning the formation and performance of the small scale business enterprise, the above issues are essential.

#### CONCEPTUAL MODEL.



SOURCE: OWN PERCEPTION.

### **1.9. RESEARCH METHODOLOGY:**

Owing to the wide spread of the activities in the town, the study began with a baseline survey of these activities with a hope of identifying their existence, their spatial distribution in the town. This was done in order to determine their spatial distribution and factors behind their formation performance of enterprises.

The baseline survey identified three categories of sub-sectors that formed the scope of the study. The activities identified were grouped in their respective categories as indicated in the scope of the study.

### **1.10. DATA COLLECTION AND SAMPLING TECHNIQUES:**

Both secondary and primary data were collected. Secondary data was collected based on the information documented on the subject of the study. Data relating to the background of the study area, historical development of the Small Scale Enterprise and policy background were all based on secondary data. For instance data on Bungoma town was based on the Development Plans, socio-economic profiles and demographic profiles.

Primary data on the other hand was collected from the field. This involved a survey of the Small Scale



Business Enterprises in the town, their spatial distribution with an aim of establishing the population from which a suitable sample of enterprises to be surveyed were determined. The survey also included visits to respective departments this included the District Commissioners Office, Physical Planning Department, Town Council Office, the Bungoma Jua Kali Association Office, the Trade office and the Kenya Industrial Estates offices.

Before proceeding to the field, for data collection, the questionnaire was tested. This was done especially on the manufacturing sub-sector and the trade and commerce sub-sector along the Bungoma Mumias road and the Bus Park respectively.

The questionnaire that was administered sought to find out three types of information:- general characteristics of the enterprises including their spatial distribution, the type of ownership, availability of essential services, working places and their location or spatial distribution in the town.

Second type of information under this categories, also gathered information on problems encountered by the entrepreneurs and how they sustain themselves in the business once they have entered. This aspect was concerned with loans, marketing aspects, and all forms of assistance he/she normally receives.

The number of enterprises or entrepreneurs that

were covered depended wholly on the distribution of the activities in the town. In the concentrated areas for instance along the Bungoma Mumias road and the areas surrounding the bus park towards the municipal market, a large population of the sample was collected.

However in data collection, the town was divided into various Zones. The Zones covered were; Mashambani covering areas from the airstrip towards the Kenya Industrial Estates region, the other Zones covered were; Meteremuko and areas covering Bungoma Mumias road. To the North of the town had two zones Mupeli and Mandizini. After determining the number of enterprises to be covered in each zone sketch of the town was made upon which some rough mapping was done. This was for the purpose of determining the spatial distribution of the enterprises. After this stratification of activities into various sections, random sampling was used to select entrepreneurs to be interviewed.

#### 1.11. DATA ANALYSIS:

In data analysis, several statistical techniques have been used. These include, averages, or means, percentages, cross tabulations, regression and correlation analysis. Cartographic techniques have also been used in data presentation. This include bar

graphs, line graphs, and tables to drive the point home.

#### 1.12. LIMITATIONS TO THE STUDY:

This study encountered a number of problems. They were:

- the study coincided with the circumcision period in the area. As such majority of the enterprises were either closed throughout the whole day in order to attend the ceremonies or to prepare the candidates for the ceremony. This problem was especially observed in those enterprises where the owners had candidates preparing for the ceremony. To solve this problem, I was forced to make constant follow ups to those enterprises that were closed. Since the actual circumcision usually took place very early in the morning, I had to adjust my study time to begin at around 11 a.m so as to allow the owners at least to open them.

The second problem encountered was that brought about by the numerous clashes that were being observed in some parts of the district especially in the Mt.Elgon region. This made it impossible to determine the genuine entrepreneurs in the town for majority had just entered briefly waiting for the clashes to stop. In such circumstances I had to apply the technique of establishing how long they had taken in the

enterprises. From this I came up with a limit of at least six months. Implying that the majority of the enterprises surveyed had at least been in operation for the last six months.

Despite the above problems the study went on smoothly.

## CHAPTER TWO

**2.1.0. BACKGROUND TO THE STUDY AREA:**

This chapter addresses itself to two important aspects. These are, the government's policy on small scale business enterprise development and the socio-economic background of the study area.

**2.1.1. Government Policy on Small Scale Enterprise Development:**

The development of small scale enterprises have to a large extent attracted the attention of many policy makers in most developing countries. Faced with the problem of providing employment to its people, many countries have come up with various policies designed towards increasing entrepreneurship in the small scale enterprises. To encourage growth and development of the small scale enterprises, the Tanzania government for instance, has set up the Small Industry Development Organisation (SIDO) and a National Awards Scheme to recognize excellence in the informal sector operation. It has given preference to informal sector products and provided physical infrastructure support. Legitimacy of the sector operation has been acknowledged by the passing of the Human Resource Act.

The Government of Kenya on the other hand, like

other developing countries faced with the problem of rural urban migration and problems of high levels of unemployment, has continuously laid more emphasis on the development of the small scale sector. The importance of the small scale business enterprises as a primary means of strengthening Kenya's economy for instance has been highlighted in each and almost every government development plans and sessional papers right from the time of independence and as far as during the pre-colonial time. In each of these development plans, the government has to a large extent, outlined some of its strategies aimed at creating a conducive environment for the development of this sector.

As outlined earlier, policy on small scale business enterprise dates back to the colonial epoch. During this time, the colonial government was sufficiently concerned about "the entry of Africans into trade and commerce" giving the subject seven lines in its economic survey of 1951, although there was no implication that anything should be done to facilitate such entry. The financial body now known as the Industrial and Commercial Development Corporation (ICDC) was started in 1955, but at that time the word commercial was not included in its title and its lending activities to retail traders were minimal. Even though the policies formulated during the

colonial time had to a large extent a bias towards the Asian community, in a way this laid down some basis for the current policy guidelines to the development of small scale business enterprises.

Since independence, 1963 government policy has tended to focus on "Kenyanization of economic activity". However, it should be noted that in spite of the funds spent to implement these policies, programmes and institutions to promote the small scale enterprise sector, the measurable results have not been satisfactory.

The government policy guidelines on the development of small scale business enterprises comes after the ILO report on employment in 1972. Policy survey revealed that the initial response by the government was rather accommodating. As contained in the sessional paper Number 10 of 1973 on employment, the government made a commitment to the development of the small scale business enterprises, popularly known as, informal sector. The paper also laid the basis of the governments commitment to the expansion of the informal sector, a fact that is mentioned in all subsequent development plans.

In the 1974-78 development plan, the government subsequently laid emphasis on the promotion of small scale enterprises through strengthening of industrial

estates, rural industrial development centres, and promotion of indigenous African entrepreneurs.

In the 1979-83 development plan, the government stressed very much the aspect of Kenyanization in all aspects of development especially in such sectors as manufacturing, commercial and in agriculture. In this plan the government noted a range of problems facing the small scale manufacturing enterprises. These are:- Lack of capital to initiate and operate the enterprises, lack of knowledge in enterprises control, accounting, marketing, enterprises marketing, management and quality control.

Having identified the above handicaps, the government set up some measures that could be implemented during the planning period to assist the entrepreneurs. These were:

- Setting a fund of Kshs.50 million to assist the informal sector to take advantage of the facilities available with the Kenya Industrial Estates network and other Industrial extension.

- Establishment of a programming and evaluation section for rural and urban small scale enterprises within the ministry of commerce and industry with an aim of assisting District Development Committees (DDCs) in the preparation of co-ordinated programmes for Small Scale and informal sector manufacturing units.



- Decentralising of a number of items from the central tender board to the district to the tender boards.

On the side of commercial small scale business enterprises, the plan highlighted lack of marketing outlets for the smallholders, other than the nearest open-air market. It also emphasized the issue of most produce being carried out in the old open-air markets that do not provide cover from rain and other adverse weather conditions.

Other problems identified in the plan affecting the commercial small scale activities were as follows:-

- Restriction of entry of new traders into the commerce field through licensing which have led up to high mark-ups and profits established by traders.

- Limited availability of commercial premises in urban areas which has kept down the number of entrants in the distribution of activities.

As a response to the above problems, the government stressed the need to intensify efforts that could help in raising the production of processed items, improve the distribution of these products, encourage more traders to enter these activities.

Among those measures cited include, reduction of licensing requirements, increase of the institutional

credit facilities and extension services and management training opportunities. Other programmes cited that could help in promoting these activities during the planning period were renovation of the existing enclosed markets and establishment of new open air markets in various parts of the country. This programme was seen as one way of facilitating entry in to the enterprises.

Throughout the 1979-83 development plan, it comes out clearly that in an effort to strengthen its policy of Kenyanization, the Government was quite committed to see it work efficiently especially in the informal sector. It had already realised the benefits that could be achieved in the small scale enterprises and what now remained was to initiate programmes that could help in solving some of the problems highlighted above that hindered the growth of these enterprises both in the urban and rural centres.

In the 1984-88 plan, further detailed measures were made aimed at promoting the small scale business enterprises. The elaboration of new strategy for rural development is one of the significant steps contained in the plan.

Apart from expressing its concern in the above development plans, the government's concern over these enterprises have been clearly elaborated in quite a number of its sessional papers. This include, the

sessional paper no.10 of 1973 on employment, the sessional paper no.2 of 1985 on employment, sessional paper no.1 of 1986 on renewed growth for economic management and the sessional paper no.2 of 1992 on small scale enterprises and the Jua Kali sector. In almost all these papers, the government has begun by highlighting the contributions these enterprises have created in the economic development and it has all along outlined some of the programmes that have been outlined to assist the local people engaged in the sector.

The sessional paper no.10 of 1973 on employment for instance has outlined some of the suggestions made by the ILO working party of 1972 which was commissioned by the Government to look into ways that could help alleviate the problem of increased unemployment. This sessional paper therefore is seen as one of the earliest papers to highlight the role of Informal sector in relation to employment generation. It marked a start to the intensive analysis of the sector in the subsequent papers and development plan. It was in this paper for instance, that the programmes outlined in the development plan of 1970-74 came to be suggested.

The sessional paper no.2 of 1985 on the other hand was a government response to the report of the presidential committee on unemployment of 1982/83. The

committee was appointed to examine the problem of unemployment and to recommend both the short and long term strategies for its alleviation.

In one of its findings, the paper states that although the government is, and will continue to be the single biggest wage employer, in the economy, its greatest leverage over employment creation can be through measures to stimulate and guide the private sector. The paper further recognized the fact that it is firms of all sizes, individual entrepreneurs that must bear the brunt of economic expansion and employment creation.

On employment in the small scale enterprises, the report reiterated and amplified policies which were proposed by the ILO team in 1972 and accepted by the government through sessional paper no.10 of 1973 on employment. To justify the need of assisting these small scale enterprises, the team highlighted some of the labour force and employment opportunities which had been realized during the 1984-88 planning period as shown in the table.

Table 1. Labourforce force and employment during  
1984-88 plan.

YEAR	NUMBER
1981	151,000
1984	190,000
1988	227,000

Annual percentage increase was recorded at 2.2 %.

SOURCE: Sessional paper No.2 of 1985.

The government on its part as indicated in the sessional paper No.2 of 1985, as a response to the report, highlighted some of the measures that would encourage the sector to expand and create new employment opportunities. Its greatest contribution was to remove any barriers to the sector and this was to be done through the provision of credit, technical and marketing assistance, and other aids to the entrepreneurs.

From the above two sectors, the government had shown tremendous determination and this led to the implementation of the Sessional paper No. 1 of 1986 on Renewed Growth for Economic Management. In this paper like in the other two papers already discussed, the government has given its official recognition to the informal sector and the role it plays in the economy. It also identifies major areas of weaknesses in some

of the past policies in the development of the sector. The paper also notes some of the positive attributes of the activities namely:- they are labour intensive, based on local demand, and also based on locally available materials among others.

The paper concludes that although the informal sector suffers from a negative public image, it possesses many positive characteristics and has a vital role to play in contributing to Renewed Growth of the country's economy. From the above policy guidelines, the government has all along been committed to promoting the sector.

However in spite of these contributions several weaknesses have been identified thus rendering majority of the policies weak. For instance most of the government parastals which have been initiated to facilitate the development of these activities have not been able to reach most entrepreneurs at the local level. Still most of them are being concentrated at their headquarters. For them to operate efficiently thus be able to assist the target group they are meant for, they should be decentralised to the local level. This especially applies to Kenya Industrial Estates.

Another weakness has been identified in some of the financial lending institutions. Even though they are meant to serve all the entrepreneurs involved in the enterprises, the conditions that have accompanied

them have a handicap to the borrowers. For instance the majority of the entrepreneurs do not have any security for example a title deed that can help them in securing a loan. Under such conditions, most entrepreneurs have been disqualified. They have been unable to secure a loan for they cannot meet the required conditions. This problem is especially acute among the female entrepreneurs who by virtue of certain cultures, they are not able to own property. For the government to solve this problem it may require either to review its ownership laws or adjust some of the conditions required in loan securement.

With the formulation of the sessional paper No. 2 of 1992 on Small Scale and Jua Kali Enterprises development, it is hoped that some of the weaknesses highlighted in the earliest policies would be solved. This paper is based on the work of a special task force established in march 1987 by the government to review all policies to promote the sector. It therefore provides a policy framework for promoting the small scale and Jua kali enterprises.

Among the issues that were covered in the formulation of this sessional paper No. 2 of 1992 include the role of the sector in the Kenyan economy in relation to the overall policy and strategy, policy measures to improve the existing policy and regulatory

environment, gender specific issues, policy measures to improve access to credit facilities and measures to improve provision of non-financial promotion programme based on proper coordination among implementing institutions and cost-effectiveness of the programmes.

Some of the measures that have been highlighted in this sessional paper No.2 of 1992 that can contribute to the strengthening of the early policies include:-

- comprehensive review of all pertinent acts and indepth analysis of the extent to which such acts have adverse impact on the small scale enterprises either directly or indirectly;

- review of licensing arrangements and building codes for small scale enterprises with a view to relaxing any of them that hinder the enterprises.

- restructuring those clauses of the employment Act which restrict access to employment of women in certain industries and other areas due to medical and environmental reasons.

Of important significance as highlighted in the paper is the aspects concerning the gender issues. The paper observes that while in many respects the problems, challenges and opportunities are similar for both male and female operating in the small scale enterprises, women nevertheless face a number of



special constraints which call for urgent remedial action. Some of the problems identified emanate from the laws governing equality between men and women. The paper notes that in reality women are disadvantaged and cites the employment act which restricts most women entrepreneurs from operating their businesses from their homes or being hawkers. It further highlights the inheritance law where it states that even though the inheritance laws were revised with the succession Act of 1981, women have rarely inherited land and other property in their own right this therefore has limited their chances of securing loans for their enterprises.

Following the above issues some of the programmes that have suggested to assist in solving the problems emanating from the gender issues are:

- initiating surveys on women activities through awareness of levels of women's involved in small scale enterprises, their survival rates, and constraints faced by them that appropriate programmes for their support.

- Introduction of appropriate technology aimed at diversifying women entrepreneurial activities by orienting the away from the periodical sewing, embroidery and handicrafts to the production of more marketable and more remunerative items.

- Organization of women into groups, selfhelp

which can provide a viable structure through which women can support each other and benefit from development initiatives.

### 2.1.2. Summary on government policy.

From the various policy frameworks that have been highlighted in the various government development plans and the sessional papers as discussed above, the government has shown a tremendous concern on how well to accommodate the Small Scale Business Enterprises in its economy. This commitment has been depicted in the various programmes that have been advanced in the policy papers. For instance several financial institutions have been initiated with some of them specifically designed for lending to the small business enterprises as a way of assisting them to grow. Among the notable ones include Kenya Industrial Estates (KIE), the Joint loan Board Scheme (JLBS) and Small Enterprise Finance Company (SEFCO).

With the above programmes what now remains is a little integration between these lending programmes. There is also an urgent revision of some of its policies in order to facilitate entry and performance of the enterprises. The major aspects that need to be addressed include implementation of the law pertaining to Small Scale Enterprises. In most cases these

enterprises have survived throughout with no legal basis governing their existence unlike in the case for the activities of the formal sector. The consequence of all these has been the constant harassment given by the local Authorities to the small scale enterprises.

However with the introduction of the sessional paper no.2 of 1992 which addresses almost all the issues concerning the enterprises an enabling environment will be created thus facilitating entry and performance of the enterprises in both our rural and urban centres.

#### 2.2.1. THE STUDY AREA:

#### 2.2.2. LOCATION AND SIZE.

Geographically the town is located on the slopes of Mt.Elgon in Bungoma District, Kanduyi Division in Western Province. It lies a long latitude  $0^{\circ} 35'$  North and longitude  $34^{\circ} 31'$  East of the equator and Prime Meridian respectively. See maps 1 and 2.

In terms of land coverage, the town covers  $31 \text{ km}^2$  out of the  $825 \text{ km}^2$  that make up the total area of Kanduyi division. Out of the  $31 \text{ km}^2$ , the area under trust land measures only  $1.8 \text{ km}^2$  which makes up much of the comprehensively Urban developed land, thereby providing a leasehold/freehold ratio of about 1:16 (5.8 %) of the total land being leasehold in the Municipality area.

In relation to its neighbouring towns, the town is situated about 105 Km from Eldoret to the East, 40 Km from Kakamega to the South-East and 40 Km from the Kenya-Uganda border town of Malaba to the West. It is strategically connected to the above major towns by a number of tarmac roads ranging from Class A to C. The most notable class A road is the Great North Highway running from Mombasa Via Nairobi through Eldoret to Uganda. This Highway has made communication between the town and its neighbouring Urban areas possible in all aspects of development.

Another major road which has linked the town with other urban centres is the Mumias road. This is a class B road which runs from the Great North Highway at Kanduyi linking the town via Mumias with other urban centres in the province for instance Kakamega and Kisumu in Nyanza province.

The town also enjoys the services of the Chwele-Kimilili-Kitale tarmac road. This is a class C road which links the town with other urban centres in the district such as Kimilili, Chwele and Malakisi. Apart from the numerous road networks, the town is also well connected with other urban areas by the Nairobi-Uganda railwayline. This railway line has to a large extent attracted a lot of commercial activities making the town to interact significantly with its neighbouring centres.

### 2.2.3. PHYSICAL CHARACTERISTICS:

The location of the town on the slopes of Mt. Elgon has contributed a lot to the town's physical aspects. The topography in which the town is situated ranges from the heights of Mt. Elgon to the lower areas of Nzioa River. In the central part of the town, the terrain is characterized by a series of streams dissecting the otherwise rolling plains. Rivers Khalaba and Sio mark the Eastern and Western boundaries of the town respectively. The land within the town therefore slopes gently to the East and West as a result of the influence of the two river Valleys leaving the town on a fairly undulating and wide ridge. The highest point in the town stands at an altitude of about 1300 M above sea level<sup>9</sup>.

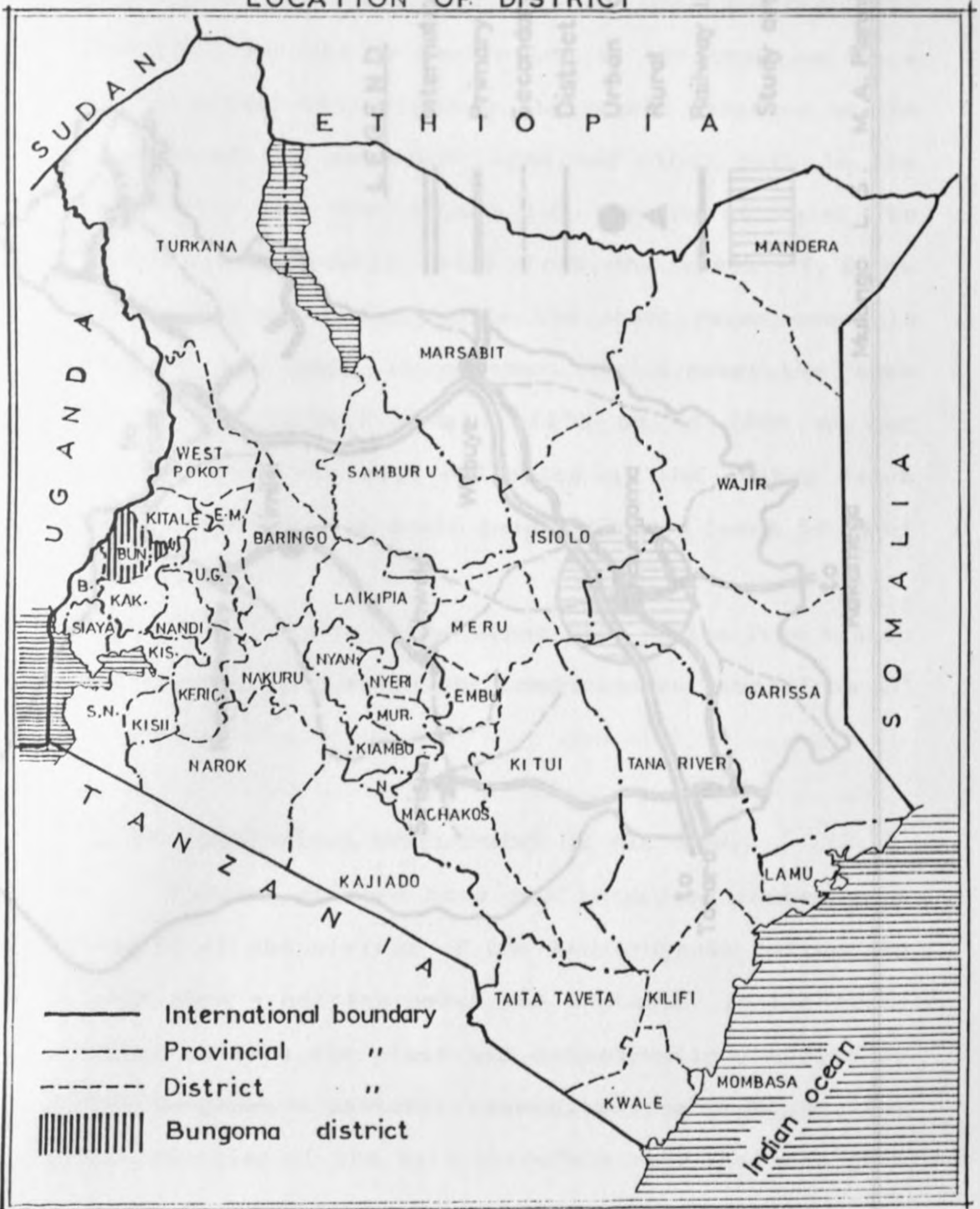
Geologically, the area is made up of volcanic outpouring, an aspect which is attributed to the formation of Mt. Elgon. It is also underlain by granites from the basement system. Today, this basement system is manifested in form of numerous granitic outcrops surrounding the outer fringes of the area some of which rise to fairly high hills (District Development plan, 1984-88). Some of these outcrops are:- Sang'alo and Mwibale inselbergs to the East, Chebukwa hills to the North and Wabukhe hills to the South all of which provide a panoramic view of the town from the tops, Masinde (1991).

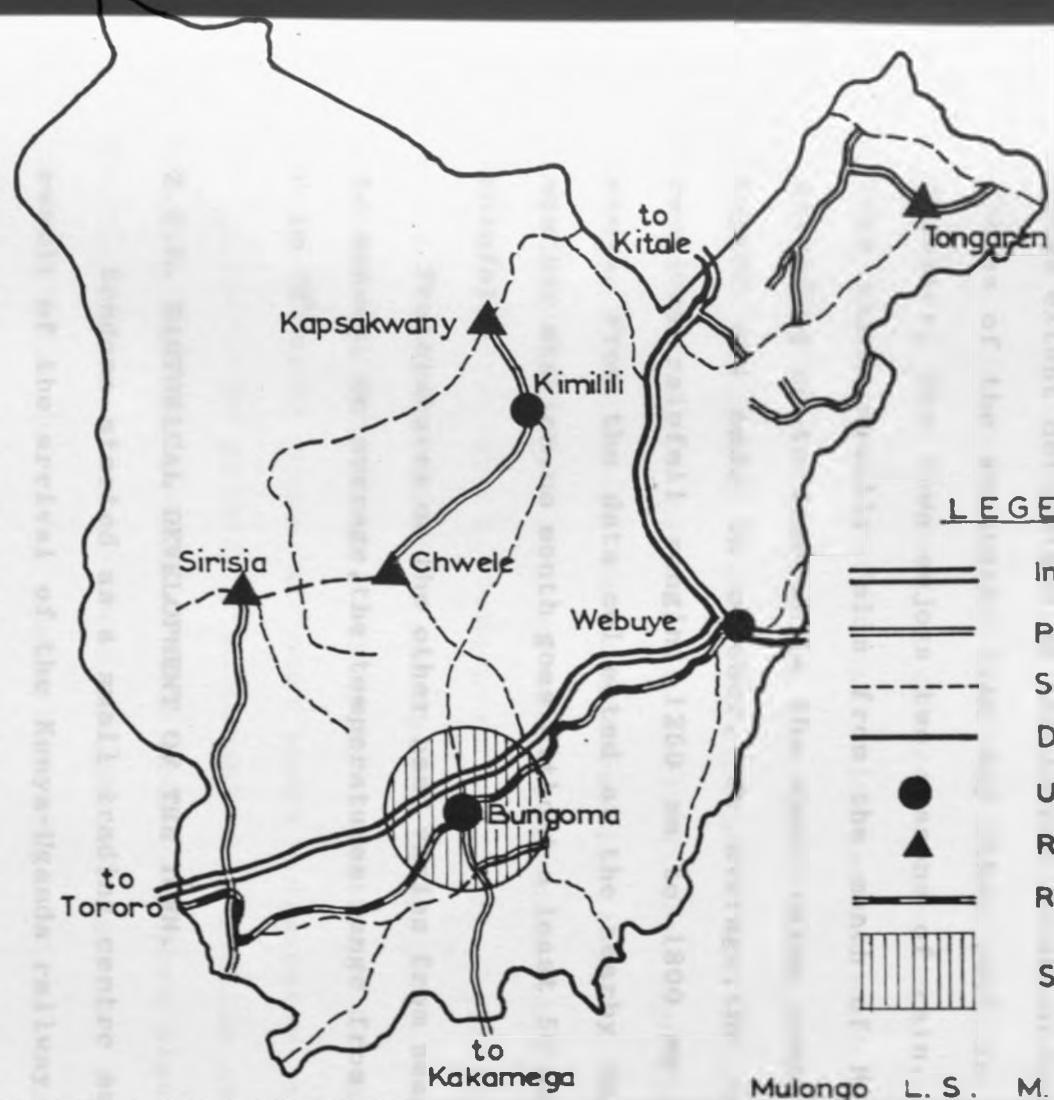
The soils within the town are those developed on the volcanic foot-ridges. Within the town centre, are heavy but well drained shallow brown to dark brown soils, over petrophinite (about 30 % Murrumbidgee soils).

In summary, we may say that the topography of the area is influenced, to a large extent, by the formation of the Mt. Elgon. This type of topography experienced in the town, does not offer any significant limitations to urban development, although the two rivers have restricted the town's development to a linear form.











# LOCATION OF DISTRICT





**LEGEND**

-  International trunk road
-  Primary roads
-  Secondary roads
-  District boundary
-  Urban centre
-  Rural "
-  Railway line
-  Study area



#### 2.2.4. CLIMATIC CHARACTERISTICS:

#### 2.2.5. Rainfall and Temperature.

Like the characteristics of the topography, the climatic aspects as manifested in the town are to a large extent determined by the town's location on the slopes of the mountain. Like any other part in the district, the town enjoys two seasons of rain. The long rains usually falls from the month of March extending up to June while the short rains comes in August and ends in october. On average, the town receives rainfall ranging 1250 mm to 1800 mm per annum. From the data collected at the nearby Nzioa weather station, no month goes without a least 50 mm of rainfall.

Temperatures on the other hand varies from season to season. On average, the temperatures range from 21<sup>o</sup> c to 22<sup>o</sup> c.

#### 2.2.6. HISTORICAL DEVELOPMENT OF THE TOWN.

Bungoma started as a small trading centre as a result of the arrival of the Kenya-Uganda railway in 1925 when a halting point was installed in the town. Prior to this, the place was extensively occupied by the Bongomek a pastoral community from Mt. Elgon. The introduction of the halt, therefore made the area grow up as a camping place for railway construction gangs made up mainly of Indian Coolies.

In 1927, the Asian Dukawallas set up shops and this marked the beginning of the commercial activities at the centre. All these however were emanating out of the presence of the Railway line. By 1929, it was declared a local centre with access to the famous home of Mumia Nabongo popularly known as Elureko (Mumias), another thriving commercial centre to the South.

The communication network which emerged with the coming of the railway and the subsequent productivity of the surrounding areas contributed a lot in the development of the town in its early stages. They for instance facilitated early interaction between the town with its other Village centres such as Kimilili further to the North, Webuye to the East along the railway line and Malakisi and Myanga to the West. The period between 1930 and 1950 is remembered in the growth of the town as one which culminated to intensive trade primarily in Livestock, Clothing and Food between the people of this area ( by then Elgon Nyanza District) and their neighbours across the border. This therefore opened the interaction with other major centres by then.

The increased commercial activities witnessed in the town therefore made the colonial administrators mainly those associated to the construction of the Railway line to declare it as a market centre in 1933. The advent of Dini ya Musambwa as witnessed in some

parts of the District especially in Malakisi, prompted the area to be promoted to an administrative centre that could help in checking the supposedly activities of the Dini ya Musambwa sect. This began with the setting up of the first police post in the area in 1940. Prior to this promotion, all the administrative activities concerning Elgon Nyanza District were being conducted at Kakamega with Kabuchai located 15 Km north of Bungoma serving as a divisional headquarters. Today Kabuchai has achieved the status of a rural centre.

The year 1956 is very crucial especially to the development of the town as an administrative centre. This is the year when the town received its administrative status with the shifting of the divisional centre from Kabuchai to the town. It was also the same year when the seat of the African District council, the forerunner of the present county council was introduced in the town. At the time of independence 1963, an urban council was created for the Bungoma area remaining so until 1973 when it was upgraded to a town council after a decade of extensive growth and expansion. In 1980, the town was upgraded to a Municipal council status much thanks to the minister of local government who conducted the promotion.

Today, the town stands strongly as a marketing centre for agricultural produce and as a major

distributor of agricultural inputs. This is highly evidenced by the presence of the major agricultural institutions such as the Kenya Grain Growers Union and the National Cereals and Produce Board.

As a district headquarters, the town has nearly all the facilities that an average town can be expected to have. For instance it houses all the government offices, has an adequate supply of infrastructural facilities such as police station, health facilities, educational facilities ranging from primary to secondary schools. The town has also grown tremendously in banking with the major noticeable banks being Barclays, Kenya Commercial Bank and Standard Bank. As per 1993 estimates, the town will be able to provide wage employments to about 10,699 people at the end of the planning period.

#### 2.2.7. DEMOGRAPHIC PROFILE:

The town has experienced a steady population growth since independence. This growth has been attributed to a large extent on the Migrations from the rural urban centres within the district and outside the district. It has also been attributed to the natural growth in the town itself. At the end of 1962 National Population Census, the town had a resident population of 1,589 people against a district total population of 241,900 people.

According to the 1969 population census, the town had a population of 4,401 people which showed an absolute growth of 2812 people over intercensal period of seven years at a rate of 14.5 percent.

The following population census carried out in 1979 also showed quite a tremendous increase with the towns resident population totaling up to 25,101 people thus representing an intercensal growth rate of 17.4 percent per annum. This tremendous growth recorded in 1979 population census was however to some extent explained by the extension of the boundaries as a result of the upgrading of the town to a town council status thus bringing in a lot of the rural population.

As per the 1979 census, there was a total of 5262 households in the entire municipality implying that the mean size of each household was about 5 people. The average population density by then was estimated at 442 persons per  $\text{KM}^2$ .

From the population projections carried out for the town by human settlements in Kenya, the actual population of the town, by 1979, was 11,800 people representing an annual increase of 10.3 % and in 1987 the projected population stood at 18,800. As per the 1989-93 district development plan, the population of the town is estimated at 51,690 people with the number of households estimated at 10,338. From these

demographic analysis, the town's population is set to increase as such calling for the increment of the basic necessities such as shelter, health facilities, water, educational facilities and employment opportunities.

#### 2.2.8. SOCIO-ECONOMIC PROFILE:

The economic base of the town has largely been determined by the agricultural productivity of the entire district either directly or indirectly. As an administrative centre and a marketing centre on the one hand and as communication centre, the town has been able to attract earnings and produce made in other areas thereby developing a relatively strong commercial base. Its spatial interaction with its surrounding towns like Mumias and Webuye which are industrial in nature has benefited the town very much. Besides Nzoia sugar factory in spite of the managerial problems it is facing currently has also had a lot of positive impact on the development of the town economically.

#### 2.2.9. COMMERCIAL AND INDUSTRY:

The commercial base in the town is stronger than the industrial base according to a survey conducted by the Norad with the Government of Kenya in 1987. The few manufacturing activities that take place in the

town are manifested mostly in the woodwork, metal fabrication, motor repair, garment making and the entire spectrum of the informal sector associated activities.

The only manufacturing plant in the town is Kitinda dairy factory whose contributions in terms of economic development is crucial. The primary commercial activities are limited to whole sale and retail trades, agricultural produce storage and distribution, transport and hotel and accommodation.

Out of these activities the informal sector has shown tremendous development in the economy of the town. Quite a substantial number is now able to seek employment in these activities. According to the register of licensed small scale business enterprises in the town today occupy 60% with the remaining 40% being shared amongst the wholesale and the retail activities.

#### 2.2.10. Origin of small scale enterprises in the town.

The origin of the small scale enterprises in the town dates back to the introduction of the Agro-based industries in the town. Some of these enterprises were Nzoia sugar company, Mumias sugar company and pan-paper industry in Webuye. These Industries attracted many people from the neighbouring areas thus

contributing to the increased demand of some of the commercial and service activities.

The construction of the Nairobi to Uganda railway line as noted earlier was also another aspect that led to the emergency of these enterprises in the town.

It should be noted however that during these early periods, majority of these activities mainly involved the trade and commerce activities. Most of the manufacturing activities were still being done at the household level specifically for traditional purposes. They were also done by a specific community. Today however, these activities provide the necessary goods and services not only to the town residents but also to people in the neighbouring.



## CHAPTER THREE:

**3.0. EXISTING CHARACTERISTICS OF SMALL SCALE BUSINESS ENTERPRISES IN BUNGOMA TOWN:**

This chapter seeks to identify the existing characteristics of the small scale business enterprises in the town. It highlights among other issues the spatial distribution of the enterprises, their general characteristics and the characteristics of the entrepreneurs engaged in them.

**3.1. SURVEY OF SMALL SCALE BUSINESS ENTERPRISES IN THE TOWN:**

From the baseline survey carried out in the town, a number of small scale business activities were identified. From these enterprises, three sub-sectors were observed. These were, Manufacturing sub-sector, service sub-sector and Trade and Commerce sub-sectors.

In each of the three categories of the sub-sectors, certain enterprises were observed. In the manufacturing sub-sector, the activities observed were as follows:- Metal fabrication, Leather works, Woodwork, Tailoring, or Dress making and pottery. Out of the total activities surveyed, these enterprises totalled up to 50 percent. Within the service sub-sector, the following activities were observed. They ranged from motor vehicle repair, Key cutting, battery

charging, bicycle repair, sign writing and hair cutting and braiding. In total these activities totalled up to 30 % of all the enterprises surveyed. Activities identified in the trade and commerce sub-sectors included Food stuff Kiosk, dealing in a range of food stuff which included selling of vegetables, maize, beans and all sorts of food stuff. Selling of second hand clothes in the open air market was also part of the activities identified in this sub-sectors. In total, these activities added up to 20% of all the enterprises surveyed.

From the above survey all these enterprises had a great potential of growth in the town. On overall however, the manufacturing sector had an upper hand compared to the other two sub-sectors surveyed. This dominance was attributed to a number of factors. The availability of transport network connecting the town to other major towns like Eldoret, Mumias and Malaba to the border with Uganda was one of the factors. This availability meant quicker transportation of both the finished products and the raw materials from the above mentioned towns. On the other hand, the tremendous increase was attributed to the high level of construction activities in the town. In general however, the existence of the activities identified in the three sub-sectors was to an extent explained by the steady increase in the town's population. As was

observed in chapter two of this study, the town had recorded a tremendous population since independence. This population provided some of the market required for some of the products and also contributed to the increased demand in the housing sector thus increase in demand of the products of these activities.

### 3.2. Location of the enterprises:

As shown in the sketch diagram below, most of these activities were located along the transportation lines and at various points of concentration. From the survey, these activities stretched from the National Cereals and Produce Board along the Mumias road with a high concentration found at the junction entering the bus park. Among the activities identified along this road, majority of them were composed mainly of the manufacturing and service sub-sectors. On the other hand, most of the trade and commerce sub-sectors were concentrated at the bus park and at the Municipal market.

The location of these activities from their respective areas however was determined by a number of factors. These factors also varied from one enterprise to the other. Among the reasons established were as follows:-

- it was close to residential place
- strategic point for marketing the goods
- close to the raw materials

- was the only available place
- was close to the basic infrastructural facilities such as water, electricity among others.

In almost all the enterprises surveyed however most of the above factors worked hand in hand. For instance it was established that although one of the reasons for locating most of the manufacturing activities along the Mumias road was as a result of the availability of electricity that could be used in running most of the tools, it came out clearly that location along the road could also facilitate the transportation of raw materials and marketing of the finished products.

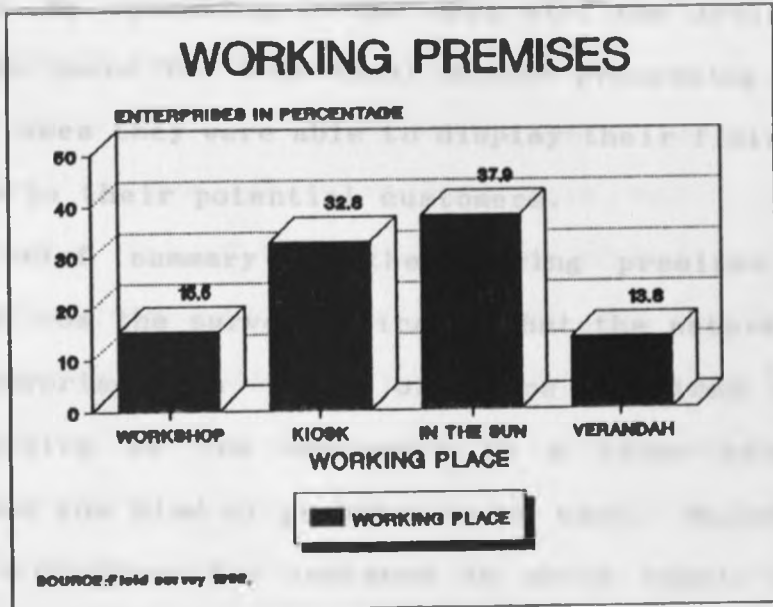
Another case study was made from those activities that operated near their residential areas. Most of these activities were those engaged in commercial sub-sector like selling of foodstuff among others. To this activities, even though being close to the residential place could mean increased efficiency in the running of the enterprise, accessibility to the market was another aspect. Many customers could for instance come from within the estate.

### 3.3. WORKING PREMISES.

From the sample survey, several working premises were observed. They ranged from Kiosks, workshops, Verandah, to makeshifts. Some enterprises however were

just operated either under a tree or in the hot sun (jua kali).

Chart 1.



One peculiar aspect that came out in relation to the above premises was that, they reflected the nature and the type of activity being practised. In the manufacturing sub-sector, it was observed that activities such as metal fabrication, woodwork were operated both in the open or hot sun and in workshops while in leather work, most of the work took place either in Kiosks or in verandahs. The nature of the enterprise therefore determined the premise. The reason as to why most of the metal and woodwork

enterprises operated in the given environment was attributed to the kind of space required. In both cases, ample space was required for both actual making of products and for the storage of the finished products. By operating in the open air, the Artisans had ample space for both their actual processing and in some cases they were able to display their finished products to their potential customers.

A brief summary on the working premises as observed from the survey indicated that the nature of the enterprises in terms of space required and accessibility to its customers to a large extent determined the kind of premises to be used. Majority of the activities for instance in watch repair and shoe making were being carried out in the verandah not just because there was no space but because they were strategic points of attraction where they could easily get customers.

#### 3.4. AGE AND OWNERSHIP.

Most of the enterprises surveyed were still in their youthful stage with an average of between one to five years of operation. About 71 percent of the enterprises identified had been in existence for a period of between 1-10 years. While 23 percent had been in operation for a period of between 11-20 years.

This aspect of age revealed that there was actually a high potential of these enterprises in the town especially in relation to the number of years they have been in existence.

### 3.5. OWNERSHIP OF THE ENTERPRISES:

Ownership of the enterprises was basically categorized by sex involving both male and female entrepreneurs. Out of the total number of activities sampled, 70 percent of the enterprises were owned by male entrepreneurs while the remaining 30 percent lay in the hands of female entrepreneurs. Even though from this observation it so appears as if the male dominated almost all the activities, there were some variations observed in ownership of specific activities when looked upon separately. In the manufacturing sub-sector, for instance, it was observed that while male entrepreneurs dominated mostly the metal fabrication as indicated by 81 percent of the sample survey, Woodwork and leather works respectively, almost all the tailoring activities were dominated by female entrepreneurs. This therefore indicates that participation in the various activities identified varied from one given enterprise to the other. The cultural aspects as far as participation in the various enterprises was concerned contributed a lot. For instance in the case of hair braiding,

majority of the owners were females while in hair cutting, it was the opposite with male entrepreneurs dominating. This therefore reflected the nature of activity. In ownership or in participation of a given enterprise, the nature of work involved and its characteristic was observed to be crucial.

Affordability in terms of initial capital required and equipments required for each enterprise was also observed to be another factor in relation to ownership. With enough money for instance, a female entrepreneur could compete well with her male counterpart because what she was required to do was to use the money to employ skilled workers who could do the job.

### 3.6. LABOUR FORCE IN THE ENTERPRISES:

In terms of labour force it was established that majority of those enterprises that required some form of additional labour force relied heavily on casual workers or apprenticeship. The number of workers deployed in a given enterprise was found also to vary from one stage of the enterprise development to the other. For instance, in the initial stages of the enterprise formation, majority of them hardly required additional labour force. The reason being since most of them were still new, they had not established themselves with their respective customers therefore



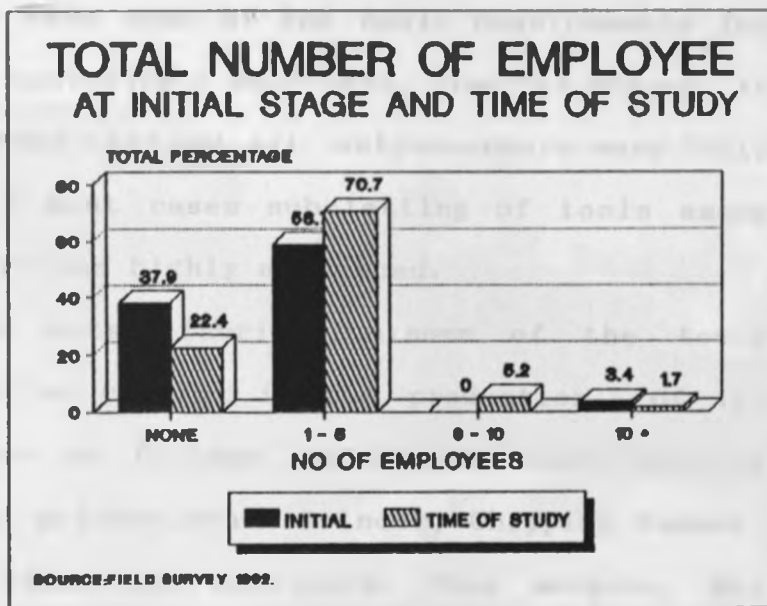
the production level was still low. This was however observed among those entrepreneurs operating mostly the manufacturing activities.

On the other hand, some enterprises due to their nature of operation, did not require many workers both at the initial stage and at an advanced stage. For example a posho mill by nature of its operation, required only two people. One handling the weighing machine while the other operated the grinding machine itself. Under such circumstances, the level of employment in such a sector could not exceed two people. Similar observation was also made in the selling of food stuff in a stall where only one person could do the selling alone. This also extended to sign writing, art and craft, tailoring and shoe repair.

In relation to the number of employees to be employed a number of conditions were observed. These were:- Availability of customers thus implying increased demand in production.

- Nature of the enterprises in terms of the work involved; and
- Number of people joining as apprentices.

Chart 2.



### 3.7. EQUIPMENTS/TOOLS OF PRODUCTION OR RENDERING SERVICES.

The equipments or tools used in the production or rendering of services varied from one subsector to the other. For instance while some enterprises required well elaborated tools or equipments, others simply relied on the entrepreneurs hands and the raw materials required.

From the sample survey, it was observed that for a carpenter to produce either a door, table, a bed among others the following tools were crucial. He or she required:- a Claw hammer, Chipping hammer, Mallet hammer, Surface-planner, Rebbet-planner, try-square, Chisel, Bench clamp, Cross cut saw, Hack saw, Tenon

saw, Brass-bit, Tape-measure, Planning-bench, Grooving machine, Bend saw and screw drivers. Even though the above tools were some of the basic requirements for any Artisan operating a wood work, from the survey it was established that not all entrepreneurs were fully equipped. In most cases sub-letting of tools among entrepreneurs was highly evidenced.

In the metal fabrication, some of the tools observed to be crucial in the production of its products were as follows. Welding machine, welding gas, Surface grinder, Bench Grinder, Chipping hammer, A pair of plies and callipers, Tape measure, dry square, Drilling Machine, Sets of Screw Drivers and a Hack saw. Like was the case in the woodwork, not all Artisans were fully equipped with the above items.

In Tailoring, some of the equipments identified were as follows:- A Sewing machine, Ironing table, Pair of scissors, Tape measure, Tailors Chalk, Iron Box, Hangers, Needles, Thread, Stool and a cutting table. Unlike in the case with the metal fabrication or woodwork, the application of the above tools depended on the nature of the work engaged in by the tailor. If his/her work was only to repair clothes then what he only required was a sewing machine, thread, needles and a stool. On the other hand, if it involved for example making new dresses, then the above tools were necessary. In terms of availability

of the above tools in tailoring, it was also established that not every tailor was self sufficient.



Plate.1. Artisans at work. Note the type of tools used by the artisans in woodwork.

In the service sub-sector, a case study made to identify the type of tools used in the motor vehicle repair revealed the following range of tools. They were:- Welding machine, Welding Gas (Oxygen, Acetylene), Pressure (compressor) Bench Grinder, Surface Grinder, Chipping Hammer, Screw Drivers, Ring spanners and Fix spanner, Nozzle pliers, Hal Fix spanners and a pair of Callipers.

One common aspect that was identified among the tools used in the metal fabrication, woodwork, and motor vehicle repair was that electricity was highly valued in their operation. For instance to use a welding machine, it has to be connected to electricity. Most of these equipments although quite significant in the production of goods of high quality, were pretty expensive. They were quite expensive to the Artisans as was observed by the high level of sub letting thus affecting their production level and quality of goods produced. It was observed for instance a welding machine could cost more than Kshs. 15,000. This amount plus the other costs, spent on other equipments made it quite difficult to own these enterprises.

In the remaining enterprises, the equipments required were quite basic. They could be afforded. For instance, in hair cutting a comb and a pair of scissors were crucial. With an amount of roughly Kshs.500 a barber was able to buy some of the tools. They only became expensive in cases where he was using an electrical shaving machine. What made them more expensive in this case was the electrical bills involved in.

On the other hand in Hair braiding some of the tools used were the braiders own hands, a comb and some basic skills required to satisfy the owner. Most

activities of the commercial sub-sector on the other hand required only the structure with a few shelves and the goods being sold.

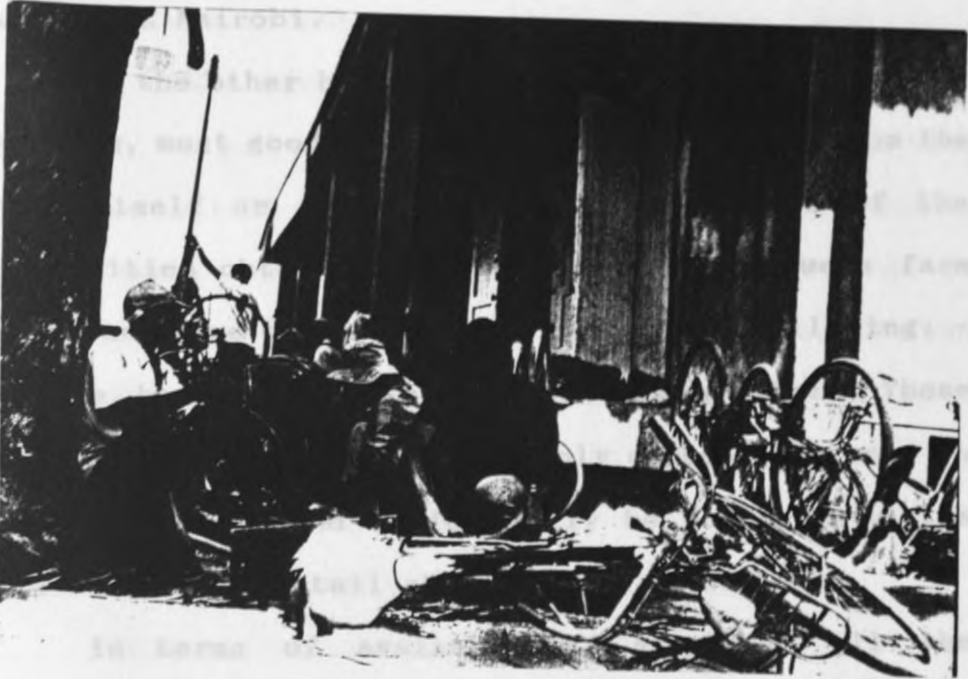


Plate 2. In Bicycle repair, an entrepreneur's hands are some of the basic tools. As in the case of Mr. Waswa above.

### 3.8. RAW MATERIALS REQUIRED AND THEIR SOURCE.

Like the case of tools, the raw materials applied varied from one given enterprise to the other. For instance in the manufacturing sub-sector, some of the raw materials used identified in metal fabrication were mainly metals while in woodwork, timber was an important asset in the making of furniture. Unlike the

case of tools, these raw materials were not scarce for they could be obtained either from the existing Hardware shops in the town or could be bought from the neighbouring towns like Kisumu, Kakamega, Eldoret and as far as Nairobi.

On the other hand, in the commerce and trade sub-sectors, most goods sold were either obtained from the town itself or from the rural areas. Most of the commodities obtained from the rural areas were farm based and were established to include the following: - maize, beans, bananas, vegetables among others. Those obtained from the town were mainly commodities sold in the food Kiosk and could easily be bought from the wholesales and retail shops in the town.

In terms of availability, at least all the required materials could be found within the town and those not available could be bought elsewhere. The only problem observed was that they were expensive especially for those that could not be obtained within the town. Transporting them from other places especially in the rural areas was a problem hence high cost.

### **3.9. MARKETING OF THE ENTERPRISES:**

Various marketing channels were observed. Most of these channels however, varied from one enterprise to the other. Majority of the products it was established

were either sold in the open air market in the town or sold in the neighbouring urban markets in the district.

In most cases this was found to apply mainly to the commercial sub-sector. In the manufacturing sub sector on the other hand, most of the products were made on orders. Majority of these orders either came from schools within the town as the case of uniform or furniture. Some tenders were also obtained from the construction sector, although at a minimal scale. What mattered in getting these orders was attributed to experience.

### **3.10. CHARACTERISTICS OF THE ENTREPRENEURS:**

This part discusses in detail the characteristics of the entrepreneurs as was observed from the study. It highlights the socio-economic aspects of the entrepreneurs with a focus of ascertaining their contributions to the formation and performance of these enterprises in the town. Among the issues covered in this analysis include the entrepreneurs age, level of education, marital status, number of dependants among other aspects.

### **3.11. Age:**

Majority of the entrepreneurs operating the various enterprises identified were fairly young. Most



of them were in their early 30s. These age, however, varied from one enterprise to the other. In the manufacturing sub-sector for instance 50 percent of the entrepreneurs were aged between 31-40 years and between 41-50 years respectively. In the woodwork on the other hand, 72 percent of all the entrepreneurs surveyed in this category lay in the age category of between 30 to 50 years of age. Similar observation was made in the motor vehicle repair an activity of the service sector. On the whole, it could be said that majority of these entrepreneurs were still in their innovative stage. These findings concurs with Kiteme's findings in West Laikipia (1992) and Njeri's findings in Central Kenya of 33 years.

### 3.12. ENTREPRENEURS LEVEL OF EDUCATION:

Most of the entrepreneurs sampled had at least passed through the formal kind of education. The level of education attained, however, varied from one entrepreneur to the other. In the metal fabrication for instance, 50 percent of the Artisans surveyed had passed through primary education while 25 percent of the entrepreneurs in the same category had attained the secondary level of education. The same observations were made in the woodwork, tailoring, leather work and among the black smiths where a substantial number of entrepreneurs had both passed

through primary and secondary levels of education.

From the total number of all entrepreneurs sampled, the highest levels of education were observed in the motor vehicle repair, metal fabrication, and the commercial sector especially the selling of second hand clothes. In motor vehicle repair 50 percent of the entire sample in this activity had attained post secondary form of education. Even though majority of the entrepreneurs had at least gone through the formal education, some signs of illiteracy could be observed. As highlighted in the chart below, out of the total number of the of the entrepreneurs surveyed, 10.7 percent of the entrepreneurs had no formal education. This however, was quite small in comparisson with those who had at least gone through either primary level or passed this level.

From the above analysis one would observe that the high level of school dropout at either the primary or secondary level, could have contributed to the initiation of the enterprises since the levels of education attained could not facilitate someone in obtaining some form of employment in the formal sector. This, however, is just a case study that could be either proved wrong or right in the subsequent analyses.

### 3.13. MARITAL STATUS AND NUMBER OF DEPENDANTS:

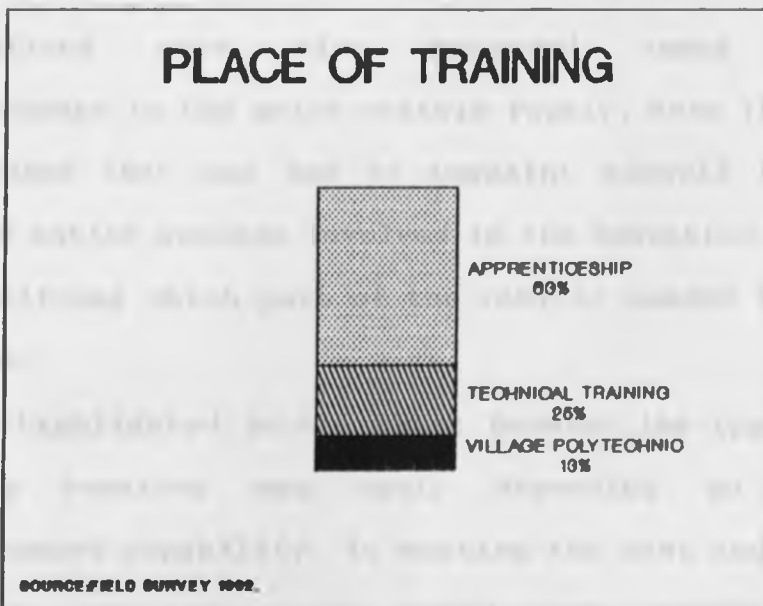
From the sample survey conducted, it was established that out of the total number of entrepreneurs observed, 77.6 percent were married with 20.7 percent of the entrepreneurs still single while 1.7 percent an equivalent of one respondent widowed. Out of those entrepreneurs who were married, majority of them as was established had a family. On average majority had at least a family size of five persons as illustrated in the chart. On top of the family size they had, it was also observed that whether married, single or widowed, each entrepreneur had at least a dependant person to take care of. From the analysis, 98.3 percent had dependants with only 1.7 percent with no dependant. On average, one entrepreneur could have an average number of 6 persons in their household although there were some with a maximum of 20 persons.

To our understanding of the factors that led to the formation of the small scale business enterprise for instance, the marital status could sort of guide us in establishing what led to the formation of the given enterprise. Whether by having a number of dependants could motivate someone to initiate an enterprise due to availability of labour or could contribute to the progress or failure of the given enterprise.

### 3.14. TRAINING RECEIVED:

A part from the level of education attained by the entrepreneurs, most entrepreneurs had some extra training to supplement to what they had attained in school. As observed from the survey, 82.5 percent of the entrepreneurs had some training after completing their formal education. The type of training observed also varied from one entrepreneur to the other and also dependent on the nature of enterprise being practised. As shown in the chart, this type of training was mainly obtained through apprenticeship as indicated by 63 percent of the sample surveyed, or from technical training institutes as indicated by 24 percent. There was another number, in fact, 13 percent who received it from the village poly-technic.

Chart 3.



The nature of training received, however, dependent on the entrepreneurs capability in meeting the cost involved or the nature of enterprises operated. In the metal fabrication for instance, quite a number of entrepreneurs surveyed had received their training in a technical institute although a substantial number, in fact 66 percent, had obtained theirs through apprenticeship. This variation was observed to have emanated from the entrepreneurs capability in terms of paying for the fees required. For the 66 percent, the costs were too expensive thus their option of training in their respective place.

In terms of the activity carried out it was observed that some enterprises for instance in woodwork practical work was highly required as such for an Artisan to work efficiently he needed more of practical work than the theoretical bit of it. Similar observations were also recorded among the entrepreneurs in the motor vehicle repair. Here it was established that one was to acquaint himself fully with the entire process involved in the operation such as identifying which part of the vehicle needed to be repaired.

As highlighted in the chart however, the type of training received was basic depending on the entrepreneurs capability in meeting the cost and the type of enterprise. It could not enable an

entrepreneur to get employment in the formal sector. It was observed that in terms of performance the kind of training endowed to an entrepreneur mattered a lot for it determined the quality of products to be produced.

### 3.15. PREVIOUS OCCUPATION:

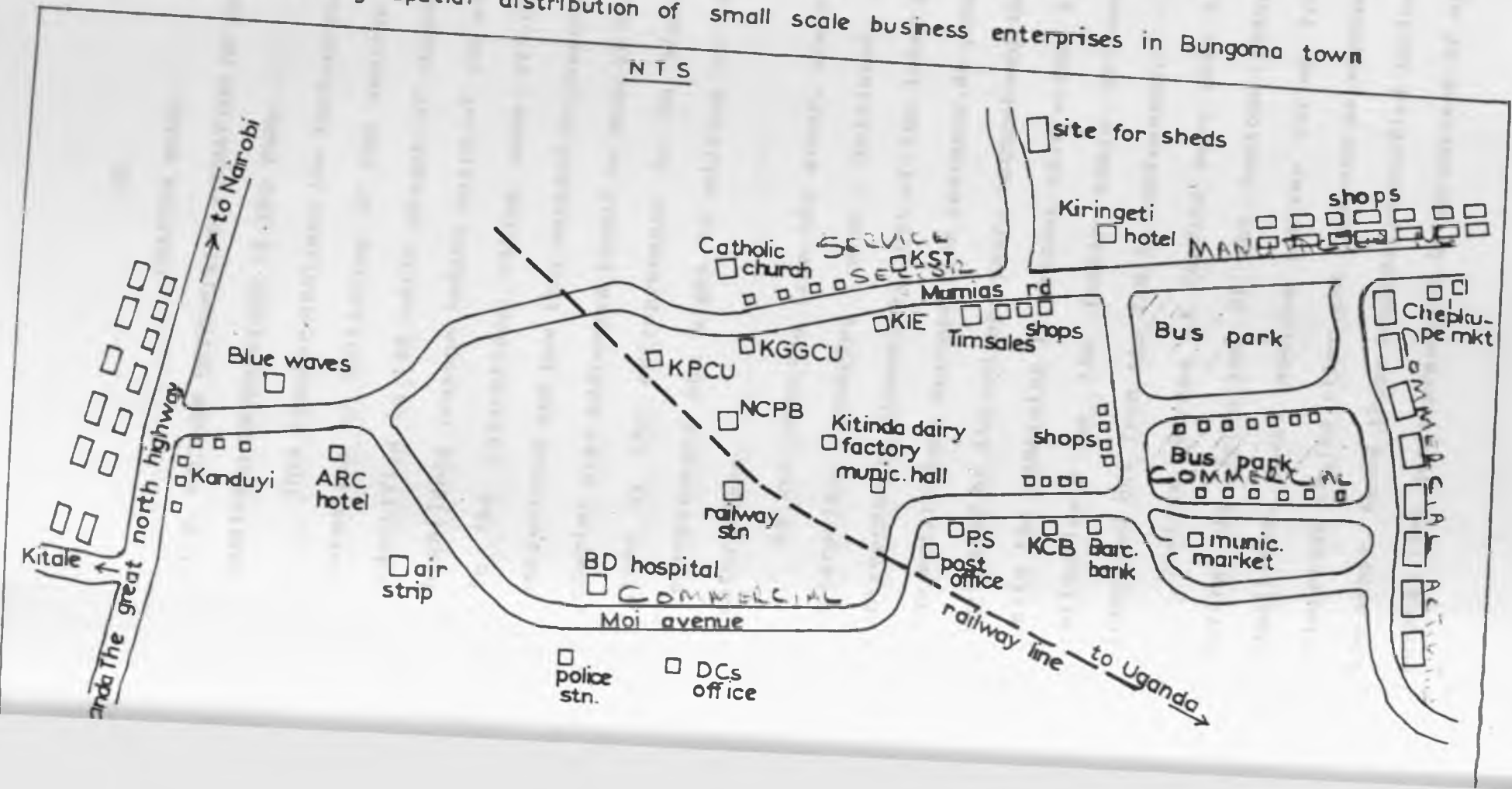
Before initiating their current enterprises, it was observed that majority of entrepreneurs were either occupied elsewhere, were unemployed or were receiving some form of training that could enable them join their respective enterprises. From the table below, majority of the entrepreneurs were prior to joining their enterprises engaged in farming as indicated by 15.5 percent while others were engaged in tailoring, businessmen/women or employed in the formal sector.

Table 2. Previous Occupation.

PREVIOUS OCCUPATION	% OBSERVED	CUM PERCENTAGE
Farmer	15.5	15.5
Tailor	3.4	19.0
Blacksmith	1.2	20.7
Hawker	5.2	25.9
Employed Formerly	17.2	43.1
Business women/men	6.9	50.0
Professional	1.7	51.7
None	48.3	100.0

SOURCE: FIELD SURVEY 1992.

Sketch diagram showing spatial distribution of small scale business enterprises in Bungoma town





## CHAPTER FOUR:

## 4.0. FACTORS DETERMINING FORMATION OF THE SMALL SCALE BUSINESS ENTERPRISES IN THE TOWN:

This chapter analyses the factors that led to the formation or initiation of the various enterprises identified in the early stages of chapter three. It highlights reasons behind entry of the entrepreneurs in the enterprises citing some of the problems encountered and how they managed to overcome them. The chapter also addresses itself to some of the handicaps given by the entrepreneurs to be hindering most entrepreneurs who might be willing to initiate an enterprises.

As was observed from the study, almost all the enterprises sampled were initiated by the entrepreneurs themselves. Out of the total number of the enterprises surveyed for instance, 88 percent were initiated by the entrepreneurs interviewed themselves while the remaining 12 percent were either initiated collectively on the family basis or were just inherited but from the family businesses.

Various sources of funding were also observed during the formation of the various enterprises identified. These sources however varied from one enterprise to the other and from one entrepreneur to the other. Among those sources identified include, own savings that was represented by 26 percent of all the

enterprises surveyed. Another source identified was soft loans from friends which was represented by 25 percent, loans from commercial banks and this was represented by 9 percent. The remaining lot of entrepreneurs, however could not establish their source of funding. Further analysis indicated that for those who could not establish their source of funding, they had just inherited the enterprises either from their parents or from a family member.

Concerning the factors which led them to initiate or enter the various enterprises, different reasons were given and these reasons varied from one enterprise observed to the other.

One of the reasons observed behind the formation of the enterprises was that most of the entrepreneurs felt that by initiating the enterprises, they could be able to earn themselves some form of living. As was highlighted earlier, prior to the initiation of the various enterprises, 48 percent of the entrepreneurs were not engaged in any form of activity. This therefore meant that by initiating the enterprises, they could be able to sustain themselves with their families together with the number of dependants they had.

As was observed earlier in chapter three, majority of the entrepreneurs had at least an average family size of five persons and an average number of

dependants ranging from between 6 and 10 people. For those who fall in this category of average family size of 5 and number of dependants as outlined above, one of their objectives in establishing the enterprises was to generate some money that could help them to feed, cloth and pay school fees for their families. The above observation however varied from one entrepreneur to the other.

#### 4.1. INDEPENDENT EARNINGS:

Further analysis of the reasons behind formation of the enterprises established that, the majority of the entrepreneurs sampled initiated their given enterprises in order to create an independent form of income. These views were especially observed from those entrepreneurs who had, prior to their current enterprises, had been employed in either one of the enterprises on temporary basis or had just retired from one of the formal employers. The formation of their respective enterprises was therefore viewed in terms of laying a foundation to self reliance and also breaking away from being exploited of skills. These views were observed among the manufacturing activities of the small scale enterprises.

In the woodwork, for instance, one artisan was quoted as saying, "there was no need of me working as a carpenter in an Asian shop in Eldoret while I could

use the same skills to get the same customers he was getting.' To him, initiating the enterprise in the town was seen as one way of maximizing his skills in producing furniture that could as well fetch him the same money the Asian was fetching in Eldoret. From our discussion however, it was not easy to tell from the artisan the type of furniture the Asian was dealing in and the nature of skills and tools used.

#### 4.2. STEPPING STONE TO THE MODERN SECTOR.

Establishment of the enterprises was also observed from the sample survey as a stepping stone to the formal or well established enterprises in the town. Among the formal type of employment cited were Kitinda dairy factory and Nzioa sugar company. This form of information was especially established from those entrepreneurs who had just completed either their formal education and had come from either the rural areas or from outside the district looking for employment in the above mentioned factories. With employment not forthcoming in the formal sector, they decided to initiate the form of activities they were indulged in currently as one way of keeping themselves busy as they waited for an opportunity from one of the factories.

These findings compare favourably to those of Kaberere's about the urban poor in Central province,

and also with Rempel's findings on the intermediate community that entered into the small scale enterprises as an avenue or a stepping stone to the modern sector. Asked whether they could leave their current enterprises once they established green pastures elsewhere in some of the factories they had cited the results were as follows.

About 79.3 percent opted to remain into their current enterprises while 19 percent indicated they would leave once they got an opportunity elsewhere. The remaining 1.7 percent were simply in a dilemma.

Some of the reasons that were given by both the parties either for remaining or quitting their current enterprises were as follows:- they could be able to earn more money either by quitting or remaining in their current enterprises. Another reason was that there was greater freedom and adequate security to employment.

#### 4.3. EARNINGS IN THE ENTERPRISES:

Formation of the small scale business was found to have been motivated by the earnings in the enterprises. This reason was strongly observed in the service and manufacturing sub-sectors. It was quoted for instance from an entrepreneur operating a metal fabrication enterprise, the earnings he was getting from the enterprise were far much better than that of

a Primary school teacher in a month.

Earnings from these enterprises however, varied from one enterprise to the other. In some enterprises, maximum earnings of Kshs. 20,000 could be observed in some cases.

Further analyses conducted for each type of enterprises in terms of earnings were as follows. In the metal fabrication, 50 percent of the entrepreneurs earned above Kshs. 10,000 per month, 25 percent earned between Kshs. 5,000-10,000 per month with the least enterprise earning less than 5,000 per month. It was however observed that most of these earnings varied from one month to the other and also depended on the availability of market.

In the woodwork, it was observed that the majority of the enterprises in these category earned between Kshs. 5,000-10,000 per month especially when customers are in plenty. In this same enterprise, it was observed that 30 percent and 20 percent respectively earned Kshs. 10,000 and Kshs. 5,000 per month.

In the leather works, most of the entrepreneurs were in the category of Kshs. 5000-Kshs.10,000 per month with no entrepreneur earning more than Kshs.10,000. In tailoring on the other hand, the majority earned less than Kshs. 5,000 as indicated by 60 percent. From the survey, majority of the

enterprises recorded at least earnings of more than Kshs. 50,000 a part from hair braiding and pottery which recorded earnings less than Kshs. 5,000 per month.

From the above observation while holding other factors such as availability of market, raw materials among others, the amount of money that was being generated from these enterprises was quite encouraging and could easily encourage an entrepreneur in initiating one. This analysis on earnings also could be used to determine why the manufacturing sub-sector had many entrants as compared to the other sub-sectors. But only when using earnings to explain preference in initiating a particular enterprise over another one.

#### 4.4. SUPPLEMENT AGRICULTURAL OUTPUTS.

Diversification of economic activities also came up as one of the reasons that was noted to have led to the formation of the enterprises identified. As observed, there was quite a strong linkage between most of the enterprises that were being operated and those in the agricultural sector. In most cases, most entrepreneurs even operated both the activities of the small scale enterprises and those of agriculture. From the survey, 60 percent of the entrepreneurs engaged in the various enterprises initiated them in order to

supplement their low returns from the agricultural sector.

#### 4.5. PREFERENCES OF THE ENTERPRISE:

A part from the above reasons identified to have facilitated formation of the various enterprises identified, a number of reasons were also observed in relation to the preferences to the identified enterprises. These views however varied from one enterprise to the other.

One of the entrepreneurs who was located along the Mumias road near the bus park had this to say concerning his preference of initiating a bicycle repair but not garage or a metal fabrication. Initiating the bicycle repair, he had only Kshs.50. With this amount, he would be able to purchase a pair of pliers and a spanner to enable him to begin his enterprise. Given the amount of initial capital he had and given the nature of tools that were required in the metal fabrication, he had no otherwise but engaging in bicycle repair in order to generate some money that could help him expand and even initiate another enterprise.

Another aspect that this entrepreneur considered was that of space. He argued that, the type of enterprises that he was engaged in did not require a workshop to operate. What was important was where to



get customers thus locating it near the source of customers.

From these views as stated by Mr. Waswa the owner of the bicycle repair enterprise, it was established that in preferring a particular enterprise to others, the most important tool to consider was the amount of capital for initiating the enterprise. This was crucial because it determined the nature of the tools someone could start with or the material he could buy. For his case for example, with only Kshs.50 he could not even pay for the rent or buy a welding machine required in the metal fabrication. His preferences therefore depended highly on his affordability.

These views as obtained from Mr. Waswa however differed a bit from those obtained from Mama Nekesa's food Kiosk. On commending on her preference in choosing to operate a Kiosk rather than any other enterprise in the town, she had this to say. On her side, she preferred running the kiosk because most of the items she was selling could easily be obtained from the family farm. Some of these items identified in her Kiosk were maize, bananas, beans and vegetables. Since most of the above goods could easily be obtained from the farm, it was easy therefore to manage the Kiosk. For her, the only problem was how to sweet-talk her customers in order to buy from her and also to ensure that the items sold were always fresh

so as to attract her customers. Mama Nekesa also stated that unlike in running a saloon (hair braiding) that required constant knowledge of some of the styles required by the customers, for her case the business did not require any special skills.

Another case study with Mr. Otieno who was operating a metal fabrication workshop had this to say. To Mr. Otieno, he preferred initiating a metal fabrication enterprise because of his skills. Academicwise, he was an Engineer by profession, having graduated from the University of Nairobi. After having worked in the government, he decided to enter in his current enterprise because he had some knowledge about the work involved and he had also acquired himself some of the tools required in the enterprise.

From the above case studies, what can be established is that preference for a certain enterprise was to some extent determined by an entrepreneurs capability in terms of the enterprises requirement for instance, the nature of tools, source of raw materials and the relevant skills acquired in relation to the enterprises. Majority of the entrepreneurs therefore started with minor enterprises that were within their reach before moving to those that were somehow advanced in terms of requirement.

**4.6. Factors considered by the entrepreneurs that could hinder entrepreneurship in the small scale enterprises.**

From the sample survey, it was established that while quite a number of people were willing to initiate or start the various small scale business enterprises, there were certain handicaps identified which contributed to their entry. These handicaps were observed to vary from one enterprise to the other. Among those observed were:- Inadequate skills, lack of starting capital, ignorance of the local people, high rents paid to secure space, equipments being expensive and getting customers and completion from other established firms.

**4.7. Inadequate skills.**

Out of the total number of activities surveyed 17 percent of the entrepreneurs operating the enterprises saw this as a major handicap for entrepreneurship in the enterprises. This problem was peculiar especially with those people anticipating to enter either in the manufacturing sub-sector or in the service sub-sector. It was observed that for someone to start a metal fabrication or a motor vehicle enterprise, he or she was to be fully conversant with the basic skills required in handling the work involved. For instance for someone to be a mechanic it meant he was

conversant with the process involved where to start and end once he had tendered to repair a vehicle.

The problem therefore was how to secure the relevant skills required. In most cases the institutions offering these skills were very few and in case of those available, they were too expensive. This therefore contributed the low turn up in those enterprises that required some basic skilled knowledge involved.

#### **4.8. Lack of starting capital.**

From a total number of 27 percent of the enterprises surveyed, it was established that many people who were willing to join the small scale enterprises were curtailed by the problem of starting capital. It was established that for someone to initiate any form of enterprise, he/she was required to have some money that could enable him to buy the relevant tools, pay for rent, instal electricity for those that required, buy raw materials among others. Given the above requirements majority of the people found it difficult to start any form of enterprise on their own and this was also given as reason for why majority opted to join hands with one another before they could initiate their own. This problem of starting capital was almost experienced in all the enterprises.

#### 4.9. IGNORANCE OF THE PEOPLE.

This problem was observed in almost all the cases observed as contributing to the low turn up of in the small scale enterprises. This ignorance was established to stem from the general attitude most people view those engaged in the small scale enterprises. For example someone operating a tinsmith was associated to performing the work that belonged to a certain clan of 'Babasi' as such anybody aspiring to start one was viewed in the same manner. Peoples attitudes also extended to some of the products that were being produced.

On the side of equipments, it was stated that a number of enterprises required quite an elaborate range of tools before starting one. This was especially observed among those entrepreneurs dealing in the manufacturing sub-sector and the service sub-sector especially in motor vehicle repair. The handicap with these equipments was how to get them. Most of them were quite expensive for instance a welding machine and since they were necessity in the formation of the relevant enterprises, someone could not survive without them. Due to lack of money as highlighted earlier that could help the buy these tools, it became quite impossible to enter or after entering, the enterprise could not survive for long.

From the above analysis, most people were unable

to start the small scale enterprises because of the above factors. Although most of these factors varied from the views concerning a particular enterprise, but to our understanding of the factors determining formation and performance of the small scale enterprises, they are of necessity.

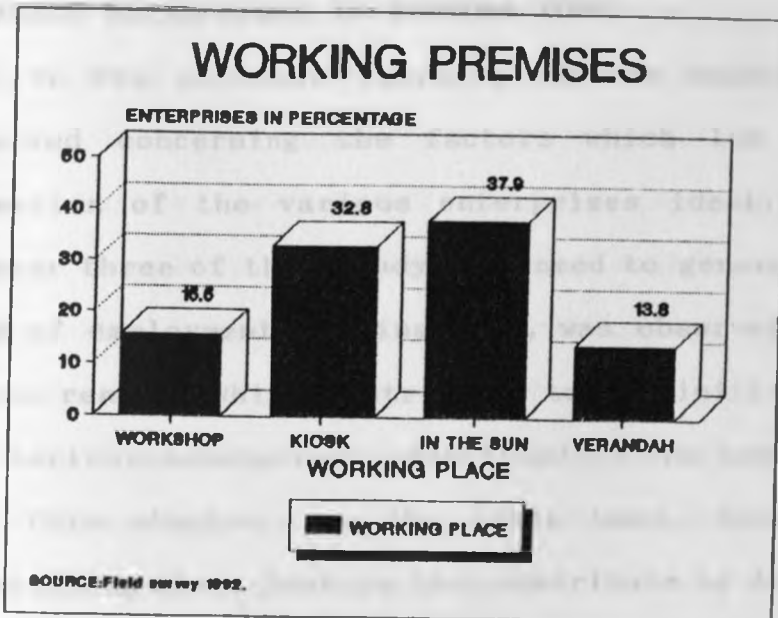
#### 4.10. PROBLEMS ENCOUNTERED:

During the initial stages of the formation of the enterprises identified, the entrepreneurs encountered a lot of problems. Among those observed from the field were as follows:-

- limited markets
- poor access to appropriate technology.
- limited funds to buy raw materials and working equipments.
- getting used to running the businesses
- lack of working space; and
- constant harassment from the Municipal askaris.

The above problems however varied from one enterprise to the other.

Chart 4.



Majority of people were willing to initiate or enter the various enterprises but because of the above problems, they were unable. In spite of the role these enterprises were playing in the provision of basic goods and services, still the Municipal council authority had not yet recognized them as was depicted in the constant harassment of the entrepreneurs.

## CHAPTER FIVE.

## 5.0. FACTORS DETERMINING PERFORMANCE OF SMALL SCALE BUSINESS ENTERPRISES IN BUNGOMA TOWN:

In the previous chapter, various aspects were observed concerning the factors which led to the formation of the various enterprises identified in chapter three of this study. The need to generate some form of employment for instance, was observed as one of the reasons which contributed to the initiation of the various enterprises identified in the town.

This chapter, on the other hand, focuses on identifying those factors that contribute or determine the performance of an enterprise once it has been formed. It looks at how the entrepreneurs sustain their enterprises once they have started them, highlighting among other things some of the constraints that can hinder the progress of an enterprise once it has been started.

From the sample survey, a lot of information was collected concerning some of the factors that could determine the performance of an enterprise once it has been initiated. Although most of these information varied from one enterprise to the other, it somehow touched on four important aspects that could determine whether an enterprise was succeeding or failing. It was observed that the performance of these enterprises revolved along the technical aspects, economic



aspects, social aspects and environmental aspects.

### 5.1. Technical Factors.

From the sample survey, it was observed that in explaining the performance of an enterprise, the technical skills were quite important. Within this technical aspects, two important aspects were identified that could justify the technical aspects in our understanding of the performance of the enterprises. These were the kind of tools suited to the enterprise and the type of skills attained by an entrepreneur in the given enterprise.

From our earlier survey, we identified various types of tools or equipment that were used in the production of the various products. It was observed for instance that for a carpenter to make a table or a door, he required a grooving machine, tenon saw, surface planer among others. The same was the case in the metal fabrication where by a welding machine, surface Grinder were equally important in the production of the relevant products in this activity. From the sample survey, it was observed therefore that for an enterprise to perform well and therefore earn the person engaged in it some profit, the various tools used were quite important. The significance of these tools ranged from their availability to the enterprise and their efficiency to the enterprise. In

terms of earnings, it was also observed that those enterprises that were well equipped in terms of the tools required had an upper hand in terms of earnings than those that were under equipped. These variations were observed in the metal fabrication and in woodwork subsectors. Here further analysis revealed that with availability of tools, an Artisan was able to receive tenders from everywhere because, holding other factors like availability of raw materials, labour force, he or she could finish the required products in time. From the above observation, the performance of an enterprise once initiated could be to some extent explained by the kind of tools suited to a business. A business either prospered or collapsed depending on the nature of tools used and their adequacy. However, it was observed that tools were mostly a major factor especially among the manufacturing subsector activities and the activities of the service subsector especially in motor vehicle repair.

Together with tools endowed to a particular enterprise, the entrepreneurs skills were equally important under the technical aspects. The nature of skills observed ranged from those of actual production of the product, management of the enterprise, marketing of goods among others. From our earlier observation, it was established that majority of entrepreneurs had at least attained some form of

training which could enable them to run their enterprises or improve on the quality of the products produced. From our sample survey, some of the case studies conducted to establish the importance of skills in relation to their enterprises revealed the following. In hair braiding, it was observed from Mama Jane that despite the numerous businesses indulged in the same activity of hair braiding, she always received quite a number of customers because of her knowledge of some of the modern styles that were more attractive to her customers. From the above case study what could be deduced from Jane was that with some bit of skills, an entrepreneur could be able to have an upper hand in getting customers compared to those who had no skills. With skills, the quality of the products produced could be improved.

## 5.2. ECONOMIC ASPECTS:

Like was the case with the technical aspects, the economic aspects also contributed a lot as far as the performance of an enterprise was concerned. It was observed for instance that most of the enterprises collapsed because of these factors. Among the economic factors observed in the survey that could determine the performance of a given enterprise were as follows:- Initial capital, operation capital, marketting channels, availability of raw materials,

among others.

### 5.3. Initial Capital:

The initial capital or what Ondiege (1991) refers to as seed capital was observed as one of the aspects that could determine the progress of an enterprise. This issue was strongly observed among the activities of manufacturing sub-sector. In terms of initial capital what came out clearly was its adequacy. From our early survey, we observed that majority of the enterprises were initiated at an initial capital of less than Kshs.1000. This however varied from one enterprise to the other.

In explaining performance of an enterprise using the initial capital what came out from the survey was its adequacy. This adequacy was explained in relation to how it could enable the Artisan to buy the relevant materials required in the enterprise. The initial capital invested in an enterprise therefore determined the output to be received from the enterprise.

Further analysis using Regression analysis to determine whether initial capital as observed from the survey could help in explaining the earnings received were as follows. With the help of Statistical Programme for Social Sciences (SPSS) a computer

programme, the following results were observed.

The regression analysis formular is as follows:

$$Y = a + bX$$
where by Y represents the dependent variable while a and b are constants, while X is the independent variable.

From our analysis therefore, Y was the Amount of Earnings obtained from an enterprise while X was the Initial capital invested in an enterprise.

After having run the statistical computation to determine whether initial capital could determine the earnings, the following results were established.

$$Y = 2073 + .2724 (x).$$

From this results it was observed first that there was a positive relationship between the amount of initial capital put in an enterprise and the amount of earnings that was obtained. In our understanding of factors determining performance of an enterprise, it meant that a slight increase of the initial capital could contribute to more earnings. For instance if similar activities of the same enterprise such as metal fabrication were sampled and their initial capital and earnings ascertained, the result would vary depending on the amount of capital that was invested in the enterprises.

As shown by the results above, if a regression line is drawn, the slope will be positive.

From the statistical analysis with the help of SPSS computer programme, our multiple R was observed as .27242. This therefore implies that  $R^2$  which is the correlation coefficient is equal to .074. When the correlation coefficient is .074, it implies that holding other factors constant, we can explain the performance of an enterprise using capital invested by only 7 percent.

From the above observation we can note that although initial capital was equally important in explaining the performance of an enterprise, it could not explain 100 percent of the performance. Other factors were equally important for instance market and the skills endowed to someone in the enterprise.

#### 5.4. OPERATION CAPITAL:

From the sample survey, it was also established that the amount of money set a side as operation capital was quite significant. From the analysis it was observed that most entrepreneurs used this money either to buy the raw materials required, to replace the worn out tools or equipment among other things. In determining the performance of an enterprise, the operation capital invested in an enterprise was quite important. This was especially noted among the manufacturing sub sector activities and in commercial

activities for instance in selling of food stuff. In the selling of goods in Kiosks, it was observed that in order to maintain the number of customers in an enterprise, constant replenishing of the stock was quite important. This therefore meant constant investment in the enterprise.

Some of the Regression analysis carried out to determine whether there is any significance in determining performance using amount of money deployed as working capital revealed the following results.

From the analysis using SPSS the following results were obtained.

$$Y = 1814 + .4863 (X).$$

Taking Y to represent the amount of earnings while X to represent the operation capital, the analysis indicated that there was a positive relationship between the amount of capital invested in an enterprise as working capital and the earnings. An increase in the amount of operation invested in an enterprise was thus important.

From the above analysis what comes out clearly is that the constant investment one put in an enterprise could determine his out come. Further analysis to establish what percent operation capital could explain performance in terms of earnings revealed the following. Using the same procedure of SPSS computer programme, it was observed that  $R^2$  which is the

correlation coefficient was .23652. From this the information that could be obtained is that operation capital alone could explain the performance of an enterprise by 23 percent.

#### 5.5. AVAILABILITY OF MARKET:

From the sample survey it was observed that the performance of any enterprises whether with quite a substantial amount of operation capital or initial capital depended highly on the availability of market. The high concentration most enterprises along Mumias road and the bus park was attributed to the factor of market. Most enterprises located close to those areas where they could be assured of marketing or getting customers. For instance, it was established from some of the barbers operating near the Kenya Commercial Bank that one of the reason for locating at their respective site was in order to trap customers from the Bank and along the road.

From the available data therefore, those enterprises that had a number of customers or tenders had an upper hand in performance in terms of earnings and also in fulfilling the set out objective from the given enterprise.

Like was the case in initial capital and the operation capital, availability of market was observed as equally a major aspect in determining the



performance of the enterprise.

#### 5.6. ENTERPRISE MANAGEMENT:

Enterprise management, as was observed from the sample survey to be a major factor in relation to the performance of the enterprises. To a large extent, majority of the enterprises either failed, not because of lack of customers, but because of the way in which the enterprise was being managed. Under enterprise management, some of the important factors that were highlighted by the entrepreneurs sampled ranged from management in terms of keeping the relevant materials pertaining to an enterprise. This included for example keeping of a cash book or receipt book to determine how the enterprises were performing. As shown in the chart below, quite a number of entrepreneurs had at least some form of record keeping that assisted them in establishing how their enterprises were performing. Some of the business records kept were note books, cash books while still majority of the enterprises didn't have any form of recording as indicated by 21 percent.

The type of management skills whether in marketing or in book keeping was quite significant as far the performance of a given enterprise was involved.

### 5.7. COMMUNICATION LINES:

As far as preference for the location of the enterprises was concerned, many entrepreneurs opted to locate their enterprises to areas accessible to the means of transport or telephone lines among others. The reason behind this location was to ensure accessibility to the market centre, raw materials among others. This is true especially in relation to the concentration of activities along communication lines. The analysis therefore indicated that those enterprises located along the Mumias road had an upper hand as far as marketing was concerned and getting of customers. This therefore implies that holding other factors constant, with proper transportation lines, the performance of the entrepreneurs in the enterprise was forthcoming as far as monthly earnings were concerned.

### 5.8. ENVIRONMENTAL ASPECTS:

A part from the above mentioned factors, performance of the enterprises was also observed to rely on the environmental factors. A conducive working environment was quite important. Among the crucial aspects observed within the environmental aspects were as follows. Working space and the location of an enterprise. Expansion of a given enterprise depended very much on the space available

to it.

The working space however depended on the nature of activity engaged in. For instance, while hair braiding only required a small Kiosk to operate in, the case was different among the metal fabrication and in motor vehicle repair. In explaining the performance of a given enterprise what came out was the availability of this space.

In relation to working space, from the various working premises identified earlier, it was established that although it did matter where an enterprise was operated, as far as performance was concerned, those enterprises, for instance, that were operated in workshops had an advantage than those in the open air or in the hot sun. During the rainy seasons for instance, while it is not easy to operate in the open, an artisan operating in a workshop had it became quite impossible to enter or after entering, the enterprise could not survive for long.

From the above analysis, most people were unable to start the small scale enterprises because of the above factors. Although most of these factors varied from the views concerning a particular enterprise, but to our understanding of the factors determining formation and performance of the small scale enterprises, they are of necessity.

The study also observed that inaccessibility to the basic working tools, working places, inaccessibility to financial assistance in terms of working capital, initial capital were some of the obstacles behind poor performance of the various enterprises identified. The study also observed that constant harassment of the entrepreneurs by the Municipal council askaries together with constant withdraws from the enterprises for personal use were also some of the constables behind the failure or poor performance of these enterprises.

In summary therefore, we observe that accessibility to working tools, financial assistance are some of the factors identified that could facilitate performance of an enterprises.



FIGURE 1: A view of a small business enterprise in a rural area.

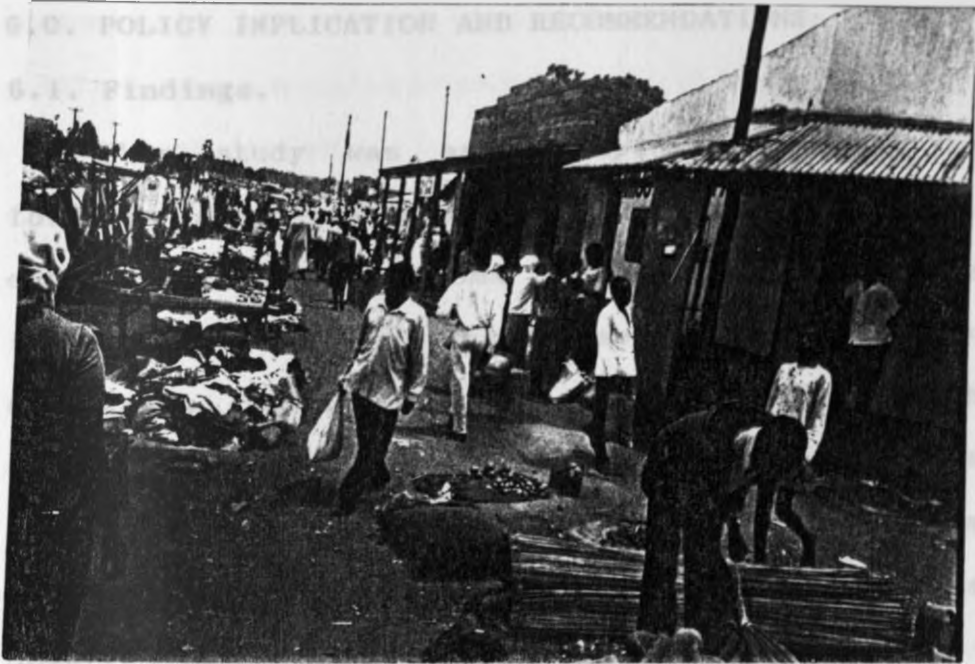


Plate 3. Most of the enterprises are operate in the open. Under such circumstances no business can take place during the rainy period.

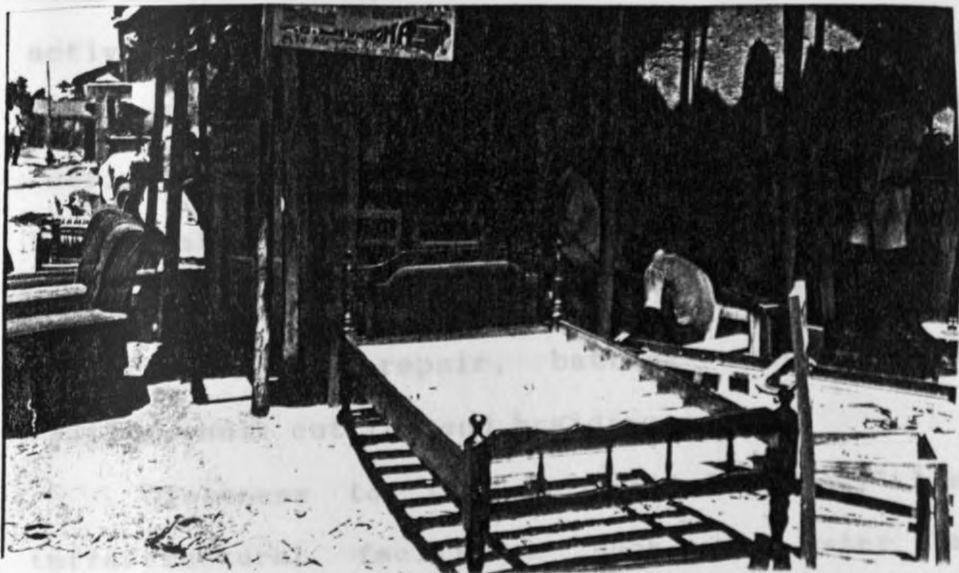


Plate 4. Lack of storage facilities and showrooms has made most products exposed in the sun as noted above

## CHAPTER SIX.

**6.0. POLICY IMPLICATION AND RECOMMENDATIONS:****6.1. Findings.**

This study was an attempt to examine the formation and performance of the small scale business enterprises in the Bungoma town. In examining these factors, the study addressed itself to four specific objectives and some hypotheses. After a thorough analysis of these objectives in relation to the factors determining formation and performance of these enterprises in the town, several findings were observed;

From the base line survey conducted in the town, it was revealed that there were a number of small scale enterprises in the town. These activities ranged from manufacturing, commercial and trade and service activities. Among the activities observed in the manufacturing subsector were as follows; metal fabrication, woodwork, tailoring, leather work and black smith. In the service subsector, the study identified the following activities; motor vehicle repair, bicycle repair, battery charging, sign writing, hair cutting and braiding.

Closeness to the residential areas, basic infrastructural facilities such as water and electricity and accessibility to the marketing areas were observed as some of the factors which determined

the spatial distribution. The presence of the various commercial activities at the bus park was seen for instance as a strategic point for getting customers on transit at the park.

Various working premises were also observed. These premises however varied from one enterprise to the other. Among those observed included workshops, Kiosks and makeshifts. Majority of the enterprises however, were just operated in the hot sun or Jua kali as was popularly known to the Artisans. Most of the working premises reflected to a large extent the work involved in each case. For instance although it was possible for a motor vehicle repairer to operate in a workshop, working in the open air was an advantage because many activities could be accommodated. The type of working premises on the other hand depended on its affordability. For instance it was observed that that majority of the enterprises were operated in the hot sun either because the various premises were expensive hence unaffordable or because they were very small. In determining the type of premises to operate in, the nature of the enterprise and affordability of the premises were some of the essential factors to consider.

Although from the analysis it could appear that majority of the enterprises belonged to the male entrepreneurs as indicated by the 70 percent, it was

observed that female entrepreneurs due to their capability, were doing quite well in most of the enterprises. In tailoring, hair braiding and in most of the commercial activities for instance, almost 80 percent of these enterprises were in the hands of the female entrepreneurs.

In terms of labour force requirement, it came out clearly that not all enterprises needed an additional labourforce. For those that required some additional labour force, majority of them relied heavily on the family labour force and on apprenticeship. This findings compared favourably with Ondiege's findings in one of his papers on "small scale informal activities and urban development in Kenya policy issues". According to Ondiege's observation, labourforce requirement in the small scale enterprises was either based on family labour or on the number of apprentices. This findings, were exactly what the study established in Bungoma.

However, in additional to this, the study observed that labour force requirement in the given enterprises varied from one season to the other and from one enterprise to the other. For instance during the initial stages of an enterprise development, most enterprises hardly required any form of labour apart from that provided by the entrepreneur himself. However as the enterprise established and with an



increased demand of the various products being produced, the labourforce went up. On the other hand some enterprise by nature of their operation, were limited to a certain number of workers. A good example of these activities was observed in Posho mill operation and in tailoring. In a Posho mill, it was observed that only two people were required. One could do the weighing as the other operated the grinding machine.

In relation to the number of persons to be employed in any given enterprise, the study observed the following conditions;

- Availability of customers hence increased demand.
- Nature of the enterprises in terms of the work involved; and number of people entering as apprentices.

In the actual production or rendering of services, various types of equipments or tools were observed. These tools varied from one particular enterprise to the other. While for instance the activities of manufacturing subsector required well elaborated tools in their production, in commerce and trade subsectors, what an entrepreneur required was his or her on hands and the relevant raw materials per each enterprise. Some of the tools observed in

carpentry for instance included claw hammer, Chipping hammer, mallet and grooving machine among others. One common aspect observed among the various tools observed in metal fabrication, woodwork and in motor vehicle repair was that in one way or the other, they were linked to the application of electricity. For instance to operate a welding machine, it had to be linked to electricity.

In terms of affordability of these tools, the study observed that not all enterprises were fully equipped with the various enterprises required. Infact, sub-letting among the enterprises could still be observed. This was especially in grooving and welding. The implication behind this sub-letting was that either the tools were quite expensive to be purchased or they could not be found within the town therefore high cost involved in acquiring them outside in terms of transport.

In relation the raw materials, the study observed that at least each enterprise had specific kind of raw materials in either. However these only applied in the manufacturing subsector and the commercial subsectors. In the service subsector, it was mainly the rendering of services that was pronounced. Most of the raw materials required, could be easily found in the town or from the neighbouring centres. For instance, timber used in the woodwork was purchased from timsales

located along Mumias road. On the other hand commercial activities were either purchased in the rural agricultural centres like Malakisi and for second hand clothes could be purchased from Eldoret and from Uganda. The question of affordability and quick transportation network were some of the major determinants in the acquisition of the raw materials involved.

The entrepreneurs operating the various enterprises identified came from different socio-economic background as reflected in the age, marital status, educational levels, kind of training, previous occupation and number of dependants.

The study observed also that majority of the entrepreneurs operating the given enterprises were aged 30 years. This findings concurred with Njeri's findings in Central Kenya and Ng'ethe's in Nakuru. From this age distribution, what can be observed is that most of the entrepreneurs were still in their youthful stage, innovative stage and with a little assistance, they could do a lot in terms of facilitating the growth of the various enterprises observed. The age size distribution however varied from one enterprise to the other.

Concerning the entrepreneurs level of education, the study observed that majority of the entrepreneurs had at least had some formal kind of schooling. Out of

the total sample observed, 89.3 percent had passed through the primary and secondary level with some even passed secondary level of education. Only 10.7 percent had not passed the formal kind of schooling. The level of dropout either at the primary level or at secondary level was also high among the various enterprises. From the above analysis, one could be tempted to conclude that majority of the entrepreneurs initiated their various enterprises because their level of education could not enable them to get employed in the formal sector. Since most of them had either dropped at primary level or secondary level, this could also imply that various training institutions were required in order to train most of them on the basic tools that could enable them in running their enterprises.

Concerning the entrepreneurs' occupation, the study observed that prior to their present occupation, majority of them in fact, 48 percent were not employed or were receiving some form of training that could enable them join their respective enterprises. In our understanding of the factors which led to the formation of the various enterprises, this information together with the other information discussed earlier concerning the entrepreneurs' socio-economic aspects, could at least throw some light towards our understanding of what determined the formation of the various enterprises.

Concerning the factors that led to the formation of the various enterprises in the town, the study observed that most of the enterprises were initiated in order to generate some form of earnings to the owners. This findings concurred with those of Bagachwa in Tanzania on the "dynamic changes in urban micro-Enterprise sector." Bagachwa noted that majority of the enterprises were being initiated in most of the urban centres in order to generate some earnings to the less fortunate in the urban society.

Desire to generate some employment opportunities to the entrepreneurs themselves together with their families and dependants was observed as another factor which led to the formation of the various enterprises in the town. As was observed in the chapter four of this study, it came out that prior to their respective enterprises, majority of the entrepreneurs were unemployed. Infact, 48 percent of them were unemployed. From this therefore it came out that by initiating their various enterprises, they would be able to generate some form of employment that could enable them sustain themselves and their families.

While employment generation and creation of an independent earnings were some of the factors behind formation of the various enterprises in the town, the study observed that most entrepreneurs initiated their

various enterprises as a stepping stone into the formal sector. This was especially observed among those entrepreneurs who had moved to the town from the rural areas with a hope of getting employment in some of the factories in the town. With this not forthcoming, they initiated their various enterprises to keep them busy as they waited for any eventuality in the formal sector. This findings compared favourably with those of Rempels findings about the urban poor who after having migrated from the rural areas ended up initiating some enterprises which could keep them busy as they waited for any other eventuality. In the case of Bungoma these enterprises that were initiated on the basis of keeping the entrepreneurs as they waited for the green pastures, ended up being permanent sources of income.

The high earnings to be received in the various enterprises was also observed as one of the factors that led to the formation of the various enterprises identified in the town. These perceived earnings are what have been called as the pull factors in the case of Rural Urban Migration. Most of the enterprises that were initiated as a result of the perceived earnings were mainly metal fabrication, woodwork and motor vehicle repair.

Diversification of the entrepreneurs economic activities was also observed as one of the reasons

that led to the formation of the various enterprises in the town. In most cases such people who initiated their given enterprise on this basis viewed this enterprises as their secondary activities aimed at supplementing what they were missing. This was especially common among those entrepreneurs who were operating their given enterprises at the same time practising some farming in the rural areas. In this case the earnings that could be received in either case could help in maintaining the other.

In initiating the various enterprises, the study observed certain tests that determined the type of enterprise to initiate. These preferences however were determined by the nature of the enterprise itself in terms of earnings, working capital, skills required, tools or equipments required in each case, availability of raw materials and the capability of the entrepreneurs in fulfilling the above requirements. For instance one of the case studies carried out revealed that Mr. Waswa one of the entrepreneurs operating a bicycle repair enterprise preferred to initiate his kind of enterprises because with Kshs.50, he could be able to buy some of the basic tools such as pliers and a few facilities that could assist him in taking off. His tests therefore were determined by the initial capital at his disposal.

Many people were willing to join or initiate the various small scale enterprises in the town but because of some handicaps beyond their control. Some of these handicaps observed as observed were; inadequate skills, lack of initial capital, high rents paid to secure a working place, inaccessibility to working tools and discouragement from other people. These handicaps however dependent on the type of enterprise to be initiated. From our earlier surveys, it was observed that the operation of certain enterprises required certain tools or management skills. This therefore implied that for someone to run any of them, at least he/she had to have some basic skills. This therefore hindered majority of people from joining the various enterprises.

As observed earlier in chapter three, a substantial amount of money was needed as seed capital to enable the entrepreneurs to buy the necessary tools and raw materials or even to pay rent for their premises, however due to inaccessibility to the financial credits, majority of the entrepreneurs infact with the basic training were unable to enter in these enterprises.

Difficulties in getting a working licence and the constant harassment by the municipal askaris came out from the analysis as some of the handicaps which limited entry into the various enterprises observed in



the town. Many people ended up paying a lot of money to the municipal council to obtain the licences that were not forthcoming. Some of them even spent what would have formed their initial capital on getting a licence only to be frustrated. This therefore lowered peoples moral in initiating the various enterprises. Under such circumstances, the question we are left with is how we can restore the morale if these people.

In analyzing the factors which contributed to the performance of the various enterprises identified in the town, the study observed that, availability of raw materials or goods, accessibility to working capital, initial capital, marketing facilities, a conducive working environment in terms of space, structure and freedom from constant harassment from all angles and accessibility to the required working tools and infrastructural facilities like water, electricity among others were some of the aspects observed that could contribute to the progress of an enterprise.

It was observed that entrepreneurs required for instance tools of high quality which could help him/her in improving the quality of the products produced. One peculiar aspect concerning these aspects of performance was that they worked in harmony with one another. The absence of one of them could easily be felt. For instance even though an enterprise was

accessible to working capital or working tools with poor marketing facilities or poor working environment, the enterprise could not progress well. The implication behind this therefore was how well these factors could be balanced at least to sustain the given enterprise.

The above findings on the other hand concurred favourably with what had been conceptualized in the model concerning determinants of performance of a given enterprise once it has been initiated.

The study also observed that constant withdraws from the enterprise, inaccessibility to financial institutions, poor marketing facilities, inaccessibility to working tools and constant harassment from the municipal council askaris and poor working environment were some of the factors which could hinder the prosperity of a given enterprise. For instance it was observed from the study that majority of the enterprises collapsed because of the constant withdraws from the enterprises for social affairs such as paying dowry for a family member, or for traditional functions such as circumcision. This was especially observed among entrepreneurs from the Bukusu community a subtribe of the Luhya tribe.

## 6.2. PLANNING IMPLICATIONS:

From the above findings, it can be noted that Bungoma town, given its strategic location on the major transportation lines, has a great potential in development of small scale business enterprises. The study also observed quite a number of enterprises ranging from manufacturing to trade and commerce and to service activities. The role these enterprises play is equally important as noted in the findings. Given all these contributions, the above enterprises can play a much far better job with some form of recognition. If planning policies can recognize their existence and the role they are playing and hence assist them in all aspects of development, they can equally compare favourably with some of the existing formal sectors in the town in terms of production and in the generation of employment.

As noted earlier, the various enterprises identified in the town have various characteristics in terms of operation. These characteristics, do vary from one enterprise to the other as was observed in the study. The implication behind this is that when addressing their requirements, the planning policies need to examine them separately in relation to their demands. Policies which address these activities collectively will end up curtailing the growth of

others. As noted in the study, these characteristics do revolve around the enterprise's working tools, spaces, infrastructural requirements, investments in terms of working capital and initial capital.

Majority of the problems affecting an enterprise do emanate as a result of the above items.

As noted in the study, most enterprises operate either in the hot sun or just in makeshifts or Kiosks which are poorly ventilated. For those few working in workshops, the space is inadequate for storage of the finished products. The situation as was observed from the survey is even worse during the rainy reasons. Even though the working premises varied from one enterprise to the other, at least something ought to be done to the various premises observed in order to create a conducive working environment.

The study also noted that majority of the people were willing to initiate or join the small scale enterprises observed in the town, however because of some problems here and there they are unable. Among some of the obstacles observed included lack of working tools, inaccessibility to financial institutions, long processes involved in obtaining licences, lack of skills among others. In order therefore to facilitate entry or formation of more of these enterprises, a lot of attention ought to be given to the various obstacles. For instance as was noted

earlier, most of the manufacturing activities use quite elaborated equipments or tools. An Artisan therefore relying just on her or his own source of saving, might take years to purchase a sewing machine or a welding machine. In this case, if people are accessible to the various financial institutions, they can be able to acquire the necessary tools.

Concerning the problem of getting a licence to operate, what comes of this is that either there is something wrong in regulations concerning the small scale enterprises or still the role played by these enterprises are not yet recognized. This problem also calls for a policy framework that can accelerate the issuing of these licences.

Concerning the factors which determine performance of the various enterprises, the study noted in its findings that availability of raw materials, ready market, accessibility to working capital, basic skills required, infrastructural facilities such as electricity and water among others are very significant. The total absence of the above aspects, together with constant withdraws from the enterprises for personal use and long processes in obtaining a working licence could easily lead to the collapse of an enterprise.

From the above findings, there is still a lot to be addressed that can help in facilitating and

creating a conducive working atmosphere for the various enterprises observed. Given the significant role they play as observed in the study and owing to the various problems faced both at the initial stage and after formation, something should be done which can help not only in facilitating their formation but also their performance. It is on these need of creating a conducive environment that the following recommendations are suggested.

### 6.3. RECOMMENDATIONS:

Basing on the above planning implications, the study suggests the following measures which can help in creating a conducive working environment significant for both formation and sustainability of the various enterprises observed in the town.

They are;

1. The entrepreneurs in the whole town should be encouraged to form a co-operative through which they can be able to save, organize for loans, market their produces and be able to help one another in acquiring tools. In so doing, they would be able to solve some of the financial and marketing problems.

2. The entrepreneurs in the town need to be

informed of the existing channels of credit assistance. This can be organized through public education by such organizations as Kenya Small Traders and the Kenya Industrial Estates. Although these institutions are already training entrepreneurs on how to get to the various financial institutions proper co-ordinations with the various commercial banks in the town could even facilitate accessibility to loans.

3. The study also suggests that special sites should be provided in appropriate areas for the economic operation of these enterprises. This can be done by the Municipal council as part of reorganizing the land use patterns in the town. These sites should be appropriate to each enterprise in terms of operational requirements among other aspects. For instance in case of trade and commercial enterprises, since they require a high degree of accessibility to retail customers, they could be located close to the public bus park or Matatu park. They could also be located very close to the existing markets within the town. All these will give them an advantage of getting customers without meeting any operational cost

In the case of manufacturing enterprises such as metal fabrication, woodwork, the study suggests that appropriate sites for these type of enterprises could be within the corridors of transportation routes and

Traffic routes of most vehicles. For instance the road from Mumias towards Kiringeti Hotel then to Mulereuko could suit these activities well. This could help them in the marketing and in the transportation of both raw materials and finished products.

4. Besides mere location, the study suggests that these activities, be provided with proper premises. For instance for trade and commercial activities, sheds that are of affordable cost should be provided within the planned sites. In the case of manufacturing enterprises, proper shed with ample room for the storage of goods and for display in some cases should be provided. This should also be accompanied with the basic infrastructural facilities such as water, electricity and normal access facilities for movement.

5. As noted earlier, although these small scale business enterprises play a major role in the economic development of the town as far as the provision of the basic goods and services, still the municipal council authorities still view them in terms of creating dirt in the Town. With this, the study suggests that instead of harassing these people now and then, thereby interfering with these people's source of income, the council should provide all necessary facilities right from the basic ones like organizing for all disposal or sanitary facilities within the town. Through this, they can also be able to generate



some revenue which would even assist them in their current problem with the sewer line breakage in the town.

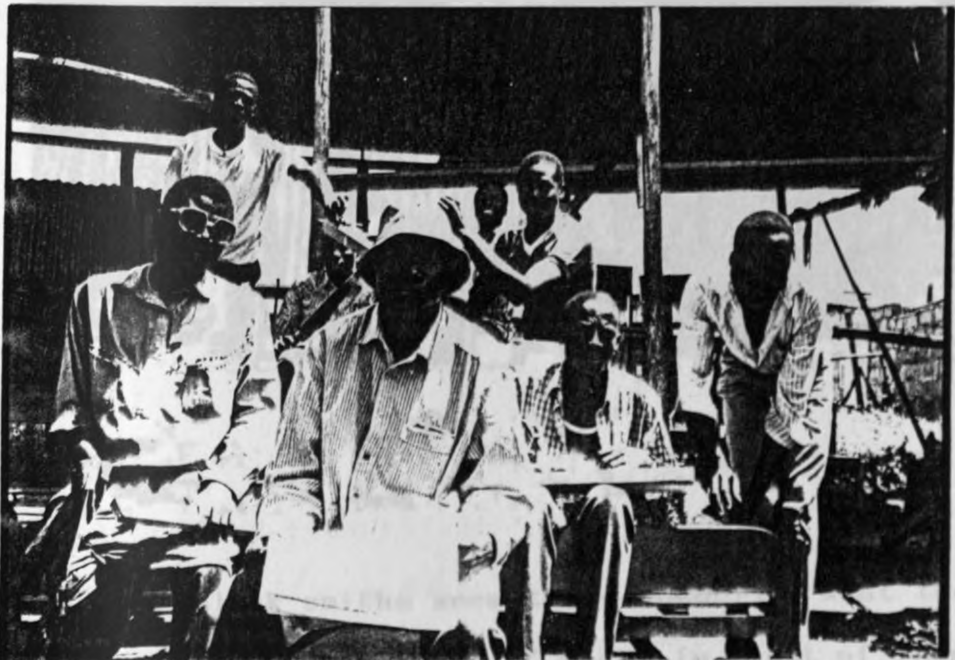


Plate 5. With the basic necessities required in these enterprises, they can employ equally more people.



Plate 6. Note some of the fine products produced by Artisans in Art and Craft and the tiny storage palace.

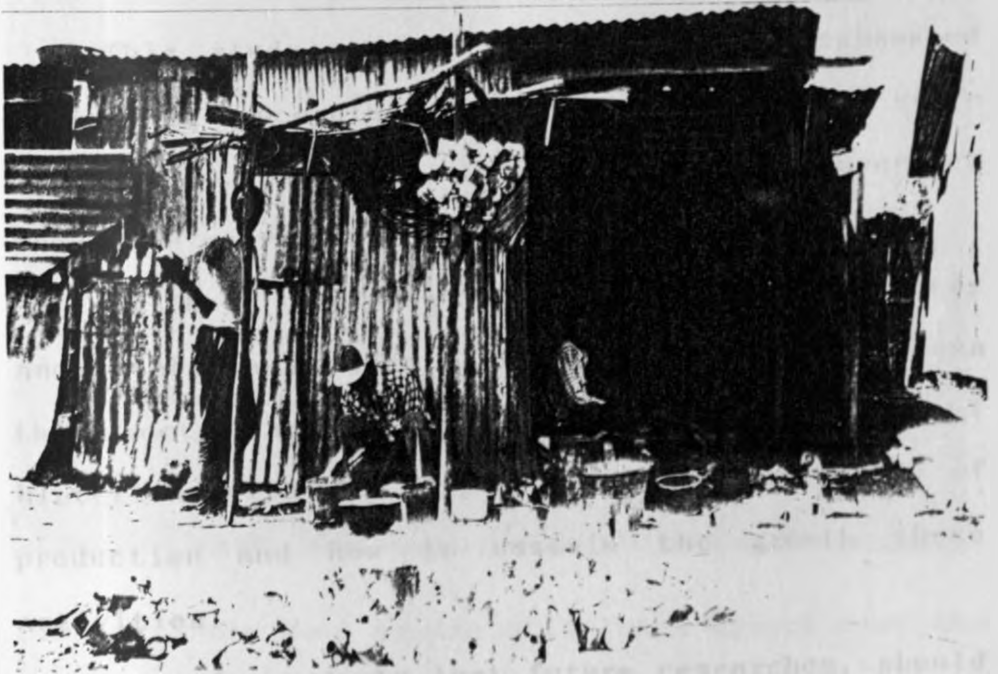


Plate 7. Black smiths seem to be wondering what they can do next with the heap of waste in front of them. If a conducive working environment was provided, they could even better.



Plate 8. This plate shows some of the working spaces for a motor vehicle repairer. Ample space is required.

#### 6.4. FUTURE RESEARCHES:

This study cannot pretend to have exhausted everything concerning the development of small scale enterprises. As such, it suggests that researches should be carried out in the following fields.

1. It is necessary for future researches to try and establish in detail linkages that exist between this sector activities in the town and regional hinterland with the purpose of determining scale of production and how to sustain the growth these activities.

2. The study suggests that future researches, should try to identify locally made working tools that are not only appropriate to the entrepreneurs but also affordable to them.

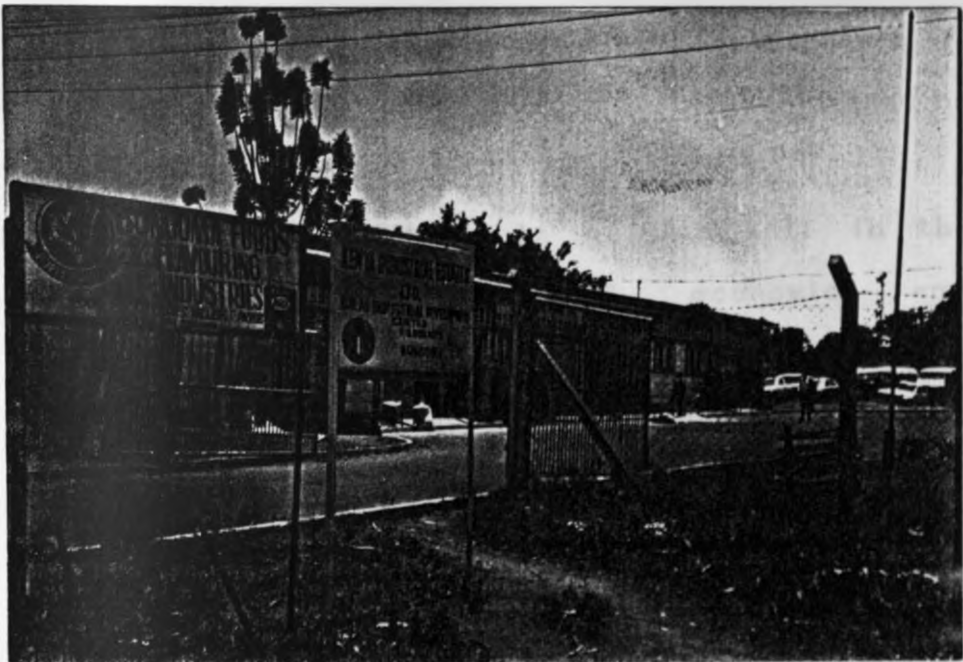


Plate 9. Note some of the activities operated at the Kenya Industrial Estates. It could even do better if all its activities were concentrated at the local level.

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- 1. ...
- 2. ...
- 3. ...
- 4. ...

...


...

- 1. ...
- 2. ...
- 3. ...
- 4. ...

...



11. If yes where does he or she work?  
 1) Work in this business  
 2) Works on the farm at home  
 3) Has full time employment outside  
 4) Works in another family business  
 5) Is not employed
12. Are there any persons who depend on you for support?  
 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_
13. If yes how many \_\_\_\_\_
14. Have you had any other training since leaving school?  
 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_
15. If yes what kind?  
 1) Adult education class  
 2) Village poly-technic  
 3) Other technical training  
 4) Apprenticeship.
16. Approximately how much do you get per month?  
 Kshs. \_\_\_\_\_

HISTORY

17. Did you begin this business? Yes \_\_\_\_\_  
 No \_\_\_\_\_
18. If No who began it \_\_\_\_\_ and  
 when did it begin Month \_\_\_\_\_  
 Year \_\_\_\_\_
19. What is the nature of ownership?  
 1) Self  
 2) Family  
 3) Group (partnership)  
 4) Other (specify)
20. How many employees did you have at first?  
 PART TIME F U L L

TIME

MALE	FEMALE	MALE	FEMALE

TOTAL INSERT IN ABOVE:

21. How many do you have now?

Part time \_\_\_\_\_

Full time \_\_\_\_\_

22. How far is your residence from the place of work?

\_\_\_\_\_ Kilometres

23. What means of transport do you use to come to your place of work?

1) Public means 2) Walk 3) Bicycle 4)

Others (Specify) \_\_\_\_\_

24. What was your major reason of starting this business?

1) As a main source of income

2) To make myself busy

3) To have an independent source of income

4) Create employment for my family

5) Was the only job I could do in respect to my education

6) Others (specify) \_\_\_\_\_

25. How much money (capital) did you have when you began this business? Kshs-----In addition to this money, what resources (raw materials) did you have to start with? -----

26. Where did you get money or other resources to start the business?

1) Own savings

2) Gift/Loan from relative

3) Gift/Loan from Husband or Wife

4) Loan from friends

5) Loan from commercial banks

6) Loan from cooperative or credit union.

7) NGO'S assistance

8) others (Specify) \_\_\_\_\_

27. What were the biggest problems experienced in starting this business?

1) Lack of capital/money to buy raw materials

2) Lack of raw materials

3) Machines and/or tools not available

4) Finding good location

5) Finding good worker

6) Finding customer

7) Getting used to running a business

8) Getting the basic training required

28. How did you overcome them?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

### CREDIT

29. Have you at any time applied for a loan for this business?

- 1) Yes                      2) No

30. If No why?

- 1) Never needed a loan
- 2) Thought would not qualify for one
- 3) Cannot afford to make Principal and interest payments
- 4) Could not fulfil the conditions required
- 5) Others \_\_\_\_\_

31. If yes, why did you want a loan for?

- 1) To buy more raw materials
- 2) To buy more equipments
- 3) To replace worn out equipments
- 4) To pay day to day expenses
- 5) To pay school fees
- 6) Other (specify) \_\_\_\_\_

### MARKETS

32. Name some of the products being produced in your enterprises?

33. What means of production do you apply?

34. In your opinion do you think these means have contributed significantly as far as the quality of the products is concerned?

- 1) Yes \_\_\_\_\_ 2) No \_\_\_\_\_

35. If yes in which way?

36. Who buys your products?

- 1) People who live around
- 2) Shops in town
- 3) Larger companies
- 4) Exporters
- 5) others specify

37. Do you make things to order for specific customers or to sell on the open air market? \_\_\_\_\_

38. Do you make any special effort to encourage people to buy your product?  
1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

39. If yes what do you do?

- 1) Take samples to potential customers
- 2) Have a sign on the Road
- 3) Tell customers to bring their friends
- 4 ) \_\_\_\_\_ O t h e r s

Specify \_\_\_\_\_

40. How much does it cost you to operate this business for a month?

- 1) Varies from Kshs \_\_\_\_\_ to Kshs \_\_\_\_\_
- 2) On average approximately Kshs \_\_\_\_\_
- 3) Don't know

41. Do you keep any written records of your business transaction?

1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

42. If yes, which one?

- 1) Cash book
- 2) Note book
- 3) Other (Specify) \_\_\_\_\_

43. If no, why?

- 1) Business does not require one
- 2) Lack of knowledge on accounting
- 3) Other (specify)

44. Do you belong to any business association?

1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

45. If yes, what is the name of the association? \_\_\_\_\_

46. If no, why?

- 1) Lack of managerial skills required
  - 2) Business does not require one
  - 3 ) \_\_\_\_\_ O t h e r s
- (Specify) \_\_\_\_\_

47. What benefits do you get from this association?

- 1) Members buy raw materials and/or tools together
- 2) Members market their products together
- 3) Learn new production techniques together
- 4) Members save money together
- 5) Members help each other to deal with the

- local authorities  
6) Others specify \_\_\_\_\_

48. Has your business at any time been involved in a development project or been a recipient of funds, materials, consulting assistance from a development organisation? 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_

49. If yes what was (is) the name of the organization? \_\_\_\_\_

50. What kind of assistance did you receive?

- 1) Technical training for myself and/or working
- 2) Management or entrepreneurial training
- 3) Direct grant of money
- 4) Loan
- 5) Others \_\_\_\_\_

#### GOALS AND PROBLEMS AND PREFERENCES

51. What made you choose to work in this business?

- 1) I like this kind of work better than I could think of.
- 2) I had not found any other work.
- 3) Other (specify)

52. Would you prefer doing this work you are doing or you would like to work as an employee of a large business?

- 1) To run my own business
- 2) To work for a large business

53. Why?

- 1) One can earn more money
- 2) One can have greater freedom
- 3) There is more security
- 4) Others (specify)

54. There are numerous businesses like this one around here. Do you think there would be any advantage to their getting together to form large organizations?

- 1) Yes \_\_\_\_\_
- 2) No \_\_\_\_\_

55. If yes what do you think would be the advantage of forming large organisations?

- 1) Raw materials would be brought in large quantities at a better price
- 2) Divide production process and work more efficiently.



- 3) Could borrow money and work more efficiently
- 4) Market prediction more easily

56. What problems are you facing in running your business?

- 1) \_\_\_\_\_
- 2) \_\_\_\_\_
- 3) \_\_\_\_\_
- 4) \_\_\_\_\_
- 5) \_\_\_\_\_
- 6) \_\_\_\_\_

57. What are the perceived solutions for these problems?

- 1) \_\_\_\_\_
- 2) \_\_\_\_\_
- 3) \_\_\_\_\_
- 4) \_\_\_\_\_
- 5) \_\_\_\_\_
- 6) \_\_\_\_\_
- 7) \_\_\_\_\_

58. What are some of the things that are most important to have for this business to succeed?

- 1) Better places to work
- 2) Freedom to work without harassment
- 3) Low interest loans to help people get started.
- 4) Technical assistance to help in production
- 5) Consulting business to help us manage our business
- 6) Assistance in the marketing of products

59. Why did you decide to locate this enterprise here?

- 1) Close to home
- 2) Strategic point for market
- 3) Only available place
- 4) Only available place allocated to me
- 5) Other (specify) \_\_\_\_\_

60. In your opinion what do you consider to be the factors hindering entry of entrepreneurs in these type of activities?

- 1) Inadequate skills
- 2) Cultural problems - Women not allowed to enter the business by their husbands
- 3) Lack of initial capital

## Appendix 2

UNIVERSITY OF NAIROBI  
DEPARTMENT OF URBAN AND REGIONAL PLANNING.  
A FIELD SURVEY OF SMALL SCALE ENTERPRISES IN BUNGOMA  
TOWN

	NAME OF ACTIVITY	LOCATION IN TOWN
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
810.		
11.		
12.		
13.		
14		