KIPPRA The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Policy Brief

RISA Research and Innovation Systems in Africa

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Thinking Policy Together

MSEs' Business Environment in Kisumu County

Introduction

The County Business Environment for MSEs (CBEM) framework was first developed by KIPPRA in 2019 to provide a tool for monitoring the process of improving business environment for growth and survival of MSEs. The four areas of focus were worksites and related infrastructure, market environment, technical capacity, and governance and regulatory framework. An improvement has been done to capture emerging issues that affect MSEs business environment. Thus, the CBEM 2022, has additional indicators including, internet connectivity within the worksites, trade participation in market environment and participation in policy and regulatory framework formulation under governance and regulatory framework. Further, two broad areas on financial inclusion and risk preparedness and management are included. This policy brief summarizes the MSEs business environment in Kisumu County, spotlights the related constraints, and highlights the relevant policy interventions. The research on the CBEM and associated output reported here demonstrate the role of KIPPRA, as a think tank and research intermediary, in fundamentally fostering the interconnectivity of research stakeholders in order to strengthen the research ecosystem in Kenya. This policy brief also exemplifies the role of KIPPRA in promoting research take-up to support the devolved system of government in Kenya.

Kisumu County Demographics and Output[i]

1

- County size 2,086 km^2
- Total County population, 1,155,574; female, 51.4%
- Urban County population 440,906
- Number of MSEs as at 2016 is 236,316
- Contribution to national gross value added as at 2017 is 2.6%

2

- Sectors driving growth in economic activity: agriculture (27%), services (50%), and manufacturing (12%)
- County's key sectors' contribution at National level: agriculture forestry and fishing (1.8%), Wholesale and retail trade (4.2%) and manufacturing (3.6%) as at 2017

MSEs Sector

- County Governments are mandated by the constitution to promote MSEs activities through trade development and regulation including market and trade licences and fair-trading practices. Also, County Governments have a role in physical planning and housing and public works and utilities which have direct effect on MSEs business environment.
- The Sessional Paper No. 05 of 2020 on the Kenya Micro and Small Enterprises is the guiding policy for the sector.
- Credit guarantee scheme was launched on December 8th, 2020, to facilitate MSEs' access to quality and affordable credit.
- MSEs with annual turnover of more than Ksh 1,000,000 but less than Ksh 50,000,000 are eligible for Turn Over Tax payable at 1% monthly gross turnover.
- MSEs constitute over 7.4 million of private enterprises contributing to 24% of GDP (MSME Survey, 2016).

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- About 92% of all business in Kenya are MSEs constituting 95% of manufacturing enterprises (MSME Survey, 2016).
- MSEs sector employs over 14.9 million accounting for 93% of total labour force in the economy (MSME Survey, 2016).
- Youth (18-35 years) and female account for 36% and 47% of persons employed by MSEs in Kenya (MSME Survey, 2016).
- Overall, the Kisumu County demographics and output are reported in Figure 1, while the County scores are presented in Figure 2.

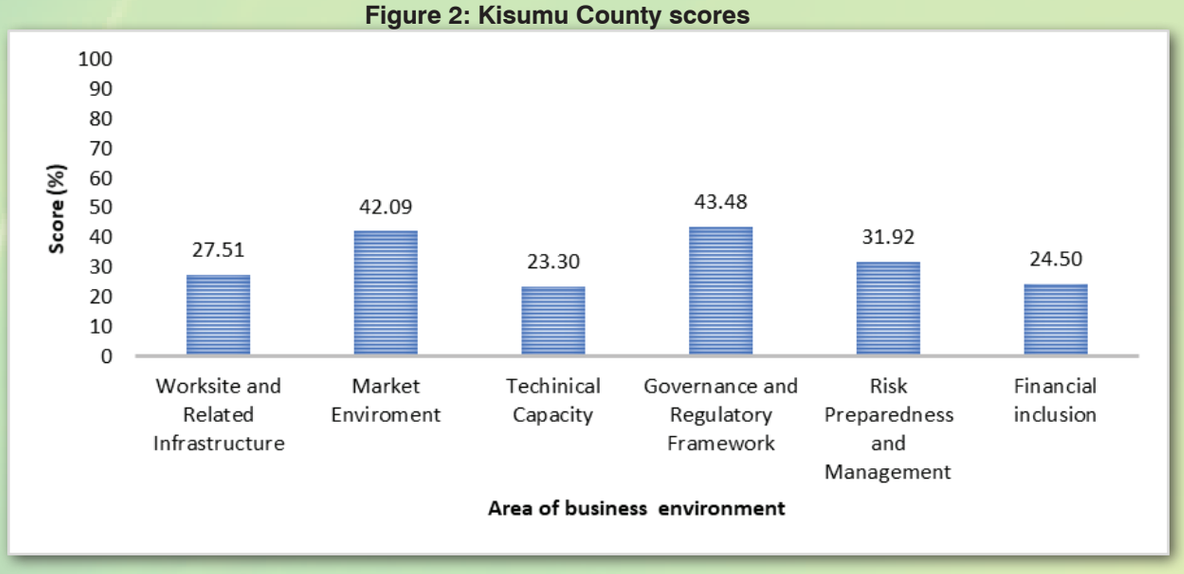
Challenges of MSEs

- MSEs activities are highly vulnerable to external risks, shocks, and hazards.
- MSEs have inadequate incentives to formalize.
- Most MSEs close shop within five years of establishment.
- MSEs sector faces weak coordination and implementation of policies and programmes.
- Most MSEs have restricted access to non-collateralized, low-cost, and long-term finance.

MSEs Business Environment

The scores for MSEs business environment are drawn from the CBEM (KIPPRA, 2022). The MSEs business environment is assessed using the following broad areas: worksites and related infrastructure; market environment; technical capacity; governance and regulatory framework; risk preparedness and management, and financial inclusion of MSEs. The scores range between lowest (0) and highest (100). Kisumu County scored a total of 32.10.

Figure 2: Kisumu County scores



Worksites and Related Infrastructure

Scores

- Access to worksite: 46.85
- Access to common manufacturing facilities: 21.40
- Electricity connection: 41.47
- Water connection: 11.84
- Public toilets: 43.00
- Waste management: 24.18
- Internet connection: 3.86

Constraints

- Inadequate common manufacturing facilities
- Limited access to water supply
- Limited designated areas for waste disposal
- Low internet connectivity due to high costs

Market Environment

Scores

- Access to Government Procurement Opportunities (AGPO): 8.61
- Ease of access to road infrastructure: 74.06
- Access to market: 69.76
- Unfair competition practices: 48.99
- Quality of support infrastructure in the market: 41.70
- Trade participation: 9.41

Constraints

- Low level of awareness and uptake of AGPO
- High levels of unfair competition practices manifested majorly misrepresentation, dumping and false advertising practices
- Inadequate quality support infrastructure in the market
- Low trade participation due to few approaches used in promoting local and international trade

Technical Capacity

Scores

- Training (capacity building): 14.61
- Coping with new technological trends: 27.15
- Knowledge and skills gap: 42.73
- MSEs survival rate: 66.68
- Access to incubation services: 7.12
- Innovations: 4.16
- Patenting: 0.66

Constraints

- Limited skills
- Low rate of understanding and adaptation of new technology
- Inadequate incubation services
- Low uptake of innovation and patenting

Governance and Regulatory Framework

Scores

- Licensing and issuance of permits: 38.50
- Corruption manifestation: 26.06
- Crime and public security: 72.09
- Self-regulation: 73.45
- Policy and regulatory framework: 7.30

Constraints

- High cost of acquisition and renewal of licenses and permits
- High levels of corruption within the worksites
- Inadequate awareness on existing policies and laws and low participation in their formulation

Risk Preparedness and Management

Scores

- Status of risk preparedness and management: 27.10
- Knowledge and uptake of social security: 36.75

Constraints

- Insufficient risk preparedness and management and low uptake of social security including health and business insurance

Financial Inclusion

Scores

- Access to savings and credit facilities: 28.99
- Financial innovation literacy and Use: 22.36
- Taking advantage of the Credit Guarantee scheme: 22.15

Constraints

- Undiversified access to financial services.
- Limited use of financial innovative platforms.
- Low awareness on Credit Guarantee Schemes.

Note

1. A higher score on corruption manifestation indicates a lower level of perceived corruption.
2. A higher score on unfair competition practices indicates existence of few such practices.

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Policy-cum-Practice Interventions for Creating an Enabling Business Environment

1. Worksites and Related Infrastructure
   - County Government to enhance partnership with Micro and Small Enterprises Authority and other relevant stakeholders to provide adequacy of common manufacturing facilities and provide necessary worksite amenities including, reliable water supply, designated areas for solid waste disposal and affordable internet connection.
2. Market Environment
   - County Government to partner with The National Treasury to enhance awareness and uptake of AGPO.
   - County Government to enhance the mechanisms to protect MSEs against unfair competition by partnering with Competition Authority of Kenya, Anti-Counterfeit Agency, Kenya Revenue Authority, and other relevant authorities to curb practises such as counterfeiting, dumping and misrepresentation.
   - County Government in collaboration with relevant key stakeholders to enhance provision of quality infrastructure within market including roads and other necessary amenities to support MSEs market activities.
   - County Government in collaboration with State Department for Trade and other relevant stakeholders, devise sufficient strategies to promote cross county and international trade for MSEs.
3. Technical Capacity
   - County Government to collaborate with Kenya Institute of Business Training, National Industrial Training Authority, and other relevant stakeholders to offer training and certification to MSEs to strengthen their skills development.
   - County Government to collaborate with relevant stakeholders, both government organizations such as Kenya Industrial Research and Development Institute, Kenya Industrial Estates and Kenya Industrial Property Institute and other non-government stakeholders to ease access of incubation centres to enhance innovation and patenting.
4. Governance and Regulatory Framework
   - County Government to endeavor to offer affordable acquisition and renewal of licenses and permits fees
   - County Government to collaborate with Ethics and Anti-Corruption Commission, the National Police, and other relevant stakeholders in addressing corruption.
   - County Government to create awareness on existing policies, and legislative framework and enhance participation of MSEs in the policy formulation process.
5. Risk Preparedness and Management
   - County Government in collaboration with other relevant stakeholders to build capacity and awareness for MSEs on risk preparedness and management and uptake of social security including health and business insurance.
6. Financial Inclusion
   - County Government to partner with formal financial institutions to promote financial literacy and use of non-traditional collaterals and enhance uptake of alternative sources of finances for MSEs.
   - County Government to raise awareness of Credit Guarantee Schemes in collaboration with participating financial institutions and other relevant stakeholders.

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About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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