



REPUBLIC OF KENYA

SESSIONAL PAPER NO. 1 OF 1992
ON
DEVELOPMENT AND EMPLOYMENT
IN KENYA

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PREFACE

0.1 This Sessional Paper is the Government's response to the Report of the Presidential Committee on Employment which was appointed by His Excellency the President on 4th April, 1990, to map out strategies to deal with the unemployment problem in the country both in the short and long term. The Committee completed its work and presented the Report to His Excellency the President on 30th January, 1991.

0.2 The Report whose full title is, "Development and Employment in Kenya - A Strategy for the Transformation of the Economy", is divided into seventeen chapters which are grouped into four parts, namely, analysis of the situation, general macro-economic policy requirements, major sectoral programmes and special action programmes. There are over 200 recommendations which are presented in the seventeen chapters. The Report has considered many policy changes and initiatives which would stimulate both domestic and foreign investment for increased productivity and employment generation. In its preface, the Report starts with a review of Kenya's struggle for independence and the challenges of nation building, particularly the need to build a united, non-tribal, non-racial, democratic and economically strong and sustainable society.

0.3 The Government has carefully studied the Report and this Sessional Paper constitutes its official response to the findings, observations and recommendations contained in that Report. On the whole, the Government accepts the Report as a good basis for general economic policy formulation for not only short and long term employment creation but also for development in general. The Government therefore wishes to record its appreciation to the members of the Committee and its Secretariat for the perceptive Report which reflects considerable research.

0.4 For effective follow-up and review of the implementation of the accepted recommendations of the Committee, the Government will establish a Standing Cabinet Sub-Committee under the Chairmanship of the Minister responsible for Planning and National Development. Membership to the Sub-Committee will consist of Ministers responsible for key sectors affected by the recommendations. In view of resource implications of the recommendations, the participation in the Sub-Committee of the Minister for Finance will be of critical importance.

0.5 In this Sessional Paper, the Government highlights the themes of each chapter of the Report together with the Committee's recommendations. This is then followed by the Government's response indicating where appropriate, how the accepted recommendations would be implemented. Explanation is provided in the few cases where recommendations are not accepted.

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Chapter 1

INTRODUCTION

1.1 This is an overview Chapter which emphasises that employment issues are development issues and that the two should not be seen or handled in isolation. It stresses that development and hence employment generation is a task for the entire nation, and not just for the Government. In this context, the Chapter emphasises the need for mutual trust and co-operation between the private and the public sectors and the importance of an enabling environment for both local and foreign investors. Also emphasised is the need to establish some institution which can take a longer term perspective with regard to the development and evolution of the economy as well as monitoring change on a continuous basis. To this end, it is recommended that:

- (i) A Kenya Institute for Economic and Social Research be established under an Act of Parliament to undertake long range strategic planning covering both social and economic interests of the nation (para. 1.22); and,
- (ii) Targets be established for progressive reduction in the country's dependence on foreign aid and corresponding increase in economic independence (para. 1.15).

1.2 The Government welcomes the Committee's proposal to establish a Kenya Institute for Economic and Social Research to undertake long range strategic planning. The Government notes the analysis leading to the recommendation on the need to progressively reduce dependence on official foreign development assistance. However, as the country prepares for an economic take off increas-

ing resources will be required. In this connection, concerted efforts will be continued in the implementation of measures aimed at reducing both the budget deficit and the deficit in the country's balance of payments. Concerted efforts will also continue to be made to attract foreign private investors.

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Chapter 2

NATURE AND MAGNITUDE OF THE EMPLOYMENT PROBLEM

2.1 The Committee notes that in the rural areas and in the informal sector, the employment problem manifests itself in the form of low and declining labour productivity and low per capita incomes. Open unemployment is high in the urban areas where it grew from 140,000 persons in 1978 to 260,000 persons in 1988 representing 16 per cent of the labour force. The groups that were mostly affected by open unemployment are the women and the youth aged 30 years and below, especially secondary school leavers. The Committee feels that university graduate unemployment is likely to be significant in the future. It is projected that there will be about 4.3 million additional members of the labour force during the next ten years and a further 5.2 million in the following decade. In light of the analysis of the nature and magnitude of the employment problem in the country, the Government accepts the following recommendations of the Committee:

- (i) In order to achieve rural household viability, education must be widely distributed, with equal access in all Districts (para. 2.20);
- (ii) Provision of utilities such as water, fuel and health services should be intensified in order to maintain rural household viability and stem rural urban migration (para. 2.21); and,
- (iii) The Government should give high priority to collecting reliable statistics on employer household incomes and levels of living in different

sectors of the economy on a continuous basis (para 2.23).

2.2 As it has been the policy, the Government will continue to provide equal educational opportunities for all. It will also continue to promote balanced development between urban and rural areas through the District Focus Strategy for Rural Development.

2.3 Whereas it is a stated Government intention to explore the possibility of promoting independent organisations to create mechanisms for the collection, analysis, and dissemination of development planning information, the Government does not at the moment consider it appropriate to abandon its basic responsibility for critical data management including information on the informal sector. The Government will instead strengthen its institutions to enable them to gather information more regularly in all important sectors of the economy, including the informal sector.

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EVOLUTION OF EMPLOYMENT POLICIES

3.1 In this chapter the Committee presents an analysis of the Government policies on employment since 1963 when the country attained political independence. The Committee acknowledges that the Government has always been concerned with providing adequate employment opportunities to the labour force. Policies relating to each of the last three decades are presented. The Committee commends Government efforts to reduce the income gap between rural and urban areas. In this connection, the Government is urged to move fast in the implementation of the programme of promoting the development of Rural Trade and Production Centres.

3.2 The Government fully agrees with the Committee's recommendation that the Ministry of Manpower Development and Employment should be strengthened appropriately to play its catalytic role effectively. Indeed since its inception in 1988, the Ministry has been able to open offices in thirty one districts. Sufficient resources will be made available to the Ministry to enable it develop a strong information base on employment trends and manpower development activities. The recently published report of the national manpower survey conducted in 1987/88 by the Ministry will facilitate national manpower planning.

RESOURCES FOR DEVELOPMENT AND EMPLOYMENT

4.1 The Chapter discusses issues relating to the availability of capital resources for generating desired rates of growth in employment and output. It is noted that decisions to save or invest by the private sector can be significantly affected by policies made by the Government. National savings and investment are also affected by the Government itself through its budgetary operations and the public investment programme. In this connection, macro-economic variables like domestic and foreign savings; capital formation; interest rates; exchange rates; the budget and its management are discussed.

4.2 The Government accepts the Committee's recommendation that implementation of programmes which raise productivity in agriculture and returns to investment in rural non-farm activities need to be speeded up. At the same time, other constraints which lead to low utilisation of completed facilities will be identified and dealt with (para. 4.15).

4.3 Current Government pronouncement on GDP targets are contained in Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth and the Development Plan, 1989-1993. Whereas the Sessional Paper was more ambitious and put the target at 5.6 per cent for the period 1984 to 2000, the Plan has a target of 5.4 per cent. The lower target in the Plan is based on more recent statistical evidence which shows that actual growth rates for 1988 and 1989 were much lower at 5.2 per cent and 5.0 per cent respectively due to several factors. These realities suggest that there are difficulties associated with economic target setting. The Government therefore notes the Committee's recommendation that a target be set of no less than 5.5 per cent average annual growth rate of GDP for the next two decades (para. 4.33). In this connection, appropriate

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policies will be formulated and implemented to achieve target growth rates of GDP which are based on projected realities.

4.4 The Government accepts the Committee's recommendation that the nation must devise even more imaginative and stronger measures to make the Kenyan market at least as attractive as most others for foreign investment funds (para 4.39). The measures will include establishment of Export Processing Zones (EPZs) and the creation of the necessary enabling environment. Other measures will include implementation of the simplified investment approval procedure and the one-stop scheme by the Investment Promotion Centre. In addition, an appropriate investment code will be established. Government will also explore ways and means of allowing remittances of dividends on a timely basis. It is also agreed that more vigorous efforts should be made at the political, official and private business levels to advertise Kenya as an attractive investment location. This has been done in the past and it will be intensified in the future.

4.5 The Government fully endorses the Committee's recommendations on measures aimed at increasing national saving ratio from the current 17 per cent of GDP to 22 per cent. These measures include elimination of Government's dissaving through tax modernisation programme, review of user charges, divestiture of parastatals and reduction in the growth of the Civil Service. The Government will also encourage the willingness and ability to save of both households and businesses in the private sector through a package of incentives such as high and positive interest rates; development of the capital market; relaxing and eventually eliminating exchange rate control regulations; and supporting co-operatives through education of the public and co-operative management committees (para. 4.51 to 4.56).

4.6 The Government agrees with the Committee that investment should emphasize widely dispersed small scale industries and increased agricultural productivity rather than prestige projects which absorb large amounts of scarce capital while generating a small number of jobs. Programmes that would implement this policy include small scale enterprise development, informal sector financing, credit facilities for Jua Kali development by commercial banks and District Development Loans Fund for agro-business and related activities.

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THE ENABLING ENVIRONMENT

5.1 Maintenance of peace and stability at the political level, efficient administration of public services, a framework of economic regulations and incentives which encourage savings, investment and enterprise, and adequate physical and social infrastructural facilities constitute some of the vital elements of an enabling environment which will encourage the growth of private enterprise and help it to prosper. In this chapter, the Committee emphasises the fact that economic development of the nation is a joint venture in which all parties concerned - the Government, the private sector, the NGOs and the international community - must play their respective roles. To this end, the Committee examines the issue of working relations between the public and private sectors, stresses the need for mutual trust and effective consultation in all matters of national concern and notes that building and maintaining such relationship will call for initiative and greater efforts from all parties concerned.

5.2 Following the analysis of the various relevant issues, the Committee makes the following specific recommendations:

- (i) That there is need for continued maintenance of the political values of democracy and openness, and the preservation of unity and security. It is of utmost importance in this context to guard against evils like tribalism and absolute poverty, which if allowed to grow, may destroy peace and stability and thereby jeopardise economic progress (para. 5.07);
- (ii) That the State should properly manage public affairs especially in the design and implementation of

control regulations which affect citizens individually and collectively (para. 5.08);

- (iii) Macro-economic management of the economy must be conducive to growth of saving, investment and enterprise with special stress on control of budgetary deficits because of their central role in the generation of excess demand and imbalances in the economy (para. 5.09 and 5.11);
- (iv) That the budget deficit should be cut down progressively to an even lower figure than the current target of 2.5 per cent by the year 2000 and that in its efforts to reduce the budget deficit, the Government should concentrate primarily on reduction of expenditure which can come about through strict monitoring of budgetary allocations with a view to cutting down wasteful expenditure (para. 5.14 and 5.15);
- (v) That while opening domestic industry to competition from overseas suppliers, the possibility of dumping should be guarded against. It will also be important to ensure that the competition is fair in the sense that initial conditions are comparable (para. 5.17);
- (vi) That the State has to provide an adequate physical and social infrastructure to encourage private enterprise (para. 5.20);
- (vii) The Joint Industrial and Commercial Consultative Committee (JICCC) should be revitalised and strengthened so that it can serve as the principal

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ion 2.10 Currently the small-scale enterprise programmes lack effective institutional guidance and co-ordination which are essential for their success. In order to eliminate this constraint, the Ministry of Planning and National Development will provide the necessary institutional backup and establish a more cost-effective coordinating mechanism.

nd p- 2.11 In order to enable the local authorities, who are better placed in identifying investment opportunities and needs of small scale entrepreneurs in their respective areas, make tangible programmes for small enterprise development, Government will continue to assist them in the preparation of development plans and projects for improving infrastructural facilities under their jurisdiction.

2.12 Small enterprise sectoral associations can be effective in providing information, training, and investment advisory services to member entrepreneurs. More importantly, these associations can be very useful in providing collective and cost effective material sourcing channels and marketing outlets for products. Therefore, more sectoral small scale enterprise associations will be encouraged to ensure rapid take off of small enterprise development programmes. In addition, an effective mechanism for gathering, analysing and disseminating information will be put in place by existing relevant private sector and government institutions.

2.13 Although some supportive measures have already been taken, to ease some constraining regulatory framework for business, the following other measures will be taken by relevant Ministries. in consultation with the AG's Chambers:

- (i) A Comprehensive review of all pertinent Acts and in depth analysis of the extent to which such Acts

have adverse impact on the SSEs, either directly or indirectly;

- (ii) Review of licensing arrangements and building codes for small enterprises with a view to relaxing any of them that hinder SSE businesses; and,
- (iii) Restructuring those clauses of the Employment Act which restrict access to employment by women in certain industries other than for medical and environmental reasons.

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CHAPTER THREE
GENDER SPECIFIC ISSUES

3.1 While in many respects the problems, challenges and opportunities are similar for male and female entrepreneurs operating a small business, women nevertheless face a number of special constraints which call for urgent remedial action.

3.2 Although the laws of Kenya provide for equality between men and women, in practice women are still disadvantaged. For example, the Employment Act restricts most women from running businesses in their homes or being hawkers. Although inheritance laws were revised with the Succession Act of 1981, women have rarely actually inherited land and other property in their own right. This means that they lack title deeds which are still the most commonly used forms of security for borrowing money.

3.3 Education on its own does not guarantee successful entrepreneurship, but it enhances the women's ability to embark upon non-traditional entrepreneurial activity, to link up with technological innovation in production or to penetrate into organisations and institutions that contribute to policy or programme development for SSEs.

3.4 Lack of time due to the multiple roles of women in Kenya constitutes another major constraint in women's participation in SSE. The traditional delineation of labour persists with women assuming the entire responsibility for child care, the largest share of family activity in the provision of food, water and fuel-wood and the general maintenance of the homestead, in addition to their other economic activities. Women are also overburdened with frequent pregnancy and child-birth which take their toll on health.

3.5 Certain social attitudes and practices also reduce the effective participation of women in SSE. Traditional and modern marriage practices tend to view women as subordinate to and dependent on their husbands. It is for this reason that married women are denied housing allowances which constitute a significant portion of a worker's earnings. For similar reasons, family land and property is frequently registered in the names of men. These are all deep rooted cultural factors which will take a long time to change. It is necessary, therefore, to take these factors into consideration in planning and programme design.

3.6 Banks and financial institutions have traditionally had a negative attitude towards women and they assume that women are supported by their husbands. Those borrowing money need their husbands' clearance if they are to borrow easily. Yet, facts are that women usually are better borrowers than men and their pay back rates much higher. Single mothers are especially good in paying back their loans. Women can often be better entrepreneurs as well because of their attention to people and detail.

3.7 As many constraints are caused by negative attitudes which men hold towards women, there is a need for specific intervention in the form of sensitization or public education. Successful women entrepreneurs will be identified and highlighted in the media to act as role models. The real facts about women's use of credit, their contribution to the national economy and resources will be made known. In a similar vein government officials, bankers and women themselves will be sensitized with special training and media packages. The Women's Bureau of the Ministry of Culture and Social Services will take the lead role in the implementation of this programme.

3.8 Traditional SSE development institutions will need to adjust their operations to take note of the needs of women

entrepreneurs located in rural areas. They live in rural areas with institutions. Financial outreach is accelerated.

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entrepreneurs. The majority of existing financial institutions are located in urban areas while the majority of women entrepreneurs live in rural areas. As a result, most women are totally unfamiliar with institutional banking and credit systems. The creation of smaller financial institutions for revolving funds and mobile banks with outreach programmes is already in progress but needs to be accelerated.

3.9 Currently, information on womens' involvement in SSE is virtually non-existent. To correct the situation, the Ministry of Culture and Social Services has already initiated surveys on women's activities. This programme will be intensified since it is only through awareness of levels of womens' involvement in SSE, their survival rates, and constraints faced by them that appropriate programmes for their support can be developed.

3.10 The introduction of appropriate technology should diversify women entrepreneurial activities by orienting them away from the perennial sewing, embroidery and handicrafts to the production of more marketable and more remunerative items. In this context, it will be necessary to develop technology which women entrepreneurs can afford and which they can learn to use and maintain with ease. In addition, continued provision of basic needs nearer home will result in women entrepreneurs having more time for their SSE activities.

3.11 The organisation of women into groups, self-help or otherwise, has provided to some extent a viable structure through which women can support each other and benefit from development initiatives. Of particular significance in this regard are the womens' income generating projects that are organised as womens' groups, enabling supporting agencies and extension personnel to reach more women while at the same time allowing more women to learn together and encourage each other. Group approaches in SED have

however, revealed major problems arising from the original concept of womens' groups activities as social welfare projects rather than business ventures. Most of the so-called income-generating activities are non-starters while the groups themselves do not lend themselves to the spirit of entrepreneurship. Considering the current policy emphasis on womens' groups and their role in bringing women to the threshold of mainstream SSE, there is an urgent need to rethink and redefine their role.

3.12 Women need to know more about their rights, inheritance laws, how to form women's groups, how to form a company, and how to get into tendering and sub-contracting. The Public Law Institute, the Women's Bureau and related Ministries and private sector organisations will hold legal awareness seminars. The media will also highlight pertinent issues through the radio and newspapers. The employment of a multi-media approach will ensure that many more women entrepreneurs are reached.

3.13 One of the most striking features characterizing women entrepreneurs, especially in rural areas, is lack of information and awareness on SSE matters. Existing official channels of communication do not necessarily reach all women. There is need therefore to employ a variety of channels including women's groups, churches, cultural groups, and interperson communication, in addition to the mass media and formal workshops and seminars.

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CHAPTER FOUR

CREDIT FOR THE SMALL SCALE AND JUA KALI ENTERPRISE SECTOR

4.1 Since independence, Kenya has witnessed considerable growth in financial institutions some of which have been specifically designed for lending to the small and medium enterprise sector. These include Kenya Industrial Estates (KIE), the Joint Loan Board Scheme (JLBS), and the Small Enterprise Finance Company (SEFCO), which is a private company. In addition, other institutions have developed within their portfolio special credit programmes for the same sector and these include Industrial and commercial Development Corporation (ICDC), Kenya Commercial Bank Ltd., Barclays Bank of Kenya Limited and National Bank of Kenya Limited. Other sources of limited credit to this sector have been from over 600 Non-Governmental Organisations (NGOs) registered in the country and a few small enterprise associations.

4.2 The volume of credit to the Small Enterprise Sector by specialised institutions since independence is estimated at Kshs. 1,112 million, as indicated in Table 1.

Table 1
Small and Medium Enterprise Loan volume of DFIs Since Independence

Lending Institutions	Approximate Loan Amount (K. Sh. million)
KIE	500
ICDC	372
JLBS	170
SEFCO	70
Total	1112

Source: KIE, SEFCO, ICDC, Ministry of Commerce, 1988

4.3 It is difficult to determine how much has been loaned to the small enterprise sector by commercial banks and other non-bank financial institutions because their reporting to the Central Bank of Kenya does not specifically require this information. However, it is known that their loans to small scale and Jua Kali enterprise sector represents a small fraction of their total loan portfolio. A relatively modest increase in this fraction would imply a very large increase in the total loans available to the small enterprise sector, amounting to several times the loans of all the above mentioned DFIs taken together.

4.4 Problems of lending to small enterprises occur at three different levels: first, at the level of the small borrower who lacks experience with credit institutions; second, with the financial organisations which are not predisposed to lending to small enterprises; and third, at the level of existing regulations which limit the total funds available for on-lending. The main areas of concern include inadequacy of loanable funds, stringent collateral requirements and the negative attitude of lending institutions towards SSE borrowers.

4.5 Increased flow of loan funds to the SSE and Jua Kali sector from the financial sector, especially commercial banks, will be achieved only if banks perceive lending to the sector as a financially attractive part of their lending portfolio. It will thus be necessary to allow banks to charge competitive interest rates on SSE loans, with adequate margin to cover the relatively high costs of administering such loans. Recent moves to deregulate interest rates in the commercial banking sector are expected to provide the necessary freedom to banks in this regard.

4.6 To ensure increased flow of loan funds, the Government will intensify its efforts to acquire supplementary soft foreign loans for

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on-lending to public and private financial institutions for lending to the SSE and Jua Kali sector.

4.7 Banks and Development Finance Institutions provide certain services to their SSE clients before and after extending credit. These services are expensive and include preparation of feasibility studies, project appraisal, project implementation, project supervision, training, rehabilitation and other management advisory services. Unlike the DFIs, commercial banks are not allowed to levy any charges for these services. To enable the commercial banks integrate these services into their lending programmes, the Government will consider allowing them to charge reasonable fees for the services rendered to their SSE and Jua Kali clients.

4.8 Medium and large scale firms including banks and DFIs contribute towards the Training Levy Fund, from which they are reimbursed for expenses incurred on training of their own employees. To develop the SSE entrepreneurs, the Government will revise the application of the Industrial Training Act so as to accommodate the use of the fund by banks and DFIs for training of their SSE clients. In addition, the Ministry of Technical Training and Applied Technology, in consultation with the Treasury and the Directorate of Personnel Management, will establish a special training fund for SSEs and Jua Kali entrepreneurs. Contributors to this fund will include Government, the private sector, and the donor community.

4.9 To ensure efficient operation, the above changes deserve constant review. In this regard, the Central Bank will put in place a consultative forum where banks will continuously review the various policies and regulations that otherwise hinder the flow of credit to the SSE sector. The Central Bank will, through the same forum initiate studies on comparative risks and costs associated with lend

ing to the SSE sector in Kenya in order to lay the groundwork for future policies in the banking sector.

4.10 At present the Development Finance Institutions are not authorised to take deposits. To enable them attract and accept saving deposits from the domestic market as the primary source of funds for lending to the SSE and Jua Kali sector, the Government will work out an appropriate arrangement for the institutions.

4.11 Government's level of borrowing from the local financial institutions affects the overall level of loanable funds available for use by the private sector. Government will, therefore, continue reducing the internal financing of budget deficits in order to release more resources to the private sector. The proposed consultative forum under the auspices of the Central Bank will be used to regularly review with the banks the necessary relative increase of their SSE lending, in order to ensure that some of the freed up resources are redirected to this sector.

4.12 During the past decade, the general policy of Government in attracting foreign loans for the private sector has been to pass the foreign exchange risk on to the final borrower. This has tended to discourage the business community from borrowing when the loans are designated in foreign currencies. The policy in this respect has changed recently. Government now does and will in future continue to bear the foreign exchange risks in order to stimulate the flow of funds from external sources to the business community through the local financial institutions.

4.13 Exports by the SSE and Jua Kali sector have been insignificant. One of the reasons is inadequate export financing arrangements. Consequently the Government, through the Central Bank, will explore modalities of establishing an export credit guarantee

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insurance scheme. In addition, the possibility of establishing an SSE export credit fund will be explored.

4.14 Generally, all lending institutions require collateral for securing their loans. The SSE and Jua Kali borrowers are often unable to provide the required collaterals, which are rigidly stipulated in Central Bank guidelines. To tackle this problem, the Central Bank, in collaboration with commercial banks and financial institutions, will review the lending regulations and procedures with a view to making the collateral requirements more flexible and responsive to credit needs of the SSE and Jua Kali sector.

4.15 Credit guarantee schemes have been used to a limited extent in Kenya, and with some success, for purposes of alleviating the collateral problem and thereby increasing the flow of credit to specific target groups including Jua Kali artisans, youths, women etc. These schemes have been mainly donor funded and although they are generally not a complete solution to the problem of credit risks, Banks, NBFIs, DFIs and SSE associations will be encouraged to initiate more of these schemes. In addition, the Government will undertake a study on the viability of setting up a broad-based national credit guarantee corporation. Commercial Banks will be encouraged to subscribe to it.

4.16 The banking system has tended to be conservative, especially in their dealing with SSE borrowers whom they consider as risky with high credit delivery costs. To overcome this negative attitude of bank officers towards SSE borrowers, the College of Banking and Finance, in consultation with the Central Bank, will develop appropriate curricula for providing two types of courses:

- (i) reorientation workshop for bank officials with special emphasis towards the potential in lending to SSEs and special target groups; and,

- (ii) training of credit officers in appraisal and supervision of term-loans to SSEs on the basis of cash flow lending as opposed to collateral based lending.

4.17 In addition, the Central Bank will ensure that:

- (i) banks introduce the above courses in their internal training programmes; and,
- (ii) top bank officials participate in workshops, seminars, round tables, lectures, study tours etc. in order to increase awareness of the importance and viability of lending to SSE and the potential of the various target groups such as women, artisans etc.

4.18 Further, the Central Bank will ensure that banks and financial institutions provide integrated training packages for SSE clients by introducing and strengthening their business advisory service departments, including possible subcontracting for such services to other specialised institutions.

4.19 Finally, Ministry of Planning and National Development, in collaboration with relevant institutions, will explore the possibility of setting up a venture capital institution for SSEs, to enable them obtain more equity capital.

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CHAPTER FIVE

NON-FINANCIAL PROMOTIONAL PROGRAMMES

5.1 Besides a conducive policy environment and adequate credit, small scale enterprises require various non-financial services at different stages of their growth. These include managerial and technical training, counselling, consulting, marketing, extension, programme design, programme implementation and evaluation, use of technology and quality production. The following problems have been encountered in regard to these services:

- (i) lack of enterprise culture;
- (ii) poor quality programmes;
- (iii) non-coordination of programmes;
- (iv) high cost of NFPPs;
- (v) inadequate involvement by private sector;
- (vi) lack of sub-contracting; and
- (vii) inability to exploit market opportunities.

5.2 An enterprise culture is an environment that prepares the community as a whole to take advantage of the available business opportunities in society and provides supportive measures for entrepreneurs at all levels of development to realise their potentials, regardless of sex.

5.3 Role models of successful entrepreneurs in society can influence potential entrepreneurs to go into self-employment and at the same time inspire those already in business to do even better

Existence of networks and forums for business contacts enhances interaction of successful entrepreneurs with potential and emerging ones, thereby positively influencing the latter to go into business. In addition, the education system has the potential to contribute greatly to entrepreneurship culture and development through supply of more and better prepared graduates who are well tuned to self-employment and entrepreneurship. In order to promote a more dynamic enterprise culture, the universities and other training institutions will introduce entrepreneurship education in their degree and diploma programmes. In addition, the Ministry of Technical Training and Applied Technology, in collaboration with other relevant organisations, will:

- (i) conduct in-depth market surveys periodically to identify emerging skills and abilities needed in business, especially in the small enterprise sector;
- (ii) provide training to entrepreneurs and their employees in the choice and use of new technologies, especially those that are appropriate for small enterprises;
- (iii) conduct market surveys to identify opportunities for product diversification and new product development in the small enterprise sector;
- (iv) identify new potential markets in rural areas with a view to initiating small enterprises;
- (v) develop mass media techniques for dissemination of information on all phases of self-employment and entrepreneurship;

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organisations, e.g Universities, to develop a small enterprise project "design manual" to be used by implementing agencies. This manual would inter alia contain information on aim oriented planning methods, needs assessment methods, how to involve target groups, identification of indications of success methods and tools for monitoring implementation stages; and,

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- (ii) The Office of the President and the Ministry of Planning and National Development will monitor compliance with existing government SED policy guidelines as and when programmes or projects are implemented in the country.

5.5 Provision of adequate manpower resources in terms of professionally qualified staff in both the private and public sectors is vital for effective entrepreneurship programmes at start-up, operation and expansion phases of businesses. To improve the level of professional staff in promotional institutions, greater effort will be made to train and recruit more professionals including female professionals. To this end:

5.6 There enterprise de leads to wast tion of activi tivities of the non-financial ness of the p ing measures

- (i) Promotional organizations, both public and private, will be encouraged to devote a larger portion of their resources to staff training and development;

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- (ii) NGOs will be encouraged to expand their training functions to assist other promotional agencies in small enterprise staff development on a commercial basis and to develop special training programmes for women entrepreneurs;

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- (iii) The Directorate of Personnel Management will give priority to training programmes aimed at small enterprise development and identify suitable women officers for training; and
- (iv) Promotional agencies, in particular public sector ones, will make more use of existing entrepreneurs and craftsmen in their training programmes in order to add a more practical dimension to the training. Women entrepreneurs will be especially identified.

5.6 There are many organisations operating isolated small enterprise development programmes throughout the country which leads to wastage of financial and human resources through duplication of activities. An umbrella organisation to coordinate the activities of the various organisations so as to maximize the benefits of non-financial programmes does not exist. To increase the effectiveness of the programmes and enhance complementarity, the following measures will be taken:

- (i) The Ministry of Planning and National Development will collaborate with existing relevant institutions to facilitate improved mechanism for information sharing, research, training and other promotional activities;
- (ii) The sectoral Ministries (Industry, Commerce, Culture and Social Services, Technical Training and Applied Technology) will critically review their portfolio of SSE related programmes. The Ministry of Planning and National Development will coordinate the activities of sectoral Ministries for consistency with the national development priorities;

- (iii) The Ministry of Technical Training and Applied Technology will provide training to entrepreneurs and their employees in technical and managerial skills as well as entrepreneurship; greater attention
self financing
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- (iv) The Ministries of Industry and Technical Training and Applied Technology will assist SSEs with extension services in areas such as accounting, material procurement, stock control, cash-flow management, production planning and control; and (i)
- (v) The Ministries of Industry and Technical Training and Applied Technology will provide appropriate training and in some instances technical assistance in such areas as feasibility studies, machinery sourcing, installation and maintenance, product development and diversification and the use of appropriate technology. In order to enhance complementarity of services and their effectiveness, it is vital to deliver the assistance as a package. It is also important that all the assistance is need-driven and the programmes self-sustaining. (ii)

5.7 The resources available for non-financial promotional programmes, whether from Government or non-governmental sources, are limited. Therefore, it is necessary to screen and select those SSEs which have the highest potential for benefitting from Non-Financial Promotional Programmes. This will enhance the cost-effectiveness of such programmes. Also, greater attention will be given to least cost promotional programmes and to rigorous evaluations, in order to rationalise such programmes.

5.8 To improve on the cost-effectiveness of non-financial promotional programmes, over-subsidisation will be reduced and

5.9 The of external licensing and negotiations proposals lobbying for regard, the ing and App sectoral assistance, the Mi Technology Enterprise businesses v

5.10 Sub industry links

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and Applied Entrepreneurial and managerial greater attempt made to develop programmes and projects that are self financing. In this regard, the Office of the Vice President and Ministry of Finance will:

- (i) establish within the External Resources Department, a small scale enterprise development section to ensure that donor programmes are complementary to each other so that resources are utilised in the most efficient manner; and,
- (ii) rationalise the allocation of resources in accordance with the national strategy for SSEs as stated in the Sixth National Development Plan.

5.9 The SSE entrepreneurs have little control and knowledge of external factors that affect their businesses such as taxation, licensing and the legal structure. The formation of sectoral associations proposed earlier can play an important role in educating and lobbying for the interests and concerns of their members. In this regard, the Ministries of Commerce, Industry and Technical Training and Applied Technology will facilitate the formation of more sectoral associations for the benefit of SSE entrepreneurs. In addition, the Ministries of Industry and Technical Training and Applied Technology will facilitate the formation of an association of Small Enterprise Development consultants with a view to providing small businesses with consultancy services that they need.

5.10 Subcontracting is an instrument for promoting inter-industry linkages which lead to:

- (i) fuller utilisation of installed capacity;
- (ii) manufacture of better quality products through the comparative advantage approach;

- (iii) imparting expertise; and,
- (iv) employment creation.

5.11 Currently, subcontracting mechanisms are underdeveloped primarily because Kenya's industrial base is small and the economy is still consolidating. To promote sub-contracting, the Ministry of Industry has already initiated the establishment of a subcontracting exchange. The exchange, as a private sector initiative, will promote inter-industry linkages by providing information and advice on possible avenues of co-operation. In addition, organisations assisting SSEs will be encouraged to promote inter-organisational linkages by sub-contracting some of the activities to others who are better placed in providing such services.

5.12 The development of the SSE sector has been generally oriented towards the domestic market. Little attention has been paid so far towards the promotion of exports. In order to expand the demand for SSE products, it is necessary to explore the export market. As the export markets demand stringent quality standards and competitive pricing, the Ministry of Commerce, in collaboration with relevant organisations, will develop a training programme aimed at:

- (i) proper product design to suit demand and taste of the export market;
- (ii) improvement in product packaging; and
- (iii) imparting skills to entrepreneurs in production management, technology, material procurement, costing, and pricing.

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CHAPTER SIX

AGENDA FOR ACTION

6.1 In the preceding chapters of this Paper, the following factors have been identified as inhibiting the development of the small enterprise and Jua Kali sector:

- (i) Lack of coherent policy guidelines and unfavourable regulatory environment;
- (ii) Inadequate physical infrastructure;
- (iii) Limited markets for the sectors' products and services;
- (iv) A weak institutional infrastructure;
- (v) Poor information gathering and dissemination, including lack of adequate extension services;
- (vi) Lack of policy on gender specific issues;
- (vii) Poor access to capital;
- (viii) Lack of an enterprise culture;
- (ix) Poor project and programme planning and implementation; and
- (x) Lack of managerial skills.

6.2 A wide range of policies and strategies aimed at removing or alleviating these constraints have been outlined in this paper. In this chapter, however, only those policies which require significant

speeding up or other changes in implementation are mentioned. They are taken as an agenda for priority action within a time-span of 12-24 months after the adoption of this Paper and are as follows:

- (i) The Government will continue to pursue the policy of import liberalisation by replacing quantitative import restrictions by tariffs and also by bringing the average rate of tariff down over time (ch.2); (iv)
- (ii) As part of its programme of infrastructure development, the Government will undertake the following measures: (v)
 - Conduct a needs assessment on the actual and prioritised requirement of infrastructure which will enhance the growth of small enterprises (ch.2), (vi)
 - Encourage local groups of artisans to form associations to benefit from rural electrification programme financed by Government through the Electricity Development Fund; (vii)
 - Make available more industrial and commercial land to small enterprises to instal their own facilities (ch.2), and (viii)
 - Ensure that the construction of sheds for Jua Kali enterprises are undertaken on the basis of needs assessment so that the resources provided supplement artisan needs (ch.2). (ix)
- (iii) The Ministry of Research, Science, and Technology, through its parastatals and the University-In-

ation are mentioned within a time-span of and are as follows:

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and Technol- University-In-

dustry Link Committee; will provide guidelines for technology development, transfer and use (ch.2);

- (iv) Methods will be developed to identify technology research needs of the small enterprise sector, conduct the necessary research and widely disseminate the results to the small enterprise sectors (ch.2);
- (v) The government will use the public procurement procedure and regulations to support SSEs in pursuing innovativeness and production of high quality goods and services (ch.2);
- (vi) The inter University - Industry Link Committee will be promoted as a means of stimulating industrial and economic development (ch.2);
- (vii) Market information will be more widely disseminated by District Industrial Development Officers in a manner that will ensure that all target groups are reached (ch.2);
- (viii) The Export Promotion Division of the Ministry of Commerce will ensure that overseas markets are actively searched for possible exports of Kenyan small enterprise products. It will also disseminate more widely information regarding these potential markets (ch.2);
- (ix) The Ministry of Planning and National Development will initiate studies on the feasibility of sub-contracting between large and small enterprises (ch.2);

- (x) The Ministry of Commerce will facilitate formulation of a national export policy (ch.2);
- (xi) The Ministry of Planning and National Development will establish and strengthen a more cost-effective coordination mechanism for existing and new small enterprise programmes among the various implementing institutions (ch.2);
- (xii) Government institutions which are effectively involved in small enterprise development will be given priority in budgetary allocations based on performance (ch.2);
- (xiii) Local Authorities will be allocated more funds through existing programmes to be used in improving infrastructural facilities under their jurisdiction (ch.2);
- (xiv) Government will encourage the formation of more small enterprise associations to facilitate more effective use of programme assistance provided (ch.2);
- (xv) A comprehensive review of all pertinent regulatory Acts will be undertaken to investigate in detail the extent to which such Acts either explicitly or implicitly impact negatively on SSEs (ch.2);
- (xvi) Licensing arrangements for small enterprises will be reviewed with a view to relaxing any arrangements that hinder SSE's business, in particular those requirements that relate to licensing and rigid building codes (ch.2);

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- (xvii) Studies will be undertaken to ascertain the levels of women involvement in SSE activities including their successes and constraints so that appropriate support can be developed. (ch.3);
- (xviii) Awareness seminars at all levels will be organised through institutions such as the Public Law Institute, the Women's Bureau, related Ministries and private sector organisations to inform women on inheritance laws, how to form business concerns and on tendering and sub-contracting (ch.3);
- (xix) The Women's Bureau will formulate a national policy on the role of women in social-economic development (ch.3);
- (xx) The Central Bank will assist the College of Banking and Finance to develop appropriate curriculum for re-orientation and sensitisation of bank officials towards SSE needs and training of bank officers in appraising SSE projects, with emphasis on lending on the basis of cash flows as opposed to collateral based lending (ch.4);
- (xxi) The Central Bank, together with the College of Banking and Finance, will organise workshops, seminars, round tables, lectures, study tours etc. in order to expose bank officials to the importance of SSE and Jua Kali sector as clients with a major potential impact on the national economy (ch.4);
- (xxii) Banks and financial institutions will be encouraged to publicise their activities and to open up new

branches as a means of mobilising savings and attracting a wider clientele (ch.4);

- (xxiii) The Central Bank will issue new guidelines and procedures on lending to the small scale enterprises and Jua Kali sector with deliberate infusion of flexibility to facilitate use of other forms of security including movable assets and warehouse receipts (ch.4);
- (xxiv) Banks, DFIs, NGOs NBFI's and trade associations will be encouraged to develop a wider variety of credit guarantee schemes, especially for special groups such as professionals, women, Jua Kali artisans, retirees etc. (ch.4);
- (xxv) The Office of the Vice President and Ministry of Finance will commission a study on the viability of setting up a National Credit Guarantee Corporation in order to cushion financial institutions against credit risks involved in lending to this sector (ch.4);
- (xxvi) Commercial Banks will be allowed to charge reasonable fees for special services offered to their customers, including feasibility studies, project appraisals, training, supervision, and general counselling etc;
- (xxvii) The Ministries of Technical Training and Applied Technology and Industry will take the necessary action to have the Industrial Training Act amended in order to extend its use to cover the training of SSE clients (ch.4);

- (xxviii) The Central Bank will form a consultative forum with banks and financial institutions which will in future be an important nucleus and source of recommendations on Government policies to be adopted in order to increase flow of credit to this sector (ch.4);
- (xxix) Loanable funds will be increased through concerted efforts by banks and financial institutions to mobilise savings locally. In particular the Central Bank will encourage DFI's to adopt policies of attracting deposits in the domestic market as a primary source of funds;
- (xxx) The Office of Vice-President and Ministry of Finance, the Central Bank, NGOs and donors will develop innovative and diversified lending programmes and schemes as a means of attracting funding especially for special target groups such as professionals, women, retirees, artisans etc. (ch.4);
- (xxxi) The Central Bank will explore modalities of establishing an Export Guarantee Insurance Scheme and an SSE Export Finance Fund (ch.4);
- (xxxii) The Office of the Vice-President and Ministry of Finance will make special efforts to ensure that foreign loans earmarked for the SSE and Jua Kali sector are designated in local currency and where this is not possible the Government will bear the foreign exchange risks (ch.4);

(xxxiii) The Ministry of Planning and National Development will explore the viability of creating a venture capital institution for SSEs (ch.4);

(xxxiv) The Ministry of Technical Training and Applied Technology will:

- Develop and implement innovative curriculum materials and methods for training needs related to self-employment and entrepreneurship (ch.5);
- Establish rural business centres for information dissemination, research, product development and programme promotion (ch.5); and,
- Portray and popularise entrepreneurship positively in society through media campaigns (ch.5).

(xxxv) The government will:

- Use existing institutions to facilitate improved mechanism for information sharing, research, training and other promotional activities (ch.5);
- Ensure through the Ministry of Planning and National Development that a review of SSE programmes within the sectoral Ministries is undertaken (ch.5); and,

- Through the Ministry of Planning and National Development ensure complementarity and integration of assistance packages intended for SSEs (ch.5).

(xxxvi) The Ministries of Industry, Technical Training and Applied Technology and Culture and Social Services will initiate the formation of:

- SSE sectoral associations;
- NGO association on specialised services; and,
- Association of SSE consultants.

(xxxvii) The Ministry of Industry, in consultation with relevant organisations, will initiate the establishment of a sub-contracting exchange (ch.5); and,

(xxxiii) The Ministry of Commerce will restructure existing export promotion mechanisms with a view to making them more effective (ch.5).



REPUBLIC OF KENYA

MINISTRY OF FINANCE

SESSIONAL PAPER NO.3 OF 1992

Speaker N.A.	36
Clerk N.A.	
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KENYA GOVERNMENT GUARANTEE OF A LOAN OF US\$20 MILLION THROUGH THE U.S DEPARTMENT OF AGRICULTURE TO NATIONAL CEREALS AND PRODUCE BOARD

1. In accordance with the provision of the Guarantee (Loan) Act (Cap 461) the following information is laid before the National Assembly for consideration and approval.
2. The National Cereals and Produce Board (NCPB) with the full support of the Government has successfully negotiated a loan of US\$20 million for purchase of maize in connection with the United States Department of Agriculture's Commodity Credit Corporation Export Credit Guarantee Programme - GSM102.
3. The loan of US\$20 Million has the following financial terms.
 - i) Interest rate will be charged at US Libor plus a margin of 0.5% and usual bank charges.
 - ii) Repayment will be made in 3 years payable annually with interest on reducing balance, effective from the date of shipment of the maize.
 - iii) The repayment will be made through the Kenya Commercial Bank Ltd.
4. The National Assembly is therefore requested to approve the Government Guarantee of a loan of US\$20 million equivalent to Ksh.639,848,000/- to National Cereals and Produce Board in connection with the United States Department of Agriculture's Commodity Credit Corporation Export Credit Guarantee Programme GSM102. The repayments will be made through Kenya Commercial Bank Limited.



REPUBLIC OF KENYA

MINISTRY OF FINANCE

- 2 -

5. The current contingent liabilities of the Government of Kenya in respect of guarantees given under Section 3(3) of the Guarantee (Loan) Act (Other than those specified in the schedule of the Act) amount to K£1,430,447,162 and with this guarantee of US\$20 million equivalent to K£31,992,400 proposed in this Sessional Paper, the aggregate amount will be increased to K£1,462,439,562 of which K£83,489,479 fall within paragraph (a) and K£1,378,950,083 Within paragraph (b) of Section 3(3) of the Act.

A handwritten signature in black ink, appearing to read 'George Saitoti', written over a horizontal line.

HON. PROF. GEORGE SAITOTI
VICE PRESIDENT AND MINISTER FOR FINANCE