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   RESULTS & DISCUSSION

   FINDINGS

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THE PLACE OF SMALL AND MEDIUM ENTERPRISES IN ECONOMIC DEVELOPMENT: A KENYAN PERSPECTIVE

JAMES WAFULA WANYAMA
HEAD
BUSINESS MANAGEMENT DEPARTMENT
OSHWAL COLLEGE
KENYA

ABSTRACT
This paper seeks to explore the state of small and medium enterprises (SMEs) in Kenya. It also endeavors to determine the role that the government of Kenya plays in promoting SMEs in the country. In addition it sets to find out whether small and medium enterprises (SMEs) are seen to be of any relevant importance in Kenya's economy. To sum up, the paper looks at the constraints facing small and medium enterprises (SMEs) in Kenya before drawing recommendations and conclusions. It is established in this paper clearly that small and medium enterprises (SMEs) play important socio-economic importance roles in the Kenyan economy. As such, they form the bulk of all businesses in developing nations. Ideally, one of the main roles played by small and medium enterprises (SMEs) is the creation of employment. They are also perceived as vital for the promotion of competition and innovation – essential ingredients for the growth of the private sector. But even with the Knowledge of their importance, small and medium enterprises (SMEs) in Kenya face numerous challenges that hinder their success and survival. These include negative perception and less preference from investors. They face insurmountable difficulty in securing credit. The government should thus promote microcredit institutions for increased availability of credit. Proper legislation should be put in place to facilitate establishment of small and medium enterprises (SMEs). In a nutshell, there is need to constantly monitor the dynamic environment under which they operate and discern solutions that would secure the continued performance of small and medium enterprises (SMEs).

KEYWORDS
SME's-Small and medium enterprises, micro-credit institutions, economic development, GDP (Gross domestic product), performance.

INTRODUCTION
It is important to ask oneself this question: what are small and medium enterprises (SMEs)? The definition of small and medium enterprises (SMEs) varies across countries. In some countries, they are defined as enterprises that employ between 1 to 100 employees and have annual turnover of less than 100 Kenya Shillings. Definitions of small and medium enterprises (SMEs) vary across countries. In Sub-Saharan Africa, they are generally defined as enterprises that employ between one and one hundred employees (Elumba, 2008). Employment is created not only for the poor rural urban migrants but also for women, persons who lose employment or those going to self employment. The higher the entry cost and capital needs of small and medium enterprises (SMEs), the greater their profitability. As such the presence of credit would buttress the profitability of small and medium enterprises (SMEs) in Kenya. It is also important to note that the vast majority of small and medium enterprises (SMEs) operate in makeshift premises, in residential houses as well in street pavements among other places. This means that there is need for governments to build premises and other infrastructure that would enable SMEs to operate with ease. Small and medium enterprises (SMEs) are also perceived as some of the main ways of spurring economic growth in Kenya and their role is recognized in Kenya's Vision 2030. They also play critical roles in enhancing the attainment of informal employment. The vast majority face severe competition and insecure operating places (make-shift premises) which are devoid of essential services such as water and electricity. Whereas former attempts to fast-track development through the creation of large enterprises and industries has failed to reach the desired goals of improving the lives of the general population to the desired extents, small and medium enterprises (SMEs) are seen as a vehicle for even distribution of goods and services.

STATEMENT OF THE PROBLEM
Since the socio-economic importance of SMEs is undeniable, many studies have been carried out on the subject of SMEs. Who would not be interested in understanding a sector that plays a critical role in the economic development of many countries and which accounts for more than forty percent of all businesses in sub-Saharan Africa as pointed out by International Finance Corporation (IFC) (2007)?

In Kenya, the Small and Medium Enterprise (SME) sector is made up of various self-employment ventures and dynamic enterprises that entail a variety of activities usually in urban areas and increasingly in rural areas since the advent of Kenya's rural electrification project. The two paramount labor force components in the micro and small scale businesses in Kenya are entrepreneurs and apprentices. The total labor in the Small and Medium Enterprise sector varies across different sorts of business establishment and activities. One key characteristic of SMEs in Kenya is that they are generally young ventures. In most cases, age various across locations and activities. The initial years of SMEs in the country are essential for survival. Severe competition often leads to the death of the less efficient and poorly managed enterprises. As such, businesses with higher capital needs and expertise often present higher entry challenges than those without such needs (Wanjira and Mureithi, 2008).

SIGNIFICANCE OF THE STUDY
SMEs in Kenya have attained more progress and maturity than those found in the rest of the continent. Another worth noting characteristic of Small and Medium Enterprise in Kenya is that the vast majority of entrepreneurs in Kenya are male. Women account for less than half of entrepreneurs (40 % of all entrepreneurs). But their role in the Small and Medium Enterprise sector in Kenya cannot be underestimated. They use less start-up capital and dominate commercial and service activities. According to Parker and Torres (2001) women entrepreneurs in Kenya start their businesses smaller, use smaller start-up capital, grow slower and show unique and innovative credit-use patterns and more often than not are prone to operating from home.

LITERATURE REVIEW
The largest proportion of Kenyan proprietors in the SMEs is found in the food and service sector whereas the largest proportion of apprentices in garages, metal works and welding (Aboagye, 2004). Previous studies have shown that the time taken during apprenticeship in the Small and Medium Enterprise sector can last as long as three years in metal works and garages. The average age of Small and Medium Enterprise is less than six years. However, location and nature of activities determine the age of Small and Medium Enterprises. Nairobi and Mombasa have younger Small and Medium Enterprises than those in other towns and vice versa. This indicates that with time, entrepreneurs tend to move from smaller towns as they gain more capital and skill to Nairobi, Mombasa and other larger towns. The oldest Small and Medium Enterprises in Nairobi are salons and retails shops. During the early stages of businesses mortality is higher. The absence of entry barriers creates severe competition among young enterprises. As a result, many collapse. In Kenya, another key characteristic of Small and Medium Enterprises is that they are often sole proprietorship. Few businesses such as garages and metal work fabrication among others are partnerships.

Sectors with higher entry costs such as retail shops, beauty salons, motor vehicle garages and metal fabrications earn higher income to entrepreneurs. According to Liedholm, Carl and Mead (1999) income from businesses is related to the educational attainment of the entrepreneur. Earning also tend to be higher in areas with close proximity to markets and cheap labour. On another note most Small and Medium Enterprises in Kenya operate from fixed locations.

Some however tend to move from place to place so as to avoid harassment from government agencies especially when requisite licences and documents are not in place. The vast majority of Small and Medium Enterprises in Kenya, numbering millions in number, operate in markets or in make-shift kiosks with the majority entrepreneurs being tenants. There is also a large portion of squatters. In various urban areas, informal food processing, woodwork and metal fabricating enterprises usually operate from make-shift shades. Government agencies-especially those dealing with land adjudication-often destroy these types of structures with the aim of uprooting them from these areas and for paving way for other forms of development. The temporary nature of most of these premises means that they can scarcely enjoy services such as water and electricity, which are difficult to supply in such environments.

SMEs in Kenya are over 5 million and employ more than 7 million people. They contribute close to 15% of the country's Gross Domestic product (GDP). One key characteristic of SME sector in Kenya is the fact it covers semi-organized and unregulated activities that are small in scale in terms of employment (Kenya Republic of Kenya, 2011a). It has also been noted in the report that self-employed persons largely carry out their activities with few employees in open markets, market stalls, developed and underdeveloped premises, in residential houses as well in street pavements among other places for lack of proper premises. Armed with this brief overview of Kenya's Small and Medium Enterprise sector it necessary to find out their significance in Kenya's economy.

RATIONALE FOR SME'S IN KENYA's ECONOMY

Globally, governments are directing their energy on MSEs. There has been need for a paradigm shift on the approach to development globally. According to the White Paper on International Development (2000), former attempts to fast-track development through the creation of large enterprises and industries have failed to reach the desired goals of improving the lives of the general population to the desired extents. Currently, Small and medium enterprises are seen as panacea for even distribution of goods and services. They are also perceived as vital for the promotion of competition and innovation – essential ingredients for the growth of the private sector.

According to the Ministry of Planning, National Development & Vision 2030 (2007), the SME sector in Kenya has been known to bring myriads of people from low levels of the informal economy to the mainstream economy. As a result, the government of Kenya has endeavored to put in place ways of strengthening Small and Medium Enterprise for increased productivity and performance in a bid to attain vision 2030. It is believed that strong Small and Medium Enterprise are key foundation for tomorrow's industries.

One of the most notable roles played by Small and Medium Enterprises in Kenya is the provision of informal employment. As such, the number of Kenyans employed in this sector is more than those in the formal employment since the last decade. With the upsurge of rural-urban migration, the Small and Medium Enterprise sector provides a platform for unskilled persons from rural areas to acquire skills to etch a living a living in the increasingly competitive urban setup (Central Bank of Kenya, 2009). In the same accord, Small and Medium Enterprises play a crucial role in the provision of employment for the urban youth emanating from limited employment in the formal sector. It is worth noting that many young college graduates are devoid of specialized skill, owing to the conceptual nature of training in most of Kenya's vocational colleges. Such graduates hit the job market with little specialized skills essential for penetrating the flooded formal labor market.

Aboagye (2004) points out that the SME sector also plays pivotal roles in enhancing marketable skills among Kenyans. It enables young graduates acquire marketable skills that enable them work and gain direct employment. In a contrary opinion, McCormick and Ongile (1996) point out that most SMEs in Kenya require workers with skills that school leavers do not have. This means that the sector may not be the final solution to Kenya's staggering unemployment problems.

Still on the aspect of job creation, SMEs attract many skilled people who lose employment from the formal sector. Most of these employees take advantage of the limitations of the formal sectors to offer the same goods and services on better and more appealing terms (Aboagye, 2001). For those who cannot maintain or secure positions in the formal sector, the SMEs sector forms the second best choice. In Kenya, the main SMEs employing sectors include the garment industry which employs numerous casual workers. This is followed by the *Jua kali* sector. The famous *Jua Kali* absorbs many skilled workers in direct production. Translated directly from Swahili word for "hot-sun", the word *Jua Kali* has been used to describe blue color jobs especially those involving artisans such as mechanics and ironmongers. This is particularly so since they work under the hot-sun, outdoors or in makeshift buildings for lack of premises. With time, any form of self-employment has come to be termed *Jua Kali* (King, 1976). In response to this, the government of Kenya set-up the Jua Kali Development programme in 1988. For the past one decade or so, the majority of Jua Kali related SMEs in Kenya are found in sectors such the food and service sector, welding, metal work, garages as well as beauty-related businesses (Aboagye, 2001).

IMPEDIMENTS TOWARDS SME's SUSTAINABILITY IN KENYA

It is expedient to find out with the SME sector is a bed of roses for entrepreneurs. SMEs in Kenya face numerous challenges. The main challenge facing SMEs in Kenya is that of negative perception. Many people perceive SMEs as lacking the capability to provide services to the required standards. Many people also feel that SMEs are not able to handle numerous projects at the same time (Amyx, 2005). This deprives many SMEs business opportunities since many investors prefer larger companies. SMEs are then left with the uphill task of building a name in an ever competitive environment. It is also usually difficult for smaller businesses to get established since they lack previous experience from which to learn from. The fact that most SMEs are sole proprietorship means that the vast majority of SMEs are faced with lack of planning, improper financing and poor management. This inclines the majority of SMEs to failure as pointed out by Longenecker et al. (2006).

In Kenya, SMEs are also faced with difficult in accessing credit. This is a major constraint since it means that many SMEs lack the much needed capital for growth and expansion (Kiiru, 1991). Lack of access to credit is caused by lack of tangible security. Furthermore, many financial institutions lack an inappropriate legal framework for lending to SMEs. Financial institutions see SMEs as high risk. They do not see their economic viability and tend to sideline them from mainstream funding opportunities. As such, very few SMEs are able to meet the rigorous requirements for funding from financial institutions.

Other main challenges facing SMEs in Kenya include: lack of definition in the institutional mandates, poor policies governing SMEs, outdated by-laws, unavailability of premises and, lack of access to credit, lack of coordination national mechanism among others. It is worth noting that access to financial resources is also made difficult by internal and external factors. Inherently, the vast majority of SMEs are faced with lack of creditworthiness. Extrinsically, they are perceived as insecure and unsustainable businesses that cannot handle credit facilities (Kinyanjui, 2006).

THE GOVERNMENT'S ROLE IN SME's DEVELOPMENT

Governments play critical roles in the development of SMEs globally. With the rise and rise of the SMEs and the critical roles they play in the national economies, many governments have put in place strategies aimed at facilitating the development of SMEs. This has been much through the design of programmes to support SMEs. According to the Capital Markets Authority (2010) most of these strategies have been market driven. They include strategies such as the creation of stable macroeconomic conditions, liberalized of the economy and support of the establishment of micro-finance institutions which play vital roles in financing SMEs.

The government of Kenya undertakes various activities aimed at enhancing the development of SMEs in Kenya. One of the notable efforts undertaken by the government is the promotion of the Jua kali Sector in various urban centers. There have been concerted efforts towards the development of premises (shades) for persons working in the Jua Kali sector by the government of Kenya. The government has also been regularly reviewing its legislation so as to enhance registration of businesses (World Bank, 2007). Another measures used by the government of Kenya to enhance the development of the SME sector is restructuring the education system. There has been much focus on vocational training since the last decade. As such, the government has continued to promote the development of entrepreneurship training through legislation (Republic of Kenya, 2013).

Governments also attempt to enhance the development of SME addressing the local conditions that face them (Fischer et al, 1998). This is in a bid to acquire the benefits that accrue from them. These benefits include gross capital formation, promote technology adoption, improve management and market capacities and create of employment (Kinuthia, 2010). As such, encouraging the ability of such SMEs to penetrate the local market is of profound importance. As such, various

countries have put in place the right legislation so as to buttress the performance of SMEs. Still on the aspect of legislation, the government has endeavoured to reduce the number of days used to register businesses.
Furthermore, SMEs have to content with the availability of markets (Kinaro, 2006). To this end, the size of markets is an important aspect to SMEs. Free markets have led to increased competition in products markets. As a result, SMEs are continuously finding themselves in stiff competition with larger firms which have a competitive edge on allocation and efficient use of resources (Dupasquier and Osakwe, 2005). The government has endeavoured to deal with this through the promotion of home-grown institutions and favourable tax regimes.
SMEs have come in handy in Kenya's economic recovery initiatives. In 2003, the government of Kenya started the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC). This was aimed at job creation among other objectives. Informed by the successes achieved from this initiative, the GDP of Kenya grew up to seven percent in 2007. This necessitated the establishment of Vision 2030. According to the Ministry of Planning, National Development and Vision 2030, one of the key pillars of this initiative is the economic pillar. This pillar creates an extensive framework for promoting SMEs which includes streamlining of the microfinance sector that mainly provides financial services to SMEs. In the same vein, the government also established the Youth Enterprise Fund. The aim of the fund was to provide start-up capital to youth led SMES. At the same time, the government also established another fund, managed through Micro-credit firms for providing support to women enterprises (central bank of Kenya, 2009).

ARE SME's RELEVANT OR NOT IN KENYA'S ECONOMIC DEVELOPMENT?
It goes without saying that SMEs are of great essence in Kenya. The importance of SMEs has been supported by various studies. Globally, SMEs play vital roles. Their overall importance is more in developing countries. As seen earlier in this paper, SMEs are essential to the creation of jobs. This is particularly for third world countries were employment is a major challenge. In these areas, SMEs fill a gap that is difficult for major industries.
In addition, SME are the foundation for the larger institutions of the future. In a country, that is mostly a consumer economy; SMEs are the hope for future local manufacturing of Kenya's goods. SMEs are also major contributors to capital growth and innovation. In the quest for the importance of the SME sector, one has to look at the relative contribution of SMEs in the economy. Talking about GDP, SME contribute significantly to the overall GDP of any country. With population explosion and the growing demand for infrastructure and other essential services, this contribution cannot be underestimated. In this light it is worth noting that some of the world's most successful nations started out through a rigorous SME sector. Some countries, such as Taiwan built their industrial base on rigorous SME sector (Palma, 2005).
In Colombia for example, it has been noted that SMEs saw narrowing of urban inequality through the extensive development of the SME sector. Furthermore, SMEs are known for the use of available technology. This is essential for the enhancement of innovativeness in developing countries. Furthermore, SMEs offer a lot of learning experiences that translate to the overall wealth of knowledge on entrepreneurial development in future. Furthermore, SMEs create a launching pad for future entrepreneurs.
As such, the argument on the importance of SMEs can be quickly won by the fact that they play vital role in the economy. But what can be done so as to enhanced the performance of SMEs and reap the accrued benefits.

WAY FORWARD FOR SME's
Whereas it is common knowledge that SMEs play vital roles in national development. The various challenges that beset SMES means that the potential of such institutions is often not attained. Various solutions can be put in place so as to increase the performance of SMEs globally. One of the main ways is through training. Entrepreneurial training should be promoted in technical as well as in vocational institution. If this is done and closely followed up, enough skilled personnel that can actively play crucial role in the SME sector shall be developed. To this end, the government ought to invest in seriously in this area. In addition, the government should continuously review all legislation that relates to vocational training so as improve service delivery. Improved skills means that the quality of goods produced is augmented and can compete in the global market. Focus should also be put on developing the key skills of SMEs so as to enable them survive in the global market.
The needs of various sorts of SMEs are different. Skill levels differ from sector to sector. More often than not, training in Kenya is not need based; it is often blanket in nature-without focusing on prior identified needs. Various entrepreneurs should be trained separately in response to their unique needs. Local expertise should be incorporated in training so as to harvest from the deep wealth of knowledge developed in country.
Cost sharing should also be encouraged in Kenya. Key skills should be fostered in areas such as credit management and taxation among others. Production of goods and services of high quality should be given more focus. Training should also be brought close to the entrepreneurs and possibly through field officers.
Another notable way of enhancing the performance of SMEs in Kenya is availing credit facilities. This can be through provision of low interest rates loans to small scale traders. The government ought to put in place funding schemes that can enhance the availability of funds to entrepreneurs at affordable prices. In the same accord, the government should factor in funding for SMEs during national budgets and take meticulous action to prevent poor utilization of such funds. The government should also put in place methods for ensuring ease in credit access. The tight policies should be removed so as to enable the informal sector entrepreneurs access the services , such as registration, licenses as well as credit access. The rampant state supervised harassment of entrepreneurs especially those without proper working premises should also be done away with.
Rigorous sharing of information to SMEs should also be put in place. Usually, the vast majority of SMEs lack the relevant information that would accord them competitive edge in the market. Information on market information should be provided so as to enable SMEs grow and gain competitiveness. In the same vein SMEs should be accorded legal advice so as to be able to handle suits and business transactions. SMEs should also be encouraged to form associations for jointly addressing issues that beset them.
Networking should be done should be encouraged between SMES so as to enhance their competitiveness. Networking would grant SMEs benefits enjoyed by larger enterprises such as higher bargaining power and greater joint production. SMEs can also network with larger institutions so as to secure market for their goods. Larger companies often seek to network with smaller institutions through sub-contracting. Furthermore, the government should work closely with SMEs so as to augment productivity. Promotion of export by governments would enable SMEs to perfect production and garner higher segments of the local and export markets.
Lastly, governments should put in place ways for cushioning local SMEs from competition from imports which usually flood the local market with cheap products. To this end, the government should put in place levies such as higher taxation on imports and high trade tariffs. Local suppliers should be encouraged to produce and supply product cheaply to the local productive document in stakeholders. The government, should also provide the same support it accords the formal sector. It is expedient to provide SMEs with the relevant technical assistance so as have the prerequisite experience for dealing with the increasingly competitive world.

CONCLUSION AND RECOMMENDATION
From the preceding discourse, it is clear that SMEs play important socio-economic importance roles in any economy and form the bulk of all businesses in developing nations. It is thus essential to promote SMEs and their performance. One of the main roles played by SMEs is the creation of employment. Employment is created not only for the poor rural urban migrants but also for women, persons who lose employment or those going to self employment. The higher the entry cost and capital needs of SMEs, the greater their profitability. As such the presence of credit would buttress the profitability of SMEs in Kenya. It is also important to note that the vast majority of SMEs operate in makeshift premises, in residential houses, in residential houses as well in street pavements among other places. This means that there is need for governments to build premises and other infrastructure that would enable SMEs to operate with ease.
SMEs are perceived as some of the main ways of spurring economic growth in Kenya and their role is recognized in Kenya's Vision 2030. SMEs also play critical roles in enhancing the attainment of informal employment. But even with the Knowledge of their importance, SMEs in Kenya face numerous challenges that

hinder their success and survival. They face severe competition and insecure operating places which are devoid of essential services such as water and electricity.

Whereas former attempts to fast track development through the creation of large enterprises and industries has failed to reach the desired goals of improving the lives of the general population, SMEs are seen as panacea for even distribution of goods and services. They are also perceived as vital for the promotion of competition and innovation – essential ingredients for the growth of the private sector. SMEs also play crucial roles in equipping young graduates with skills that can enable them survive in the competitive job market. SMEs also contribute immensely to the GDP.

Despite the fact that SMEs are important in the economy, they are beset with numerous challenges. These include negative perception and less preference from investors. They face insurmountable difficult in securing credit. The government should thus promote microcredit institutions for increased availability of credit. Proper legislation should be put in place so as to enable SMEs so as to enable establishment of SMEs easy. The government should promote vocational training and other forms of training that enhance skills development in SMEs. Information sharing and networking could also enable faster growth of SMEs. Since SMEs play vital role in the development of a country's economy, there is need to constantly study the changing environment under which SMEs operate and to offer solutions to that would secure the continued performance of Small and medium enterprises(SMEs).

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