

EMPLOYMENT SECTOR
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*Working Paper on
the Informal Economy*

**Federation of Kenya Employers:
Case Study**

Charles O. Nyangute

Employment Sector
International Labour Office Geneva

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Foreword

This report is part of a series of papers that were commissioned under the auspices of the ILO Inter-Sectoral Task Force on the Informal Economy in preparation for the general discussion on the informal economy at the 90th International Labour Conference (ILC) in Geneva in June 2002. The papers in this series include studies of regional trends, selected country level studies and thematic investigations at the global level. Most of them seek to identify new trends and patterns that have emerged over the last several years and to go into more depth regarding the factors underlying the continuing growth of the informal economy, not only in developing countries, but also in advanced countries and countries undergoing transition. Particular attention has been paid to the impact of globalization, liberalization, privatisation, migration, industrial reorganization and macro-economic policies prompting these trends.

The present paper, “Federation of Kenya Employers: Case Study”, has been prepared by Charles O. Nyangute, Senior Management Consultant, Federation of Kenya Employers (FKE). The paper describes the involvement of one of Africa’s oldest and most established employers’ organizations in supporting the development of dynamic, growth-oriented enterprises in the informal sector. FKE became involved in supporting micro- and small-scale activities in 1989 at a time when formal sector employment was shrinking and the informal sector employment was growing. Over a third of FKE’s membership is now comprised of micro- and small-scale enterprises.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising the informal sector. The development of a conceptual framework for the International Labour Conference report was carried out at the same time as the production and finalization of the papers included in this series. As such it was not possible to agree in advance upon a single concept for use by the authors of these papers.

This paper was prepared under the supervision of Andrea Singh, International Focus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED). It has been funded under the IFP/SEED Programme.

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1. Introduction

The Federation of Kenya Employers (FKE) was established in 1959. The overall objectives of FKE as stated in its constitution are:

- To encourage the development and maintenance of good relations between employers and employees;
- To promote sound management practices amongst employers;
- To encourage the observance by employers of fair conditions of employment; and
- To promote, represent and advocate employers' views to the Government and other authorities.

FKE has a broad-based membership of small, medium and large enterprises. Out of a total of 3000 members, 1052 or 35% employ fewer than 50 employees, thus falling within the formal small enterprise category (549 members employ 1-20 employees, while 503 members employ 21-50 employees). Currently, FKE acts as secretariat to the following trade associations:

- Association of Local Government Employers (ALGE);
- Kenya Association of Building and Civil Engineering Contractors (KABCEC);
- Distributorship and Allied Trades Association (DATA);
- Sisal Growers and Employers' Association (SGEA);
- Timber Industry Employers' Association (TIEA);
- Motor Trade and Allied Industries Employers' Association (MTAIEA);
- Agricultural Employers' Association (AEA); and
- Kenya Coffee Growers' and Employers' Association (KCGEA).

In addition, the following associations, which have their own independent secretariats, are affiliate members of FKE:

- Kenya Tea Growers' Association (KTGA);
- Kenya Association of Hotel Keepers and Caterers (KAHKC);
- Kenya Bankers' (Employers) Association (KBEA);
- Kenya Petroleum Dealers' Association (KPDA);
- Kenya Vehicle Manufacturers' Association (KVMA);
- Kenya National Chamber of Commerce and Industry (KNCCI); and
- Kenya Association of Air Operators (KAAO).

While FKE has maintained industrial relations as its core function, it has expanded its role and functions over time and in response to the needs of employers to include: management training, management consultancy, executive selection, entrepreneurship development for micro- and small enterprises, total quality management, ISO 9000 quality system, ISO 14000 environmental management system, productivity improvement programmes, an elimination of child labour programme, International Labour Standards, AIDS education in the work place, and research and public policy advocacy.

FKE started becoming involved in micro- (informal) and small-scale activities in 1989. At that time there were emerging signs of the rising level of unemployment due to a reduction in private sector formal employment. Formal sector employment dropped from

42% in 1985 to 38% in 1989, while informal sector employment increased from 17 to 22% over the same period.¹ By 1991, the situation was becoming more alarming with the formal private sector employment remaining at 37% while the informal sector rose to 25%. By 1998, the formal private sector clearly showed no prospects of increasing employment opportunities, as its share contribution was only 19% against 67% for the informal sector.

In view of the fact that 38% of FKE's membership was comprised of small enterprises, FKE saw the potential of increasing its membership from the informal sector.

A major turning point for FKE's involvement in the informal sector was in 1991, when it established the Centre of Excellence for Entrepreneurship Development, which, with support from development partners, implemented a number of programmes. FKE took into account two main considerations: its social strategic position in contributing to the economic growth of the nation, and increasing employment opportunities for the informal sector through policy advocacy and implementation of sector interventions towards the growth of the sector.

Some of the development partners FKE has worked with include the United Nations Development Programme (UNDP), the International Labour Organization (ILO), the United Nations Industrial Development Organization (UNIDO), the United States Agency for International Development (USAID), the Danish International Development Agency (DANIDA), and the Indian and Kenya Governments, among others. FKE can proudly associate its successful institutional capacity to the collaboration and support it has received from development partners.

FKE has continued to use the national definition of informal enterprises as those employing 1-10 employees and which are largely outside the system of government benefits and regulations. FKE interventions have also been defined so as to cover a stated target audience in the informal sector. For example, when FKE implemented the Private Sector Small Enterprise Programme and the Micro-Ped Programme, the definition of the informal sector in the three sub-sectors the programmes worked with was based on the following parameters:

Sub Sector	Distinctive features
Building Construction	Jobbers; no formal established office block or location; mainly undertaking minor construction contracts (individual developers); employees are paid on daily basis; employment level depends on the nature of the contract; and they are not expected to comply with formal statutory and labour requirements.
Metal Fabrication	Metal work enterprises with employment ranging from 1-10; normally operating within the Jua Kali (informal) designated sites.
Food Processing	Home food processing, mainly in juicing, sausage and milk processing (yogurt, etc); food and fruit venders.

¹ The figures in this paragraph pertain to private sector employment and therefore do not add up to 100%. The balance were in public sector employment.

2. Review of FKE's informal sector activities

While FKE has developed a mechanism to communicate the major concerns of the informal sector, it has at the same time been implementing some strategic interventions in support of the sector. In 1995, FKE developed its first Corporate Strategic Plan, which enabled FKE to define its vision and mission statements.

The vision of FKE is to become a one-stop organization, delivering integrated training and consultancy services, and promoting the competitiveness of Kenya's products and services in local and international markets. The mission of FKE is to continuously raise the social consciousness of Kenyan employers through the promotion of sound management and industrial relations practices in order to enable them to:

- promote free enterprise;
- influence and control the business environment;
- create quality and productivity awareness;
- improve profitability; and
- foster growth and employment.

In the above strategic plan, FKE has exclusively generated an operational objective on the promotion of small enterprises for inclusion in the plan. The inclusion of this objective is a result of programmes that FKE had successfully implemented in support of the sector.

Over the last decade, FKE has implemented the following programmes:

2.1 FKE/UNDP/ILO: Private sector small enterprise development programme

This programme was implemented between 1991 and 1994 as a partnership among FKE, as the implementing agency, and the ILO, as the executing agency, and the UNDP, as a funding agency. FKE provided counterpart funding through staff salaries (Programme Coordinator), office accommodation and other support services. This programme was borne out of the need identified in 1987-89 by the UNDP/ILO/GoK Centre Project KEN/86/034 that formulated a strategy for Enterprise Development in Kenya – Towards the Year 2000 and a National Action Programme for Small-Scale Enterprises and the Jua Kali Sector. The programme targeted existing enterprises employing 1-50 employees.

The Government Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth and, subsequently, the National Development Plan, 1989-93, vividly illustrated the Government's intentions and policy on the matter. It was acknowledged that small-scale enterprises and Jua Kali (informal sector) were to provide the majority of non-farm job opportunities. The programme was therefore to enhance the capacity of the sector in achieving the objective of increasing job opportunities and generating more income through training, counseling and consultancy services.

The implementation of this programme contributed to the following:

- FKE's capacity to implement small enterprise programmes. This further enhanced the establishment of the Centre of Excellence for Entrepreneurship

Development, and the development of relevant training modules in food processing, metal fabrication and machine tooling, and building construction.

- Promoting sub-contracting arrangements in which 8 sub-contracts were facilitated and awareness seminars organized for 22 participants (19 men and 3 women). The sub-contracting document was developed and adopted for use during the programme period.
- Development of unique features based on sectors (food processing, metal fabrication and machine tooling, and building construction). The programme shifted from a generic approach to a sector-based entrepreneurship development programme approach. This paradigm shift was necessary in order to differentiate FKE's approach from that of other organizations. The demand for sector-based intervention tripled, thus enabling the programme to meet its stated outputs.
- In total, the programme offered training programmes to 780 entrepreneurs against the envisaged target of 300 entrepreneurs, thus representing 160% growth above target. Out of the total, 230 or 29% were female entrepreneurs while 550 or 71% were male. Six hundred entrepreneurs received monthly counseling/extension services: 165 women (27.5%) and 435 men (72.5%). The number of women participating in food-processing training events was quite encouraging as it was close to 38% of a total 179.
- In terms of policy orientation, the programme created a positive impact whereby FKE has earned a reputation as being one of the credible institutions insofar as the promotion of small and micro-enterprises sector is concerned. FKE is currently a member of the National Steering and Coordinating Committee for the Small Enterprises Programmes under the Department of Small Enterprises of the Ministry of Labour and Human Resource Development.
- Out of 600 enterprises counseled, 302 showed improvement in respect to various indicators, i.e., employment creation, sales turnover, productivity improvement, etc. At least 120 new jobs were created by 89 enterprises, thus representing 1.3 jobs created per enterprise. Sales turnover increased between 5-20% cent in 200 enterprises, while 150 enterprises showed improvement in their management systems. These improvement levels were available from the management systems developed by the project staff for use by enterprises.
- Some of the management systems developed for the enterprises include financial control sheets, product sales records, debtor monitoring, stock ledgers, profit and loss statements, sales schedules, and health and safety tool assessments, among others.
- At the end of the programme, FKE absorbed all four of the programme staff (Management Specialist, Training Specialist, Technology Extension Specialist, and Finance and Marketing Officer). The aim of FKE in offering these staff contracts were to enable the staff to continue providing their services to the small and micro enterprises.

2.2 FKE/UNIDO enterprise-to-enterprise cooperation

This programme was implemented between 1995 and 1996 as a partnership between FKE, UNIDO and the Government of India. Inappropriate technology was and continues to be a major inhibiting factor in the development of small and micro enterprises.

Realizing the technology gap of the small and micro enterprises, the United Nations Industrial Development Organization approached FKE to serve as counterpart in the execution of the programme. The main objective was to promote technology co-operation between Indian and Kenyan small-scale enterprises through study tours to India. The programme organized study tours for 14 Kenyan small entrepreneurs to visit their pans and motor vehicle exhaust systems, among others. As a result of this programme, FKE continues to organize tours for Kenyan entrepreneurs Indian counterparts and five strategic alliances were signed. Enterprises which participated in the programme have shown remarkable progress in the manner in which they have applied the knowledge gained from the study tour. Such knowledge includes development of new products, like bicycle assembly, aluminum cooking when such opportunities arise.

Further, FKE has signed a Memorandum of Understanding with the Confederation of Indian Industries in which business information is made available to FKE to pass on to its members, including small-scale members.

2.3 FKE/USAID/TECHNOSERVE Micro-Ped Programme

FKE, TechnoServe and the United States Agency for International Development formed a consortium to implement the agri-business component of the Micro-Ped Programme. One fundamental strategy used by the consortium was establishing business service centres (BSCs) as mechanisms to deliver business development services (BDS) to micro and small enterprises (MSEs).

In September 1997, FKE established the Nakuru Business Service Centre. The overall objective was to create employment through implementing strategic and sustainable BDS. The programme targeted micro-entrepreneurs from the food sector, and its main sub-sectors were dairy, baking, school hot lunch programmes, and food kiosks and restaurants. The programme created 237 businesses (200 male-owned and 37 female-owned). As a result, 394 new jobs were created. Also, 1,114 existing micro enterprises, employing a total 1,673 employees, were offered business counseling and extension services

Intervention programmes for the Nakuru Business Service Centre

(i) Business Opportunity Seminars

These seminars targeted existing as well as aspiring entrepreneurs who were searching for business opportunities and evaluated their business competencies. The seminars also acted as recruitment forums for entrepreneurs in delivering additional BDS, e.g., skills upgrading/development, technology linkage and other interventions.

(ii) Dairy MSE Programme

This programme helped in establishing and expanding milk shops/bars. Owner-managers and MSE employees who collect milk from farmers and sell it directly to customers were trained so that they might successfully establish, operate and expand their businesses. Proprietors of milk shops/bars who seek to establish micro- and small milk-processing firms have been assisted through business planning, training and advisory services, such as product diversification. One of the constraints faced by dairy MSEs has been the lack of affordable business premises. This problem has been addressed through the development of mobile cards to be used in milk marketing.

(iii) School Hot Lunch Programme

Through the School Hot Lunch Programme, entrepreneurs or group entrepreneurs are assisted in setting up micro enterprises which provide catering services to school communities. The programme's objectives are:

- to establish viable MSEs to provide hot lunches to schools;
- to create employment;
- to improve schools' academic performance; and
- to improve the health of school children.

(iv) Food Service Growth Programme

This programme entails training food service MSEs and linking them to technology and finance providers. The programme has addressed constraints that inhibit the growth of food service enterprises. The proprietors and employees of these types of enterprises have been trained in management, customer care, food production, pricing and other areas identified during needs assessment. Entrepreneurs were also linked to providers of technology and finance.

(v) Group MSE Programme

The aim of this programme was to help group members set up new enterprises through business opportunity seminars, management training in group resources, and advisory services.

(vi) Mobile Cart Programme

This programme entailed assisting micro-entrepreneurs in starting businesses such as selling fruit, fruit salads, and milk or milk products, together with other complementary products. Specially designed push cards ("premises") were developed to target specific marketing niches by the micro-entrepreneurs.

Other programmes implemented by FKE

In addition to the above, FKE has also implemented the following programmes whose main target was small, medium and large enterprises:

- FKE/USAID – Entrepreneurship for Export Promotion;
- FKE/UNIDO – Total Quality Management;
- FKE/UNIDO – Application of Quality Principles to the Food Processing Sector;
- FKE/ILO – Productivity Improvement Programme; and
- FKE/DANIDA – Aids Awareness in the Workplace.

Currently, FKE is implementing the following programmes:

- FKE/UNDP – Enhancing Youth Employment Through Collaboration between Industry and Institutions (Otto Essien Young Professionals Programme);
- FKE/ILO – Elimination of Child Labour; and
- FKE/DFID – Promotion of Corporate Social Responsibility (CSR).

3. Policies and strategy

As stated in Session Paper No. 1 of 1986 on Economic Management for Renewed Growth, which placed emphasis on increased private sector role in the economy, and Session Paper No. 1 of 1994 on Recovery and Sustainable Development, the Government recognizes the indispensable qualities that the private sector brings to development. Since the publication of the two papers, the Government has taken major steps to implement some policies while others remain a matter of concern, as no action seems to have been taken at all. This stagnation on implementing policies to attract private investment was clearly highlighted during a national Investors Roadmap of Kenya workshop held in November 1999. The workshop noted the excessive constraints when undertaking business in Kenya. A further observation was the high level of public sector corruption that has posed significant deterrents to private sector development in Kenya. A key concern among investors in Kenya is the absence of transparency in the business start-up process, especially when the investor is seeking land, obtaining a trade licence, or clearing an import. There are no formal guidelines or checklists to assist new investors. Instead, the complex and vague laws governing a particular process contribute to corruption. Duplication of services from various institutions is also a dangerous process that hinders private sector development. The workshop called for proper streamlining of government agencies charged with the responsibility of attracting and promoting investment in Kenya.

On the other hand, Government's attempts to initiate reforms geared to attracting investors include:

1. Abolishing export and import licensing, except for a few items listed in the Imports, Exports and Essential Supplies Act (Cap 502);
2. Rationalizing all export duties;
3. Allowing the shilling exchange rate to be determined by the market;
4. Allowing residents and non-residents to open foreign currency accounts;
5. Removing restrictions on domestic borrowing by foreign-owned companies;
6. Partially liberalizing the Capital Market;
7. Removing price controls; and
8. Removing foreign exchange restrictions.

3.1 Informal sector micro policy needs

The ability of the sector to provide employment for those of working age (15-59) is widely acknowledged, as stated in the draft report prepared by the International Centre for

Economic Growth (ICEG), 1999, “A Renewed Policy and Strategy Framework for Micro- and Small Enterprise Development in Kenya”.

Despite efforts to promote and develop the sector, unresolved problems continue to hinder its growth: access to credit, land and infrastructure, training and technical support, and technology and information.

The report observed that government policy publications, development plans, budget speeches and policy framework papers that have been passed as policy have generally been statements of intent. Further, policy statements over the years tended to be *ad hoc* in nature and did not correlate with each other. To overcome this situation, the Government, with the support of the UNDP, established a Department for Micro and Small Enterprises within the Ministry of Labour and Human Resource Development. The following are some of the strategic policy issues and their effects on the development of the micro (informal) sector in Kenya.

The legal and regulatory environment

The issues surrounding the legal and regulatory environment have been discussed and researched for a long time. Unanswered questions, such as the availability of government policies to address the problems of the sector, still remain. Implementing policies has been slow, thus suggesting a possible conflict between underlying policies and the legal framework.

A study on the legal and regulatory environment conducted by USAID in 1995 recommended further research on policies underlying those laws identified as constraints to growth of the sector. An ODA study (1994) on the MSE policy environment critically examined the policy framework set out in Sessional Paper No. 2 of 1992, and specifically singled out its slow implementation and the relative absence of measurable results.

The study also noted the slow pace of implementation, hence creating the impression of a faulty policy framework. The legal and regulatory environment can be clustered into six broad areas:

- Trade Licensing,
- Registration of Business Names,
- Security of Tenure and Property Rights,
- Business Regulation,
- Access to Finance, and
- Labour Laws.

The ICEG through consultations with stakeholders undertook an extensive review of the above policy constraints. The following emerged as unmet gaps in successful implementation of the policies:

(a) Trade licensing

Trade licensing has been a major inhibiting factor in the development of MSEs in Kenya. Traditionally, licensing was used to regulate and control business activities as well as raise revenue for the central government. Later local authorities, too, imposed trade licensing as a means of generating revenue where the fee payable to the local authorities was even higher than the central government fee. In this circumstance, the following constraints were created:

- Duplication of licenses,
- Inconsistent application of the legislation, and
- Lengthy and cumbersome approval procedures.

Although Sessional Paper No. 2 of 1992 recommended a review of trade licensing, it was not until the Trade Licensing Act (Cap 497) was amended by the 1997 Finance Act that the collection of trade licensing fees was discontinued in January 1998. Trade license fees are being increased with no due consideration to its impact on the informal sectors. In some given circumstances, the license fee appears to have been hiked by 200%. Hopefully, with a complete elimination of the multiplicity of licensing, investment in the informal sector will be triggered. An absolute need exists to educate the by-law enforcers on a basic appreciation of the sector and to constitute joint committees to tackle issues pertaining to the growth of the sector in urban centres.

A paper prepared by the ICEG proposes that all local authorities' trade licensing by-laws be consolidated into one set model of by-laws on trade. This approach would provide the necessary regulatory measures and one tariff structure. This proposal has been adopted for license fees but has created an even worse situation where the fee charged by the local authorities has been increased by between 100 to 200%.

(b) Business regulation

This particular issue remains unresolved yet constrains the growth of the sector. Under the Local Authority Act, local authorities are empowered to make by-laws, which prohibit, control and regulate various trades and occupation. This leads to control, prohibition and unnecessary restriction on the development of the sector. In exercising the powers of this section, informal sector operators end up receiving high penalties, at times resulting in the confiscation of goods. While control measures are necessary, especially within the central business districts in major towns, a review of the by-laws with the stakeholders so as to create long lasting confidence in the system is needed. Some of the local authorities' by-laws date back to 1949.

Due to the absolute lack of transparency in enforcing the by-laws, the enforcement machinery has become corrupt, and the manner of enforcing the by-laws is in total disorder. The situation therefore calls for an amendment to the Local Authorities Act in order to reflect the limited and essential regulatory powers by the local authorities for ensuring that trade is

conducted in an orderly manner and that standards relating to security, public health, public safety and the environment are preserved and can be monitored (IECG, February 1999).

(c) Registration of Business Names Act

The current practice of business registration - perceived as cumbersome, bureaucratic and costly - is a hindrance to starting up a small business. Registration of business names takes place only in Nairobi. Although two offices have been opened in Mombasa and Kisumu, they are not yet fully operational. It is commendable that the Government has reduced the number of registration forms from 4 to 1 although registration needs to be decentralised with a thorough computerisation of the Registrar of Business Names.

(d) Security of Tenure

Most MSEs do not have the security of tenure at their worksites. There exists a problem of property rights coupled with complicated land allocation processes and outdated building standards requirements. An estimated 66% of MSEs rent business premises while 11.2% work from their own premises/workshops. A recent attempt to circumvent this problem by issuing titles in favour of the Permanent Secretary hit a snag on legal grounds.

Legislative changes necessary to ensure security of tenure of MSEs, together with a greater emphasis on the development planning needs of the sector, have been proposed several times. In general, of all the measures to stimulate the growth of the MSE sector suggested for implementation in the Sessional Paper No. 1 on "Economic Management for Renewed Growth", only a small percentage has been implemented.

Business financing

Studies have revealed that access to finance constitutes a critical factor constraining the growth and development of the informal sector. While it is true that credit alone does not guarantee the success of any business undertaking, this factor remains critical to business growth. According to the ICEG report, only 10% of the informal sector is able to access credit from formal financial institutions.

The policy and strategy framework in Sessional Paper No. 2 of 1992 identified the following factors that constrain access to credit:

- Reluctance by formal financial institutions to lend to informal sector operators;
- Low reserves of available funds to loan, and limited information on credit and finance providers;
- Stringent collateral requirements; and
- Unattractive interest rates and expensive services relative to the size of loans.

The paper recommended the following strategies for implementation:

- Review the Banking Act,
- Deregulate interest rates,
- Establish credit guarantee schemes,
- Establish special units to increase available funds to loan,
- Develop appropriate curricula for re-orienting bank officers towards lending to informal sector, and
- Establish credit guarantee scheme to finance exports.

Infrastructure

Infrastructure remains a complicated issue, especially for informal sector operators. The problem is further compounded by the following:

- Inappropriate and inadequate legally demarcated land for use by the informal sector,
- Insecurity of tenure to worksites,
- Limited access to basic utilities, and
- Poor condition of roads.

3.2 FKE policy change in favour of small and informal sector

There has been some degree of policy change by FKE in support of the informal sector. This is demonstrated by FKE policy documents wherein FKE has articulated policy issues in support of the informal and small enterprises. Some of these policy pronouncements are stated below.

FKE current policy and strategy on small and informal sector

(a) FKE proposals for economic growth and employment, 1992

As a social partner in economic development, FKE prepared and presented its proposals to the Government of Kenya for accelerating economic growth. The paper presented a number of far-reaching proposals covering the following broad areas:

- Public policy and implementation which proposed that the overall objective of the Government should be to achieve an economic environment of low inflation, high capital investment and employment growth through development in consultation with the Government and the private sector;
- Agriculture;
- Trade and Industry;
- Transport and Communication;
- Tourism Promotion and Infrastructure;
- Energy Policy and Infrastructure; and
- Social Policy.

For the informal sector, the paper highlighted the following policy directions:

- Closer cooperation between the formal and informal sectors with a view to sub-contracting should be further encouraged. Such cooperation would also promote the transfer of business and technical skills to small-scale enterprises;
- Appropriate and effective measures should, in particular, be taken to increase the availability of credit to the informal and small-scale sector; and
- Small-scale enterprises should be further assisted in introducing or developing improved technologies, product differentiation, appropriate marketing strategies and better work organization.

(b) FKE policy statement on the small and informal sector

In its 1995 Top Policy Workshop on “Removing Obstacles to Private Sector Investment in Kenya,” FKE further stated its policy direction in favour of the small-scale and informal sector. Numerous policy measures were proposed, and close to 90% of the proposals have either been implemented or are under serious discussion between the Government and other stakeholders, including development partners. These include the following:

- The Government should strengthen its current efforts in promoting small- and medium-sized enterprises (SMEs) by assisting them in improving their operating environments, promoting mutual cooperation among them and helping them to achieve growth through their own efforts.
- SMEs should, in particular, be assisted in the following areas:
 - Market research and information with an emphasis on providing information services; establishing collaboration between large, small and medium-sized enterprises, especially in areas of production of goods and services; and arranging marketing channels and/or developing potential markets;
 - Rationalizing business operations through research and development of new products, modernization and renovation of production facilities, and improvement of production technology;
 - Acquiring and securing production resources and technology through formation and accumulation of capital; acquisition of land, plant building equipment, business sites and business information; and personnel training and upgrading the quality of labour;
 - Setting up SME development funds to be financed through allocation from the Treasury, other specialized funds, and international donor funding, among others;
 - Promoting sub-contracting as a vehicle to foster inter-industry trade and industrial co-operation; and
 - Including private sector operators involved in SMEs in the multidisciplinary steering committee of government ministries that co-ordinate the activities of this sector.

FKE small enterprise development strategy

Due to prevailing changes taking place within the operating environment of FKE, as well as emerging challenges affecting enterprise performance, especially the MSEs, FKE sought the assistance of the ILO to prepare a comprehensive Small Enterprise Development Strategy. Through this strategy, FKE anticipates achieving the following objectives:

(a) Development objective

The development objective of this strategy is to enhance FKE's contribution in creating an enabling environment for small-scale enterprises in Kenya through FKE's focus on small-scale members.

(b) Specific objectives

- To improve access to quality of services for FKE small-scale enterprise members;
- To promote synergy between FKE services through a “one stop shop” approach to meeting the needs of FKE small-scale enterprise members; and
- To increase FKE small-scale membership.

(c) Strategy development team

In developing this strategy, FKE put together an in-house team headed by Mr. Charles O. Nyang'ute, Senior Management Consultant, who is also in charge of small-scale activities of FKE. Other members of the team included Mr. Titus M. Waithaka, Research and Public Policy Consultant, and Ms. Pamela Muyeshi, Computer Analyst.

The ILO team, including Mr. Kees van der Ree from ILO-SEED and Mr. John Kaswara, Senior Specialist, from ILO-East Africa Multi Disciplinary Team (EAMAT), provided valuable guidance in developing this strategy.

(d) Considerations in the development of the strategy

Since the team took into consideration previous MSE needs assessment survey reports, a further needs assessment survey was found to be unnecessary. In addition to the surveys, the team also made reference to available ILO publications on the MSE sector.

From previous surveys, the strategy development team selected the following areas for possible FKE intervention:

- Enhancing inter-firm and sub-contracting arrangements;
- Improving market information; and
- Improving the delivery of appropriate BDS.

These intervention areas were selected based on the following criteria:

- Their potential to contribute towards the growth of enterprises;
- The comparative advantage of FKE to implement the interventions among its members; and
- The sustainability of the interventions in enabling FKE to achieve its stated mission.

(e) Major findings

This strategy document has been prepared with the aim of improving FKE's service delivery in support of the MSE sector. From the priority survey, the team has identified potential interventions where FKE could play a significant role and, hence, exploit its comparative advantage so as to attract and retain MSE members. The areas of intervention for FKE are based on the following findings.

Micro and small enterprise sector in Kenya

- The MSE sector in Kenya is key in achieving national economic goals, including employment creation and poverty alleviation;
- Sufficient available information on the sector exists, but there is a vacuum in implementing recommendations;
- Implementation of laws and policies to improve the growth of the sector is lacking;
- The informal sector continues to grow horizontally and not vertically, thus calling for innovative interventions to improve its growth; and
- BDS are neither focused nor integrated; hence, there is a need for sector-based interventions.

Past FKE programmes in support of the micro and informal sector

- The programmes have enhanced FKE's capacity to respond to the needs of the MSE sector;
- FKE programmes have attempted to create an impact, especially in job creation, linkages and policy representation;
- FKE's small enterprise programmes, though donor-driven, have been integrated to form a part of FKE services after the termination of such programmes;
- In the past FKE did not attempt to prepare a strategy that targeted its small-scale members;
- FKE has created a significant network with development partners and other stakeholders; and
- There is still a wider scope where FKE is expected to fully exploit its comparative advantage.

Dynamics on the inter-firm linkages and sub-contracting

- Inter-firm linkages and sub-contracting arrangements can be essential mechanisms towards enhancing value adding/supply-chain;
- Inter-firm and sub-contracting arrangements remain a high priority, especially in the food processing, metal fabrication and machine tooling sub-sectors;
- There is a limited scope for sub-contracting at the process level, especially in the textile sub-sector, apart from its potential in the knitting process;
- There is scope for sub-contracting in the food processing, metal fabrication and machine tooling sub-sectors;
- Most inter-firm linkages and sub-contracting arrangements are prevalent at the market and distribution levels;
- Most sub-contracting at the input level is on supplying materials;
- Sub-contracting arrangements are still weak in Kenya due to various factors: inadequate/limited business finance, quality of production and service delivery, unfavourable business ethics, and lack of awareness on the need for sub-contracting; and
- Appropriate institution to promote sub-contracting is lacking.

Market information

- Access to domestic and international markets remains a major setback as far as development of the micro and small enterprise sector is concerned;
- Information on inputs is crucial in all the sub-sectors;
- Domestic and international consumer and consumption data/information is required by all sectors;
- Information on production technologies is a high priority;
- Enterprises are willing to pay for reliable market information brokerage; and
- The use and application of ILO Rapid Market Appraisal Tool/Manual is required by all sub-sectors.

BDS

- Entrepreneurs in all sub-sectors require an integrated approach to BDS; and
- Training for MSE's is needed in the following areas:
 - (a) Sales and marketing,
 - (b) Cash flow management,
 - (c) Human resource management,
 - (d) Quality control,
 - (e) Supervisory skills, and
 - (f) Hygiene in the case of food processing.
- Consultancy services are required in the following areas:
 - (a) Quality management,

- (b) Productivity management, and
- (c) General enterprise management.

- Occupational health and safety is a high priority in all sub-sectors.

Proposed way forward

The following recommendations have been suggested for inclusion in this strategy document. Hopefully, these recommendations will form the basis upon which future FKE programmes will be generated.

- (i) As part of the effort towards enhancing sub-contracting arrangements, there is a need to prepare and document success cases where the intervention has benefited the parties involved;
- (ii) There is a need for continuous promotion and creation of awareness among the micro, small, medium and large enterprises on sub-contracting mechanisms. This awareness can take the form of public seminars or organized study tours for selected enterprises to selected countries where sub-contracting is an established practice;
- (iii) Since previous attempts to establish a sub-contracting exchange centre have not succeeded, there is a need to pilot such mechanisms with a credible national institution. This pilot phase will facilitate 20 sub-contracts, where such a scope exists, and document the entire process for replication, including adopting an appropriate legal framework, quality management and possibly financial arrangements;
- (iv) There is a need to establish a network with credible national and international institutions to provide information on appropriate production technologies, specific regional/country-based information on markets and consumer/consumption data of specific products.
- (v) In order to ensure that MSEs are constantly aware of market changes, there is a need to expose MSEs to the use and application of the ILO's Rapid Market Appraisal Tool. The tool will enhance the ability of MSEs in terms of market information.
- (vi) With the support of the corporate sector, possibilities could be explored in enabling MSEs to advertise their products in special magazines or to allocate specific pages in local dailies. This will improve public knowledge of MSE products.
- (vii) FKE, in collaboration with potential development partners and other strategic stakeholders, could consider developing appropriate sector-based training modules on identified training needs. The training modules could be procured from the ILO

“Start and Improve Your Business” Programme, but will need to be adopted to suit specific sectors.

- (viii) There is a need to sensitise MSEs to the need of observing appropriate health and safety measures, especially in the metal and food processing sectors.
- (ix) Due to the high expenses of engaging qualified firms in assisting MSEs in preparing books of accounts, taxation returns and other legal matters, MSE operators will be encouraged to acquire such services collectively. This will substantially cut down the cost of securing such services.

Proposed FKE strategies in support of micro and small enterprises

As stated earlier, there are three broad interventions for FKE that are considered strategic for implementation. Implementing these interventions will, however, require the support of FKE’s large, medium and small-scale members (the private sector in general), the Government of Kenya, and its development partners. Furthermore, implementation should be as holistic and integrated as possible in order to contribute to the growth of MSEs. In view of the large number of small-scale FKE members, FKE is expected to gear its interventions to suit the needs of these target groups while at the same time incorporating the micro enterprises that have the potential to grow and, hence, become FKE members.

The following are the broad strategy intervention areas:

- FKE is to use its comparative advantage to **promote inter-firm linkages and sub-contracting arrangements in collaboration with private sector, Government and development partners**
- FKE is to **establish credible trade and technology information links/network for dissemination** with national and international public and private sector institutions, UN trade promotion agencies, and overseas trade promotion institutions.
- In view of FKE’s previous experience in providing BDS, there is a need to **re-orient training materials and management consultancy towards making them user-friendly by the MSE sector.**

4. Conclusion

FKE has broad experience in policy advocacy and institutional-based programmes in support of the small and micro (informal) sector. The following are some of FKE’s observations, which are considered especially useful to employers’ organizations wishing to promote and support the small and informal sector:

4.1 Major findings

- (i) The small and informal sector has the potential to create employment. Employers' organizations, therefore, should view the sector as prospective members.
- (ii) The sector is a vehicle towards industrialization in Africa, but strategies are required to address the needs of those enterprises that possess the potential of vertical growth.
- (iii) Sector-based interventions appear to yield better results than a generic approach.
- (iv) Employers' organizations can become strategic partners in policy advocacy for the small and informal sector, but such policies should be well researched and proper communication mechanisms put in place.
- (v) BDS require continuous needs assessment if they are to have any meaningful impact.
- (vi) The informal sector will continue to be marginalized if there are no coherent or explicit pro-business regulations. There is a need, therefore, for employers' organizations to work with the informal sector in order to recommend appropriate strategies for consideration. This implies that employers' organizations have affiliate membership in informal sector associations.
- (vii) Development partners must be willing to collaborate with employers' organizations only when such organizations are focused, transparent and prudent in the manner they implement programmes.
- (viii) Viable networking arrangements are crucial if employers' organizations are to create any significant impact in the informal sector development programmes. These networking arrangements should be national and regionally based.

4.2 Lessons learned

Institutional Capacity

Small and informal sector programmes require a holistic approach. To be able to execute needs-based programmes for the sector, there should be a commitment from the management of employers' organizations to avail resources in support of the sector. The resources could be in the following key result areas:

- (i) Setting up a unit or department to liaise with government and development partners in the design and implementation of programmes. To be able to understand the dynamics of the sector, continuous networking is inevitable. The unit is to maintain links with other stakeholders and key players in the sector both nationally and internationally;
- (ii) Assigning a competent and experienced member of staff to management. The staff should have a thorough knowledge of the informal sector and a broad-based knowledge of the actors;
- (iii) Employers' organizations need to develop corporate strategic plans with clear objectives for the development of small-enterprise programmes for its members and perspective members;
- (iv) In view of the diverse needs of the sector and the potential entry of new actors, there is a need for employers' organizations to develop a small-enterprise development strategy that will spell out priority areas with greater impact;

- (v) Accurate national information on the sector is in high demand; therefore, there is a need to update such information frequently; and
- (vi) Institutional sustainability of small and informal sector programmes is a question of creativity and innovation. Employers' organizations have to demonstrate such creativity and innovation in sustaining these programmes.

PROGRAMME	SECTOR	COURSE TITLE	No. Enterprises	Male	Female	Total
Private Sector Small Enterprises Development Programme	General Enterprise Management Training	Entrepreneurship Development Training	83	73	19	92
		Women in Entrepreneurship	69	-	82	82
		Women Group Training (Brick Making Technology)	10 Groups	16	27	43
		Sub-Contracting Arrangements	22	19	3	22
		Business Clinics	70	46	37	83
		SUB-TOTAL	254	149	148	297
	Building Construction	Project and Business Management for Small Civil Engineering and Building Contractors	103	131	3	134
		Training of Trainers	-	13	1	14
		Programme Validation Workshop	31	30	1	31
		Health and Safety for Engineers, Architects and Construction Consultants	8	31	-	31
		Material Review/ Development Workshop	13	13	-	13
		SUB-TOTAL	155	218	5	223
	Metal Fabrication and Machine tooling	Higher productivity for SMES in Metal Machining and Fabrication	34	34	5	39
		Training of Trainers	-	13	2	15
		Material Development	27	25	2	27
		SUB-TOTAL	71	72	9	81
	Food Processing	Food Processing Management and Technology Training	66	23	48	71
		Training of Trainers	-	11	9	20
		Programme Validation Workshop	21	20	5	25
		Material Review/Development Workshop	-	7	1	8
		Business Clinics	32	50	5	55
		SUB-TOTAL	119	111	68	179
		GRAND TOTAL	599	550	230	780
		Retirees Training Programme (Entrepreneurship)	14	104	57	161
		Counselling/Extension Services:				
		• General Entrepreneurship				
		• Building Construction		129	98	227
		• Metal Machining and Fabrication		140	4	144
		• Food Processing		68	8	76
		TOTAL COUNSELLED		98	55	153
				435	165	600

PROGRAMME	SECTOR	COURSE TITLE	No.of Enterprises	Men	Women	Total
FKE/USAID- Entrepreneurship for export promotion project	General export management development and promotion sector	Chief Executives Symposium on Export Promotion	15	17	8	25
		Export Marketing and Market Research Techniques	12	18	7	25
		Export Market Development for Women Entrepreneurs	6	-	15	15
		Standardization and Quality Management for Export Trade	5	7	6	13
		Get Started in Export Trade	15	30	5	35
		Export Documentation and Procedures				
		Doing Business in the PTA/COMESA	8	15	4	19
		Export Market Development and Management for Women Entrepreneurship	12	-	18	18
		Export Marketing of Processed and Non-Processed Food Products	10	11	4	15
		Export Product Development and Adaptation	6	10	3	13
		Intensive Export Development and Adaptation	9	5	4	9
		Seminar on Managing for Quality and International Competitiveness for Young Career Women	10	-	18	18
		Training of Trainers	-	6	4	10
		GRAND TOTAL		119	96	215

MICRO-Ped Programme (Nakuru Business Service-BSC)	General Enterprise	Business Opportunity Seminars	1200	933	282	1215
		SUB-TOTAL	1200	933	282	1215
	Food Processing	Dairy Business and Technology	77	51	26	77
		Baking Business and Technology	40	40	20	60
		SUB-TOTAL	117	91	46	137
		GRAND TOTAL	1317	1024	328	1352

List of Employment Sector Papers on the Informal Economy*

"Decent Work in the Informal Economy: Abstracts of working papers".

1. "Globalization and the Informal Economy: How Global Trade and Investment Impact on the Working Poor", by Marilyn Carr and Martha Alter Chen.
2. "Supporting workers in the Informal Economy: A Policy Framework", by Martha Alter Chen, Renana Jhabvala and Frances Lund.
3. "International Labour Standards and the Informal Sector: Developments and Dilemmas", by Charlotta Schlyter.
4. "The informal sector in Asia from the decent work perspective", by Nurul Amin.
5. "Towards decent work in the informal sector: The case of Egypt", by Alia El Mahdi. (available in electronic form only).
6. "Good practice study in Shanghai: Employment services for the informal economy", by Jude Howell.
7. "Decent work in the informal sector: CEE/CIS region", by Bettina Musiolek (available in electronic form only).
8. "Federation of trade unions of Macedonia", by Liljana Jankulovska (available in electronic form only) .
9. "A profile of informal employment: The case of Georgia", by Sabine Bernabé.
10. "The informal sector in Sub-Saharan Africa", by Pat Horn, Jantije Xaba and Shirin Motala.
11. "Federation of Kenyan Employers: Case study", by Charles Nyangute (available in electronic form only).

* For electronic publications, please see the informal economy website: www.ilo.org/infeco