Unshackling the Growth of Kenyan SMEs

CUTS International

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Abbreviations

ADC	Agricultural Development Corporation
BMUs	Beach Management Units
CPPP	Community Public Private Partnership Programme
CSPs	Central Sliver Plants
CSIR	Council for Scientific and Industrial Research
CUTS	Consumer Unity & Trust Society
DTI	Department of Trade and Industry
EPC	Export Promotion Council
EU	European Union
FGDs	Focus Group Discussions
GDP	Gross Domestic Product
HCDA	Horticultural Crops Development Authority
IDC	Industrial Development Corporation
IIE	Indian Institute of Entrepreneurship

ILO	International Labour Organization report
IPC	International Potato Centre
KARI	Kenya Agricultural Research Institute
KDB	Kenya Dairy Board
KEBS	Kenya Bureau of Standards
KEMRI	Kenya Marine Research Institute
KENAPOFA	Kenya National Potato Farmers Association
KEPHIS	Kenya Plant Health Inspectorate Services
KIPI	Kenya Industrial Property Institute
KIRDI	Kenya Industrial Research and Development Institute
KMFRI	Kenya Marine and Fisheries Research Institute
KPGMA	Kenya Potato Growers and Marketing Association
KVIC	Khadi and Village Industries Commission
LBSC	Local Business Service Centre
LED	Local Economic Development
MOA	Ministry of Agriculture
MSMEs	Micro, Small and Medium Enterprises
NAMAC	National Manufacturing Advisory Centre
NCMSE	National Council for Micro and Small Enterprise
NEF	National Empowerment Fund
NIESBUD	National Institute for Entrepreneurship and Small Business Development
NIMSME	National Institute of Micro, Small and Medium Enterprises
NPCK	National Potato Council of Kenya

NSA	Non State Actors
NSIC	National Small Industries Corporation
PACA	Participatory Appraisal Competitive Advantage
PCPB	Pest Control Products Board
PFMA	Public Finance Management Act
PPP	Public Private Partnership
PSD	Private Sector Development
SACCOS	Savings and Credit Cooperative Societies
SAMAF	South African Micro-Finance Apex Fund
SBDC	Small Business Development Cooperation
SEDA	Small Enterprise Development Agency
SIDBI	Small Industries Development Bank of India
SIDO	Small Industries Development Organisation
SMEs	Small and Medium Enterprises
SSIs	Small Scale Industries
STP	SEDA Technology Programme
TWIB	Technology for Women in Business
VCDC	Value Chain Development Committee
WIFIP	Women in the Fishing Industry Programme

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Foreword

The Micro, Small and Medium Enterprises (MSMEs) sector has over the years provided a prolific source of employment and a pivot for economic growth. As a result, the government has continued to give the sector the necessary impetus to play its rightful role effectively, as reflected in various policy documents and institutional framework supporting the growth of the sector.

The sector has great potential to contribute to Kenya's economic and social development. It forms the breeding ground for industries and thus it is critical towards sparking an industrial revolution and wealth creation in the country's strive for the achievement of Vision 2030, the national development blueprint. The contribution of the MSME sector to the Gross Domestic Product (GDP) has, however, remained low relative to the number of the Kenyan workforce that it employs.

The agri-business sub-sector is one of the dominant areas in which MSMEs are having a foothold in Kenya. This area therefore requires close attention by regulators and policy makers as well as MSME related institutions. Well coordinated MSME development initiatives especially in the agricultural sector are expected to yield greater potential for the development of the MSME sector.

With the adoption of the new Kenyan Constitution in 2010, the way was paved for the establishment of a devolved government system, which is aimed at fostering socio-economic development based on county-led local development initiatives. This new constitutional framework is expected to enhance the performance of MSMEs by addressing locally relevant challenges to business performance more effectively and holistically based on each county's unique characteristics, economic and agricultural conditions.

Nevertheless, a critical factor for MSME growth is appropriate MSME regulation and institutional structures for successful sectoral growth. It is therefore of important to regularly evaluate the effectiveness of the current regulatory and institutional framework in supporting development of MSMEs at the county level under the devolved government system as well as the coordination of the same at the national level.

It is in this respect that CUTS undertook a study to gauge production; marketing and value addition; and regulatory and institutional challenges that agri-business entrepreneurs are facing in the counties of Kiambu, Bomet, Homabay and Kwale in order to assess the various challenges that MSMEs in Kenya are facing. The study resulted in policy recommendations for the national and county governments. Through the highlighted policy recommendations in this study, key stakeholders will be provided with a valuable overview of the most pressing issues agri-business focused MSMEs are facing in Kenya and how these could be addressed through newly adopted legislation and governance structures.

Only through appropriate support to MSMEs; well-coordinated national and local governance structures as well as needs-based policy design will the full potential of the sector in wealth and employment creation be achieved in line with Kenya's development objectives. I am glad to note that CUTS has created new inroads into MSME development research in the face of the changing governance structure in Kenya and thereby contributed to a MSME focused governance transformation.

Patrick Mwangi
Chief Executive Officer
The Micro and Small Enterprises Authority, Kenya

Preface

In an effort to improve the Kenyan economy, the nation has embarked on a journey to transform Kenya into an industrialised, middle-income country, with a high quality of life for her people and make her globally competitive by the year 2030. To achieve this, the country adopted the Kenya Vision 2030 as its long-term development blueprint with its launch in June 2008. In the vision's economic pillar, Kenya aims at maintaining sustained growth of 10 percent per annum. Among the six sectors identified as having the potential to facilitate the achievement this goal is the agricultural sector, specifically by increasing the value of national agricultural production and processing.

In 2010, first steps were taken into the right direction, when Kenya's new Constitution was promulgated. The new constitution initiated a new governance system of a devolved government, thus decentralising some functions of the Central government to the county level in an effort to reach the grassroots producers and consumers in all its functioning, thus changing many aspects of the institutional frameworks for the agricultural sector as were known historically.

Given that agriculture accounts for about 75 percent of employment in Kenya but only contributes to 29 percent of the gross domestic product (GDP), there was need to assess how the newly introduced governance systems can be used to achieve Kenya's long-term development plans specifically for the agricultural sector. These systems should take into consideration that in the past most of the development policies in the sector have favoured the big players as opposed to the majority micro, small and medium entrepreneurs in agricultural production and processing.

In efforts of taking forward the Kenyan agenda in support of Kenya's vision, CUTS Nairobi implemented a study on SME development in the devolved governance system, which was intended to bring forth policy options for institutional and regulatory reforms in Kenya so as to develop SMEs through the new devolved system.

The report gives an understanding of the current and past regulatory and institutional framework inclined to SMEs and evaluates their effectiveness in supporting local development of SMEs at the county level. It also provides evidence for the development of policy choices to support the development of an SME strategy for county governments and gives some understanding on the mechanisms through which the devolved government systems will contribute to innovation and value addition activities at the county level.

The study considered the sub-sectors with the most significant economic activity in one county per region in Kenya, and analysed economic activities that are comparable across any two counties.

Subsectors & counties	
County	Sub-sector
Kiambu & Bomet	Dairy and Irish Potatoes
Homabay	Pineapples and Fishing
Kwale	Oranges and fishing

The study adopted the Participatory Appraisal Competitive Advantage (PACA) methodology to collect primary data to inform the analysis. Case studies of Irish potatoes, dairy, fishing, pineapples and oranges sub-sectors were used to understand the various institutional and regulatory challenges faced by agriculture-based SMEs in Kenya.

Given the success in carrying out the study, we would like to appreciate the financial support from Trust Africa in carrying out the study; and the various government and non-government organisations for providing ideas and support in the process of implementing this initiative. Further, we would like to appreciate the farmers who cooperated with CUTS in discussing their concerns, which have formed the basis of this report.

The project team led by Clement Onyango and the CUTS Nairobi team has tirelessly compiled the report and I am optimistic that the a document is disseminated widely among stakeholders and stirs a discourse in developing this sectorwith the ultimate goal of achieving the Kenyan vision 2030.

Pradeep S Mehta
Secretary General
CUTS International

Executive Summary

Introduction

There is little disagreement now about the capacity of SMEs to achieve rapid economic growth in developing countries, while also contributing substantially to employment opportunities in them. The importance of SMEs in Kenya was first recognised by the International Labour Organisation (ILO) in its report on 'Employment, Income and Equity in Kenya' in 1972. While the subsector constitutes close to 85 percent of employment, it only contributes about 20 percent of the total GDP. This implies dismal performance of the subsector. There is an urgent need therefore to review the existing conditions in the subsector for promoting SMEs development, and make the necessary refinements where needed.

The current constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act, 2012) provides a window of opportunity through which the evolution of SMEs can be realised through the devolution framework. However, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy. It is thus imperative to appraise the regulatory and institutional framework for SMEs given the existing devolved government system in Kenya. It is against this background that this study was undertaken by CUTS Nairobi, to assess the regulatory and institutional framework in the SMEs subsector in Kenya *vis-a-vis* the emerging devolved governance.

Project Findings

The study was conducted in Homabay, Kwale, Kiambu and Bomet counties. Case studies of Irish potatoes, dairy, fishing, pineapples and oranges were used to understand the various institutional and regulatory challenges facing the SMEs subsector in Kenya. The analysis involved assessment of the existing environment and other conditions in the SMEs subsector, and identification of possible areas for future interventions. Discussions with key stakeholders and practitioners were also held in these counties to get the 'real' flavour of issues on the ground that need to be taken into consideration while designing some of these interventions.

Production Challenges

Comparative analysis across the five markets (stated above) confirmed common production challenges like inadequate inputs and lack of production technology for better crop and livestock production. Production challenges were mainly attributed to limited access to finance for SMEs, despite the existence of various financial institutions. This was primarily due to stringent conditions set by the financial institutions.

Marketing & Value Addition Challenges

The implication of limited access to finance was also affirmed by various participants to have negative implications on marketing and value addition. It was felt that most SMEs players do not have the relevant skills to facilitate value addition, thus promoting exploitation by middlemen.

Regulatory & Institutional Challenges

- Existence of multiple institutions and departments handling SMEs issues in Kenya. For instance, the Ministry of Trade, the Ministry of Industrialisation and the Ministry of Labour have departments related to SMEs. There seems to be lack of coordinated strategies and approaches to stimulate SMEs development in Kenya.

- Even though the private-public dialogue has been emphasised at the central level, through the Kenya Private Sector Alliance (KEPSA), most stakeholders cited limited consultation at the ground-level during policy making processes.
- The findings affirm limited coordination in the implementation of the SMEs-related regulatory legislations and related activities/programmes in Kenya.
- The extent to which the new county system contributes to SMEs development depends on how best the operationalisation of the current MSE Act, 2012 factors in the necessary administrative changes as outlined in the current Constitution of Kenya.

Implications and Policy Recommendations

The challenges require a strategy that would promote easy access to credit and farm inputs, promote value addition and establish a well-coordinated and effective institutional and regulatory framework. There is also a gap in terms of information available regarding the operationalisation of certain institutions/agencies at the country level.

Other key policy issues arising from the research findings are pegged on the fact that there is lack of a formal institutional framework both at the national and local level, dedicated to SMEs development. The institutional deficiency has contributed to unclear consultation mechanism at the local level between the private sector and the government. This is expected to change with the adoption of the MSE Act, 2012.

In the context of Kenya, SME development requires a cross-cutting strategy that touches upon many areas, which can help the sector to improve and create a niche for itself in the Kenyan economy. A suggested set of measures in this regard has been provided below:

- **Establish an inclusive Private-Public dialogue:** A formal and organised SMEs structure would provide direction on how the county government should establish a formal coordination structure.
- **Support establishment of strong SMEs associations (county level):** The overall and county specific government policies for SMEs should emphasise on building alliances in the various SMEs subsectors. The government should provide support to enhance legitimate representative organisations at the county level.
- **Formulate specific county led SMEs policies and programmes:** There is need for each county to evolve its own policies and packages of incentives based on the county's economic competitiveness. Such policies should be informed by diagnostic studies undertaken to identify the 'competitive advantage' of a particular county in the SMEs sector.
- **Establish tailored training Institutes for SMEs (in Counties):** Even though there are government institutions providing courses on SMEs issues, it would be important for the government to establish SMEs specific training institutes especially in each county based on the county's competitiveness and its production output.
- **Establish SMEs oriented financial institutions (County level):** There is need for specific SMEs oriented banks to facilitate the promotion, financing and development of the small scale industries.
- **Establish an Import-Export Bank for SMEs:** The government should consider establishing an import and

export bank for SMEs. The bank should focus on SME exporters as its target beneficiaries.

- **Central coordinating institution:** The (proposed) Micro and Small Enterprises Authority under the MSE Act, 2012 should focus on policy articulation, promotion, development and protection of SMEs. It should also monitor the execution of the formulated policies and the effectiveness in their implementation.
- **Establishing a single window for SMEs:** The government should develop requirements and criteria for SMEs operations where strict regulations for SMEs entry and exit should be established.

Conclusion

This study has shown that there are differences in county specific and sectoral needs of SMEs in Kenya. These supportive needs across the different value chains should be extracted and well-understood. Even though the new institutional structure of the county government is a reality, it is generally agreed that its full operationalisation will take some time.

It is only by recognising the key (sectoral) requirements for SMEs growth and including them in the institutional development mechanism under the new MSE regime in the country, will SMEs be able to efficiently provide employment and income for millions of Kenyans, that they have the potential for.

1
Introduction

Context of the Study

Various countries have embarked on pursuing devolution as mechanisms for enhancing inclusive development (Rodriguez-Pose and Gill, 2004). Devolution is considered as an extensive form of decentralisation involving the transfer of authority and resources to sub national tiers of government (Rodriguez-Pose and Bwire 1998). The Central Government under the devolution framework transfers authority for decision-making, finance management and service delivery to quasi-autonomous units of local government that elect their own councils, raise their own revenues, and have independent authority to make investment decisions (Litvack et al. 1998).

A certain degree of autonomy for investment and expenditure decisions allows sub national units to pursue policies for economic development tailored to their own local needs and endowments (Gil et. al., 2004). Devolution is thus expected to make public expenditure more efficient (Martinez-Vasquez and McNab, 2005), create opportunities for local regimes to mobilise around sustainable development (Benneworth and Roberts, 2002) and contribute to better coordination among various local actors (e.g. local government, businesses and civil society). Devolution enhances a mechanism through which locally oriented activities can be rejuvenated to contribute to sustainable economic development.

A well formulated devolved system of governance is expected to promote favorable macro-economic environment for activities, which benefits various key sectors. This has considerable multiplier effects on local economic development, where Small and Medium Enterprises (SMEs) are known to constitute larger percentage of economic activities. SMEs have the capacity to achieve rapid economic growth, thereby generating employment opportunities at the local level (Reddy, 1991:2).

SMEs have been recognised as engines through which growth objectives of developing countries can be well achieved. They are potential sources of employment and income in many countries. SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions. SMEs are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000).

They are also more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). SMEs also improve efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

The importance of the subsector in Kenya was first recognised in the International Labour Organization report (ILO) in 1972 on 'Employment, Income and Equity in Kenya' (ILO, 1972). The report underscored the sector's critical role in promoting growth in incomes and employment. The importance of the sector has also been affirmed in the African Economic Outlook, 2011 Report.[2] According to the report,

2 See www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Kenya%20Full%20PDF%20Country%20Note.pdf

the SME subsector plays a significant role in Kenya's economic structure, where the sector employed close to 80 percent of Kenya's total workforce in 2011.

While the SMEs subsector constitute close to 80 percent of employment, it only contributes to about 20 percent of the gross domestic product (GDP). This implies bad subsector performance despite its potential to employment, income and equity. Such performance of the SMEs sector in Kenya is linked to several constraints among which regulatory and institutional framework is felt to be one.

The attempts to address the growth of SMEs in Kenya can be mirrored in the current constitution of Kenya enacted in 2010, where devolution has been embedded as a key instrument in fostering Local Economic Development (LED) initiatives. The devolution instruments is expected to affect the key drivers of the economy related to the SMEs, which requires a locally driven SMEs policy embedded on the devolution structure.

However, the policy framework to promote the LED of SMEs has been pegged on wider national policies for a long time, with limited emphasis on locally-led development strategies. As such, there is need to develop policies which seek to realign the overall SMEs development agenda with the envisaged devolution framework as outlined in the current Constitution. A window of opportunity has been opened through the county system of government with its focus on local economic development opportunities based on local resources.

It is in this regard that this study by CUTS analyses the institutional and regulatory challenges for SMEs *vis-a-vis* the devolved governance system. The study aims to understand the possible existing institutional and regulatory challenges that need refinements to unleash SMEs in Kenya. Policy and recommendations have been based on case study findings gathered from a few key SME sub-sectors.

Definition, Classification and Composition of SMEs in Kenya

Numerous efforts have been explored to define the concept of SMEs in different economies. Various attempts have resulted in various different approaches in understanding the concept of SMEs. The concept of SMEs varies from one country to another depending on the indicators used (Visser, 1997).

- The first criteria, based on the number of employees, defines SMEs as those enterprises below a certain number of workers (i.e. can range from less than 10 to less than 50 employees).
- The second criterion defines the SMEs as the degree of legal formality, and has been used to distinguish between the formal and informal sectors. Here, Micro, Small and Medium Enterprises (MSMEs) are considered as enterprises which are not registered and do not comply with the legal obligations concerning safety, taxes and labour laws.
- The third criterion defines SMEs as based on the limited amounts of capital and skills per worker.

Regulatory and institutional framework for Kenya has been based on the number of employees and the company's annual turnover (MSMEs Act, 2012). For instance, the micro enterprises have been defined as those employing less than 10 workers with annual turnovers of less than KES500,000 and capital formation of less than KES5mn for services or less than KES10mn for enterprises doing manufacturing. Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES500,000 and KES5mn and capital formation between KES5mn and KES20mn for services or between KES5mon and KES50mn for enterprises doing manufacturing (see Table 1).

Table 1: Classification of MSEs by the MSE Act, 2012

Entity (Trade service, industry or business activity	No of Employees /People	Annual Turnover Limit	Investment in Plant and Machinery +Registered Capital	Equipment Investment +Registered Capital
Micro Enterprise	Less than 10 people	Not exceeding KES 500,000	Not exceeding KES 10M	Not exceeding KES 5M
Small Enterprise	More than 10 but less than 50	Between KES 500,000 to 5M	More than 10m but less than 50M	More than 5m but less than 20M

Source: Government of Kenya, 2010

Generally, the SMEs sector in the country comprises of manufacturing and trade (wholesale and retail) sub-sectors, with substantial engagement in agro-based activities, which, directly affects a larger population in the society. The SMEs subsector are businesses in both formal and informal sectors accounting to more than 74 percent of the total persons engaged in employment per year and contributing more than 18.4 percent of the country's GDP.

Statement of the Problem/Motivation of the Study

ILO, 1972 report underscored the importance of the SMEs sub sectors in promoting growth in incomes and employment in Kenya. However, various economic policies and strategies which have been pursued to support the development of SMEs have not significantly contributed to local economic development. Such policies have been centered on the development of larger enterprises and have been biased towards urban areas despite the realities that majority of the Kenyans are in the rural areas; and that the overwhelming majority of Kenyan enterprises are SMEs.

There are also indications that most SMEs are scattered, with no formal institutional framework to address their concerns. Furthermore, over 80 percent of the SMEs in Kenya are agro-based with limited technological innovation. It is in this regard that this study seeks to answer the following key questions;

- What has been the regulatory and institutional challenges facing the development of the SMEs sector?
- Does the current devolved governance structure mitigate such challenges to enhance the local development of SMEs?
- If not, what governance structure/SMEs strategy should the government adopt to support the development of SMEs at the county level?
- What are the channels through which devolution can contribute to innovative and value addition activities at the county level?

Objectives of the Study

The overall objective of this study is to analyse institutional and regulatory framework for SMEs *vis-a-vis* the devolved government system. The specific objective include:

(a) To understand and analyse current and past regulatory and institutional framework inclined to SMEs;
(b) To analyse institutional and regulatory challenges facing the SMEs at county levels;
(c) To find out the mechanisms or channels through which the new devolved government will contribute to innovative and value addition activities at the county level; and
(d) To provide evidence for the development of policy choices to support the development of SMEs strategy for the county governments.

Box 1: Terms of Reference (in brief)
a) Understanding the current and past regulatory and institutional framework inclined to SMEs, b) Evaluating the effectiveness of the current regulatory/ institutional framework in supporting local development of the SMEs at the county level under the devolved government system, c) Analysing the institutional and regulatory challenges facing the SMEs at county levels, d) Understanding the mechanisms or channels through which the new devolved government will contribute to innovative and value addition activities at the county level, and e) Providing evidence for the development of policy choices to support the development of SMEs strategy for the county governments.

Significance of the Study

The Constitution of Kenya emphasises on devolution as a key instrument for enhancing locally-led sustainable development at the 'county' level. The output of the study is expected to provide evidence and inputs for developing policy choices aimed at improving the regulatory and institutional governance for SMEs at the county levels. The improved framework is expected to contribute to a conducive business environment for SMEs, hence supporting the growth of the enterprises at the local level.

This will further contribute to the improvement of livelihood, resulting into poverty reduction, hence contributing to socio-economic development through multiplier effects. The output of the study is thus expected to contribute to the implementation of the county system, given that the devolution process is yet to pick up.

Scope and Methodology

Sector and Geographical Scope

To understand the landscape of the SMEs structure in terms of the institutional, regulatory and value addition activities, the study considered four counties and five subsectors. Several criterions were used to select various case sectors and counties for analysis which included the following factors/indicators;

(a) The study considered the sub sectors with the most important economic activity (in terms of majority employment and potential to develop a more vibrant SME value chain industry) in each region. Hence, fishing and fish trade was identified in both Nyanza and Coast; while dairy was identified in both Central and Rift Valley.

(b) The study considered one county per region in which the above identified activities were most vibrant. In this context, the fishery was considered to be concentrated in both Homa- Bay and Kwale; while Dairy was seen to be concentrated in Bomet and Kiambu counties.

(c) The study also considered economic activities that are comparable across any two counties. Based on this criterion, Irish potato farming was identified as important to both Bomet and Kiambu while fruits, generally (and specifically, pineapples and oranges) were identified as important to Homa-Bay and Kwale counties.

It is against these background that this study was conducted in western; Rift Valley; Central; and Coastal regions of Kenya.

The following summarises the scope of the study in terms of the chosen sub sectors and geographical coverage.

Table 2: Geographic and Sector Scope	
Sample County Study	**Sample Sub Sector Study**
Kiambu	Dairy Sector, Irish Potatoes
Bomet	Dairy, Irish Potatoes
Homabay	Fishing, Pineapples
Kwale	Fishing, Oranges
Source: CUTS Research Team	

The sectors and the geographical locations selected were aimed at collating inputs to be used in understanding the regulatory and institutional policy challenges facing the SMEs.The inputs collated would provide the benchmark for policy formulation.

Data Collection

Secondary Data

The research team examined relevant documentation which included reports and various policy documents. The purpose of the documentary review was to collect published data and information on institutional and regulatory challenges facing the SMEs, the current and the past regulatory and institutional framework inclined to SMEs.

The key documents were obtained from the Ministry of Industrialisation, Ministry of Labour, Ministry of Agriculture, Ministry of Livestock and Fisheries Development and sector specific associations like Kenya National Potatoes Farmers Associations (KENAPOFA). The review also included a comparative analysis on the regulatory and institutional practices for a more advanced economies in terms of development in SMEs structure like India and South Africa. Other secondary sources of data used in this study included previous study reports and publications on SMEs issues like the SMEs hand Book, the SMEs Act, 2012 among others.

Primary Data Collection

The study adopted the Participatory Appraisal Competitive Advantage (PACA) methodology to collect the primary data. The PACA methodology is a consolidation of various key elements which are the integral components of PACA. The Key elements are defined as follows:

(a) Participatory: This implies that the PACA methodology is premised on the fact that a successful local economic development should be based on the active involvement of stakeholders who are relevant for economic development. The PACA methodology seeks to enhance a constructive relationship between the public and private sector in an economy. Hence this study involved the local stakeholders to collate and deduce relevant recommendations.
(b) Appraisal: The core of PACA is a methodology which permits a rapid appraisal of local economy not only of economic potentials but also political factors. This implies that PACA framework assess the local led potential in terms of economic and political factors.
(c) Competitive Advantage: The main thrust of PACA is not to elaborate endless lists of problems, deficiencies and bottle necks, but to look for opportunities which improve the local business environment within a short period of time.

The PACA methodology was preferred in this study, given its framework to directly engage various stakeholders at the local level to come up with demand driven solutions to enhance conducive environment for SMEs development. The PACA

Box 2: Design and Process of the PACA Framework

The PACA process began by undertaking preparatory Exercise. During this process, available data and information were gathered from Bomet, Kiambu, Homabay and Kwale counties. Additional data were also gathered from the key stakeholders who were at the same time informed about the PACA exercise. The key stakeholders who were also the nodal persons in the respective counties provided the list of participants to be engaged during the Mini workshops. Recruitment of PACA Team and Organisation of mini Workshops were also undertaken at this stage. The PACA team was composed of two facilitators from each county.

The preparatory exercise was followed by PACA Field Work: The PACA fieldwork process involved conducting mini workshops in the four counties to gather in-depth information on the specific issues affecting the SMEs associations, individual entrepreneurs, DDO, DLO, DAO; the producer groups like the KENAPOFA, Dairy Farmer groups, regulatory authorities at the local level. Each Mini Workshop had 30 participants divided into two equal groups, where 15 participants were from each of the subsectors in each county. The participants from each subsector were grouped together to consolidate different ideas from each of the sub sectors.

For instance, the participants from Irish Potatoes and Dairy Industry in Bomet were grouped and engage separately in a focus group discussion. The mini workshops were followed by key informant's field work interviews, where the key stakeholders were engaged during the process. The predetermined questionnaires, (with particular domain) were administered to the key policy makers in (Bomet,

Contd...

Homabay; Kiambu and Kwale). The key informants included officials from the Ministry of Agriculture, Ministry of Livestock and Fisheries, Business Associations and farmer groups, Local authorities to provide information on how the new devolved system of governance can provide an effective institutional and regulatory framework to support the development of SMEs at the county level. A diverse and a common position on regulatory and the mechanisms or channels through which the new devolved system of governance will contribute to innovative and value addition activities at the county levels for the SMEs were developed based on deliberations from the focus group discussions.
Source: Deduction by the Research Team

framework provided a platform which facilitated the engagement among the various stakeholders. The methodology provided an opportunity for SMEs association to develop a constructive relationship for policy advocacy. The PACA methodology also integrates emphasis on bottom up proposals which aim at removing bureaucratic obstacles to doing business. The PACA exercise was conducted through the following processes:

Theoretical Framework

Decentralisation involves the delegation of powers to lower levels in territorial hierarchy whether the hierarchy is one of the governments with a state or offices with a large scale organisation (Smith 1985:1). Decentralisation thus involves creation of smaller territories establishment of political and administrative institutions. There are four forms of devolution. Devolution as a form of decentralisation implies that the Central government gives up certain functions and creates new units of government outside control (Rondinelli and Cheema (1983).

Heywood 2007 further asserts that devolution establishes the best measure of decentralisation within the unitary system of government. In terms of economic, devolution framework improves efficiency (Shepard, 1975), where stakeholders have the opportunity to directly contribute to the policy making process. The ability to enhance inclusive public participation in the governance process exist when devolution system contributes to sustainable development in terms of promoting participatory policy formulation process, and the formulation of policies which are adapted to local needs (Sharma, 2000).

An effective devolved system is expected to increase the incentives and the capacity of the poor to actively participate in the decision-making, to decide and lobby for their interests (Manor, 1999), bringing about their 'empowerment' as well as contributing to pro poor policies.

Devolution can equally bring about efficiency gains, especially in service delivery, given that the local officials are supposed to have a better knowledge of local needs and preferences (Hayek in Ostrom et al., 1993). Thus, devolution process requires a participatory process to enhance inclusive policy development to enhance LED.

Decentralisation which is a form of devolution, reduces costs, improves outputs and utilises human resources more effectively (Hart, 1972). Decentralisation is believed to improve access to administrative agencies (De Mello, 1981).

Rationale for decentralisation explicated by Rondinelli and Cheema (1983) includes overcoming limitation of central controlled tailoring of development plans in accordance with the local needs heterogeneous groups, reduced red tapes, sensitivity to local problems, close contact between officials and people, institutionalisation of participation, flexible innovative and creative administration. The capacity of local government to decide and implement pro-poor policies largely depends on the design of the decentralisation process and it is related to factors such as local governments' human and fiscal resources and type of functions devolved (Bardhan and Mookherjee, 2000). The pro-poor policies are related to the development strategies which seek to enhance inclusive development.

Despite the positive relationship between devolution and LED, the impact of devolution process initiatives depends upon a number of internal and external factors, like age, size, nature of tasks, technology, internal management, regulatory and administrative capacity, and sociopolitical and economic factors (Kiggundu, 2000).

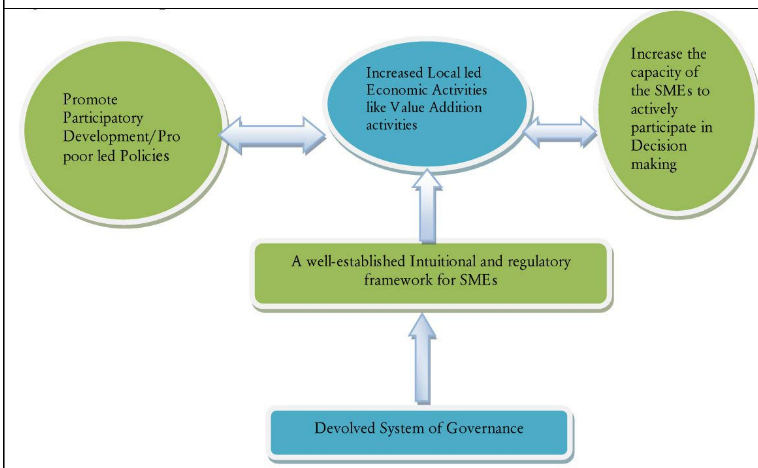
Hence, there is no automatic relationship between devolution and LED under the county system. There is need for a demand-driven county regulatory and institutional framework, to support the development of various locally-led economic activities like those related to SMEs at the county level. Such framework would promote increased mechanisms for public participation and increased linkages between government and non state actors (Boyle and Humphreys, 2001, p. 80).

Conceptual Framework

For devolution and SMEs to contribute to LED at the county level, there are core institutional and regulatory elements to be considered. According to the existing theory on governance, devolution is expected to promote participatory development through pro-poor led policies; increased LED activities (like those related to value addition activities); increase the capacity of the SMEs to actively participate in decision-making.

However, the socio-economic impact of devolution process on economic activities depends on the design and effectiveness of the existing institutional and regulatory framework for SMEs at the county level. To enhance LED through SMEs growth, the local development strategy for SMEs should emphasise on

Figure 1: Conceptual Framework



Source: Research Teams' deduction based on the Theoretical Framework

the importance of an enabling policy and institutional environment etc to support the contribution of devolution on SMEs related growth. The relationship between the elements associated with the linkage between devolution and sustainable economic development can be summarised in the following framework.

The conceptual framework implies that a well formulated devolved framework in an economic system should enhance locally-led economic activities. Such framework should be supported by an effective institutional and regulatory framework for SMEs in the various regions of Kenya. Devolution is underscored as an important tool for enhancing such linkages. However, the rebirth of the devolution in Kenya after the 1963 has been initiated by the new Constitution which was enacted in 2010.

At the same time, the SMEs have been in existence for many decades in Kenya under the non devolved government system. It would thus be important to analyse the architecture of the regulatory and institutional framework for SMEs in Kenya. This would be important in delineating the current and the past regulatory framework inclined to the SMEs in Kenya.

2
Literature Review

Evolution of SMEs Policies and Laws in Kenya

The evolution of government strategies on SMEs can be traced back after the ILO report of 1972 on Employment, income and equity in Kenya which recognised SMEs as important sector for creating income and employment for the Kenyan population. The sector's importance in economic development was singled out in Sessional Paper No.1 of 1986, Economic Management for Renewed Growth (GOK,1986), which set out mechanisms for enhancing an enabling environment for SMEs. The governments' commitment in Sessional Paper 1 of 1986 was reinforced in the 1989 GOK report, the strategy for small Enterprises, which delineated the mechanisms for removing the constraints to growth and development of the SME sector.

A further effort by the government formulation of a policy framework on SMEs was recognised in Sessional Paper No.2 of 1992, Micro Small and Medium Enterprises (MSMEs) and Jua kali Development in Kenya. The Sessional paper recommended that the relevant ministries in consultation with the Attorney general's office address the legal and regulatory framework to support the creation of an enabling business environment for SMEs .The Sessional paper specifically recommended the need to undertake a comprehensive review and analysis of acts and licences that pertain to SMEs, especially those that negatively impacted on the growth and development of the SMEs. The paper also advocated for the formation of association to provide easy access to information to various enterprises in the country.

There are other policy documents which also declared the government's intention to create an enabling legal and regulatory environment. For instance, the Development Plan for 1989-1993 implied that the government would speed up the already initiated review of the local authorities by laws and regulations that have proved restrictive to the development of SMEs.

Moreover, the Small Enterprise Policy Implementation Programme Mission Report of 1994 was also identified the failure to address some key issues such as legislative reform, land allocation and poor infrastructure as the main weakness inhibiting the development of the SMEs. The government also pledged to harmonise the licensing regime and simplify requirements so as to encourage commercial and industrial investment (Development Plan 1994-1996).

Another Sessional paper No.2 on the development of SMEs for wealth and employment creation for poverty reduction was formulated and published in 2005. The Sessional paper spelt out some of the key measures to address business registration, business licensing and the tax regime.

Another policy regime which attempted to address the SMEs issues integrated the SMEs issues in the Private Sector Development Strategy (2006-2010). The strategy considered SMEs as a central link between the private sector and poverty reduction. The Private Sector Development (PSD) strategy was developed by the Government of Kenya. The PSD outlined the specific policies and strategies that needed to be pursued in order to enhance private sector growth and competitiveness. The PSDS had five key goals (see Box 3).

Box 3: Objectives of the PSD
Goal 1: Improving Kenya's business environment Goal 2: Accelerating Institutional transformation within the public sector Goal 3: Facilitating growth through greater expansion of trade Goal 4: Improving the productivity of enterprises Goal 5: Supporting entrepreneurship and indigenous enterprise development
Source: PSD Strategy, 2006-2010

The PSD strategy recognises the SMEs to be more labour intensive and promote equitable distribution of income since they are owned by poorer entrepreneurs', a significant of who are women. The strategy also identified the SME sector to be generally constrained by lack of access to markets, limited access to capital, limited skills and firm-of effective representation in sector-specific and umbrella business associations that would provide a forum to articulate their issues for further redress.

To address the aforementioned constraints, 'Goal 5' of PSD strategy aimed at facilitating the SMEs competitiveness by supporting the development of new enterprises, improving access to capital, facilitating the graduation and evolution of enterprises, promoting firm to firm linkages and promoting broader MSMEs representation in business associations. The other milestones by the government regarding the revitalisation of the SMEs in Kenya include the enactment of the Micro-finance Act and the Savings and Credit Cooperative Societies (SACCOS) Act.

It is evident that several attempts have been made to formulate policies to support the SMEs sectors in Kenya. However, the existing policies have been nationwide oriented, with limited focus on addressing region specific SMEs issues in Kenya. Such regulatory framework also requires a well established institution to oversee the implementation of the respective legislations. It would thus be vital to understand the landscape and architecture of the existing institutional framework established to address possible constraints affecting the SMEs in Kenya.

The Institutional Framework for SMEs in Kenya

Several efforts have been made to revitalise the SMEs subsector in Kenya through various policy reforms. Some of the policies have focused on the SMEs subsector, while other policies have partially integrated SMEs issues in various National development plans (Development Plan 1994-1996). Despite the reforms, the policies are inadequate in providing guidance on the establishment of the various SMEs related institutions and regulations. Such condition has been confirmed by poor coordination and existence of various departments in different ministries handling SMEs issues.

For instance, the Ministry of Trade, Ministry of Labour and Industrialisation, each have a department dealing with the SMEs. Other institutions which are directly involved in the SMEs include the Kenya Industrial Estates, Kenya Industrial Research and Development Institute (KIRDI); Kenya

Box 5: Objectives of the SME Act 2012

(a) To promote an enabling business environment
(b) To facilitate access to business development services
(c) To facilitate informal sector formalisation and upgrading
(d) To promote an entrepreneurial culture
(e) To promote representative

Source: Government of Kenya, 2012, SME Act 2012

Bureau of Standards (KBS), Kenya Industrial Property Institute (KIPI), among others.

The poor coordination has been agitated by lack of directive pointer to support the overall management of the SMEs in Kenya. The inadequacy in the policy pointer has motivated the development of the new policy regime. The policy regime motivated the formulation of the new SMEs Act. It is characterised by important features aimed at contributing to the development of the SMEs in the country. An analysis on the extent at which the proposed Act is aligned to the structures of the county system as proposed in the current Constitution of Kenya is thus important given that the Act was formulated before the current Constitution was promulgated by the Government of Kenya in 2010.

Appraisal of the Proposed SMEs Policy in Kenya

The Ministry of Labour in collaboration with the SMEs stakeholders developed a Parliamentary Act for SMEs in 2012. The Act is expected to oversee the regulation and the development of the sector. The SMEs Act 2012 was formulated as a proposed strategy to revitalise the SMEs sub sector. The enactment of the SME Act is part of the policy interventions which was envisaged by the Sessional Paper number 2 of 2005 (SP No. 2 of 2005) on the Development of SMEs in Kenya.

The objective and purpose of the Act is to consolidate the overall legal and institutional framework. Such framework should promote, develop and regulate Micro and Small Enterprises to achieve certain objectives. The Act focuses on key concerns that directly affect the development of SMEs. The SME Act seeks to consolidate various institutional frameworks for SMEs in a one policy document. The proposed Act, therefore, seeks to consolidate policy formulation, administration and implementation, and regulation in three institutions namely, Department of Micro and Small Enterprises, National Council for Micro and Small Enterprise (NCMSE) and Registrar of Micro and Small Enterprises Associations and Umbrella bodies. The specific institutions as discussed in the proposed SMEs Act are as follows:

(a) Department of Micro and Small Enterprises: The Department of Micro and Small Enterprises in collaboration with the other relevant ministries and stakeholders is envisaged to perform functions like formulating and reviewing policies and programmes for micro and small enterprises; developing infrastructure for micro and small enterprises; promoting market access and provision of marketing services; promoting product development and innovation; capacity building programmes for micro and small enterprises; facilitate technology development, acquisition and transfer; acquisition of land for micro and small enterprises use; develop mechanisms, tools and programmes for collection of comprehensive data disaggregated by sex, region and age among others in collaboration with key stakeholders to enable proper planning for micro and small enterprise sector.

(b) National Council for Micro and Small Enterprises (NCMSE): The Council is envisioned to improve the coordination of the sector and other sectors. Specifically, the council is expected to perform functions like coordinating, harmonising and facilitating the integration of various public and private sector activities, programmes and development plans relating to Micro and Small Enterprise sector; monitoring and evaluating the implementation of existing policies and programmes related to or affecting micro and small enterprises and advise the government on appropriate policies and course of action to be taken; mobilising the resources for the development of micro and small enterprises and natural environment and opportunities for the development of the micro and small enterprises; and managing the Micro and Small Enterprises Development Fund.

(c) Micro and Small Enterprises Development Fund: The proposed Act provides for the establishment of a Micro and Small Enterprises Development Fund. The purpose of the fund will be to finance the promotion and development of Micro and Small Enterprises in accordance with this Act; provide affordable and accessible credit to Micro and Small Enterprises; and finance capacity building of Micro and Small Enterprises; and research, development, innovation and transfer of technology.

(d) The SME Act further provides prominence to Micro and Small Enterprise Associations in policy formulation and management of the MSME sector by providing for Registrar of MSE associations who will be responsible for the registration and regulation of the MSE associations, and thereby enhance stakeholder dialogue and representation.

The SMEs Act is the first attempt to increase legitimate participation of micro and small enterprises in the policy formulation by providing a fully fledged department dealing with the SME sector through the NCMSE, a corporate body, with functions of policy formulation and sector development alongside other functions that is expected to benefit the sector. Even though the proposed Act provides comprehensive approach to SMEs development in terms of relevant institutions, various institutions envisaged in the SMEs Act are nationwide oriented with no clear framework on how the proposed institutions will link up with various county specific institutions as proposed in the current constitution.

Proposed Role and Functions of the County Government

Effective governance entails promotion of institutional frameworks that facilitate efficient governance. This will ensure improved central and local government relations. In particular, distribution and exercise of powers or functions, based on subsidiarity is a key element. Other aspects include: cooperation between public and private sectors, including informal sector and communities; cooperation between government and non state actors (NSA). While these global attributes of governance have been applied in Kenya, they have not been domesticated and translated into local policies and laws.

The current constitution provides for the establishment of counties and by, Extension County led institutions and regulations. The county system will be governed by the current County Government Act enacted in 2012.The Act is expected to oversee the operation of the county system like enacting respective county legislations related to SMEs development through the county assemblies.

The county assembly (as outlined in the County Government Act) is expected to approve the budget and expenditure of the county government in accordance with Article 207 of the Constitution, and the legislation contemplated in Article 220 (2) of the Constitution, guided by Articles 201 and 203 of the Constitution; approve the borrowing by the county government in accordance with Article 212 of the Constitution; and approve county development planning.

One of the key functions of the county governments is to promote trade development and regulation, including markets; trade licences (excluding regulation of professions); fair trading practices; local tourism; and cooperative societies which imply that county system will be instrumental in resource allocation and planning for the development of SMEs in Kenya.

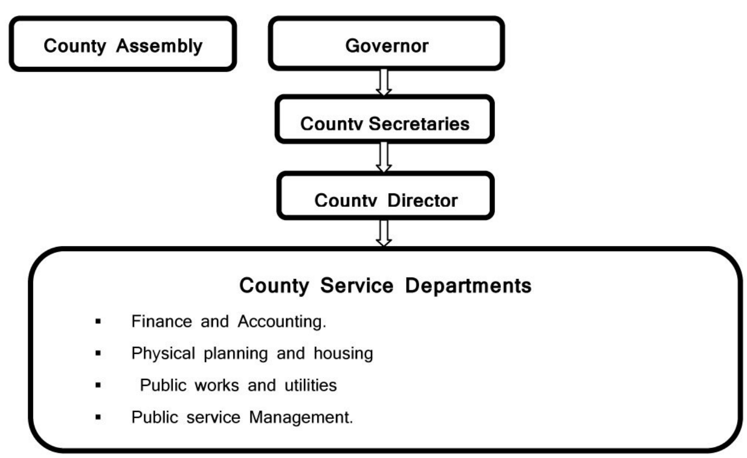
The County Government Act will also be supported by the Urban Areas And Cities Act, No. 13 of 2011.This is an Act of Parliament which is expected to provide for the, classification, governance and management of urban areas and cities. The Act is expected to provide for the criteria of establishing urban areas, to provide for the principle of governance and participation of residents and for connected purposes.

The legislation is important to the county development as it provides for the establishment of the citizens' foras. The foras are expected to monitor and evaluate the development in the respective counties. Such mechanisms will provide for the enactment of the local led legislations and policies in the respective counties in Kenya as it provides constructive mechanisms for stakeholder engagement and participation in the policy making process in Kenya. However, it should be underscored that the county government will not be independent in terms of its operation.

Article 6(2) of the current Constitution describes the governments to exist at two levels as being distinct and interdependent and which should conduct their mutual relations on the basis of consultation and cooperation. This implies that the devolution is not based on the principle of absolute autonomy but instead, on that of inter-dependence and cooperation where there should be intergovernmental relationships between and among governments. Such relationships should be based on and informed by the principles of cooperative governance where there should be mutual consultation between the county and Central Government.

The county led legislations imply that the participation of citizens in the respective counties shall be mandatory. The County representatives will provide an oversight provision of services, deliberate on proposed annual budget estimates and development plans, monitor development activities and receive presentations, including feedback on issues raised by County citizens. In urban areas and cities, both cities and municipalities will provide similar services depending on their capacity, while towns shall provide services as delegated by respective County governments. Figure 2 summaries the linkage between the various county structures and how such structure would link up with SMEs subsector through the various county service departments;

Figure 2: Proposed Structure of the County Government System



Source: Government of Kenya

Given the new structure of governance, the county led SMEs policies in the proposed SMEs legislation should be aligned to the trade, industrial department and regulation service departments. At the same time, the subsector committee should interface with the other service departments in the county system. It is in this context that there have been various efforts to align operation to the county system, though much more preparation is still needed to establish requisite regulatory and promotional institutions to catalyse local economic development by up scaling the SMEs activities.

The extent at which the new county system contributes to SMEs development in the respective counties depends on how best the current SMEs Act, 2012 is restructured to factor in the administrative changes as outlined in the current administrative structure.

There is thus need for each county to develop its SMEs policies based on the local needs and such policies should indicate how the institutional and regulatory framework will link up with the governance structure at the county level under the current constitution. The SMEs Act should thus indicate how the central government, (through the department of MSME) will work with the Trade, industrial Department and regulation service departments at the county level to promote and develop the SMEs.

Given that this study has been based on the selected subsectors (i.e. Dairy, Fishing, Irish potatoes and Oranges) in Kenya, It would also be important to understand the regulatory and institutional frameworks for the selected sub sectors in question.

Overview of Specific Sector Policies

Policy and Institutional Framework (Dairy Sub Sector)

The regulatory framework for the dairy industry consists of various laws enacted in a number of legal documents. For instance, the Dairy Industry Act (CAP 336, Laws of Kenya) was first enacted in 1958 .The act established the Kenya Dairy Board (KDB) to regulate the industry. The main functions of the KDB include:

(i) licencing of retailers,
(ii) controlling of milk movement and quality, and

(iii) appointment of dairy inspectors. Despite the regulatory role in the industry, information from the literature depicts that the KDB has inadequate resources in terms of personnel, laboratories and operational funds to effectively implement its mandates (Muriuki et al, 2011).

Another important regulation is the Co-operative Development Act (Cap 390, Laws of Kenya), which governs all dairy marketing co-operatives. The Act was revised in 1997 to ensure greater farmer control, and less government intervention. In early 2004, the Act was revised to promote the contribution of co-operatives to economic recovery and development. Despite good performance in many cases, most dairy co-operatives have not allowed sufficient farmer participation in their management. The Companies Act (Cap 486, Laws of Kenya) is another important legal and policy framework that provides for registration of companies engaged in various business transactions in the milk supply chain. These include:

(i) registration and licencing of milk processors,
(ii) licensing of retailers,
(iii) regulations of milk transportation, and
(iv) inspectors' regulations (by KDB). Violation of these regulations is liable to prosecution.

In terms of institutions in the industry, the Kenya Bureau of Standards (KEBS) promotes adherence to standards in industry and commerce, and to undertake educational work in connection with the standards. The KEBS was established under the Standards Act (CAP 496, Laws of Kenya). These standards are intended to safeguard both consumers and producers for product quality and for fair commercial dealings. KEBS has specified the methods of analysis to be followed for various products (including dairy products) and has powers to enforce these standards even by prosecution.

There are also other few agricultural credit institutions, which help in the financing the dairy subsector. The main sources of credit include commercial banks, whose credit is usually unsuitable for farming, and micro-finance institutions, which are more popular with SMEs, including smallholder dairy farmers. However, the use of credit by small holder farmers has been constrained by stringent collateral requirements which do not favour the SMEs in the dairy subsector.

Other relevant institutions which work on dairy issues include NGOs such as Land O'Lake, Heifer Project International, Techno Serve, Action Aid and church-based organisations. Land O'Lake, Heifer Project International and Techno Serve have become very active in dairy development in East Africa.

Policy and Institutional Framework (Irish Potato Sub sector)

The Irish potato industry is supported by the National Potato Industry Policy of 2005.The objective of this policy is to raise productivity in the industry through the provision of appropriate technology and services; develop and implement processes that will lead to increased empowerment of growers and other stakeholders; develop and promote the use of standard packaging and weight measures which was put at 100 kgs per bag. The industry is also regulated by the adaptive by law legal Notice No 44 of 2007. The legal notice stipulates that all the local authorities should enforce a maximum size (110 kgs) standard bag for potatoes.

However, the effective implementation of this law has been hampered by poor coordination among the Ministry of Agriculture (MOA), the police, and the local authorities. According to the National Potato Policy, the MOA is the nodal institution which coordinates the implementation of the agricultural policies. The specific functions of the ministry

Box 5: Functions of the NPCK
(a) To create an enabling environment for effective and efficient potato value chains for growth and development of a self-regulating potato industry (b) To build a cohesive potato industry in order to promote synergies and minimise duplication for efficient use of resources through enhanced public private partnerships (c) To promote best practices for quality standards, improved yields and enhanced value addition in order to thrive in local, regional and global markets. (d) To create a platform for information management and capacity building for the various potato value chain actors (e) To mobilise and effectively manage resources for the growth and stability of the organisations and the prosperity of the industry (f) To identify and mainstream crosscutting and emerging issues within the potato industry
Source: http://npck.org /

include developing and overseeing the implementation of the agricultural policy ,crop production and marketing ,land use policy, pests and diseases control; agricultural research ,information management for agricultural sectors among others. The MOA has regional branches which supervises the implementation of the government policies at the grass root level.

The Kenya Agricultural Research Institute (KARI); is also mandated to carry out research activities covering agriculture where Potato research is done mainly in KARI Tigoni centre. However, other stations and substations are also highly involved including the International Potato Centre (IPC). These institutions develop, promote and avail quality seed potato to seed growers.

The sub sector is also regulated by the Horticultural Crops Development Authority (HCDA).The HCDA is in charge of regulatory and advisory in policy making, production, marketing, post harvest, processing and consumption. The authority is expected to collaborate with other organisations involved directly or indirectly with the potato industry. It is also expected to develop, promote and facilitate potentials of marketing strategy, production strategy and post harvest chains by exploitation of national, regional and international potential of farmers, exporters, importers and consumers.

The Kenya Plant Health Inspectorate Services (KEPHIS) also coordinates all matters related to pests and disease control; monitor the quality and levels of toxic residue in plants; soils and products; administer plant breeder's rights, undertake inspection, testing, certification, quarantine control, variety testing and description of seeds and planting materials among others. Agricultural Development Corporation (ADC) was also established under the agricultural Development Corporation Act, Cap.444 to be in charge of germplasm for crop seed and livestock.

The KEBS is also important in promoting standardisation in commerce and industry through development of standards, quality control, certification and metrology. KEBS has the mandate of establishing and enforcing quality standards of all products on the Kenyan market whether locally produced and imported.

The Kenya Industrial Research and Development Institute (KIRDI) is also mandated to undertake research and development in industrial and allied technologies. KIRDI is expected to collaborate with the MOA and other stakeholders in technology development and transfer in processing of horticultural produce. Such technological development could include enhancement of value addition processes.

The Local Authorities, on the other hand, are involved in the development of markets and market infrastructure for produce in their areas of jurisdiction. They collect fees and charges from agricultural produce and are expected to plough back some of these revenues in the maintenance of rural access roads and in the maintenance and development of new markets. The operations of the local authorities are governed by the local Authorities Act, Cap 265.

Another key institution is the National Potato Council of Kenya (NPCK). The Council was formed as a result of a transformation of the Potato Value Chain Development Committee (VCDC) which had been formed through the initiatives of PSDA and MOA. The NPCK was registered in August 2010 and launched on 25th November 2010. The NPCK is envisioned to move potato industry forward and develop it through organising its social, political, economic and agronomic environments; building synergies and coordination of all stakeholders' efforts. The Council intends to use pragmatic approaches of interrogating the processes in the subsector to revamp and develop the subsector into a self-regulating and robust industry.

There are also farmer groups and association which are key in revitalising the subsectors' performance. The potatoe industy have been under the auspice of the key farmer groups like the Kenya National Potatoes Farmers Association (KENAPOFA), which is a member based organisation formed in 2003 and registered as Kenya Potato Growers and Marketing Association (KPGMA). The main mandate of KENAPOFA is to spearhead lobbying and advocacy activities for the strengthening of national potato industry to competitive international levels. KENAPOFA is expected to voice out the concerns of farmers in various areas. However, the extent at which KENAPOFA delivers its expected mandate depends on the strength of its presence on the ground.

Policy and Institutional Framework (Orange and Pineapple Sub sectors)

The Horticulture Industry is governed by various public and private institutions with legal and institutional mandates. The Ministry of Agriculture provides overall policy direction, regulation and operational direction. The industry which is regulated by the Horticultural Crops Development Authority (HCDA) was established under the Agriculture Act, (Cap. 318) through the HCDA order, 1967 (Legal Notice No. 229/ 1967). HCDA has the mandate to facilitate the development, promotion, coordination and regulation of the horticulture industry in Kenya.

Other institutions include the KEPHIS which was established by the KEPHIS Order, 1996, under the State Corporations Act (Cap 446). KEPHIS has the responsibility of regulating plant health issues relating to phytosanitary and seed matters; the KARI with the national mandate of carrying out research the fields of agriculture; the Pest Control Products Board (PCPB) which was established under the pest control products Act (Cap 346). The key functions of the PCPB are to regulate the importation, exportation, manufacturing, distribution and usage of pesticides. The KIRDI was established under the Science and Technology Act (Cap 250). It is mandated to undertake research and development in industrial and allied technologies; and the KEBS which was established under the Standards Act (Cap 496).

Policy and Institutional Framework (Fishing Industry)

The fishing industry is regulated by the Fisheries Act (Cap. 378).The Act sets up the basic principles for the development, management, exploitation, utilisation and conservation of fisheries. The industry is also controlled by the fisheries (Beach Management Units) regulations, 2007 (L.N.No.402 of 2007) which make provision for the establishment and administration of beach management units. The beach management units are expected to strengthen the management of fish-landing stations, fishery resources and the aquatic environment; the support of sustainable development of the fisheries sector; ensuring the achievement of high quality standards with regard to fish and fishery products; and the prevention or reduction of conflicts in the fisheries sector. The regulations also require authorised fisheries officer to draft plans setting fisheries management and conservation measures.

Another key regulation in the industry is the Prawn fishery management plan 2010 (L.N.20 of 2011), adopted under Section 5 of the Fisheries Act. The regulation empowers the Director of Fisheries to prescribe measures with respect to the prawn fishery in the geographical marine area covered in the plan. The principle objective of the plan is to ensure a biologically sustainable and economically viable prawn fishery. Other regulations in the fishery sector include the Wildlife Act of 2002; Kenya Forests Act, 2005; The Maritime Zones Act; Environmental Management Act of 1999; Local Authority and Planning Act; Water Act; Maritime Authority Act and the Kenya Ports Authority Act.

The Fisheries Department is the primary agency responsible for fisheries management and development in Kenya. The department is responsible for the development and enforcement of fish handling standards that minimise post harvest losses. However, lack of enforcement capacity within the Fisheries Department limits the effectiveness of expected interventions within the industry. Another key institution is the Kenya Marine and Fisheries Research Institute (KMFRI), which is a State Corporation in the Ministry of Fisheries Development of the Government of Kenya. The Institute is mandated to conduct aquatic research covering all the Kenyan waters and the corresponding riparian areas including the Kenyan's EEZ in the Indian Ocean waters. Such research is aimed at generating information and data to guide the country in undertaking sustainable exploitation management and conservation of its fisheries and aquatic resources as a means to achieving food security.

3

Approaches and Key Lessons on Regulatory Framework for SMEs: A Case of South Africa and India

Regulatory and Institutional Framework in India

Unlike in Kenya, the overall regulatory framework for the SMEs in India is driven by specific SMEs Act which specifies the key institutional linkages for effective coordination. The Micro, Small and Medium Enterprise Development Act No. 27 of 2006 is the overall SMEs strategy which has been instrumental in revitalising the performance of the SMEs sub sector in India.The Act generally aims at enhancing and promoting competitiveness of micro, small and medium enterprises. The Act establishes the necessary structure for overseeing and regulating the development of the SMEs in India. The implementation of the Act is supported by several public institutions and agencies. At the national level, the SMEs sector is coordinated by the Ministry of Micro, Small and Medium Enterprises. The Ministry is the nodal institution responsible for policy formulation, promotion, development and protection of small scale industries. It also monitors the execution of the formulated policies to ensure their effective implementation.

The Ministry of Micro Small and Medium Enterprises designs and implements relevant policies through its field organisations for the promotion and growth of the small and tiny enterprises and village industries in India. The Ministry also performs policy advocacy on behalf of the Small Scale Industries (SSI) sector with other stakeholder ministries/ departments such as Finance, Commerce, Law, Labour and Environment so as to ensure due consideration for SMEs in their respective policies. The implementation of policies and various programmes/schemes for providing infrastructure and support services to small enterprises is supported and undertaken through Central and state government departments, agencies and autonomous institutes. The Ministry of Micro and Small Enterprise is supported by various institutions. The institutions assist in the implementation of the SMEs Development Act. The key institutions/state governments which support the implementation of the SMEs development Act include:

- **The Small Scale Industries (SSI) Board:** This is an apex or principal advisory body constituted by the government to facilitate co-ordination and inter-institutional linkages for the development of the sector, and to provide advice on all issues pertaining to the SSI sector. The Minister is the Chairman of the Board which comprises of State industries ministers, MPs, Central Government Department Secretaries, and heads of financial institutions, industry associations and eminent experts in the SSI field.

- **The Small Industries Development Organisation (SIDO):** SIDO is an organisation which assists the Ministry in the formulation and implementation of policies and programmes for the promotion and development of the small scale sector. It liaises with central and state government departments and agencies, financial institutions and other key small scale sector intermediaries, encourages capital and technology flows, and provides a comprehensive range of common facilities, technology and competitiveness support services, and marketing assistance through a network of Production Centre and Field Testing Stations.

  It also supervises Tool Rooms, Product and Process Development Centres and Training Institutes which run as autonomous bodies. At the regional level, commissioners and directors of industries implement policies for the promotion and development of small scale, cottage, medium and large-scale industries. Other regional level agencies include state infrastructure development corporations, state cooperative banks, regional rural banks, state export corporations, agro industries corporations and handloom and handicrafts corporations. At the grassroot level, NGOs play an important role for the development of tiny and cottage units.

- **The National Small Industries Corporation (NSIC):** This is a public sector undertaking of Small Scale Industries (SSI) responsible for promoting, assisting and fostering the growth of small scale industries. It helps small scale industries through its various schemes such as: equipment purchase and leasing; domestic and export marketing; single point registration; procuring and supplying raw materials at concessional rates; conducting technical training and entrepreneurship development programmes in its various technical service centres; and assisting competent small businesses in participating in government procurement programmes. It has also established software technology parks for small scale businesses and facilitates software exports. It provides loans on concessional terms for the development of rural and backward areas and for disadvantaged smaller businesses.

- **The Small Industries Development Bank of India (SIDBI)** serves as an apex financial institution for promotion, financing and development of Indian industry in the small scale industries sector where individual business investment in plant and machinery and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures. It focuses on plugging gaps in the financial marketplace and offers a wide range of financial products either directly or indirectly and state level financial institutions.

- Three training institutes have also been established by government to develop and provide training, research and consulting services for small-scale entrepreneurs. These training institutes include National Institute of Micro, Small and Medium Enterprises (NIMSME), Hyderabad; Indian Institute of Entrepreneurship (IIE), Guwahati & National Institute for Entrepreneurship and Small Business Development (NIESBUD), NOIDA.

  Though the Central government undertakes many SSI-related initiatives, most states also have their own SSI departments and provide entrepreneurial, financial, developmental and infrastructure support to SSIs. Industry associations provide important operational and institutional support to the SSI sector and offer a common platform to raise industry-related issues.

- **Business Associations:** The government policies have stressed the increasing role of industry associations in the setting up of common facilities and other ventures in the area of technology, marketing and other support services. Some of the major broad-based associations include: the Confederation of Indian Industry; the Federation of Indian Chamber of Commerce and Industry; the PHD Chamber of Commerce and Industry; the Associated Chamber of Commerce & Industry of India; and the Federation of Indian Exporters Organisation. Associations which are more closely focused on small business issues include the World Association for Small & Medium Enterprises; the Federation of Associations of Small Industries of India; the Consortium of Women Entrepreneurs of India; Laghu Udyog Bharati; and the Indian Council of Small Industries.

- **Public-Private Dialogue:** The Central government has placed particular emphasis on involving all key stakeholders in the development of its policies and programming for small scale businesses and village industries. This is exemplified in the SSIs Board which is a principal advisory body responsible for providing advice to the Central government on all issues related to the SSI sector and comprises representatives of all key stakeholders as well as eminent experts in the SSI field.

- **Khadi and Village Industries Commission (KVIC):** This is a statutory organisation responsible for planning, promoting, organising and assisting in the implementation of programmes for the development of Khadi (handloom) and village industries including those based on minerals, forestry, agricultural, polymers and chemicals, textiles, services, engineering and non-conventional energy. To achieve this it finances eligible businesses and institutions, trains personnel, acquires and supplies raw materials, assists in product R&D, and encourages industrial cooperation. It operates through a huge network of State/UT KVI boards, registered institutions and cooperatives, departmental units and sales outlets. KVIC undertakes training activities through its departmental and non departmental training centers. Marketing is taken up through its 9 departmentally-run *Khadi Gramodyog Bhavans* located in urban areas and 7,050 institutional/retail sales outlets located at different parts of the country. KVIC also makes available quality raw material to khadi institutions through its six Central Sliver Plants (CSPs). The Union Government through the Ministry of Micro, Small and Medium Enterprises (MSME) provides funds to KVIC for undertaking its various activities under Plan and Non-Plan heads.

Regulatory and Institutional Framework in South Africa

The Government of South Africa has formulated various policy regimes to streamline the SMEs sector. The development of the SMEs sector can be traced back from the National Small Business Act, No. 102 enacted in 1996. The Act provided for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency. The Act also provided guidelines for organs of state in order to promote small business in the Republic.

The National Small Business Amendment Act, 1996, was later amended in 2004 to repeal all the provisions pertaining to Ntsika Enterprise Promotion Agency and to provide for the establishment of the Small Enterprise Development Agency; to make provision for the incorporation of the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre and any other designated institution into the

Agency to be established. There were further development spelt out in 2005 where the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, was published. The paper encouraged the establishment of a support framework, in form of enabling legislation, institutional reform, leveraging financial and other forms of assistance, for small business development. The enactment of the legislations facilitated the establishment of various institutions to oversee the implementation of the SMEs related legislations. The key institutions responsible for the implementation of the National Small Business Amendment Act include:

- **Department of Trade and Industry:** The Department of Trade and Industry (DTI) has the primary responsibility to formulate, coordinate and monitor the national policies related to small and micro businesses. The DTI is the coordinating body for all policies related to small business sector and for all SME-support programmes directly or indirectly assisted by the government. It is also responsible for the co-ordination of small business strategies pursued by the provincial governments within the national policy framework. DTI directly administers some specific programmes targeted to smaller businesses such as the SME development programme which provides investment grants to qualifying businesses and a wide variety of technology and export assistance services.

- **Small Enterprise Development Agency (SEDA):** SEDA was established with 80 percent focus on the small and micro business sector. SEDA was established in December 2004 as an agency under the DTI. The establishment was done by merging three organisations; Ntsika Enterprise Promotion Agency, National Manufacturing Advisory

Centre (NAMAC) and the Community Public Private Partnership Programme (CPPP). The GODISA Trust and the technology programmes were integrated into SEDA in April 2006, becoming SEDA Technology Programme (STP). SEDA provides business development and support services for small enterprises through its national network in partnership with other role players in the small enterprise support. SEDA also implements programmes targeted to business development in areas prioritised by the government.

- **South African Micro-Finance Apex Fund (SAMAF):** The South African Micro-Finance Apex Fund (SAMAF) was set up to act as a catalyst for the development of an effective micro-finance sector SAMAF's strategic goals include increase access to finance; enhance capacity and sustainability of finance institutions; and to increase micro-finance networks and partnerships.

- **Khula Enterprise Finance Limited (Khula):** The company is a wholesale finance institution which operates across the public and private sectors, through a network of channels to supply much-needed funding to small business.

- **National Empowerment Fund (NEF):** It was established by the National Empowerment Fund Act No 105 of 1998 (NEF Act). NEF is a driver and thought-leader in promoting and facilitating black economic participation by providing financial and non-financial support to black empowered businesses, and by promoting a culture of savings and investment among black people. The operations of the NEF are governed by the Public Finance Management Act No 1 of 1991 (PFMA), including the National Treasury Regulations, the King III Report on Governance for South Africa and the Protocol on Corporate Governance in the Public Sector, 2002.

- **Industrial Development Corporation (IDC):** It was set up to promote economic growth and industrial development. The IDC's primary objectives are to contribute to the creation of balanced, sustainable economic growth in South Africa and to the rest of the continent.

- **Business Partners Limited:** Business Partners Limited was formed in 1998 from the Small Business Development Corporation (SBDC) to focus on small and medium enterprises with funding needs from R150 000 to R15 million (South Africa Business Guidebook, 2002-2003). They provide finances for start-ups, expansions, take-overs, management buyouts, management buy-ins and leveraged buyouts. They are one of the more successful SMME support organisations.

- **Local Business Service Centre (LBSC):** It is a partnership between government, local communities and the private sector. At national level, it is focusing on job creation, wealth creation and transformation and empowerment. Its core services are information, training, counseling and advisory services and networking and linkage. At local level, it focuses on increasing access of locals to SME support services and opportunities for participation in local development and increasing the flow of resources (money and expertise) into the local community.

- **Technology for Women in Business (TWIB):** It is an initiative aimed at women in the market sectors such as: information and communication technology, textile, clothing and crafts, agriculture, food and agro-processing; construction and infrastructure; tourism; mining and energy. This programme is under the auspices of the Centre for Scientific and Industrial Research (CSIR) that act as an agent for the DTI and assist women in all their needs to start the business, whether independently or in a partnership *(www.thedti.gov.za)*.

Possible Lessons from South Africa and India

It is evident from the above two case studies on institutional structure that the governments of India and South Africa have developed a clear and formal institutional structure to spearhead SMEs development. The mechanisms spell out formalised system which provides avenue for private and public dialogue for SMEs consultation, framework for stronger SMEs association and stronger institutional linkages and coordination. The structural framework on SMEs regulatory and institutional system is summarised by the following key features:

Table 3 also confirms existence of stronger institutional coordination among various government institutions and agencies, both at the national and regional level. For instance, a country like India has a direct forum for Public Private Partnership (PPP) where fundamental constrains inhibiting the performance of the SMEs can be discussed directly with the relevant authorities. This implies that there is formal bottom up approach in addressing the challenges facing SMEs in India. A further comparative analysis also confirms the existence of strong business associations at the grass root level. Such associations are important in advocating for policy reforms at the local level. There are further indications of institutional distribution at the local level in different states. Further, evidence also affirms the existence of SMEs related specific financial institutions.

Table 3: Key Features of SME Sector in South Africa

Indicator	South Africa	India
SME Act	Existence of National Small Business Amendment Act,1996	The Sector is guided by the Micro, Small and Medium Enterprise Development Act, 2006
Private-Public Dialogue Mechanism	There is recognised mechanism which links the SMEs to the Department of Internal Trade	Occurs through the SSI Board; an apex or principal advisory body constituted by the government to facilitate co-ordination and inter-institutional linkages for the development of the sector, and to provide advice on all issues pertaining to the SSI sector
Coordinating Institution	Department of Internal Trade and Industry in collaboration with the Small Enterprise Development Agency (SEDA)	Ministry of Micro, Small and Medium Enterprises and the Small Scale Industries Board
SME Financing Mechanism	There is South Africa Micro Finance Apex Fund to enhance increase in access to finance	The Small Industries Development Bank of India (SIDBI)
Framework for SMEs Association	There is recognised SMEs association, SEDA under the Department of Internal Trade and Industry	The Small Industries Development Organisation (SIDO) is an organisation which assists the Ministry in the formulation and implementation of policies and programmes for the promotion and development of the Small Scale Sector

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Indicator	South Africa	India
	Technology for women in Business for enhancing value addition activities at the local level. It act as agent for DTI	Occurs through various training Institutes and The Khadi and Village Industries Commission (KVIC)
	There is also local Business service Centre which is a partnership between the government, local communities and the private sector	
Mechanism for Value Addition Regional Distribution of Institutions	There is local presence of all the institutions to support the development of the SMEs at the local level	There is local presence of all institutions to support the development of the SMEs at the local level
Source: Authors Deduction		

4
Key Study Findings

Fishing Industry

Focus group discussions (FGDs) were conducted in both Kwale and Homabay counties to understand the existing challenges facing the fishing industry in the two countries. The FGDs were composed of stakeholders from the government ministries, the fish farmers both for aquiculture and sea farming. The field visits confirmed the potential contribution of the industry to the welfare of the population. Even though there are potential contribution of fishing industry to the welfare of the population within the Kwale and Homabay counties, a comparative analysis based on the findings reveals key common challenges from the two counties. The existing challenges are linked to production; marketing and institutional framework.

Production and Marketing Issues

Exploitation by Middlemen

Comparative analysis reveals that the fishermen in Homabay and Kwale counties experience high exploitation by middlemen. Fishermen are forced to take up prices offered by middlemen who often come up with excuses on poor market situation and in most cases buy fish on credit from the fishermen. For instance, during the research period in

Homabay, the prices for 1kg of fish dropped to Sh80/kg, from Sh350/kg.The quantity is sold for Ksh 1800 in other markets by middlemen. This can also be confirmed by the protest from fishermen farmers which occurred two weeks after the field work discussion in Homabay (see Box 6).

Box 6: Fishermen Demand Fish Price Increase
Over 800 fishermen in Homa Bay County have stopped fishing to protest at low prices offered by merchants and middlemen. The fishermen operating at all beaches in the county held a demonstration in Mbita town to protest at what they termed reduction of fish prices by manufacturing companies. They said prices have dropped over the last one month with a kilo of fish going for Sh80, from Sh350. Led by Homa Bay County Beach Management Unit chairman Edward Oremo and area Nile Perch Traders Network Abisalom Odira, the fishermen accused manufacturing companies of disregarding them by lowering prices. "We appealed to the companies several times to hike the prices but they have not heeded our pleas. There is no business where buyers can sit on their own to decide prices they want without consulting sellers. We have now opted to hold the demonstration to enable our voices to be heard," Oremo said. The fishermen vowed not to fish until the government holds a consultative meeting with them to address their grievances. They accused the government of allowing the companies to import fish from neighbouring Uganda and Tanzania, a situation that culminated in reduction of fish prices. "It is sad that the government has declined to cushion us from unscrupulous importation of fish, which now makes buyers feel that they can control prices," Odira commented.

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The fishermen said the fish bought at Sh80 is sold at over Sh1,800."The cost of living has escalated and we are forced to purchase fishing equipment at very high prices yet prices of our products keep going down," said Samwel Osewe, chairman of the Homa Bay County Lobby and Advocacy Committee. The fishermen said they must sell their fish for not less than Sh400.
See http://www.standardmedia.co.ke/?articleID=2000060656&story_title=Fishermen-demand-fish-prices-increased

Inadequate processing and storage facilities: Inadequate processing and storage facility was asserted to be a key challenge to enhancing effective performance of fishing industry in both Kwale and Homabay counties. There is also inadequate fish processing plant /technology for aquaculture products which could enable the farmers to undertake value addition to their produce. Such condition has contributed to exploitation by farmers where fishermen are forced to sell their produce at lower prices to the middlemen due inadequate storage and processing facilities at the county level.

Poor road network and sanitation facilities: There are no proper access roads linking to the beaches. In many cases, the fishermen have to carry their catch for a long distance to the main roads either by motor bikes or bicycles which end up escalating the production cost. Inadequate sanitation facilities also affect the productivity of fishing industry where fishermen are faced with the scarcity of sanitation facilities. In addition, the conditions at the landing sites are poor, lacking potable water supply, clean auction areas and toilet facilities which are a key challenge to value addition of the fish products.

High cost of inputs: The ability to improve the productivity of the fishing industry is affected by high cost of accessing fingerlings. The fish farmers are not able to easily access fingerlings at a reasonable cost. This is attributed to the high cost involved in accessing the fingerlings hence some farmers are forced to re-use fingerlings within their pond as a way of mitigating the cost involved in getting certified seeds.

Inadequate finance: The problem of inadequate capital was cited by the stakeholders as a hindrance to the establishment of larger ponds as they rely on small fish ponds which hinder their productivity potential. The inadequate finance is attributed to the complex requirement in the process of accessing finance where some financial institutions require the farmers to form SACCO's or registered groups before they can access credit facilities from the financial institutions. However, this has been a challenge as those with interest in fish farming are few in some areas like in the case of Kwale County and had not yet bought the idea of forming SACCO's.

Weak extension services: Views from stakeholders also confirmed that the ability to enhance information sharing among farmers and government officers is inhibited by the existence of the weak extension officers. The discussions from the field work findings also revealed that the services of the extension officers are never inadequate to attend to their needs in cases of invasion by pest in their ponds. In many cases, farmers have to meet the cost for fuel to access the service of extension officers when urgently needed.

Absence of quality fishing materials: Most fishermen experience low catch from the sea. This was attributed to the continued use of poor fishing gears. Fishermen evidently use old tattered fishing nets and small canoes which could not effectively catch fish and withstand large tides.

Limited market information: Field work findings also affirmed inadequate market information for fishermen as a key hindrance to the development of the fishing industry in the respective counties. This is a big challenge to fishermen as they are deprived of better opportunities where they can make better sale on their catch.

Regulatory and Institutional Issues

Weaker cooperative societies/association: Most fishermen experience limited awareness on the potential benefits of forming cooperatives as a way of enhancing their opportunity to access credit facilities to facilitate the expansion of their fishing potential and purchase of processing equipments and marketing of their products. The large scale oriented private sector is organised under the Kenya Fish Processors and Exporters Association. The Association has helped in self regulation, marketing and interfacing with the government. However, there are no national organisations for local artisan fishermen and/or SMEs traders.

Poor enforcement of legislations in the fishing industry: Even though the Beach Management Units (BMUs) are intended to regulate the fishing industry, the field work findings affirmed limited buy in on the concept of the BMUs. Most stakeholders felt that there is limited recognition of the BMU concept as a mechanism for regulating the fishing activities. Such perception has affected the overall regulation of the SMEs at the beach level. It was also felt that the Fishery Act is lenient on enforcing penalties to offenders.

Mechanisms for Value Addition and Innovation

Generally, the fieldwork findings depict limited value addition activities in the fishing industry from the respective counties. There are potential channels for value addition which could be explored by the county governments. The potential value addition channels/mechanisms include using air bladder to make fish leather; animal feed from ground bones, local fillet production as most of the farmers sell unprocessed fish to the middlemen, using fish scales to produce manure /fertiliser and chicken feeds, making biogas produced from fish products waste, and, fishing picnic for tourism attraction.

The information collated from the field confirmed existence of various efforts to enhance value addition activities in the fishing subsector.

For instance, the fieldwork findings indicate that many researchers have been employed to work on the component so that fishers can fetch good value from their produce in the Homabay County.

The Lake Victoria Research (VicRes) Initiative (a regional collaborative-multidisciplinary research programme of the Inter-University Council for East Africa) has undertaken value addition studies on "*dagaa*" to enhance returns from the fisheries. Among the value addition process identified through this initiative include grinding dagaa to powder as a way to make children food, porridge and ingredient to bring some flavor, deep frying to bring out some delicacy.

Drying racks have also been placed in fish landing stations and bandas in many beaches. There are demonstration units of solar tent drying racks in some beaches including Luanda Rombo and Litare in Rusinga Island being implemented by Women in the Fishing Industry Programme (WIFIP) with the support from the European Union (EU).

In addition to the pioneering the solar tent drying racks for dagaa, WIFIP is also undertaking capacity building to women on hygiene processing of *dagaa* within two beaches in Homabay County through seminars to women fisher folk. They also undertake an on-going radio lesson in vernacular on the processing of *dagaa* every Tuesday at 7.00pm. The process involves washing dagaa with water guard to maintain its whiteness for six months followed by drying in the solar tents for six hours and then either frying or directly undertaking packaging with Kenya Bureau of Standards quality mark packets.

Under the Vision 2030 programme, the Ministry of Fisheries Development is also supporting the establishment of more solar tent drying racks along the beaches within the Homabay County. The objective of this initiative is to improve on the quality through high hygiene standards of handling fish product to avoid contamination and enhance taste so as to increase demand and fetch better prices within the local super markets across the county. There are also efforts to establish more fish landing 'Bandas' sites and to re-instate the old ones through the BMUs as a way to facilitate grading, storage and marketing of Nile perch and tilapia and to get rid of undersize.

The Ministry has also initiated the Mbita Ice plant and installed machines for filleting. The process of establishing complete fish processing centre in Nyandiwa (over 98 percent complete) is also under way. The initiative was put up by the support from the EU and the Government of Kenya. This is to facilitate the processing of ice, filleting, packaging, cold storage and chill rooms.

On the other hand, in the case of the Kwale County, the Ministry of Fisheries Development is yet to fund the construction of 300 fish ponds in Kwale County covering Msambweni, Kwale and Kinango districts in a bid to improve the income of the area residents. The electrification has already been done in the villages which can easily be extended to cover the beaches. Provision of electricity along the beaches will not only enhance security but will also provide avenue for ice production needed for the preservation of fish to minimise on their perishability, creating window for establishment of processing units of fish products along the beaches which will open up more job opportunity to the locals. Presence of Kenya Marine Research Institute (KEMRI) in the county and within the GAZI beach locality and the proximity of fisheries officers through BMU is also an opportunity for the fishermen to learn on best practices and more so in engaging in value addition processes including the use of fish processing facilities to improve on their outputs.

The above expose affirms the existence of the ongoing value addition initiatives being implemented to enhance value addition in the respective counties. Even though there are efforts to enhance value addition activities in the two counties, the existing potential have not been fully exploited in the respective counties. The Homabay County does not have training institute to impart skills on value addition techniques at the county level. Most of the farmers are selling unprocessed fish to middlemen based in Nairobi and potential byproducts have not been utilised to enhance value addition activities in the respective counties. This implies that county-led SME polices should be streamlined to integrate regulations and institutional framework. Such frameworks should be aimed at exploiting the underutilised and potential value addition activities in the respective counties.

Irish Potatoes

An assessment of the potato production and discussions with various stakeholders in Bomet and Kiambu counties revealed that most farmers have not embraced potato growing as a business enterprise. This perception was prevalent in Kiambu County where most farmers in the region have preferred dairy farming to Irish potato farming. The growing trend have contributed to the neglect of the subsector despite its potential contribution to the county's socio-economic development. However, the two counties had common cross cutting experiences ranging from production, marketing, regulatory and institutional challenges. The following are the common challenges facing the two subsectors in the respective counties:

Production and Marketing Issues

Lack of institutionalised system for seed development, multiplication and distribution to farmers: Limited seeds for farmers were raised by most farmers as a key bottleneck to the development of the Irish potato industry. In some instances, farmers use seed varieties not suited to market needs. Most farmers rely on two seed multiplication centers in KARI Njoro and Tigoni which are not adequate in supplying certified seeds since KARI centre is only able to meet four percent of the total seed demand.

Poor road infrastructure: Another key constraint cited by the farmers during the FGD include poor rural access roads which limits their ability to access markets. This has contributed to low farm gate prices, high transportation cost and reduced margins. In order to facilitate access and transportation of produce to the markets, it is important to improve and maintain conditions of the access roads in small holder producing areas within the counties.

Inadequate extension officers: The number and technical knowledge on the part of the MoA extension staff remains limited. This has contributed to poor information access and transfer. The delivery of extension services could best be complimented through partnerships with private sector services providers including NGOs and farmer organisations in the respective counties.

Low returns from farms produce: The return on the Irish subsector from the respective counties is also affected by Poor produce quality. The poor produce quality is attributed to inadequate technical knowledge on good agricultural practices on the part of smallholder farmers. The produce quality is also affected by the high incidence of pest and diseases on the crop. In addition, most farmers lack the knowhow on how to identify and manage pests and diseases leading to high post harvest losses. Besides, still many farmers do not practice crop rotation on their farms to reduce the spread and prevalence of the pests and diseases.

Inadequate access to finance: Interviews with various stakeholders and information collated from the FGDs confirmed inadequate access to credit to enhance the production activity as one of the key constraint to the development of the fishing industry. The limited access to finance is attributed to stringent requirements imposed by the financial institutions, which requires collateral, formation of business groups and reluctance on their part on account of perceived risk associated with smallholder farmers.

Regulatory and Institutional Issues

Weak producer associations**:** Even though KENAPOFA has presence in both Kiambu and Bomet counties; concerns from various stakeholders from the Irish potato industry depicts that the organisation is still nascent and need to be strengthened to take up its role in assisting the farmers. Discussions also confirmed that most farmers are registered in various farmer groups but such groups do not address their interest. For instance, farmers are not informed or engaged in the activities of KENAPOFA despite of the annual fee subscriptions made by the farmers to the association. However, field visits and discussions with various stakeholders confirmed that the producers in Bomet County are more organised in terms of association as compared to those of the Kiambu County.

***Inadequate formal Private-Public Dialogue consultative mechanism*:** Discussions with various stakeholders confirmed that there is limited formal mechanism for stakeholder consultation. This is due to lack of well organised producer groups to mobilise producers in a formal producer association especially in Kiambu. Even though there is business stakeholder forum in Bomet County; most stakeholders felt that there is limited stakeholder consultation during the policy making process in the County. This implies limited approach regarding bottom-up mechanism in policy making process.

Poor enforcement of agriculture legislations: The legal notice No 44 on Standard Bags (110kg) has not been effective as was envisioned to regulate the standardisation in the Irish potato industry. The farmers have been left to sell bulky produce at lower prices. Such weakness in Law enforcement is attributed to poor coordination between the local authorities and the Ministry of Agriculture from the respective counties.

Mechanisms of Value Addition and Innovation

Generally, potatoes can be used for a variety of purposes. Fresh potatoes can be baked, boiled, or fried and used in a staggering range of recipes. These include smashed potatoes, potato pancakes, potato dumplings, twice-baked potatoes, potato soup, potato salad and potatoes au gratin. However, potato as food is shifting from fresh potatoes to added-value, processed food products.

Possible Key Irish Potato Products
• French Fries • Potato Crips • Potato Flour

One of the main items in that category is French fries. Another processed product for potato is the potato crisp. Dehydrated potato flakes can also be used in retail mashed potato products, as ingredients in snacks. Potato flour, another dehydrated product, can also be used by the food industry to bind meat mixtures and thicken gravies and soups. Potato starch can also be used by the pharmaceutical, textile, wood, and paper industries as an adhesive, binder, texture agent, and filler, and by oil drilling firms to wash boreholes. Potato peel and other "zero value" wastes from potato processing are rich in starch that can be liquefied and fermented to produce fuel-grade ethanol. Potato harvest can also be used as farm animal feed, where Cattle can be fed up to 20 kg of raw potatoes a day, while pigs fatten quickly on a daily diet of 6 kg of boiled potatoes.

The aforementioned cases imply that there are varied mechanisms for Irish potato value addition. However, the efforts to use Irish potatoes to improve the livelihood of the locals through the value addition process are inhibited by the Low level of processing at the local, and the inadequate skills. The field visits and discussions with farmers confirmed that most farmers sell unprocessed and less value added products to the middlemen, who directly sell the products in Nairobi. This is said to fetch relatively little in terms of farm output returns as compared to the overall returns realised by vendors in Nairobi who substantially engage in value addition activities. This is attributed to high costs of processing equipments and limited technical Knowhow on value addition activities. There is also limited training on farm production and practical entrepreneurship skills.

It would thus be important for the county government to formulate soft and hard infrastructure policies to increase production and to enhance the realisation of the value addition activities given the aforementioned challenges.

Dairy

Production and Marketing Issues

High health maintenance cost: The cost of taking care of the dairy cow's in terms of provision of animal feeds, artificial insemination services were indicated by most farmers as exorbitant and constraint to the dairy productivity. High cost of these services erodes the profit margin. Farmers also pointed out lack of technical knowhow on dairy maintenance and human diseases like HIV/AIDS. There is also inadequate technology to handle glut conditions which have resulted into frequent milk wastage.

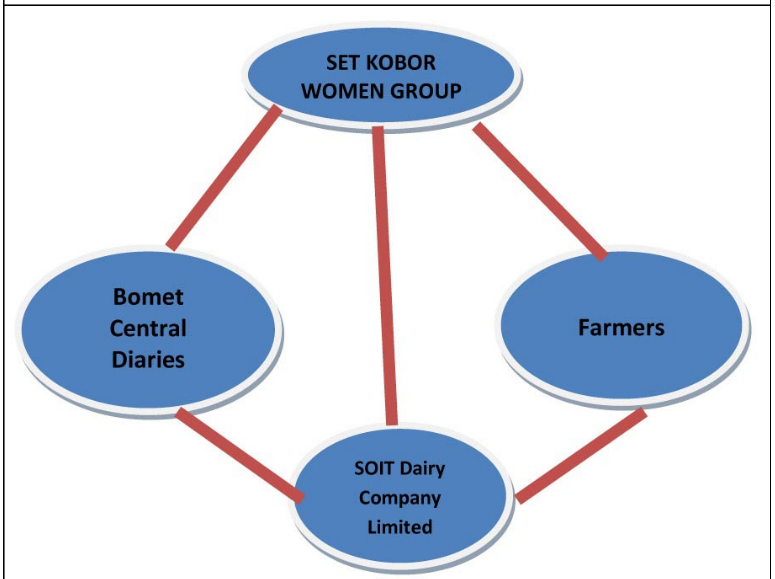
Limited access to credit: The discussions with stakeholders also confirmed limited /inadequate access to credit facilities as key challenge to expanding their business as most farmers in some areas in Bomet County are not members of the cooperative societies.

Inadequate extension officers: The extension services in most areas were asserted to be inadequate, thus affecting the delivery of dairy advisory services. In some cases the farmer has to provide transport for the officer to be able to deliver the required services.

Regulatory and Institutional Issues

Dairy farming is a potential socio-economic contributor to Bomet and Kiambu counties. The dairy farmers in both counties are mainly smallholder producers. The farmers are organised in farmer groups and cooperatives. Even though most farmers have appreciated the significance of cooperative societies in both the counties, comparative analysis reveals that the institutional framework in terms of cooperative frameworks is more organised in Kiambu County than Bomet County. A case study on the dairy institutional structure for one of the dairy cooperatives (SOIT) in Bomet confirms that the cooperative is a registered farmer owned organisation. The cooperative society has a management agreement with the East Africa Dairy Development. The SOIT dairy is owned by SET Kobor Women Group, Bomet central dairies and individual shareholders (see Figure 3).

Figure 3: A Case of Institutional Linkages for Cooperative Society



The current core business of the cooperative organisation is bulking and selling fresh, high quality chilled milk. The company's primary product is fresh chilled milk sold to a well established milk processor. The milk is collected in well organised groups called dairy management groups through motorcycles and pickups. The system meets the farmers' need through reliable and organised milk marketing system that ensures sustainable income streams and spurs further development in the dairy sub sector. The company also offer farmers training services through the extension department, artificial insemination services, animal health services, milk payment advances and linking farmers to friendly and recognised financial institutions. The services are offered to farmers on a check off system whereby they pay at the end of the month when milk payment is done.

A visit to the cooling plant confirmed that most of the milk are collected and directly sold to the Brookside Company Limited in Nairobi. A similar institutional structure also exists in Kiambu County where the Githunguri Cooperative Society is the dominant dairy farmers' institution. The dairy farming in Kiambu is more advanced as compared to the Bomet County. This is attributed to the fact that dairy farming is undertaken in Kiambu as a business and they have high quality breeds than those breeds reared from Bomet County. The dairy farming in Kiambu County has more advanced institutional framework facilitated by the Githunguri Cooperative Society. The FGDs with various farmers from the respective counties confirmed the following common challenges.

Inadequate enforcement of the regulations: Despite the existence of the farmer-driven cooperative societies in the respective counties, there were concerns that the Kenya Dairy Board (an overall regulator board) for the Industry has not been effective in regulating the operations of the small milk traders. The deficiency in the regulatory framework is attributed to the fact that the Kenya Dairy Board is mainly located in the main centres in Bomet and Kiambu counties. However, their operations are not effectively enforced at the grassroot level, where the majority of the smallholder exists.

Unequal distribution of cooperatives in the respective counties: The findings from the FGDs also confirmed limited presence of cooperatives in some areas where some specific regions do not have such farmer cooperative associations. The absence of cooperatives in some areas affect the returns of the farmers as hawkers take advantage of these areas, given the fact that the unorganised farmers do not have a stronger bargaining power in terms of prices for their raw milk.

Mechanisms for Value Addition and Innovation

Discussions with stakeholders from Homabay and Kwale counties confirmed various mechanisms for value addition in the dairy subsector. Comparative analysis in terms of value addition reveals that the Kiambu County has a more sophisticated processing system where the degree of value addition is more developed than the Bomet County. For instance, the Githunguri Cooperative society in Kiambu plays a key role in the processing of its raw milk into fresh milk, yoghurt, maziwa lala (fermented milk), butter, ghee and cream (see Figures 4 and 5 on page 64). On the other hand, most of the farmers from Bomet County take their milk to the dairy farmer groups.

The farmer groups further sell the raw milk to the cooling plants within the county. The raw milk is then sold directly to the processing plants like the Kenya Brookside based in Nairobi (see Figure 3 on page 61). This implies that there is limited or no value addition activities for milk in the Bomet County. The inadequacy in value addition activities limits the possibility of

Figure 4: Case of Kiambu

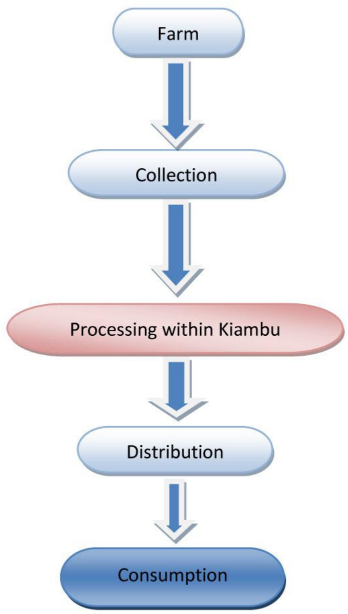
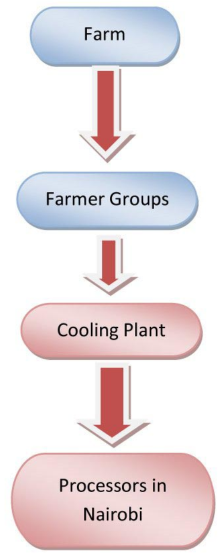


Figure 5: Case of Bomet



Source: Deduction by the Research Team

employment creation and by extension, the enhancement of socio-economic development at the county level. The efforts to add value to the milk products in Bomet County are constrained by the high cost of production in acquiring the cooling plants and undertaking the processing and packaging activities. There is also lack of expertise/knowledge in the various fields along the value chains attributed to limited training facilities on milk production and processing.

Given the aforementioned challenges, the devolved government system should formulate county-specific policies to support value-addition at the county level. The SMEs policy should catalyse the promotion of the hard and soft infrastructure that will facilitate the establishment of the relevant processing facilities: good roads, animal production and entrepreneurship skills.

Pineapples

Pineapples farming in Homabay were initiated as a household farming activity by an individual in Kokwanyo village which later spread to commercial level as demand improved. Pineapple farming in the region is grown in an average land acre of ½ acres - 4 acres. Even though the pineapple farming has a growth potential in the Homabay County, field visits and consultations within the county confirmed the following production, institutional and marketing challenges.

Production and Marketing Issues

Geographical challenges: The existing geographical nature makes it costly to undertake irrigation as the soil cannot hold water, while the land topography within the potential areas is steepy. Some of the areas often lack permanent sources of water which can sustain irrigation and the small rivers around are also seasonal.

Limited awareness on the importance of fertiliser: The interview findings also confirmed that farmers have not embraced the use of fertilisers in the region due to wrong perception by them on the fertility of land. This limits the yields from the farms.

Inadequate certified seeds: Most farmers also face the challenge of getting certified pineapple seeds and often rely on recycling suckers which often bear low yields. The suckers are also not easily available and farmers have to go long distances before they can access the seed which comes at high cost.

Inadequate storage facilities: The nature of pineapples demand larger storage and transport facilities to the markets. However, in many cases, farmers are not able to afford, thus contributing to spoilage.

Poor road network: The pineapple farmers also face the challenges of inaccessibility of pineapple farm due to poor road network which hinder farmer's efforts to take their produce to the markets. Most roads became inaccessible during rainy season which coincides with the harvesting period. Poor roads have also hindered farmer's access to other market as they are only able to carry head loads to markets since they cannot afford means of transport.

Lack of ready markets and exploitation by middlemen: Discussions with stakeholders also confirmed lack of ready markets for pineapple which forces farmers to sell directly to middlemen on credits out of which the middlemen often default payment or excuse themselves of poor markets and low prices leading to small returns to farmers.

Limited access to farm inputs and extension services is also a hindrance to the performance of the subsector where; most pineapple farmers have no easy access to farming inputs including fertilisers. Sometimes they fail to receive the services of extension officers owing to either lack of fuel or inaccessibility of their farms for advisory services in cases of pests and disease to the crops. At times they have to meet the transport cost (fueling for motorbikes) for extension officers to tend to their farms. This adds to production cost burden to already vulnerable farmers

Lack of farmer association/cooperative: The pineapple sub sector also experience limited efforts towards policy formulation and development due to lack of farmers' association. The deficiency is attributed to farmer groups or cooperative societies to advance the interest of the farmers in Homabay County. This has also inhibited their ability to easily access credit from the financial institutions.

Mechanisms for Enhancing Value Addition

There are potential mechanisms for enhancing value addition in the pineapples industry. Some of the mechanism includes processing the raw pineapple to pineapple juice, canned pineapples, dried pineapples and wine. Even though value addition is important for sustainable economic development; lack of processing facility was cited to be the main bottleneck to value addition activities in the Homabay County. The County has engaged in rudimentary value addition methods since the variety of pineapple available is only best for drying due to its high sugar level. Such preservation mode limits the chances for value addition. Furthermore, there is no established processing unit for pineapple and its products in the county. This is attributed to the high capital requirement for establishing pineapple processing unit and Farmers are not organised in formidable societies to access loans to facilitate establishment of processing units.

Despite the existence of the structural value addition challenges in the region, there are plans to build a pineapple factory in Homabay district by Kenya Industrial Research Institute (KIRDI) to streamline marketing of the crop in Southern Nyanza. The initiative will involve installation of equipment to process the pineapples into products with better commercial value. KIRDI also has plans to engage in the marketing of both raw and processed pineapple and other fruits so that they are sold in retail shops, supermarkets, urban outlets and other factories all over the country to address over production.

Orange

Orange subsector is one of the key sub sectors in Kwale County in terms of its potentiality in enhancing sustainable economic development. Most of the farmers are small scale farmers who are engaged in the farming activities, where majority of them are women and youths. As in the case of other sectors, the FGDs identified various challenges. These include:

Production and Marketing Issues

Lack of disease resistant varieties: Farmers face the problem of dealing with crop diseases which interferes with the quality and quantity of the fruits. For those farmers who have shifted from the indigenous oranges which takes six years to exotic ones that last two-three years to mature still faces the disease menace. The exotic breed of oranges are also not the sweetest hence not very marketable as compared to the indigenous breed.

Inadequate knowledge on good crop husbandry: Inadequate knowledge, resources and expertise which have hindered farmers from engaging in good crop husbandry. This has contributed to the maintenance of the old and aging orange trees in their farms, limited application of fertiliser and modern production techniques like use of irrigation system.

Poor market information system: It was also confirmed by various stakeholders during the FGDs. The farmers only rely on local markets and middlemen who often buy on credit only to complain later on poor prevailing market and spoilages hence farmers get a raw deal on prices for their oranges. There is also poor market information on alternative best prices in other available markets.

***High cost of transportation*:** There were concerns of experiencing high costs wherever they want to seek other market opportunities due to poor road infrastructure. Hence farmers who cannot access transport facility for their produce to external markets only rely on middlemen.

Regulatory and Institutional Issues

Difficulty in forming farmer groups: Efforts to enhance the bargaining power for farmers has been inhibited by difficulty in forming Farmers' Cooperative Society in the sector. This is attributed to lack of trust among orange farmers in Lukore Location which weaken the progress of Lukore Fruits Farmers' Cooperative Society. Given the lack of the cooperative society, farmers are not able to undertake collective loan application to better their farming by either collectively purchasing transport facility for their fruits and for the purchase of processing unit and storage facility and collective marketing for their oranges.

Low returns from the produce: Farmers experience low prices which are often dictated by the buyer despite the crop taking as long as six years to produce. They indicated that one kg of of orange sells at an average of kshs.2. The low prices are attributed to limited bargaining power due to lack of stronger business associations to represent the interest of farmers.

Mechanisms for Enhancing Value Addition

The value addition activities are also limited in Kwale County. This is attributed to lack of technical knowhow and equipments for value addition procedures in oranges. Farmers often rely on rudimentary preservation methods and fail to undertake packaging of the oranges to fetch better prices. There are no proper processing equipments as farmers rely only on a small capacity machine that uses petrol to squeeze orange juice. This has remained to be an impediment to realising better returns from the orange farming activities.

5
Findings, Conclusions and Policy Recommendations

Key Findings

The case analysis from India and South Africa affirms the need for a formal institutional structure for SMEs development. The existing regulatory structure depicts institutionalised system for private and public dialogue for SMEs consultation, framework for stronger SMEs association and institutional linkages and coordination.

For instance, a country like India has a direct forum for PPP where constrains inhibiting the performance of the SMEs can directly be discussed with the relevant authorities. A further comparative analysis also confirms the existence of strong business associations at the grassroot level to enhance policy advocacy for the SMEs. Such associations are important in advocating for policy reforms at the local level.

There are further indications of institutional distribution at the local level in different states. Further evidence also affirms the existence of SMEs-related specific financial institutions. For instance, there is South Africa Micro Finance Fund in South Africa to enhance increase in access to finance and also the Small Industries Development Bank in India. The

Indian government has also established the Export-Import Bank. The Bank proactively assists SME units in establishing their products in international markets.

A similar analysis in Kenya based on the key study findings and literature review confirms that the general architecture of the institutional framework for SMEs involve multiple institutions which regulate the subsectors, with **poor coordination** among themselves. This can be confirmed by several government institutions working on SMEs related issues with conflicting interests. For instance, the Ministry of Trade, The Ministry of Industrialisation and Labour have departments working on similar SMEs related issues without proper coordination of their activities. This is contrary to the framework in India and South Africa, where the SME issues are coordinated by a central institution.

Another key policy issue arising from the research findings is related to **inadequate private and public dialogue**. Even though the private-public dialogue has been emphasised at the central level, through the Kenya Private Sector Alliance, the views from various stakeholders depicts limited consultation on the ground in the policy making process, which implies the existence of top bottom approach in the policy making process.

Despite the existence and emphasis on strong business associations in India and South Africa, analysis from the Kenyan system confirmed limited institutional framework, associated with lack of sector specific associations at the local level, which could be one of the key causes of the weak institutional structure. Some of the existing associations are weak and lack funding to advocate for the policy related reforms in the specific sectors.

The study findings also affirm that the existing **SME associations are based in the capital, with limited presence on the ground**. Some of the existing farmer groups like KENAPOFA do not have adequate skills for promoting the envisioned agenda. Furthermore, some of the farmers (Irish potato) also raised their fears of joining the existing farmer groups, given that the farmer groups have no clear strategies towards addressing their interests.

The existence of the institutional deficiency has contributed to unclear consultation mechanism at the local level between the private sector and the government. The condition might affect the positive socio-economic contribution of SMEs through the devolution as confirmed by Kiggundu, 2000 which stipulates that the impact of devolution on local economic development depends upon a number of internal and external factors, like age, size, nature of tasks, technology, internal management, regulatory and administrative capacity, and sociopolitical and economic factors.

The research findings also affirm the existence of **limited access to finance by the SMEs** despite the existence of the various potential financial institutions for SMEs in the country. This is attributed to the fact that the various financial institutions are not conditioned to specifically support the SMEs. For instance, the Kenya industrial estates (Government Agency) established to provide loans to the SMEs has not up scaled the degree of access to finance since KIE only provide loans to SMEs registered associations or groups, despite of the weak or no associations in some subsectors. Furthermore, the SMEs led funds like the Kenya Youth Fund are channelled through financial institutions which, according to the stakeholders, do not provide pro SMEs-led lending conditions.

The findings also affirm limited coordination in the implementation of the SMEs regulated policies in Kenya. For instance, the implementation of the Legal Notice No.44 in the potato industry has been inadequate due to limited coordination between the Ministry of Agriculture and local authorities in the respective counties. The same scenario is also evident in the fishing industry where the implementation of the regulation on the BMUs has not been realised as per the intended objectives. There are also institutional challenges in regulation of the dairy industry, where the regulator (Kenya Dairy Board) does not have intensive presence on the ground due to other factors like limited funding. This scenario has contributed to challenges in regulating the small milk traders in Kenya.

Further evidence also affirms that the KIRDI has not realised its expected role in enhancing value addition led technologies in the sectors like those related to horticulture. Even though there are efforts to establish value addition activities at the county level, the impacts of such initiatives are yet to be realised in most of the counties in Kenya as farmers still market raw produce at lower prices. It would thus be important for the government to **establish relevant incubators** in the respective counties to enhance technological transfer to the locals.

Comparative analysis in terms of subsectors performance, for instance, dairy industry from the two counties confirms that the **dairy sub sector in Kiambu is doing better than the dairy subsector in Bomet County**. This implies that the SMEs development in various countries can be fostered by drawing lessons through cross-county experiences. In terms of how the regulatory agents will relate to the county system of government, it was found that there is a very large gap in thinking on how and in what manner the national agencies will relate and have a presence in the counties.

However, the extent at which the new county system contributes to SMEs development in the respective counties depends on how best the current SMEs Act, 2012 is restructured to factor in the administrative changes as outlined in the current constitution. There is thus need for **each county to develop its SMEs policies based on the local needs** (through a transparent participatory process involving the county assemblies and citizen foras) and such policies should indicate how the institutional and regulatory framework will link up with the governance structure at the county level under the current constitution. The SMEs Act should thus indicate how the Central government, through the department of MSME will work with the Trade, Industrial department and regulation service departments at the county level to promote and develop the SMEs sub sectors.

Conclusions and Policy Recommendations

The research findings from the field affirm common challenges facing the SMEs subsectors in the respective counties. The challenges exist at production; marketing, institutional and regulatory levels. The existing challenges exemplifies that most of the constraints to SMEs development from the respective counties are similar given that the sub sectors are agro-based. The challenges require a strategy that would promote easy access to credit and farm inputs, promote value addition activities and hard infrastructure to enhance market access for SMEs.

Policy Recommendations

The institutional framework and policy specifications are important factors in helping the evolution and success of SMEs. There is a wide range of programmes in diverse areas of SME development, viz., financing, technology, innovation, managerial ability, market information, and developmental assistance, aimed at improving the working environment for SMEs.

In the context of Kenya, SME development requires a cross-cutting strategy that touches upon many areas, which can help the sector to improve and create a niche for itself in the Kenyan economy. In this regard, select features of institutional support mechanism from the field and selected countries have been analysed. Gaining from the experiences of other countries like India and South Africa, a set of measures has been suggested, in terms of approach, policies and programmes for SME development in Kenya. The following are, therefore, some of **the proposed policy recommendations** that should be adopted to address the SMEs related challenges in line with the key study findings:

Establish an inclusive Private-Public Dialogue: A formal and organised SMEs structure would provide direction on how the county government should establish a formal coordination structure. For instance, a stronger institutions evidenced by an operational public private dialogue framework would provide avenues through which the SMEs associations can present their interest at the county level through the county assemblies. Such dialogues can be enhanced through the mechanisms depicted in Table 4.

Support the establishment of stronger business associations at the county level: Given the existing gap in the institutional framework, the overall and county specific government policies for SMEs should emphasise on building alliances in various SMEs sub sectors. The government should provide support to enhance legitimate representative organisations at the county level. Such networks/associations would assist in lobbying and policy advocacy through the county assembly and citizen foras to advance policy reforms and facilitate SMEs to easily access credit at the county level.

Formulate specific county led SMEs policies aligned with overall SMEs policy: Even though the government is in the process of enacting an overall SMEs policy in Kenya, there is

Table 4: Mechanisms for Enhancing Private-Public Dialogue	
Consultative Panels	Panels of various types are used by governments to identify issues, test ideas, consult on policy developments and review the impact of policy. To be effective vehicles for dialogue they need to be conducted in a spirit of inquiry and exploration, rather than as opportunities for government to receive feedback for marketing purposes. The composition, selection processes and discussions of these panels need to be appropriately transparent in order to ensure public confidence in their value.
Regional and local panels.	These panels should reflect regional and local structures of devolved decision making and made up of local or regional business leaders and representatives. They should meet with the local or regional government representatives in order to provide geographical adaptation and relevance to national policy development and implementation. They should also provide a platform for regional industrial clusters to inform policy development.
Explicit and open policy development processes	Should be a process for policy development which provides major promotion for dialogue. There is need for consultative requirements to be built into a State's mechanism for policy development. The administrative and/or legislative structures should require consultation on new policy to take place. Such visible process would encourage the private sector to believe that government is concerned with their views, and consequently encourages individual businesses and representative

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	organisations to inform government of their views. The government can develop a Small Business Administration Unit which reviews all new policies for small business implications, and to act as a powerful "voice of small business in government". These initiatives promote greater dialogue with the private sector through the presentation of a transparent and personified commitment to development of the small business sector.
Open government activities.	These include the use of a range of media to encourage participation in the process of policy development. Websites can be used to promote dialogue opportunities, request the submission of views, feedback summaries of consultations and publish policy papers. In addition to electronic media, the press and other print media can also be effectively used to invite the submission of opinions and promote the mechanisms of consultation.

need for each county to evolve its own policies and packages of incentives based on the county's economic competitiveness. Such policies should be informed by diagnostic studies undertaken to understand the respective county competitiveness. The revealed county competitive advantage would indicate the SMEs sectors which the county government should promote. For the sake of stronger coordination, the Central government should remain to be the overall overseer of all the SMEs strategies in each county to assist in the promotion of the SMEs activities.

Need to establish tailored training Institutes for SMEs at the county level: Even though there are government institutions providing courses on SMEs issues, it would be important for the government to establish SMEs specific training institutes especially in each county based on the county's competitiveness and its production output. Such training for SMEs should focus on developing and providing training, research and consulting services for small-scale entrepreneurs to enhance production, value addition and entrepreneurship skills.

Need to establish SMEs oriented financial institutions in each county: There is need for specific SMEs-oriented bank to facilitate the promotion, financing and development of the SSI sector where individual business investment in plant and machinery and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures. The financial institutions should also offer a wide range of financial products either directly or indirectly. The financial institutions for SMEs should be established in each county to enhance easy access for potential and existing SMEs.

Establishing an Import and Export Bank for SMEs: The government should also consider establishing an Import and Export Bank for SMEs. Such banks should focus on SME exporters as a significant target group of clients. The Bank should proactively assist the SME units in establishing their products in international markets and developing the markets within the value chain.

Need for a Central government to coordinate SMEs issues in the country: Currently, the SMEs issues are handled by different departments in different government ministries/ departments which enhance duplication of SMEs oriented activities. The government should develop a policy to harmonise the institutions dealing with the SMEs issues to avoid conflicts in the implementation process. There should be a nodal institution for policy formulation, promotion, development and protection of SMEs. The institution should also monitor the execution of the formulated policies to monitor the effectiveness in their implementation. The proposed government authority should directly work with the relevant department at the county government. Such government should facilitate the establishment of the SMEs one-stop centre where all national issues regarding SMEs are addressed.

Establish an SMEs development organisation: There is need for a SMEs development organisation to assist the Central government in the formulation and implementation of policies and programme for the promotion and development of the small scale sector. Such development organisation should liaise with the Central and county government departments and agencies, financial institutions and other key small scale sector intermediaries. It should also encourage capital and technology flows, and provide a comprehensive range of common facilities, technology and competitiveness support services, and marketing assistance through a network of Production Centre and Field Testing Stations.

Establishing an entry level for SMEs groups: The government should develop requirements and criteria for SMEs operations where strict regulations for entry and exit in the SMEs is established to ensure that that only the skill-based SMEs are permitted to operate in the market.

Cross county knowledge sharing and field experiences: The comparative analysis on the study findings confirm diversity in terms of resources, experiences and sub sector performance. As there will be need to promote equitable regional competitiveness through cross county collaboration by sharing experiences, skills through field visits to understand cross county experiences.

Annexure 1: General Comparative Analysis of the Key Findings

SMEs Challenges	Dairy Subsector (Bomet and Kiambu counties)	Irish Subsector Bomet and Kiambu counties	Fishing Industry Homabay and Kwale	Oranges and Pineapples
Production Challenges	High health maintenance cost	Inadequate institutionalised seed development system	High cost of inputs	
	Limited access to credit	Limited technology on how to use input services	Inadequate finance	Geographical challenges
	Inadequate extension officers	Poor road network	Inadequate extension services	Limited awareness on modern production skills; limited access to farm inputs and extension services
		Inadequate extension services Low returns	Lack of quality fishing materials	Inadequate certified skills
				Inadequate storage facilities

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SMEs Challenges	Dairy Subsector (Bomet and Kiambu counties)	Irish Subsector Bomet and Kiambu counties	Fishing Industry Homabay and Kwale	Oranges and Pineapples
Marketing Challenges/ Value Addition	High cost of acquiring cooling plants	High cost of processing equipments	Exploitation by middlemen	Lack of ready markets and exploitation by middlemen
	High cost of packaging and processing activities	Limited technical knowhow on value addition activities	Lack of processing and storage facilities	Lack of processing facilities; inadequate know how on value addition
	Inadequate expertise on practical animal production methods	Limited training facilities on farm production activities	Poor road network and sanitation facilities	Limited technical knowhow on processing
	Limited training facilities on milk production and marketing at county level	Inadequate entrepreneur skills	Limited market information	High cost of transportation; poor market information system
Regulatory and Institutional Challenges	Inadequate enforcement of legislations	Weak producer association		Difficulty in forming farmer groups
	Unequal distribution of cooperatives in the respective counties	Lack of formal Private-Public Dialogue consultative mechanism		
		Poor enforcement of agriculture legislations		

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