

CHALLENGES FACING MICRO AND SMALL ENTERPRISE ACCESS TO PUBLIC SECTOR CONTRACTS IN KENYA: A SURVEY OF MICRO AND SMALL ENTERPRISES IN KISUMU CITY, KENYA

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Abstract

Micro and Small Enterprises (MSEs) have been recognized throughout developing countries as an engine to development and a vehicle towards fulfilling the Millennium Development Goals (MDGs). In Kenya MSEs play an important role in the socio-economic development of the country. Its significance can be seen in terms of contribution towards economic growth, employment creation, poverty reduction and development of an industrial base. They are also breeding grounds for entrepreneurship, innovations and inventions. Although public procurement is huge, it is dominated by large enterprises at the exclusion of local MSEs. This is despite an affirmative policy of reserving 25 per cent of all government procurement to MSEs. The main objective of this study was to analyse the challenges facing MSEs in Kisumu city, Kenya in accessing public procurement and contracts. Specifically, the study sought to: examine the practices adopted by MSEs in accessing public contracts; examine how the challenges facing MSEs affect their access to public contracts and; to test for the challenges facing MSEs in access to public contracts. The study adopted a descriptive survey since this allowed for the study to define variables as they are during the time of the study. A sample size of 68 (10%), was selected from a population of 680 MSEs. The theoretical framework was based on Wuyts (2001) theory, which considers the nature of policies on the sector to depend on the extent to which the sector is demand or supply constrained. A structured questionnaire was used to collect data from proprietors of sampled MSEs. By use of simple random sampling, data captured were both quantitative and qualitative in nature. Quantitative data were analyzed using descriptive statistics where tables and figures were used. Frequency distributions, percentages and cross tabulations were also used to show the distribution of the responses. Inferential statistics was by chi – square test of independence. Qualitative data was analysed using content analysis by extracting themes from the responses. The study found out that despite their immense contribution to economic development, MSEs in Kisumu city are faced by daunting tasks in accessing public contracts: high tender purchase prices, lack of adequate working capital, Non-Tax Compliance, stringent pre-qualification procedures, lack of information on existing public sector contracts, and inadequate policy framework. The study concludes: majority of MSEs are unable to access public contracts as represented by 62 (91.17%) of respondents. The study recommends: need to review the definition of MSEs by basing it on the number of staff to the net worth of the business, and MSEs to form consortiums from which their participation in the public sector is to be enhanced. The study is significant to both the Central and County governments, civil society, Business Community and the academia, involved in the promotion of MSEs for national economic development

Key words: Entrepreneurship, creativity, sustainable development and competitive advantage

1.0 Introduction

The significance of Kenya's Micro and Small Enterprises (MSEs), has continued to grow since 1972 when the sector was first brought to limelight. Its significance can be seen in terms of contribution towards economic growth in the provision of goods and services, employment creation, poverty reduction and development of an industrial base (GoK 1997).

In this research, MSEs are defined to include enterprises employing up to 50 workers and include both street vendors, hawkers, artisans, traders in open-air markets, and dealers in the provision of goods and services in the public sector. By their very nature, MSEs are confronted by a number of financial challenges in order to compete in government procurement markets. This is despite the Public Procurement and Disposal Act 2005 setting policy initiatives that could ensure full integration of MSEs access to markets (PPOA, 2005). According to Eagan (2005, (Odhiambo and Kamau, 2003), methods used to procure public goods /works and services, have a significant impact on the participation of newer or Smaller businesses and in most cases are so punitive to majority MSEs.

2.0 Statement of the Problem

MSEs contribute to the national objective of creating employment opportunities, training of entrepreneurs, generating income and providing a source of livelihood, accounting for 12-14 percent of GDP. The contribution of MSE to GDP and employment has shown to be significant in various countries. Studies show that small businesses contribute to poverty alleviation through income generation in form of profits to entrepreneurs, salaries to workers and job creation to majority citizens. Kenya's Legal framework has set to allocate at least 25% of all its public procurement and tenders to MSEs identified as local enterprises, whose owners are youths, women and other disadvantaged in the society. This Policy proposal is yet to be translated into implementable strategies and guidelines. Various studies have been conducted on MSEs, mostly identifying access to credit as the major hindrance to growth and development. However, very little has been done to address the challenges facing MSEs in accessing public sector contracts. Hence the need for the study.

2.1 Research Objectives

The broad objective was to analyze the challenges facing MSEs in Kisumu city, Kenya, in accessing public contracts. Specifically, the study sought to:

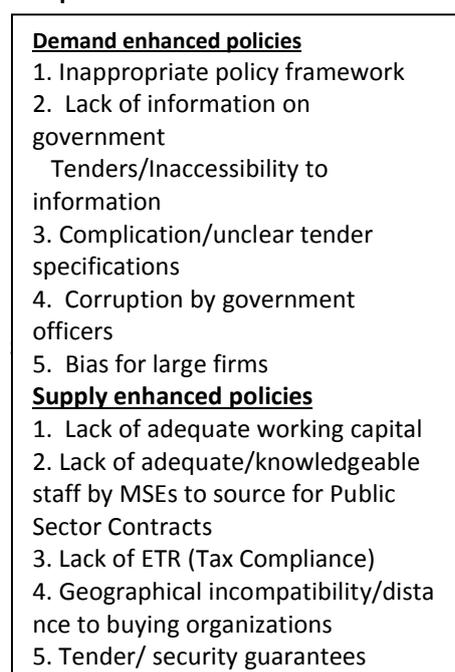
- i. Examine the practices adopted by MSEs in Kisumu city in accessing public sector contracts.
- ii. Examine how the challenges facing MSEs in Kisumu city affect their access to public sector contracts.
- iii. Test for the challenges facing MSEs in Kisumu city in access to public sector contracts.

2.2 Conceptual Framework

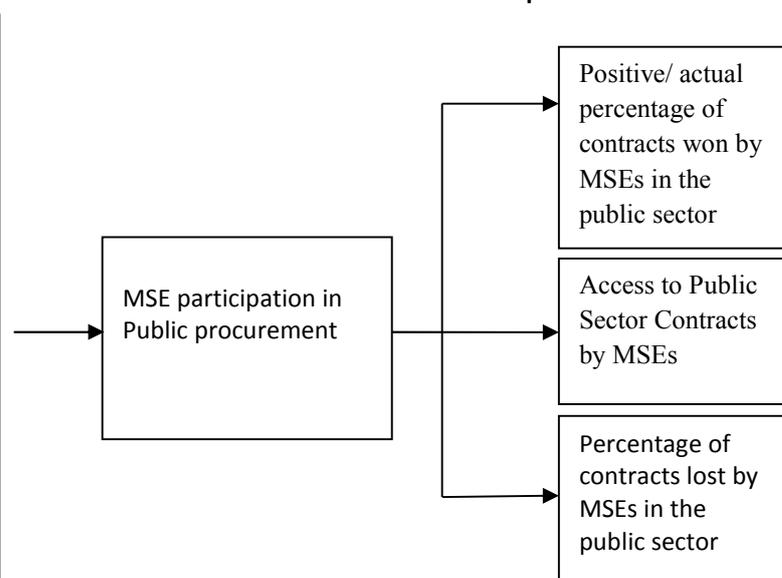
Wuyts (2001) theories consider policies on the MSE sector to depend on the extent to which the sector is demand or supply constrained. Demand enhancing policies are prescribed to induce growth in various economies. On the other hand, supply enhancing policies are prescribed to effect MSE participation in national development which may enhance and attract some competitiveness for MSE productivities and services. Supply enhancing policies focus interventions in providing human, financial, technological and physical resources to support the growth of Micro and Small Enterprises.

As shown in Figure 1 MSEs capacity to win public contracts is enhanced/limited by both demand and supply related factors. Demand side related factors are operationalized by; lack of information on government tenders and complicated/unclear tender specifications. Supply side related factors are operationalized by; lack of capital and lack of adequate/knowledgeable staff. The actual percentage/value of public contracts won by MSEs consequently depends on the capacity of MSEs as thus operationalized. There is a correlation between MSEs and their potential to increase income and employment creation, and that business performance in terms of profit generation and employment creation is positively related to the size of the firm, suggesting that strategies, which promote vertical growth, are more favourable than those favouring horizontal growth.

Independent Variable



Dependent Variable



2.3 Significance of the Study

It is hoped the study results will be beneficial to both the national and county governments through the ministry of Youth Affairs (MOYA), Gender and Social Services, in coming up with policies for the efficient implementation and disbursement of youth and women development funds and the enhancement of the current national government directive of ensuring that all public sector organizations avail at least 30% of all procurements to youths, women, and the disadvantaged persons in the society. This study is and will be disseminated in workshops/conferences and published to be kept in national libraries, and thus we will have contributed to the stock of knowledge in the country and beyond.

3.0 Materials and Methods

3.1 Research Design

The study was guided by *comparative survey* method, in which data was collected from a wide variety of respondents for the purpose of determining the heterogeneity and/or homogeneity to each other (Cooper & Schindler, 2008, Kothari, 2005).

3.2 Study Population

The survey population consisted of the entire number of entrepreneurs who were running duly registered, licensed and operational MSEs in the city of Kisumu. According to MCK (2009), there were 26,100 persons, who fitted the study's description by 1st December, 2009. The accessible population on the other hand, was 680 persons who owned small scale businesses operating in Kisumu's Central Business District (CBDs), where the researchers freely and frequently visited without much logistical complications.

3.3 Study Sample

The study sample was 10% of the accessible 680 proprietors of enterprise firms that were categorized as MSEs in the city of Kisumu. The substantive figure therefore was 68 respondents. The choice of 10% is justified by separate pronouncement of research Scholar: Kerlinger (1986) contends that the percentage is a considerably representative sample and is viable in social sciences study. Mugenda and Mugenda (1999) maintains that 10 percent of the population can be used to generalise on the entire population. Gall & Borg (1997) further argues that similarity of characteristics of respondents permits the researcher to select a study sample of not more than 30% of the accessible population. Ideally, 10% is legitimately within the 30% quota.

Table 1: Demographic characteristics of the study area

Study Area Characteristics	Total
Area (sq.Kms)	182
Population	322,73
	4
Registered MSEs	680
Total No. of Entrepreneurs	26,100
Sample Size	68
Sample Size; 68	

3.4 Study Instrumentation

The researcher collected data from the study through a specific variant of a semi structured questionnaire called contingency questionnaire. Both Gall and Borg (1997) as well as Cook (1976), explains that contingency questionnaires are highly applicable where the researcher must include follow up questions in order to probe the informant to give most appropriate and deeper information on the issue under investigation. Mugenda and Mugenda (1999) further adds that the variant of the questionnaire enables the researcher to organize the study responses on the basis of a scale.

3.5 Data Analysis

The data captured were both quantitative and qualitative in nature. Quantitative data were analyzed using *descriptive* and *inferential statistics*. In achieving this, the study used both tables and figures to represent and

tabulate collected data. Descriptive statistics particularly frequency distributions, percentages and cross tabulations were used to show the distribution of the responses. Inferential statistics was also used through chi – square test of independence to assess whether at 5% level of significance the influence of challenges on MSEs access to public sector contracts is significant. Qualitative data was analysed using content analysis by extracting themes from the responses.

4.0 Discussion and Conclusions

4.1 Discussion

The study sought to find out the most serious challenges facing MSE access to public sector contracts in Kisumu city. This was to fulfill the purpose of the research as well as develop a basis for recommending on relevant mitigation strategies on how to integrate these enterprises into public procurement system. The aspect mostly mentioned by all the informants was high tender purchase price and lack of adequate working capital. This is despite wide spread campaign by various governments to avail financial credit to most small scale holders. Non- tax compliance was the third most mentioned challenge. 62 (91.2%) respondents said that they did not win public sector contracts due to non- tax compliance. Adherence to public procurement procedures by all business entities is important in ensuring that all enterprises comply with legal obligations as set by a sound institutional framework (Gachogu, 2004). Registration regulation system in Kenya is characterized by ambiguity and much of duplicity, which render tax compliance almost impossible. The other issue that was fourth most mentioned by the respondents was elaborate procedures and lack of adequate knowledgeable staff. Lack of proper planning and poor management approach, has impeded MSEs approach in accessing public sector contracts. Training improves ones attitudes, skills, knowledge and abilities, factors that are critical in entry into new markets. A total of 60 (88.2%) said that due to elaborate procedures and lack of adequate knowledgeable staff they were unable to win bids. The sixth major challenge was geographical incompatibility; this was according to 58 (85.3%) informants. Illustrations are shown in Table 2.

Table 2: Rating of challenges

Limiting Aspect	Challenge		No. Challenge		Total	
	N	%	No.	%	No.	%
High Tender purchase price	68	100%	00	00%	68	100%
Lack of adequate working capital	68	100%	00	00%	68	100%
Non Tax Compliance	62	91.2%	06	08.8%	68	100%
Elaborate Procedures	60	88.2%	08	11.8%	68	100%
Lack of adequate knowledgeable staff	60	88.2%	08	11.8%	68	100%
Geographical incompatibility	58	85.3%	10	14.7%	68	100%
Inflexible contract terms	52	76.5%	16	23.5%	68	100%
Stringent Pre – qualification procedures	50	73.5%	18	26.5%	68	100%
Lack of Information on existing public sector contracts	42	61.7%	26	38.2%	68	100%
In adequate Policy framework	38	55.8%	30	44.1%	68	100%
Bias for large firms	38	55.8%	30	44.1%	68	100%
Unclear Specification tender specifications	36	52.9%	32	47.1%	68	100%

Source: Field data, 2013

5.0 Conclusions

The study concludes that majority of MSEs are un-able to access public contracts. This is despite the fact that the government has set to commit 30 percent of its procurement budget to local MSE sector. Despite the important role played by MSEs, the sector is plagued by a number of concerns: high tender purchase prices, lack of adequate working capital, non- tax compliance, inflexibility of contract terms, lack of information on existing public sector contracts, and unclear tender specifications.

6.0 Recommendations

The following specific recommendations can be made: There is need to review the definition of MSEs by basing it on the number of staff working in the enterprise to the net worth of the business. So as to ensure cost of undertaking a contract is within the reach of MSEs, there is need to adopt a policy of ensuring that very big and complex tenders are subdivided into smaller, clearer and manageable tenders for the MSEs to undertake. MSEs to form consortia from which they could approach any existing public procurement opportunities with some comfort. There is need for the government to consider giving a down payment to supplement their limited working capital.

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