

The Role of Local Authorities in the Development of Micro and Small Enterprises in Kenya: Case of Naivasha Municipal Council

Waichungo Njuguna Peter
Kenyatta University
MBA Project
Kenya

Abstract

The purpose of this study was to establish the role of local authorities in the development of Micro and Small Enterprises in Kenya. The study paid emphasis on the devolved funds under local authorities' disposal, provision market infrastructure, participative decision making and support services provided by the local authority to the business environment. Descriptive design was adopted in the study. The population comprised of staffs of Naivasha Municipal Council and business people operating small businesses in the wards under Naivasha Municipal Council. Stratified random sampling technique was used to choose the sample. A self-administered questionnaire and an interview guide were used to collect the data. The complete filled in questionnaires will then be coded to facilitate analysis. Data analysis was conducted using descriptive statistics which included frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. A linear regression model was also adopted to establish the form of relationship between the independent variables and the dependent variable. The study found out that there was a significant relationship between development of micro and small enterprises and devolved funds, participative decision making and support services. The study concludes that LATF funds failed to account and implement local priorities; there was also little community participation from members in local planning within the council planning and provision of services. The study recommends that priorities should be given to projects such as projects such as infrastructure, water projects etc. participative decision making is also very crucial in any project implementation within a group.

Key Words: Local authorities, Micro and Small enterprises, Devolved funds, Market infrastructure, Participative decision-making, Support services

Introduction

Institutional reform towards strengthening decentralization policies is becoming increasingly important in Africa. As a result, local governments are gaining in authority, powers and legitimacy and become more prominent in political and economic processes. The role of local governments in the delivery of social services like health and education is growing too. Local governments and especially in rural areas deal mostly with resource-poor entrepreneurs. Most of them are involved in agriculture and related sectors, often having an informal character. This group experiences a number of problems that hamper their development, which may be partly gendered. These include lack of knowledge on regulations and rights, relatively high taxes, limited access to financial services, insufficient access to markets, high costs of inputs or price fixing and poor service delivery by the public sector. Moreover, resource-poor farmers and entrepreneurs may be less well organized than other businesses, having also less access to existing business organizations and networks. They tend to have fewer contacts with policy makers. A number of these constraints can be addressed, however, by public policy at local level to promote pro-poor economic development, while others are more profound and require policy changes at higher levels (Hilhorst, Thea & Gerard, 2007).

In Africa, the MSE sector is currently one of the fastest growing with a high capacity for labour absorption and poverty reduction (IDRC, 2002; Parker, Rioppele and Steel, 2002).

This sector serves as a seedbed for entrepreneurs, contributes to development that is more balanced and facilitates the supply of products and services previously not available in the market place in many African countries. As a result, the MSE sector contributes significantly into many African countries economic growth, contributing for example to 34.6% of Liberia's GDP, Nigeria (24.5%) and Benin (17.7%)(ILO/JASPA: 2003). In Kenya, micro and small enterprises account for 75% of all new jobs created and 61% of all wage employment (ICEG 2000, 2001).

Problem Statement

The ability of local governments to contribute to private sector development and especially MSEs largely depends on the legal framework that sets out their authority, mandate and resources available to them. This includes the level of fiscal autonomy. In practice, however, there is often a huge gap between policy and implementation, particularly regarding the transfer of resources. This often affects negatively the actual capacity and motivation of local governments to act, including in the field of economic governance. Development plans of LG's are often not very explicit on economic development. The degree of consultation and meaningful participation of the private sector varies enormously, both in and between countries as well as over time. Although economic opportunities are generally included, assessments are often rather general and descriptive, whereas the actions identified tend to refer more to the taxation potential than to the issue of how LA's could best contribute to pro-poor economic development.

According to DGIS (2007), LA's need therefore fully understand issues like local economic development, sustainability, pro-poor growth, the role of the private sector etc. Complementary to this LA's should know the opportunities in their territory for the MSEs as well as key constraints for realizing the potential. In spite of all these efforts by the government, SMEs are not succeeding as expected. The impact of the efforts is not known/has not been tested. It is against this background that it is important to investigate the role of local governments on how they can contribute constructively and support the micro and small entrepreneurs in their growth and development.

Objectives

The main objective of the study was to evaluate the role of local authorities in the development of micro and small enterprises in Kenya. The study specifically sought to determine the effect of devolved funding in the local authority of Naivasha to Micro and Small Enterprises To determine the effect of market infrastructure by the local authority of Naivasha to Micro and Small Enterprises To establish the extent of participative decision-making by the local authority of Naivasha to Micro and Small Enterprises .To determine the level of satisfaction on support services by the Naivasha Municipal Council on the development of Micro and Small Enterprises.

Review of Related Literature

Devolved Funds

The local authority transfer fund was established in 1999 through the LATF Act No. 8 of 1998. LATF at the local level is managed by the local authorities (County Council, Municipal Council, Town Councils). The Local Authorities Transfer Fund (LATF) Act of 1998 was enacted to enable the Central Government to set aside annually monies calculated at 5% of national annual income tax to supplement efforts by local authorities to provide services as required by the Local Government Act. The specific objectives of LATF were to: improve service delivery by local authorities to the public; enhance financial management by local authorities; and eliminate outstanding debts of local authorities (Republic of Kenya (RoK), 1998).

LATF money is combined with local authority revenues to implement local priorities. Release of LATF monies is based on the following conditions: 60% is released if council follows laid down public fund rules, 40% is released on submission of required financial statements and the Local Authority Service Delivery Action Plan (LASDAP). There has been both local and international support to bring about change in SME sub-sector (Republic of Kenya (RoK), 2001). The impact of LATF on local service delivery, financial management and accountability as well as elimination of outstanding debts can be said to have been generally positive.

In a number of cases service delivery has improved with availability of LATF funds to be spent on capital projects, operations and maintenance. Findings of an Independent study on the Impact of the Local Authorities Transfer Fund (LATF) in Kenya in 2007 it was found out that while, there is a consensus between the residents and local authorities on the provision of certain services in order of priority i.e. water supply; roads and street construction; solid waste management; health infrastructure; and schools construction (the residents gave top priority to water supply and sewerage; roads and streets construction and solid waste); the Councils' priorities were roads and street construction; schools construction; and water supply and sewerage (Ministry of Local Government/KLGRP, 2007).

Market Structure

A study on the Impact of the Local Authority (2007) established that an important precondition for pro-poor economic growth is that local governments understand their potential role in supporting private sector development, especially on the micro and small enterprises (MSEs), and are aware of the opportunities and constraints for the private sector in its territory. It is further argued that local governments can contribute in various ways to an enabling environment for pro-poor economic growth. For example, efforts to decongest the CBD and to create a market for hawkers led to establishment of Muthurwa Hawkers Market. In addition, fostering investments in physical infrastructure, such as roads, water, telecommunication services and electricity, is a major determinant of product quality and market access. This can be done for example through lobbying and including physical infrastructure in local planning tasks and budgets (Ministry of Local Government/KLGRP, 2007).

Participative Decision-Making

According to Probst (2005), Participative Decision-Making (PDM) is the extent to which employers allow or encourage employees to share or participate in organizational decision-making. Therefore in the case of local authorities addressing the private sector in Public-Private Dialogue, participative decision making is highly recommended. Public-Private Dialogue is an institutional arrangement that brings together a group of mostly public and private sector actors (Cotton et al., 1988). It is argued that governments engaging in PPD are more likely to promote sensible, workable reforms, while enterprises participating in meaningful PPD processes are more likely to support these. Key challenges for PPD are promoting sub-sector and horizontal dialogue processes, and improving vertical linkages and communications to ensure that issues that have to be addressed at a higher policy level are indeed taken up (Black & Gregersen, 1997).

Support Services

Availability of physical infrastructure is a major determinant of production costs, product and market access. Business land and workspace, reliable water supply, sewage facilities, roads, postal and telecommunication services and electricity are often critical constraints for economic development (Audretsch, 2004). Chell (2007) revealed that an important role of local government is to address the necessity of proper physical infrastructure in its planning and coordination tasks, in their lobby work, and to include resources (and co-financing arrangements) for physical infrastructure in its budgets. In Cameroon, for example, the commune of Bikok secured resources for improving the main road in the commune (through an investment fund for local government), which tend to be impassable during the raining season). The mayor of the commune of Aguégué in southern Benin lobbied central government for access to electricity, for investment in an irrigation scheme and to exploit sand. The mayor of Glazoué, again in Benin, used LG resources to pay the salaries of a number of extension workers to support cotton production and feeder road maintenance. A local government area in the arid lands of Tanzania encouraged the local vocational training institutes to adapt their (general) curriculum to the specific local conditions. In Ethiopia, (urban) local governments tend to focus on the establishment and promotion of locations for exporting horticultural businesses. This includes allocating land, ensuring that basic infrastructure is available, and that the area is easily accessible (European Commission DG 23, 1999). The intention is to promote economic development and employment in their territory, and eventually also generate more income for local government now (land sales) or in future (taxes paid by companies and their employees).

Research Methodology

Research Design

The research design to be used in this study will be descriptive in nature. Descriptive research is a scientific method of investigation which involves collection and analyzing of both quantitative and qualitative data.

Study Population

The target population will compose of staffs in all ranks currently employed at Naivasha Municipal Council and retail MSEs Central Business District (CBD) of Naivasha Municipal Council. Currently the entire population at Naivasha Municipal Council is 207 employees (Min. of Local government, 2010). According to Naivasha Municipal Council report, there are approximately 614 retail MSEs in the Naivasha CBD. The researcher will concentrate in CBD which has the highest concentration of businesses; with 614 retail MSEs.

Sampling and Sample size

Stratified random sampling technique was used since the population of interest is not homogeneous and can be subdivided into groups or strata to obtain a representative sample. The staffs were stratified according to the departments. A stratified sample of a population that is proportionally representative of all types of people of interest in the survey. This was carried out so that all departments in Naivasha Municipal Council are involved in the study. Therefore, the sample in this study comprised of 10% of all the staff of Naivasha Municipal Council and 10% of the total MSEs in Biashara Ward. A sample size of 82 was selected which comprised of 21 staffs of Naivasha Municipal Council and 61 entrepreneurs in the Biashara ward under Naivasha Municipal Council.

Data Collection Instruments and Procedures

Data will be collected using a self-administered questionnaire and an interview guide. The questionnaires designed by the researcher based on the research questions will be pre-tested to ascertain the suitability of the tool before the actual administration. Pre-testing will be done by administering the questionnaire to ten respondents from each category of respondents who will be selected randomly to form the sample size.

Data Analysis

Data analysis will be conducted using descriptive statistics to analyze the findings from the raw data. These will include frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies among others. With the help of Statistical Package for Social Science (SPSS) the findings will be presented in form of frequency distribution tables, bar charts and pie charts.

Results

On the effect of devolved funding in the local authority of Naivasha to Micro and Small Enterprises, the MSEs operators revealed that LATF money usually did not implements local priorities. The respondents further disagreed that local service delivery, financial management of LATF and accountability was good/positive. However, according to the key informants the LATF had been used to finance LASDAP capital projects and training for human resource and capacity building. The funds have been used for construction of schools and roads maintenance within the ward. They had also implemented the funds to assist the less disadvantaged e.g. disabled. Health centers, police posts and markets have also been constructed using the funds. It was established that it's the stakeholder's priorities and views raised during meetings with the councilors that determined the projects to be implemented by LATF funds.

On market infrastructure, it was found out that markets had been constructed /established by local council. The respondents revealed that poor and impassable roads were experienced during rainy seasons; there were also issues of poor garbage disposal and drainage in the market, insecurity, lack of shades, small space resulting to congestion, no lights and pavements structured for the sellers to display their goods. However, according to the key informants, it was found out that the council intended to purchase more land to put up more structures and expand the existing ones through partnership with stakeholders. The study found out that the MSEs operators did not have a chance to participate in the local authority planning process.

They revealed that they failed to participate because they were not aware/ informed and that they were not given the opportunity and not involved. It was found out that they interacted with City council staffs only when they visited business enterprise more regularly to inspect business permits and revenue collection. They disagreed that there was a consensus between the residents and local authorities on the provision of certain services in order of priority. Support services such as reliable water service from the council were lacking; the markets lacked fire extinguishers, sewer lines and feeder roads. However, according to the council, there were inadequate resources especially the funds to address all the service delivery needs for the entire council.

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.775(a)	0.600	0.566	0.53181

A Predictors: (Constant), Devolved funds, market infrastructure, participative decision making, support services
The adjusted R^2 is called the coefficient of determination and tells us how the dependent variable varied with the independent variables. From the regression model summary above, the value of adjusted R^2 is 0.566. This implies that, there was a variation of 56.6% of development of Micro and small enterprises with devolved funds, market infrastructure, participative decision making, support services.

Analysis of Variance- ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	19.938	4	4.985	17.625	0.000(a)
Residual	13.292	47	0.283		
Total	33.231	51			

a Predictors: (Constant), Devolved funds, market infrastructure, participative decision making, support services
b Dependent Variable: Development of Micro and Small Enterprises

The study used ANOVA to establish the significance of the regression model from which an f-significance value of $p < 0.001$ was established. This shows that the regression model has a less than 0.1% likelihood (probability) of giving a wrong prediction. Hence the regression model has a confidence level of above 95%.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	2.204	0.402		5.481	0.000
Devolved funds	0.550	0.094	0.652	5.832	0.000
Market infrastructure	0.081	0.116	0.070	0.694	0.491
Participative decision making	-0.270	0.054	-0.481	-5.031	0.000
Support services	-0.415	0.080	-0.524	-5.212	0.000

a Dependent Variable: Development of Micro and Small Enterprises

The following regression analysis was established:

$$Y = 2.204 + 0.550X_1 + 0.081X_2 - 0.270X_3 - 0.415X_4$$

The regression analysis established that there was a significant relationship between development of micro and small enterprises and devolved funds ($p=0.000 < 0.05$); participative decision making ($p=0.000 < 0.05$); and support services ($p=0.000 < 0.05$). However, the analysis established an insignificant relationship between development of micro and small enterprises and market infrastructure ($p=0.491 > 0.05$).

Discussion

The analysis of the results established that local authority of Naivasha used devolved (LATF money) usually did not implements local priorities. The funds have been used for construction of schools and roads maintenance within the ward. This is in line with a study by KLGRP (2007), who established that while, there is a consensus between the residents and local authorities on the provision of services such as water supply; roads and street construction; solid waste management; health infrastructure; and schools construction; the Councils' priorities were roads and street construction; schools construction; and water supply and sewerage. The study also established that there lacked support services especially the markets lacked fire extinguishers, sewer lines and feeder roads. Chell (2007) and Audretsch, (2004) revealed that local councils need to address the necessity of proper physical infrastructure in its planning and coordination tasks, as these facilities are major determinants of production costs, product and market access.

Conclusion

The study concludes that LATF funds failed to account and implement local priorities. There were no visible capital investments in infrastructure, water projects and health facilities. LATF had not improved the public facilities and reduced the outstanding debt of area local authority. LATF funds were not shared equally and the community's priorities were not addressed into. It was evident that the council had established and constructed markets though there was laxity by the council in their maintenance. Feeder roads to the markets were impassable especially during rainy seasons. Poor drainage and poor sanitation facilities were reported. Lack of streets lights posed a great challenge to the security. Lack of shelter shades and space resulting to congestion was experienced. The markets also lacked fire extinguishers in cases of fire outbreaks. In addition the markets lacked sewer lines and feeder roads.

There was little community participation from members in local planning within the council. The local council failed to make public the preparation of LASDAP and the resources available and invites inputs and proposals from residents. A consensus between the residents and local authorities on the provision of certain services in order of priority was also lacking. The study recommends that Priorities should be given to projects such as projects such as infrastructure, water projects and health facilities within the ward. Secondly transparency and equity should be addressed by the authorities to ensure that LATF funds are shared equally depending on population densities. Participative decision making is also very crucial in any project implementation within a group. Thus the council should make public the preparation of LASDAP and resources available and invite inputs and proposals from the public.

Acknowledgements

I am greatly indented to the following people for the support and encouragement they have offered me. My academic supervisors, Mrs. Mwendu Mutuvi, Mr. Robert Nzulwa and Mr. Ngaba for their valuable insights and practice in helping me complete my project, my wife Ann for her invaluable support at all times and especially the times I had to work late at night and my daughter Joan who aspires to be an optician and who have inspired me to complete my course. I also feel indebted to my Brother George for his financial and moral support, Paul, Edwin and Ken for their support. And for all those who have helped me in one way or the other, I am grateful.

References

- Audretsch, D. (2004). Sustaining Innovation and Growth: Public Policy Support for Entrepreneurship. *Industry and Innovation*, 11(3), 167-191.
- Chell, E. (2007). Social Enterprise and Entrepreneurship. *International Small Business Journal*, 25(1), 5-26.
- European Commission DG 23 (1999), Local and Regional Authorities Promoting Entrepreneurship and Small Businesses: A Report of the Committee of the Regions, Brussels.
- Hilhorst, Thea and Gerard, B. (2007) The Contribution of Local Government to Economic Development in Rural Areas; First Draft for Discussion; May 2007, Royal Tropical Institute, Amsterdam; The Netherlands Ministry of Local Government/KLGRP (2007), Independence Study on the Impact of the Local Authority. *Transfer Fund in Kenya*, Syagga and Associates Ltd, May 2007.
- Black, J.S. & Gregersen, H.B. (1997). Participative Decision-Making: An Integration of Multiple Dimensions. *Human Relations*, 50, 859-878
- Cotton, J.L. et.al (1988). Employee Participation: Diverse Forms and Different Outcomes. *Academy of Management Review*, 13, 8-22.
- Directorate General of International Cooperation (DGIS); Report on a regional workshop on Decentralization; June 2007; Dares Salaam; Tanzania
- Parker, Ronald, L. Randall R. & William, R. S. (1995). Small Enterprises Adjusting to Liberalization in Five African Countries. Washington DC: World Bank
- Probst, T.M. (2005). Countering the Negative Effects of Job Insecurity Through Participative Decision-making: Lessons from the Demand-Control Model. *Journal of Occupational Health Psychology*, 10, 320-329.
- Republic of Kenya (RoK) (1998). Local Authorities Transfer Fund Act, No 8 of 1998. Government printers, Nairobi
- Republic of Kenya (ROK), 2000. `Kenya Local Government Reform Programme; Concept Paper. Nairobi: Ministry of Local Government
- Republic of Kenya (RoK) (2001). Local Authorities Transfer Fund (LATF). Annual Report FY 2000-2001. Government printers, Nairobi
- Republic of Kenya (RoK) (2002). Local Authorities Transfer Fund (LATF).Annual Report FY 2001-2002. Government printers, Nairobi