SUPPORTING ECONOMIC TRANSFORMATION

BRIEFING PAPER

Integrating Kenya's micro and small firms into leather, textiles and garments value chains

Creating jobs under Kenya's Big Four agenda

Aarti Krishnan, Dirk Willem te Velde and Anzetse Were

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Key messages

- Kenya's Big Four agenda is crucial for industrialisation in the country, but further attention is required to include micro, small and medium-sized enterprises (MSMEs) in industrialisation strategies and to promote broad-based economic transformation. This can be done through building linkages between MSMEs on the one hand and value chains and clusters on the other.
- Interviews in Nairobi county in the leather, textiles and garments sectors suggest MSMEs are linked into value chains. Examples include Dagoretti slaughterhouses (leather), Preca and Limuru cluster (shoes), Thika Cloth Mill (textiles), Uhuru Market textile and garment cluster and Tulips, located inside an export processing zone.
- However, to help MSMEs integrate better into value chains and zones, the following are crucial: provision of information along the value chain; safeguards against illicit trade; provision of targeted infrastructure, skills and finance; market access; and improvements in dedicated institutions such as Kenya Industrial Estates and the Micro and Small Enterprise Authority.
- The Executive Office of the President should work with stakeholders and implementers such as the Ministry of Industry, Trade and Cooperatives (MOITC) and take account of ongoing reviews to inform discussions around MSME support structures, economic zones and improving MSME incubators, for example for the Uhuru garment cluster. It should also develop a framework for engagement with and by county governments in coordination with MOITC and private sector actors.

Introduction

Kenya's Big Four agenda, which will guide government strategy from 2018 to 2022, has developed a range of policies, strategies and measures to promote industrialisation. But opportunities for broad-based economic transformation are missed when implementation does not involve small, local firms in the manufacturing sector. Past strategies such as Vision 2030 and the Kenya Industrial Transformation Programme (KITP) have suffered from implementation failures that have hampered growth in micro, small and medium-sized enterprises (MSMEs).

The Big Four agenda, coordinated by the Executive Office of the President (EOP), aims to achieve industrialisation through the expansion and creation of economic zones and industrial clusters. Successful integration of the local economy (specifically MSMEs) with value chains is crucial for broad-based economic transformation. This briefing incorporates the views of 40 stakeholders in the leather, textiles and garments value chains, mainly in Nairobi county, and three multi-stakeholder roundtables involving more than 200 participants, including many MSMEs.

SMEs in Kenya

MSMEs employ close to 14.9 million people, or 78% of the entire Kenyan labour force. The country has approximately 7.4 million MSMEs, which collectively contribute about a third of the country's gross domestic product. Over 85% of MSMEs are unlicensed. Around 400,000 fail annually, with almost 90% of all MSME start-ups operating for less than two years.

Economic clusters, industrialisation and jobs

It is estimated that Kenya will see 650,000 people entering the labour market every year between 2015 and 2030, requiring 1,800 jobs a day. At the current rate of population growth, 14 million people may be unemployed by 2030. The Big Four manufacturing pillar aims to create jobs and raise exports through the development of zones and clusters.

Governments can foster industrial clusters by concentrating investments in high-quality institutions, social services and infrastructure in a limited area. Such zones have been an important factor in economic transformation and job creation in many East Asian economies, notably China. A sustainable strategy involves close linkages between within-zone firms and local firms and maintains economic and social standards similar to those in the rest of the economy.

The Special Economic Zone (SEZ) Act came into force in December 2015 but is under review. Two SEZs are licensed (Tatu City and Africa Economic Zone) and two are planned (Naivasha and Dongo Kundu); others are under construction. There are also many industrial clusters and export processing zones (EPZs).

Constraints facing SMEs

General constraints facing MSMEs to link in with value chains, economic zones and industrial clusters include lack of information, poor institutional structures and limited finance. Specific constraints in leather relate to quality of hides, informality in slaughterhouses, cost and quality of power, import tariffs and weak technology. Within textile value chains, they include the spread of cotton production, poor agronomic practices, lack of irrigation and outdated technology. Within garments, key issues are cheap and illegal imports, lack of technology, limited local capacity and skills and an uneven playing field. In addition, a variety of specific constraints relate to lack of a coordinated view and of involvement of county governments in economic zones. MSMEs such as Tulip have overcome constraints and located themselves in EPZs.

Policy suggestions to support MSMEs and value chains

The paper reviews current policies towards MSMEs (such as Vision 2030, KITP and the Big Four agenda), the MSE Act and Authority (MSEA), the SEZ Act and Authority, Biashara Bank, Kenya Industrial Estates (KIE) and other initiatives by Nairobi county.

The Ministry of Industry, Trade and Cooperatives (MOITC) experience is that the greatest challenges in integrating MSMEs into value chains successfully are:

- inadequate capacity of implementing agencies to execute the strategies identified in current and previous development plans, including under the Big Four Agenda Manufacturing Plan
- need to facilitate and strengthen the institutional framework established to support MSMEs
- delayed operationalisation of relevant legal frameworks such as the MSE Act owing to funding constraints
- lack of alignment between MSME development priorities and budget allocation.

Our interviews suggested the following measures could help MSMEs integrate into value chains:

- provision of information along the value chain, which can help financiers or linkage programmes
- safeguards against illicit trade, which would prevent the undermining of small manufacturers
- provision of economic fundamentals such as infrastructure, skills and finance (e.g. Biashara Bank), supported by improved incubators
- market access promoted through clusters and
- improved MSME institutional support framework.

Government should focus on three priorities:

1. *Restructure MSME support structures such as MSEA:* Institutions supporting MSME development are fragmented on both the public and the private sides. EOP could oversee a coordination unit, in close collaboration with lead implementers like MOITC. This could help update the entire institutional support framework for MSMEs.
2. *Introduce dedicated incubator programmes:* Many MSMEs are not ready for linkages, unless support is provided. Such support may include enhancing technical and vocational education training activities, such as those provided by KIE and MSEA, but go beyond this by offering dynamic courses that transmit fundraising, technical and financial capabilities along with co-working spaces and mentoring assistance to improve MSME productivity, diversification opportunities and readiness to integrate within value chains.
3. *Involve county governments:* Develop a framework for engagement with and by counties in coordination with MOITC and private sector actors.

EOP and MOITC both desire manufacturing development with good reason. They should work together to make a step change in MSME support.

References

Krishnan, A., te Velde, D.W. and Were, A. (2019) *Integrating Kenya's micro and small firms into leather, textiles and garments value chains: creating jobs under Kenya's Big Four agenda*. SET Report. London: ODI