FOR the last several years in Kenya, the informal sector has created more than half of the jobs generated by the country's economy.

In Uganda, President Museveni is on record saying his country has plenty of Small and Medium Enterprises and his government is now seeking Foreign Direct Investment for major, specialized business ventures.

In Tanzania, the country's vast economy thrives on small-scale entrepreneurs.

BANKING ON SMALL ENTERPRISES

BY MWANGI WANJUMBI

THE term Small and Medium Enterprise (SME) is interchangeable with small business. The definition varies from country to country. In Europe, for example, SME is a business, which does not exceed 250 employees or turnover of Euros20mn. Net capital should not be below Euros10mn.

The broad Kenyan definition of SMEs, which includes micro enterprises, was adopted. Therefore, Micro Small and Medium Enterprises (MSME) in Kenya, is any business in the private sector, which employs up to 50 employees, according to the National Baseline Survey of 1999. The definition is interchangeable with small business.

The survey further states that business associations such as Kenya National Chamber of Commerce and Industry and Kenya Association of Manufacturers provide support services to their members in the SME sector.

A lot of research has been carried out on the global development of the SME sector and the International Finance Corporation (IFC) says today SMEs are at the center of today the focus for facilitating development and therefore eradicating poverty in the world's developing countries.

Accordingly, the IFC has been developing the SME Sector, worldwide, through enabling the sector to access finances, information, capacity building and improved business-enabling environment. IFC's commitment has led to the initiation of a three-year pilot project, which initially consisted of establishing SME Solutions Centers in Madagascar and Kenya in 2004.

According to Kenya's economic blue print, the Economic Recovery Strategy for Wealth and Employment Creation, the country's government has recognized that high cost of engaging in productive activities, high cost of capital, lack of support services and weak institutions hinder the growth of SMEs.

A study conducted Fowler and Kinyanjui in 2004, *Indeginalising Foreign seed on African soil; The story of K-Rep* indicates that some small business have been able to link up and form merry go-rounds in the micro business sector and have been supported by micro financiers such as K-REP Bank.

This micro finance concept originates from the movement founded by Mohamed Yunus in Bangladesh in 1974. According to a book published Yunus, who won the 2006 Nobel Peace Prize, he witnessed abject poverty in his country and decided to initiate micro enterprise financing arrangements, which would help the poorest of the poor. This gave rise to the famous Grameen Bank in Bangladesh.

The national baseline survey of 1999 indicates that the Kenyan government set up specific institutions and programs to provide credit, training and technical assistance to SMEs. These include the Kenya Industrial Estates, the Export Promotion Council and Kenya Institute of Business Training. The problem is, however, determining the efficiency of some of these institutions.

Barclays Bank of Kenya Managing Director, Adan Mohamed

I conducted a study to analyze the impact of the Barclays Bank Business Club to the development of Small and Medium Enterprises (SMEs) in Kenya. The Club comprises of entrepreneurs who operate business accounts in Barclays Bank of Kenya, West Nairobi Group of Branches.

The research focused on examining the recent global developments of the SME sector. It further addressed the challenges faced by the sector and what is being done to alleviate them.

One of the major findings of this research is that most businesses under the Barclays Bank Business Club are still very tiny, majority of them employing five staff or less. This is an indicator of easy vulnerability to environmental challenges. However, the Barclays Bank Business Club initiative for developing small businesses has been successful.

Barclays Bank of Kenya formed its business account holders into a business Club in 2003. The main objective was to educate those entrepreneurs on good business practices and also enlighten them on the Bank's products, which are introduced from time to time.

Members meet once every three months at various venues as the bank may find convenient. Topics such as business registration, investment of business funds, customer care, arbitration as a way of resolving disputes, marketing practices, exploring export markets, asset financing, loan borrowing procedures and preparation of business plans are discussed in business club meetings.

At the meetings members also network, sometimes clinching business deals. Officers from the Kenya Revenue Authority have also been invited to advise members on the importance of declaring and paying tax as and when due. One of the main benefits enjoyed by the members is loans without collateral, limited to a maximum of &7,527(Ksh500, 000).

The business club has also organized group trips to Dubai, China and other destinations; enabling the members to benchmark themselves with other entrepreneurs outside the country.

The Barclays Bank Business Club had become a topic of discussion in business and social circles given its approach. Many customers have talked about the positive impact that this Barclays Bank initiative has had on their businesses.

To the best of my knowledge, however, nobody had come up with any empirical data to measure the impact of the Barclays Bank Business Club Initiative. This left a knowledge gap, which required specific research. New knowledge would add to what already exists on the Kenyan SME sector.

The study shed more light on new ways of developing the small businesses. One of the findings is that growth of small businesses results in alleviation of poverty, creation of employment and national wealth thus contributing to the improvement of human welfare.

Majority of entrepreneurs in the Barclays Bank Business Club are between 31 and 40 years. Further calculations generated a mean age of 38 years. This is an indication that they are still vibrant hence having impetus towards development of the SME sector, through continuous training.

Men dominate the gender of the Business Club Members. This probably can be explained by the fact that Kenya is a masculine country where men dominate in most spheres of life. The National Baseline Survey of 1999 indicates that the gender of business people is almost evenly distributed.

This research contradicted those earlier findings. This perhaps can be explained by the fact that Barclays Bank of Kenya has been seen as a bank for big business. In recent years customers from small business have been flocking into the bank in order to enjoy the Business Club facilities, which appear not to be available in other local banks.

Indeed, some members have indicated that initially Barclays Bank did not have good rapport with small business accounts holders. The Business Club appears to be contributing in changing this perception.

The entrepreneurs' cultural background is well spread throughout Kenya, except for Coast Province, which did not have even a single entrepreneur as a Barclays Bank Business Club member.

This is probably attributable to the culture of the coastal people being uncomfortable with the ever competitive and highly paced business environment associated with Nairobi, compared to Mombasa, the headquarters of Coast Province.

The research found that 52 percent of the Barclays Bank Business Club members have been in business for less than five years. Only 27 percent of the respondents had been in business for 10 years or more.

The short entrepreneurship experience is an indication that most of the entrepreneurs are not adequately prepared in handling business challenges, therefore the enthusiasm in learning from the Barclays Bank Business Club.

Indeed 53 percent of members of the Business Club were relatively new, majority being under one year in the club membership. This is evidence of the club being in the growth stage and therefore has a high potential of acquiring a captive market as the concept of Barclays Bank Business Club membership becomes entrenched.

The education level of the members of the Barclays Bank Business Club is quite impressive compared to what had been found in the National Baseline Survey. Only five percent of the members have an educational level not higher than primary school.

The education level of the members of the Barclays Bank Business Club is quite impressive compared to what had been found in the National Baseline Survey. Only five percent of the members have an educational level of primary school and below. This, like the youthful average age of 38, contributes to improved effectiveness upon training of the entrepreneurs.

The research also found that 55 percent of the businesses are still very small and employ between one and five people. The bigger picture is that if efforts are not made to enable the businesses to grow and create more employment, the global objective of poverty alleviation, employment and national wealth creation will not be achieved in Nairobi.

This research found that small businesses in Nairobi are involved in trading and services. A huge majority of entrepreneurs consequently talked of marketing, competition and financing as their main challenges. Perhaps this has resulted from most entrepreneurs engaging in similar businesses eventually leading to cut throat competition whose effect is perfect market for goods and services.

The competition leads to inability of businesses to generate working capital from internal sources. The effect is serious need for injection of working capital from external sources particularly from the bank. The youthfulness of the businesses further makes them even more vulnerable to competition and other external business environmental factors.

The research found that only five percent of the businesses are in manufacturing. Manufacturing involves high risks in terms of capital, technology and other resources. According to Small and Medium Enterprises Authority Publication of 2004, Pakistan, for example, has developed a strategy of promoting the SME sector through export business.

The strategy is helpful in enabling businesses to expand their market particularly where the products are unique. The South African Department of Science and Technology says the country introduced technology excellence and export achievement awards for the SME sector. These are indicators on how to address innovation and technology challenges and eventually benefit from the same.

Entrepreneurs of the Barclays Bank Business Club, the majority of who are relatively new in business no doubt may not have recognized these facts leading them to deal with the same products year after year thereby exposing themselves to un-competitiveness.

The entrepreneurs further complained of the bank's high lending restrictions. The National Baseline Survey came out with similar findings. The same is evident in Namibia according to a study conducted by Gaomab II in 2004.

A research carried out in Singapore by Grant Thornton in 2004 also found that more than half of the SMEs found access to finance a hindrance to growth of the businesses. The current research therefore finds access to finance to be a common problem for SMEs globally.

Technical knowledge, machine maintenance,

insecurity and high taxes were also common challenges to entrepreneurs as was also reported by the National Baseline Survey. Some members of the Barclays Business Club felt that the seminars were neither adequate nor deep enough in coverage.

The research found that there is need for more seminars on entrepreneurship and business development strategies, budgetary control, employee motivation and management of technological changes. These entrepreneurial training needs appear to be in line with the objectives of the IFC's comprehensive solutions of developing SMEs.

Extension of working capital facilities ranks highly as one of the suggestions on improvement of the businesses. This is a global need for SMEs as reported by the researches by Grant Thornton research, IFC, Gaomab II and The National Baseline Survey among others. The entrepreneurs' suggestion that the bank reduces interest charges on facilities and services is, however, internal to the bank.

The Business Club seminars have attempted to train people on for example registration of business and payment of taxes. This research noted that the entrepreneurs substantially improved on their compliance with statutory requirements. Only two percent of the businesses, for example, were found to be unregistered whereas 15 percent of the business had acquired the registration status during membership of the Business Club.

Only 23 percent of the businesses were found not to be paying taxes whereas 45 percent of them had commenced paying taxes earlier. Barclays Bank Business Club therefore is succeeding in sensitizing the businesses on the need to contribute to the national tax base.

Through training in the Business Club seminars and the provision of banking facilities, the businesses reported increased turnover and increased asset base. This is in line with the objectives of the World Bank Group with respect to global poverty eradication, through development of the small businesses.

The success of the small businesses is entirely the responsibility of the entrepreneurs themselves. They should realize that the work of the Government is to provide business-enabling environment.

This research noted that through the efforts of Barclays Bank Business club, 46 percent of the businesses acquired new employees. This again is an indication that the World Bank Group's objectives of employment creation through the small businesses are being achieved in Nairobi through the efforts of Barclays Bank Business Club.

According to an article titled Leadership challenges in small and medium enterprises by Nderitu Mureithi in the *Accountants Journal* of April 20023, management theory expects businesses to grow a middle management. Through the training efforts of the Business Club, this research found that 32 percent of the entrepreneurs have acquired managerial skills, which have enabled them to employ managers and supervisors to assist in running their business.

The joint overseas business trips organized for the members by Barclays Bank Business Club is an eye opener to the entrepreneurs. It is an opportunity to acquire new ideas, technology, markets and new approaches to business. The strategy may in the future result in production for the export market, which would reduce the impact of competition challenges in the local market.

Barclays Bank should note that, whereas financial needs of the small businesses are important, others like management of technological changes, innovation and marketing challenges also rank highly in the hierarchy of challenges afflicting the small businesses. Without addressing these other management challenges then, the finances themselves alone may not help. Some of the businesses may eventually collapse.

Barclays Bank should also be more involved in not only financial evaluation of the small businesses but also their business processes. Effectively, Barclays Bank Business Club training activities should be followed up with personalized attention particularly for those members who are provided with credit facilities. This approach appears to be highly embraced by the World Bank as evidenced by the activities of the IFC.

Other banks should use Barclays Bank as a benchmark and implement similar if not better measures of promoting SMEs. This will assure small businesses of continuity and growth. The banking sector is more in touch with small businesses than any other. It should therefore continually nurture the small businesses for the benefit of all the stakeholders.

Small Enterprises; Flexibility and Networking, a study by McCormick and Pederson on SMEs in Kenya intimate that the problems of SMEs are attributable to their sizes. To counter some marketing and management problems, the small businesses can be encouraged to go into joint ventures, strategic alliances and consortiums.

This unity will enable the small businesses to acquire major business opportunities from the government and major corporations. In the same spirit, the small businesses should be encouraged to venture more into regional markets and eventually global markets through pursuing exports oriented businesses.

The government should also encourage and support the idea of joint ventures, strategic alliances and consortia by small businesses. This way the SMEs will outgrow their sizes and become more and more relevant to the national and global economy.

The governments should further initiate deliberate policies of developing the entrepreneurial spirit right from primary school through to University as is the case in USA and Poland This will transform citizens from doing business when formal employment fails, as indicated in the National Baseline Survey, to a way of life.

The success of the small businesses is entirely the responsibility of the entrepreneurs themselves. They should realize that the work of the Government is to provide business-enabling environment. The entrepreneurs should remit the statutory dues to the Government so that this can contribute to improvement of the enabling environment even further.

Barclays Bank of Kenya has no responsibilities over the Club Members' businesses. It is in business just like the entrepreneurs themselves. The most the bank can do is to facilitate the success of the entrepreneurs' businesses only to the extent that it is also benefiting from the mutual relationship. That is basically the idea behind the Barclays Bank Business Club. Entrepreneurs should therefore take full advantage of the bank's efforts in developing their business..

The entrepreneurs should work out ways of uniting into bigger entities such as joint ventures, strategic alliances, consortiums or even business associations. In unity, they will be able to negotiate for better terms, better business opportunities and even better enabling environment with the government. They will also be able to penetrate the global market, which is the way forward for business today.

Manufacturing businesses should be embraced wherever possible. According to the research by Grant Thornton, in Singapore, six out of every 10 SMEs rely on the export market.

The entrepreneurs should engage in export-oriented businesses if they will continue being relevant in the continually changing global business environment. Entrepreneurs must realize that innovation and continuous improvement of their business is the key to continuity and growth.

In line with continually changing business environment, more so as a result of competition, globalization and technological changes, it will be necessary to undertake periodical research such as the current one.

This will enable all the stakeholders to comprehend changes in business trends and new environmental challenges. It will also enable them all to prepare new development strategies for the businesses.

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WORLD BANK GROUP PLEDGES TO STRENGTHEN GRASSROOTS BUSINESS

World Bank Kenya Country Director, Collin Bruce

BY ERIC OMBOK

THE World Bank, the largest development finance institution, and the International Finance Corporation (IFC), the bank's arm that deals wit the private sector, have re-affirmed their commitment to encourage the growth of small business and youth entrepreneurship in Kenya.

The commitment to increase support will be channelled through the Grassroots Business Initiative (GBI), a department of the IFC.

GBI is active in Kenya, supporting a number of Grassroots Business Organisations including the Kenya Business Youth Trust (KYBT), Uzima Foundation, K-Rep Development Agency (KDA) and Kenya Women Finance Trust (KWFT) among others.

The World Bank says Grassroots Business Organizations address a key market gap but often lack the basic business skills to become more efficient, sustainable and reach out to more people at the base of the pyramid.

"The objective of the Grassroots Business Initiative is to strengthen and expand the support for grassroots business, both by the World Bank Group and others," GBI Director, Harold Rosen says.

He says the initiative has used funding from the IFC to provide a defined cluster of grassroots business organizations with capacity building, technical assistance, business and market linkages and in some cases "patient capital" investments.

Some of the support given by GBI includes business development training, mentorship training, including its most recent business development training to youth applicants of