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**Université Blaise-Pascal – Clermont-Ferrand II
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Ecole doctorale Lettres, Sciences humaines et Sociales
CERAMAC**

The Role of Small and Medium Enterprises (SMEs) in small towns in Rural-Urban continuum: The Case of Sagana and Karatina in Mt. Kenya Region, Central Kenya

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February 2014

Declaration

I Ephantus Kihonge Wanjiru, hereby declare that this thesis is a product of my own four years research and where it is beholden to others, acknowledgement has been made.

Ephantus Kihonge
November, 2013

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This thesis marks an end of a blessed, educative, interactive, adventurous and successful 4 years learning period. This could not have been possible without the everlasting love and care of His Almighty God. He didn't only bless me with good health, personal will and journey masses, but also importantly, surrounded me with good and supportive friends for the entire time. These God sent friends contributed to this thesis but none so more, than my supervisors Prof. Jean-Charles Edouard and Dr. H  l  ne Mainet. As my supervisors, your enabling guidance, support and positive critique has taught me a lot in multidisciplinary scientific research. Your dedicated and committed efforts were instrumental from the genesis of this study in Mbale, Uganda, to field exposure and build up in Mbeya, Tanzania and in Nyeri, Kenya. You later followed with much support in shaping and organization of contents in Clermont-Ferrand, France.

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November, 2013

Abstract

Urban growth has ever been emphasized at the expense of equally important rural regions in many developing countries. This has resulted to over exploitation of the rural and an erosion of the much needed energetic and skilled labour force in the productive rural areas, as many youth migrate to the already overburdened cities in such for quality life. This has not only seen an escalation of urban poor due to hyper-urbanization, but also unbalanced and unsustainable economic growth. Rural-urban continuum is a new perspective for propagating sustainable economic development. The perspective calls for an integrated approach in analyzing the development of both rural and urban areas as opposed to taking the two as distinct. On the hand, devolvement of power and funds to local administrative units is known to enhance the rural-urban linkages.

Small and Micro-Enterprises (SMEs), are known to form significant nodes in rural-urban linkages. SMEs have transformed agricultural-led economies to industrial giants and their activities are always enhanced by a devolved political structure. This has been made possible by improving SME activities at the local administrative towns. Consequently, these SMEs serve as strong nodes which link the surrounding rural areas to Local, National and Regional Markets through forward and backward linkages. By strengthening and opening up opportunities for SMEs in these towns ‘virtuous’ circles of rural-urban economic linkages are created and ignited. These are important linkages in any industrialization process.

The study of the rural-urban linkages activities is still in development. This thesis therefore seeks to add to the literature by generating and documenting information on the role of SMEs in small towns in rural-urban linkages. With the dawn of a new constitution in Kenya, which calls for among other things a more devolved government structure, this is a timely body of knowledge to add. Kenya is an agricultural-led economy, hence the need to focus on small mountainous towns. The towns are surrounded by rich agricultural areas and are highly populated, making them busy hubs of mobility and exchange. Therefore, Mt Kenya region is the chosen area of study with SMEs in Sagana and Karatina towns chosen as centres representing small towns.

This study seeks to add to the body of knowledge by addressing the following four research questions: Due to their rural-urban linkage function, do SMEs in small town exhibits different characteristics to those of small enterprises elsewhere in the country lacking the linkage

function? What is the role played by SME in small towns in forward linkages, rural and regional development? What is the role of 'rural functions' in growth of SMEs in small towns? What the role of SME in small towns in backward linkages, rural and regional development?

Guided by previous experience in CREATING and CORUS programs, available resources (financial, human and time) and going by the fact that a number of small businesses remain unregistered in Kenya, we decided on a workable sample of 200 SMEs. This comprised of 130 SMEs from Karatina and 70 from Sagana. The study employed questionnaires, and data were analyzed using descriptive statistics. In depth insights into traders' perceptions and flow of resources was studied using case studies among the entrepreneurs in different SME sectors. Informant interviews were used to collect more data.

From the results, SMEs in small towns which are assumed to have a linking function did not show significance discrepancies from average characteristics surveyed at National level and also from comparison made from specific regions in Kenya. The few noted differences are more likely to be associated with the geo-social factors and the economical and political dynamics in the country. The lack of the special linking characteristics could be attributed to the findings in objective two.

Based on the study results, SMEs were found to play a relatively small role in forward linkages. Only 12% of goods and services coming to the small towns from the rural areas were forwarded by the SMEs, and only 25% of these goods found their way to other markets. The study established that some factors such as to the marketing chain created by the Farmers Sacco's, the use of Information and Communication Technologies, and contracting farming could be contributing to the poor show of SMEs in forward linkages. Other factors included; the poor road network to the rural areas and the history of agglomerated subsided space (market stalls and incubation stands). However, some factors such as the market and the highway were found to be important nodes through which SMEs linked the rural and national markets.

The rural functions in urban SMEs were found to be real and instrumental in entrepreneurship development. They were not only vital in business survival in low seasons but were also found have positive correlations with large capital base, high monthly turnover, increased access to loan facilities, and large size of the enterprise. Though this concurred with earlier theories that the rural agricultural activities could trigger the viscous circles of rural-urban linkages, the

current study established that such circles emerged strongly when there is direct link in ownership structure of the urban and rural activities.

Previous studies have shown that the rural-urban trade to be more than urban-rural trade. However, the current study shows the latter is almost three times more. The results could be said to differ in case where the point of focus is the small trader in the small town as opposed to a general urban-rural trade approach. Also the of nature the farmers markets could determine the flow pattern between urban and rural supplies. Karatina and Sagana markets behaved more of international markets, where most of the traded goods and supplies were not from the local catchments. This meant rural populace depended on the towns not only for manufactured goods and professional services but also for agricultural produce. A factor emphasized by the fact most of the agricultural activities in the rural hinterlands were small scale cash crop farming.

Thesis set-up

The thesis comprises of two main parts (1&2), subdivided into several chapters. **Part one** comprises the first four chapters. Chapter 1A presents and discusses the background to the thesis and presents the research problem and objectives and also the study set-up. Chapter 1B gives an over view of the Kenyan context in relation to political and economic developments. The chapter also discusses the SME sector and the status of the independence and link between urban and rural development in Kenya. Chapter 1C presents the dissertation literature review, taking us through the historical development and functions of rural-urban linkages. Also discussed is the entry of SMEs activities into cyclic cycles of rural-urban linkages. Chapter 1D discusses into details the methodology of the employed in the study.

Part two consists of four empirical chapters as guided by the four research objectives, with each chapter written in a standardized journal article format. Chapter 2A discusses the diverse and dynamic SMEs in a small town set-up as per research findings of Karatina and Sagana towns. Chapter 2B details the diminishing role of the SMEs in small towns in forward linkages and economic development. Chapter 2C discusses the rural functions in urban areas, detailing the importance of second income in rural areas in growth and development of SMEs in urban areas. Lastly, Chapter 2D details the significant role played by the SMEs in small towns in backward linkages and economic development, as show cased by the SMEs in Karatina and Sagana. The general conclusions are also contained in this section.

PART ONE

CHAPTER 1A

INTRODUCTION

Background

Rural-urban linkages have become a manifest of the process of urbanization presenting to us a new dimension of looking at poverty and analyzing development. It is now widely recognized that there exists an economic, social and environmental interdependence between urban and rural areas and a need for balanced and mutually supportive approach to the development of the two areas. The discrete consideration of rural development as completely different of the two areas is no longer valid. A new Perspective, referred to as *rural-urban linkages development approach*, is increasing becoming the acceptable approach. Rural-urban linkage generally refers to the growing flow of public and private capital, people (migration and commuting) and goods (trade) between urban and rural areas. It is important to add to these the flow of ideas, the flow of information and flow of diffusion of innovation (Okpala, 2003).

As Cecilia Tacoli, of Institute of International Development, points out, rural-urban linkages include flows of agricultural and other commodities from rural based producers to urban markets, both for local consumers and for forwarding to regional, national and international markets; and in the opposite direction, flows of manufactured and imported goods from urban to rural settlements. They also refer to the flows of people moving between rural and urban settlements, either commuting on a regular basis for occasional visits to urban-based services and administrative centers, or migrating temporarily or permanently. In addition, they also include the flows of information between rural and urban areas, which includes information on market mechanisms- from price fluctuations to consumer preferences-and information on employment opportunities for potential migrants. Financial flows are due, primarily, to remittances from migrants to relatives and communities in sending areas, and transfers such as pensions to migrants returning to their rural homes, and also investments and credit from urban based institutions (Tacoli, 1998).

In general, Linkages can be understood as spatial and sectoral. Spatial resource flow includes movement of people (rural to urban, urban to rural, rural to rural), goods (producer-market),

waste and finance. Sectoral linkages refer to the relationship between similar activities located in both rural and urban areas (Rondinelli, 1985).

Small towns have a considerable potential role in rural-urban linkages. The towns act as markets for farm produce from the surrounding rural region, either for local consumption or forwarding to the national and/or regional markets. They also act as 'nodes' for the production and distribution of goods and services to their neighboring rural region.

In Eastern Africa, the small towns, especially those located in highly populated mountainous areas play a big role in rural-urban linkages. The towns, which are surrounded by rich agricultural areas, are highly populated, making them busy hubs of mobility and exchange. They act as 'nodes', where services and connections to the wider world are provided. This plays a specific role as hubs of mostly non-farm activities where resources are exchanged and social changes take place (Creating7.net).

Therefore, the non-farm activities in these towns forms a way of entering the 'virtuous' circles of rural-urban linkages, which involves forward and backward linkages. These activities are provided by both large industries and the Small and Micro Enterprises sector (SMEs), with the latter dominating both in big urban centres and in a small town set-up in most developing nations. In Kenya, according to 1999 National SME Survey, there were a total 13Millions SMEs accounting for 76% of all the enterprises with a contribution of 25% to the Gross Domestic Product. More than two-thirds (66%) of these small enterprises were found in non-urban strata (small towns and rural areas). The employment within SME sector increased from 4.2 million persons in 2000 to 5.1 million persons in 2002, accounting for 74.2% of the total persons engaged in employment (GoK, 2003 Economic Survey).

Despite this general importance, there is little information available on the specific role played by SMEs in rural-urban linkages. Many earlier researchers either focused their attentions on the big urban centers or investigated SMEs from a general National perspective. This study therefore, seeks to add to the body of knowledge on the role played by SMEs in rural-urban linkages. This role is investigated using the case of Sagana and Karatina in Mt Kenya region in Central Kenya.

SMEs are seen as inefficient and vulnerable to being out-competed by larger industries that will access both urban and rural markets as trade liberalization and globalization proceeds. However, since there are certain productive activities that are not profitable for large-scale industries,

empowering and organizing the SMEs to increase their bargaining power vis-à-vis forming economically stronger groups, will see them take advantage of this niche markets.

As noted by John-Mary Kauzya (2009), a sustained economic development is an ingredient of having a more decentralized political structure in terms of power, funds devolvement and people's participation AND sustained rural-urban linkages. This is further emphasized by Tacoli, who notes that, Local governments and other local actors are best placed to identify local needs and priorities and provide an adequate response to them. Local decision-making can help avoid the neglect of forward and backward linkages between agriculture (rural) and services and manufacturing (urban).

Understanding the role of the SMEs in rural–urban continuum will be a step in forward towards filling the ‘missing middle’ lead to a better understanding of the operations and dynamics involving small entrepreneurs in small towns and the impact of their spatial orientation and economic environment on their activities. Such information will be of significant importance in forming a framework for policy interventions in growth and development of economic activities at the local town level, which is an important aspect in sustained National development.

Main Objective of the study

The main objective of the study is to generate information and document the contribution of SMEs in small towns in rural-urban linkages, rural and regional development.

Specific objectives

1. To investigate the general and specific characteristics of SMEs sub-sectors in a small town
2. To determine the role of SME in small towns in forward linkages, ruraland regional development
3. To investigate the role of rural functions in growth of SMEs in small towns
4. To determine the role of SME in small towns in backward linkages, ruraland regional development

Theoretical Concept

The study on rural–urban linkages has explicitly depended on a virtuous circle of growth model (Mellor, 1976; Friedmann and Douglass, 1978; Evans, 1992 and Douglass, 1998). The virtuous

circle model takes note of inter-sectoral (farm–nonfarm) and inter-settlement (spatial) dependencies. There are two (2) theories have been proposed on how to enter and propagate the virtuous circles of rural-urban linkages.

The first one is through the agricultural activities in the rural areas. The proponents of this theory (Friedmann and Douglass, 1978) maintain that agricultural development is the key to overall development. According to the theory rising agricultural incomes spur demand for food and other consumer goods, which leads to the creation of non-farm jobs and the diversification of urban activities, especially in small towns close to areas of agricultural production. This in turn absorbs surplus rural labour, raises demand for rural produce, and once again boosts agricultural productivity and incomes.

Evans (1992) and Mellor (1976), the proponents of the second theory, point out that agricultural growth cannot result in rural–urban development. This is because of the poor’s access to farmland and the fluctuations of output prices.

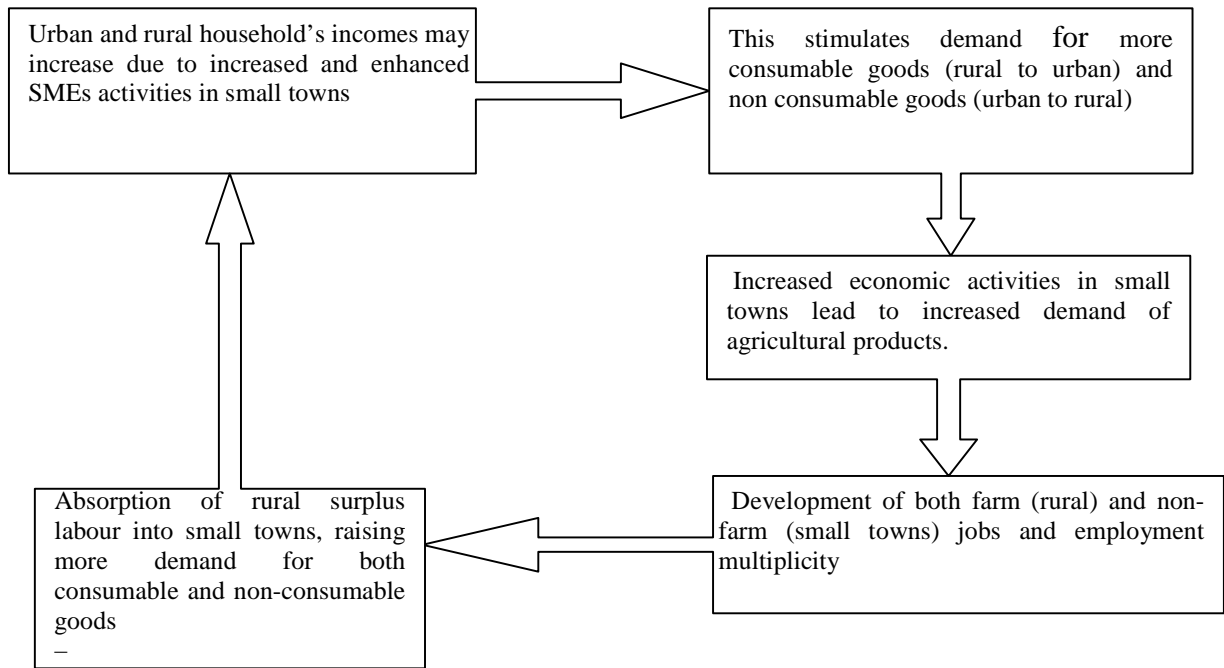
Proponents of this theory hold on evidences which suggest that agricultural areas have, and even specialize in small non-farm activities which are commonly in nearby small towns. From the theory, though large industries in big urban centres are better positioned to take over rural markets, there are certain productive activities that are not profitable for large-scale industries. Hence small entrepreneurs in the small towns and neighbouring the rural agricultural areas can take advantage of these niche markets. The theory establishes main questions relating to the small enterprises in these small towns are: 1) How to link them to larger, growth-oriented enterprises in semi-urban/urban areas? 2) How to assist in these enterprise developments in the context of macro-policy changes, including trade liberalization?

The theory concludes in overall, the small enterprises in the small centres neighbouring the rural areas can provide an option as an entry point to the cyclic circles of rural-urban linkages. However, it continues to state that the specific entry points will be dictated by local conditions, but whatever entry points are identified for a particular region, a few conditions need to be met in order for the region to have a set of efficient economic linkages. One of the main conditions is to analyse their spatial dimension. This is so because different villages and towns develop mini-specializations such as pottery, dairy products etc. Such activities have the potential for production and marketing linkages, the spatial span of which can cover multiple villages and towns.

Entry point of SMEs/current study into the virtuous circles

This study borrows from the second theory with assumptions/inputs are as illustrated in Figure 1 and further explained in Box 1.

Figure 1: SMEs and the ‘Virtuous’ Circle of rural- urban linkages



Source: E.Kihonge

Box 1: How Decentralization can accelerate SMEs activities vis-à-vis rural-urban linkages

Decentralization may lead to enhanced rural-urban linkages by triggering the SMEs activities in small towns. This may occur if the devolved funds and power goes a long way in promoting the local entrepreneurs in small towns through creation of local, regional and international market of mostly consumable goods from surrounding rural areas. This will imply increased income for both urban and rural households. The economic benefits of the small town can then be expected to reach the rural household either through direct buying of agricultural goods or remittances to the rural households by immigrants. Whether this money is enough or if at all is put into agricultural investment is open for debate. However, assuming economic benefits trickling into rural areas is put into good use; this will also lead to increased agricultural activities. Increased economic activities in both rural areas and in the small towns will lead to jobs and employment multiplicity. This will in turn lead to increased demand in both areas of the respective compliment goods and services and absorption of surplus labour especially from the rural areas and thus increased entrepreneurship in small towns and the virtuous circles goes on.

In Kenya, assuming the 15 percent of the national budget that will be going to the regional Counties is put into good use with respect to economic potentials of the respective regions and with interest of the local entrepreneurs at heart. This will imply more opportunities of the local business community in terms of increased tenders, contracts and consultancies, which together with the extra administrative jobs in the locality should trigger the SMEs activities at the village towns. A move that will result to increased income for the town households and therefore increased demand of goods and services at this level. The economic boom in the towns can eventually be expected to spill over to the surrounding rural households either by direct buying of agricultural goods for local, regional or national market or through remittances. Assuming these benefits trickling into the rural areas are put into good use; this will lead to increased agricultural activities which will see to the need of agricultural processing in the village towns due to increased demand. The processing will mean creation of more non- farm employment and therefore absorption of surplus labour from rural areas, which will stimulate further the Entrepreneurship in the towns and the cyclic circle, will go on. This eventually leads to sustainable rural-urban linkages which mitigate the effects of economic liberalization by strengthening the local industrial base.

However, this will only be possible if efforts are put in place especially at County level in promoting these Entrepreneurs to access local, regional and international market of mostly consumable goods. This will see the SMEs take advantage of among other things, the newly ratified Eastern Africa Community Economic bloc which brings on board a vast market of over 100 million consumers. A move that will be oiled by having a political leadership in our Counties whose, individuals and party manifestos clearly address the vertical and horizontal growth of the sector at the village town level.

Source: E. Kihonge

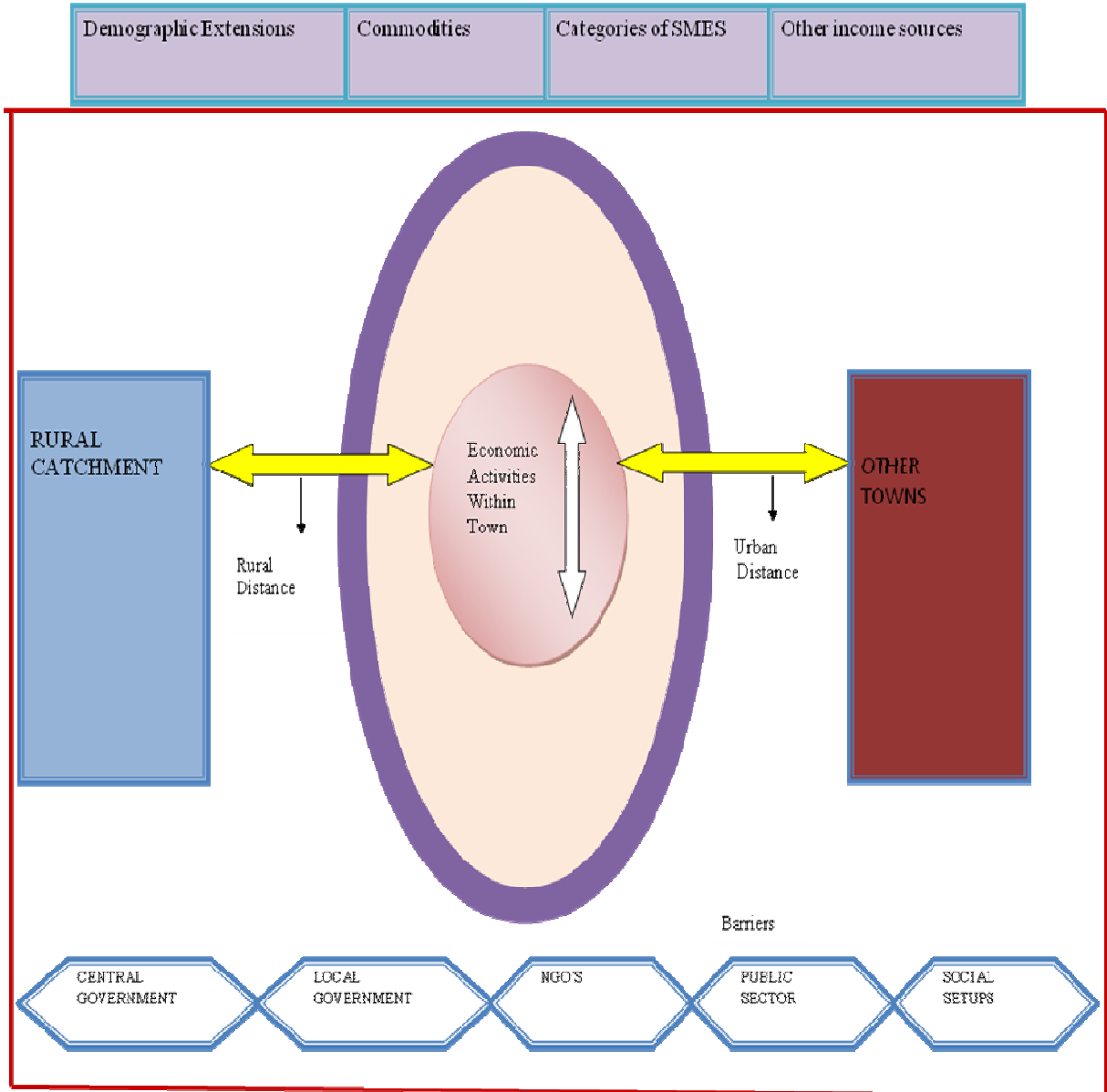
Conceptual framework

This section presents the conceptual framework (Figure 2) that seeks to capture the main components of the theory of SMEs and rural-urban linkages. The conceptual model cannot claim to be exhaustive. Inevitably, any framework is an oversimplification of a complex reality and should be treated merely as a guide or a lens through which to view the world (Owuor, citing Rakodi, 2006). The study is concerned with the role of SMEs in small towns in rural-urban linkages with a focus cum comparison of Karatina and Sagana. To unravel the concept, the study analyses the following: 1) Inter town trade- represented by double ended arrow inside the center section. The SMEs in the towns are expected to trade among them and also provide goods and services to the town dwellers. 2) Town-rural trade and town to regional and national markets; the towns are not expected to be self sufficient in terms of customers and supply, they must therefore rely on their surrounding rural areas and other towns.

The double ended arrows to the left of the centre section, represents the rural interactions with the small town, in terms of: how large and far is the rural catchment, which are the commodities in the either side of trade, main transport means and comparison of volume of trade to and from rural sources. The right arrows compare the same things with respect to regional and National markets i.e. which are these towns that the town in question rely on, how far are they, which commodities are traded, transport interconnectivity and a comparison of total volume of trade with these towns. 3) In running their daily activities the small business owners encounters a number of challenges (barriers) and interacts differently with other stakeholders. The barriers are reflected by the big oval which cuts across all the types of trades (inter town, rural and trade with other towns) and both towns. 4).

Stake holders which may influence the business/owner in one way or the other includes: Central and local governments, Non-governmental organizations, Public sector and family social settings .All these stakeholders are placed at the far bottom of the main frame. 5) Trade activities which over loops the small town and connect the big urban centers and the rural towns directly. 6) Lastly, how a trader goes along the business activities (either in rural trade, town to town trade or inter town trade),the barriers faced, or the kind of interaction with the identified stakeholders, may be influenced by some overall factors. The overall factors identified in this study are; demographic character such as gender, age, marital status and education level. Categories of SMEs: Manufacturing, Service or Trade. The factors are placed at the far top of the main frame.

Figure 2: Conceptual Frame Work



Source: E. Kihonge

The study set-up

The research problem originated from the researcher's earlier involvement with a collaborative project "Co-operative research on East African territorial integration within globalization" (CREATING). This project aimed at creating, developing and strengthening a social sciences and humanities research network bringing together scholars and institutions from the European research area with colleagues and partner institutions from a number of eastern African countries. The project addressed four major themes: 1) Resource management and livelihood sustainability; 2) Human dimensions of environmental (including climatic) change; 3) Mobility and identities; 4) Urban-rural linkages and development. The last theme, which involved human dynamics in mountainous regions in E .Africa, formed basis of the current study. While the studies under this theme mainly focused on town services offered to the farmers by various public, private, government and non government organizations. This study deals with specific group in urban areas under the 'private' organization i.e. the SMEs and does not restricts itself to the farmers but takes into account all the groups and individuals in both rural and urban areas. The researcher also gained to a large extends from CORUS (Coopération pour la recherche universitaire et scientifique) program. With field exposure in Mt. Rungwe in Tanzania, Mt. Elgon in Uganda and Mt. Kenya region, this is the current study area. It follows therefore that the scope of the study and choice of the study area are within the CREATING and CORUS aims and objectives.

Methodology

The study not only focuses on the SME as the unit of analysis, but also addressed the complexity of rural-urban linkages and economic development using an analytical framework, which combined spatial and sectoral dimensions of rural-urban linkages. A combination of quantitative and qualitative research methodologies was used to gather both primary and secondary data. Qualitative data were collected on variables like actor's characteristics, key SME sectors and flow of people and resources. This was done using a structured questionnaire.

In depth insights into traders perceptions and flow of resources was studied using case studies among the entrepreneurs in different SME sectors. Documentation and informant interviews were used to collect more data. Triangulation methods like combing observation with interviews were used to improve accuracy of the data collected.

CHAPTER 1 B

OVERVIEW OF THE KENYAN CONTEXT AND PRESENTATION OF THE STUDY AREA

The purpose of this chapter is to present an overview of the Kenyan context. Highlighted are the political, social and economic developments since independence which have shaped the current National Development. Also discussed are the economic reforms that were initiated by both International community (World Bank and IMF) and the government of Kenya with the aim of increasing the rate of economic growth in the country. Also discussed is the SME sector in Kenya with a focus on the growth and constrains of the sector in the Kenyan economy and its underlying issues. These includes: the pivotal role of the sector in the Kenyan economy with a comparison of other countries, the challenges facing the sector and current Government interventions. Lastly, the chapter points out the status of the interdependence and the link between urban and rural development in Kenya.

The political environment

Kenya has an area of: 580,367 sq. km. (224,080 sq mi.) and is located in the Eastern part of Africa. According to the Kenya National population and Housing Census, 2009, the country had a population of 39 million people. Kenya was colonized by the British from early 20th century until 1963 when it gained independence. The country was a de facto one-party state from 1969 under the founding president, Mzee Jomo Kenyatta. The system was reinforced by his successor, Toroitich Arap Moi, until 1991 when Multi party democracy was introduced. In 2002, Mwai Kibaki became the third president of Kenya and went ahead to contest for a second term in office in 2007 general elections. The elections were marred with violence which resulted in over 1,300 deaths and at least 600,000 Kenyans being internally displaced from their homes. International mediation saw the two warring camps agree to power sharing resulting in the formation of a *Grand Coalition government*¹. However, an inquiry to the violence was set up in 2008 and after

¹President Kibaki agreed to share power with the main opponent, Raila Odinga on 50:50 basis, with Raila being the prime minister.

six (6) months of investigations, names of suspects who were believed to have taken the greatest responsibilities in the violence were taken to International Criminal Court (ICC) at The Hague, Netherlands. This was after the Kenyan Parliament voted down a bill which was to see the suspects tried locally. In 2011 the ICC confirmed charges of four (4) out of six (6) suspects. Among the four were Uhuru Kenyatta, the son of the first Kenyan President and William Ruto (a die heart supporter of Raila in the 2007 elections which were marred by violence). In the General elections of 2013, only months before the start of their cases at The Hague, the duo united under the *Jubilee Coalition*², and defeated the CORD coalition lead by the former Prime Minister Raila Odinga, thereby making history of forming the first government in Kenya under the new constitution and being the first democratically elected leaders facing charges at the International Criminal Court. At the time of writing this thesis, everyone was curious all over the world how the International Community and the ICC will handle the convicted two whose hearings were meant to start in week's time.

The economic environment

Kenya is the largest economy in the larger Eastern Africa (which entails; Uganda, Rwanda, Burundi and Tanzania) and acts as a major trade, financial and transportation hub in the region. In the first 10 years of independence (1963 to 1973), Kenya registered rapid economic growth with Gross domestic product (GDP) growing at an annual average of 6.6% (Government of Kenya, 1999). This was largely attributed to the increase in public investment, encouragement of smallholder agricultural production, and incentives for Foreign Direct Investment. Agricultural production grew by 4.7% annually during the same period, stimulated by redistributing estates, diffusing new crop strains, and opening new areas to cultivation (Government of Kenya, 1999). A darling of the west at Independence and at par with the so called tiger economies like Hong Kong and the rest, Kenya under Mzee Jomo Kenyatta was particularly in good books for choosing the mixed economy model as opposed to Tanzania's *Vijiji vya Ujamaa*³ under Julius Kambarage Nyerere (John Nyaosi, 2008)

²Jubilee Coalition-this is a political movement formed by Uhuru Kenyatta and William Ruto who were facing charges at the ICC, with Kenyatta being the presidential candidate and Ruto the Deputy President. The coalition was mainly supported by the two warring communities in the 2007 violence (Kikuyu and Kalenjin) and was viewed by many as an escape option to the ICC indictment of Uhuru and Ruto who had gained massive sympathetic support from their populous communities.

³ *Vijiji vya Ujamaa*-socialist communes in Tanzania introduced by Julius Nyerere

Subsequent to the reasonably high growth rates during the 1960s and 1970s, the country's economy began to decline drastically in mid-1980s with economic growth registering -0.3% in 2000 (Thaker and Cowan, 2001). The poor economic performance was largely due to inappropriate agricultural, land, and industrial policies compounded by poor international terms of trade and governance weaknesses. Increased government intrusion into the private sector and import substitution policies made the manufacturing sector uncompetitive. The policy environment, along with tight import controls and foreign exchange controls, made the domestic environment for investment unattractive for both foreign and domestic investors. The Kenyan Government's failure to meet commitments related to governance led to a stop-start relationship With the International Monetary Fund (IMF) and World Bank, both of which suspended support in 1997 and again in 2001 (www.state.gov).

During President Kibaki's first term in office, the economy recovered from a low growth of 0.5 per cent in 2003 to 7 per cent in 2007. As a result of the strong growth performance, real per-capita income increased at an annual average rate of 3 per cent while poverty declined from 56.8 per cent in 2000 to 46 per cent in 2006 (GOK,2008). This was after the Government began an ambitious economic reform program known as Economic Recovery Strategy for Wealth and Employment Creation, 2003. The government also managed to resume cooperation with the World Bank and the IMF. However, the economic effects of the violence that broke out after the December 27, 2007 general election, compounded by drought and the global financial crisis, brought growth down to less than 2% in 2008. In 2009 there was modest improvement with 2.6% growth, with somehow a great recovery in 2010 when economy grew by 4.5%.

In 2008, the country adopted Vision 2030, a new development blue print covering the year 2008-2030. The reform aims to transform the country into a newly industrializing "middle income" country providing a high quality life to all its citizens by year 2030. The adoption of blue print came after a successful implementation of the ERS in 2003 which saw the country's economy back to its path. Accelerating growth to achieve Kenya's potential and reduce the poverty that afflicts about 46% of its population will require continued deregulation of business, improved delivery of government services, addressing structural reforms, massive investment in new infrastructure (especially roads), reduction of chronic insecurity caused by crime, and improved economic governance generally (www.state.gov). The government's Vision 2030 plan calls for

these reforms, but realization of the goals calls for more concerted efforts from all stake holders and more so increased accountability and transparency in the government.

In 2010, Kenya promulgated a new constitution which called for among other things devolvement of funds and power to the grass roots. According to the constitution, 15 percent of the national budget will be devolved to the 47 identified regional Counties. This is a considerable amount of moneys considering the national budget allocations have been increasing considerably since 2003, with a historic Ksh 1 trillion mark in 2011. This is a giant step forward which should go hand in hand with emphasis on rural-urban linkages to achieve a sustained national development. With the new constitution dispensation in Kenya, this is a timely body of knowledge to add.

Structural Adjustment Programs (SAPs)

Since the increase in oil prices in 1973 the living conditions of the Kenyan people as those of most African countries have been on the decline. This was made worse by Global economic crisis of 1970s, presenting more economic challenges and hardship to Kenyans. In order to cope with these challenges, government adopted the Structural Adjustment Programs (SAPs) inspired by the World Bank and the International Monetary Fund (IMF). The adoption of SAPs was to restore efficiency in all sectors of economy and consequently raising rate of economic growth. Specifically, the reforms involved economic liberalization, privatization and a general restructuring of the government's role in the economy.

Economic liberalization brought about: price decontrols, foreign trade liberalization, decontrol of domestic marketing of agricultural commodities and decontrol of interest rates and foreign exchange rates. Several studies on the effects and consequences of SAPS reveal negative effects on the economy such as inflationary pressures, marginalization and increased unemployment. These effects have been felt to date.

According to World bank UNDP 1993 report, there is now almost unanimous agreement among intellectuals and policy makers in and outside Africa continent that orthodox adjustment programs, as advised by the IMF and World Bank are not working. This has seen most of African governments, Kenya included, trade accusation with the two Bretton Wood institutions (IMF and World Bank).

The Kenyan government has always urged that, SAPs are based on economic models that do not fit Kenya social structure. Also there has been a controversy on piling condition and objectives on the programs from the World Bank and IMF has resulted to economic liberalization of the Kenyan economy.

Small and Medium Enterprises Sector in Kenya

The Kenyan informal sector usually operates on small-scale, locally and at a subsistence level. They have fewer employees (especially home-based enterprises), they operate for a shorter period, and have poor access to water and electricity and few sell outside the establishments where the entrepreneurs live (World Bank, 2006).

In Kenya, the informal sector is referred to as *jua kali*, which literally means fierce sun in Swahili. The name stems from the fact that the workers in the informal sector work under the hot sun beating on their heads and backs, while working on metal, wood or selling wares on the streets. The work involved is harsh and hard usually done under harsh conditions unsuitable for labour-neither regulated nor safe (Nabuteya, 2007).

These enterprises cut across all sectors of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction. Therefore SMEs serve as hot-bed for entrepreneurship and they are seen as vehicles for development (Bwisa, 2002). Majority of SMEs are micro enterprises with fewer than 10 employees, while 70 per cent of them are one person, own account workers. This infers that majority of SME entrepreneurs are operating at the bottom of the economy, with a significant percentage falling among the 53 per cent of Kenyans living below the poverty line of US\$ 1 per day. The latter are largely for subsistence and engage in economically uncompetitive activities both in the urban and rural areas.

Income from the SME sector is ranked lowest among other sectors of the Kenyan economy, but they are vital to the livelihoods of many urban and rural poor. Micro trade activities are sometimes referred to as 'survivalist' enterprises-they allow entrepreneurs to survive with hardly any savings (Mitula, 2003). *One of the study objectives is to compare the SMEs characteristics at the general National level with characteristics exhibited by SME in small town set-up which have the rural-link function.*

Challenges facing SME sector in Kenya

There are various challenges that have continued to have negative impact on the growth of SMEs in Kenya. These challenges include but may not be limited to poor infrastructure, insecurity and high cost of energy. There has also been unfavorable investment climate occasioned by poor governance, institutional failures, macroeconomic policy imperfections and inadequate infrastructure, as well as rampant corruption, bureaucratic red tape, weak legal systems and a lack of transparency in government departments (APRM, 2007).

On financing, there are several sources of credit access in Kenya ranging from commercial banks to micro finance organizations and informal savings groups. However, SMEs have continued to face challenges related to accessing credit. Commercial banks are still bargaining with the issue of collateral. Due to limited land ownership status in Kenya (Property Rights in Kenya), entrepreneurs are unable to provide the necessary collateral needed for loan requests. On the other hand, the informal savings group which includes Savings and Co-operative Societies (SACCOs) and *chama*⁴ are financially ill equipped and though they provides loans at friendlier interest rates, the members are far much limited to the amount they can borrow. According to a survey done on employment and income in SMEs in Kenya in 1999, the number of enterprises that had accessed credit remained low at 10.8% (Daniels *et al.*, 1999).

Table 1: Credit access in Kenya

Ever received credit?	Female	Male	Total
Yes	15.4%	5.2%	10.8%
No	84.6%	94.8%	89.2%
Total	100%	100%	100%

Source: K-rep survey, 1999

Though women form the majority of the entrepreneurs, they are hardly hit due in credit access due to their traditional roles in the family and discriminating property ownership in the African set-up. According to ILO report published in 2008, “Factors affecting Women Entrepreneurs in

⁴*Chama*-swahili word for a group of people with common interests. It is mostly used in Kenya to imply an informal business groups. About one-fourth (26%) of the SMEs owners belongs to a particular *chama*. They have become popular in the country such that Commercial Banks are coming up with innovative *chama* account.

Micro and Small Enterprises in Kenya”, women make up nearly half of all Small and Medium Enterprises owners and 40% of smallholder farm managers, yet they have less than 10 percent of the available credit and less than 1 percent of agricultural credit. Despite the fact that some provisions have been made towards gender mainstreaming, there is much more that could be put in place.

On Policy issues, the journey towards SME policy formulation by the Kenyan government has been long. The government’s commitment to foster the growth of Micro and Small Enterprises (MSEs) emerged as one of the key strategies in the 1986 report: Economic Management for Renewed Growth. It was reinforced as a priority in the 1989 report, The Strategy for Small Enterprise Development in Kenya: Towards the Year 2000. This report set out the mechanisms for removing constraints to growth of the MSE sector.

In 1992, the government published the MSE policy report, Sessional Paper n°2 Small Enterprises and *Jua Kali* Development in Kenya. The report was reviewed in 2002, leading to a new policy framework that provides a balanced focus to SME development in line with the national goals of fostering growth, employment creation, income generation, poverty reduction and industrialization. However, though these efforts are commendable, these are but perhaps baby steps compared to the task that lies ahead, namely unlocking the full potential of the SME sector to spur and sustain economic growth. For there to be long lasting changes, it is imperative for there to be concerted efforts starting at the policy level especially when it comes to issue identification and solution architecture.

This is because, like in many developing countries, there have been considerable mountains of policy publications, data and research yet the problems still remain. Realizing that the present grinding poverty does not give would be entrepreneurs the capacity to focus and upscale their enterprises since they are concerned with meeting their very basic needs - food, shelter and sustenance, reducing the divergence of policy proposals and the reality on the ground then, is perhaps the remaining policy challenge that stands in the way of Kenya reaping the full benefits other countries such as India and Brazil are currently enjoying as a result of a robust SME sector. As later discussed in this chapter, Kenya is ill equipped with Entrepreneurship policy which would otherwise address business start-up and incubation for ‘shooting’ and later vertical and horizontal growth of SMEs.

On the other hand, there has been complains regarding tedious registration and certification processes in Kenya. Various bodies have their requirements and require money and time. One option left to an entrepreneur is to evade the process but this proves more expensive at the end because of penalty given. For instance, for an entrepreneur running chemical related business, a certificate is needed from the Ministry of Health or similar authority to show that the products or services offered have been analyzed and found to be safe. The authorities may also require the product to conform to legal standards regarding composition.

In the SME sector, practical skills are being developed at low cost and with financial support; various types of small scale technology could be developed for labour-intensive enterprises that could absorb hundreds of young job seekers. However, those who run the businesses in this sector lack adequate business skills mainly attributed to low levels of education. It is not sufficient to know how to produce a high quality product. The producer must also know how to sell it effectively and how to control the financial side of the business and in doing that the entrepreneur must be skilled in business.

The acquisition of relevant vocational, technical and business skills is generally regarded in Kenya as one of the critical factors necessary for growth and development of micro and small enterprises (Namusonge, 2005). During the last fifteen years a multiplicity of capacity building and training programs to develop Small and Medium Enterprises (SMEs) sector have been unveiled by governments, non-governmental organizations and Micro-Finance institutions in developing countries. However these measures place a high priority on developing indigenous private sector to participate and lead in future economic growth. A related and equally pressing issue is raising the ability of the rural poor to sustain economic sustainability activities for their survival (World Bank Report, 2004).

Entrepreneurship training with its attendant features like innovation and efficiency can be harnessed to mitigate the harsh impact of inequality, through unraveling and promoting the kinds and levels of interconnectivity between urban and rural lifestyle, and their contribution to social well being and local development. This can only work where economically active groups especially the youth, are given entrepreneurship exposure and basic business training mainly in post secondary education aimed at promoting rural entrepreneurship. Therefore, policy option for rural entrepreneurship program that is founded on rural enterprise conscious education system should be formulated and implemented. The system will create a favorable environment for the

learner to respond more effectively to technology and economic change and equip them with key aspects in rural enterprise development (Kihonge, 2011).

Since the year 2000, a number of suggestions have been raised with the most appropriate being to revise the secondary curriculum to incorporate skills into business studies syllabus and introducing profiles of successful entrepreneurs and enterprises in English literature.

However, this can only be a long-term solution as it involves a lot of time, money and does not expressly address the currently nagging situation. An effective, more spontaneous and affordable strategy would be to introduce entrepreneurship mentoring/motivation and training for youth groups in the community and entrepreneurship clubs in schools. This strategy would enable youth individuals and groups to visualize income opportunities in their communities and outside, and seek to tap into them. The schools clubs on the other hand will nurture entrepreneurship spirit among students at an early age and therefore promote budding of nascent entrepreneurs (Kihonge, 2011).

AIDS also threatens the survival of small and medium enterprises (SMEs). Recognizing that HIV/AIDS is as much a business issue as a development and humanitarian concern, the International Finance Corporation (IFC), the private sector arm of the World Bank group, aims to promote the involvement of the private sector in the fight against the disease through its IFC Against AIDS program.

Since 2000, the program has worked with more than 30 client companies in Africa, and South Asia to develop, implement, and manage effective HIV/AIDS programs within their workplaces and surrounding communities. In Africa, where SMEs account for the majority of the private sector, IFC against AIDS has developed a training program to build the capacity of these businesses to mitigate the impact of HIV/AIDS on their operations. The program is working currently with 30 SMEs across Kenya, South Africa, and Mozambique (Conner, 2000).

Efforts in Progress

Government Policies

The Government has made tangible efforts in creating a positive economic environment, and there is need to ensure this is sustainable by strengthening institutions of governance and improving the fight against corruption. To effectively achieve economic growth, and actualize the efforts aimed at poverty alleviation; the micro and small enterprises should be financially

assisted and proper policies put into place. The recent Government of Kenya (GoK) move to simplify business licenses, the ongoing efforts to amend the Companies Act, the enactment of the Investment Promotion ACT (2004) introduces new opportunities for indigenous Kenyan entrepreneurs. On the same line, the Government's Sessional Paper n°2 of 2005 on "Development of Micro and Small Enterprises for Poverty Reduction" (GoK, 2005) has been aimed at improving role of SMEs in matters of policy formulation on issues that affect their growth.

However, access to and awareness of such legislations as well as other legal business requirements and information has remained largely confined to elitist business leaders. Rural entrepreneurs in provinces, districts and other towns may not have access to such investment information, which they could take advantage of. This is particularly true for small-scale entrepreneurs, who, not being well informed of the necessary legal business requirements they should adhere to with respect to their enterprises, may often feel that they are harassed by local authorities. Many local entrepreneurs prefer to run their businesses in an informal state, which hampers their potential for growth, expansion and innovation. This also prevents them from taking advantages of the incentives provided by the government for formal investment businesses (GoK, 2005).

The Economic Recovery Strategy Paper for Wealth and Employment Creation (ERS) 2003-2007 identifies SMEs and in particular *Juakali* expansion as one of those activities that will assist in economic recovery and growth. The publication of Sessional Paper n°2 of 2005 on "Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction" is one of the most important current government efforts to develop the MSEs sector. The Act sets policies for developing the MSEs. Some of these policies include, among others: Continued legal and regulatory reforms in the sector; Harmonization of trade licensing and regulatory services; Decentralization of business registration to the provincial levels and eventually to district levels; Quickening the process of business registration; Reforming and enforcing the local authority Act to limit and maintain its essential regulatory powers; Formulating and implementing a MSEs Act to provide a framework for implementing the MSEs policies; Improving market and marketing opportunities for MSEs both locally and internationally, through improved business linkages, increased participation of MSEs in public procurement and increased subcontracting, among other initiatives; Increasing financial services

to MSEs; Promoting gender equity by increasing equal access to financial services for women and men, empowering women, improving gender access to education, technology development and entrepreneurship; Reforming the tax regime to improve its transparency and efficiency, strengthening tax collection and harmonizing the tax system (GoK, 2004).

Kenya is also pursuing regional economic integration, which could enhance long-term growth prospects. The government is pursuing a strategy to reduce unemployment by expanding its manufacturing base to export more value-added goods to the region while enabling Kenya to develop its services hub. In March 1996, the Presidents of Kenya, Tanzania, and Uganda re-established the EAC. The EAC's objectives include harmonizing tariffs and customs regimes, free movement of people, and improving regional infrastructures. In March 2004, the three East African countries signed a Customs Union Agreement paving the way for a common market. The Customs Union and a Common External Tariff were established on January 1, 2005, but the EAC countries are still working out exceptions to the tariff. Rwanda and Burundi joined the community in July 2007. In May 2007, during a COMESA summit, 13 heads of state endorsed a move to adopt a COMESA customs union and set December 8, 2008 as the target date for its adoption. On July 1, 2010, the EAC Common Market Protocol, which allows for the free movement of goods and services across the five-member states, took effect. In October 2008, the heads of state of EAC, COMESA, and SADC agreed to work toward a free trade area among all three economic groups with the eventual goal of establishing a customs union. If realized, the Tripartite Free Trade area would cover 26 countries (www.state.gov).

Other stakeholders' efforts

The World Bank is ready to support Kenya's broad-based vision for the year 2030, unveiled by President Mwai Kibaki on 3rd November, 2007. The work plan underway is to build a broad-based vision for the year 2030, which aims to transform the economy and achieve sustainable growth. The vision for Kenya's future is encouraging and many regional banks share the country's objective of reducing poverty by creating opportunities for the poor by making institutions stronger. The World Bank is ready to continue supporting the Government of Kenya to make Vision 2030 a reality. However, the bank is also keen to see Kenya intensify reforms on governance and on the fight against corruption.

In the journey towards revitalizing a well oiled SME sector, the Kenya Local Government Reform Program (KLGRP) has been particularly relevant. This was spurred 1999 with a deliberate policy priority focusing on reducing poverty and unemployment going hand in hand with accelerating economic growth.

The KLGRP reforms had three components: improving local service delivery; enhancing economic governance; and alleviating poverty. These objectives were to be achieved through increasing efficiency, accountability, transparency and citizen ownership and on the practical side, removal of unnecessary regulatory barriers and the reduction in costs of doing business. In particular, the government initiated two nation-wide reform efforts, namely: the Single Business Permit (SBP) and The Local Authority Transfer Fund (LATF). The SBP was a response to business licensing problems faced by SMEs in the start up phase as they had to get multiple licenses before opening shop draining the initial business inertia.

Alongside Government led efforts of change, there has also been international support towards the SME sub-sector. For instance the International Finance Corporation (IFC) along with the Central Bank and the ministry of Finance has been working hand in hand to establish a credit reference bureau that should benefit SME entrepreneurs (mostly women). This reform could enable Non-land Assets to be acceptable as collateral.

According to a 2007 Kenya Women Finance Trust (KWFT) report 'Improving Access to Finance for SME: International Good Experiences,' removing the obstacles to financial access for SMEs requires that commercial banks, micro-credit institutions, community groups and Business Development Service (BDS) institutions work closely together. Pushing for agreements between financial bodies and BDS suppliers can help make up for lack of capacity and reduce costs by more efficient division of labour.

The BDS supplier makes the initial choice of projects on a purely technical basis and the credit institution looks at financial viability. Making loans to intermediaries (NGOs and federations of SMEs) with the job of allotting funds to members can also help cut administration costs. Solidarity between banks, especially setting up inter-bank financing to pool money to be invested in SMEs should also be considered as a viable option in reducing the extra risk of lending to SMEs. This will address simultaneously the twin issues of accelerating access to finance and reaching the unbanked.

An interesting case study in the banking sector has been Equity Bank. There is no doubt that the bank is one that has stood the test of time in aiding the sub-sector. The recent announcement by the bank to support SMEs in the country following a shilling 4 billion loan from China serves to solidify its commitment revolutionizing the SME sector. This loan facility will be available to SME clients at interest rates of between 7 and 9 percent for periods of 3 to 7 years, making it the cheapest source of funding for the sector in the country. Perhaps this is a wakeup call to other financial institutions to develop the courage beyond the shores and launch out in to the sea too.

Government efforts have also been unwavering. The proposal by the government to set up a revolving fund to provide low interest loans to small and medium enterprises is another red signal to commercial banks to lend on easier terms. Looking at the 2010/2011 budget that hit Ksh 1 trillion reveals some of the intended projects. Under the theme “towards inclusive and Sustainability Rapid Economic Development” the 2010 Budget set an ambitious target of spurring growth in every part of the country. The move by the government to support growth in SMEs sector is a new re-awakening based on what can be viewed as a gradual realization of the inherent potentials in the sector in spurring economic growth. The budget incorporated SME factor as a move towards revitalizing the sector - having been allotted a Sh3.8 billion credit line. By all means, this amount is small to cater for the needs of all players in the massive SME sub-sector. As if to fill the much-felt SME gaps, the government has also initiated other programs to support the sub-sector. For instance, through *Jitihada*⁵ Business Plan Competition, the government undertook a training program for entrepreneurs under the Micro, Small and Medium Enterprises competitive project in the Ministry of Industrialization.

Implemented by the Kenya Institute of Management, Jomo Kenyatta University of Agriculture and Technology and TechnoServe, the plan seeks to identify growth oriented and innovative business ideas that can be nurtured into vibrant and sustainable business enterprises. It is also meant to provide participants with innovative ideas, expert coaching and individual mentorship to help them develop and refine their business plans.

Therefore, more policy initiatives definitions towards revitalizing the SME sub-sector should not only be government engineered, but also enjoy the input of all stakeholders in all sectors of development. The effort from both private and public sector towards reinforcing the existent

⁵*Jitihada*: swahili word for “put effort”.

SME policy provisions is highly recommended based on the fact that all appear to recognize the SMEs' critical role in spurring not only self sustenance but also the country's economic boom.

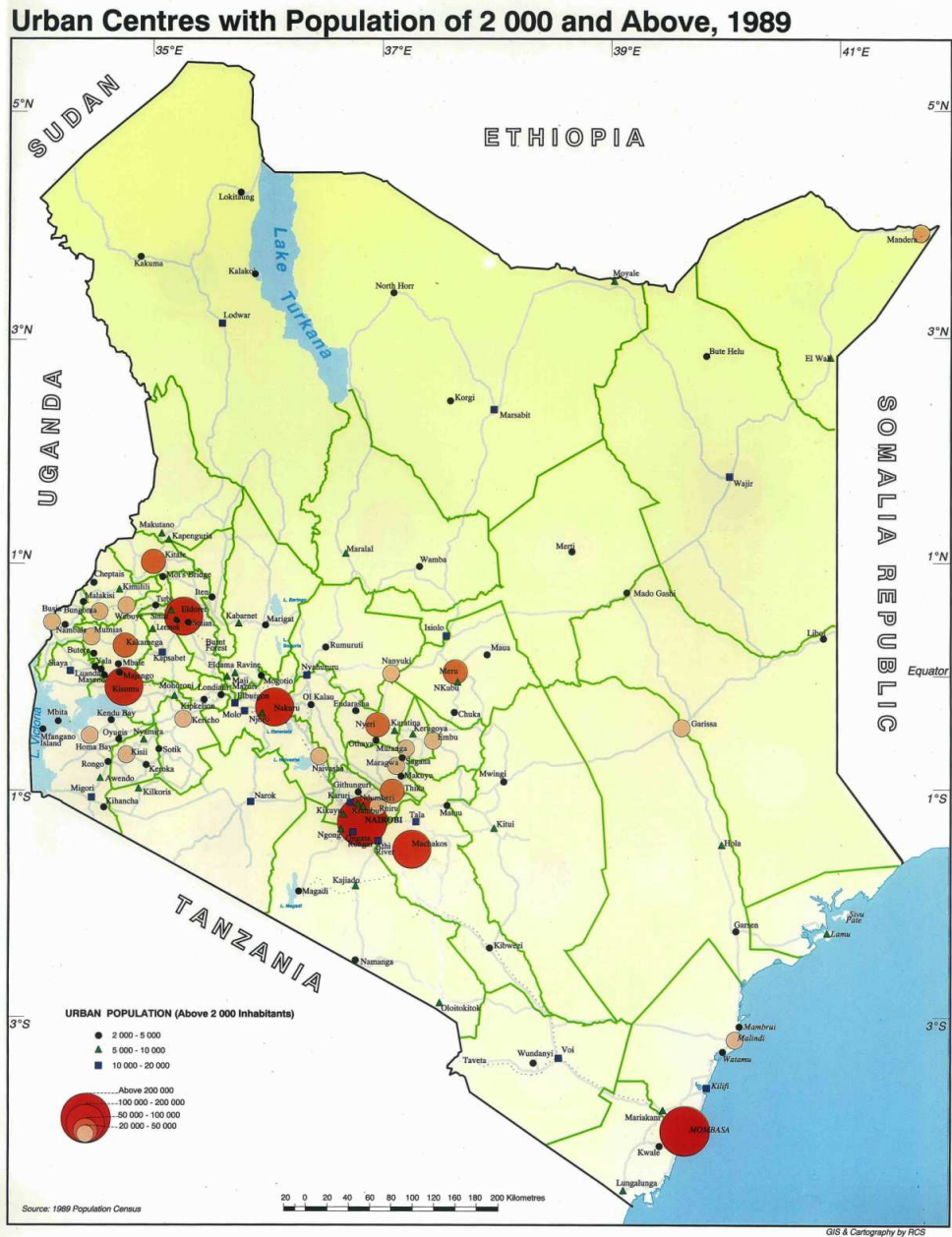
Rural-urban linkages in Kenya

In Kenya like many developing countries, the interdependence and the link between urban and rural development is rarely appreciated by development practitioners and policy makers. One of the major reasons that hamper the achievement of sustainable development in the country is the absence of a well-functioning system in small intermediate towns that would otherwise contribute to rural transformation. It is also important to note that rapid changes in population growth in the country, particularly within the rural-urban fringes are changing community dynamics and seriously challenging the development policies and systems of governance. Many of the past government development polices, strategies and systems of governance in Kenya treated rural and urban development as independent, unconnected sectors with planning separating the two into urban and rural administrative units (G.O.K, Urban Development Policies, 2008).

A simple glance at the size-class distribution of Kenyan urban centers suggests a lopsided urban development, which is dominated by the primate city. There are also wide discrepancies in terms of the level of urbanization and the size-class distribution of urban centers across regions and between zones and even within a given region. Moreover, urban centers in the various size-classes are not functionally integrated and, as a result, the complementary relationships that exist among them are far from being satisfactory. There is evidence of hyper-urbanization whereby the largest urban centre (Nairobi) is about 4 times bigger than the next largest urban centre (Mombasa), with the former alone accounting for 47.5 per cent of total national GDP (GoK, 2006 & 2008-Kenya Country Reports to 3rd & 4th World Urban Fora). This dismal picture is also replicated in the regions and their respective administrations, whereby provincial and district headquarters are emerging as dominant urban centers within their respective regions.

The functional specialization of the country's urban centers is at an infant stage and only few of them can be categorized as intermediate towns that can offer a possibility to support the development of manufacturing and related activities. As a matter of fact, the economic base of most urban is dominated by public administration and a variety of service related activities.

Map 1: Urban centres in Kenya



Source: www.kenyalaw.org

Thus, they serve in the main as vehicles for almost one way flow of resources from rural to urban areas. Both rapid urbanization process and the spectacular physical growth of towns have emerged as major development planning issues in Kenya. The country's urbanization has proceeded at a tremendous pace over the past four decades and projections indicate that it is set to grow even further in the next few years.

In 1962 it was estimated that only one Kenyan out of every 12 lived in urban centers. By the year 1999, the proportion of the urban population had increased to 34.5 per cent which is close to 10 million people. This implies that one out of every three Kenyans lived in urban areas. By the year 2015, the level of urbanization will have reached 44.5% with an estimated 16.5 million people living in urban areas and eventually percentage is set to reach 54% by 2030 with about 23.6 million people living in urban areas (Vision 2030).

The country also lacks adequate number of urban centers that can generate meaningful development impulses to their hinterlands. Many rural areas, particularly the arid and semi-arid areas that are predominantly inhabited by pastoral communities, are out of the purview of urban influence due to the near absence of urban centers. On the other hand, the resource potential of many regions could not be exploited due to the absence of the requisite urban-based socio-economic infrastructure and services (G.O.K, Urban Development Policies, 2008).

In Kenya, poorly developed horizontal linkages have weakened the effectiveness of transmission in the rural areas as the efforts of various agencies have suffered from lack of co-ordination. This is due to the fact that the spatial systems were those built by the colonial governments which were not always conducive to the development of the country as they tended to gear towards extraction from rural areas (Muendo, 2004).

According to Government of Kenya Report on national urban development, the function of the county's urban center is at an infant stage and only a few of the towns can be categorized as medium sized that can offer a possibility to support the development of manufacturing and related activities. The classifications of the towns with respect to population and functions in Kenya are shown in Table 2 below.

The economic transformation process in Kenya has resulted in the unequal distribution of wealth; hence the social stratification as demonstrated in Kenya. There is inter-sectoral dynamism in the Kenyan economy. There is accumulation of wealth in a small part of the

modern sector which is supported by the politicians on one hand; while on the other hand, there is a development of an impoverished and economically deprived modern subsector.

The slums are a modern phenomenon in Kenya, such as in Nairobi, Mombasa and the other urban centers and are as a result of the increased wealth disparity and income differences between the different economic sectors. The urban areas attract the rural migration as they are seen to offer jobs. However, there is a slow growth of high-wage employment while the migration of job-seekers continues to rise, leading to emergence of a low income periphery. This low-income periphery is established just outside the wealthy urban zone where it provides goods and services to the wealthy population and also the low-income population (Nabuteya, 2007).

Table 2: Functions and definition of towns in Kenya

Broad Classification		Government Functions			Private Sector Functions		
“Functional Class”	Pop. Range (1000)	Loc. Gov. status	Admin. Function	Education institutions	Manu- facturing	Agro- processing	Agro- marketing
National Cities (2)	>500	City	Provincial HQ	University			
Principal Towns (6)	70-200	Municipality		College			
Intermediate Towns (6)	30-70	Town Council	District HQ	Technical or Vocational school			
Small Towns (27)	10-30	Urban Council	Division HQ				
Rural Centres (97)	<10	--		Second. School			

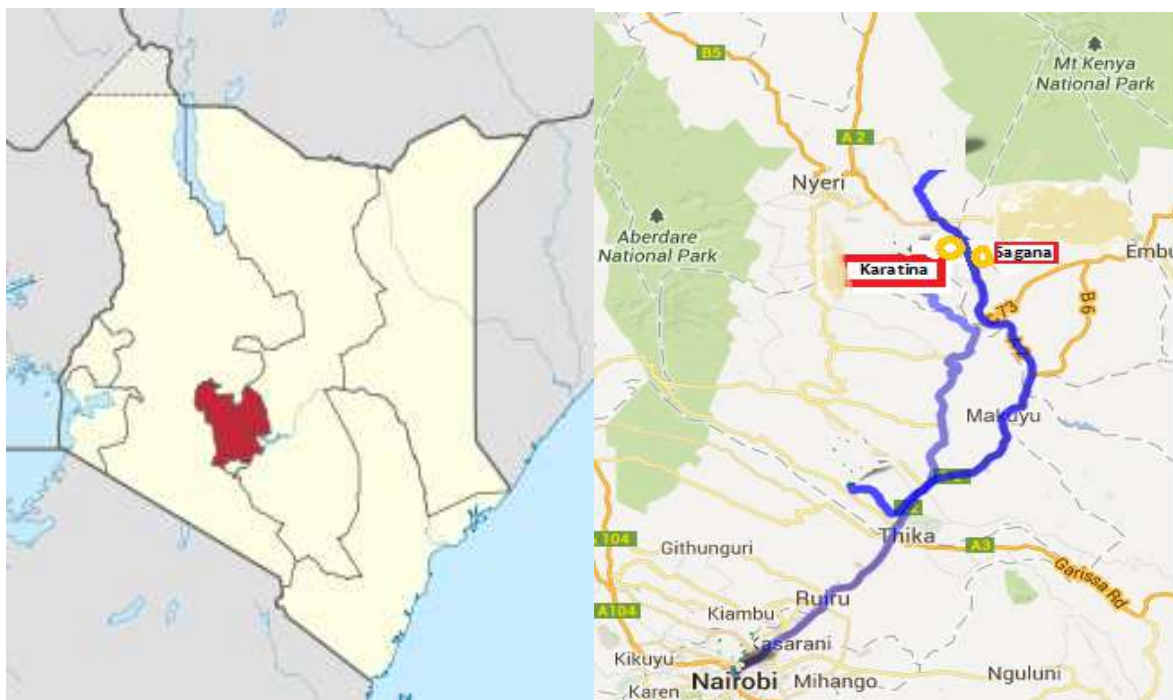
Source: Based on the basic classification parameters considered in a policy study for the development of small and intermediate towns in Kenya (2003)

Study area

Mt Kenya region in Central Kenya is the chosen area of study with Sagana and Karatina representing small towns. Selection of the site (Sagana and Karatina towns) and their

surroundings is based on accessibility of the area, the level of urbanization and the level of interface between the rural and urban settings. Sagana and Karatina are sandwiched between Mt. Kenya (to the North) and Aberdares ranges (to the South) and forms part of the former ‘white highlands’. The highlands were most preferred by the British colonizers due to their high land fertility and good climate. The British mainly practiced large scale farming, however, today, the land has a hereditary landownership structure and is subdivided into very small fragments as it passes ownership from one generation to the other. This has resulted to small scale farming of mainly tea, coffee, dairy and horticultural farming in the rural areas.

Map 2: The study Area



Source: Google maps-slightly adopted to fit to the current study

On the left is the former Central Province, on the left is a sub section of the province which details the study area (Sagana and Karatina) with reference to big urban centers (Nairobi, Thika and Nyeri) and the proximity of the small towns (Sagana and Karatina) to both Mt. Kenya and Aberdare Ranges.

Karatina is a town in Nyeri County, Central Kenya. It is located on Nairobi–Nyeri highway, 20 kilometres south of Mt. Kenya. According to Kenya National population and Housing Census

(2009), Karatina is considered as an urban area under a municipality with a population of 8,228 inhabitants. The town is an important market centre, centrally located and connected with good road networks to major towns like Nyeri, Thika, and Nairobi and to Nakuru by extension and to smaller nearby towns which includes; Muranga, Sagana, Keroguya and Kirinyaga. A transect walk in Karatina town reveals an active economic environment, with diverse economic activities. This is reflected by the many commercial banks, traders and farmers' Saccos.

The town hosts Karatina Market, one of the largest open air markets in East Africa. The Market is famous for its fresh fruits and vegetables and operates on Tuesdays, Thursdays and Saturdays, with Saturdays being the busiest day. According to statistics from Chief Revenue Officer in Karatina, the town had 3,302 registered SMEs in 2011. The total collections from business permits, market fees and stall rent totaled Ksh 40 millions in 2010.

Photo 1: An aerial view of Katarina Market



Source: en.wikipedia.org/wiki/Karatina

Sagana is a smaller town than Karatina in terms of economic activities. The town is 100 km North of Nairobi. It is situated at the edge of a large plain at southern foot of Mt. Kenya and falls

under Kirinyaga County. According to Kenya National population and Housing Census (2009), Sagana is considered as an urban area under a Town council with a population of 9,889 inhabitants. Sagana is a relatively smaller town in terms of trade activities and had 400 registered SMEs. Transect walk around the town reveals fewer and dispersed businesses activities as compared to Karatina, The town is surrounded by rich agricultural hinterlands, where small scale farming of high value crops, cash crops and dairy farming. The town hosts Sagana market which is also a smaller market compared to Karatina.

Due to its strategic position, Sagana serves as a 'gateway' to the larger Mount Kenya region (Kirinyaga, Nyeri, Muranga and Embu). The town is home to several storage and Distribution Depots of economic products that serve Mount Kenya region. Among them is Kenya Breweries depot, Kenol-Kobil fuel depot, Kenya Planters Cooperative Union depot and National Cereals Board depot. According to a report obtained from the Town Council's office the total revenue collected from SMEs in 2010 totaled Ksh 14.5 millions.

Karatina Town

*Karatina*⁶ town is situated at the heart of Mt. Kenya region in Central Province, Nyeri District. Karatina lies approximately 125km north of the capital City of Nairobi and around 22km from Nyeri town. The town has some of the best view points of Mount Kenya and the Aberdare Ranges.

Location and Size

The town is strategically placed at the hub of efficient road network linking it to Sagana, Murang'a, Thika and Nairobi in the South, Kerugoya, Embu, and Meru in the East, Nyeri to the West and Nanyuki to the North. The Nairobi-Nanyuki railway passes through the town. It has a potential for future economic development. The Ragati River also flows through the town and provides the town's urban water supply. Commuters use car, bicycle, and motorbikes and foot

⁶*Karatina* is a diminutive term for Muratina (Squash/Corjet) tree. The town was founded before the British Colonization of Kenya by Gikuyu women who used to trade their crafts and food under a corjet (muratina) tree. Women would direct each other on where to sell or buy merchandise under the *Karatina*, which is the smaller term for Muratina (*The history is an integration form from Karatina Municipal Website and Wikipedia free online Dictionary, all downloaded on 2nd March, 2011*).

even though there is a rail service from the City and Nanyuki Town. Languages spoken are predominantly Kikuyu, Swahili and English. The town hosts Karatina Market in sub-Saharan Africa. The Market is famous for its fresh fruits and vegetables and operates on Tuesdays, Thursdays and Saturdays, with Saturdays being the busiest day. In the rural catchment, people practice small scale tea, coffee, dairy and horticultural farming.

Topography and Geology

The town lies on a plateau directly below the southern side of Mount Kenya. It is fed by radially flowing hills and streams running from Mount Kenya towards the lower slopes of the mountain that are marked by the river Tana, the longest river in Kenya. Despite that Karatina is near Mt. Kenya there are no large hills or mountains nearby as the town is on a plateau. The general terrain surrounding Karatina are small rolling ridges and valleys, which assures proper drainage. There are no known swamps in the area. The present landscape in Karatina originates from the repeated faulting and lava outpouring. The town's area and environ is covered mainly with volcanic soil, which are fairly rich in organic matter and quite fertile. This soil is also suitable for all types of buildings.

Climate and Weather

Karatina is located primarily on the upper midland and lower highland zones of Nyeri District. Although situated near the Equator, due to its mountainous environ, Karatina enjoys a very moderate climate throughout the year. It has annual temperatures of between 17 to 21 degrees Celsius. The annual rainfall pattern is typically for the highland equatorial zone of Kenya and varies from 750mm to 1,750mm. There are two rainfall seasons i.e. long rains from March to May and short rains from October to December. The altitude above sea-level is around 1,761m. This makes the area ideal for all types of agricultural production.

Sagana town

The most vivid history of Sagana town can be traced back to 1922 when the national railway was constructed by the British East Africa Company. There after the town began as it functioned as a pathway for local merchants and agriculturalists accessing the rail yard from vast areas of Mount Kenya. Sagana town function was intended to be a trading zone for Kirinyaga, Nyeri, Muranga,

Embu and Nairobi because it is at the crossroads of the districts. Sagana can be termed as the gateway to Mount Kenya. International truck road A2 connecting Nairobi to Addis Ababa, Ethiopia passes through Sagana. Sagana railway station provides the closest accessibility link point to Embu, parts of Nyeri, parts of Muranga, parts of Meru and the whole of Kirinyaga district.

The major marketing facilities for cereals cultivated in central province are concentrated around Sagana. The National Cereals Produces Board (NCBP) offer storage facilities for surplus cereals in Mount Kenya region. Kenya Planters Cooperative Union stores and milling facilities cater for coffee producers in Kirinyaga, Embu, Nyeri and Meru.

Sagana tanneries process hides and skins for export and for local markets. The factory was started in 1976. Extensive Rivers, streams and canals running across Sagana support intensive agricultural activities. Sagana fish culture farm which is the second largest in Africa produces fingerlings which are sold in the whole country.

Conclusions on the chapter

Rural-urban linkages have not been fully accepted in Kenya, this may be one of the ill doings that have resulted to unsustainable development in the country. This has resulted from rapid increase in urban population caused by amplified rural-urban migration which has led to hyper-urbanization and increased urban poor. For a sustained development, there is need to enhance the rural-urban links in the Country, this will build a well-functioning system that will strengthen the small intermediate towns that would otherwise contribute to rural transformation. This would call for understanding the dynamics and operations of the SMEs especially with the aim of strengthening this important sector especially in the small and intermediary towns.

The sector has been affected by regulatory requirements ranging from colonial period, which the government assumed till the dawn of SAPs in 1990s. Though the government has put a number of measures to revive the sector since 2003, there still remain some apparent obstacles in the path of growth of small and medium enterprises in Kenya. These include political instability, financial constraints, energy crisis, taxation problems, labour issues and HIV/AIDS epidemic.

CHAPTER 1 C

DISSERTATION LITERATURE REVIEW

Introduction

The literature review presented in this chapter takes us through the evolution of rural-urban linkages in the context of political and administrative government structures in the world, and more so in Africa. It gives the factors that have necessitated the metamorphosis from traditional government systems to Decentralization system over the years. The literature further reveals the loop hole in decentralization and the need to bring on board rural-urban relations to mitigate the effects of globalization in the developing world.

Since rural-urban relations mostly takes place between small towns and their rural hinterlands, the chapter discusses the SMEs as the important but neglected node of forward and backward linkages in a small town. The chapter discusses the entry point of SMEs activity into the cyclic circles of rural-urban linkages and brings on board the different types of linkages and how SMEs plays part.

Historical evolvement of the ‘rural-urban linkages’ concept

In all countries, the historical economic and political geography over long periods of time corresponded to traditional forms of distributed authority, limited to small territories and regions, and supported by mutual-aid arrangements at the village level. Much of this historical social and territorial structure was abolished at a later stage in history when the importance and power of the national government was consolidated. In Europe, the emergence of the modern nation state in the 19th century took place as the culmination of a long process of political and economic changes over several centuries (Manor, 1999: viii).

Although vestiges of older traditions (feudal roots, monarchic patterns, and early free city states for example) can still be traced, the modern state in Europe has been consolidated for so much longer than in most of the so-called developing countries. So in any Asian or African country today, the super-imposition of “old” and “new” economic and political patterns is usually much more visible. Colonial powers had demonstrated the strength of centralistic government and planning, which then became a model for the newly independent nation states after the end of the

colonial era. Centralization later became the model for development of the emerging nations in Africa, Latin America and Asia, and was reinforced by donor agencies, including the World Bank” (Manor, 1999: viii). After ten or more years of experience with this model, governments began to be worried about growing inequalities and their effect on political stability. So they realized the importance of regional and more comprehensive approaches which gave birth to decentralization. This has brought a change from “top-down” to more localized, participatory, and generally “bottom-up” administration and planning (UN Habitat, 2002)

Decentralizing ensures good governance by means of a long- term learning process with an emphasis on capacity building of local governments and full participation of the local society. Political and administrative decentralization can lead to paradigm shift from an “unbalanced urbanization” to “balanced urbanization” where the surplus of the agriculture labour can be absorbed by the growing urban employment market resulting mostly from rural-urban migration. Empirical studies show that the concentration of urban development on the capital city is correlated with the concentration of political power in a central government. As a European comparison, France (with Paris as a primate city region) has a much more skewed urban development than Germany and Italy -more dispersed pattern of city sizes due to late consolidation of the nation state and decentralized form of government (UNDP report, 2002)

Since 1990s, African countries have been undergoing political and administrative reforms sought to break with the past colonial and centralized structures through decentralization of power to the local government. Decentralization is being favoured as the most suitable mode of governance through which poverty reduction interventions can be conceived, planned, implemented, monitored and evaluated.

According to World Bank, stock taking report, 2002, Kenya, the country on focus in this study, was ranked 3rd most decentralized country in Africa after South Africa and Uganda. Increased decentralization is expected in the country with the promulgation of the new constitution in the year the 2010⁷. The question is whether decentralization alone, will facilitate greater participation of the communities in problem analysis, project identification, planning, implementation, as well as oversight which will increase ownership and the likelihood of sustainability of such initiatives.

⁷ Decentralization enhances rural-urban linkages which are in turn enhanced by empowering and organizing the poor to increase their bargaining power vis-à-vis forming economically stronger groups.

The shift from decentralization

The mere fact of opting to for decentralization shall not by itself ensure that the population effectively participates in its development which is the ultimate goal of a good of decentralization and governance. It is important to set up mechanism reassuring the participation of the population. A good development paradigm paradoxically combines localism (democratic decentralization, participation, non-government forces) and globalization (foreign direct investment, market liberalization, information/communication technology) into a peculiar “glocal” amalgam. Both put emphasis on local sustainable development and the revival of the rural-urban linkages (Kauzya, 2009).

Globalization as cause and effect of an increasingly ‘borderless world’ has added direct global linkages to the scenario of regional and international relations between North and South, urban and rural, rich and poor. Within the 1990s, foreign direct investments (FDI) have grown enormously to become one of the most important factors in national development, including urban-rural relations (Friedman and Douglas, 2003).

An overview of rural urban linkages

According to David Satterthwaite (1986), many poor households have livelihoods that draw on rural and urban resources or opportunities. Urban and rural areas are closely linked, each contributing to the other, which needs to be considered in development planning. Many fast growing cities are within areas with the most rapid increase in the value of agricultural production. For instance, the urban centers serving areas producing: high value fruit or vegetables, coffee or tea and other high value crops such as silk cocoons. Factors relating to agriculture influencing the prosperity of most such urban centers includes: the value per hectare of the crops (the higher the value, the more local urban development), the potential for local value added and the scale of forward and backward multiplier linkages AND lastly the land owning structure with the perfect stimulus to local urban development being lots of prosperous relatively small farms growing high value crops.

Urban areas are very important to rural households. They are not only as sources of demand for rural produce but also important for rural households as: Funding flows for rural development as many migrants to urban areas help support development in the rural settlements from which they moved; Accommodation and access to jobs or schools for rural family/kin/fellow villagers;

Refuges for some of the poorest rural dwellers; More diverse labour markets and employment opportunities for those in nearby rural areas; Access to many different branches of government (including access to justice) and many public services(Satterthwaite,1986).

On the other hand, rural areas are very important for many urban households. A proportion of the urban poor derive some/all of their livelihoods from meeting rural demand, many poor urban dwellers rely on seasonal employment in agriculture, many poor urban dwellers move back to rural areas when times are particularly hard, many urban dwellers have relations with rural dwellers to guarantee their food supply. Many urban dwellers also retain key assets in rural areas and rely on rural dwellers to protect their land, crops or livestock or to provide their children with homes or even access to schools when urban schools are bad or expensive.

Mugambi (2004) ascertains that, to tap the positives of both rural and urban areas for development there is need to have a synergetic relationship between the two. Both rural and urban areas, looked at separately, have their positives and limitations. Hence both the pro-rural and arcadian view and the Pro-urbanization view are self-limiting. The rural-urban continuum view brings in synergy in rural-urban relationships. The justification of the rural-urban continuum views list in the visible and invisible flows and interconnections, or linkages, between rural and urban areas. Exchanges of goods between urban and rural areas are an essential element of rural-urban linkages (Tacoli, 2004).

Households increasingly rely on rural and urban- based resources for their livelihoods. For low-income groups, this is often a survival strategy to make ends meet by engaging in a variety of activities. For higher income groups, investment across sectors of activities and between rural and urban areas, for example by acquiring farmland with income from trade or urban-based employment, as is an accumulation strategy to increase assets and income (IIED, 2001).Rural-urban linkages are can be explained in terms of economic linkages; social-cultural linkages; political linkages; and administrative linkages (Owuor, 1995 and Obudho, 1999, as cited by Mugambi, 2004).

Types of rural-urban linkages

Rural-urban linkages mostly lead to rural-urban migration. Whether this migration is beneficial to rural areas again is a point of debate, but what are evident are the social-cultural linkages as the immigrants still maintains ties with their rural homes and rely on village mates to settle in the

towns and therefore creating cultural networks. The increased economic activities in urban areas, implies an environment concern both in the immediate environment and now inseparable rural. These linkages are discussed below.

According to Rondinelli (1985), there are seven types of rural-urban linkages with a large number of 'elements' (see Table3). Some of these types and elements are straightforward, such as physical and economic linkages as well as service delivery linkages. However, it should be noted that the relatively simple, ideally 'symbiotic' relationship of small rural towns and their agricultural hinterlands, shown in the table, does not hold when regional networks and their linkage patterns develop and become more complex.

Regionally, there would be considerable differences in such patterns, due to added backward and forward linkages. Several types of rural- urban linkages can be identified in Kenya; economic linkages physical linkages, population movement linkages, social linkages, technology linkages, social delivery linkages and political and administrative linkages. In economic terms three types of rural-urban linkages are usually distinguished: consumption linkage (demand for final products), production linkages 'backward' or 'forward' supply of inputs among business, and financial linkages e.g. rents extracted by urban landlords, remittance by migrants and rural savings channeled through urban institution (Muendo, 2004).

Economic Linkage

Rural-urban linkages create an avenue for stimulation of rural economies to growth, spread the benefits or urban development and transform a "rural to urban center" migration pattern to the reverse. The linkages enhance a wide variety of consumer goods, commercial and personal services to be offered.

Urban centers provide a central location for retail, commercial, administrative and transport service both for agricultural producers within their rural hinterlands and for their own internal population. According to Mugambi (2004), rural and urban areas are linked by the exchange of processed and unprocessed products, with both areas acting as markets for each other. In this two way relationship, urban markets provide a powerful increased rural production, while expanding rural markets provide a powerful incentive for increased production of urban manufactured goods. Another important aspect of economic linkage is the provision of employment

opportunities in non-agricultural occupations – mainly in the ‘jua kali’ sector for small and intermediate size urban dwellers send part of their income back home, to the rural areas as remittance. SMEs actors exist in six out of seven types of linkages (see Table 3) and interact directly or indirectly with the 7th element (political administrative and organizational linkages) forming a significant base in the current study.

Short term and permanent migration of people from rural to urban areas or from urban to rural areas is an important form of urban rural linkages. The lifting of restrictions of population movement of Africans to towns by the colonial government in the early 1960s and the opening of the formerly closed Europeans farming areas in the Kenya highlands to Africans were the two most important factors that opened from the rural areas to the urban areas and from one rural area to other areas. The wide disparities in living standards and income opportunities between backward rural areas and more progressive urban centres largely accounted for the widespread rural to urban migration in Indonesia and the high growth rates of city populations (Muendo, 2004).

As population migrates from rural areas, the latter have to rely more heavily on hired labour for family farm activities. Such reliance rationalizes urban-rural remittances, but where they are not made the effects on rural households could be devastating. Also where the remittances take advantage of investment in agriculture, they may enhance the commercialization of agriculture activity which in turn would improve commodity terms of trade and extension of markets (Oberai and Singh, 1983:39).

Urban-rural remittances are likely to raise rural incomes through facilitating the purchase of productive land, hybrid seeds and the use of fertilizers- indeed, may inject scientific and technological innovations in agriculture (Oucho, 1996). The main problem is income contribution which, depending on who remits and who receives and for what purpose, may lead to income inequality and uneven rural development (Chilivumbo, 1985). Most studies have shown that remittances go to different groups depending on relationship ties. The parents receive the highest proportion, a fact attributed to the tendency for immigrants to support old folks, besides their families. It is probably because of the repayment of the so-called social debts incurred in education provided by parents (Essang and Mabawonku, 1974 as cited by Oucho, 1996).

Table 3: Major rural-urban linkages and related facilities in town centres

Type of linkage	Elements	General urban facilities (serving both hinterland and towns themselves)
1. Physical	<input type="checkbox"/> Roads <input type="checkbox"/> Railways <input type="checkbox"/> Airways <input type="checkbox"/> Waterways	<input type="checkbox"/> Intra- and intersystem connections <input type="checkbox"/> Railway stations, bus terminals, ports, airports, <i>boda-boda</i> stands
2. Economic	<input type="checkbox"/> Market Patterns <input type="checkbox"/> Flows of Raw Materials and Intermediate Goods <input type="checkbox"/> Production Linkages <input type="checkbox"/> Consumption and Shopping Patterns <input type="checkbox"/> Income and Capital Flows <input type="checkbox"/> Sectoral and Interregional Commodity Flows <input type="checkbox"/> "Cross Linkages"	<input type="checkbox"/> Agricultural and consumer goods markets, retail shops <input type="checkbox"/> Input delivery facilities (wholesale, storage) <input type="checkbox"/> Banking and investment finance facilities <input type="checkbox"/> Micro finance institutions and cooperatives
3. Population & Movement	<input type="checkbox"/> Migration Patterns <input type="checkbox"/> Commuting to Work	<input type="checkbox"/> (n.a.) <input type="checkbox"/> Passenger transport facilities
4. Technological	<input type="checkbox"/> Technology Interdependencies <input type="checkbox"/> Irrigation Systems <input type="checkbox"/> Telecom Systems	<input type="checkbox"/> Maintenance and repair workshops <input type="checkbox"/> (refer to sections 6 and 7 below)
5. Social-Interaction	<input type="checkbox"/> Visiting Patterns <input type="checkbox"/> Kinship Patterns <input type="checkbox"/> Rites, Rituals and Religious Activities <input type="checkbox"/> Social Group Interaction	<input type="checkbox"/> Community halls <input type="checkbox"/> Churches, mosques <input type="checkbox"/> Sports facilities <input type="checkbox"/> Cinemas <input type="checkbox"/> Restaurants, clubs
6. Service Delivery	<input type="checkbox"/> Energy Flows and Networks <input type="checkbox"/> Credit and Financial Networks <input type="checkbox"/> Education, Training and Extension Linkages <input type="checkbox"/> Health Service Delivery Systems <input type="checkbox"/> Professional, Commercial and Technical Service Patterns <input type="checkbox"/> Transport Service Systems	<input type="checkbox"/> Energy supply facilities (electricity, fuel depots) <input type="checkbox"/> Banking and investment finance facilities <input type="checkbox"/> Various types of schools <input type="checkbox"/> Hospitals, clinics <input type="checkbox"/> Telecommunications and postal facilities <input type="checkbox"/> Mass media <input type="checkbox"/> Accommodation facilities
7. Political, Administrative and Organizational	<input type="checkbox"/> Structural Relationships <input type="checkbox"/> Government Budgetary Flows <input type="checkbox"/> Organizational Interdependencies <input type="checkbox"/> Authority-Approval-Supervision Patterns <input type="checkbox"/> Inter-jurisdictional Transaction Patterns <input type="checkbox"/> Informal Political Decision Chains	<input type="checkbox"/> National authorities and agencies (administration, maintenance, planning, implementation) <input type="checkbox"/> Chamber of Commerce <input type="checkbox"/> Labour Unions <input type="checkbox"/> Courts <input type="checkbox"/> Police

Source: Based on Rondinelli, 1985, slightly modified to suit this study

NB: with the rise of the 'network society' and the 'death of distance' (due to dramatically improved Information and Communications Technology), financial flows sometimes link rural areas directly with larger cities, at the expense of smaller towns (DFID, 2002).

Urban-rural remittances enhances the purchasing power and permit the acquisition of modern farm implements, adoption of modern farming methods and predisposes rural farmers to investment in cash crops (Oucho, 1996).

In Kenya, some studies contend that the contribution does not enhance rural development (Johnson and Whitelaw, 1974). Yet what proponents of this view forget is that labour reservoirs in Kenya from which urban migrants originates tend to thrive on subsistence economy, which suggests why remittances end up in consumption rather than investment (Oucho, 1996).

Social – Cultural Linkages

Social and cultural linkages occur through; religious services, cultural services educational services, health services recreational services, meal and hotel facilities etc. it is noteworthy that the magnitude of social-cultural linkages varies with the availability and need for social-cultural functions (Magambi,2004). Towns are the focal points for a wide variety of social linkages among those centers and their rural hinterlands.

There is a relationship between the migration of labour and the informal sector. The decision to migrate to the urban areas is directly influenced by family needs for a better economic stability. The family members who migrate to the urban centers send remittances to their families back in the rural areas. This involves the family locating their labour assets in different geographical regions to ensure financial stability. The family in this way pulls together its resource to help it cover risks and ensure financial stability (Meier & Rauch, 2006)

Earlier research has shown that the immigrants to the urban areas first put up with relatives or friends as they look for jobs in the formal sector. They on the other hand help in preparing meals and other household chores. With time, they find a job such as messengers, clerks, and move out to start their own lives and rent a house where they can accommodate other new-comers.

However, sometimes they don't find a job in the formal sector and they end up joining the informal sector, where they sell second-hand clothes peas, shoes and other activities all found in the informal sector. The informal sector work may also include helping selling in the family kiosk, selling of newspapers, curios, shoe shining on the street corner. This pattern is found in Kenya. There is increased rural-urban migration especially of the school leavers who still believe that the cities offer a kind of income and it's much far better than in the rural areas. This has however, changed in the past years with increased unemployment and retrenchment of the formal

workers who in turn have got into the informal sector to fend for themselves and their families. Long gone are the so called “white-collar” jobs which acted as a magnet to the big cities in Kenya (Nabuteya, 2007).

According to Oucho, the link between migrants and their close relatives and friends enable their activities in both urban and rural areas to be complementary. Although migrants participate in the urban economy, they remain loyal to a rural economy thereby operating in geographically separate but culturally and economically integrated systems. The links are expressed in many ways: a migrant visit his home periodically, welcomes visitors from the village, helps new arrivals to get started in the city, returns home to find a bride, messages flow to and from, and so on (Gugler and Glanagan, 1978:64 as cited by Oucho, 1996). This reciprocity is intended to sustain socio-cultural links.

In Kenya, Moock (1978:30) noted that urban-rural ties are reinforced not only by “ traditional values” but also by a series of rural-based dependencies, namely, insecurity of urban employment for which return to a rural area might constitute a temporary alternative, lack of social welfare benefits in town, the need to maintain dual family enterprise and household affairs from afar. This dependency of urban migrants on their areas of provenance has received little emphasis in previous research.

At the same time, a majority of Kenyan heads of households living in urban centers in Kenya grew up in the rural areas. One major aspect of rural urban linkages is the degrees of commitment urban residents have to their urban life and lifestyles and how they maintain strong rural ties. Such rural links include a rural house, family ties and rural-urban and urban-rural economic transfers and the ultimate proof of weak urban lifestyle at some point in the future. Strong dependency of rural families on off farm wage income links them to urban areas in form of male heads living in urban areas or commuting daily (Kimani and Talor, 1973).

Environmental Linkages

According to World Bank Report (2006), the city’s ecological footprint constitutes a significant rural-urban linkage with many management implications. The global economic forces have contributed to increasing the ecological ‘footprint’ of ‘world cities’ deep into the countryside (forests, water resources, agricultural products and small economies). This raises serious

questions of sustainability of natural, economic and social systems in developing countries where the effects of global linkages are increasingly felt.

Heavy subsidies to agriculture in all industrialized countries are detrimental to the development of agriculture in developing economies, with serious consequences for their competitiveness and growth potential 'Development' implies change and transition processes, including the overall rural-urban transition that is likely to be completed within the next fifty years. Therefore, the nature of rural-urban linkages is generally changing, but even within the same country, they can be regionally very different, depending on socio-economic-political development factors. Therefore, what is needed are carefully 'tailored' policies and 'packages', rather than standardized solutions (for analysis and policies) because they would never fit all regions.

Small towns and rural-urban linkages

Most of past studies have neglected small towns in favours of metropolitan towns (Linn, 1979; Renaud, 1979). It is probably true to state that most urban researchers, and almost all policy makers, have been so fascinated and preoccupied with the challenges of metropolitan cities, that the lower ranges of urban settlements have been neglected and often misunderstood. On the other hand, rural planners and researchers have traditionally focused on village-level studies and agricultural regions, but within those, the role of small and medium-sized towns has then become a somewhat neglected subject.

In Ghana for example, while various studies have been done on Ghana's urbanization, they have mainly focused on the large towns, particularly regarding migration to these centers and its consequences. Not much has been done on the process of urbanization and urban growth regarding small towns (Owusu, 2005). This situation, however John notes, is not limited only to Ghana. However, in most countries, even with a skewed primate city population distribution, the majority, or close to 50 percent at least, of urban people live in non-metropolitan areas, smaller cities and rural towns. In most of these towns, the connections with the surrounding land, as well as the linkages into the metropolitan areas, are un- reflected components of everyday life experience (Freidman, 1992).

As noted by Cecilia Tacoli (1998), small towns have a considerable potential role in rural-urban linkages. A large proportion of urban population in most nations lives in small towns. Through

the development of SMEs, the towns act as markets for farm produce from the surrounding rural region, either for local consumption or forwarding to the national and/or regional markets. The centres also act as nodes for the production and distribution of goods and services to their neighbouring rural region. Unfortunately, there are no broad comparative investigations of the growth of small towns in developing countries.

The difficulties of studying small towns are partly that statistics are scarce and partly that the statistical definitions of small towns have tended to vary both from country to country and from census to census. Statistically, small towns in many cases are not treated as towns at all, while in other cases, data for the registered towns often include large rural areas around the town. In general, this has probably led to an underestimation of the small town population (Hardoy and Satterthwaite, 1986).

Population thresholds are commonly used for the definition of urban centers, but while many Latin America and European countries use a low threshold of 2,000-2,500 inhabitants, other nations use much higher thresholds. A large proportion of the rural population Asia lives in settlement that, under other nation's urban definition would be classified as urban. There is also no universal definition of small and intermediate urban centers, since this largely depends on national urban structure. In large countries such as India, a 'small' town can have a population as many as 500,000 inhabitants. In smaller size nations, the population of the largest cities can be less than 500,000 inhabitants (Tacoli, 1998).

In Kenya, according to policy study for the development of small and intermediate towns, 2003, the two largest cities (Nairobi and Mombasa) has a population of over 500,000 with small towns having a population of between 10,000 and 30,000. Towns with less than 10,000 inhabitants are considered as rural centers.

Small town functions as a link between the rural areas and the large towns, and as noted by Hazell and Brown (1987), small towns with efficient services are likely to increase the productivity of agriculture. The towns also absorb some of the rural population surplus which otherwise will crowd into the large cities thus mitigating rural-urban migration to the big urban centers, which mostly results to non- sustainable urbanization.

Urbanization in Africa has created a dichotomy in social, economic, cultural and spatial aspects of development. Socially and culturally, the cities have become embodiments of the interaction of two civilizations, the modern, and deriving from the culture and values of countries from the

developed world, and the local, which has elements of traditional beliefs and practices. Economically, modern forces of production have been concentrated in the cities where two parallel economic sub-systems, the formal and the non-formal sectors, have evolved (Muendo, 2004). Urban growth may be beneficial for economic growth. Empirical studies that found a positive relationship between urbanization rate and GDP growth support this argument: Exception: Africa with high urbanization rate and no or minimal economic growth. Nevertheless, in the Kenyan situation close to eighty per cent of the country's GDP is made in Nairobi Ouma, 2004). Economically, modern forces of production have been concentrated in the cities where two parallel economic sub-systems, the formal and the non-formal sectors, have evolved (Muendo, 2004).

It is probably more useful to consider small towns within the wider national or regional system of urban space centers. Such functions may include the provision of services, facilities and infrastructure to their own population and to that of the surrounding region (Tacoli, 2000). Through integrated symbiotic relationship between the urban centers and its rural inland, national, regional and local development can be achieved. There is need to have sustainable rural-urban linkages through the small towns. These would ensure continuous two-way flow of benefits from cities to rural areas on a sustainable basis. Improved synergies between local governments, NGO's local civil society and private sector actors can play a key role in supporting the positive aspects of rural-urban interactions while reducing their negative impacts (Mugambi, 2004).

The urban place in the rural areas is a vital interface and an effective rural development strategy. It is through the different levels of local governments that local needs and resources can be assessed and many government policies most effectively implemented. In addition to taking responsibilities related to the provision of infrastructure and services, local authorities themselves play a role in stimulating regional economic development to improve growth and reduce inequalities by utilizing the full potential of both rural and urban areas (Muendo, 2004).

Just as small towns and their services may have a positive influence on rural development and agricultural productivity, the development of the small towns depends on the growth of rural incomes. *One of the objectives of the current study is to analyze how rural incomes influence the growth of SMEs in small towns.* However it is also a prerequisite that the incomes generated are

spread fairly evenly. Where land ownership is very concentrated, incomes tend to leak out of the local area to non-local landowners. Thus, the small towns seem to grow especially where agricultural reforms have taken place, because only here will growing incomes lead to growing local demand (Hardoy and Satterthwaite, 1986).

In the 1950s and 1960s, small towns were generally seen as playing a positive role in development as the centers from which innovation and modernization would trickle down to the rural populations. A more recent and highly influential contribution to this positive view was the development of the concept of “urban functions in rural development” (Renkow et al, 2004); for which the most effective and rational spatial strategy for promoting rural development was to develop a well articulated, integrated and balanced urban hierarchy. This network of small, medium sized and large urban centers was described as “...locationally efficient” - it allowed clusters of services, facilities and infrastructure that cannot be economically located in small villages and hamlets to serve a widely dispersed population from an accessible central place” (Rondinelli, 1985). The location of more service supply points supplying a variety of services, agricultural inputs and consumer goods to the rural areas was seen as playing a crucial role in rural development.

While this approach has been widely used by large international donors such as USAID, and still influences more recent regional planning models, Hardoy and Satterthwaite, (1986), and Morris, (1997), however, criticized the strategy on the grounds that low rural consumption was caused by social inequality and low incomes rather than by difficult access to supply. The main argument, echoing the “urban bias” debate, was that small towns contributed to rural impoverishment as they were “vanguards of exploitation” of the rural poor by external forces which, according to the case, may be colonial powers, multinational enterprises, central national government, local administrators and elites and, in some cases, international donors. Southall (1988:5) argues that, when there is relative egalitarian class structure and free access to land, and “...where the stimulus to urban growth results in activity primarily by the people and for themselves, small scale urbanization could be beneficial locally”. However, Hardoy and Satterthwaite (1986) contest that universal generalizations and prescriptions, which formed the basis of most spatial planning models, were not valid.

Therefore, centralized policies may not be efficient since they cannot take into account the peculiarities and specifics of small towns and their regions. What is needed instead is real

decentralization of decision-making, with investment and resource-raising at the local level which will allow the articulation of local needs and priorities and which will stimulate both rural and urban development. Moreover, wider socio-economic issues are also likely to affect small towns and, by extension, migration to larger cities.

Rural-urban relations and the potentially important role of small towns gained considerable prominence in international development research and policy experimentation in the 1970s. The theoretical discussions, as well as national policy changes, were influenced by a succession of national and regional development theories and policies on the most appropriate urbanization strategies as part of the transformation of agricultural into industrial-based economies. One of the most important concepts is the Economic rationale for focusing on small and intermediate-sized towns.

Small town functions

Rural areas' linkage with economic and social sectors in rural towns, towns and cities can lead to strong rural development and vice versa. This rural-urban linkage manifests itself in many ways. Labour movement, input, output and information flows are among the major linkage elements (Braun, 2008).

Forward linkages exhibited by the flow of farm and non-farm outputs for consumption and production purposes in rural towns and towns are useful for creating marketing outlets (demand) for rural households. *One of the objectives of this study is to investigate the role of SMEs in small towns in forward linkages.* On the other hand, backward linkages enable the flow of inputs, management skills, technologies and information and credit towards the agricultural and rural non-farm sector (Tadesse, 2012). *One of the objectives of this study is to investigate the role of SMEs in small towns in backward linkages.*

In this regard, rural areas' economy is often closely interwoven with economic activities in small towns and cities. The linkages with small towns are so pervasive that the structure of the rural economy can vary in response to the economic and social functions in towns. This is because the economic structure of small towns reflects the capacity of local regions to capture forward and backward linkages and their multiplier effects (Douglass, 1998).

The combined effect of strong forward and backward linkages can therefore be instrumental in increasing agricultural production and productivity, which eventually helps foster rural development. Moreover, it can help create farm and non-farm employment opportunities and income, which contribute to poverty reduction and development in rural areas.

The contribution of rural-urban linkage (through forward and backward linkages) to poverty reduction and rural development rests on several factors. Land tenure systems, technology of production and management capabilities are some of the factors that determine agricultural production and rural development (Perkins *et al.*, 2001). Markets, credit (and finance) and infrastructure are among the other vital elements that harness forward and backward linkages and contribute to rural welfare improvement (Isgut, 2004 and Todaro and Smith, 2009 as quoted by Tadesse, 2012).

Many rural areas however have few or none of the most important functions that contribute to strengthening forward and backward linkages. Missing functions in rural areas can affect economic activities and rural development in many ways. However, small towns situated near to rural areas can contribute to bridging part of that gap and play a significant role in facilitating rural development (Fan *et al.*, 2005).

One major contribution that small towns make is that they act as bridges to higher-order towns and cities. In addition, they provide infrastructures and institutions that are physically connected to the rural areas. All These services can be termed a small *town functions* (Tadesse, 2012).

Linkages that exist between rural and urban areas are best understood by examining the functions of urban center (Mugambi, 2004). The functions of urban centers can broadly be classified as economic, social, administrative, cultural and political it is also important to note that urban centers are centers of public and social services; commercial and personal services; regional marketing and trade; agro-processing and supply; large and small scale industry; regional transport and communication; attraction for rural migrants and sources of income remittance; and centers of social transformation. It is through these functions of urban centers that rural-urban linkages occur (UNCHS- Habitat, 1995).

Freidman, 1992, observes that small towns typically have certain elements that are not found everywhere in the surrounding rural areas, and they are the traditional signs of such 'natural' rural-urban relations; these have also been the subject of serious geographic, economic and social research for many years: a market (permanent, and periodic, such as once a week); specialized

shops; an institution of the state (such as the court, or a district hospital); a school above the elementary level; places of entertainment (such as a cinema); and workshops that assemble and repair tools and machines used by farmers.

The important point to be made here is that such highly generalized indicators of ‘centrality’ of a town need to be specified in such a way that they truly reflect the regional conditions at the time of the analysis. Conditions change over time, and comparisons across regions or countries are not easy. Therefore, some functions that would be rare, and thus, ‘central’ at an early stage may not be rated as central fifteen or twenty years later. Some of the most significant small town functions are *markets* and *transport infrastructure* as discussed below.

Market centers

Market centers perform many social roles in rural areas. In many African countries, economic exchange grew out of traditional social gatherings and rituals. The types and frequency of economic activities were closely linked to social events because traditional African markets provided an important locus of social interaction (Muendo, 2004).

On his study on town functions in 2012, Tadesse found that market is an important small town function that has a significant influence on income of both rural and small towns’ economic activities, the further the market, the lower the probability in participation in trade activities. In addition to being a source of consumption goods, accessible markets can be a vital outlet for both consumables and consumables goods. Kimani and Talor (1973) discovered that period marker centers in the Central Province of Kenya were important meeting places for rural communities and social satisfaction were major functions of urban centers.

The transport infrastructure

Roads and transport facilities are among the vital establishments that facilitate interactions among economic agents and can lead to higher income (Tadesse, 2012). Lanjouw *et al.* (2001) stress that roads and transport are core infrastructural facilities that significantly contribute to income from both formal and informal sectors. The role they play in improving consumption and welfare is particularly emphasized. Furthermore, road type and quality is found to play significant role in enabling increased market participation and intensity of marketing (Tadesse, 2012).

Interaction of small towns and big urban centers (cities).

New urban policies should not only focus on links between the small town and the rural areas but also focus on the link between the small and large towns/cities (Muendo, 2004). *The current study, analyzes how the SMEs in small towns interact with other small, medium and big cities.*

Cities are engines of economic growth and social development, drawing in human resources and raw materials, which, coupled with superior urban infrastructure, have spurred industrial and commercial development almost everywhere. Cities are not only places where capital is accumulated and reinvested in new sectors, but also the nodal points of specialized services. As service jobs have become increasingly important in national economies the importance of cities in economic performance is strengthened. Both industrial and traditional service activities, along with new services related to banking, finance and communication, constitute the new economic base of cities.

These activities generate the major sources of government revenue, through various categories of taxes, rents and fees (Ouma, 2004). Cities serve a primary economic function as the locations where new forms of economic activity and economic organization evolve and gain higher value. They are not merely places where commodities are traded and new markets explored, but they are also centres of changes in the social division of labour. But with globalization, competition between cities has intensified, and increasingly they battle with each other to attract international investment (Ouma, 2004).

Cities provide economies of scalar and agglomeration, as well as the economic and social infrastructure within which many businesses and entrepreneurships are incubated and nurtured. They provide infrastructure for investments that support not only urban development, but which also stimulate wider development through urban- rural trading. Urban markets provide powerful incentives for rural production and income enhancement. Expanding rural markets, in turn, provide powerful incentives for increased production of manufactured goods and services in the cities.

Large cities typically produce a significant share of the gross domestic product (GDP) of their countries (Ouma, 2004). The urban economy is the hub and nerve centers of the national economy and, as the global society expands, a nation's welfare will be determined increasingly by the roles its cities play in the global economy. Cities serve a primary economic function as the locations where new forms of economic activity and economic organization evolve and gain

higher value. They are not merely places where commodities are traded and new markets explored, but they are also centers of changes in the social division of labour. But with globalization, competition between cities has intensified, and increasingly they battle with each other to attract international investment (Ouma, 2004).

Employment and Income in small towns

Urban economies generate significant employments in both formal and informal sectors. Although the formal sector generally pays higher salaries, it employs a relatively small proportion of the urban labour force in most developing countries. The informal sectors known locally as “Jua Kali”, and known elsewhere as the home craft industry, with its lower wages, frequently employs a greater share – if not the bulk – of the urban labour force in Kenya, a common phenomenon in developing countries. Informal sector employment is known to grow even at times when employment in the formal sector is stagnant. This phenomenon is one of the principal ways in which labour markets in African countries have adjusted to economic crises. It is worth noting that informal employment contributes to as high as 55 per cent of the total labour force in Kenya. Considerable variations in the importance of the informal sector exist between countries in any region. Cities support the informal sector through the provision and maintenance of infrastructure, including adequate supply of electric power, water, transport and telecommunications networks. They also provide well-located work sites for informal sector entrepreneurs. By relaxing rules and regulations, the informal sector can be expected to contribute further to the creation of new jobs (Ouma, 2004).

While poverty is increasingly becoming an urban phenomenon – particularly in developing countries and disproportionately among women, urban populations on the whole are still relatively better-off than most rural inhabitants in terms of cash income and access to basic social services. However, poverty in urban areas produces particular problems of its own, in that urban dwellers often lack the life support mechanisms available in rural areas. However, through community Based Organizations (CBOs), church based organization, self-help groups and Microfinance institutions (like K-Rep and Faulu Kenya, among others) some significant form of poverty alleviation and improved lifestyles have been witnessed (Ouma, 2004).

As countries move through the development process, agriculture declines as a share of gross domestic product (GDP), and manufacturing and services begin to dominate the economy. Goods

and services are often produced most efficiently in densely populated areas that provide access to a pool of skilled labour, a network of complementary firms that act as suppliers, and a critical mass of customers. For this reason sustained economic growth is always accompanied by urbanization. Globalization and localization have not diminished the importance or the pace of the urbanization process. Why does urbanization remain such an important trend? Although globalization opens up new possibilities for linkages around the world, it also reinforces certain advantages of proximity. This is particularly true in Kenya, where access to the opportunities offered by globalization is much greater in cities. The growth of urban populations in both large capitals cities and smaller municipalities feeds demand for increased localization of political power. It puts pressure on national institutions of governance and encourages them to take the steps towards decentralization. It makes the success of decentralization perhaps even more important. When urban governments have the power and ability to enact a development agenda, they can help the citizens of their cities hook up with the global economy. These cities then become reliable links in the global production chain and attractive destinations for foreign investment. Urbanization is integral to development, but it also presents difficult challenges. The growth sectors of the economy- manufacturing and services are usually concentrated in cities, where they benefit from agglomeration economies and ample markets for inputs, outputs, and labour, and where ideas and knowledge are rapidly diffused (Ouma, 2004).

The way cities manage development, including the arrival of industries, goes far in determining the rate of economic growth. Urban governments can foster economic development or they can slow it down. Examining the urban process – the agglomerative forces and location inducements that shape cities – is a useful way of identifying what role governments should play (Muendo, 2006).

The small enterprises and rural-urban linkages

According to Mulligan (1984:32), “the small town can be seen as a way of organizing economic activities or enterprises in space. Thus, the theoretical view of the small town depends to a large extent on the view of the enterprise and the way it interacts with its environment. Classical location theories however, assumed enterprises to be independent entities operating in a homogeneous free market. To explain the spatial concentration of enterprises in towns they invented the concept of agglomeration economies. Where small and large industries are linked

and networked and the small enterprises are seen as complementary to the large rather than alternative to them”.

Johanson and Mattson (1986: 9) point out that the “small enterprises will often be dependent on one or more of the large enterprises. But at the same time, the productivity of the large enterprise will often depend on the existence, not of a specific small enterprise, but of a network of small service, trade and production enterprises. The small/informal enterprise is viewed as operating in interaction with other small and large enterprises and public authorities, in an interplay which in some situations may lead to dependency, but in others may lead to considerable autonomy”. They therefore concludes that “the dependency between enterprises is seen as determined not only by ownership and size, but also by many other often qualitative factors such as technology, market and financial relations”.

This new conception of the enterprise changes the understanding of the small enterprise in relation to macro environment, for example, the small town. According to Pedersen (1990), “the paradox of location theory is that the cheaper transport and communication becomes, and therefore the more footloose production becomes, the more important local production costs will be for the location of industry. And these production costs are increasingly determined not only by labor costs, but also by easy access to services which can secure a high productivity and capacity utilization of production”. It is this paradox, as Pedersen suggests that must be resolved in order to understand the development process of the developing countries in terms of both individual enterprise and role of small towns. The current study looks at the transport and communication network of the small towns in question.

The small enterprises are well known to operate within their local footprints in terms of supply and customer base. According to Johanson and Mattson (1986: 26) “the enterprises usually cater primarily to the local market in the town and its hinterland, and are better able to adapt to local market conditions. They are often also more dependent on the local supply of inputs and services than the large enterprises and their local branches which often obtain such services from their own hierarchy”.

However, the fact that the small enterprises cater primarily for the local market does not mean that they only operate with local contacts. This argument is extended by Freeman and Norcliffe (1985:11) who point out that the “small enterprises function often as mediators between the local market and outside sources of consumer goods, production inputs and information. These outside connections may be provided by a series of middlemen or wholesalers up through the urban hierarchy, or they may be provided by one of the large organizations”. The current study aims at extending this argument by quantifying the trade volume in both forward and backward linkages in small towns in question.

Though as pointed out by Freeman and Norcliffe that outside connections may be provided by a series of middlemen or wholesalers up through the urban hierarchy, or they may be provided by one of the large organizations, there are numerous more occasions where some activities may not be economically viable for them and so small enterprises take up the advantage. Also, as Pedersen (1990: 11) suggests, “the large organizations may cheaply provide a limited range of standardized services and though the small enterprises are often more expensive, but on the other hand may offer a wider range of different services. But this might not be the case in developing countries who mostly subsidized the large organizations to attract FDI and where there is limited supply of resources”.

However, as Pedersen concludes “if the market for the small enterprises expands, it may become attractive for the large organizations to go in direct competition and attempt to take over the market, for example, by establishing local branches. The large-scale sector may also, especially where it is governmental or parastatal, attempt to monopolize the market through legislation. In other cases, the small enterprises may be directly linked to the large enterprises or organizations, either as subcontractors or by processing inputs or distributing products produced by them. The contact between the peripheral rural region and the outside world, and the development or exploitation it results in, thus follows either the "open" urban network and the infrastructure and agglomeration economies it offers, or the internal and often closed networks of the large organizations. Of course, these organizational networks follow in many cases the structure of the urban system; but in other cases, the large formal organizations may be large and powerful enough to create their own networks, often short-cutting the lower levels of the urban hierarchy”.

Thus, although the urban network and the large organizational networks are linked together, they are not identical, and both are decisive for the development of the peripheral region.

Rural Functions in Urban SMEs

The GOK (2008) policy paper “Growth and poverty reduction: the role of agriculture” sees a major role for agriculture in development through the linkages of the agricultural with the non-agricultural sector. Agricultural growth can lead to strong multiplier effects in the non-farm economy.

Baulch and Hoddinott (2000) calculated the economic growth multiplier associated with additional agricultural income in Kenya and found it to be nearly three times the magnitude of the growth multiplier for non-agriculture. A dollar of agricultural income generates an additional \$0.63 of income outside the agricultural sector, while a dollar of non-agricultural income generates only \$0.23 of income in the wider economy.

Some village economies, especially crop and livestock production have been known to have a high multiplier effect in urban economic growth. However, the ability of urban SMEs to respond to demand depends on both macro and micro factors and more particularly on marketing conditions, transport and communication networks, transaction costs and internal and external competition. The following presents, some rural functions in urban growth.

Land use and land ownership

How rural functions impacts on the urban economic growth are affected by the land use and ownership structure. In developing Countries, the continued expansion of urban boundaries has seen a decrease of agricultural activities in areas close to towns. Where peri-urban agriculture still exists, the proximity to the large and able urban market coupled with decreased transport cost ensures a high return. Such activities always have a comparative advantage over far off rural activities as they also ensure a constant supply of fresh perishable produce to the urban market. However, as the value of land goes up, farming takes second option as the farmer opts to sell the land or even risks eviction. On the other hand, land loses its economic viability as it exchanges ownership from one generation to the other despite the proximity to urban market. The

subdivisions into smaller and smaller plots only leave room for subsistence farming and therefore no meaningful economic interaction with urban economy.

Non-farm employment

In the recent past, there has been a substantive evidence that small scale commercial and subsistence farmers do engage in a second source of income in form of non-farm activities to make ends meet. This is contrary to the long time assumption that opportunities outside the agricultural sector were limited and therefore the labor market was incomplete. It is estimated that rural non-farm income presents on average 42% of rural income in Africa, 32% in Asia and 40% in Latin America. Apart from eking the farmers income, the non-farm activities reduces the amount of “surplus labour” in rural areas and allows rural households to earn other sources of income. Non-farm income is increasingly an important source of revenue in rural areas, even in traditional subsistence areas such as many regions in Sub-Saharan Africa.

Tadesse, (2002:95) suggests “when opting for non-farm labor, farm households can be motivated by “pull” or “push” factors. Pull factors include better returns in the non-farm sector relative to the farm sector. Pull factors include an inadequate farm output (either because of short term reasons, e.g. drought, or long term reasons, e.g. land constraints), an absence of or incomplete crop insurance and consumption credit market, risks of farming, inducing households to diversify, an absence or failure of farm input markets or input credit markets which means households need to pay for inputs with their own cash resources. The fact that farm households engage in non-farm employment therefore can be a positive sign when pull factors are involved, which means possibilities exist for economic development outside the farm sector”. Therefore where impetus arises from push factors, it is rather an indication of the poor economic condition of the rural sector, rather than offering a real possibility of improving the economic situation of the farm household.

But even when push factors are involved, (Reardon 1998: 19) argues that “it will be the non-poor households rather than the poor ones who will diversify their income sources more, because they are in a better position to self-finance this diversification. When labour markets are increasingly linked, induced by better infrastructure and commuting, subcontracting, and location of agro-

industrial enterprises in rural or peri-urban regions, forces outside the rural economy will influence the labor use and overall sectoral composition of the rural non-farm economy”.

When there is an increase in labour demand due to a boom in a certain industry local wages can be raised in rural economies. Good examples are as in the case of oil industry in Nigeria in 1980s and the textile industry in China. The boom can either induce investments in labour-saving technologies or labour extensive activities. China is a case in point (as explained by Tadesse,) its rapidly developing industrial sector has attracted large numbers of cheap labour, mainly from the rural countryside. Here labour is often a constraint, and farmers switch to crops that are less labour intensive, such as rice. Households whose members have migrated (temporarily) to cities often shift to one-season rice, which induces a stronger shift to two-season rice by households lacking access to this type of off-farm employment. An increasing flow of migrants to the city will thus magnify the shift away from rice and towards capital intensive but labour extensive livestock production.

Capital

Raising funds for investment in the rural areas of mostly developing countries is an uphill task. Apart from lack of interest from their small home savings, the farmers lack collateral or they may be in need of little money to borrow from investors. According to Tadesse, “non-farm cash income can bridge this gap. In times of crop failure, non-farm income can fill the food deficit. Other mechanisms are contract farming whereby the buyer of produce will pre-finance inputs such as fertilizer” (2002).

Of late there has been renewed interest in rural micro credit. This noble idea was started by Prof. Mohammed Yunus, the initiator of the Grahmin Bank, which is credited with improving the lives of poor rural people in Bangladesh. Such initiatives can also uplift the rural poor by bridging the financial gap as they may not have access to the formal banks as the amounts they want to borrow are too small or they cannot provide any collateral.

Inclusion and exclusion: the role of small farms

Taddesse (2002: 95) suggests that “small farms can be drivers of change and play an important role in the rural economy, but at the same time may be left behind in the current rapid economic developments characterized by globalization, vertical change integration etc. The position of

poor rural households is also influenced by the fact that agricultural markets are characterized by large distortions, both domestically and internationally”.

Dow and Norton (2003:12) argue that the “new economy (characterized by globalization of trade, financial flows and institutions) can both provide opportunities and threats to poor farmers in developing countries. One of the threats is that poor smallholder households get locked out of markets due to slow progress in participation of their country in the global economy. Another reason is the physical and institutional isolation of poor households in rural areas. Furthermore, Dow and Norton adds, ‘the fact that poor households have access to local, national and international markets does not always mean that they can benefit from this access, since a number of institutional deficiencies limit smallholder areas from taking advantage of market opportunities: inadequate access to information, contractual enforcement and finance”.

One major question is how agriculture as a driver of change will impact on rural livelihoods more so the rural poor. The small farm factor will to some extent determine if the rural households benefit from economic development or are they left behind, widening the gap between rich and poor.

The debate is also live about who mainly constitutes the rural poor between the small farmers and the rural landless who involve in non-farm activities. According to Taddese “there has been an assumption that the rural poor are also small farmers and that the emphasis has been on supporting small scale-farming”. However, Barrett (2008:7) points out that “this view has been criticized because it is the rural landless that often constitute the poor and these derive their income from the non-agricultural sector”.

Majority of the small-scale farmers have been engaging in non-farm activities to diversify their revenues. Though a noble idea, the problem is that they are not and at the same time investing in agriculture at this time when the demands on agricultural production in terms of technology and product quality are increasing. They therefore find do not maximize the returns from farming as agriculture is no longer their main focus.

Taddese however indicates that “the only part of agriculture in developing countries that will continue to grow significantly faster than population in the next twenty years is the high value sector. The implications for the vast mass of smallholder farmers are sobering: to significantly improve their incomes per capita over the next twenty years, they must either be part of the shift to high-value agricultural production or increase the share of income they get from non-agricultural sources”. Furthermore, he adds, the analysis in the preceding section suggests that unless smallholders become vertically integrated with processors and retailers, they will increasingly have difficulties in participating in increasingly more demanding high-value markets (Taddese 2002: 96).

Korpi (1997) found preliminary evidence that this also means they do not invest non-farm income into agriculture (e.g. by buying fertilizer). Another implication is that they are more likely to invest in food crops (for their own consumption) and not in high value cash crops.

Pretty and Hine (2003) suggest that the case for the efficiency of smallholder farming may be “breaking down, where globalization intrudes, non-traditional crops are promoted, and agricultural modernization involved increasing use of capital”.

There is also a debate that small farms cannot live up to the current challenges in agriculture. Meijerink and Roza (2007: 15) argue that “new technology is often capital-based and requires certain skills that are beyond the scope of many small farmers. In general small farmers pay more for inputs and receive less for outputs than large farms, thus decreasing their rates of return. The high value chains impose quality and timeliness requirements that are difficult to comply with for small farmers. Vertical coordination has been identified as an important development for agricultural development. Evidence suggests that private vertical coordination (VC) efforts can yield important positive effects. Farmers that are involved in such VC schemes have experienced beneficial effects on output, productivity and product quality, and ultimately also on incomes through improved access to inputs, timely payments, and investments. But not all farmers can participate in these schemes”. Meijerink and Roza identify two potential equity issues with VC schemes. The first concerns the inclusion or exclusion of small farms in contract farming. The second concerns the distribution of rents within vertically coordinated food supply chains

In the first one they argue that VC can bring several benefits to farm households, including higher welfare, more stable incomes and shorter lean periods. But there are several reasons why contracting firms might prefer to contract wealthier farmers, thus leaving out small farms. Contracting larger farms in supply chains reduces transaction costs (firms have to deal with a few large forms instead of many small ones). When some amount of investment is needed in order to be able to supply the firm, small farms may not be able to do so, being more constrained in their financial means. These reasons would work against small farms. In some cases firms do contract small farms. Sometimes, these firms have no choice – small farmers represent the vast majority of the potential supply base. Some firms may choose to prefer a mix of suppliers in order not to become too dependent on a few large suppliers. Even when firms contract small farms, these will still constitute a minority in the total population of small farms. Many others are still excluded.

Their (Meijerink & Roza) second development in VC is the shift from contract farming (of large or small farms) to fully integrating production and agro-industrial holdings. This shift is often in response to increasingly stringent food standards. Small farms lose out in this shift, but employment opportunities are increased, which may benefit poor households or the landless. Thus (Self and Grabowski (2007) as quoted by Meijerink and Roza) conclude that in combination, contract-farming and agro-industrial employment are significantly positive, reaching different groups of poor.

Meijerink and Roza conclude that “the options for small farms to participate in profitable markets but do not participate in beneficial VC schemes are limited. In the section on non-farm income, we have seen that this constitutes an important livelihood strategy of small and poor farms. The rural as well as urban non-farm employment often does not represent substantially more profitable income opportunities, although they can help diversify incomes. In many cases, push factors drive farmers to seek alternative income generating activities. A move out of agriculture is therefore not an option for many of these small-scale farmers. In the mid 20th century in Europe, many farmers left the agricultural sector to work in upcoming industries (e.g. textile). The land they left was taken up by farmers who could increase their farm and become more competitive. In many developing countries however, this movement cannot be perceived.

Because the non-farm employment sector is either not sufficiently profitable or uncertain, rural households maintain their plots of land as a security, often extensively managed”.

According to Satterthwaite (2000:31), “many poor households have livelihoods that draw on rural and urban resources or opportunities. Urban and rural areas are closely linked, each contributing to the other, which needs to be considered in development planning. Many fast growing cities are within areas with the most rapid increase in the value of agricultural production. For instance, the urban centers serving areas producing: high value fruit or vegetables, coffee or tea and other high value crops such as silk cocoons. Factors relating to agriculture influencing the prosperity of most such urban centers includes: the value per hectare of the crops (the higher the value, the more local urban development), the potential for local value added and the scale of forward and backward multiplier linkages and lastly the land owning structure with the perfect stimulus to local urban development being lots of prosperous relatively small farms growing high value crops”.

On the other hand, Satterthwaite (2000: 36) concludes that “rural areas are very important for many urban households. A proportion of the urban poor derive some/all of their livelihoods from meeting rural demand, many poor urban dwellers rely on seasonal employment in agriculture, many poor urban dwellers move back to rural areas when times are particularly hard, many urban dwellers have relations with rural dwellers to guarantee their food supply. Many urban dwellers also retain key assets in rural areas and rely on rural dwellers to protect their land, crops or livestock or to provide their children with homes (or even access to schools when urban schools are bad or expensive”.

Conclusions on the Chapter

Governments all over the world have undergone metamorphosis from older traditional ones such as federalism, monarchy and chiefdoms to more democratic and all inclusive structures such as centralization (where most of the power and national funds are centralized), and decentralization (where power and national funds are devolved to smaller administrative units). The metamorphosis have been necessitated by among other things the need to achieve economic development. However, to achieve such a milestone especially in the less developed and developing countries, more is called for in terms of equitable distribution of resources and power.

Decentralization which is contrary to Centralization, takes a paradigm approach towards a sustained economic development. Through decentralization, the local economies are empowered and the locals have the power to determine their most urgent and important community needs by financing by either the Local or Central governments. In Africa, Kenya lies number three as the most decentralized country after South Africa and Uganda. The impact of decentralization is expected to be highly felt with the promulgation of the new constitution which devolves some powers and National funds to the 47 counties administrative regions.

However, there is need to marry up decentralization with the new approach to the economic development- rural-urban linkages. Though a number of developing countries are in the process of devolvement few have accepted the spirit of integrated urban and rural development and still consider the development of rural areas different from the urban ones, with the latter getting emphasis at the expense of the former. This has led to economic inequalities in the two areas with far less developed and neglected rural areas. Rural urban linkages concept calls for transformation of rural areas through exploitation of the rural resources (both farm and non-farm). This can be achieved through enhancing the economic activities in the nearby small towns which link directly to their rural hinterlands.

The Small and Medium Enterprises in these towns forms important nodes as they usually cater primarily to the local market in the town and its hinterland, and are better able to adapt to local market conditions. They are often also more dependent on the local supply of inputs and services

than the large enterprises and their local branches. The SMEs in the said towns also forward and back link the rural areas with Regional, National and International markets. Therefore, enhanced SME activities in small towns could form an integrated symbiotic relationship which ensures continuous two-way flow of benefits from cities to rural areas on a sustainable basis.

CHAPTER 1D

THESIS METHODOLOGY

Introduction

This chapter comprehensively covers the research methods used in this study. It endeavors to answer the obvious but fundamental question: “how was the research conducted?” To achieve this, the chapter elaborates on the research set-up, units of research and analysis, sampling procedures and the methods of data collection. In addition, the chapter provides insight into the researcher’s field experiences and data analysis considerations. It then concludes by highlighting some selected characteristics of the sampled households.

Research Design

Research design is the plan and structure of investigation that enables the researcher to obtain answers to the research question (Kerlinger, 1986). The choice of a research design is guided by the purpose of the study, the type of investigation, the extent of researcher involvement, the stage of knowledge in the field, the time period over which the data is to be collected and the type of analysis to be carried out, that is, whether quantitative or qualitative (Sekaran, 2003). In social sciences research, there are five main research strategies commonly used, namely experiments, surveys, archival analysis, histories, and case study. According to Yin (1994), each strategy has peculiar advantages and disadvantages depending on: the type of research questions; the control a researcher has over behavioural events; and the level of focus on contemporary events versus the focus on historical events.

Based upon the nature of the research problem and the research questions, descriptive survey design was considered appropriate for this study. Survey design collects data on various variables as found in the systems and deals with coincidences and relationships (Verma and Verma, 2004). According to Kothari (2005), descriptive design describes the present status of a phenomenon, determining the nature of the prevailing conditions, practices, attitudes and seeking accurate descriptions. The design was therefore, effective for the study as it explores on the role

played by actors in small business in rural-urban linkages and seeks to identify any links between the actors and relevant stakeholders.

A mixed method approach (quantitative and qualitative) was used to gather both primary and secondary data. The method offers enormous potential for exploring new dimensions of experience in social life, and intersections between them (Amazon, 2006). Quantitative research methods deal with the measurement of concepts with scales that either directly or indirectly provides numeric values (Zikmund *et al.*, 2010). These numeric values are then used for statistical computation and hypothesis testing. Further, through hypothesis testing,

Quantitative research methods determine the generalisability of the data from the sample to the population. This type of research generates statistical data through the use of fairly large scale survey research collected through questionnaires or structured interviews. In order to gather standard information, from the much distributed SMEs in both towns, structured questioners were administered.

Qualitative research, on the other hand, involves the interpretation of phenomena without depending on numerical measurements or statistical methods. It is mainly concerned with observing, listening and interpreting phenomena (Zikmund *et al.*, 2010). The main data collection method is through in-depth interviews, observations or focus groups. Whilst qualitative researchers review transcripts, interview recordings, notes of focus groups or participant research, those who favor quantitative methods rely on statistical techniques aided by software packages. In the current study, six in-depth interviews were held, three in each town. In order to improve accuracy of the data collected, Triangulation of methods was also used where observation were combined with interviews.

General approach and sampling procedures

The fieldwork for this study was carried out in two phases between 2010 and 2011. The first phase was a general survey of 200 SMEs using a standardized pre-coded questionnaire. Before that, literature research was done on the topic to gain a clearer perspective and deeper understanding of the research problem presented in Chapter 1A. The second phase consisted of in-depth inter-views or case studies with Market Masters, Town Revenue Officers and one trader from each town.

Selection of SMEs for the general survey

Based on a representative sample and using the SMEs as the unit of research, the general survey aimed at generating quantitative data to obtain overall information on: (a) demographic characteristics, (b) nature and status of the business e.g. source of supply, clientele base and chain of trade, (c) job creation (d) entrepreneur parse e.g. push or pull factors to business, source of capital, relevant training in business, interest in mentoring and tax advice, number of dependants and where they lived, visitation of family members, entrepreneur's visits to other family members and interaction with other stakeholders *vis a vis* municipal council public and private organizations and NGOs.

Bearing in mind that, SMEs in both towns are scattered in buildings, streets and in the market and that they fall into service, trade and manufacturing categories, an all inclusive and representative sampling process was required. To achieve this, a multi stage cluster proportionate random and simple random sampling procedures were used. The steps in this process involved systematically answering the following questions related to the sampling design.

(1) How were clusters defined?

For Karatina, the town was sub divided into 14 clusters for the purpose of this study. This excluded the shoe's market; potatoes and main market. The clusters were assumed to have similar characteristics in terms of location of the businesses (both building and street businesses) and inclusive of all the three categories of SMEs. In the first stage, 4 clusters were selected from the 14 clusters using simple random sampling. All the businesses in the selected clusters were eligible to be interviewed. However, due non-cooperation and non availability of some respondents, a multi stage cluster random process was conducted without replacement till the desired respondents were achieved. In the three markets, Simple random sampling was used to choose the respondents.

Due to its small size in terms of the economic activities, Sagana town was divided into 10 clusters. In the first stage, 3 clusters were randomly chosen, and this was followed by multi stage cluster random process till the desired respondents were interviewed. In the market (Sagana has only one market), traders were randomly selected to participate in the interview.

(2) How many SMEs were interviewed?

Even with a mathematical formula, there are no universal laws about the sample size (Mugenda and Mugenda, 1999). However, guiding principles do exist. Guided by previous experience in CREATING and CORUS programs, available resources (financial, human and time) and going by the fact that a number of small businesses remain unregistered in Kenya, we decided on a workable sample of 200 SMEs. In Karatina, 130 questioners were administered, with 100 being in the clusters while the rest was done from main food market (20) and five (5) each from the shoes and potatoes markets. In Sagana, a total of 70 respondents were interviewed, 50 coming from the clusters and 20 from the only market in the town. In our view, the combined figure of 200 was an optimum sample that fulfilled the requirements of efficiency, representativeness, reliability and flexibility and also manageable given the available resources and time.

3) Selection of respondents for in-depth interviews

Purposive sampling was used in the selection of respondents for the in-depth interviews. Purposive sampling is a sampling technique that allows a researcher to use cases that have required information with respect to the objectives of the study (Mugenda and Mugenda, 1999). Eight (8) respondents (4 from each town) were selected. These included Revenue Officers from the local authorities, Market Masters, one trader and a client from each town. Though Karatina has 3 markets as earlier mentioned, they are all served by one Market Master. For the traders and the customers, the researcher established a rapport with them during a formalization tour in the study area and kept in touch with them in the whole research process.

Methods of data collection

The traders' general survey

Data collection for the general survey was carried out from April to June 2010 and June to July 2011. A standardized pre-coded questionnaire was used for the survey. The survey was preceded by an intensive period of re-familiarization with Sagana and Karatina town, developing the sampling design, pre-testing the questioner and training the four field assistants. Having been involved in CREATING and CORUS programs, the researcher had research experience in SMEs in mountainous areas in East Africa. The programs dealt on research in mountainous regions in Mt. Elgon (Uganda), Rungwe Mountains (Tanzania) and Mt. Kenya (Kenya). Using locals as

field assistants, it was easy to establish rapport with respondents after a brief introduction. Except for very few cases, the respondents were willing to collaborate with the research team and offer the information required as they understood the importance of the research. Further, the research permit obtained from the Provincial local authority Officer at Nyeri (Appendix 2) had directed the town clerks in Sagana and Karatina to offer the researcher any possible assistance. This worked well in the markets and Municipal Council's offices where the Town clerks introduced us to the respective Staff Officers and Market Masters. The respondents to the questionnaire were only the owners of the business.

The general survey questionnaire

The general survey questionnaire was developed from review of the relevant literature, discussion with my supervisors and from earlier fieldwork experiences. The questionnaire which is presented in Appendix 3 was organized in four main sections. The first part consisted of questions regarding the trader's demographic characteristics; sex, age, marital status and level of education. The second part was on the nature of the business. This was the largest part of the questionnaire and consisted of questions dealing with characteristics of the business; location, category, registration, source of supply, clients, chain of trade and monthly turnover. The third section was on job creation. This section sought information on the number of employees, where they came from, and how much they earned per month. The fourth part was on the entrepreneur (the business owner). The section targeted information on push or pull factors to business, source of capital, relevant training in business, interest in mentoring and tax advice, number of dependants and where they lived, visitation of family members, entrepreneurs visits to other family members and interaction with other stakeholders *vis a vis* municipal council public and private organizations and NGOs.

Piloting

Following the development of the questionnaire, a pilot study was carried out to ensure that the items in the questionnaire were stated clearly, had the same meaning to all the respondents, and also to give the researcher an idea of approximately how long it would take to complete the questionnaire. According to Mugenda and Mugenda (1999), pre-testing of the instruments ensures that items in the instrument are stated clearly and have the same meaning to all

respondents. A total of 30 questioners were administered and the respondents were informed that the questionnaire was a pilot for a larger study. The data obtained was analyzed and the results formed part of the final results of this study.

Validity of the questionnaire

The study instrument was content-validated. According to Donald and Pamela (2001), content validity is determined by an expert judgment. The university supervisors scrutinized the instruments to find out whether they addressed all the five specific objectives of the study that they intend to measure and ensure its appropriateness, completeness and accuracy. They were relied upon to determine whether items in the instrument were adequate representation of all the areas that are under investigation.

Reliability of questionnaire

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Kothari (2009), reliability refers to consistency of measurement; the more reliable an instrument is, the more consistent the measure. The researcher used split-half procedure to test the reliability of the questionnaire through piloting. The split-half reliability technique involves splitting items in a scale into two halves and correlating the results of each half with each other. If the correlations are high, then both parts of the scale are deemed to be measuring the same construct. A test was administered to a group of 10 respondents at random. The test was split into halves (each half is an alternative form), finally the results from one half were correlated with the results from the other one half to determine the reliability.

In-depth interview schedule

To generate wealthy information on the problem under study, the second phase of the data collection involved face-to-face interviews with some selected respondents as discussed earlier. The interviews were carried out between June and July 2011 after a preliminary analysis of the general survey results. The purpose of these interviews was to clarify issues from the questionnaires and quotations from these interviews are used to support the quantitative data. These interviews were carried out among eight respondents (as earlier discussed) and were selected through purposive sampling. Each interview was conducted in the respondent's work

place and lasted between 1 and 2 hours. Interviewees' were assured of anonymity and confidentiality during the interviews and in the reporting of the interviews. The interview items were mainly derived from the questionnaires and are presented in Appendices 3. The interviews were transcribed and where relevant, quotations from the interview transcripts were used to support the results from the statistical analysis.

Data Analysis

The Data was cleaned and entered for analysis using *Le Sphinx* statistical Package. Analysis used both descriptive and inferential statistics. Descriptive statistics were computed to obtain a general understanding of SMEs' characteristics (the business and the entrepreneur), nature of business and interaction with other stakeholders. Inferential statistics were computed in the second stage of the analysis. The purpose here was to test a number of hypothesized relationships so as to make generalizations of the findings from the sample to a larger population. Unlike the general survey data which was representative of target population, the in-depth interviews were not meant to be statistically representative, but to complement the general survey results.

PART TWO

CHAPTER 2A

Diverse and dynamic SMEs in small towns

The first objective is to investigate the general and specific characteristics of SMEs sub-sectors in a small town. This objective is guided by the assumption that due to their rural-urban linkage function, the SMEs in Karatina and Sagana exhibits different characteristics to those of Small enterprises elsewhere in the country lacking the linkage function. Information is therefore sought on actors, enterprise and sub-sector characteristics in the towns in question. The findings are further compared (mostly) to those obtained from National survey of 1999 and other earlier studies carried in 1991, 1995 and 1996 in different parts of the country. To gain more insight to these characteristics, the chapter first introduces the general outlay from the economic perspective of the two towns.

The general economic outlook of the towns

Karatina town

A transect walk in Karatina town reveals an active economic environment, with diverse economic activities. This is reflected by the many commercial banks, traders and farmers' Saccos. The town hosts Karatina Market, so called 'one of the largest markets in sub-Saharan Africa'. The Market is famous for its fresh fruits and vegetables and operates on Tuesdays, Thursdays and Saturdays, with Saturdays being the busiest day. In the rural catchment, people practice small scale tea, coffee, dairy and horticultural farming (see Photo 2). According to statistics from Chief Revenue Officer in Karatina, the town had 3,302 registered SMEs in 2011. The total collections from business permits, market fees and stall rent totaled Ksh 40 millions in 2010.

Photo 2: Small scale tea farming in rural catchments of Karatina town



Source: H. Mainet (2009)

The patterns of Land ownership and land use can clearly be seen. The two are important determinants of the economic links with SMEs in Karatina town.

Sagana town

Sagana is a relatively smaller town in terms of trade activities and had 400 registered SMEs. Transect walk around the town reveals fewer and dispersed businesses activities as compared to Karatina (see Photo 3 and Map 3). The town is surrounded by rich agricultural hinterlands, where small scale farming of high value crops, cash crops and dairy farming. The town hosts

Sagana market which is also a smaller market compared to Karatina. However, Sagana is home to various National and Multinationals storage and packing facilities. According to a report obtained from the Town Council's office the total revenue collected from SMEs in 2010 totaled KSh 14.5 millions.

Map 3: Sagana town



Source: Google map, slightly edited to fit the current study

Note the Nairobi-Nyeri/Isiolo highway transecting the town. Left is one of big storage facilities in the town (National Cereals Board). Despite this, the economic activities of the town remain low as depicted by the sparsely distributed structures and large open fields.

Photo 3: Sections of Karatina town (left) and Sagana town (right)



Source: E.Kihonge (2011)

Who are the Actors?

This section presents the characteristics of the respondents as follows: age, gender marital status and level of education.

Gender

Enterprises differ between men and women owned enterprises and this may determine how they play part in linkages. According to the National survey of MSEs (1999), 52% of the enterprises were owned by men, while women owned 48% of the enterprises. The survey further indicated that some differences emerged when the analysis were done by location of enterprises, with women owning 52% of the MSEs in the *urban areas*² compared to 48% for their male counterparts. In the rural areas however men owned proportionately more MSEs (54%) compared to their female counterparts (46%). According to the Survey, this latter category is where Sagana and Karatina can be considered to be as there are not in the 'urban category'

From the findings of the current study, 55.6 percent of the enterprises were owned by men with their female counterparts owning 44.4% of the enterprises. This is an interesting observation, because a comparison with the National survey shows a slight increase in men owned enterprises, but a decrease in women owned enterprises. This can be attributed to the fact that, Karatina and Sagana are rural towns. In the rural Kenya where illiteracy level is high especially in women, men are known to dominate the family set-up economically. Married women enter the MSEs to help their husbands in boosting the family's income. The husbands provide in most

cases the capital for starting the business. However, sometimes the husbands feel threatened by the success of such businesses and withdraw the financial support or bar the women from operating the business. This factor is well portrayed in the case study on Karatina market (“*the woman trader and the falling snow*”) in Box 5.

Education

Education is the foundation for socio-economic growth and development of economies worldwide. It is crucial to analyze the educational attainment of entrepreneurs in both Karatina and Sagana to ascertain their level of understanding of issues and management of SMEs. This was done to examine the extent to which people who run SMEs have the capacity to manage their activities and as well contribute to the growth and development of the small towns and their rural catchment. To gain further insight to this variable, analysis is sought on relationship between education levels and monthly turnovers as well as membership in business associations. The results were further compared to the National Survey of 1999.

From the study findings, the education level of those who started the enterprises ranged from those who had only primary education to those had attained university education. Most however had secondary level of education. Looking at the level of education by gender, the finding also indicates most of the women entrepreneurs had their education concentrated at the level of secondary. Sagana is found to have more educated SMEs as most had attained primary education (Table 4). This is an important finding since women have been tending to lag behind in education in developing countries.

According to the National SME survey (1999), majority at 75% had primary education, followed by those who had secondary education who stood at 33.1%. Only a mere 1.8% had post secondary education.

Table 4 gives a comparison between the current study and 1999 and shows that the SME entrepreneur is today more literate and educated than the SME entrepreneur of 1999. According to 1999 survey report, this could be attributed to the rising levels of unemployment among secondary school and university graduates who eventually end up in the sector as an action of last resort. This is further supported by a survey carried of urban SMEs by Shimooka (1996), which gave a high concentration at the primary school level with 62% followed by secondary with 36% primary and 2% with post secondary education.

Table 4: A comparison of education levels in both towns and at National level in 1999

Education level	Sagana	Karatina	National Level
Graduate	16.0%	15.4%	1.8%
Secondary	52.8%	46.4%	23.2%
Primary	23.2%	38.2%	75.0%
Total	100%	100%	100%

Source: E. Kihonge (2011) and National SME Survey (1999)

The fact that Sagana had more educated SMEs could not be substantiated by the current study, but this revelation is very significant for socio-economic growth of the town since education is a necessary factor for any meaningful and sustained development.

Another parameter investigated in relation to education levels is the type of organization to which SME entrepreneurs belong. According to 1999 National Survey, it was clear that most entrepreneurs (76.3%) were not members of any of the indicated associations. However, looking further at the distribution of the remaining who are members of any of the associations, the survey showed most popular associations were merry-go-rounds but mainly among those who either had basic primary education or those who had gone up to secondary school. For university level entrepreneurs, the most popular association was 'other business association' which included Professionals Business Associations.

Though the current study findings concur with the above survey on education level and type of business associations, there is a significant discrepancy on SMEs who did not belong to any business association. The study reveals that 81.6% of the SMEs in small towns did not belong to any of these associations, as compared to 76.3% at National level in 1999. This that can be attributed to either increased innovation of banking products tailor made to the SMEs, a cause supported by the fact that most of the respondents believed on banking institutions for both financial and non-financial services.

Age

Age distribution is very essential for any meaningful analysis. The age of the entrepreneur could have a bearing on the dynamism of the enterprise as age has a bearing on experience, health and drive of the entrepreneur. According to 1999 National SME Baseline Survey, the mean age of entrepreneurs was 35 years, with men entrepreneurs being slightly older than the women at 36 and 33 years respectively. The mean age of entrepreneurs in the urban areas was found to be 35 years for men and 33 years for women. In the rural areas, the respective ages were 36 and 34. Thus rural and urban MSE entrepreneurs by gender were virtually not substantially different. On analyzing the age factor further by age groups, the survey observed that most (83%) of the entrepreneurs were in the age bracket 16 to 45 years, with the 56 years and above bracket (the retirement age from formal sector) having no major investment interest in the SME sector. The participation of this group was however, indicated to be slightly higher in rural areas than in the urban.

Table 5: Summary of demographic characteristics of the respondents

Demographic characteristics	Karatina	Sagana	General Percent
Age			
18-35	78.3	64.5	70.0
36-60	20.3	31.0	27.0
61 and over	1.4	4.5	3.0
Gender			
Male	50.7	59.1	55.6
Female	49.3	40.0	44.4
Marital status			
Married	69.7	68.2	68.4
Single	30.3	31.8	31.6
Level of education			
Graduate	16	15.4	15.7
Secondary	32.8	46.4	49.6
Primary	23.2	38.2	34.7

Source: E.Kihonge (2011)

In the current study the average age of the SME entrepreneurs in the small towns is 34.5 years which has no significant difference with the National Survey of 1999 which also gave almost the same value for both urban and rural SMEs. Also on analyzing the age factor further by age groups, the currently study findings can be said to tally with those of the National level in 1999 as majority of the SME owners were found to be in the age bracket of (18-35 years), which stood at 70%, followed by 36-60 age bracket at 27%, those above 61 years were only 3%. Two thirds of those above 61 were found to be women. However Sagana town was noted to have more youthful entrepreneurs while Karatina had a significantly higher number of those who were 61.

Distinctiveness of the enterprises

This section presents the study results on business characteristics, which includes: start-up, size and business training. These characteristics are important in determining rural-urban linkages and their contribution to enterprise performance. The nature of linkages and their benefits by firms for example are likely to differ by firm size. Studies have shown that large firms are more likely to receive more loans, have higher indebtedness, rely less on informal loans, and have more access to credit compared to the small firms, the majority of which get their loans from informal sources of finance. The success of the small entrepreneur depends also on the presence of 'related and supporting' services for example entrepreneurship/business training.

Age of the enterprises

The age of enterprise is very essential in this study because it highlights the presence of young and old enterprises that operate in Sagana and Karatina. The enterprises varied in their age from less than one year to those over 10 years, with average age being 2.11 years. The data further showed that about 70.8% of the enterprises in the sample were started in the last 5 years with only 13.3% being over 10 years. This is an important outcome, which conformed to the observation that the informal sector in Kenya has been very dynamic since 1990s.

Due to major decline in the formal sector, resulting from the implementation of economic reforms as well as economic stagnation, many businesses have been created on a weak stand which has seen frequent closer and birth of new SMEs.

The national survey shows that 50 percent of the SME closures had occurred within three years of startup, with closures peaking before the end of the first year. This is because SMEs are

particularly vulnerable during the fragile initial years when they are learning how to operate the business.

Sources and size of the seed capital

According to the National Survey (1999), there has been an upward trend in the minimal amounts of start-up capital since 1993. In 1993, the percentage of MSEs starting with Ksh 10,000 or less was 89%, in 1995 this was 88.4%, in 1999 this was 81.2%. In the current study, those in this category are 46.8% as per 2010. However, the big difference in a range of the 11 years cannot be taken as the general National outlook since the study focuses on small towns in productive agricultural areas. Also the value of the shilling has been on declined over the years and this has a great impact on the observed trend. On the other hand, though the current study concurs with the National Survey, that for all the years, the amount of start-up capital is quite small for most SMEs with the main source of start-up capital being overwhelmingly family or personal fund, the percentage of those who use this source of funding seems to less in the towns in question.

From the study, who started businesses with personal savings were the majority (74.5%), as compared to 90.4 percent in same category in 1999. Notably 21.7 percent started with bank loans. Though this can be attributed to the reformed banking sector in Kenya with lending policies which are more friendly to SMEs, a lot has to be done to increase access to credit for starters who mostly lack security collaterals and supportive business documents like cash flow statements. This concurred with the results from other studies which show that SMEs used less credit capital compared to large firms, most of which obtain credit capital. This finding is similar to that observed in 1993 and 1995 as well as in other studies (Oketch *et al*, 1991). Thus there is much need for financial support to SMEs.

Looking at the source of finance by gender, we find that most (71.4%) of women entrepreneurs started with personal savings, while only 10.4% used loans and another 5.2% used social grants such as pension. Majority of these businesses (32.6%) were started with a capital base in the range of Ksh.10,000 to 50,000, with 20.6% of the businesses having being started with over Ksh.50,000 (see Table 6). These aggregate results were also reflected in individual towns with little or no difference when a comparison was done.

Table 6: Initial Capital

Range	General (%)	Male (%)	Female (%)
Ksh 500 or less	4.0	57.1	42.9
Ksh501-1000	2.9	60	40
Ksh1001-2000	5.1	55.6	44.4
Ksh2001-5000	15.4	48.1	48.1
Ksh5001-10,000	19.4	44.1	55.9
Ksh10,001-50,000	32.6	56.1	42.1
Over 50,000	20.6	69.4	30.6
Total	100		

Source: E.Kihonge (2011)

Size of the enterprises

According to National survey of 1999, the average size of SMEs in Kenya was about 1.8, this corresponded with 1.8 for Botswana, 1.8 for Eritrea, 1.9 for Lesotho and 2.1 for Zimbabwe. In aggregate, there seemed to be much difference between urban and rural localities with respect to average size of enterprises with the SMEs in the rural towns and rural areas being somewhat smaller.

In the current study, the average employees per SME were found to be 1.62 employees. This may have resulted from the age of the businesses. From the findings, there was a positive correlation between the size and age of the business. As indicated earlier, most businesses were started in the last 5 years which implies that most were small in size.

The results further indicated that majority (53.3%) of the firms had no employees. Those who had between 1-2 employees were 29.4%; this was followed by SMEs who had 3-5 employees (8.3%). Only a few enterprises (9%) that had between 6 and 10 employees.

Entrepreneurship Training

From the study findings, 90% of the entrepreneurs quit their earlier employment due to low payment and started businesses to improve on their earning. However, only 13.9% of them had training in business related activities, which was mostly provided in schools at post secondary

level. The results concurred with the National Survey of 1991, which found out that 85% of the entrepreneurs have not received any entrepreneurship training.

Most of these entrepreneurs were found to be more in Sagana than Karatina. On being asked if they would be interested in receiving business mentoring, 57.3% of those who were found to have no business training answered on affirmative.

The SMEs Sub-sectors

The SME sector has been largely analyzed from a general perspective. However, though SMEs exhibit some similar business evolution and development characteristics, the sector can be broadly categorized into three (3) categories: Service, Trade and Manufacturing. With Kenya being an agriculture-led economy and a net importer, there may exist a great discrepancy in terms of how the players, especially in manufacturing and trade, fare in a liberalized market. This is further emphasized by the fact that the study focused on small towns which are mostly disadvantaged in terms of connectivity to the wider world, energy and low local customer base, factors which might impact differently on individual sub-sectors.

The study therefore, sought to gain more insight into operations and dynamics of each category. This was achieved through a comparative analysis of each sub-sector in terms of gender representation, education levels of actors, wealth generation and employment creation. The study further analyzed SMEs' views in each category on general performance of the National economy. This was done to gain insight into the SMEs' micro economic performance in context of national/global market.

The Trade sub-sector

In Kenya, trade sub-sector mainly refers to retailers and middlemen of agricultural products, but for purpose of this study, the sub-sector was considered to comprise of both retailers of agricultural and non-agricultural products. From the study findings, majority (63.1%) of SMEs were found in this category, with most of them dealing with agricultural products. These findings were in agreement with the National survey which found that close to two-thirds (nearly 66%) of the SME entrepreneurs were in trade. As noted in the national Survey report, the dominance of trade over the other sectors is not uncommon in many developing countries though

in some other countries manufacturing sometimes dominates the scene due to relatively easier access to raw materials.

According to the SME National Survey, although the dispersal of men owners among the other sectors was not significantly higher, it was conspicuous that the prevalence of women was almost exclusively in trade as 75% of all the enterprises owned by women were trade. However, from the current study findings, although majority of the women enterprises were in trade, it was not with a big margin as reported in the 1999 survey. The current study findings indicate men leading in other sectors but slightly outweighed by women in the trade sector (see Table 7). This might explain the fact that, in Sagana there existed a bigger gender gap mainly due to a relatively smaller market which meant decreased agricultural trade and hence less women entrepreneurs as compared to their male counterparts.

Table 7: Gender Representation in different SME categories

Gender			
Sub-sector	Male	Female	Total
Service	70.7%	29.3%	100%
Trade	49.5%	50.5%	100%
Manufacturing	55.6%	44.4%	100%

Source: E. Kihonge (2011)

The 1999 survey seemed to indicate that income from SMEs is greater in trade than in manufacturing, and it gave this reason as to why trade actives dominated the SME sector. However, if income was the main reason why women are in trade, it is not clear why men also did not want to take advantage of that situation.

In fact, the findings on income generation and wealth creation, from the current study indicates that though in overall the enterprises in this sub-sector emerged as the best in terms of employment and income generation due to their high number, when income generation per enterprise was analyzed, the category was second to manufacturing, with approximately, 58.6 percent making between Ksh 10,000 to 50,000. Almost 24.3 percent in this category made over Ksh 50,000.

The real reason why trade sector attracted more women in the current study could be the relatively less demand both for initial investment capital and prior training compared to activities in manufacturing or service Sectors.

Photo 4: Traders in Karatina market



Source: H. Mainet (2009)

The high number of women traders (as compared to men) can be noted from the captured market section. Also to be noted are the small scale trade activities which mostly requires no extra employee.

As the survey report concludes, while a more targeted sector by sector income study might be very useful, a more diversified study of what may be preventing entrepreneurs from being attracted to the other two sectors (i.e. manufacturing and service) might be more helpful to inform policy initiatives.

The findings of the current study further concurred with the 1999 survey on the negative correlation between the size of the enterprise and the trading activities. The survey findings consistently showed that as the size of enterprise increases the dominance of trade decreased. From the findings, trade category emerged to be mostly a 'one man show', with 56.8 percent having no extra employee apart from the owner. Those enterprises which had more than one employee were mostly in the service and manufacturing sub-sectors. A finding that can be attributed to the fact that most of trade activities involve retailing which mainly is not labour intensive. This may be supportive evidence of the investment constraints which steers women (and some men) to petty trade activities.

The trade sub- sector was expected to have gained a lot from trade liberalization. The liberalized economy resulted to privatization of Government marketing bodies which were politically controlled and corruption invested, this resulted to farmers gaining less from their sweats.

The findings of the study indicated that 47.7 percent of these entrepreneurs believed there was improvement in the National economy performance in the last five years. Their rating on this aspect was second to service category where 60.3 percent believed there was an improvement over the same period.

Service sub-sector

Service sub-sector was the second largest with approximately 31.8 percent of total enterprises. Just like other sectors, there was no significant difference on percentage representation of this category when a comparison was done between the two towns. Compared to manufacturing sector which had 44.2 percent of the SMEs who were 5 years old or less in operation, service sector had 75.9% of businesses having operated within the same period. This can be explained by the fact that more modern businesses were observed in context of Information and Communication. Such included: retail banking, phone repairs, cyber cafes and electronic money transfer.

If what was reflected in the findings is to true for other towns, then modern businesses will remain to be a male culture in Kenya. Unlike other sub-sectors, men highly dominated the service industry, with almost 70.7% of total enterprises in this category being men owned.

Though there was no significance difference in overall education qualifications between men and women, factors such as training, skills and high capital may have locked the woman gender out

of service industry. This sector was noted to have more youthful and educated entrepreneurs than trade and manufacturing. From the findings, almost 69% respondent had at least attained secondary education, with 25.9% of them being graduates of either university or middle level colleges, which again boils down to skills and training needed to run these ventures.

Compared to trade which had 64% of the respondents below 35 years of age, 81 percent of entrepreneurs in this category were below 35 years. The industry came second to manufacturing in employment density with almost 51.7 percent of the businesses having at least one employee, with 8.6 percent employing between six and 10 employees. On income generation per entity, the sector scored poorly than the other two, with almost 48.3 percent of the SMEs making between Ksh10, 000 to 50,000, those who attained a monthly turnover of over Ksh 50,000 were 27.6 percent. Manufacturing which lead in this aspect had almost 77.8 percent of SMEs which made between Ksh10, 000 to 50,000 and those who made over Ksh 50,000 were 11.1 percent.

Photo 5: A private school in Karatina town



Source: E. Kihonge (2011)

But despite their relative low monthly turnover SMEs in services category had a more positive view of the National economy performance with almost 60.3 percent believing the economy had improved in the last five years (see Table 8). These two factors may be explained the type of ownership structure mostly found in service industry. A number of services such as money transfer and retail banking which have currently peaked in Kenya, are mostly under the control of respective parent companies or institutions and therefore the entrepreneur earns only a commission from the total monthly proceedings. Secondly, the marketing and prices control of such services is left to the parent company which in a way cushions the entrepreneur against the dynamics of the macro-economic performances.

Table 8: A comparison on views of National economy performance among the sub-sectors
Do you believe the national economy is?

Sub-sector	Improving	Static	Declining	Total
Service	60.3%	19.7%	20%	100%
Trade	47.7%	28%	24.3%	100%
Manufacturing	33.3%	30.2%	36.5%	100%

Source: E. Kihonge (2011)

Manufacturing sub-sector

A strong and vibrant manufacturing sector can spur agricultural production through backward linkages. However from the results, very few entrepreneurs (5.1%) had ventured in this sub-sector, a number which differed with earlier research results. According to a study conducted by Liedholm, in 2001, small manufacturing industries comprised a high percentage of SME sub-sector in rural towns in Africa. In the current study, the low percentage in the category can be attributed to Sagana and Karatina being near big urban centers which offered stiff competition to the local small enclave industries.

The manufacturing ventures were also found to mainly involve simple traditional manufacturing activities such as wood and metal products. According to the National survey on Kenya Labour Force (RPED, KMES, RPED, 2000), food, textile, wood and metal comprises about 73 per cent of the manufacturing sector in Kenya.

The women were found to do fairly well as compared to Service sub-sector, with 44.4% of this category being woman-owned. This was in line with the increased interest in women participation in manufacturing, among policy makers, academics and practitioners in Kenya, which comes from the recognition that women are capable of creating oriented firms with the possibility of becoming nationally or even internationally competitive.

Never the less, though there was an almost equal gender balance in this sub sector, most women were found to be in home based manufactured products such as sisal ropes and sisal baskets. More technical production such as tailoring, metal, concrete and wood work was mainly male owned. This is can be attributed to the fact that these are undertakings which are highly influenced by factors like education, training, capital requirements and premises. These factors may restrict women to mostly home based productions.

Though Kenya has experienced a rapid expansion in its education system, SMEs in this sub-sector were mainly primary school graduates (66.7%) and only 33.3 percent had attained secondary school education, none of the respondents who were interviewed had a post secondary education (see Table 9). This agrees with the Kenya Labour Force (RPED, KMES, RPED, 2000), which indicated a general decline over the years of individuals without education in the manufacturing workforce.

Table 9: Comparison of Education level of SMEs in manufacturing with other categories

Sub-sector	Highest level of education			Total
	Primary	Secondary	Graduate	
Service	31.0%	43.1%	25.9%	100%
Trade	29.7%	53.2%	17.1%	100%
Manufacturing	66.7%	33.3%	0.0%	100%

Source: E.Kihonge (2011)

This may be explained by earlier results that most of these SMEs consisted of mainly tradition production and not export oriented large firms which needed high skilled labour force. However, upon being asked if they would be interested in receiving business mentoring, those in

manufacturing showed a high interest as compared to other categories. This may be interpreted that they appreciated earlier training in skills in their respective disciplines and therefore optimistic that such mentoring would make them better in their businesses.

Photo 6: Traditionally manufactured open shoes on sale in Karatina market



Source: H. Mainet (2009)

Compared to the others sub-sectors, manufacturing industry arguably led in employment and income generation. When analysis were done per unit entity, most (77.8 percent) of SMEs in this category had a monthly turnover of between Ksh10, 000 to 50,000. Those who made over Ksh 50,000 were 11.1 percent. In trade, which can be ranked second, 58.6 percent made between Ksh 10,000 to 50,000 with almost 24.3 percent making over Ksh 50,000.

Again on per unit analysis, manufacturing industry was found to have a higher employment density, with almost 56.6 percent of SMEs in the category employing more than one employee

(exclusive of the owner), with 11.1 percent of these having more than six but less than 10 employees. In service category, which can be ranked second on employment density, almost 51.7 percent of the businesses had at least one employee, with 8.6 percent employing between six and 10 employees.

Photo 7: A manufacturing shed and a woman trader in Sagana town



Source: E.Kihonge (2011)

Note the gender and the premises factor in the two sub-sectors

However, on aggregate the manufacturing industry scored the lowest in income generation and employment creation due to their small number in both towns. Those who were in this sub-sector were also noted to be less optimistic on economic performance with only 33.3 percent of SMEs believing the economy had improved in the last 5 years, as compared to those in service where 60.3 percent believed the nation economy had improved in the same period.

This sub-sector was expected to be hardly hit by market liberalization due to cheap imports. Also the industry mostly depends on imported raw materials which included timber, metal, leather, cement and cloth material. The prices of these materials have hiked over the years due to increased inflation. Also the industry uses mainly electric energy in its production. Electricity charges have continued to hike due to high global prices of petroleum.

Conclusions on the Chapter

The following section gives the conclusions of the chapter as comparisons and contrasts of the characteristics of SMEs in a small town set-up versus characteristics of the same at National level *vis a vis* other rural and urban areas.

Actors' characteristics

On Age and gender, though the number of male owned enterprises was more than their women counterparts as reported in other studies at National/different urban & rural areas (men at 52%), the gender gap was more pronounced in the small town set up in favor of men (55.6%). This factor can be attributed to the fact that the small towns are more in touch with rural settings, where the African tradition of male dominance in social and economic cycles still exists. Looking at gender by the sub-sectors, the female owned enterprises were expected to far much outweigh the men as reported in the 1991, 1996 and 1999 reports by Oketch *et al*, Shimooka and GOK respectively (approximately 75%).

However in the current study, the men came out strongly (49.5%) and stood almost at par with the women. Never the less, most SMEs owned by women were in trade sub-sector. The woman factor in trade was even less pronounced in Sagana as compared to Karatina, mostly because of the fewer trade activities in the town due to the smaller market. On the age of the entrepreneur, the current study was in agreement with previous mentioned studies which found the mean age to be 35 years, with the current study average being 34.5years.

On education, the findings from the current study concurs with the earlier findings that educational level of SMEs has been on the increase (if analyzed from the general perspective to the specific town set-up). In 1996, the SME entrepreneurs who had only primary education stood at 75% in 1999 at 62% and in the current study (2010), the same category stood at 30.75%. Though the increasing trend may stand for other small towns in the country, the percentages of

those having only primary education are likely to differ as Central province is known to be well established with education facilities and awareness as compared to other provinces.

On comparing the education levels per town, Sagana was noted to have more educated and youthful entrepreneurs than Karatina. However, if this translates to better management of the SMEs and thus boosting the economic development of the town, hangs on balance as most SME entrepreneur said there were in business to look for greener pastures, which means there were pushed into business by circumstances and lack of other alternatives.

Still on education, though the current study and the past studies established a relationship between education level and the type of business association with the less learned SME entrepreneurs opting to join '*merry-go rounds*' and their learned more professional associations. The interest in both associations seems to be on the decline as more SME entrepreneurs in the current study (81.6%) did not belong to any business association, as compared to 76.3% in 1999 who did not belong to any business association. A move that can be attributed to more improved banking networks with more friendly terms to the SMEs, as most members join the associations to benefit from credit facilities.

Enterprise characteristics

On start-up capital, an increasing trend was noted on the amount of seed capital in comparison with earlier studies. Since 1993, the percentages of those starting with Ksh 10,000 and below have been on the decline. In 1993, the percentage of MSEs starting with Ksh 10,000 or less was 89%, in 1995 this was 88.4%, in 1999 this was 81.2%. In the current study, those in this category are 46.8% as per 2010. However, though the current study concurs with the National Survey, that for all the years, the amount of start-up capital is quite small for most SMEs with the main source of start-up capital being overwhelmingly family or personal fund, the percentage of those who use this source of funding seems to less in the towns in question. From the study, who started businesses with personal savings were the majority (74.5%), as compared to 90.4% in same category in 1999. Notably 21.7 percent started with bank loans.

On age and size of the enterprises, despite both towns having a rich history most of the businesses were started in the last five years. This was in agreement with the national Survey which established a positive correlation between the age of the businesses and their size. Due to many businesses being young, the average size of the businesses was also smaller with an

average of 1.62 employees per enterprise. This was below the average size in 1999 National survey of 1.8 employees per enterprise. Only 13.9 percent of the entrepreneurs had business/entrepreneurship training which was mostly provide in schools at post secondary level.

SMEs Sub-sector

As in many developing countries, the trade sector emerged the most preferred sub-sector. However, in the current study, the sector emerged to be of the aged and less educated. A negative correlation between the sub-sector category and the size of the business was also established. Just like in the 1999 survey, the trade activities seem to disappear as the enterprise increased in size. On the other hand, the expected female over dominance in the trade category was missing, with almost an equal gender representation.

Though the trade category was the overall best, in income generation and employment creation due to the large number of enterprises, manufacturing industry had the highest income and employment density, when analysis when done per entity. This was in contrast with 1999 National survey which had indicated the trade sub-sector to be the best in terms of income generation. Never the less, the manufacturing sub-sector was found to be less developed with most of the enterprises being traditional and homemade.

The Service category which proved to be bigger and modern was mostly a man show affair and was a favorite of the young and better educated. Entrepreneurs in this category were found to be more optimistic in national economy performance.

CHAPTER 2B

The diminishing role of SMEs in small towns in forward linkages and regional development

Small enterprises are often known to be more dependent on the local supply of inputs and services than the large enterprises. One hypothesis of the research was that the SMEs in small towns contribute to rural development by acting as markets for agricultural produce from the rural region, either for local consumers or as links to national and export markets. Access to markets is a prerequisite to increase rural agricultural incomes, and the proximity of local small towns to production areas is assumed to be a key factor.

Karatina and Sagana are surrounded by rich agricultural areas and hence one would expect their SMEs to be an import market from the agricultural activities around. In the rural hinterlands of Karatina, people practice small scale tea, coffee, dairy and horticultural farming. While Sagana neighbors Kagio which is famous for cereals and horticultural produces. However, these assumptions appeared not to be supported by the current research.

From these findings, only 12.4% of all SMEs got their supplies from the surrounding rural areas. This volume was relatively low as compared to SMEs who imported supplies from regional and National markets (51.5%), and those who got supplies from within the town who stood at 36.5 percent (see Table10).

Table 10: SMEs in small towns and sources of supplies

Source	Percentages	Trade
Within town	36.5	29.4
From rural areas	12.4	13.3
From other towns	51.1	57.3
Total	100.0	100.0

Source: E. Kihonge (2011)

The figure was also small in comparison with 28.1 percent of the SMEs who traded goods and service to their rural surroundings. The findings further indicated that of the 12.4 percent entrepreneurs, only 25.4 percent forwarded supplies to national or export markets. Majority of the SMEs (approximately 74.6%) served the local town consumers.

It can be argued that the small number of SMEs getting supplies from the rural region was caused by biasness of only one (trade) out of three sub-sectors rearing on agricultural produce. But this biasness was removed in sampling procedures by factoring in the total number of registered SMEs per sector (see methodology section). This therefore does not disqualify SMEs from the small role. We can probably conclude that majority of the supplies from the rural hinterlands either by passed the small towns or got to the small centres through large organisations or enterprises. Other factors which might have resulted to the observed low flow would have been; farming systems which discriminated small scale farming, poor transport and roads infrastructure and lack of storage facilities.

However, what was worthy noting is that despite the two towns having almost the same road and transport connectivity and most farmers having had practiced small scale farming in these areas, more SMEs in Sagana (14.5%) sought their supplies from rural areas than did SMEs in Karatina who stood at 10.5 percent (see Table 11).

Table 11: SMEs who sourced supplies from rural sources in the two towns

Town	Rural sources
Sagana	14.5%
Karatina	10.5%

Source: E. Kihonge (2011)

The presence of many storage facilities in Sagana may have facilitated the SME activities in the town, and therefore explain the observed difference. However, this was ruled out as there was no established direct link between the SMEs and the storage facilities in the town, most of which were owned by multinationals (see Box 2).

Box 2: The storage facilities in Sagana town

Sagana town had a notable presence of National and Multinational's Depots which acted as storage facilities for both agricultural produce from larger Mount Kenya region and for non-agricultural goods destined to the same region. The railway line was also sided by a number of go downs.

Surplus cereals from this region were stored in National Cereals Board Depot in the centre of the town. There was also a Horticulture Produce Cold Storage facility owned by the government. Sagana also hosts Kenol-Kobil depot for petroleum products destined to larger Mount Kenya and Sagana Fish Culture farm which is second largest in Africa to Kano in Nigeria. Kenya Breweries also has a depot in the town which services the better part of Kirinyaga, Muranga and Nyeri Districts.

However there was no established direct link between local SMEs and these large Enterprises. Even though, Sagana Tanaries which processed hides and skins for export and local use was a strategic market for SMEs dealing with these products. The entrepreneurs bought the hides and skins from the butchers in the locality, dried them through salting and later sold them at the factory.

Source: E. Kihonge (2012)

Photo 8: Kenol-Kobil Depot one of the storage/distribution centres in Sagana



Source: E. Kihonge (2010)

Subsequently, Karatina was observed to have a larger rural catchment area, with 28.4 percent of its rural supply coming over 30 Kilometres as compared to Sagana which had 20 percent supply within the same region. This might have resulted from increased economic activities brought by the competition from large organizations/enterprises within or around the town. A fact emphasized by the observation that SMEs in Karatina relied less on regional and national markets in supply, with approximately 40.8 percent of its SMEs sourcing supplies from these markets, as compared to Sagana which had 60.8% of SMEs getting supplies from these sources (see Table 12). This can be explained by the small intensity of SME activities among others in Sagana and significant presence of the same in Karatina.

Table 12: SMEs who sourced supplies from national and regional sources

Town	Regional/national sources
Sagana	63.8%
Karatina	41.8%

Source: E. Kihonge (2011)

From the findings, the marketing chain created by the Farmers Saccos/companies, the use of Information and Communication Technologies and contracting farming may have eliminated the SMEs in the small towns in linking the farmers and the outside world. Other factors may have included the poor road network to the rural areas and some rules and regulations from both central and local government which may have negatively affected the SMEs. Business operations such as hawking activities in raw milk, trade in timber and charcoal were also restricted. Others such as coffee and tea hawking were illegal.

Farmers Companies/Sacco's

Coffee, tea, rice, mangoes, French beans, passion fruits and dairy products were marketed through Farmers Saccos and companies. The Saccos, which were mainly found to have their main collection and storage points situated outside the towns, had collections centers all over the rural areas. The Sacco's were not only marketing centers, despite providing both financial and non financial services they also ensured better prices by control of quality and bulk selling and therefore emerging as strong competitors to the SMEs. A good example is the case discussed

below of Wakulima Dairies located in Rural Karatina. *The case was part of our fieldwork study with CORUS team in June 2011.*

Located in the rural hinterland of Karatina, Wakulima Dairy was started in November 1990 as a Self Help Group which was collecting milk from local dairy farmers and bulking it to for processing in Nairobi. The company had a humble beginning with the first milk delivery of 32litres from 35 members.

In December 2006, having outgrown a self help group structure the dairy was elevated to a public company. Though it could have qualified to become cooperative movement, the members opted for a public company. This was after many of the members had lost their investments in the cooperative movements in late 1970s and early 1980s due to political interferences with the management of the co-operatives. Also the members banked on the fact that, with a limited company, they would eventually graduate from being members and into shareholders.

Photo 9: Wakulima Dairy Company in Rural Karatina



Source www.wakulimasacco.com

A reflection on how the situation is on the ground concerning the membership and future of such Companies/Saccos. Apart from collecting their supplies direct from the farmers and forwarding them to big urban centers for processing, the companies also buy some human and animal feeds directly from the manufactures and loan them to their members. Such a market value chain excludes the SMEs entrepreneurs in the small towns in both forward (from) and backward (to) linkages.

Today the company collects up to 30,000 liters per day from over 16,000 farmers. It has two cooling tanks which have a 25,000 liters holding capacity at any given time. Besides this, it has 10 trucks that collect its shareholders' raw milk from various points in the area. Amongst other investments include an animal feeds manufacturing factory, and, a Sacco that offers farmers Front Office Service Activities (Fosa) and a veterinary department that offer veterinary services.

Use of ICTs

The use of Information and Communication Technologies in linking the farmers with potential consumers could also have had an impact on the lesser role played by SMEs in forward linkages. Traders have been associated with exploiting the farmers by taking advantage of lack of price information on the farmers' side. Since mostly the farmer does not have a direct connection with the buyers in other areas, the traders are arguably assumed to buy from them at a throw away price and later make a 'kill' on sale of the same to customers in urban market.

Non government organizations are spearheading these ICT programs in Kenya which isolate the traders from the supply value chain. A good example is 'Drumnet' a non-governmental organization which has set its activities in Karatina. Their reason for wanting to exclude the traders in the forward linkage is well captured in the below article taken from their website (www.drumbeat.org)

....At dawn, while Kenya turns in its sleep, Peter Kimani is awake and on his way to Karatina Central Farmers Market, the largest produce market in Eastern Africa, to dispose of his produce. The onions, tomatoes, cabbages, and avocados will later be transported to Wakulima Market in Nairobi, the largest wholesale farmers market in East Africa, with about 10 000 traders.

Kimani is a smallholder farmer in Kirinyaga District, central Kenya, an area endowed with rich soils and rainfall. However, its large population has forced the subdivision of land into smallholder plots, which has eventually depressed the area's productivity. The father of three makes his living selling fruit and vegetables to the larger Nairobi. He has a one-acre plot. He does not earn a lot of money; on a typical day, he takes home Ksh 5300.

“Prices are not good here. They have been bad for a while” he says. Indeed, the price of horticultural products has been depressed for a while at Karatina's Central Farmers Market. Yet, by the time Kimani's produce reaches the Wakulima market, the prices will have ballooned by about 40%. Kimani's predicament is hardly surprising. He is among thousands of peasant farmers exploited by brokers and resellers who take advantage of the ignorance of unsuspecting producers.

Photo 10: A farmer connecting directly to the urban market by use of a mobile phone technology



Source: drumnetkenya

Such ICT innovations economically link the rural and urban market at the expense of traders in small towns. Therefore ignoring the economic development of these towns vis a vis the traders.

DrumNet has established what they are calling rural “Information Kiosks” (makeshift shops) to provide free information to local smallholder farmers about the current prices of commodities on a daily basis. These information kiosks are equipped with computers that track retail, wholesale, and export prices and make them available to a representative group of farmers involved in the research. With the Internet linking producers to consumers, organization hopes the farmers are likely to get better value for their produce.

Yet this objective will only be achieved at the expense of the traders in the small towns. Such an initiative should be well analyzed, as it will end up removing the traders from the supply chain. More often than not we assume their role far too much. Most of these traders are based in small rural towns and isolating them from the value chain means isolating the development of these towns where most farmers’ markets are based. However, the use of ICTs has proved to be important in the development of enclave industries in the small towns as discussed in next chapter.

Contracting farming

Another possible factor that could have negatively impacted on the role of SMEs in these towns is the presence of contracting farming in the rural-hinterlands. According to Eaton and Shepherd, (2001), contracting farming is one form of vertical co-operation along value chains where a farmer or producer organization co-operates with a marketing partner (wholesaler or agro-processor) by stipulating regulations and mutual liabilities within a contract on the production, supply and acceptance of the agricultural produce.

This kind of cooperation ensures the farmer sells his/her produce to the contracting partner only. Most of these systems were found in the rural Sagana and it involves crops such as mangoes, avocados, passion fruits, French beans and potatoes. Among the contracting firms found operating in this region included; Kenya Horticultural Exporters, Horticulture Crop Development Authority (HCDA), Greenland agro-processors, Kenya agricultural exporters and Meru green horticulture, all which had headquarters in Nairobi. These firms comes with a lot of ‘goodies’ to the farmers and it is very difficult for traders to buy their produce, unless when the farmer wants some quick cash, of which the buying price is also high in this case. Some of the appetizing offers to the farmers include; security for sale of agricultural production for certain quantities, minimization and distribution of risks, increase of income through favorable prices for inputs as

well as for agricultural produce and improvement of cash-flow by pre-financing of inputs and advance payments.

Photo 11: Collection and packing centre of French beans for one of the contracting firms



Source Kathrin S. (2010)

The goodies offered by the contracting firms make it difficult for traders to access such produce.

Poor road network

Lastly, though the road network was good from these towns to other towns, it could not be said so on road connectivity to the rural hinterlands (see section on transport and communication means). This could also have made it impossible for the small traders to venture further deep into the rural areas. From the findings only 18 percent of SMEs used or afforded heavy trucks which would have made them access these areas.

However, a small number of SMEs connected the local fruit market to National and International destines. Fruits such as bananas and passion fruits were bought in small volumes from the farmers and bulked as far as Ethiopia by the middlemen in Karatina market. In Sagana, the SMEs also acted as important mediators of local Rice market and outside consumers. This was

facilitated by the International Nairobi-Addis-Ababa highway which transects the town. A number of rice shops operated along the road and were seen to be important stopovers for travelers headed to Northern Kenya and Nairobi. The rice was bought in 90 kilograms bags and later repacked in small branded quantities. The traders were observed to have their own brand names in 1 and 2 kilograms polythene bags. Apart from Sagana outlet, some traders owned a second or even a third rice shops along the equally busy Nairobi-Nyeri highway via Muranga, with main stopovers at Kenol (Near Thika), Saba Saba and Muranga.

Photo 12: Urban versus Rural Road connectivity



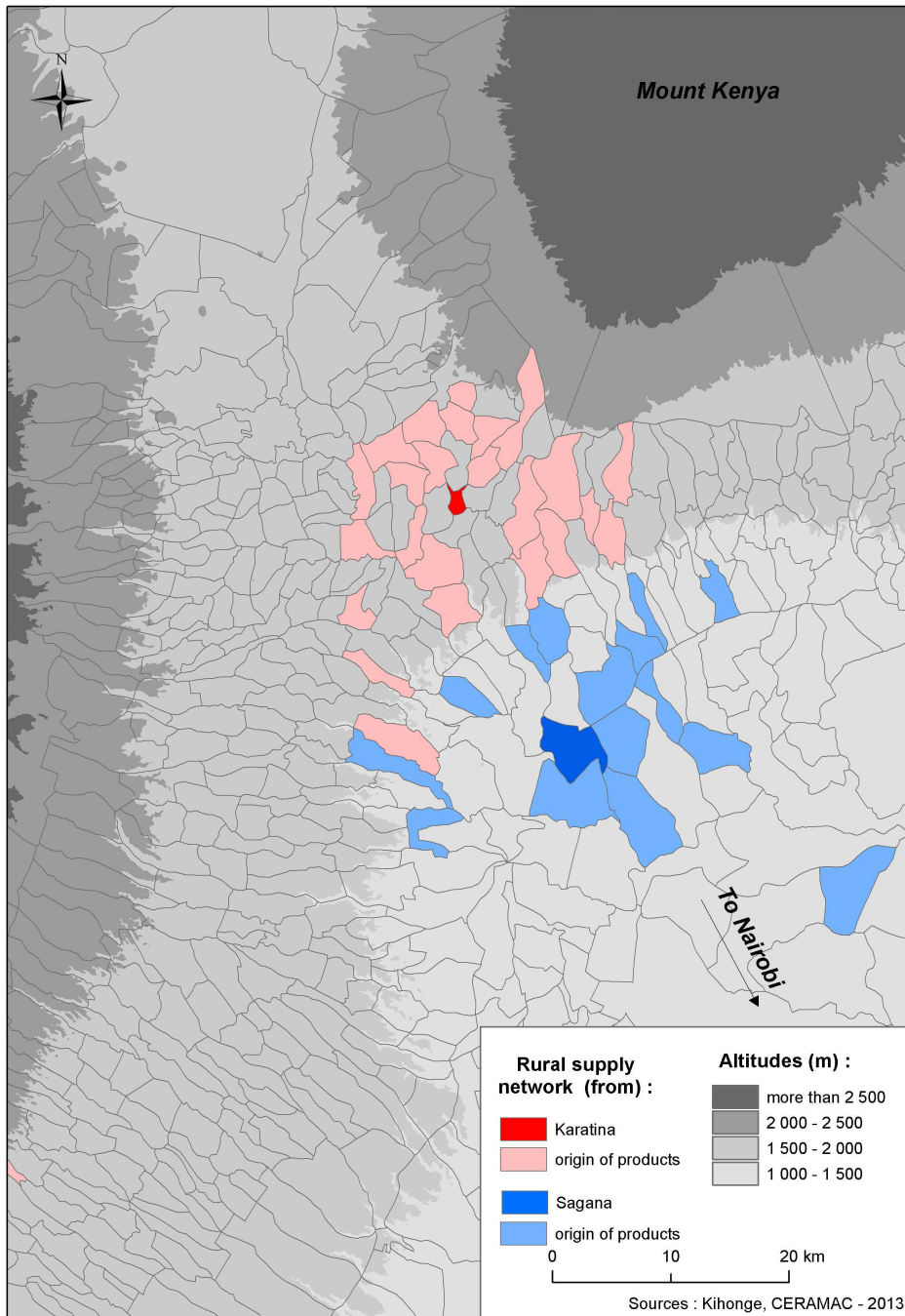
E. Kihonge (2011)

The urban road is the Thika superhighway which connects to Karatina and Sagana via extension on Thika- Nyeri Highway, while the rural road connects to the rural hinterlands of Karatina town. Note the different means of transport.

Rural supply zones

The rural supply distant, which were almost the same in the two towns, portrayed the land use pattern in a mountainous landscape with majority of the SMEs (48%) sourcing their supplies in rural areas in radius of 11-20 Km. Further into the rural areas (21-30 Km), where most likely large scale farming of cash crops (coffee and tea in this case) was taking place, lesser supplies passed through the small towns via SMEs with (34%) getting supplies from this areas. Only 14% of the traders sought supplies from rural areas which were over 30Km. These areas are mostly protected areas which includes forests and game parks. The result agreed with Von Thunen (as quoted by Ponsard 1983) was the first to model this, and his basic insights are still relevant.

Map 4: Rural supply network of Karatina and Sagana towns



From the Map it can be observed the small towns mainly relied on supplies from the surrounding villages. This mostly involved fresh fruits and vegetables. The supply foot prints are however more wider and spread for Karatina town which had a more vibrant economy.

Basically he outlined that proximity to urban centers will determine cropping patterns. Perishable crops (such as vegetables) will be grown near the centre, while non-perishable crops (such as cereals) will be grown further away. In very remote areas, agriculture is no longer profitable and here land is left in its natural state (e.g. nature reserves).

Transport and Communication means

Approximately 77 percent of the SMEs were found to travel to the rural areas to get the supplies while almost 23 percent of the supplies were delivered by the farmer. The study further revealed that almost 50 percent of these traders replenished their supplies on a daily basis, followed by those who restocked on weekly basis at 13.6 percent. This again supports the fact that most of the SMEs mostly acted as demand centers of mainly perishable produce from the rural regions, which included fruits, vegetables and other high value crops such as carrots.

Transport connectivity from the rural areas to the small centers was found to be poor if not worse in the two towns. Almost all the roads to the rural hinterlands were not asphalted. The transport means varied from one entrepreneur to the other mostly depending on distant and quantity of goods. *Matatus* (a 14 sitter cabin, which is the most common mode of travel in Kenya) were found to be the most common means of transport in both towns with approximately 32.7 percent of entrepreneurs using them to transport their supplies. It was further observed that although the *matatus* are mostly meant for passengers, at times they combined both passengers and loads on almost 50:50 bases, and in other cases an entrepreneur would hire the curb for his load only.

Motor cycles *boda bodas* (taxis) was the second most preferred means of transport of with 22 percent using this means. However, though motorcycle *boda bodas* were quickly picking up as the second most preferred transport mean, their ownership structure may be doing more harm than good (see Box 3). Hired trucks, bicycles *boda bodas* and traditional means such as donkey cart were each used by approximately 15 percent of the entrepreneurs. It was further observed that a significant percentage of the SMEs (7.5%) carried their loads on foot or walked their animals to their selling points. This means of transport was most common in Sagana than Karatina which was earlier found to have a large foot print into the rural areas.

Though the towns were served with a railway network, no respondent used the train neither from rural areas through which the line transverses nor to other towns served by the train. The railway transport is almost stalled in Kenya and the few trips made to areas outside Nairobi are unreliable

and inefficient. The many go down along the rail line in Karatina and Sagana clearly portrayed the one active railway transport in the colonial era and shortly after independence.

The two towns were however found to have a good telecommunication networks courtesy of major mobile providers in country. The networks were found to link the towns to the rural regions and outside world through voice, text and internet means at fair prices. The road connectivity from the towns to regional towns (Nyeri, Muranga, Kerugoya) and big urban centers such as such as Nairobi, Thika and Nakuru were also fairly good, with the connectivity to Nairobi expected to be highly boosted by completion of Thika-Nairobi super highway.

Photo 13: Railway transport in Karatina town



Source/ E. Kihonge (2009)

The entrepreneurs were found to face several but common problems in the transportation of their goods from the rural areas. The most common was higher transport expenses which were mostly attributed to poor road network and high cost of fuel. Those who hired trucks complained of police harassment especially where transportation of restricted goods such as timber and charcoal were involved.

Box 3: The ‘killer’ operational structure in motor cycle *boda boda* services

Since the government zero rated their import tax in 2002, motor cycles have considerably increased on Kenyan roads. Today, motorcycle boda boda services are second most popular transport means after matatus. Though their services have had a great impact on improving accessibility in rural areas and other small towns which are faced with poor road network connectivity. The boda bodas have come with their own challenges with most common being increased road accidents. Most accidents today on Kenyan roads are caused by unlicensed motor cycle riders, who barely undergo any riding training before they take to the roads. A bizarre that has seen some hospitals being put up to deal only with casualties from motor cycle related accidents. The riders on the hand have to face the ugly incidents of robbery especially at night of unsuspecting robbers who pose as customers.

Even though a number of lending Institutions such as Banks and MFIs have come up with friendly loan terms to help the youth acquire motor cycles. Many are the youths who prefer first to establish a customer base by renting a motor bike before taking such loans. However, the win-win operation structure between the rider and owner may have contributed to the increased accidents

Daniel Wang’ombe was a former pool table game (snooker) operator in Nairobi, before the boda boda riding opportunity saw him back to his rural area in Sagana. The 25 years old primary graduate, ferries commuters and supplies to nearby towns: Muranga, Kerugoya and Karatina and also to and forth the surrounding rural areas such as Gacharu, Gakindu and Nyoka. He had rented a motor cycle from an entrepreneur who expects Ksh 250 per day from him whether the day was promising or not. On a good day Wang’ombe takes home a net of Ksh 700 after paying the owner, fuel charges and some bribes to government officials since he is not a licensed rider. He is also expected to pay for minor repairs of the bike, with the owner only coming in when major repairs are needed. Not all days are good and sometimes he is forced to pay the owner from his pocket, a factor that makes him work against the law and norm to survive in the business.

This a common ownership structure of motor cycle boda boda services in Kenya, a move that has seen an increase in death through accidents as riders carry excess passengers and ride fast on the already dilapidated roads to maximize their day earnings.

Source: E. Kihonge (2012)

Photo 14: Motor cycle ‘boda bodas’ in Karatina



Source: H. Mainet (2010)

Rural-urban flow patterns

SMEs in Karatina lead in forwarding of supplies with 20 percent of those who bought supplies from rural region selling them to regional and national markets as compared to Sagana where only 8.1 percent of the SMEs forwarded to these markets. In Karatina, approximately 45 percent of the SMEs exported to towns which were between 21-30 Kilometers, with Nyeri, Muranga and Kerugoya towns topping the list. Those sold to towns which were between 31-50 Kilometers were 32 percent and mainly to Thika and Nanyuki towns.

Approximately 18 percent of the SMEs were found to sell their produce in towns which were over 50 Kilometers, with Nairobi and Nakuru topping this list. Only 15 percent of the SMEs sold to towns which were less than 10 Kilometers away with Kibingoti and Chaka towns leading.

In Sagana, approximately 42 percent of SMEs exported supplies to towns which were between 21-30 Kilometers, with Muranga and Maragwa towns topping the list. Those who sold to towns which were between 31-50 Kilometers were approximately 20 percent and mainly from Nyeri and Thika towns. Approximately 22 percent of the SMEs exported supplies to towns which were over 50 Kilometres, with Nairobi topping this list. It was also found that only 16 percent of the SMEs sold to towns which were less than 10 Kilometers away with Makutano and Kagio leading.

Photo 15: Travelers headed to Northern Kenya stop to buy rice at Sagana



Source: E.Kihonge (2010)

Conclusions on the chapter

The SMEs played a relatively small role as centers of demand of goods from rural areas and forwarding the same to regional and national markets. Apart from the poor road network into the rural hinterlands, the marketing chain created by large enterprises, farmers Sacco's and

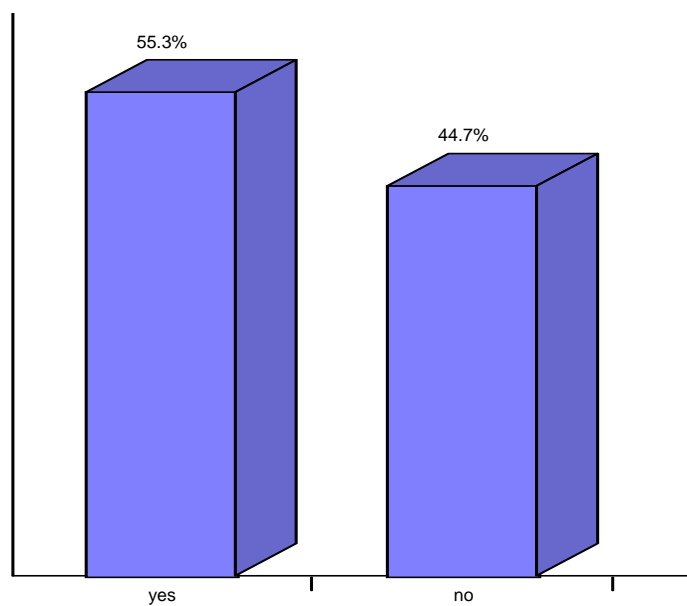
middlemen from larger urban centers may have a big stake in outdoing the SMEs in forward linkages. Most of the supplies that the SMEs brought to the small towns also ended up in local market with only a small percentage exported to outside markets. However, some factors such as the market in Karatina town and the highway in Sagana were found to be important nodes through which SMEs linked the rural and national markets.

CHAPTER 2 C

Rural functions in small towns: role of the second rural income in urban SMEs growth

To manage the changes in economic conditions, most entrepreneurs have to develop numerous survival strategies to supplementary cash-earning activities in the informal sector. The study sought to know how the entrepreneurs cope with difficult times. This arose from the fact that Sagana and Karatina are surrounded by agricultural zones and therefore most SMEs are directly or indirectly influenced by high and low agriculture seasons. From the study findings 55.3% of SME owners had another source of income (see Figure 3).

Figure 3: Apart from the said business, do you have any other source of income?



Source: E.Kihonge (2010)

A high percentage, approximately 65 percent of these second sources of income were found to be in rural areas which and mostly involved small scale agricultural farming and animal keeping such as cow, sheep and goat rearing. The total number of SMEs who had rural activities as the second source of income was found to be approximately 32.5 percent. Box 4 below gives a case of one entrepreneur in Sagana whose business depended on the rural activities.

Box 4: Rural functions in urban SMEs- the case of Murimi Karume

Murimi Karume owned a well known small manufacturing venture in the heart of Sagana. His business was famous for welding and metal fabrication works, both in the town and in the surrounding rural region, which included his rural home Mucagara and neighboring Gakindu, Thanju and Kamuthanga villages. The 32 years old entrepreneur was married and lived with his wife and two children in Sagana town. However the first born in a family of five visited his rural home which about 5 kilometers away almost on daily basis.

...I visit Mucagara every other day....

A response that aroused my suspicion on why the daily visits and yet he lived with his family in the town. His name “Murimi” and his business “Favorite Metal works and Fabrications Enterprises” shared the same root and link. *Murimi* is a Kikuyu name for a farmer and through farming he was able to save Ksh 40,000 seed money to venture into manufacturing business in 2001 after his technical training course from nearby Muranga Technical College.

He juggled between the two careers to standardize the ‘crescents’ and ‘troughs’ created by ups and downs of the business operation wave. The earnings from his small manufacturing business which also served clients from near (Nyeri Muranga, Kerugoya) and far (Nairobi, Thika, Kiambu,) towns, peaked in two seasons per year. From March to June and from October to mid December with a break of low season from July to September. In the good times which corresponded to the rainy and green seasons in Kenya, he made between Ksh 35,000 to 58,000 per month in turnovers. It was during this period that he was able to put aside some ‘savings’ by restocking his heard of cattle and goats in his rural home.

The income from the sale of the animals supplemented his business earnings in the low seasons which hit low of Ksh 18,000 to 30,000 per month. This strategy did not only enable him survive for the whole year by meeting his many business and family expenses which included wages of two workers and rent of his manufacturing shed, but he had also made other investments. Today besides his business being worthy Ksh585, 000 to 700,000, which includes a mini truck which he uses to transport raw materials from Muranga town which is 25 Kilometers away, Murimi is also a proud owner of a plot of land in the heart of Sagana.

....You should take a business loan and put up butchery...I suggested as he showed me his newly acquired plot of land in Sagana town.....

I don't believe in loans and am OK with how I operate my businesses. (...) I want to use my own savings to put up a church said Murimi.

'Sheep' are also important... I added as I concluded the interview.

Source: E.Kihonge (2012)

Photo 16: Murimi in his town workshop and in his rural farm



Source: E. Kihonge (2012)

The case of Murimi portrays how the rural activities played part in urban SMEs, a strategy that in one way or another was used by almost 32.5 percents of all the small entrepreneurs in the small towns. A relationship was sought between this variable and some indicators of business performance which included: business size, acquisition of business loan, size of initial capital and monthly business turnover. This was also important in determining how the rural livelihoods influence the growth of SMEs in small towns, which in turn determines the performance. Hence, the study tested the following four (4) null hypotheses:

1. H_0 : The second source of income did not influence the initial capital
2. H_0 : The second source of income did not influence the size of the business
3. H_0 : The second source of income did not influence monthly business turn over.
4. H_0 : The second source of income did not influence the acquisition of business loan.

Does the second source of income influence the initial capital?

The results findings gave some deviations from the expected results as per null hypothesis. From the findings, the 40.4% entrepreneurs who had a second source of income had businesses whose initial capital was between Ksh 10,000 and 50,000. Those who had an initial capital of over Ksh50,000 in this group were 23.4%. On comparison, only 22.4% of the entrepreneurs who had no second income had an initial capital of between Ksh 10,000 and 50,000, with 14.5% having an initial capital base of over Ksh50, 000 from this group. To determine whether the above

discrepancies were really significant, a chi² test⁸ was carried out at $\alpha=0.06$, which revealed the observed deviations were significance (see Table 13).

Table 13: Chi table analysis on second source of income and initial capital

initial capital	Ksh0 - Ksh500	Ksh501 - Ksh1 000	Ksh1 001 - Ksh2 000	Ksh2 001 - Ksh5 000	Ksh5 001 - Ksh10 000	Ksh10 001 - Ksh50 000	ore than Ksh50 001	TOTAL
other source of income								
yes	+2	-1	-1	-1	-26	+10	+4	93
no	-2	+1	+1	+1	+32	-13	-5	75
TOTAL	7	5	9	26	33	55	33	168

Ch²=18.38, ddl=6, 1-p=99.47%

Source: E. Kihonge (2012)

The results therefore indicated that the second source of income influenced the size of initial capital. Entrepreneur who had a second source of income was likely to have a larger capital base. The null hypothesis was consequently rejected. From earlier findings, most businesses were started with family financial sources. Rural activities cannot be ruled out in these family sources, the activities might either have acted as the major sources of capital or to supplement other capital sources. This may therefore explain the observed relationship between the rural income source and initial capital.

Did the second source of income influence the size of the business?

In this case, the size of the business was correlated to the number of employees. The scale was therefore set from 0 employees (owner only) between 1 and 2, 3 and 5 and between 6 and 10.

From the findings, there were deviations from the expected results as per null hypothesis. From the results, 52.1% of those businesses whose owners had a second income had at least two employees (inclusive of the owner), with 7.4% of these businesses having between 6 and 10 employees. On the other hand, only 30.3% of those businesses whose owners had no other source of income employed at least two employees, with 2.6% employing between 6 and 10 employees. Therefore the findings disagreed with the expected results. To determine whether the

⁸ Chi-square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. The test is always applied to null hypothesis, which states that there is no significant difference between the expected and observed result.

above discrepancy/deviations were really significant, a χ^2 test was carried out at $\alpha=0.03$, which revealed the deviations were significance (see Table 14).

Table 14: Chi table analysis on second source of income and business size

number of employees other source of income	0 (only y ourself)	1-2 empl oyees	3-5 empl oyees	6-10 em ployees	TOTAL
yes	-16	+18	+0	+9	93
no	+21	-24	+0	-12	71
TOTAL	92	52	11	9	164

$\chi^2=7.93$, $ddl=3$, $1-p=95.2\%$

Source: E. Kihonge (2012)

The results therefore indicated that the second source of income influenced the size of the business, and entrepreneur with a second source of income was likely to have bigger businesses in size. The null hypothesis was hence rejected.

Does the rural source of income influence monthly business turn over?

The study also sought to analyze the significance of the second source of income on the monthly turnover. From the results, 30.9% of businesses whose owners had a second source of income had a monthly turnover of over Ksh 50,000. And 52.1% of this group had a monthly turnover of between Ksh 10,000 and 50,000. On the other hand, only 14.5% of those who didn't have a second income source whose businesses had a monthly turnover of over Ksh 5000. Those between Ksh 10,000 and 50,000 in this group were 65.8%. The above results were further subjected to χ^2 test which showed that there existed some significance on observed deviations between the expected and observed results at $\alpha=0.04$ (see Table 15).

The results indicated that the second source of income influenced the business monthly turnover. Entrepreneur with a second source of income was likely to have higher monthly turnover. Therefore the null hypothesis was therefore rejected. Apart from the direct injection of funds from rural activities, rural-to-urban food transfers may also have played an important role in urban house-holds' food security. This in turn may have results to the entrepreneurs re-investing significant amounts of their monthly profits into their businesses. This may explain the observed

positive relationship between the second rural income and monthly turn over and also the size of the small businesses.

Table 15: Chi table analysis on second source of income and monthly turnover

average monthly turnover	Ksh0 - Ksh500	Ksh2 001 - Ksh5 000	Ksh5 001 - Ksh10 000	Ksh10 001 - Ksh50 000	More than Ksh50 001	TOTAL
other source of income						
yes	-7	+1	+1	-11	+23	94
no	+10	-1	-1	+15	-30	72
TOTAL	1	3	23	99	40	166

$\chi^2=7.75$, ddl=4, 1-p=89.89%

Source: E. Kihonge (2012)

Does the second source of income influence the acquisition of business loan?

Lastly the study sought to test the null hypothesis that the second source of income does not influence the acquisition of business loan. Shortage of working capital is widely recognized as the biggest hurdle in the growth of SMEs. Securing bank credits, difficulties in documentation for bank loans, and lack of collateral security are bigger problems in developing countries.

From the results, 44.7% of businesses whose owners had a second rural source of income had acquired a business loan and only 27.6% had acquired a business loan from the group that had no second source of income. These results deviated from the expected results as per the null hypothesis. To verify if the deviations were significant, a χ^2 test was conducted at $\alpha=0.01$. The test showed a significance in the observed deviations (see Table 16).

Table 16: Chi table analysis on second source of income and business loan

Have you ever acquired a business loan?	Yes	no	TOTAL
other source of income			
yes	+28	-17	93
no	-35	+21	74
TOTAL	63	104	167

$\chi^2=4.94$, ddl=1, 1-p=97.38%

Source: E. Kihonge (2012)

The results hence indicated that the second source of income influenced the acquisition of a business loan. An entrepreneur who had a second source of income was more likely to acquire a business loan. Therefore the null hypothesis that the rural second source of income did not influence the acquisition of business loan was rejected.

Approximately 52 percent of those who did not go for business loans cited lack of collaterals and securities, with 22.2 percent fearing defaults. These factors can be substantiated by the fact that, those who had a rural second source of income had other means of survival and therefore reduced fear of default. Similarly, the second rural income came with extra securities to the entrepreneur.

Conclusions on the chapter

In general, though there was no relationship between the second source of income and forwarding of supplies to national and regional markets, the second source of income was observed to be an important factor in urban SME development. In Kenya the gap between real rural incomes and real urban incomes has narrowed considerably in the last years, due to increased rural entrepreneurship, this has increased the necessity for some urban investors to fall back on rural assets to supplement their business income. Rural farming activities are equally important for urban households' food supplies. People either cultivate a rural plot themselves (usually the wife) or benefit from the farming activities of family members at the rural home.

Apart from supplementing the entrepreneur's income in low business seasons, the rural sources played also significant role in entrepreneurship development. Large capital base, high monthly turnover, business size and access to loan facilities have always been associated with increased business performance and survival.

CHAPTER 2D

SMEs in small towns and their role in backward linkages, rural and regional development

The fourth research objective was to determine how the SMEs in these towns contribute to rural and regional economic growth through backward linkages. The chapter discusses how the hypothesis guiding the objective was tested, the decision made and possible explanation to the results, with case studies to supplement the quantitative data. Also highlighted are the outside (regional and national) markets and small local enclave industries as sources of flows to the rural region. The chapter further discusses the urban-rural flows patterns arising from backward linkages.

SMEs in small towns act as major nodes for distribution of goods and services to their rural region. Small towns have been known to act as centers for production and distribution of goods and services to their rural populace. Such concentrations reduce the costs and improve access to a variety of services for both rural households and enterprises. Such services include agricultural extension, health and education, as well as professional's services and lower order services such as bars and restaurants, and wholesale and retail sales of manufactured goods from within and outside the regions.

The study assumed that SMEs in small towns acted as major nodes for distribution of goods and services to their rural region. This hypothesis was substantiated by the current research. From the study findings, approximately 28.1 percent of the SMEs traded goods and service to their rural surroundings, with a small difference when a comparison was done based on individual towns. This was a relatively significant figure compared to 14 and 57.8 percent of SMEs who mainly served other towns and local town markets respectively (see Table17). The figure was also significant compared to the number of SMEs who got supplies from rural region which stood at 12 percent, which can be taken to mean the *town-rural* trade (28.1%) was approximately over

two times of *rural-town* trade (12%) when correlated to the percentages of SMEs involved in the two trades.

Table 17: SMEs in small towns and the most common locations of clients

Source	Percentages
Within town	57.8
From rural areas	28.1
From other towns	14.1
Total	100.0

Source: E.Kihonge (2011)

A number of factors may have played role in the increased number of SMEs who served the rural populace. In this case the factor of sub-sector non biasness does not also future, (see sampling procedures). The high concentration of services in the small towns set up was expected to be the main contributor. These services included high order services such as agricultural extension, banking, health, education and professional services from lawyers, accountants, surveyors, doctors, dentists among others. And low order services which are mainly offered by SMEs which included bars, hotels and restaurants, mini-marts and so on. The concentration of these services have been known to be important to the rural populace who are mainly from poor households and therefore usually prefer to make an all inclusive visits to the nearby centers which fulfills all their needs at once.

Though a number of these services were observed in both the towns, they were more in Karatina than Sagana. It would therefore be expected that Karatina would have attracted more rural clients than Sagana, but as stated earlier there was insignificant difference when a comparison was done between the two on rural clients. This may be explained by Sagana being at the junction connecting to several regional towns such as Kerugoya, Muranga, Makutano and even Karatina, a factor that made it an equally important market for surrounding rural clients who may be seeking extra services from these towns.

Apart from concentration of services, the periodic markets found in the two towns may also have acted as center of attraction for rural clients. This may not have only favored the traders in the

markets but also SMEs in service and manufacturing sub-sectors. The market days in Karatina were on Tuesdays, Thursdays and Saturdays, with Saturday being the busiest day. In Sagana the markets days were Mondays, Wednesday and Fridays with Friday being the busiest day.

Provision of quality goods and services is also known to make the small towns an alternative to big urban centers due to their proximity, which normally results from competition created by large enterprises in big urban centers. This was no option to SMEs in Karatina and Sagana, who had to match the competition from big urban centers (Nairobi, Nyeri and Thika) to remain relevant, a factor which was accelerated by immediacy and good road connectivity to these centers.

Increased rural income from hinterlands of Sagana and Karatina from small scale farming mostly in high value crop farming, which fetched good prices, could also have been significant. The rural income is known to influence the buying power of the rural households. This is in turn influenced by the nature of agricultural activities and land ownership structure. Low rural incomes are associated with reduced buying power and are caused by skewed ownership of land which mostly occurs at the expense of small scale farming. In cases where few individuals or organizations own land most of the rural households end up laborers in the big farms with poor pays. Additionally, other activities in big farms such as ranching provide few employment opportunities. Also, decreased rural income may be caused by farming of low value crops which fetch low market prices.

Sources of Goods and Services

Regional, national and international markets

The links between the small town and large towns was found to be more pronounced with approximately 50.6 percent of the SMEs sourcing both consumables and non-consumables from outside markets. Approximately 54.6 percent of these mostly served the local town market, with 27 percent mainly selling their supplies to the rural areas. The SMEs were also found to link national and international markets to regional towns with approximately 18.4 percent of those who bought goods from these markets selling to other closer towns.

SMEs in manufacturing lead in sourcing their suppliers from other towns (however due to their small number at 5%, it can't be argued the same in terms of total volumes flow). Approximately 60.4 percent of SMEs in trade sourced their supplies from other towns (see Table 18). But it

should be noted that some SMEs sourced supplies from more than one location as noted by high total percentages.

Table 18: SME sub-sector and regional/national sources of supply

Sub-sector	regional/national sourcing
Service	31.1%
Trade	60.4%
Manufacturing	66.7%

Source: E. Kihonge (2011)

It was further observed that SMEs in service sub sector sourced fewer supplies from other towns and also had less clients coming from rural areas. An observation that can be attributed to dramatically improved Information and Communications Technology, which had seen some flows such as information and finance being linked to rural areas directly from larger cities, at the expense of smaller towns (see Table 19).

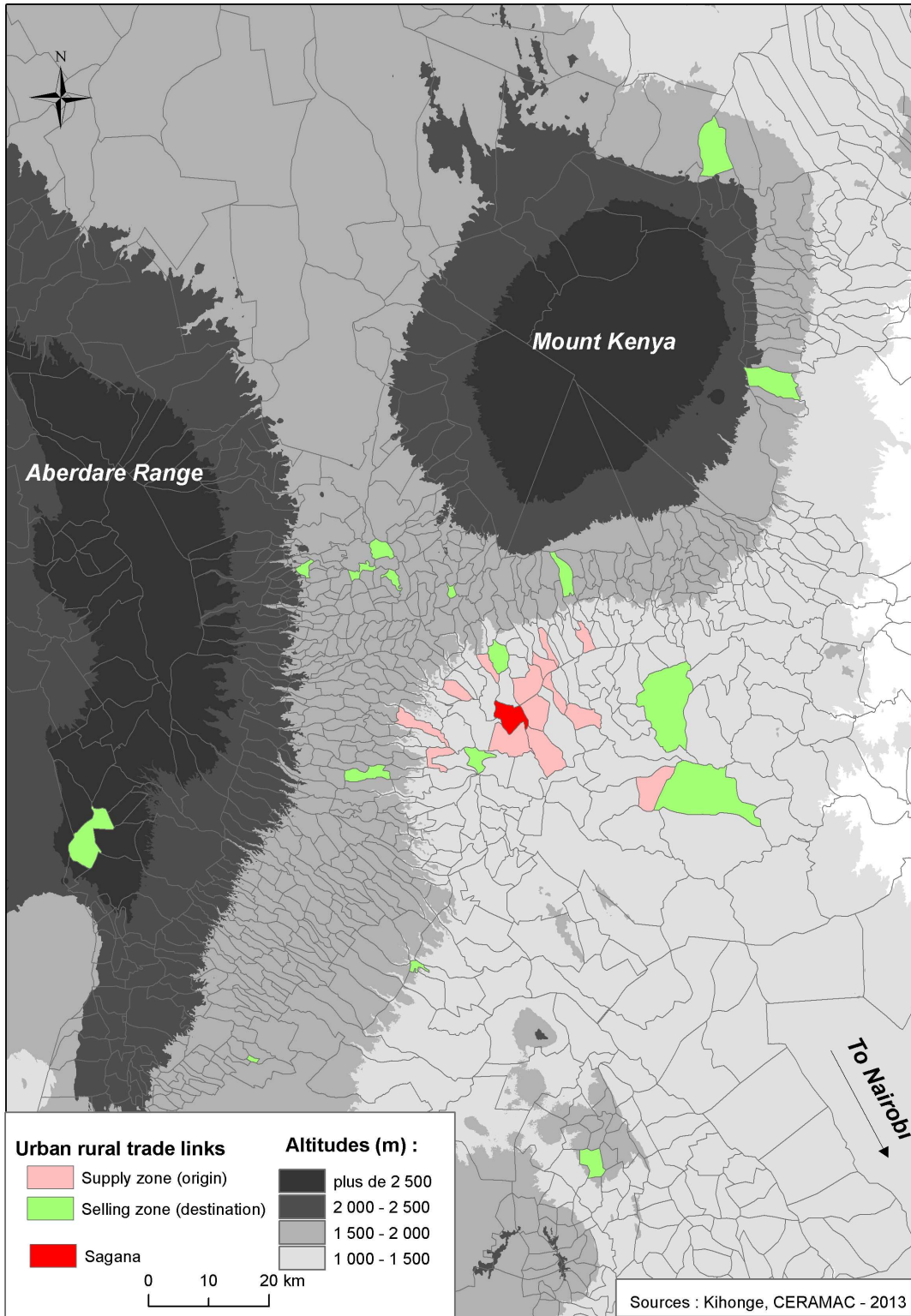
Table 19: SME sub-sector and rural clients

Sub-sector	Rural client base
Service	37.9%
Trade	38.7%
Manufacturing	44.4%

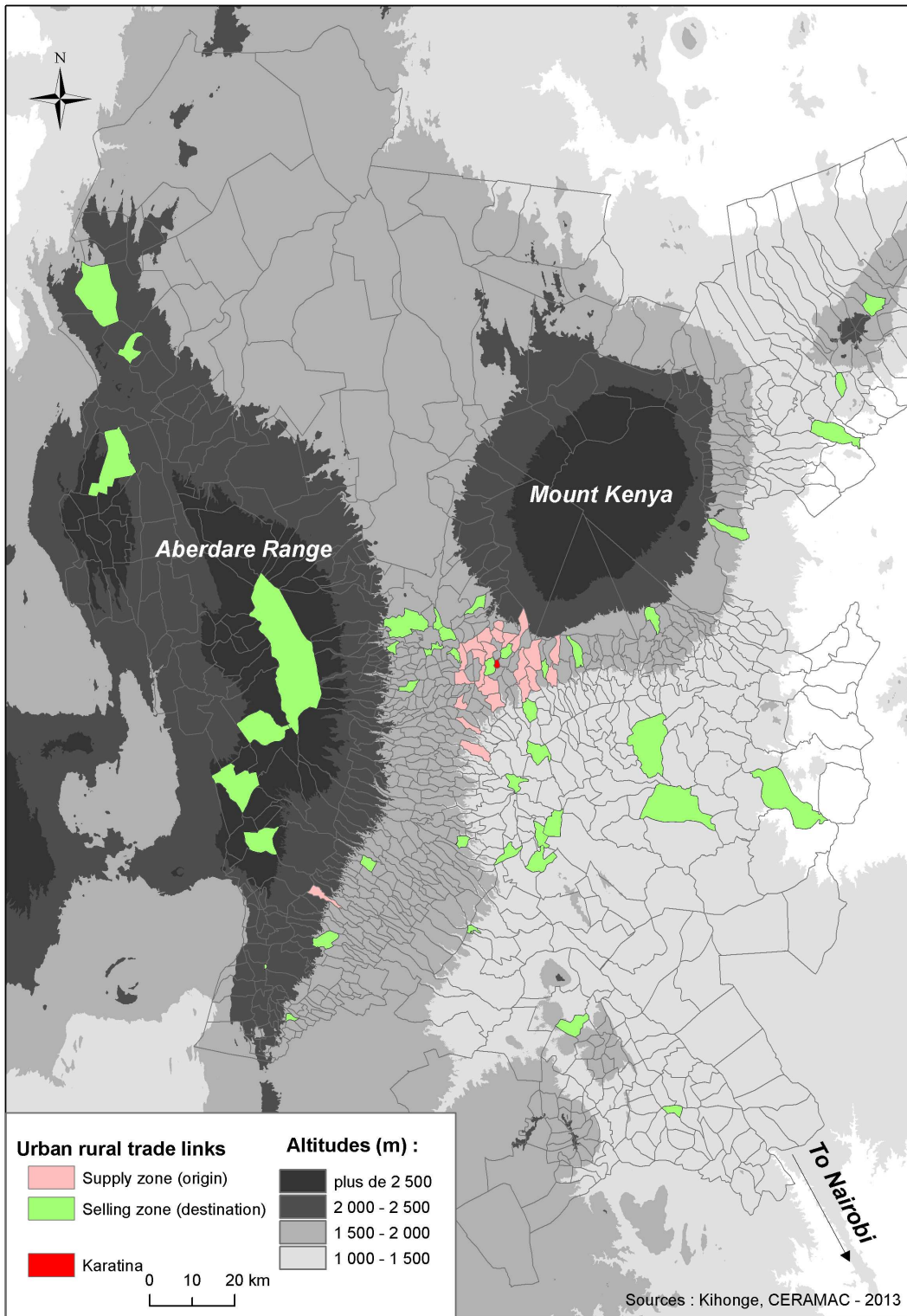
Source: E. Kihonge (2011)

The spatial aspects of the rural-urban linkages are visible through the mapping of connected places via Sagana and Karatina (maps 5 and 6). From the map it can be seen that most of the rural supply zones mostly came from surrounding rural villages (less than 20 Km) these regions were however less in numbers in Sagana than Karatina which had more vibrant economic activities (See Map 6). However the regional market had large foot prints almost FOUR times the supply rural radius for Sagana town. It can also be seen that the high altitude regions where we expect to find natural reserves did not form part of supply zones especially in Mt. Kenya. However we had significant selling zones in high altitudes especially along Aberdare ranges.

Map 5: Urban-rural trade links in Sagana town



Map 6: Urban-rural trade links in Karatina town



In Karatina, from the map it can also be seen that most of the rural supply zones mostly came from surrounding rural villages (less than 20 Km) but the regional market had large foot prints almost FIVE times the supply rural radius for Karatina town. Again the high altitude regions did not form part of supply zones especially.

Supply flow patterns

Supplies from outside markets came from near and far with approximately 80 percent of the SMEs getting supplies from regions which were over 50Km. Though the sources could be traced to both international and national markets, most non consumables mainly came from Nairobi. Tanzania, Uganda and Ethiopia were found to be important sources of grains, with fruits being sourced as far as Rwanda (Bujumbura). Most cereals (green grams, rice, *jahi*) and potatoes came from markets in nearby towns.

Sagana town relied more on outside markets in supply, with approximately 60.8 percent of its SMEs sourcing supplies from other towns, as compared to Karatina which had 40.8% of SMEs getting supplies from these sources. This can be explained by the small number of large enterprises such as wholesalers, supermarkets, hard wares, and banks which resulted to SMEs sourcing their services in the neighboring towns such as Muranga, Makutano, Karatina and Kerugoya.

The consumables were found to come from within and without. Vegetables and fruits were sourced from surrounding rural areas. The town relied on other towns too such as Kutus (tomatoes), Muranga (bananas), Thika (cereals) and Mwea (rice). Non consumables mainly came from Nairobi, Thika and Nyeri. However, the relocation of the market in 2009 from the center to the far edge of the town had seen the trade volumes of some goods go down considerably.

The market was initially situated on a private plot, which leaves a lot to be desired on the urban planning of small towns in Kenya. A move that resulted to the minority traders in non consumables being adversely affected and were lobbying for separation of consumables and non-consumables goods, hoping they would relocate to the original site where they made better business. A good example is Julius Muchai, a migrant from Muranga who sold clothes in the market for 12 years. His three trips to Nairobi to get new supplies in one week had reduced to only one trip. A factor he attributed to the new location.

Photo 17: The researcher and a trader (Muchai) in Sagana market



Source: E. Kihonge (2011)

Karatina had a larger catchment area with 83.8 percent of its SMEs buying supplies from sources which were over 50m. Approximately 66.1percent of the SMEs in Sagana brought supplies over the same distant. This could have been attributed to the busy Karatina market, which behaved more of an international boarder market with most of the traded goods coming from outsidessources.

A walk around the market reveals a variety of grains, fruits, high value crops and traditionally manufactured products. Most of the grains were brought in from Uganda (maize and beans), Tanzania (maize and beans),Mwea (60km, rice), Meru (100km, *jahi*) and Thika (80km, green grams), while most fruits came from Tanzania, Uganda (watermelons), Kieni and Makueni (oranges), Thika (pineapples) and Nyahururu (100km, Passion fruits).

Photo 18: Fresh produce on sale in Karatina market



Source: E. Kihonge (2011)

Though middlemen have been known to exploit the farmers and retail traders too, it was found that they played an important role in Karatina market. Most retail traders could not afford bulk buying and so normally purchased in small portions from the middlemen. The latter also extended credit to the retailers. It was also noted that the middlemen were mainly men with majority of the retailers being women.

This can be explained by the fact that due to the role of a woman in African settings, the female gender is disadvantaged in long distant trade that involved ‘brokering’. However, some women were found to bold enough to go all the miles and avoid middlemen (see Box 5).The case study does not only bring out the role of Karatina market in linking the town to regional and national boundaries, but also exposes the unseen deals and their consequences as women traders survive in the male dominated African market.

Box 5: Karatina Market: the woman trader and the falling snow

While empowerment of the female gender is a milestone in any society, many are the challenges that women face in sustaining their livelihoods in developing countries. This box presents how an immigrant woman trader survives in a male controlled African Market and the impact of her survival tactic on family settings and societal economic well being in small town.

Trager (1988) defines markets as places through which people and goods move, and which thereby create a variety of economic and social ties. Markets have a variety of functions for traders, farmers, and consumers. For traders, the markets are both retail distribution points for those selling manufactured goods and non- locally produced agricultural commodities, as well as places where farm produce may be purchased and bulked for redistribution elsewhere. Traders in such markets may include both those from the local area and non local and those from other, usually larger, centers who travel there to buy or sell. For farmers and farmers' wives from the settlement where the market is located and from nearby settlement bring produce to sell and, in addition, join other consumers in purchasing consumer items.

Karatina market started in 1935 as barter trade centre which mainly dealt with *baki* (*sniffing tobacco*), salt and goats. Today, it is said to be one of the largest open air market in East Africa in terms of volume of trade and supply/discharge footprints. The market consists of permanent stalls found all round the periphery, semi-permanent stalls which occupy the centre place and open spaces. According to the data collected from Karatina County Council, the market had 1,366 registered traders in 2010. These traders occupy the permanent and semi permanent stalls, while the open spaces are occupied by the middlemen, commonly known as brokers. The middlemen are not registered and are only present during the main market days which are Tuesdays, Thursdays and Saturdays.

Karatina market behaves more of an international boarder market. Trager concludes: "(...) these markets take on other functions that are only peripherally linked to the population of the immediate hinterland". Much of what is available in Karatina market is not from the surrounding rural hinterland. A walk around the market reveals a variety of grains, fruits, high value crops and traditionally manufactured products.

Most of the consumables are mainly brought and sold in bulk to regional (Ethiopia and Uganda), national (Nairobi, Nakuru and Thika) and local markets (Nyeri, Muranga and Nyahururu) by the middlemen. Majority of the traders buy in relatively small portions and stock them in the stalls targeting customers from the town and the surrounding rural hinterland who either buy to retail or consume. However, through combined efforts and patience, and by creating mutual trust and 'networks', some women traders successfully evade the middlemen to make an extra 'killing'.

My first meeting with Sera (not her real name) was in April, 2010. On this particular day, I wanted to connect to Sagana and the *matatus* owners had withdrawn their services from the road citing harassment from the police. I therefore decided to join others stranded commuters hoping the stalemate will be solved quickly or the complainants might give up as it is always the case. After some hours of waiting, our hope deemed but not before I had persistently created a rapport with Sera who was a trader in Karatina market.

Though she appeared relatively young on face, Sera's dressing reflected otherwise; she also seemed uncomfortable all through in our talk and apparently she refused to answer my questions on her trade activities even after seeing my research introductory letter. However, we exchanged contacts and agreed to meet someday.

It was only after several meetings that I understood her suspicious behavior and the old dressing style in our first contact. *How could I have trusted you?* She asked....*you were a stranger to me and I was carrying a lot of money...*

Common fate and interest had seen Sera form a group with other likeminded women in 2005. The team dealt with cereals and together they would each contribute to afford one lorry of 20 tones of either maize, beans or rice. On that morning, she was carrying Ksh 350,000 (3000 Euros) in a *kiondo* (a kikuyu traditional basket made of sisal) on her back, perfectly wrapped and sealed with several table clothes. Dressed with a *kanga* (a long Swahili waist mart) on her waist, a head cloth and in old canvas shoes, a neatly coiled sisal rope in her left hand perfectly concealed a traditional kikuyu woman going to attend her farm.

Her team-mates had left the previous day for Embu (a rice growing area, 60 Km South of Karatina) to get rice but she remained behind to see her husband off to a neighboring country where he worked. *...We even spend five days when we go to get maize or beans in Busia* (in the boarder of Kenya and Uganda, approx.700 Km away)...she answered when I inquired if their husbands were Ok with them spending out... *am the only one married in the group, the rest are either single or divorcees, it could have been difficult for me too if my husband was working around.....*

Though they had common source of supply and survival strategy, the groups of five had different discharge avenues and different challenges altogether. Sera mostly supplied to schools/institutions (both public and private) and hotels in and around Karatina. To her, the government institutions/schools remained the biggest challenge.

.... they can take even a year before paying for a delivery, a situation worsened by the fact that I have to continue supplying them every other time less I lose them ...

.....and how do you survive? I asked....*in our group when one is well-fixed she maintains the system, like I can be having no money to contribute to transport and a member steps in, and next time I finance on her behalf... ..Or maybe one has no fee to pay the Municipal Council* (I added inquisitively).... *Aaaa no! We are expected to pay Ksh 20 per bag as other brokers, but we mostly find our way out...*

....with the many lorries I have been seeing in the market, then someone somewhere must be quite rich (I stated)...*rich?* (she asked)...*how can he be rich when he has several of 'us'?*

Though they remain registered in the names of the very first owners, the stalls in Karatina Market have changed ownership severally over the years, a move that has seen their 'exchange' price increase from one owner to the next, an awful trend that has seen the cost of starting a business in the market increase over the years.

Sera had two stalls, a permanent one, which she was paying to the Municipal Council Ksh 150 per month and one semi-permanent which she paid Ksh 10 per day. The first one mainly acted as a store for her stock, while the second was rented to a second party at Ksh 5,000 per month

She parted with a total of Ksh 90,000 for the two stalls, with the permanent one going for Ksh 50,000. That was in 2003 and one can only imagine how much goodwill a stall will attract in the market today. During my second fieldwork In July 2011, we visited the market with CORUS team members. At the time, the market was being renovated to increase its horizontal size by construction of storey stalls. This prompted me to ask one of the market officials how they will allocate the new stalls.

....Balloting will be advertized in both electronic and print media after approval from the Ministry of Local government. The interested individuals will then apply according to the type of

produce/product one wish to trade in. However, under-traded or new produce/products will be given first priority...

I insisted to know the under traded products/produce at the moment, to which he quickly added... *That is the work of the market officials to decide, who includes two representatives from each produce/product sold in the market...*

Due to our tight field work program, I was not lucky to meet Serah over the one week we stayed in Nyeri. But I was to return to Sagana after some weeks as part of my fieldwork and I took the chance in one of the evenings to hook up with her in Karatina. I was mostly interested in knowing how their group had managed to maintain their mutual trust in the last six years.

Such business groups exhibits complex group dynamics especially where members lend money to each other on mutual trust. According to Sera, they owe their respect to one elderly member who had introduced all the others to the business.

Apart from this member who was in her late forties, the others were in their earlier thirties. They also came from the same home village, but stayed in different suburbs around Karatina.

...Are you applying for balloting for the new stalls? (I asked as were finishing our nyama choma)...

....Every member in our group is applying (she replied)...and which new produce will you be introducing? (I asked).

....That is what they ask, but I intend to rent it out, what I know is whether new or old, a stall must attract 'goodwill'... it's all networks (answered Sera).

I opened the curtains of my room and admired the falling snow which had created white 'networks' over the house roof tops in Clermont-Ferrand... It brought back memories of how mud covered Karatina market the last time I saw it.

Source: E. Kihonge (2012)

Sources from small enclave industries

Enclave industries in small towns have been known to be important sources of mostly manufactured products to the rural region and other nearby towns too. In Karatina and Sagana these activities involved metal and furniture workshops, shoemaking, flour milling, bakeries, sawmills and tailoring.

Though manufacturing industry was found to have more rural clients who stood at approximately 44.4%, collectively they played a small role in production and distribution of products and services to both outside and rural region. While they normally form the majority sub-sector in small towns and rural areas in developing countries, they only comprised approximately 5% of total enterprises in the towns under study, with Sagana having less than 2%. And by having the most rural clients' density implied their services were mostly sort, however, they were disadvantaged by their small numbers.

This could have been attributed to competition from larger and better equipped manufacturing units found in bigger urban centers (Nairobi, Thika and Nyeri) which as stated earlier had the advantage of proximity and were connected by good roads. The survival of small industries in Sagana and Karatina therefore called for continuous innovation to improve competitiveness. Apart from large capital required for innovation in product or production process, skills are of paramount importance too. The results indicated that the majority of entrepreneurs/owners in this sub-sector were least educated with majority having only primary education. This means unless intervention measures are put in place, the success of enclave industries remains in question in terms of acquired skills and knowledge.

Kenya Industrial Estate (KIE) which is entrusted with the mandate of supporting indigenous small industries through financing and business development through incubation was found to have a regional branch in Karatina. Through funds from the Central Government the organization offered both long and short term loans to the small entrepreneurs, however, though the interests' rates were friendly, only a handful could have afforded the collaterals required to secure such loans. The collaterals included land, which ought to have been valued at 140 percent of the loan applied for. Others included motor vehicles and heavy machineries which were worthy a loan amount of 50 and 80 percent of their values respectively. Apart from paying the valuation fees, the entrepreneurs were also expected to pay for a three days business training before they qualify for the loan.

The business incubation which is supposed to assist the small investors in their initiation stages by offering among other things, working sheds at subsidized rent rates, experience and networking has never materialized. According to by then Chairperson of the KIE Karatina branch, while they are meant to change ownership and give room to new incoming small investors, the 30 sheds in Karatina still remained occupied by same investors since their inception in 1980s with a good number having been permanently sold to these occupants by previous government regimes.

By the time of research, several new sheds were under construction in Karatina (see Photo 19), Sagana, Kerugoya and Mwea town through Economic Stimulus Program initiated by the government to boost the national economy which was greatly affected by the Post Election violence in 2007. Some moneys had also been received by the KIE Karatina branch to put up a 12 storey building for commercial sheds in the town.

Photo 19: The old and new sheds under construction in Karatina



Source: E.Kihonge (2011)

With the history of agglomerated and subsidized business space (as in the market stalls and KIE sheds) in Karatina, all hanged in the balance if these ambitious moves were going to boost the enclave industries in the small towns in question. However, as noted from Edwin Macharia from Karatina, enclave industries can play a big role in rural and regional development through innovation. Having overcome the capital monster through a Self Help group, he combined his personal interest in masonry and access to information from the Internet to be a leading innovator entrepreneur in the region. Macharia had customers of his concrete products coming from as far as Nairobi and all over the region (see Box 6).

Box 6: Personal interest: a driver of innovation in enclave industries

I was referred to Edwin Macharia by the by then Chairperson of Kenya Industrial Estates (KIE) Karatina branch. According to the chairperson, Macharia was well informed on manufacturing activities in Karatina town more than anyone else she had come across in her two years working in the town. After managing to book an appoint with Macharia, I found him busy talking to three customers outside his concrete manufacturing unit in the outskirts of the town. I later joined the trio to a nearby homestead, where a house was under construction using 'interlocking' stone blocks. The blocks were one of his products and he was using the strategically positioned house to show case his work to potential customers.

With no cement and no sand needed to put up the stone walls, the interlocking blocks reduced the construction cost by 40 percent, which included savings from labour and water costs. Well, it may be another case of adapted technology which worked well for the 58 years old Macharia, but there was more than meet the eye. After striking a deal with the customers, we walked back to his work place and I got a chance to enter his manufacturing shed.

Apart from the interlocking blocks, 10 workers who included three on permanent basis were busy making roofers, pavement slabs, fencing posts and ventilation tiles. But what streaked my eyes more was a locally assembled machine which he used to make the interlocking blocks. The machine was assembled in Karatina town following his descriptions.

*....I gets everything from the Internet*said Macharia as he rushed to get a hand bag from his car. He connected a modem to his laptop and showed me several sites which described the interlocking block technology. From the sites, he came up with a machine design which could be assembled by artisans in Karatina town. Judging from his talk and look on the face, the entrepreneur had passion on his end results.

*...Am a retired coffee supervisor but all along had a high interest but no training in masonry work (...) I also have a horticultural farm in Naru Moro, but most of my time is spent here, to me, manufacturing is more rewarding than farming...*said Macharia, the secondary school educated entrepreneur.

Though he had liaised with Banks to raise his 5 years old venture, Edward appreciated more his two years membership in *Vitendo*, a Self Help group of 60 men entrepreneurs. The group, which by then had a capital base of Ksh 5 Millions, not only made sure he saved some money every month but also offered him soft loans and dividends from his shares.*Vitendo* too formed a network of marketing through Referrals. This had seen him get customers as far as Nyeri, Nairobi, Embu and Nanyuki.

*...Merry Christmas and I hope to find your products one day in the website...But mean while, I will do you an email for the New Year wishes...*I Said to Macharia, as we shook hands.

Source: E.Kihonge (2012)

Photo 20: Interlocking blocks and a locally assembled machine



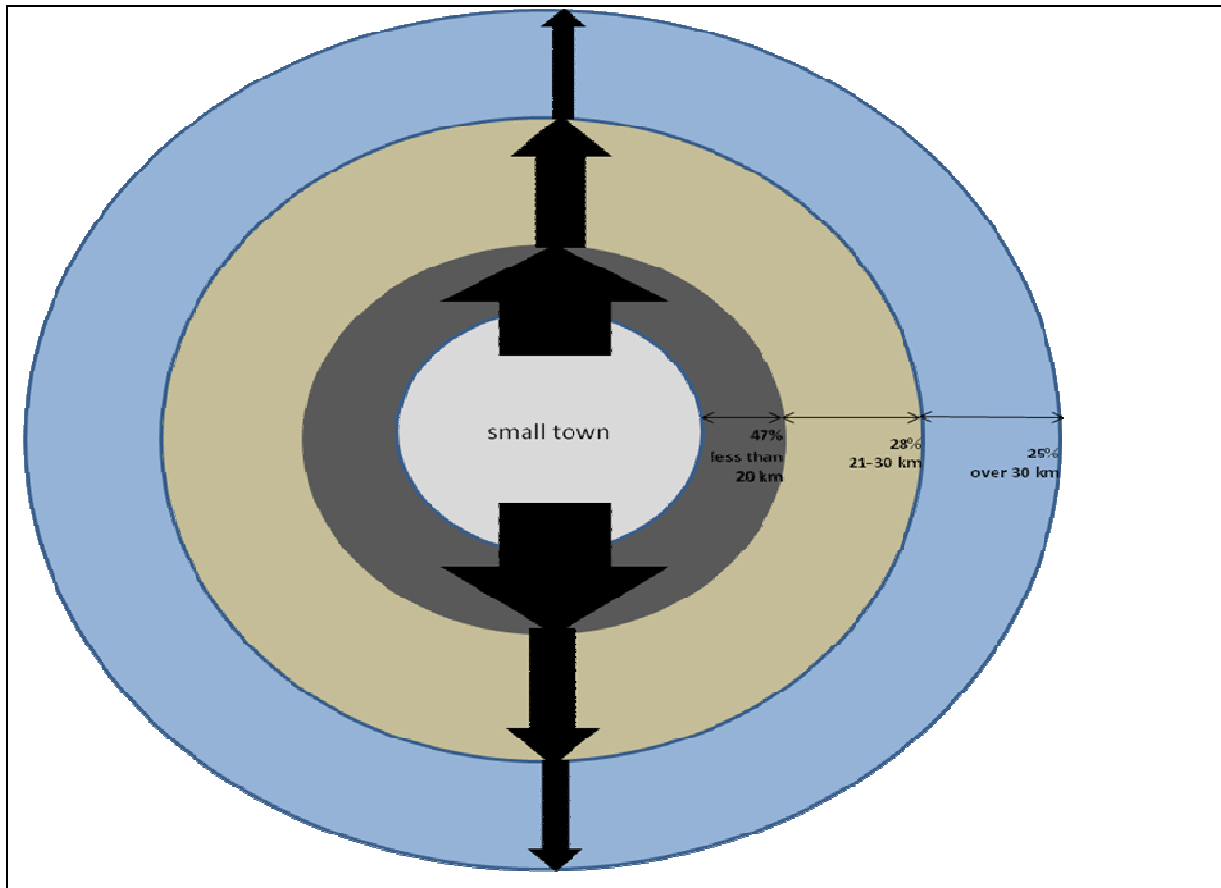
Source: E.Kihonge (2011)

Rural flow patterns

The rural clients served by the SMEs decreased as the distance from the town increased. The SMEs were mostly observed to serve the rural populace which was closer to the towns with most of clients coming from a rural radius of less than 20Km (47%). This was followed by clients who came from a radius of 21-30 Km at 27%, those who came from over 30 Km were 25 percent (see Figure 4). A pattern that can be explained by the effect of other small towns coming into play as the distance increases.

However, as expected, the presence of other small towns was less felt in case of Karatina which had relatively vibrant economy. SMEs in Karatina were found to have a larger rural client base, with over 60% of rural clients coming from over 10 Km. In Sagana SMEs attracted few clients from far rural regions with approximately 60 percent of rural its clients coming from a rural radius of less than 10 Km.

Figure 4: An illustration of volume of goods distributed into the rural areas per rural radius as an aggregate of both towns



Source: E. Kihonge (2012)

Conclusions on the chapter

Although most of the backwards flows from outside markets went to serve local town consumers, SMEs in small towns were found to play a significant role in distribution of goods and services to their rural region. The town-rural flow was found to be over two times more than the forward flow from rural areas.

The concentration of services, the periodic markets, favorable agricultural activities in rural hinterlands, proximity and goods roads connectivity to big urban centers were noted to be favorable factors which might have accelerated the SME role in backward linkages. The junction node factor of Sagana town was noted to be important in serving clients from rural region.

The SMEs were also found to link national and international markets to regional towns with approximately 18.4 percent of those who bought goods from these markets selling to other nearby towns.

The traders, especially in the markets were observed to play a key role in connecting the small towns with both regional and international agricultural production zones with consumables coming from far and wide. However, improved information and communication technology may have resulted to low sourcing of supplies of the service sub-sector from national and regional markets and subsequently fewer rural clients due to some services being offered direct from big urban centers to rural areas and vice versa at the expense of small towns.

Though the enclave industries had most clients' density, their small numbers weaken their role in production and distribution of goods and services. This was mostly attributed to lack of innovation in products and/or production processes and therefore they may not have matched the competition from their counterparts in nearby large urban centers.

GENERAL CONCLUSIONS

Objective ONE: to investigate the general and specific characteristics of SMEs sub-sectors in a small town

The first objective was guided by the assumption that due to their rural-urban linkage function, the SMEs in small towns exhibits different characteristics as compared to the general outlook of the sector at national level and also to some specific regions where data was available. From the results, SMEs in small towns which are assumed to have a linking function did not show significance discrepancies from average characteristics surveyed at national level and also from comparison made from specific regions in Kenya. The few noted differences are more likely to be associated with the geo-social factors and the economical and political dynamics in the country. The lack of the special linking characteristics could be attributed to the findings in objective two.

Objective TWO: to determine the role of SME in small towns in forward linkages, rural and regional development

The second objective was guided by the hypothesis that the SMEs in small towns play significant role as markets links for agricultural produce from the rural region, either for local consumers or as links to national and export markets. This hypothesis did not stand, as SMEs in these towns played a lesser role in forwarding of goods and services for local, regional and international market. This could have been the reason the SMEs lacked the special linking characteristics as sought in objective ONE.

So, from earlier research work, though small enterprises are often known to be more dependent on the local supply of inputs and services than the large enterprises, this, according to the current study findings did not result to forward linking. Most of the rural inputs supplied by the SMEs were used or consumed at the local town centre. The study established that some factors which could have attributed to the poor show in forward linkages included; the marketing chain created by the Farmers Sacco's/companies, the use of Information and Communication Technologies, middlemen from larger urban centers and contracting farming. Other factors are; the poor road network to the rural areas, the history of agglomerated subsided space (market stalls and

incubation stands) and some rules and regulations from both central and local government which may have negatively affected the SMEs. Business operations such as hawking activities in raw milk, trade in timber and charcoal were also restricted. Others such as coffee and tea hawking were illegal. However, some factors such as the market and the highway were found to be important nodes through which SMEs linked the rural and national markets.

Objective THREE: to investigate the role of rural functions in growth of SMEs in small towns

The third objective was guided by the assumption that Sagana and Karatina are surrounded by agricultural zones and therefore the growth of most SMEs is influenced by farming activities in the rural areas. This assumption was upheld to be true as over a third of the SMEs were found to juggle between the SMEs activities in the small towns and farming activities in the rural areas. The growths of the urban and rural activities were therefore found to have a strong symbiotic relationship. The rural functions in urban SMEs were found to be real and instrumental in entrepreneurship development. They were not only vital in business survival in low seasons but were also found to improve business performance in terms of large capital base, high monthly turnover, increased access to loan facilities, and large size of the enterprise.

Though this concurred with earlier theories that the rural agricultural activities could trigger the vicious circles of rural-urban linkages, the current study established that such circles emerged strongly when there is direct link in ownership structure of the urban and rural activities.

Objective FOUR: to determine the role of SME in small towns in backward linkages, rural and regional development

The fourth objective was guided by the hypothesis that SMEs in small towns act as major nodes for distribution of goods and services from both local and regions to their rural region. This hypothesis was upheld by the current study. Previous studies have shown that the rural-urban trade to be more than urban-rural trade. However, the current study shows the later is almost three times more. The results could be said to differ in case where the point of focus is the small trader in the small town as opposed to a general urban-rural trade approach. Several factors were identified in earlier objectives on the diminished role of the small traders in rural-urban trade. Also the nature the farmers markets could determine the flow pattern between urban and rural

supplies. As noted in earlier chapters, Karatina and Sagana markets behaved more of international markets, where most of the traded goods and supplies were not from the local catchments. This meant rural populace depended on the towns not only for manufactured goods and professional services but also for agricultural produce. A factor emphasized by the fact that most of the agricultural activities in the rural hinterlands were small scale cash crop farming.

Areas of further research

The empirical analyses in this thesis identified some gaps in the role of Small and Medium Enterprises in small towns in rural-urban continuum. The insights from the empirical findings can be further strengthened through future research. Though the current study findings concur with the National Survey of 1999, survey on education level and type of business associations, there is a significant discrepancy on SMEs who did not belong to any business association. The study reveals that 81.6% of the SMEs in small towns did not belong to any of these associations, as compared to 76.3% at National level in 1999. The study also revealed that most SMEs believed on banking institutions for both financial and non-financial services. Since there has been increased innovation of banking products tailor made to the SMEs, one area of further research can be to investigate the impact of the tailored made banking products on formal and informal business associations.

From the study findings women were found to do fairly well in manufacturing sub-sector with 44.4% of this category being woman-owned. However, majority were found to be in home based manufactured products such as sisal ropes and sisal baskets. Since the current study did not detail the dynamics, operations and contribution of home based manufacturing in rural –urban linkages a research on the same could also be interesting.

The current study also focused Sagana and Karatina towns. The two are sandwiched between Mt. Kenya (to the North) and Aberdares ranges (to the South) and therefore have high land fertility and good climate. This makes the towns attractive to big investors in agriculture, a factor leveraged by their proximity to big towns Nairobi, Nyeri and Thika. This might have contributed to the diminishing role of SMEs in small towns in rural-urban linkages. It would be therefore interested to conduct a similar research in other small towns in the country with different characteristics for comparison purposes.

Though there was no relationship between the second source of income and forwarding of supplies to national and regional markets, the second source of income was observed to be an important factor in urban SME development. However, the current study did not quantify the contribution of the rural second incomes to growth of urban SMEs in small towns. A further research on the same area to quantify this contribution could open more insights on rural functions in urban SMEs development.

Lastly, though the currently study focused on the role of SMEs in small towns in rural-urban linkages, the study results indicated that the SMEs in these towns were also significant in linking the small towns to other small towns with approximately 18.4 percent of those who bought goods from the markets selling to other nearby towns. Therefore it would be interesting to further investigate the social-economic networks and linkages that involve one small town to the other.

APPENDIX 1

Acronyms

COMESA: Common Market for Eastern and Southern Africa

CORUS: Coopération pour la recherche universitaire et scientifique

CREATING: Co-operative research on East African territorial integration within Globalization'

EAC: East African Community

ERS: Economic Recovery Strategy

EU: European Union

FDI: Foreign Direct Investments

IFC: International Finance Corporation

IIED: International Institute for environment and Development

ILO: International Labour Organization

IMF: International Monetary Fund

IFC: International Finance Corporation

IRD: Integrated Rural Development

KLGRP: Kenya Local Government Reform Program

KPSDS: Kenya Private Sector Development Strategy

KWFT: Kenya Women Finance Trust

LATF: The Local Authority Transfer Fund

LDCs: Least Developed Countries

MFI: Micro Finance Institutions

MRTT: Ministry of Research, Technical and Technology

MSEs: Micro and Small Enterprises

MSETTP: Micro and Small Enterprise Training and Technology Project

MSMEs: Medium Small and Micro Enterprises

MVA: Manufacturing Added Value

NEPAD- New Partnership for Africa Development

NJEMA: National Juakali Exhibitions and Marketing Association

NGO: Non Governmental Organization

PSDS: Private Sector Development Strategy

ROSCAs: Rotating- savings and credit Associations
RNFES: rural non-farm enterprises
SACCO: Savings and credit co-operative societies
SADC: Southern African Development Community
SHG: Self Help Group
SBP: Single Business Permit
SITE: Strengthening Informal Sector Training and Technology
SMEs: Small and Medium enterprises
SSEs: Small Scale Enterprises
SAPs- Structural Adjustments Programs
UFRD: Urban Functions in Rural Development
UMP: Urban Management Program
UNIDO: United Nations Industrial Development Organization
UK: United Kingdom
UN: United Nations
UNIDO: United Nations Industrial Development Organization
USAID: United State Agency for International Development
USD: United States Dollar
VAT: Value- Added Tax

APPENDIX 2A

Research Permit

OFFICE OF THE DEPUTY PRIME MINISTER
AND
MINISTRY OF LOCAL GOVERNMENT

Telegram: "AUTHORITY", Nyeri
Telephone/Fax 020 2328125
Email: plgocentral@yahoo.com
plgocentralprovince@gmail.com
When replying please quote



PROVINCIAL LOCAL GOVERNMENT OFFICE,
CENTRAL PROVINCE,
P.O. BOX 546,
NYERI.

Ref No. 1001/IV/57

27th April 2009

The Town Clerk
Town Council of Sagana/Kagio
P.O. Box 255
SAGANA

MR. EPHANTUS KIHONGE:-
ROLE OF SMALL AND MEDIUM ENTERPRISES

The above mention is a student from University Blaise Pascal Clermont Ferrand France. He is conducting a research on the role of Small and Medium Enterprises (SMS) in integrated rural urban continuum in the Mount Kenya region.

Please assist him to access all the necessary documents he might need in his research and also allow him to conduct surveys and meet local stakeholders.

A handwritten signature in cursive script, appearing to read 'P. M. Malombe'.

P. M. Malombe
For **PROVINCIAL LOCAL GOVERNMENT OFFICER**
CENTRAL PROVINCE

APPENDIX 2B

**OFFICE OF THE DEPUTY PRIME MINISTER
AND
MINISTRY OF LOCAL GOVERNMENT**

Telegram: "AUTHORITY", Nyeri
Telephone/Fax 020 2328125
Email: plgocentral@yahoo.com
plgocentralprovince@gmail.com
When replying please quote



PROVINCIAL LOCAL GOVERNMENT OFFICE,
CENTRAL PROVINCE,
P.O. BOX 546,
NYERI.

Ref No. 1001/IV/56

27th April 2009

The Town Clerk
Municipal Council of Karatina
P.O. Box 329
KARATINA

**MR. EPHANTUS KIHONGE: -
ROLE OF SMALL AND MEDIUM ENTERPRISES**

The above mention is a student from University Blaise Pascal Clermont Ferrand France. He is conducting a research on the role of Small and Medium Enterprises (SMSs) in integrated rural urban continuum in the Mount Kenya region.

Please assist him to access all the necessary documents he might need in his research and also allow him to conduct surveys and meet local stakeholders.

A handwritten signature in black ink, appearing to read 'P. M. Malombe'.

P. M. Malombe
For **PROVINCIAL LOCAL GOVERNMENT OFFICER**
CENTRAL PROVINCE

Provincial Local Government Office- Central Province

APPENDIX 3

Trader's questionnaire

Personal details

- 1.1 Name:
- 1.2 Tel No:
- 1.3 Age: Circle one: (a) 18-35 (b) 36-60 (c) 61 and over
- 1.4 Circle one: (a) Male (b) Female
- 1.5 Marital status: circle one: (a) married (b) single (c) divorced (d) widow(er)
- 1.6 current resident
- 1.7 Highest formal level of education

2. Nature of business

- 2.1 Location of the business
- 2.2 What is the nature of your business? (a) Service (b) trade (c) manufacturing
- 2.2(a) Type of service/product/commodity.....
- 2.3 Do you have a business permit? (a) **Yes** (b) **no**
- 2.4 Do you own your stall or area of business? Circle one. (a) **Yes** (b) **no**
- 2.5.0 Do you or your business have a bank account? (a) **Yes** (b) **no**
- 2.5.1 Have you ever acquired a business loan? (a) **Yes** (b) **no**
- (If the answer is NO, go to question 2.5.4)*

2.5.2 If yes, from which institution

- (a) Bank
- (b) Micro-Finance Institution
- (c) ROSCAS
- (d) NGO
- (e) Govt Dev programs e.g. youth/women fund
- (f) Informal money lenders
- (g) Other (specify)...

2.5.3 Was the loan enough for the intended purpose? (a)Yes (b) no

2.5.4 What are the reasons for not taking a loan?

- (a) Lack of awareness
- (b) Attitude of bank staff
- (c) Needs for bribes.
- (d) Procedures and formalities
- (e) Absence of collateral
- (f) Problems with defaults.

2.6.0 Where do you buy your business supplies from?

- (a) Within the town
- (b) In the rural areas, specify which ones.....

i) What is the approximate distance of the above area from your business?

- (a) 0-10Km (b) 11-20Km(c) 21- 30Km (d) 31-50km (e) above 50km

(c) In other towns, specify which ones.....

ii) What is the approximate distance of the above area from your business?

- (a) 0-10Km (b) 11-20Km(c) 21- 30Km (d) 31-50km (e) above 50km

(d) If it is from both rural and other towns fill both part (b) and (c)

2.6.1How often do you get new supplies or raw materials? (a) Daily (b) twice in a week (c) weekly (d) twice in a month (e) monthly (f) other -specify.....

2.6.2 Which of the below fits you

(a) I buy direct from the producer/farmer/wholesaler

(b) I buy from middle men/women

2.6.5 Which of the below fits you

(a) I go to collect my supplies

(b) The supplies are delivered by the seller

(c) Other, specify.....

2.6.6Which is your common mode of transport for your supplies

(a) Own car

- (b) Taxi, specify.....
- (c) Public means
- (d) Tradition means
- (e) Boda boda –bicycle
- (f) Boda boda –motorbike
- (g) Other, specify.....

2.6.7 What are your transport expenses per delivery

- (a) Ksh0 – Ksh50
- (b) Ksh51 – Ksh100
- (c) Ksh101 – Ksh500
- (d) Ksh501 – Ksh1 000
- (e) Ksh1 001 – Ksh2 000
- (f) Ksh2001-Ksh10, 000
- (f) Over Ksh 10,000

2.6.8 What major transportation problems do you encounter?

2.7.0 Who are mainly your clients? (a) Male (d) female

2.7.1 Where do your clients mainly come from?

- (a) Within the town
- (b) In the rural areas, specify which ones.....

What is the approximate distance of the above area from your business?

- (a) 0-10Km (b) 11-20Km(c) 21- 30Km (d) 31-50km (e) above 50km

- (c) In other towns, specify which ones.....

What is the approximate distance of the above area from your business?

- (a) 0-10Km (b) 11-20Km(c) 21- 30Km (d) 31-50km (e) above 50km
- (d) If it is from both rural and other towns fill both part (b) and (c)

2.8 Has the number of your clients changed in the last three years? Circle one:

- (a)Increased (b) decreased (c) stayed the same.

2.9 What is the size of your average monthly turnover: Circle one: (this is NOT profit!)

(DON'T READ THE LIST)

- (a) Ksh0 – Ksh500
- (b) Ksh501 – Ksh1 000
- (c) Ksh1 001 – Ksh2 000
- (d) Ksh2 001 – Ksh5 000
- (e) Ksh5 001 – Ksh10 000
- (f) Ksh10 001 – Ksh50 000
- (g) More than Ksh50 001

2.11 Do you offer credit to your customers? Circle one: (a) **Yes** (b) **no**

2.12 What are your daily expenses related to **doing business** (give a list, but not the amount)

- a).....
- b).....
- c).....
- d).....
- e).....
- f).....
- g).....

2.12(a) in your own opinion, are the expenses (a) **too high** (b) **just OK**.

2.13 Does your family have any other source of income? Circle one (a) **Yes** (b) **no**

2.13(a) If no, how do you cope in low business seasons.

3. Job creation

4.1 How many employees do you have? Circle one:

- (a) 0 (only yourself) (b) 1-2 employees (c) 3-5 employees
- (d) 6-10 employees

4.2 Where do your employee(s) come from?

4.3 How much do your employees get on average per month.....

- (a) Ksh0 – Ksh500
- (b) Ksh501 – Ksh1 000
- (c) Ksh1 001 – Ksh2 000
- (d) Ksh2 001 – Ksh5 000

(e) Ksh5 001 – Ksh10 000

(f) Over Ksh 10,000

5. Questions for the business owner

5.1 Have you ever been engaged in formal employment? **(a) Yes (b) No.**

5.1(a) Why did you leave formal employment.....

5.2 How long have you owned this business?

5.3 How did you access start-up capital? Circle one or more: **DON'T READ LIST**

(a) Family savings OR

(b) Loan from family OR

(c) Loan from financial institution OR

(d) Loan from Small Cash Loans OR

(e) Social grants (e.g. pension) OR

(f) Other: Specify:

5.4 How much was your initial capital

(a) Ksh0 – Ksh500

(b) Ksh501 – Ksh1 000

(c) Ksh1 001 – Ksh2 000

(d) Ksh2 001 – Ksh5 000

(e) Ksh5 001 – Ksh10 000

(f) Ksh10 001 – Ksh50 000

(g) More than Ksh50 001

5.5 Have you had training on your business? **(a) Yes (b) No**

5.5(a) If yes, who provided the training.....

5.6 Do you believe that the local economy **is (a) Improving (b) Static (c) Declining?**

5.7 Would you like to expand the size of your business? **(a) Yes (b) no**

5.7 (a) Give reasons

5.8 What are the major problem preventing you from increasing the number of your clients?

Specify:

5.9 Would you like to diversify your business? Circle one: **(a) Yes (b) no**

5.9 (a) If yes, in what direction?

5.10 Would you be interested in receiving business mentoring (e.g. financial management, marketing, and accounting)? Circle one **(a) Yes (b) no (b) maybe**

5.11 Would you be interested in receiving tax advice? Circle one: **(a) Yes (b) no**

Give reasons

5.12 Do you think the local Council's business licensing policy is: Circle one.

a) Too strict /

b) Not strict enough /

c) Just right

5.13 Do you belong to a trade or business organisation, including Revolving and Savings Credit Association (ROSCA)? Circle one **(a) Yes (b) no**

5.13(a) If yes, specify which one(s):

5.14 In your experience, has any organisation helped you in setting up and running your business?

Specify:

5.15 In your opinion, which organisation could help you grow/expand your business?

.....

5.16 In your opinion, should the local Municipality assist businesses such as yours? Circle one:

(a) Yes (b) no

5.17(a) Give a reason for your answer:

6.0 Number of dependants.....

6.1 Do you live with the dependants: **(a) yes (b) no**

(if yes to qn.7.0)

6.2 If no, where do they live?.....

6.3 How often do you visit them?

(a) Twice in a week

(b) Weekly

(c) Twice in a month

(d) Monthly

(e) Twice in a year

(f) Yearly

(g) Other, specify.....

6.4 Who mostly visits you from your family?

(a) A relative

(b) A member from your nuclear family, specify which one.....

6.5 How often do they visit you?

(a) Twice in a week

(b) Weekly

(c) Twice in a month

(d) Monthly

(e) Twice in a year

(f) Yearly

(g) Other, specify.....

7.0 Would you like to be contacted by us in the future? **Yes / no**

THANK YOU FOR YOUR COOPERATION

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The Role of Small and Medium Enterprises (SMEs) in small towns in Rural-Urban continuum: The Case of Sagana and Karatina in Mt. Kenya Region, Central Kenya

Abstract: Small and Micro-Enterprises (SMEs) are known to form significant nodes in rural-urban linkages. Consequently, these SMEs serve as strong nodes which link the surrounding rural areas to Local, National and Regional Markets through forward and backward linkages. By strengthening and opening up opportunities for SMEs 'virtuous' circles of rural-urban economic linkages are created.

The study of the rural-urban linkages activities is still in development. This thesis therefore seeks to add to the literature by generating and documenting information on the role of SMEs in small towns in rural-urban linkages. Kenya is an agricultural-led economy, hence the need to focus on small mountainous towns. The towns are surrounded by rich agricultural areas and are highly populated, making them busy hubs of mobility and exchange. Therefore, Mt. Kenya region is the chosen area of study with SMEs in Sagana and Karatina towns chosen as centres representing small towns.

Based on the study results, SMEs were found to play an relatively small role in forward linkages. Only 12% of goods and services coming to the small towns from the rural areas were forwarded by the SMEs, and only 25% of these goods found their way to other markets. The study established that some factors such as to the marketing chain created by the Famers Sacco's, the use of Information and Communication Technologies and contracting farming could be contributing to the poor show of SMEs in forward linkages.

The rural functions in urban SMEs were found to be real and instrumental in entrepreneurship development. They were not only vital in business survival in low seasons but were also found have positive correlations with large capital base, high monthly turnover, increased access to loan facilities, and large size of the enterprise.

Previous studies have shown that the rural-urban trade to be more than urban-rural trade. However, the current study shows the latter is almost three times more. The results could be said to differ in case where the point of focus is the small trader in the small town as opposed to a general urban-rural trade approach. Also the nature of the farmers markets could determine the flow pattern between urban and rural supplies. Karatina and Sagana markets behaved more of international markets, where most of the traded goods and supplies were not from the local catchments. This meant rural populace depended on the towns not only for manufactured goods and professional services but also for agricultural produce.

Key-words: small and medium-sized towns, small and medium enterprises (SMEs), rural-urban linkages, Central Kenya