

**ACCESS TO PUBLIC SECTOR CONTRACTS BY MICRO AND
SMALL ENTERPRISES: A STUDY OF KISUMU CITY, KENYA**

BY

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**A RESEARCH THESIS SUBMITTED TO THE SCHOOL OF HUMAN
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AND QUANTITATIVE STUDIES,
MOI UNIVERSITY**

2014

DECLARATION

Declaration by the Candidate

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DEDICATION

This Thesis is dedicated to my lovely family for their love, patience, kind heart, encouragement and support. You have been an inspiration and strength throughout my studies.

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ABSTRACT

It is generally accepted that Micro and Small Enterprises (MSEs) are increasingly important in terms of employment creation, industrial transformation and poverty reduction. However, their competitiveness and growth prospect in the access to public sector contracts is far much below the expected thresholds. This is despite an affirmative policy by the government of Kenya reserving at least 30 per cent of all public contracts and tenders to MSEs. This study examined access to public sector contracts by MSEs in Kisumu city, Kenya. The following were the study objectives: to evaluate how background - business ownership, gender, position in enterprise, number of employees, area of operation, experience, skills – impact on MSEs access to public sector contracts in Kisumu city, to examine the determinants of access to public sector contracts by MSEs in Kisumu City, to assess the practices adopted by MSEs in access to public sector contracts in Kisumu City, to establish the challenges in the access to public sector contracts by MSEs in Kisumu city and to examine the significance of access to public sector by MSEs as a means to boosting their business in Kisumu city. The study adopted a case study research design where a questionnaire was used to collect data from respondents. Using a simple random sampling method, a 10% sample size was selected from the available list of 680 registered MSEs operating in Kisumu's Central Business District (CBD) as at the year 2010. Data captured were quantitative in nature which were analyzed using descriptive statistics where tables, figures frequency distributions, percentages and cross tabulations were used to show the distribution of the responses. The study found out that despite their immense contribution to economic development, MSEs are faced by daunting tasks in accessing public sector contracts. These included: lack of adequate working capital, Non-Tax Compliance, lack of information on existing public sector contracts, and inadequate policy framework. However, in their access to public sector contracts, the strategies that were most practiced by MSEs in Kisumu city were, compliance by registration, sourcing for funds from Financial Institutions, friends and own savings, Partnering with other MSEs to increase their Capacity, by participating in competitive bidding, and by the use of the existing government incentives . The study is significant to both the Central and County governments, civil society, business community and the academia, involved in the promotion of MSEs for national economic development. The study recommends: MSEs should be enlightened on issues of business registration and compliance as its the basic requirement for accessing public sector contracts, there should be a clear policy framework nurturing MSEs, cost of tender documents and other processes should be made affordable to MSEs wishing to take part public sector contracts. Further study should be done on the future of Micro Small Enterprises towards sustainable development in Kenya

LIST OF ABBREVIATIONS AND ACRONYMS

CBD:	Central Business District
ERSWEC:	Economic Recovery Strategy for Wealth and Employment Creation
GDP:	Gross Domestic Product
RoK:	Republic of Kenya
ILO:	International Labor Organization
KISM:	Kenya Institute of Supplies Management
KMA:	Kenya Manufacturers Association
K-REP:	Kenya Rural Enterprise Programme
KES:	Kenya Shilling
KIPPRA:	Kenya Institute for Public Policy Research and Analysis
MSEs :	Micro Small Enterprises
MPNDV2030:	Ministry of Planning, National Development and Vision 2030
OECD:	Organization for Economic Co-operation and Development
PPARB:	Public Procurement Administrative Review Board
PPDA:	Public Procurement Review Act
PPDPA:	Public Procurement and Disposal of Public Assets
PPOA:	Public Procurement Oversight Board
RSA:	Republic of South Africa
SPSS:	Statistical Packages for Social Sciences
TAC:	Tender Advice Centre
UNDP:	United Nations Development Programme
UNCTAD:	United Nations Conference on Trade and Development

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OPERATIONAL DEFINITION OF KEY TERMS

Legal framework-Refers to set of rules, procedural steps, often established through access to public sector contracts can be determined.

Access- Refers to participation of Micro Small Enterprises and ultimate winning of contracts in the public sector

Adequate Knowledge-Refers to a human Resource Potential that can aid interpretation of the tender obligations by effectively filling and returning the bids within the stipulated time

In-adequate working capital- Refers to a capital base that is not enough to honour the tender obligations, despite having won the bid/contract

In-adequate policy framework- Refers to Set of Laws and Regulations which puts local Micro Small Enterprises at a disadvantage in comparison to large firms

Public sector contracts – Refers to the goods/services/works that public entities procure through competitive bidding in any given financial year

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter describes the context of the study. It contains the background to the study, statement of the problem, research objectives, and research questions, significance of the study, scope of the study and limitations to the study.

1.1 Background to the Study

Micro and Small Enterprises (MSEs) have been recognized throughout developing countries as an *engine of growth* and a vehicle towards fulfilling the Millennium Development Goals (Thitapha, 2002; Kumaret.al., 2007). Whereas MSEs play a central role in employment creation, industrial transformation and poverty reduction, the competitiveness and growth prospects of MSEs in the access to public sector contracts is far much below the expected thresholds, as set by respective governments (RoK, 2003).

The economic roles played by Micro and Small Enterprises (MSEs), have been well manifested in many countries of the world, including United States of America(USA), Malaysia, Japan, South Korea, India, South Africa, Zambia, among others, by contributing significantly to the Gross Domestic Production (GDP), export earnings and in the creation of employment for a larger population in these countries(Odeh, 2005).

In many countries, they comprise more than 40 per cent of businesses and generally serve as the largest engine of job growth in developing and transition economies, often accounting for 20–90% of employment. Their contribution to GDP is between 20% and 60% (IFC 2007). They stimulate the entrepreneurial spirit and the diffusion of skills. Due to their widespread geographical presence, MSEs contribute to a more just distribution of income (OSCE, 2006).

In India, the constitution contains specific reference to principles of equality in public sector procurement. What this implies is that the Indian government is fair and does not discriminate MSEs when conducting contracts/Tenders or other purchases (Varma, 1998). There are neither barriers nor discriminations to MSEs wishing to participate in public procurement. Public Procurement in India, has laid emphasis on local sourcing, use of local available materials and use of local agents as a means to promoting it is small scale industries.

In USA, there are well defined procurement policies for assisting MSEs participating in public sector contracts (Roussel, 1998). The US Federal Acquisition Regulations (FAR) Section 19.2002-1 is devoted to supporting Small Businesses to participate in the Public Procurement. The *Small Business Agency (SBA)* operates a *certificate of competency (CoC)* programme aimed at ensuring that Small Businesses entering Public procurement are given fair chance to compete. Other affirmative programmes includes the *Preference Goaling Programme (PGP)*. According to this, each Federal agency is required to have an annual goal representing the maximum opportunity for Small Business to participate in Public Sector contracts. Despite the role played in the development of economies, MSEs have had their peculiar challenges hindering growth and performance.

The problem of poor performance spreads in all areas of world economies and has drawn a lot of interest to players in both public and private sector economies (ILO, 2009). In Nigeria, this sub-sector has fallen short of expectation (Osotimehin, Jagede, Babatunde & Olajide, 2012). In Kenya, three out of five new ventures fail within the first few months of operation (KNBS, 2007). This has a negative impact to respective economies hence their involvement in public sector contracts is thus wanting.

In Malaysia, statistics show that despite an increase number of MSEs each year, many do not graduate into large enterprises. MSE owners are afraid of expanding their businesses for fear of market uncertainties' (Salleh & Ibrahim, 2011). Promotion of MSE encourages the development of indigenous entrepreneurship; enhance regional development through industrial dispersal and general promotion of effective utilization of local resources that are critical in engineering economic development (Odeh, 2005)

In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. Recognizing the critical role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of MSEs to become the key industries of tomorrow by improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030 [MPNDV2030], 2007). However, it is generally recognized that MSEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development.

The International Finance Corporation (IFC) (2011) has identified various challenges faced by MSEs including lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and lack of access to credit.

Kenyan government has initiated the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) whose intention is to turn around the ailing Kenyan economy. The strategy has registered some success, with over one million jobs created in the period between 2003 and 2007, and the Gross Domestic Product (GDP) growth rate rising from 0.6% per annum in 2002 to 7% in 2007. Following this development, the government launched Kenya Vision 2030, which is the country's economic blueprint covering the period 2008 to 2030. It aims at making Kenya a newly industrialised "middle income country providing high quality of life for all its citizens by the year 2030." As a means for its implementation, the government has encouraged the participation of MSEs in public sector contracts. (Ministry of Planning, National Development & Vision 2030 [MPNDV2030], 2007). The performance and growth of MSEs in Kisumu city is rather low as compared to other MSEs in other towns in western Kenya like Kericho and Eldoret (Abuodha and King, 1992). On average, the life span for MSEs in Kisumu city is six months hence need for their integration in public sector contracts (RoK, 1999, 2000). According to Kibas (2004), the national growth rate of MSEs, is 61 percent. However that of Kisumu city is lowly at 6 percent which is much lower as compared to what is being reflected in the other nearby towns. The Economic Survey (RoK, 2008), overall, the economy generated 469 thousand new jobs in 2006-2007 financial years, an increase of 5.7 from previous year, 429.6 thousand jobs in 2007 compared to 420.4 thousand jobs in the year 2006.

The MSE sector has always provided the necessary employment interface between the modern and small scale sectors (RoK, 2010). In Kenya, the concepts; informal economy, MSEs and Jua Kali are often used interchangeably. MSEs are broadly defined as Income-Generating Activities that employ less than fifty people, however, on average; Kenyan MSEs employ 2 employees (RoK, 2005).

As regards the scope of MSE operations, it is reported that close to 70 per cent are in the trade sector. (CBS, *et.al.*, 1999). This implies that a large proportion of MSE, are involved in the buying and selling of goods. However, despite the important role played by MSEs, the sector is plagued by a number of concerns. According to Thitapha (2002), MSEs, especially in developing countries, have been *exposed to intense competition* due to accelerated process of globalization which brings about the need for MSEs to develop competitiveness for their survival as well as growth. Assessment of the contribution of MSEs in really economic terms has been difficult due to the informality of the sector and neglect of the sector by various governments (ILO, 2005). In Kenya, challenges of Micro Small Enterprises can be dated back to colonial days. The colonial government largely discouraged running of Small Enterprises by the indigenous Kenyans (Ronge*et.al.*, .2002). This did not change during the early years of Kenya's independence (King, 1996).

There is an increasing awareness in the International Community on the important role of MSEs in fostering Socio-economic development in both urban and rural setting. In Kenya, turnaround in government apathy towards MSEs was first highlighted in Sessional Paper Number 1 of 1986 on *Economic Management of Renewed Growth* (RoK, 1986).

In the document the government underscores the importance of the sector in terms of its potential in bringing about balanced rural-urban development and employment creation by providing much needed flexibility and innovation in the economy (RoK, 1989), (King, 1996).

During the past decades, perceptions of MSEs and their role in economic development has changed substantially (Wangwe, 1999). First, MSEs have shown great resilience during any time of crisis. MSEs usually utilize local resources such as capital, skills harnessed to produce a variety of products for the market and utilize local material resources often to a greater extent. Secondly, MSEs have proved to be a dependable source of employment even during periods of crisis. MSEs which are labour-intensive, create employment at relatively low capital cost (Wangwe, 1999). According to Sessional Paper No.1 (RoK, 1986), the Kenyan government recognizes problems inherent in the sector, among them access to new market outlets, deficient demand for MSE goods, works and services, poor technology, poor infrastructure, inadequate policies, among others (McCormick, 1997; CBS et. al., 1999). Other challenges are such as limited Publication of contract opportunities and overly onerous pre-qualification requirements, costly tender submission procedures, and excessive contract aggregation. Kenya's Public Procurement procedures and practices equally tend to lock out MSEs from participating in public sector contracts through very high volume standards, need for proof of large financial base and other pre-qualification standards (RoK, 2005). The Kenyan government has however recognized that the growth and development of MSEs depends on the existence of a vibrant market for MSE's products and services (RoK, 1989).

In order to expand the marketing frontiers of the MSE products, and as a way of demonstrating government commitment to the growth of the sector, the government, according to Sessional Paper No. 2 of 2005, (RoK, 2004) set out to allocate at least 25% of its procurement requirements to the sector. In Kenya, about 34.1 percent of MSEs cite market constraints and the inability to sell their products and services as one of the most serious obstacles to starting business and sustaining its growth beyond the subsistence level (McCormick, 1997; CBS et al, 1999). One innovative way in which countries with MSE market access constraint, is to enhance participation of MSEs in public sector contracts.

The Public Procurement and Disposal Act (PPDA), 2005 has thus as one of its objectives, the facilitation and development of local enterprises (PPDA, 2005). However, local enterprises, and particularly MSEs, still face daunting challenges in winning public procurement (Ngugi 2005). Public Procurement market is huge-averaged 9.07 percent of GDP or 71 billion,(Table 1.1). Unfortunately, most MSEs are excluded from this potentially large market for reasons attributed to mistaken perception that majority of MSEs are unlikely to deliver (McGrath, 2003). According to Ngugi (2005), over 75 per cent of MSEs in Kenya do not take part in Public procurement process

Table 1.1 Public Procurement Size in Kenya (Kshs. millions)

Undertaking	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Total Government Expenditure	376,176.7	379,665.6	430,745.4	476,347.6	711,131.4
Less Labour Costs	(131,672.9)	(116,541.6)	(135,924.8)	(145,308)	172,363.8
Less Subsidies	(10,253.1)	(250)	(420.5)	(45.5)	(2,988.6)
Less interest payments	(27,743.5)	(26,767.2)	(31,453.2)	(38,347.3)	(49,244.5)
Less Transfers	7,284.8)	(6,389.3)	(17,224.5)	(2,487.7)	(38,387.1)
Less net lending	(-18,620.8)	(57,192)	(-24,320.2)	(-14,983.7)	(-111,632)
Less public redemptions	(86,635.7)	(81,539.8)	(75,546.78)	970,611.3)	(82,355.5)
Less military expenditure	(16,902.2)	(17,203.5)	(15,921.3)	(14,752.2)	-
Central Government Procurement(CGP)	114,305.5	125,255.1	178,574.4	219,778.9	477,424.1
GDP at Market	1,131,783	1,273,975	1,418,071	1,620,732	1,814,243
CGP as % of GDP	10.1	9.8	12.6	13.6	26.3
Lab our costs as Total Government Expenditure	35.5	30.7	31.6	30.5	24.2
Total Government Exp as % GDP	33.2	29.8	30.4	29.4	39.2

Source: PPD Bill, 2005 & KNBS, 2003 /2008

1.2 Statement of the Problem

Micro and Small Enterprises (MSEs) are effective creators of employment, innovation, income and growth in various economies (RoK, 1994). The Government of Kenya recognizes MSEs not only as providers of goods and services, but also as a driver of competition, innovation and enhancement of enterprise culture which is necessary for both private and public sector development (RoK 2005). Despite this, MSEs have historically been shut out of government businesses and have found accessing public sector contracts excessively, and prohibitively, bureaucratic, time-consuming and expensive (Ng'ang'a, 2011). Tiagha (2001) observes that the sector is important as it

absorbs a lot of new entrants into the labour market, generates income for the disadvantaged groups, and offers employment to majority youths in addition to contributing to government revenue.

According to Smith and Hobbs (2001), most public sector organisations are aware of the benefits of purchasing from MSEs, however few have designed strategies to encourage MSEs participation into existing contracts and tenders. The *Vision 2030*, the blueprint of the country's development, has clearly articulated the need to support MSEs which account for 20% of the country's GDP (GOK, 2011). Many studies have been conducted on MSEs, mostly identifying access to credit as the major hindrance (Adera, 1995, Atieno, 2001; Indarti and Langenberg, 2004; Kibera and Kibera 1997; Garikai 2011, Gray, Cooley and Lutabingwa 1995; Jun and LIjun 2007, and Sethna, 1992). However, little has been done on access to public sector contracts by MSEs in Kisumu city, Kenya. This scenario, justifies the study.

1.3 Objectives of the Study

The main objective of this study was to analyze access to public sector contracts by Micro and Small Enterprises: a case study of Kisumu city, Kenya.

1.3.1 Specific Objectives

The study sought to:

- i. Evaluate how background - business ownership, Gender, position in enterprise, Number of Employees, Area of Operation, Experience, Skills – impact on MSEs access to public sector contracts in Kisumu city
- ii. Examine the determinants of access to public sector contracts by MSEs in

Kisumu City

- iii. Assess the practices adopted by MSEs in access to public sector contracts in Kisumu City
- iv. Establish the challenges facing MSEs in access to public sector contracts in Kisumu city
- v. To examine the significance of access to public sector by MSEs as a means to boosting their business in Kisumu city

1.4 Research Questions

The study was guided by the following research questions:

- i. Does MSEs background and experience affect their ability to access public Sector contracts in Kisumu City?
- ii. What are the determinants that enable MSEs easy access to public contracts in Kisumu city?
- iii. What practices have been adopted by MSEs in Kisumu city in enabling them access public sector contracts?
- iv. Does the challenges' facing MSE in Kisumu city affect their access to public sector contracts?
- v. Does MSEs access to public sector contracts statistically significant in Kisumu city?

1.5 Significance of the Study

Growth of MSEs in Kenya is increasing and the Government has to use the study findings and suggested recommendations to create favourable policies that could

ensure growth of MSEs in both public and private sectors of the economy. By identifying the major challenges in the MSE sector, this study may help Government, business practitioners, and industry bodies to provide appropriate information and support strategies that could enhance MSE accessibility to public sector contracts.

The study could also contribute to the existing body of knowledge on enterprise development and form themes for future studies.

1.6 Limitations of the Study

Access to list of registered MSEs from the relevant authorities was particularly difficult since a participatory fee was mandatory (Ref: Appendix 11). Locating the few MSEs operating in Kisumu's CBD, was a challenge due to the nature of their informality. There was widespread ignorance of public sector tendering processes and fear of the unknowns among the study informants. Some of the respondents were very conservative in giving specific information considered necessary in the study.

In overcoming all these, the researcher insisted on the commitment to uphold anonymity of responses and confidentiality in handling and using research findings for academic purposes only. Some respondents who had difficulties in interpreting some questions in the questionnaire were assisted by the researcher in the interpretation of questions and filling of the questionnaires. Letters of authority from both Moi University and the Municipal council of Kisumu, and the research permit from NACOSTI, helped to instill some confidence in respondents in attending to the research instrument.

1.7 Scope of the Study

The study focused on access to public sector contracts by Micro and Small Enterprises: A study of Kisumu city, Kenya. The key variables were: *regulatory*, *ethics*, *finances* and *information access*. The study was conducted between March 2011 and April 2012.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature review related to the study. It commences with an overview of MSEs, the theoretical framework, followed by empirical evidence, conceptual framework, Summary of literature review and research gap and the conceptual framework.

2.1 Overview of Micro Small Enterprises

Micro Small Enterprises are widely recognized world over for their role in the social, political and economic development (Schneider, 2006). The importance of the sector is particularly apparent in its ability to provide reasonably priced goods, services, income and employment to a number of people (Kauffmann, 2006). It is for this reason that there has been a growing interest and concern by the government and development agencies for the improved performance and growth of the small and medium enterprises.

In developing countries MSEs have exhibited considerable resilience in the reform process by providing opportunities for employment achieving of equitable income distribution of economic benefits of development, alleviating poverty, building up local technological base, promoting participation of vulnerable groups particularly youths women and those with disabilities (ILO, 2000). Their contribution to GDP and employment has shown to be significant in various economies (Wangwe, 1999).

As far as contribution to National Product is concern, MSEs in Uganda are quoted as contributing to more than 40% of GDP. In Nigeria, MSEs contribute more than 40% of GDP. In Japan, despite the structure of a developed economy, MSEs contribute to more than 38% of GDP. In Italy, Ireland, Israel, Portugal and Spain MSEs contribute between 35-50% of GDP. MSEs Contribution to GDP in Tanzania is estimated to be over 35 per cent with an employment of more than 20% of the total work force. According to the Kenya Economic Report, 2009, MSEs sector accounts for 87 per cent of all new jobs created and absorbs about 77 per cent of total number of employees in Kenya (KNBS, 2007).

Definitions of MSEs vary across countries. In Sub-Saharan Africa, they are generally defined as enterprises that employ between one and 100 employees, and have an annual turnover of up to Kshs.100 million (US\$1,300,000) (Elumba, 2008). According to Munyanyiwa, (2009), Bol (1995), Garikai (2011); (Ronge *et. al.*, 2002), (Stevenson *et.al.*, 2005) and IFAD (2005), MSEs are those enterprises, whether in the formal or informal sector that employ 1 to 50 people with annual turnover of Kshs.500, 000 and Kshs. 5 million. For the purpose of this study and according to the Kenyan scenario, the researcher is to adopt the criterion of number of employees which is also a common definition in OECD (Organization for Economic Co-operation and Development) countries (National Baseline Survey, 1999), as enterprises that employ up to ten people, with annual turnover of Ksh. 500,000.00 (RoK, 2005). Apart from the number of employees in most cases, MSEs are managed by their owners who are often assisted by family members (Okello-Obura *et al* 2009).

In Kenya, most of MSEs are characterized by ease of entry into the sector, small scale of activity, self-employment with high proportion of family labor, little capital and

equipment, low skills, low level of organization with little access to markets and informal credit (National Baseline Survey, 1999). MSE owner managers are considered as key in the creation of an entrepreneurial spirit and innovation, thus fostering competitiveness in both private and public sector (Moyiet *al*, 2006), (Biggs and Sha, 2006).

2. 1.2 Definition Characteristics of Micro Small Enterprises

Micro, Small Enterprises (MSEs) are viewed as a key driver of economic and social development in the African context. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness and equitable sustainable development (Pelham 2000). As a result, MSEs generally contribute to the creation of economic and social value (Crawford, 2003; Lin & Chen 2007). However, their readiness and capacity to approach public sector markets, is impeded by a common lack of financial strength as well as technical and managerial skills (Gray 2006; Shiu & Walker 2007).

In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. Recognizing the critical role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of MSEs to become the key industries of tomorrow by improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030 [MPNDV2030], 2007).

2.1.3 Institutional Framework

Institutions are considered as ‘constraints that human beings impose on themselves’ (North, 1990). Institutions prohibit, permit or require a specific type of behavior-political, economic or social behaviors that are important for enhancing information flows and for defining and enforcing accessibility to public sector contracts. According to North (1990), institutions can be viewed as either sociological, any behavioral regularity; or economic. This also includes the rules of the game in a society, or the devised constraints that shape human interaction (Gustafson 1994. In view of the notion, organizations are institutions because they embody rules and regulations, (formal or informal) that govern their operations and access to services. The institutional frameworks within which MSEs interact with public sector organization have a profound influence on a firm’s economic performance (Mnenwa and Maliti 2005). The potential and ability of small businesses to contribute to poverty reduction are largely vested in the capacity of the MSE support from institutions in the provision of the needed institutional framework, incentives and capital Wangwe (1999)

Reform initiatives in Kenya have centered on making the government procurement process more efficient, essentially by blocking the legal loopholes believed to be avenues for waste and rent seeking in the system. Consequently, much effort has been devoted in bringing together existing procurement regulations and directives into a single document, the Public Procurement and Disposal Act, (PPDA), 2005 (Njiraini et al, 2006), (Owegi et al 2006). Crucial in this respect is a sound enforcement mechanism that ensures that procurement entities comply with the regulations and that those who fail are duly punished. Part of the reason why public procurement in

many countries including Kenya, has been in disorder is because of the legal and institutional framework that has been unclear and ineffective in ensuring efficient and economical public procurement (Hallberg, 2000). According to Gachogu (2004), a well-designed institutional framework is considered to provide a predictable and conducive business environment favourable to all entities, thereby facilitating compliance.

There are four (4) Acts of parliament under which MSEs can follow in the access to public sector contracts: the Societies Act (CAP 108), the Trade Unions Act (CAP 33), the co-operative Societies Act (CAP 490) and the Companies Act (CAP 486) of the Laws of Kenya (Public Procurement and Disposal Bill, 2005, Ngugi M 2005). Table 2.1, shows the various Acts which in one way have enhanced MSEs access to public sector contracts and or inhibited their participation in accessing public sector contracts

Table 2.1 Institutional Framework

	Key functions	Issues of MSE participation
PPOA	Ensure compliance with procurement procedures, monitor public procurement system, assist in the implementation of public procurement procedures	This is the board that should guide public entities on current procurement procedures Public procurement in Kenya, suffers from limited skillful manpower (Government of Kenya,2004)
PPOAB	Advise the above Authority On performance of tasks	The Act fails to state how the composition of Board members could be.MSE umbrella board is not represented in the Board, worsening its efforts in accessing public procurement
PPARB	Reviewing complaints from bidders, or from procuring entities	Secretariat of the board has limited capacity resulting into piling of complaints in the sector
Ministerial Tender Committees	Review tender documents and Request For Proposals Approve Variations of contract conditions	Public officials dominate these committees .Representatives from MSEs could be useful in ensuring the influence their positions by participating in public procurement.
District tender committees	Award tenders, Review tender documents	Most MSEs at district /regional levels, however, they are not represented at whichever level of the committees.

Source: Public Procurement and Disposal Bill (2005), Ngugi (2005)

2.2 Theoretical framework

The theoretical framework was based on *Institutional Theory* .According to Eyaat *al* (2011), there is no single universally agreed definition of institution or institutional theory. Institutions are composed of *cultural-cognitive* and *regulative elements* that, together with associated activities and resources give meaning to life. There exist three pillars of institutions: *regulatory, normative* and *cultural*.

The regulatory pillar emphasizes use of rules, laws and sanctions as enforcement mechanism, with expedience as a basis for compliance. The normative pillar refers to norms and values, social obligation being the basis of compliance. The cultural-cognitive pillar rests on shared understanding. In Kenya, public procurement is guided by PPDA, 2005 and PPDR, 2006, treasury circulars and guidelines which are issued from time to time and PPOA regulations which must be complied

Scott (1995) says that one cognitively oriented view is that a given institution is encoded into an actor through a socialization process which when internalized transforms a patterned behaviour. When the actor behaves according to the pattern the institution is enacted. In the same manner, institutions are produced or reproduced. After some time the institution becomes sediment and taken for granted which might make it hard to realize that the behaviour within the institution is controlled and hence causing non-compliance to the set rules and regulations. MSEs tend to be large in number, accounting for about 90 per cent of all enterprises in many African countries and over 80 per cent of new jobs in a given country (Reinecke 2002). Yet, market saturation is a major problem for MSEs in accessing public sector contracts (Kantor 2001).

2.2.1 Background information for MSEs in accessing public sector contracts

The significance of Micro Small Enterprises to the economy and society in terms of their contribution to output and employment is now indisputable. It is important to understand how background setups such as; business ownership, gender, age, capitalization and experience, have an impact on MSEs in accessing public sector contracts (Edwards et al. 2010).

On expansion capacity of MSEs, the age of business owner, gender, capitalization, and experience have a positive relation with expansion capacity of the firm. Male – owned enterprises tend to perform better and over time grow faster relative to female owned enterprises (Daniels and Mead, 1998; Fafchamps & Gabre-Madhin, 2001).

According to (King, 2002) education is one of the factors that impact positively on growth of firms. The entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 1998). Infrastructure which relates to provision of accessible roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of MSEs which depend largely on the state of the infrastructure (Bokea, Dondo & Mutiso, 1999).

2.2.2 Determinants of MSEs access to Public sector contracts

The development of MSEs is very important to the national economy and public procurement can be an important source of business for MSEs. However, access to public sector contracts by majority smaller entities is often seen as a problem (Walker et al, 2005). Existing literature suggests there is an increasing awareness of the wider impact of purchasing on the economy, business, the environment and society (Carter, 2004). Of particular interest has been the role of MSEs in public procurement. Public procurement has a greater impact on the local economy and social welfare through the promotion of MSEs and local sourcing (Bovis, 1997). The benefits for these can include employment creation which may lead to poverty eradication, exposure for technology/innovation (Carter et al, 1999);

2.2.3 Practices adopted by MSEs in access to public sector contracts

The value of the small business sector is recognized in economies world-wide, irrespective of the economy's developmental stage. The contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth (Vosloo, 1994). For any business to operate without hitches and interference from the authorities, it must comply with the rules set for the specific business type, whether by the central government or by the specific local authority in whose locality the business is situated. In Kenya there is a range of trade licenses and business permits that an entrepreneur is expected to possess, for them to be considered to be running a legitimate business

There exist general legal requirements that all registered businesses must acquire, including VAT number, Personal Identification Number (PIN), National Social Security Fund (NSSF) number, and the National Hospital Insurance Fund (NHIF) number while other requirements are specific to business type. In addition to the above, before one can establish an enterprise, there must be approval by the National Environmental Management Authority (NEMA), which is charged with the responsibility of ensuring that businesses do not have a negative impact on the environment. In business, bidding is a recognized way of competing with other businesses for a project or contract. The public procurement and disposal Act, (PPDA), 2005 states that if a company is only interested in a low price for products or services, it will often ask for competitive bidding.

2.2.4 Challenges in access to public sector contracts by MSEs

Despite the great growth potential for the country's economy attributed to MSEs, Micro Small Enterprises face numerous challenges in access to public sector contracts (Smith and Smith, 2007). Among them are: lack of enterprise management skills, lack of information on existence of public sector contracts, inadequate financing, institutional guidelines and technological related (Bartlett and Bukvic, 2001, Bartlett and Bukvic, 2001, Eagan, 2005).

MSEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active MSEs sector - and the effective utilization of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries, alike (Corps 2005). However, in most developing countries, the MSEs sector suffers from inadequacies in the provision of business information. A study conducted in northern Uganda by Okello-Obura et al (2008) shows that the MSEs depend, mostly, on informal institutions as they lack an awareness of important business information provision agencies or institutions. Access to information is insufficient. This is inconsistent with the requirement for effective competition in global market. The MSEs need tailor-made information solutions - i.e., business information services that assess, verify and apply information to a specific business problem (Okello-Obura. et al 2008). However, Micro Small Enterprises Miss the availability of information because of unaware of existence of website postings and many do not have internet access (KISM, 2008).

According to Strong, Lee and Wang (1997), Ladzani (2001), poor information quality can hinder MSEs accessibility to existing public sector contracts. According to Ladzani (2001), the priority ranking of the MSEs needs, clearly puts information provision at the top of the list of services to be provided. The MSEs development is hampered by an “information-poor” environment. In most developing countries, market signals on business opportunities, customer trends, methods of organization, etc., are not communicated, effectively, to the MSEs (Ladzani 2001; Okello-Obura et al 2008). The MSEs perform better in information-rich environments (Moyi 2000 and Ladzani 2001).

The other challenge facing MSEs is that of complicated or unclear tender specifications or technical documentation. In Kenya, the nature of standard tender documents (RoK, 2002), needed for participation by MSEs into Public sector is sometimes complicated / not even to bear. For instance, “Small works” tenders like construction of a building, perimeter wall, repair of roads, and supply of stationery materials are hardly won by MSEs, since they are expected to produce: a certificate of registration; a certificate of Tax Compliance; monetary value to undertake the work; five years of experience or more in a similar undertaking; Experience and qualifications of technical personnel; and five years Audited financial Reports among others, all which an MSE is unable to provide.

In certain instances, poorly structured tender documents hinder MSEs ability to participate in public procurement. Technical specifications are in most cases prepared by either in-house technical staff or contracted technical staff. These professionals “couch” the specifications in technical jargon which in most cases are hardly understood by non-technical MSE staff.

This type of challenge reflects on both the procuring entity and the sophistication of the MSE (KISM, 2008). This leads to the other challenge of frequent rejection of goods supplied by MSEs as they are often found not to meet the required specifications which may be attributed to MSEs limited capacity in meeting the set standards in terms of quality and other requirements by procuring entities (Eagen, 2005).

According to Letchmiah (1998), cash flow is critical for MSEs Survival. Public procurement in Kenya requires that, clear provisions for payments should be included in the tender documents and interest should accrue on overdue payment (GoK, 2002). Despite sufficient legislation in the form of the PPDA 2005, and PPDR 2006 to curb corrupt practices, it is not being applied vigorously and corrupt practices persist. For instance whereas there is legislative provisions for rotation of contracts to pre-qualified suppliers, these are mostly not applied and same enterprises seem to get regular contracts (KISM, 2008).

One key objective of any Public Procurement is to achieve value for money, (PPDA 2005). However, how procuring entities go about achieving this objective, may impact negatively on MSEs. Major practices arising out of this is “contract aggregation” or contract bundling in order to achieve economies of scale. The procuring entities may opt to deal with one prime supplier. Public Procurement agents, tends to bundle the quantities sought in order to minimize transaction costs or not to bypass the threshold set (KISM, 2008).

Dealing with selective suppliers, enables buying organizations to take advantage of quantity–discounting strategies (KISM, 2008). Though Public Procurement prohibits bundling or splitting of orders/procurements, (RoK, 2005a), it is silent of public sector in aggregating public tenders. This adversely affects the participation of small enterprises (MSEs) in any public sector contract. The bureaucratic and length process of transacting business with Public sector organizations, affects MSEs through high transaction costs (RoK 2005).

2.2.5 The significance of access to public sector contracts by MSEs as a means to boosting business

Existing literature suggests there is an increasing awareness of the wider impact of purchasing on the economy, business, the environment and society (Carter, 2004). Of particular interest has been the role of MSEs in public sector contracts. Public sector contracts could have a greater impact on the local economy and social welfare (Bovis, 1997) through the promotion of MSE and local sourcing. Public sector contracts tend to have multiple goals, such as socio-economic, commercial and regulatory goals (Erridge, 2004). Wider policy goals may relate to socio-economic goals, such as the environment, poverty reduction, social inclusion and community development.

There seems a wide range of rationale for MSE involvement from social considerations to business considerations or both (Ram *et al*, 2002). The business cases for MSE involvement tend to assume that there are potential economic benefits relating to local sourcing and value reputation while the social cases tend to be driven by employment, regeneration of local economy and leverage (NERA, 2005).

MSEs are becoming more of a priority for policymakers in most countries. Seen as the driving force of many economies, they help stimulate economic growth, encourage innovation and competition. They also play a huge role in creating more jobs in countries where these are urgently needed (Wangwe, 1999). Giving MSEs the chance to bid for government contracts—and win them—could increase the amount of business they do.

2.3 Empirical Evidence

Public procurement can be defined as the supply chain system for the acquisition of all necessary goods, works and services by the state and its organs when acting in pursuit of public interest (Bovis, 1998). MSEs need to have access to, and the opportunity to win, public sector contracts. What must not happen is that the process unintentionally favors large firms in some way and discourages small firms. It should be noted that, it is not about giving preferential treatment to MSEs but about facilitating a more level playing field.

According to a 2009 Economic Survey Report, the MSE sector contributed over 50% of job creations in the year 2008. Public sector contracting has an important economic and political implication and ensuring that the process is economical and efficient is crucial. This requires in part that the whole tendering process is well understood by the actors: government, the procuring entities and the business community/suppliers and other stakeholders, including professional associations, and the general public (Odhiambo, 2003). A study by Mnenwa and Maliti (2005) shows that small businesses contribute to poverty alleviation through income generation in form of profits to entrepreneurs, salaries to workers and job creation.

According to Mnenwa and Maliti (2005), there is a correlation between MSEs and their potential to increase income and employment creation, and that business performance in terms of profit generation and employment creation is positively related to the size of the firm, suggesting that strategies, which promote vertical growth, are more favourable than those favouring horizontal growth. These views are also shared by Aron (2002) who reports that there is a link between the quality of organizations, and investment and growth of MSEs.

Public procurement can be defined as the supply chain system for the acquisition of all necessary goods, works and services by the state and its organs when acting in pursuit of public interest (Bovis, 1998). SMEs need to have access to, and the opportunity to win, government contracts. What must not happen is that the process unintentionally favors large firms in some way and discourages small firms. It should be noted that, it is not about giving preferential treatment to SMEs but about facilitating a more level playing field.

2.4. Conceptual Framework

According to Kothari (2004), a concept which can take on different qualities of qualitative values is called a variable. The independent variables in this case were: Background characteristics of MSEs, Determinants of MSEs access to public sector contracts, Practices to access to public sector contracts, Challenges in access to public sector contracts and Significance of access to public sector contracts which affect the dependent variable; public sector contracts

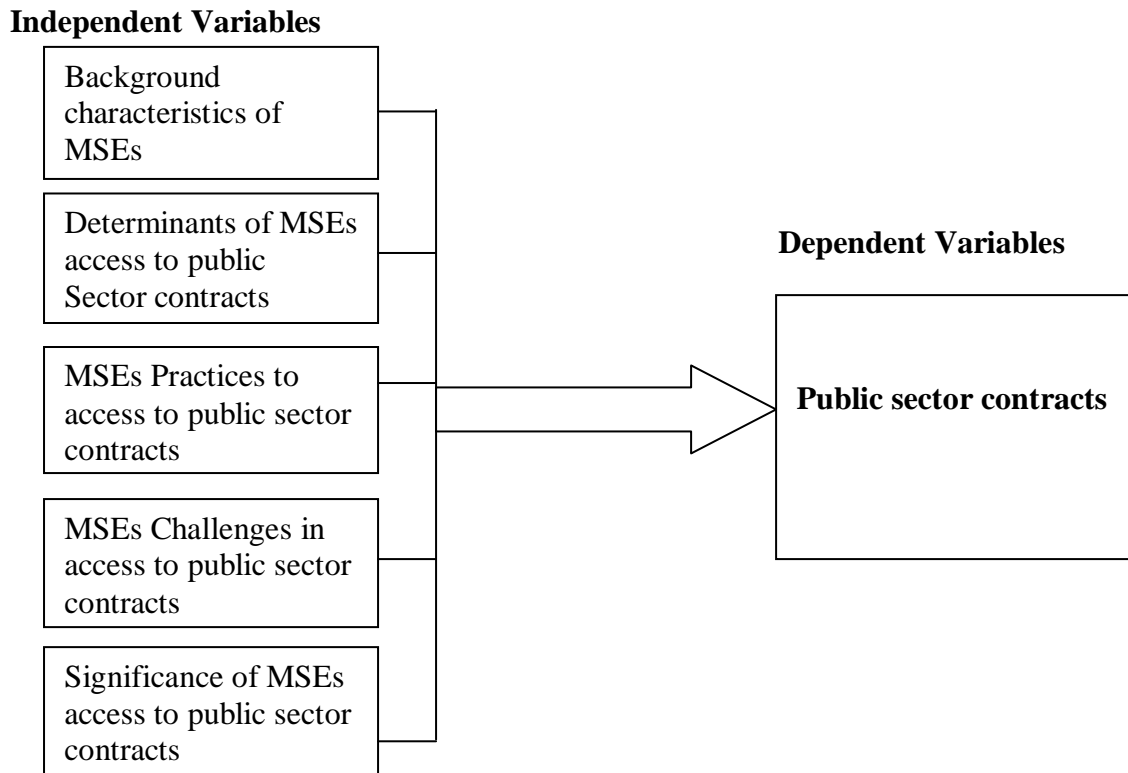


Figure 2.1: Conceptual Framework

Source: Researcher (2011)

2.4.1 Background characteristics of MSEs for the access to public sector contracts

In general, MSEs are an integral element of the informal sector in most developing countries. In the majority of cases, these enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies (Mkandawire, 1999; Cook and Nixon, 2005). Hence, the growth of these enterprises is part and parcel of a dynamic growth process in the corporate sector, as argued by Liedholm and Mead (1994) and Prasad et al. (2005).

According to Edwards et al. (2010), with respect to ones gender, age, level of education, rank in the enterprise, number of employees, form of ownership, startup capital, area of specialization, and years of existence of the enterprise, are key characteristics for MSEs in accessing public sector contracts. On expansion capacity the age of business owner, gender, business capitalization, and experience have a positive relation with expansion capacity of the firm. Male – owned enterprises tend to perform better and over time grow faster relative to female owned enterprise (Daniels and Mead, 1998; Fafchamps & Gabre-Madhin, 2001).

2.4.2 Determinants of MSEs access to public sector contracts

According to Ganbold (2008), the ability of MSEs to grow depends highly on their potential to invest in innovation and diversity in other business venture. All of these investments need capital and therefore access to finance by MSEs is critical for their growth and development. In order to bid for public contracts, MSEs need enough capital that can be used to acquire the tendered items. Public contracts are characterized by big lot sizes which require huge capital investment to service. Even upon getting the public contracts, MSEs often don't have access to credit hence always operating on a tight budget where focus is on short-term returns and so would not be able to fulfill the public contract requirements (Kasekende and Opondo, 2003).

The legal framework establishes rules within which all Micro Small Enterprises operate in accessing public sector contracts. According to Thai (2001), apart from public procurement regulations and rules, the legal environment refers to a broad legal framework that governs all businesses such as safety and health of products, safety and health at workplace and pollution control, finance, marketing / disclosure of product characteristics, personnel and contracts.

A weak legal framework is often the root of challenges facing MSEs in accessing public sector contracts (Perry 2011). According to (*Public Procurement and Disposal Act*, 2005) it is important that the public sector contracts are discharged with probity, transparency and accountability in a manner that secures best value for public money. Probity requires the purchasing process to be conducted ethically; honestly; and with fairness to all participants.

2.4.3 MSEs Practices in access to public sector contracts

The old way of doing business consists of buyers managing forecasts and communicating requirements to suppliers via phone, fax and e-mail. These manual processes are slow and cumbersome. They cannot support today's demand-driven enterprises (Thomson and Jackson, 2007). The PPDA has made the provision for the following forms of procurement to Micro Small Enterprises in Kenya, which are also applicable to MSEs in Kisumu city: Open tendering; Restricted tendering, direct procurement, Request for proposals, and Request for quotations, upon which the efficient utilization of the ICT technology adoption, MSEs can easily access the available contract opportunities by increasing their participation which could ultimately lower their operational costs and increase their productivity.

There exist general legal requirements that all registered businesses must acquire, including VAT number, Personal Identification Number (PIN), National Social Security Fund (NSSF) number, and the National Hospital Insurance Fund (NHIF) number while other requirements are specific to business type. In addition to the above, before one can establish an enterprise, there must be approval by the National Environmental Management Authority (NEMA), which is responsible in ensuring that businesses do not have a negative impact on the environment.

In business, bidding is a recognized way of competing with other businesses for a project or contract. (PPDA, 2005) In seeking to outsource for goods and services, good practice and business efficacy demand that the purchaser wants to find a supplier who will be both reliable and will provide products or services that are good value for money (Griffith and Griffith, 2002). Good value for money does not simply mean the cheapest but will include a variety of other factors such as quality, compliance with tendering criteria and after-sale service.

The procurement system requires the input of professionals with honed negotiating skills and a good grasp of market dynamics. This need is urgent in light of the diversity of functions that a procuring unit is charged with that are intricately connected to its efficiency and effectiveness. Although small firms dominate the construction industry in terms of both output and employment, this is not usually reflected in the success rate of MSEs when tendering for public sector contracts as they face more challenges in accessing public tenders and contracts. In order to overcome some of the additional barriers by smaller firms come together to form consortia in order to improve their chances of accessing and winning public sector contracts. Thus Consortia can allow small firms to overcome 'turnover' limitations as their combined turnover is far greater than it would be if bidding as an individual company. The other noticeable practices available to MSEs in their access to public sector contracts are; by making use of existing government incentives, sourcing for funds to improve their capacity of participation, and by own involvement in competitive bidding.

2.4.4 Challenges in Accessing Public Sector Contracts

Even though there is great growth potential for the country's economy attributed to MSEs, the owners have to put up with numerous challenges for the opening up, maintenance and expansion of their ventures. Such challenges could be of human resources, awareness, management, financing, institutional and infrastructural issues (Smith and Smith, 2007). The management challenges refer to the ability of owner-managers to administer their own business, human resource challenge is viewed as the personnel working for MSEs and their expertise in facilitating MSEs access to public sector contracts, as well as in the role of the owner-managers in contracting personnel and the inherent challenges to this process (Bartlett and Bukvic, 2001).

Awareness is the competitive force that an enterprise can have in accessing public sector contracts. Most MSEs do not afford to access some vital information which could facilitate their access to public sector contracts. Public tenders are mostly placed on internet and in newspapers thus quite inaccessible to most MSEs. Inadequate education and skills is another key concern where the majority of those who run these enterprises are staff whose educational background is insufficient to carry out any managerial routines for their enterprises (Olwale and Garwe, 2010). Typically MSE owners develop and use their own approach to management, through, a process of trial and error instead of using formal business management methods. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. According to Matovu and Obura (2011), MSEs need to have access to adequate information to enhance productivity and to facilitate market access. According to Strong, Lee and Wang (1997), poor information can create instability and chaos in any business environment.

MSEs needs, clearly put information provision at the top of the list of services to be provided for fair access to public sector contracts. According to Obanda (2011), ensuring easy access to all relevant information on business opportunities in public procurement is of key importance to MSEs. The increased use of Information and Communication Technology (ICT) is vital given that the business environment is covered by the mobile telecommunication network and hence has internet accessibility. Particularly buying entities should develop websites that are helpful to MSEs by enabling cheap and quick communication

The institutional challenge is defined as the policies and regulations that can affect the activities of a small enterprise (Shi and Li, 2006; Baron and Shane, 2007). Public contracts in Kenya, is driven by PPDA 2005, which usually require MSE suppliers who are legally registered, possess value added tax-compliant, and have operating permits and other licenses' which is not accessible to majority MSEs. Tax avoidance and non-compliance with various business registration formalities could lead to automatic disqualification of small enterprises in taking part in public sector contracts (Wasonga, 2008).

2.4.5 Significance of MSEs accessing public sector contracts

The MSE sector is crucial for economic growth and poverty reduction (as envisaged in Vision 2030). MSEs are recognized as vital drivers of growth and innovation (Kumar *et.al.* 2007). They are actively involved in both the economic and social regeneration agendas in Kenya. Micro and small enterprises in the formal and informal small businesses make an essential contribution to economic growth, employment and social well-being.

According to Beck et al. (2005), and (Cook and Nixon, 2005) it has been argued that a dynamic and growing MSE sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction, creation of employment; provision of the seedbed of industrialisation; savings mobilisation; and production of goods and services that meet the basic needs of the poor.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section presents the research methodology. It commenced with the study area, research design, population of the study, sampling design and sample size, data and data collection instrumentation, reliability and Validity of the research instrument, and concludes with data analysis in a successive order

3.1 Study Area

The study was conducted in Kisumu city. Kisumu is a port and the third largest city in Kenya after Nairobi and Mombasa. The city is located in the western Winam gulf on the shores of Lake Victoria in the western highlands in Winam Division, and it is the headquarters of Kisumu County. The population of Kisumu city has been growing over the years, and in the year 2007, it was 567,000, with perhaps two-thirds of that (375,000) being the city population (Kenya, population census, 2009).

Since the year 2003, the economy of Kisumu city has been experiencing upward trend in growth except for substantial decline experienced in the year 2008 as a result of Kenya's disputed general election, global financial crisis due to liberalization of most economies which led to the closer of leading industries and factories in Kisumu and its environs. Despite of all these, Kenya government has continued to create an enabling environment for MSEs, under the Economic Recovery Strategy for Wealth and Employment Creation (2003- 2007) and the First Medium Term Plan (2008- 2012)

Nonetheless, in Kisumu there are several investment opportunities that one is likely to meet. These ranges from agriculture and agro-processing, dairy and aquaculture to construction and manufacturing (Mwalo, 2003) Water transport in Lake Victoria, offers immense opportunities. The City also offers an attractive and safe living environment. A number of key public sector organizations have already invested in the area. Kenya pipeline Co. Ltd, Kenya Medical Research Institute, Kisumu International Airport, just to mention a few, have already invested in Kisumu in large volumes.

There are a number of educational Institutions such as; Maseno University; Nairobi University-branch; Masinde Murilo University-branch; Kisii University Great Lakes University; Kisumu Polytechnic; Tom Mboya labour college; Catholic University, and several other middle level colleges that have both raised chances for MSEs to participate in Public Sector contracts.

There has been an increase of MSEs in the city over the years and more so after its elevation to city status. Majority of these enterprises engage in the supplies of the following items: General stationery and printing, ICT, masonry, carpentry, auto mechanic spares and repairs, building materials, catering, electrical, among many others.

The re-emergency of the East Africa Community (EAC) has boosted the commercial significance of the city owing to its strategic position and superior infrastructure (Mwalo, 2003) However, a 2010 report by the Government of Kenya has indicated that the recently refurbished Kisumu International Airport has led to an upsurge in the number and variety of MSEs in the region.

The choice of Kisumu therefore ensures the availability and easy accessibility of entrepreneurial managers to give information as to the factors which facilitate/hinder MSEs from accessing public sector tender contracts. The city is also the town in which the researcher resides and works. This lessened the process of data collection since only a relatively smaller amount of funds was needed for logistical use.

3.2 Research Design

A research design is an indispensable tool for mapping a technique for treating data for research purposes Mugenda and Mugenda (1999). Kothari, (2004), further adds that research design is an overall framework or a plan for investigation and logical model of proof that guides the investigator into the various stages of research. The study was conducted through a case study research design. Oso and Onen (2005) defined a case study as a research design where the researcher is involved in an intensive, descriptive and holistic analysis of a single entity or a bounded case. The researcher acknowledges that case research designs are suitable for studies that have smaller samples for in-depth analysis in order to gain insights to help describe and explain a phenomenon; thus its justification for this study.

3.3 Study Target Population

According to (Kothari, 2004) the term target population, refer to the group of people or entities (the universe) to which the findings of the sample are generalised. Cooper and Schindler (2001) further define a population as the total collection of elements which the researcher wishes to make inferences. The target population of the study comprised all Micro and Small Enterprises in Kisumu town. The survey defined MSE's as enterprises employing between 1-50 workers.

A list obtained from the Local Municipal Council of Kisumu Town (2010) showed that there were a total of 3,897 registered businesses out of which 1,141 were MSE's, from whom 680 were legally licensed to operate in Kisumu Central Business District (CBD) as at the time of the study (MCK, 2010).

3.4 Study Sample and Sampling Design

A sample is the number of items selected to represent the whole population (Kothari, 2004). Cooper and Emory (2001) defines a sample as the subject on which the measurement is being taken as the unit of study. A sampling design is thus the method of selecting items to be observed for given study (Kothari, 2004).

Sampling design involves the research plan on how cases will be selected for observation (Kombo and Tromp, 2006). A sample was selected using a simple random sampling method, where a 10% sample size was selected from available list of 680 registered MSEs operating in Kisumu's CBD as at the year 2010. With this sampling method, respondents had equal chances of being selected to participate in the study randomly. The substantive figure therefore was 68 respondents. The choice of 10% is justified by separate pronouncement of research Scholars. Kerlinger (1986) contends that the percentage is a considerably representative sample and is viable in social sciences study. Mugenda (1999) maintains that 10 per cent of the population can be used to generalise on the entire population. Gall & Borg (1997) further argues that similarity of characteristics of respondents permits the researcher to select a study sample of not more than 30% of the accessible population. Ideally, 10% is legitimately within the 30% quota.

The researcher used Simple Random Sampling technique in the survey. Easton and McColl (2002) define Simple Random sampling technique as the basic sampling technique where each individual is chosen entirely by chance and each member of the population has an equal chance of being included in the sample. Every possible sample of a given size has the same chance of selection. This method guaranteed all the respondents an equal chance of participation in the study.

Table 3.1 Demographic Characteristics of the Study Area

Study Area Characteristics	Total
Area (Sq.Kms)	182
Population	322,734
Registered Businesses	3,897
Registered MSEs	1,141
Registered MSEs(CBD)	680
Sample Size	68
Sample Size=10% of Registered MSEs(CBD)	

Source: Researcher (2011).

3.5 Data Collection Instrument

The questionnaire was the major instrument for data collection. It constituted both open and closed-ended questions which were self- administered by the researcher to target respondents who comprised majorly of owners or managers of the business enterprises and their respective employees. Each respondent was given a questionnaire, requested to fill in and then collected thereafter as agreed upon.

The researcher acknowledges that questionnaires are the best when a study is confined to a local area, can be administered to a large number of individuals at the same time resulting in cost and time saving thus its justification for this study (Sekaran 2006).

3.5.1. Validity of the instrument

According to Seremet, al. (2013), precision and accuracy are important issues in research. They further define validity as the strength of conclusions and inferences of a research, which is dependent on the degree of accuracy in measuring what it purports. In ensuring both the internal / external and construct validity, this study relied on expert advice and judgement given by two of my research thesis supervisors from the department of quantitative and entrepreneurship studies of Moi University. Consultations were done in all stages of the study development. Further, Validity of the research was explored through two validity dimensions: descriptive, and interpretive. According to Johnson (1997), descriptive validity refers to accuracy in reporting descriptive information. Interpretive validity refers to the degree to which informants' viewpoints and thoughts are accurately understood and presented. The aim of this process was to establish the relevance of the instrument for collecting data, identify any anomalies' likely to occur before the actual data collection process and check whether instructions to target respondents were clear.

3.5.2. Reliability of the instrument

Reliability of a research instrument is the tendency toward consistency found in repeated measurements (Carmines & Zeller, 1979). In achieving reliability, the researcher used two popular methods; re-test and pilot-testing methods.

In re-test method the same test was given to the same people after a period of time. The reliability of the test (instrument) was estimated by examining the consistency of the responses between the two tests upon which the researcher obtained the same results on the two administrations of the instrument, to conclude that reliability coefficient was 1.00. MSEs in Nyamira town, Nyamira County were used for the pilot-testing of the instrument because they had similarities with that of Kisumu, hence almost neighbours, where by simple random sampling technique , 68 MSE proprietors' legally registered to operate in Nyamira town CBD, were interviewed on the accessibility to public sector contracts by Micro and Small Enterprises, in Nyamira town.

3.7 Data Analysis

On receiving the feedback from the respondents, the data was thoroughly checked to ensure completeness, accuracy and consistency. The data was cleaned, coded and entered into Statistical Software for Social Sciences (SPSS) and descriptive analyses were run. The data captured were both quantitative and qualitative in nature. Quantitative data were analyzed using *descriptive statistics* and *inferential statistics*. Descriptive statistics particularly frequency distributions, percentages and cross tabulations were used to show the distribution of the responses.

According to Jankowicz (2005) graphs and charts are used to summarize the information based on the subject at hand. In this study, graphs and charts were also used to summarise information as presented by respondents from each study objective. Qualitative data were collected using one or more research approaches, including case studies, interviews, observation, and textual analysis (Gephart 2004).

The intention of qualitative approach was to understand the context in which particular events occurred in order to interpret the findings accurately. The qualitative approach allowed the respondents to 'tell their story' thus giving the researcher an opportunity to probe and seek clarifications (Yin, 2009). This was made able by using content analysis by extracting *themes* from the responses.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Overview

This chapter presents the analysis and interpretation of findings of the study on access to public sector contracts by Micro and Small Enterprises: A study of Kisumu city, Kenya. The chapter is organized into: general background information data of respondents, determinants of access to public sector contracts' by MSEs, practices adopted by MSEs in access to public sector contracts, challenges facing MSEs in access to public sector contracts, and significance of access to public sector by MSEs as a means to boosting their business

4.1 How Background Information is key in determining MSEs access to public sector contracts in Kisumu city

The study sought to find out how owners background information is key in determining access to public sector contracts by MSEs in Kisumu city. Questions with respect to ones gender, age, level of education, rank in the enterprise, number of employees, form of ownership, startup capital, area of specialization, and years of existence of the enterprise, were raised. (Table No.4.1 represents the responses that were elicited

Table 4.1: Background Information of Respondents

Background Variable	Variable description	Number	Percentage
Gender	Male	41	60.3%
	Female	27	39.7%
Age range	18-30	08	11.8%
	31-43	16	23.6%
	44 and above	44	64.7%
Educational Level	Primary	13	19.1%
	Secondary	30	44.1%
	College	25	36.8%
Rank in the Enterprise	Owner Manager	38	55.0%
	Employee	30	44.1%
Form of ownership	Sole proprietorship	40	58.8%
	Partnership	18	26.5%
	Limited Company	10	14.7%
Start- up Capital	0-50,000	20	29.4%
	50,001 – 100,000	18	26.5%
	100,001-500,000	18	26.5%
	500,0001 +	12	17.6%
Years of Existence	0-9	40	58.8%
	10+	28	41.2%
Level of Participation	High	28	41.2%
	Low	40	58.8%
Are of Operation	General Supply	45	66.2%
	Both	23	33.8%
Number of Employees	1-3	36	52.9%
	4-9	22	32.4%
	10+	10	14.7%

Source: Researcher (2011)

4.1.1 Gender mainstreaming

Gender is first and foremost, a human right. Both men and women are entitled to full participation of economic development, which is in support of eight Millennium Development Goals (MDGs). Yet, as shown in Table4.1, discrimination in gender in economic development, remains the most pervasive and persistent form of inequality which has adversely affected growth of MSEs.

From Table 4.1, it can be established that proprietors of MSEs in Kisumu city, were predominantly male at 41(60.3%). This is contrary to research findings conducted by Kibas (2006), which found out that women are more empowered to owning MSEs in Kenya, more than men.

4.1.2 Age Range of respondents

Of interest to the study was the age distribution of the respondents. According to Zimmerer and Scarborough (1998), age of an entrepreneur is one of the determining factors for entrepreneurial success. Data results in Table 4.1 show that proportions of 44(64.7%) of respondents were in the ages of above 44 years, 16(23.5%) were in age group between 31-43 years, and 08 (11.8%) were in age group between 18-30 years. Generally elderly people are noted to successful management of enterprises or starting on of new ventures. However according to Staw (1991), age alone is not a decisive factor of success, but with enough training and preparation.

4.1.3 Educational Level of Respondents

Intuitively, one might expect higher levels of formal education to spur MSE growth by enhancing firm capabilities. Data results in Table 4.1 indicate a total of 13 (19.0 %) respondents had primary level of education, while secondary, and colleges took a cumulative of 55(80.9%). Formal education provides entrepreneurs with a greater capacity to learn new production processes and product designs, offer specific technical knowledge conducive to firm expansion, and increase owners' flexibility.

Education is considered as a tool for equipping an entrepreneur with skills, ideas and knowledge necessary to undertake a viable project which will make an entrepreneur realize business objectives (Aduda and Kaane, 1999). Education is one of the factors that impact positively on growth of firms (King & McG, 2002). Entrepreneurs that lack adequate education and vocational training, fail to adopt their enterprises to constantly changing business environment (UNCTAD, 1999).

Staw (1991) asserts that education/experience, is the best predictor of business success, especially when the new business is related to earlier business experiences. The importance of education/experiences for small scale business success is also underscored by other experts (Zimmerreret.al., 19998). Data results in Table 4.1 indicates a total of 13 (19.0 %) respondents had primary level of education, while secondary, and colleges took a cumulative of 55(80.9%). The implication of this finding is that most enterprise firms are at a risk of mismanagement due to low levels of proprietors' education. Research on small enterprises in Chile found that university education alone did not induce higher efficiency (Alvarez and Crepi, 2003). The relative capability of the enterprise proprietors to re-organize their firms in order to improve access to the lucrative contracts in the public sector is therefore wanting. Most empirical evidence confirms that firms with better educated owners and managers tend to be more productive (Little, 1987; Burki and Terrel, 1998; Tan and Batra, 1995). The implication of data given in Table4.1 depicts that education is one of the factors that impact positively on growth of firms

4.1.4 Form of Ownership

MSEs in developing world including Kenya, are characterized by easy of entry, little capital and equipment, labor intensive technologies, low level of organization, with an average of 1-3 workers (National Baseline Survey, 1999). In reference to Table 4.1, results indicates that most MSEs are self- owned, 40(58.8%), 18(26.5%) were in form of partnership, while, 10(14.7%), of respondents stated that their enterprises were limited liability firms

Choosing the right form of business ownership is important because this will determine how the business is organized, how the money that flows in and out of the business is managed/spend. According to Kartzet *al* (2007), most small businesses in developing countries (including Kenya), are sole proprietorship (family business dominance). Charantimathet *al* (2006), considers sole proprietorship as those in which two or more extended family members influence the business through the exercise of kinship ties, management roles.

Sole proprietorship is a business owned and operated by one individual (Pedersen 2005). The features attached to sole proprietorship are such as ease of entry, small scale activity, and self-employment with high proportion of family labor, little capital and equipment, labor intensive technologies, low skills, and low level of organization are more flexible, hence why majority of entrepreneurs preferred them.

According to Longeneckeret *al* (2006),sole proprietorship businesses exists for fundamentally different reasons, where the primary function is the care and nurturing of family members with the production and distribution of goods and/or services.

However, according to Preston (1998), the problem of informality is a major weakness associated in many small businesses of sole proprietorship in nature, where problems are associated to: ineffective deployment of human resources, the typical entrepreneurial hesitancy to delegate, a lack of understanding of the importance of “people issues”, a lack of long-term planning, and the ineffective implementation of technology among others.

The implication of the above findings is that, most entrepreneurial firms are entirely reliant on the owner proprietor for management, staffing, financing, diversification of operations and survival. This situation poses limitations on the growth of the sector and demeans MSEs access to public sector tender contracts owing to lack of business support systems.

4.1.5 Years of Existence

The relationship between firm age and growth in the MSE sector is particularly robust. Young MSEs grow substantially more rapidly on average than their older counterparts. From the findings in Table 4.1, it was established that 40(58.8%) had been in the industry from 0-9 years, while 28(41.2%) had been in business for a period exceeding 10 years. Firm age is the best predicator of business success especially when the business is related to earlier business experiences (Staw1991). Studies in Africa (Kenya in particular) and Latin America, show that young MSEs are more likely to show high rates of growth compared with MSEs that have been inexistence for longer period of time(MeadandLiedholm,1998;Paxton,1995).

4.1.6 Number of Employees

Employees in any business determine the workforce in that organization. For instance it is expected that by extension, a business with more employees is more productive than a business with few employees due to the fact that labour is a factor of production. According to study findings in Table 4.1, it was established that majority of enterprises, 36(52.9%) had employed between 1-3 workers, 22(32.4%) employed between 4-9 workers, while 10(14.7%) of the enterprises had employed 10 and, above workers.

On average, Kenyan MSE employs 2 employees (KAM 2009). Majority of MSEs are Micro enterprises with fewer than 10 employees, while about 70 per cent of them are one person (mainly family workers) .This infers that majority of MSE entrepreneurs are operating at the bottom of the economy, with a significant percentage falling among 53 percent of Kenyans (Kobonyo*et.al.*, 1999).Based on the number of activities and the financial constraints of MSEs, majority of public sector contracts are won by large scale firms at the exclusion of MSEs (Ngugi, 2005).

4.1.7 Area of Specialization

Most of the enterprises surveyed according to Table 4.1, 45(66.2%) were in the category of general supply of goods, works and other services. However, 23(34.0%) were specialized in either one kind of activity. Specialization refers to individuals and organizations focusing on the limited range of tasks they perform best. Firms that specialize in particular products/services can produce larger quantities and of greater quality to sell and stands at better chances of accessing public sector contracts.

4.1.8 Start-up Capital

Gray,*et.al.* (1995), in a study on Kenyan MSEs, found that business financing in terms of 'start-up' capital concedes that it is the greatest problem for MSEs development. From the findings presented in Table 4.1, it was established that majority of enterprises, 19(27.9%) had an initial capital of less than 50,000 Kshs, as the amount needed to starting up a new venture, 18(26.5%) of the enterprises had invested between 50,001-100,000, 18(25.5%) invested between 100,001-500,000 while, 13(19.1%) of the enterprises had more than 500,000 as initial capital investment in the new venture. The amount of start-up capital determines the level of investment of a business and consequently the productivity of the business. However, most MSEs lack access to formal financial institutions to seek for financial help (Atieno, 2001).A research conducted by Sethna (1992) on an examination of some characteristics and constraints on micro-entrepreneurship concluded that initial start-up capital, was the major hindrance for MSE growth. Start-Up capital is the most constraint identified by MSEs.

In accessing start-up capital, proprietors of MSEs often borrow from informal financial sources such as family and friends, micro financial institutions or local moneylenders, who in most cases charge very high interest rates (Sethna, 1992).Lack of adequate capital as 'start-up' has resulted to use of inadequate technology leading to delay of an MSE meeting the supply deadlines as set by buy in organizations. This further complicates MSE access to public sector contracts.

4.1.9 Sources of capital to MSEs

The research sought to establish the sources of capital to starting the business. This was to fulfill the need for the effective participation in public sector contracts. Figure 4.1 illicit the study findings

4.1 illicit the study findings

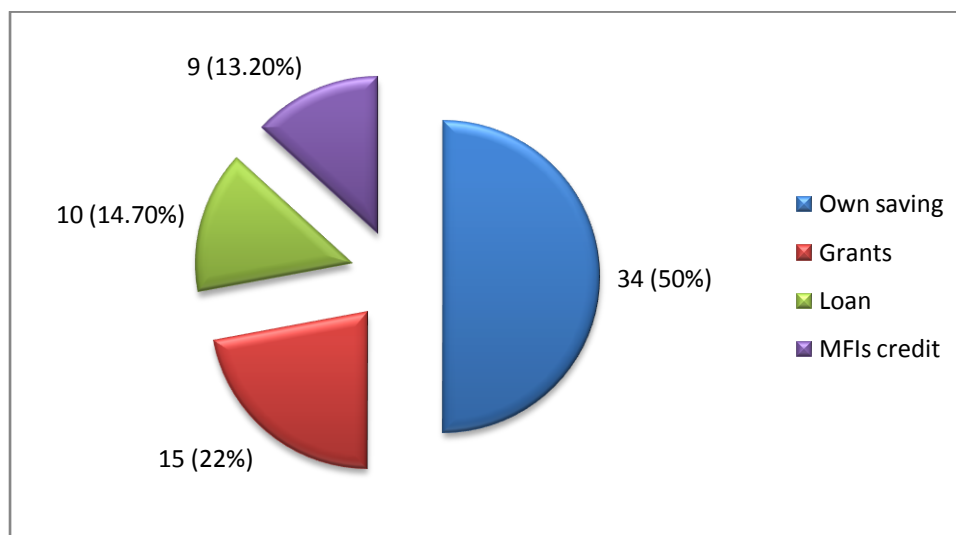


Figure 4.1: Sources of capital to MSEs

Source: Researcher (2011)

A key element for the success of any MSE is the availability of sufficient capital. Results of Figure (4.1) indicates that the sources to capital most sought after was one's personal saving. This was represented by 34(50.0%) of respondents. Grants were the second most popular at 15(22%). Access to loans combined was represented by 19(27.9%) of respondents. As it is seen from the findings, MSE capitalization was through loans assistance. This was therefore considered as a factor hindering access to the lucrative public procurement as most MSEs lack financial ability to enable them seek consideration into public sector contracts. According to Atieno (2001), most MSEs in Kenya lack access to financial institutions to seek for financial help. (Adera, 1995).

4.1.10 Entrepreneurial Qualities of MSE Proprietors

The study sought to establish the entrepreneurial quality of the MSE proprietors. This was considered as significant for eliciting responses to address the objective of determining personal or entrepreneurial characteristics, which enhance opportunities of MSE winning public sector contacts.

4.1.11 Skills and Abilities of Proprietors

The skills and abilities possessed by businessmen determine the level of his innovation and consequently his ability to make profits. The study sought to know whether the proprietors of the business had gathered skills and abilities. Figure 4.2 shows the results



Figure 4.2: How Proprietors Acquire Knowledge to Run Business

Source: Researcher (2011)

The results in Figure 4.2 show that 31 (45.6%) respondents agreed that they have been able to manage their enterprises from the 'natural knowledge' acquired.

However 20 (29.4%) claimed that they had acquired knowledge and experience from their previous engagements with the same. The smaller percentage of 17 (25%) were starters who had no discernible background in enterprise management. These results indicate that skills and abilities were not viewed as pre-requisite for one to access public sector contracts and tenders. Nevertheless, Ochieng (2003), contends that entrepreneurial training as well as formal learning, sharpens ones knowledge of market dynamics and business environment. However data in Figure 4.2 indicates that most MSE Proprietors in Kisumu city lack skills and abilities considered necessary in this aspect hence making them unknown in comprehending the requirements for accessing public sector contracts.

4.2 Determinants of access to public sector contracts by MSEs in Kisumu City

Informants gave a variety of reasons as to what influenced them to starting business enterprises. Below is a Figure 4.3 that illustrates the findings

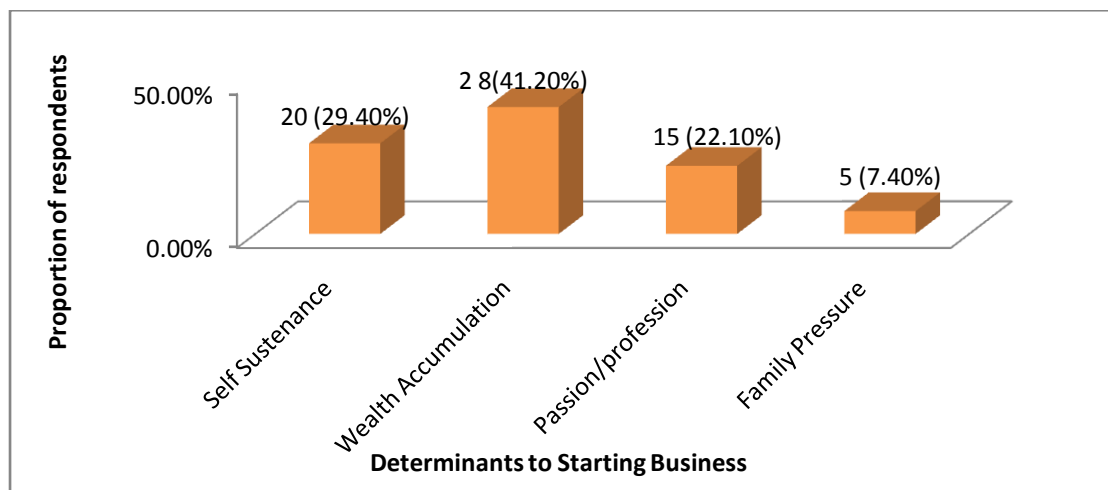


Figure 4.3 Determinants to Starting Business

Source: Researcher (2011)

Understanding the role of wealth in predicting the likelihood of becoming self-employed may be particularly relevant for a successful small scale entrepreneur (Oliver and Shapiro, 1995). Results from Figure (4.3), indicates that 28 (41.2%) of the surveyed respondents said that they started business as a means to accumulating more wealth for future investments, 20(29.4%) of respondents gave reasons as for self-sustenance, 15(22.1%) of respondents started businesses as a means to fulfill ones passion/profession while, 5(7.4%) gave reasons to starting a business as to fulfilling needs of the family such as provision for basic necessities such as food, shelter, clothing's and or payment of school fees to dependants.

The motivation to examine the role of wealth in determining the likelihood of starting a business is largely drawn from the idea that it “takes money to make money.” Without net wealth, it is likely to be very difficult for an entrepreneur to successfully start his or her own business (Conley, 1999). In contrast; however, other researchers find that financial capital is not the critical element in predicting the likelihood of starting a business. In particular, Meyer (1990) demonstrates that the lack of net wealth is not an important barrier to self-sustenance

4.3 Practices Adopted by MSEs in Access to Public Sector Contracts

The study examined the practices adopted by MSEs in accessing public sector contracts. This was necessary in order to solicit for responses to address the 3rd objective of the study. Respondents gave various reasons which included: compliance by registration, sourcing for funds from Financial Institutions, friends and own savings, Partnering with other MSEs, though competitive bidding, participating in MSE exhibitions, and use of existing government incentives, among others.

Table 4.2: Practices Adopted by MSEs to Win Public Contracts

Practice	Frequency	Percentage
By registration	16	24.0%
Use of the existing government incentives	10	15.0%
Sourcing for Funds from Financial Institutions	12	18.0%
Partnering with other MSEs to increase capacity	4	6.0%
By participating in competitive bidding	8	12.0%
By participating in MSE exhibitions	2	3.0%
By postings on MSE web sites	2	3.0%
By complying with the set rules and regulations	14	21.0%

Source: Researcher (2011)

4.3.1 Registration as Business Survival Strategy

The strategy that was most practiced by the MSEs to survive and win public contracts was “registering with the government under the Registrar of Companies”. The results from Table 4.2 indicate that the prevalence of the practice stood at 16(24.0. %). This is a significant practice since it confirms legal compliance as stipulated in the Public Procurement Act. For a business to be pre-qualified in a tendering process they must be dully registered accordance with the law by the government. The evidence that the strategy had been undertaken was manifest in the presentation of: 66 (97.1%). Tax compliance, PIN certificates, audited accounts for 2 years, letters of recommendation from 3 of major clients, certificate from affiliated bodies, among others, were documentations needed for consideration in the bidding process.

4.3.2 Use of the existing government incentives Strategy

The strategy that was fairly practiced by the MSEs to survive and continue winning public sector contracts was use of the existing government incentives strategy as a means small scale businesses in the country. Table 4.2 above indicates that the prevalence of this survival practice stood at 10(15.0%). Informants indicated that the practice confirmed their accessibility in the market and suitability to be awarded the contracts by public sector companies.

4.3.3 Sourcing of funds as a strategy

The strategy was minimally practiced by the MSEs to survive and to continue winning public sector contracts. Table 4.2 above indicates that the prevalence of this survival practice stood at a paltry 12(18.0%). The concerned informants indicated that the practice boosted the status of the financial accounts of their enterprises hence enhancing chances of meeting the prequalification requirements in participating in public sector contracts.

The evidence that fundraising was being undertaken was manifest in the existence of loan statements from different financial institutions as well as financial pledge agreements to enhance the working capital of the MSEs bidding for tenders whose financial base prequalification was in the range of between 3 and 4 million Kenyan shillings.

4.3.4 Partnership as a strategy

The strategy was also minimally practiced by the MSEs to survive and to continue winning public sector contracts.

Table 4.2 indicates that the prevalence of this survival practice stood at a paltry 4(6.0%). This is an indication that 4 firms out of the possible 68 embraced the practice. Since MSEs usually do not have the advantage of having a lot of working capital, the most reliable source may be partnering with other enterprises as a means of enhancing their capacity. The remaining option therefore was to present joint bids or to merge in order to present a united bid for a public sector contract. This precipitated the need for partnering with each other.

The evidence that partnership was being undertaken was manifest in the existence of shared technical, financial and human resource potentials between various firms. Human resource potentials hereby cited refers to skills such as ability to comprehend the requirements of the tender documents, capacity to undertake direct and personal marketing and ability to forge working partnerships. The potentials promoted chances of success in bidding for tenders. The strategy was further noted to promote compliance to a clause in the public procurement Act which dictates that all bidding firms must prove that they possess the required technical and financial capacity to undertake the bid.

4.3.5 Compliance with the set rules and regulations in the public sector contracting

The strategy that was second most practiced by the MSEs to survive and to continue winning public sector contracts was compliance with the set rules and regulations in the public sector contracting. Table 4.2 indicates that the prevalence of this survival practice stood at 14(21.0%).

With the enactment of the PPDA and Regulations, Kenya today has in place a sound and comprehensive legal framework for public procurement with a clear hierarchical distinction. The PPDA clearly establishes the procurement methods to be applied, advertising rules and time limits, the content of tender documents and technical specifications, tender evaluation and award criteria, procedures for submission, receipt and opening of tenders, and the complaints system structure and sequence. The PPDA and Regulations cover goods, works and services for all procurement using national funds. Both documents are published and widely distributed within government.

4.4The Challenges facing MSEs in access to public sector contracts in Kisumu city

The study sought to find out challenges facing MSE access to public sector contracts. This was to fulfill the purpose of the research as well as develop a basis for recommending on relevant mitigation strategies on how to integrate these enterprise firms into public sector contracting.

Table 4.3: Rating of Challenges

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

Source: Researcher (2011)

The aspect that was mentioned by all the 68 informants as a challenge in winning public contracts was high tender purchase price and lack of adequate working capital. Lack of capital has resulted in inadequate use of technology which adversely affects MSEs access to lucrative business opportunities in the public sector (UNCTAD, 1999). This is despite a wide spread campaign in most developing countries to avail financial credit to most small scale holders (Braver man and Guash, 1986). Non- tax compliance was the third most mentioned challenge where 62 (91.2%) respondents said that they did not win public sector contracts due to non-tax compliance requirements. Adherence to public procurement procedures by all business entities is important in ensuring that all enterprises comply with legal obligations as set by a sound institutional framework (Gachogu, 2004).

However, registration regulation system in Kenya is characterized by ambiguity and much of duplicity, which may render tax compliance almost impossible. The other issue that was fourth, most mentioned by the respondents to be a challenge facing MSEs in winning public sector contracts was elaborate procedures and lack of adequate knowledgeable staff. This was according to 60 (88.2%) of the study respondents.

The sixth major challenge facing the MSEs in winning of bids was geographical incompatibility; this was according to 58 (85.3%) informants. The other factors that posed a challenge to the respondents in winning bids was inflexibility of contract terms; this was supported by 38 (50%) of the respondents.

4.4.1 Influence of Adequate Working Capital

By their very nature, MSEs are confronted by a number of financial challenges in order to compete in government procurement markets (Gray, Cooley and Lutabingwa, 1997). The fact that there are many formal organizations providing credit to MSEs, only 4 per cent is accessed (Central Bureau of Statistics, *National Baseline Survey*, 1999). Table 4.4 shows a cross tabulation of the results

Table 4.4 Adequacy of working Capital on winning of Bids

Have you ever Won a bid?	Do you have adequate Working capital?				Total	
	Yes	No				
	Freq	%	Freq	%	Freq	%
Yes	0	0	27	39.7	27	39.7
No	0	0	41	60.3	41	60.3
Total	0	0	68	100	68	100

Source: Researcher (2011)

From Table 4.4 above none of the MSEs said that they had adequate working capital. On the other hand among those respondents who said that they didn't have adequate working capital majority had never won any public contracts. A total of 41 (60.3%) had never won any public contracts and only 27 (39.7%) had won bids. This results show that having adequate working capital had the effect of improving MSE chance of winning a bid.

4.4.2 Institutional Policy Framework

A key determinant of transaction costs in any country is the quality of institutions (Halberg, 2000). A well designed institutional framework provides a predictable and conducive business environment at a favorable cost, thereby facilitating compliance. Currently, Kenya's Public Procurement is guided by regulations contained in the Public Procurement and Disposal Act (PPDA), 2005.

Available literature in Kenya indicates that, there is yet no comprehensive policy on Public Procurement. Registration Regulatory System enabling MSEs participation in public sector contracts is highly dispersed and characterized by ambiguity, uncertainty and duplicity (Gachogu, 2004).

Table 4.5 Adequacy of Policy Framework in Winning of Bids

Have you ever won a bid?	Do the bidding process have adequate Policy Framework?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	20	66.7	7	18.4	27	39.7
No	10	33.3	31	81.6	41	60.3
Total	30	100	38	100	68	100

Source: Researcher (2011)

From the findings in Table 4.5, the bidding process did not have adequate policy framework according to majority of respondents. Among the 38 informants who said that the bidding process did not have adequate policy framework 31 (81.6%) had never won any bids before. On the other hand among the 30 informants who had won said that the bidding process had adequate policy framework 30 (66.7%) had won a bid before.

4.4.3 Lack of Information on Existence of Government Tenders

Knowledge of the existence of information on government tenders is very important for MSEs participation. For instance if an MSE knows prior about the existence of a tender, then he/she can easily take part and if they don't know, then they don't participate at all in the bidding process. The study therefore explored the influence of ease in access to information on government tenders in winning of bids. This was done using a cross tabulation as presented in Table 4.6

Table 4.6: Public Tenders and Challenges in Access to Information

Have you ever won a bid?	Do you get Challenges in Accessing to Information?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	5	11.9	22	84.6	27	39.7
No	37	88.1	4	15.4	41	60.3
Total	42	100	26	100	68	100

Source: Researcher (2011)

From the findings in Table 4.6 most of the informants had faced challenges in accessing information on existing public sector contracts. From the 42 informants who experienced challenges in access to information, 37 (88.1%) of them had never won public sector contracts. On the other hand among the 26 informants who said that they did not face any challenges in access to information, a total of 22 (84.6%) had never won any bids before. These findings showed that having problems in accessing information led to the MSEs failing to win bids.

4.4.4 Bias for Large Firms

The study explored whether there was bias in big firms getting contracts and whether this had a relationship with the firms winning of bids. This was done through the cross tabulation as shown in Table 4.7

Table 4.7 Public Tenders and Bias for Large Firms

Have you ever won a bid?	Is there biasness to large firms in award of the tenders ?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	7	18.4	20	66.7	27	39.7
No	29	76.3	12	33.3	41	60.3
Total	36	100	32	100	68	100

Source: Researcher (2011)

From Table 4.7, it was observed that majority of informants experienced bias towards large firms in the bidding process. Among the 36 MSEs who said that they experienced bias towards large firms in the awarding of contracts 29 (76.3%) had never won any bid. On the other hand among the 32 MSEs who said that they didn't experience any bias favouring large firms in the bidding process, 20 (66.7%) had won a bid before.

This shows that lack of professional ethics as spelt in the Public Procurement and Disposal Act 2005, some public procurement officers, continuously invite the same firms to compete for existing public sector contracts, as 29 (76.3%) of the informants who had experienced bias towards large firms in winning the bids had never won any bid before. This implied that the MSEs were strategically being excluded from the list of potential participants in public procurement exercises.

4.4.5 Complications on Tender Bids

When the tender bids are not clear, leading to complication in understanding the tenders, some firms may not comply, leading to failing to win the bids. Table 4.8 below shows a breakdown of the influence of complications on tender bids

Table 4.8 Public Tenders and Complications on Tender Bids

Have you ever won a bid?	Do you experience Any complications on Tender Bids?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	27	43.5	0	0	27	39.7
No	35	56.5	6	100	41	60.3
Total	62	100	6	100	68	100

Source: Researcher (2011)

From Table 4.8, it was found that out of the 68 MSEs, 62 (91.17%) found the tender bids were not clear. Among these, 35 (56.5%) had never won any bid before, meaning that lack of clarity in the tender documents increased the chances of the MSEs not winning the bids.

4.4.6 Stringent Prequalification Procedures

These are the prequalification procedures set by the buying organization according to guidelines set in the Public Procurement and Disposal Act 2005. The buying organization has the rights to approve or reject any award to competing firms. The study explored the influence of stringent prequalification procedures in winning of public contracts by MSEs

Table 4.9 Public Tenders and Stringent Prequalification Procedures

Have you ever Won a bid	Do you experience stringent prequalification procedures				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%	Freq	%
Yes	15	30	12	66.7	27	39.7
No	35	70	6	33.3	41	60.3
Total	50	100	18	100	68	100

Source: Researcher (2011)

From Table 4.9, out of the 68 sampled informants, 50 (73.53%) said that the pre-qualification procedures they experienced were stringent. Most of the MSEs that said that stringent prequalification procedures prevented them from winning public sector contracts. On the other hand among the organizations that had not experienced stringent prequalification procedures, most had won bids.

4.4.7 Non -Tax Compliance

Tax compliance is a mandatory government requirement to all registered firms. Compliance enables suppliers to attach evidence as paying back tax on goods and services rendered to public sector organizations. The study conducted a cross tabulation between winning of a public sector contracts by the MSEs and non-tax compliance as shown in Table 4.10.

Table 4.10 Public Tenders and Non -Tax Compliance

Have you ever Won abid?	Are you tax compliance?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	6	100	21	30.9	27	39.7
No	0	0	41	60.3	41	60.3
Total	6	100	62	100	68	100

Source: Researcher (2011)

From Table (4.10), only 6 (8.82%) of respondents indicated that they were tax compliant, all the tax compliant respondents had won public contracts before. On the other hand, 62 informants who were non- tax compliant, 41 (60.3%) had never won any public sector bids. This results show that lack of tax compliance reduces MSEs chances of winning public sector contracts.

4.4.8 Geographical incompatibility

Geographical incompatibility meant the distance involved and its logistics such as nature of transport means used in reaching the buying organization may deny or limit enterprises' chances to be awarded contracts. Table 4.11 shows a cross tabulation between winning of public contracts and problems experienced by the MSEs in getting of public contract

Table 4.11: Public Tenders and geographical incompatibility

Have you ever Won a bid	Do you experience geographical Incompatibility in the bidding process?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	21	39.7	6	60	27	39.7
No	37	60.3	4	40	41	60.3
Total	58	100	10	100	68	100

Source: Researcher (2011)

From Table 4.11, out of the 58 respondents who experienced geographical incompatibility in the bidding process, 37 (60.3%) respondents had never won a bid, on the other hand among the 10 respondents who not experienced geographical incompatibility in the bidding process 6 (60%) had won a bid.

4.4.9 Unfairness in the Award Selection Criteria

Most procurement officers are biased in the award selection criteria where they continuously invite same competing firms whenever there are existing tender opportunities. Table 4.12 shows the cross tabulation between fairness of award of tenders and winning of the tenders.

Table 4.12 Tenders and Fairness in Award of Selection Criteria

Have you ever Won a bid?	Do you experience unfairness in award of tenders?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	18	31	9	90	27	39.7
No	40	69	1	10	41	60.3
Total	58	100	10	100	68	100

Source: Researcher (2011)

From Table 4.12, most of the firms had experienced unfairness in the tendering process. Out of the 68 sampled MSEs, a total of 58 (85.29%) had experienced unfairness in the tendering process. Out of the 58 informants who said they had experienced unfairness in the tendering process 40 (69%) had never won any bids. On the other hand among the 10 respondents who said they had not experienced unfairness in the bidding process 9 (90%) had won public contracts. This results show that fairness in the tendering process had the influence of increasing the chances of winning a bid and vice versa.

4.4.10 High Cost of Tender Documents

Public procurement is a complex process involving acquiring goods, services or works, starting from needs identification to contract management and evaluation in the public sector (Wittig, 1998). By their very nature, MSEs are confronted by a number of challenges in order to compete in public procurement markets. Most of these constraints arise out of fixed cost on MSE documents as compared to larger enterprises.

The costs involved in obtaining and verifying information in the public sector is normally high thus limiting majority of the MSE in taking part in public sector contracts (Helbling, 2000). The study explored the influence of high cost of tendering documents on the winning of the bids and presented the results as shown in the cross tabulation in Table 4.13.

Table 4.13 Public Tenders and High Cost of Tender Documents

Have you ever Won a bid?	Is the cost of buying a tender high?				Total	
	Yes		No		Freq	%
	Freq	%	Freq	%		
Yes	27	39.7	0	0	27	39.7
No	41	60.3	0	0	41	60.3
Total	68	100	0	0	68	100

Source: Researcher (2011)

From the cross tabulation in Table 4.13 all the respondent affirmed that the cost of the tendering document was high. Among them 41 (60.3%) had never any bids before meaning that high cost of tendering reduced the chances of the MSEs winning a public tenders.

4.4.11 How Challenges Facing MSEs Affect their Access to Public Contracts

The study examined how the challenges facing MSEs in participation of public sector contacts actually hinder them from accessing the public sector contracts in Kisumu city. Table 4.14 shows the results of the findings

Table 4.14: Influence of inadequacy of capital on access to public sector contracts

Challenges resulting from inadequacy of working capital	Frequency	Percentage
MSEs lack money to purchase the goods or services to be supplied	62	91.2%
Financial statements to determine ones financial position is not possible to majority MSEs	50	74.0 %
Most MSEs are unable to meet other logistics such as travelling to the buying organizations to pick tender documents. This in one way denies participation in public sector contracts	24	35.3%
Some contracts require that one places a bond which most MSE may not have	5	7.4%

Source: Researcher (2011)

From Table 4.14, it was established that inadequacy of working capital hindered access to public sector contracts by MSEs in Kisumu city since after winning the tenders, majority MSEs lack money to purchase the goods or services to be supplied within the stipulated time. This was as per 62(91.2%), of the study respondents. According to Mbugwa (2000), access to new markets, is a major challenge to the performance of MSEs in Kenya which is as a result of inadequacy working capital. This equally, has affected MSEs in Kisumu city from taking part in public sector contracts.

It was also reported by 50 (74.0%) respondents that inadequacy of working capital hindered them from accessing public sector contracts because some buying entities demanded for financial statements to determine ones financial position, which was not possible to majority MSEs.

The study also established that inadequacy of working capital affected MSEs access to public sector contracts since most MSEs were unable to meet other logistics such as travelling to the buying organizations to pick tender documents. This in one way denied their participation in public sector contracts. This was an indicator of 24(35.3%) of the study respondents.

Accessing public sector contracts requires participants or their agents to personally pick tender documents from the contracting organizations and return the same to the contracting without exactly knowing whether one has won. This logistic process requires spending of money which may not be available to majority MSEs in Kisumu city. Some contracts require that one places a bond which most MSEs may not have, as was shown by 5(7.3%) of the study respondents.

Secondly, the study examined how inadequate policy framework hinders MSEs in Kisumu city from accessing public sector contracts. Table 4.15 shows the results from respondents.

Table 4.15: Inadequate Institutional Framework and Access to Contracts

Challenges resulting from inadequacy of institutional framework	Frequency	Percentage
No adequate framework preventing large firms from taking part in public procurement meant for MSEs	33	48.5%
Lack of provisions for legal redress in case of unfairness in the procurement process	21	30.9%
No fairness in the procurement process, leading to same firms winning the contracts all the time	11	16.2%
No specific guidelines on how MSEs could access public sector contracts	2	2.94

Source: Researcher (2011)

The study found that inadequacy of institutional policy framework forced MSEs in taking part in public sector contracts in Kisumu city. 33 (48.5%) respondents reported that lack of adequate policy framework led to large firms taking part in the public sector contracts at the expense of MSEs. Public Procurement Act 2005 falls short of giving a clear categorization of which MSEs and large scale enterprises are. This leads to even large firms to participate in public sector contracting. A total of 21 (30.9%) respondents said that they lacked provisions for legal redress in case of discriminations in the award of public sector contracts. This led to them losing the public sector bids.

The study also found that there was no policy framework that discourages some firms from winning public sector contracts all the time. A total of 2 (2.94%) respondents reported that there were no guidelines explaining how MSEs should participate in the bidding process. For instance there was no policy that has established affirmative allocation of public sector contracts to the MSEs. This led to the MSEs failing to access public sector contracts.

Thirdly, the study examined how lack of information on existing government tenders led to MSEs not accessing the public sector contracts.

Table 4.16 Lack of Information on Existing Government Tenders and Access to Public Contracts

Challenges resulting from lack of information	Frequency	Percentage
Most contracts are advertised internally denying MSEs chances of taking part in public sector contracts	41	60.1%
The process of looking for public sector contracts is costly	21	30.9%
Lack of information on the existing public tenders denies MSEs active participation in the bids	6	8.8%

Source: Researcher (2011)

From the findings in Table 4.16, a total of 41 (60.1%) respondents reported that they lacked information on the public sector contracts because most public sector contracts are advertised internally on the organizations websites. This leads to MSEs failing to know about the public sector contracts and consequently failing to participate in them.

According to Table 4.16 a total of 21 (30.9%) of respondents claimed that the process of looking for tenders was very costly, which has led to the MSEs failing to access the public contracts. A total of 6 (8.8%) respondents said that lack of information on existing public tenders denies them active participation in the bids. Fourthly, the study explored how bias for large firms affects access to public sector contracts. Table 4.17 shows the results of respondents

Table 4.17: Bias to Large Firms and Access to Public Contracts

How bias to large firms leads to hindering of access to public sector contracts	Frequency	Percentage
Large firms are usually given preferential treatment in the bidding process	29	43.0%
Unprofessional practices as most procurement officers may be corrupted to award tenders	18	26.5%
Same firms are invited to bid always leading to the same firms winning the contracts all the time	14	21.0%
MSEs are denied their rightful share to participate	7	10.3%

Source: Researcher (2011)

The study found that bias to large firms in the procurement process led to large firms being offered preferential treatment in the bidding process; this was accordance to 29 (43.0%) respondents. Due to such unfairness, Small firms were unable to win public sector contracts. A total of 18 (26.5%) respondents reported that unprofessional practices of some procurement officers, such as corruption led to MSEs to be excluded in participating in the public sector contracts. The study found that same “large” firms were invited all the time, to participate in the bidding process, leading to MSEs not accessing public sector contracts. This was reported by 14 (21.0%) respondents, while 7(10.3%) of respondents said that MSEs are denied their rightful share to participate in public sector contracts

Fifthly, the study examined how participation in the tendering process was affected by complications on the tendering bids. Table 4.18 shows the results

Table 4.18: Complications of Tender Documents and Access to Public Contracts

Complication of Tender Documents And Access to Public Contracts	Frequency	Percentage
leads to wrong submission of tenders	27	39.7%
leads to difficulty in understanding the contract	25	36.8%
causes unnecessary delays in taking part of the tendering process	10	14.7%
leads to disqualification of the MSEs from participation in the bidding process	6	8.8%

Source: Researcher (2011)

The study found that complications of the tender documents barred MSEs from participating in the public procurement process. It was reported by 27 (36.8%) respondents that the tender documents were wrongly submitted, as a result of them being complicated to the level of MSE. A total of 25 (36.8%) of respondents said that complication of tender documents led to difficulty in understanding the contract requirements, 10(14.7%) of the respondents said that complexities of the bid documents, caused MSEs unnecessary delays in taking part in the tendering process. A total of 6(8.8%) of respondents said that they were disqualified from participating in the public sector contracts due to improper participation in the submission of the bids.

Sixthly, the study examined how stringent prequalification procedures affected the participation of MSEs in the public procurement process. It emerged that 50 (73.53%) respondents had experienced stringent prequalification procedures. Table 4.19 below shows the results of the findings

Table 4.19: Stringent pre-qualification procedures and Access to Public contracts

Stringent pre-qualification procedures and Access to public contracts	Frequency	Percentage
Some of the prequalification procedures are unattainable by MSEs	50	73.53
Some prequalification procedures are lengthy	12	17.65

Source: Researcher (2011)

From Table 4.19, the study found that stringent pre-qualification procedures led to poor or lack of access to public sector contracts. For instance, a total of 50 (73.53%) respondents said that some of the pre – qualification procedures set by organizations (buying entities) were unattainable. A total of 12 (17.65%) of respondents said that the pre- qualification requirements were too lengthy leading to MSEs failing to participate in the procurement process.

Seventh, the study explored how lack of ETR led to MSEs failing to win public sector contracts. Table 4.20 shows the findings

Table 4.20: Lack of ETR and MSEs Access to Public Contracts

Lack of ETR and MSE Access to Public Contracts	Frequency	percent
The ETR machine is costly to purchase	48	70.59
To be tax compliant is very costly to MSEs.	12	17.65

Source: Researcher (2011)

From the findings in Table 4.20, 48 (70.59%) of respondents argued that it is costly to purchase ETR machines leading to them being unable to participate in public sector contracts. It was also reported by 12 (17.65%) respondents that the process of being tax compliant is very costly for the MSEs to afford. This is because they are expected to pay 16% returns which most MSEs can't afford leading to them failing to participate in the public sector contracts.

Eighth, the study examined how unfairness in the award selection criteria hindered their participation in the public sector contracts. According to Enchautegulet.*al.*, (1997) public procurement process is so complex that it presents a lot of barriers for MSEs selection for participation into public sector contracts. This gives a lee way to most procurement officers to draft unnecessary restrictive tender documents which are rarely open to scrutiny (Ngugi, 2005). Table 4.21 shows the impact of unfairness for MSEs in the award selection criteria.

Table 4.21: Award Selection Criteria and MSE Access to Public Contracts

Award Selection Criteria and MSE Access to Public Contracts	Frequency	Percentage
Tenders are given to firms because of specialized interests of the procurement staff in the contracting firms	58	85.29
Tenders given to firms after fairly winning bids	10	14.71

Source: Researcher (2011)

From Table 4.21, it was reported that procurement staff usually have special interests in the tendering process. Due to this, MSEs are wrongfully excluded to compete. The study examined how geographical incompatibility affected MSEs in accessing public sector contracts. Table 4.22 elicits the results

Table 4.22: Geographical Incompatibility and MSE Access to Public Sector Contracts

How Geographical Incompatibility Affects Access to Public Sector Contracts	Frequency	Percentage
1. Some bids are not adequately advertised to in other geographical areas	42	61.76
2. Leads to delays in submissions of bids	11	16.18

Source: Researcher (2011)

From the findings in Table 4.22, it was established that geographical incompatibility led to MSEs not being able to access public sector contracts. 42 (61.76%) of respondents indicated that some bids are not adequately advertised hence denying them chances in participating and winning public sector tenders and contracts. This forces MSEs to cover length of distances in looking for existing opportunities in public sector organizations. 11 (16.18%) of respondents reported long distances led to delays in submissions of bids to public sector organizations, hence not beating the deadlines. Lastly, the study explored how high cost of tender documents affected the participation of MSEs in the tendering process. Table 4.23 shows the results.

Table 4.23: High Cost of Tender Documents and MSE Access to Public**Contracts**

High Cost of Tendering and MSE Access to Public Contracts	Frequency	Percentage
High cost of tender documents	24	35.29
Purchase of many tender documents	11	16.18

Source: Researcher (2011)

From the findings presented in Table 4.23, a total of 24 (35.29%) of respondents said that high cost of tender documents prevented them from participating in the tendering process. In order to increase their chances of winning at least one tender, MSEs must purchase as many tender documents as possible. However, purchasing as many tender documents is very costly for MSEs, preventing their access to public sector contracts.

4.5 The significance of access to public sector by MSEs as a means to boosting their business in Kisumu city

Public procurement is not only a budget implementation strategy but it can also be used to achieve targeted socio-economic goals. The Government is the single largest buyer in any economy. In Kenya, public procurement deals are estimated to be worth about Ksh. 1.6 trillion involving supply of goods, services and works to government offices, projects and in all counties. Informants gave a variety of justifications as significances gained as a result of winning public sector contracts. Figure 4.4 illustrates the findings

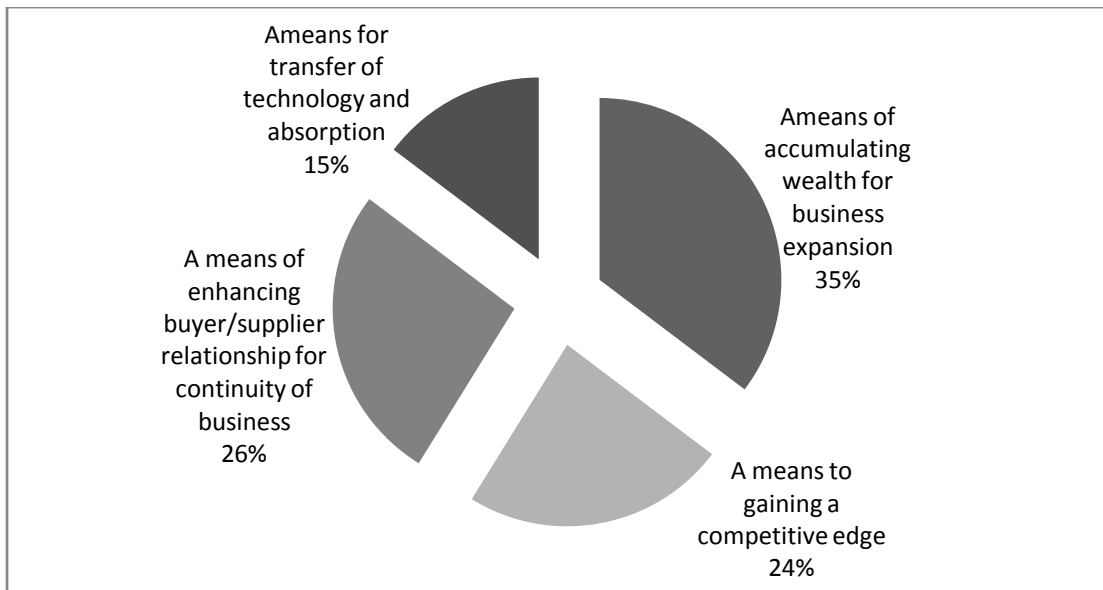


Figure 4.4: Significance of access to public sector by MSEs

Source: Researcher (2011)

A key significant element of access to public sector by MSEs as sought by respondents was that accessibility to public sector contracts has enabled MSEs to accumulate wealth for business expansion alongside meeting the core needs. This was represented by 24(35.0%) of respondents. Enhancing buyer/ supplier relationship was the second most popular significant at 18(26.0%). Gaining of the competitive edge, was the third most sought significant as was represented by 16 (24.0%) of respondents. Last sought significant was a means for the transfer of technology and absorption. This was represented by 10(15.0%) of all the 68 study respondents.

The MSEs make significant contribution to economic growth and development, transfer and absorption of technology, employment generation and training of entrepreneurs. It is recognized that MSEs constitute a significant portion of the Kenyan private sector.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Overview

This section presents summary of key findings, conclusions, recommendations and suggestions for further study.

5.1 Summary of Key Findings

The aim of the study was to analyze the challenges facing MSEs in accessing public sector contracts in Kisumu city, Kenya. As a descriptive study, the study was guided by the following objectives: examine the practices adopted by MSEs in accessing public sector contracts; to examine how challenges facing MSE affect their access to public contracts and ; to test for the challenges facing MSEs in access to public sector contracts. In respect to these objectives, the presentation below outlines the key findings and their implications

5.1.1 Determinants of access to public sector contracts by MSEs in Kisumu City

Informants gave a variety of reasons as to what influenced them to starting business enterprises. Results from Figure (4.3), indicated that accumulation for more wealth for future investments was the most sought determinant for MSEs in participating in Public sector contracts. This was as a result of 28 (41.2%) of the surveyed research respondents.

5.1.2 Practices Adopted by MSEs in Access to Public Sector Contracts in Kisumu city

The study explored the practices adopted by MSEs to assist them in accessing public sector contracts in Kisumu city. The strategy that was most practiced by the MSEs entering public sector contracts was by having businesses registered by either the registrar of companies. Results from Table 4.2 indicated that 16(24.0. %), of the study respondents preferred fulfilled this requirement. This is a significant practice since it confirms legal compliance as stipulated in the Public Procurement Act 2005.

5.1.3 Challenges facing MSEs in Accessing to Public Sector Contracts in Kisumu city

The study found that the barriers that faced MSEs in Kisumu in access to public contracts were: high tender purchase prices, lack of adequate working capital, Non Tax Compliance, elaborate procedures in the tendering process, lack of adequate knowledgeable staff working in the MSEs, geographical incompatibility, inflexibility of contract terms, stringent pre-qualification procedures, lack of information on existing public sector contracts. However, High Tender purchase price was a challenge to all the 68 study informants, same to lack of adequate working capital. Lack of capital has resulted in inadequate use of technology which adversely affects MSEs access to lucrative business opportunities in the public sector.

5.1.4 The significance of access to public sector by MSEs as a means to boosting their business in Kisumu city

The MSE sector, make significant contribution to economic growth and development, transfer and absorption of technology, employment generation and training of entrepreneurs. Wealth accumulation for business expansion alongside fulfilling personal needs, are significant benefits from a business. This was as per represented 24(35.0%) of the study respondents.

5.2 Conclusions

The study concludes that majority of MSEs were un-able to access public sector contracts. This is despite the fact that the government has set lucrative incentives to MSE sector. The study found that the reason to this state of affairs was because MSEs were faced with many challenges that prevented them from accessing public sector contracts.

These challenges included: high tender purchase prices, lack of adequate working capital, non- tax compliance, lack of adequate knowledgeable staff working in the MSEs, geographical incompatibility, inflexibility of contract terms, stringent procurement procedures, lack of information on existing public sector contracts, in adequate policy framework, bias for large firms and unclear tender specifications, which MSEs are however unable to surmount. For instance it is expected that MSEs should have a tax compliance certificate; PIN certificate; audited accounts for two years; letters of recommendation of major clients; certificate from affiliated bodies / association and evidence of possession of Electronic Tax Register.

From the findings of this study, these requirements are unattainable to majority of MSEs in Kisumu city considering the fact that most had a low start- up capital of less than 50,000 shillings. The study also found that the strategy that was most adopted by MSEs in accessing public sector contracts was by having their firms registered.

5.3 Recommendations

The following specific recommendations are made

- i. MSEs should be enlightened on issues of business registration and compliance as they are the basic requirements for participating in public sector contracts
- ii. Apart from the existing government incentives, MSEs should be assisted in winning public sector tenders by coming up with a clear policy framework nurturing MSEs, unlike now where both small and large enterprises compete in the same public sector contracts
- iii. Cost of tender documents and other processes should be made affordable to MSEs wishing to take part public sector contracts.

5.4 Suggestion for Further Study

The study dealt on the challenges facing Micro Small Enterprise access to public sector contracts in Kisumu city, Kenya. Areas that need further research include:

- i. A similar study to be conducted with a bias towards challenges experienced by public sector institutions in awarding tenders to Micro Small Enterprises
- ii. The future of Micro Small Enterprises towards sustainable development in Kenya

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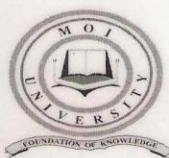
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APPENDICES

APPENDIX I INSTITUTIONAL PERMIT



MOI UNIVERSITY
ISO 9001:2008 Certified Institution
OFFICE OF THE DEAN
SCHOOL OF HUMAN RESOURCE DEVELOPMENT

P.O. Box 3900

Tel./Fax 254-053-43153/43620 Ext.434

ELDORET, KENYA.

REF: MU/SHRD/PG/77

2nd September, 2011

TO WHOM IT MAY CONCERN

RE: JAMES MAENGWE – SHRD/PGE/10/09

This is to confirm that the above named is a postgraduate student in the department of Development Studies, School of Human Resource Development taking an M.Phil course in Entrepreneurship Studies.

He successfully finished his first year of study (course work) and is proceeding for his research. He is expected to finish his studies and graduate later the following year.

Any assistance accorded to him will be highly appreciated.

A blue circular stamp from the School of Human Resource Development, Moi University, Eldoret, Kenya. The stamp contains the text 'MOI UNIVERSITY', 'DEAN', and 'SCHOOL OF HUMAN RESOURCE DEVELOPMENT'. A signature is written over the stamp, and a red date stamp reads '10th SEP 2011'.
DR. J.K. KWONYIKE
DEAN: SCHOOL OF HUMAN RESOURCE DEVELOPMENT

APPENDIX II: DATA COLLECTION PERMIT

LOCAL AUTHORITY INTEGRATED FINANCIAL OPERATIONS MANAGEMENT SYSTEM



BILL

Bill No. MS1201-00
Date Issued 05-Jan-2012

LA Name: 296 MUNICIPAL COUNCIL OF KISUMU

CUSTOMER SERVICES OFFICE
The Customer Services Office Notifies
JAMES O. MAENGWE

that the amount shown below is due to be paid at your earliest convenience
Payment is due at the CASH OFFICE of the Council
IN RESPECT OF RESEARCH FEE

DETAIL OF CHARGES

No.	Account Code	Description	Amount (KSh)
1.	1-7131	RESEARCH FEES(KENYAN SUDENTS)	1,000.00
BILL TOTAL AMOUNT (KSH)			1,000.00



2962782012010280 CSH1000 MS1201-00184-1000 [JAMES O. MAENGWE] 05/01/2012 09:59

RECEIVED BY AGND
THANK YOU

Payment Informat

NO. 187674

THIS IS TO CERTIFY THAT:
MR. JAMES ORWARU MAENGWE
of MOI UNIVERSITY, 0-40100
KISUMU, has been permitted to conduct
research in Kisumu County

Permit No : NACOSTI/P/14/0337/4305
Date Of Issue : 1st December, 2014
Fee Received :Ksh 1,000

on the topic: ACCESS TO PUBLIC
SECTOR CONTRACTS BY MICRO AND
SMALL ENTERPRISES. A STUDY OF
KISUMU CITY KENYA.

for the period ending:
31st December, 2015



[Handwritten Signature]

Applicant's
Signature

[Handwritten Signature]

Secretary
National Commission for Science,
Technology & Innovation

CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do that may lead to the cancellation of your permit
2. Government Officers will not be interviewed without prior appointment.
3. No questionnaire will be used unless it has been approved.
4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.
5. You are required to submit at least two(2) hard copies and one(1) soft copy of your final report.
6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice.



REPUBLIC OF KENYA



National Commission for Science,
Technology and Innovation

RESEARCH CLEARANCE
PERMIT

Serial No. A 3789

CONDITIONS: see back page

MOI UNIVERSITY,
SCHOOL OF HUMAN RESOURCES DEVELOPMENT,
DEPARTMENT OF QUANTITATIVE AND
ENTREPRENEURSHIP STUDIES,
P.O. BOX 3900,
ELDORET.
30TH MAY 2011.

Dear Sir/Madam,

RE: A STUDY OF CHALLENGES FACED BY MICRO AND SMALL ENTERPRISES IN ACCESSING PUBLIC SECTOR CONTRACTS. A CASE OF SELECTED PUBLIC SECTOR ORGANIZATIONS.

I am a graduate student in the School of Human Resources Development, Moi University. I am conducting an academic research entitled:

"The challenges faced by Micro and Small Enterprises in accessing public sector contracts. A case of selected public sector organizations in Kisumu town."

The information is important to policy makers, donors, scholars and entrepreneurs, to be able to identify these possible challenges faced by MSE's and design appropriate programs to address them.

You are one of the identified respondents in this study. Your responses will be treated confidentially and only used for purposes of this study.

Kindly respond honestly as possible to the items in the questionnaire.

Thanks in advance.

Sincerely,



James O. Maengwe.

SHRD/PGE/10/09

APPENDIX IV: SAMPLE QUESTIONNAIRE (TICK AS APPROPRIATE)**SECTION A: Background information; ownership, gender, age, capitalization and experience****1. Gender:**Male Female **2. Within which bracket does your age group fall?**18- 30 years 31-43 years 44 and above **3. Level of Education**Primary Secondary College

Others.....

.....

4. Position in the Enterprise:Owner manager Employed manager Employee **5. Number of Employees in the enterprise.....Women..... Men.....**

(b)Full- time.....(c) Part- time.....

6.Type of enterprise/sector(kindly, give brief description of goods/works and services

offered.....

7. What is your area of operation?

Supplies of goods

Suppliers of services

8. What is your level of participation in the above services?

High

Low

Average

9(a) Duration in the current enterprise (in years)

i. Less than three years

ii. 3-5 years

iii. Over 10 years

(b) Any other experience prior to the current one?

.....

(c) Duration in the previous enterprise (in years)

i. Less than 3 years

ii. 3-5 years

iii. Over 10 years

10. Where is the business operating from? (Choose one)

- (i) My own premises
- (ii) Family premises
- (iii) On rented business Premises
- (iv) Other, specify

.....

.....

.....

.....

11. i) Starting capital In Kshs. and the source(s)

Sources of Capital	Start- up(Ksh)	Now(Ksh)
1		
2		
3		
4		
Total		

ii) Value of enterprise Assets (Current & Fixed Assets).**a) Current Assets**

Type of asset	Start- up(Ksh)	Now(Ksh)
1. Cash		
2. Stock		
3. Debtors		
4. Others		
Total		

b) Fixed Assets

Type of asset	Start- up(Ksh)	Now(Ksh)
1. Land		
2. Buildings		
3. Machinery		
4. Others.....		
Total		

c) Value of enterprise liability

Type of liability	Start –up(Ksh)	Now(Ksh)
1. Creditors		
2. Loans		
3.		
4.		
Total		

12. a. Have you ever won any public contract?

Yes No

13. b. If yes, what is the highest public contract sum that the enterprise has ever won? (In kshs).....

14. What are the three important problems you have encountered in running your business successfully?

(i)

(ii)

(iii).....

SECTION B: Determinants of access to public sector contracts by MSEs in Kisumu City

In the space provided here below, kindly list determinants to access to public sector contracts

.....

.....

.....

.....

.....

SECTION C: practices adopted by MSEs in access to public sector contracts in Kisumu City

What practices has your firm adopted to enhance chances of being awarded public sector contracts?

practice	Adopted	Not adopted
Compliance by registration		
Direct marketing		
Sourcing for Funds from MFIs(Fund raising)		
Partnership		

**SECTION D: Challenges facing MSEs in access to public sector contracts in
Kisumu city**

**Below are some of the challenges listed as affecting MSEs in accessing public
sector contracts**

No.	Limiting factor	Yes	No	How does it limit your access to public contracts?
a.	Inadequate policy framework			..... ..... .....
b.	Lack of information on existing Public sector tenders			..... ..... ..... ..... .....
c.	Complication/Unclear tender specifications			..... ..... ..... .....
d.	Bias for large firms by procuring entities			..... ..... ..... .....
e.	Lack of preference for local firms			..... ..... ..... .....
f.	Stringent prequalification procedures			..... ..... .....
g.	Complicated/elaborate procurement procedures			..... ..... ..... .....

h.	Lack of ETR/Non Tax compliance			..... ..... ..... .....
i.	Geographical incompatibility/Distance to/from buying organizations			..... ..... ..... .....
j	Inflexible contract terms/Not suitable to MSEs			..... ..... ..... .....
k	Frequent rejection of delivered goods			..... ..... ..... .....
l.	Corruption of procuring officials in public sector organizations			..... ..... ..... .....
m.	High tender document purchase price			..... ..... ..... .....
n.	Stringent tender securities			..... ..... ..... .....
o.	Lack of adequate/Knowledgeable staff in the MSE sector to source for public sector contracts.			..... ..... ..... .....

(iii) Access to Public Sector Contracts.

a) List the key challenges and constraints you face as an entrepreneur in accessing public sector contracts?

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b) How do you overcome Challenges listed in (a) above?

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**SECTION E: Significance of access to public sector by MSEs as a means to
boosting business in Kisumu city**

**In the space provided here below, please state major significances by
participating in public sector contracts**

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THANK YOU.