Misallocation of Workspaces for MSEs in Kenya: Some Lessons and Models

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ABSTRACT

One of Kenya's development goals is to provide an enabling environment for both local and foreign investors. An important element of such an environment is the physical infrastructure especially land and workspaces. An effective and functional physical infrastructure, is critical for productivity and competitiveness of both small and large enterprises. This paper examines the theories and practices of micro and small enterprises (MSEs) workspaces provision in Kenya and elsewhere and distils some lessons. These lessons have been used to design a framework for workspaces provision. Review of theories and practices reveal that state institutions, both central and local, continue to marginalise and exclude the sector from mainstream policy and regulatory framework, viewing it as a temporary phenomenon. Provision of land and workspaces are the two main infrastructural concerns for micro and small Enterprises in Kenya, which continue to act as a constraint to the growth of the sector. Even where MSEs have had access to worksites, lack of properly defined property rights has meant a perpetual insecurity of tenure problems in their workspaces. This is especially so within the urban centres where there is intensive competition for land and other infrastructural facilities. Local authorities, which are mandated to provide MSE workspaces, are yet to appreciate the role and potential of MSEs in local socio-economic development. Overall, development and provision of MSE worksites has been constrained by poor institutional and policy framework that results in conflicting roles, governance problems and sub-optimal land uses. Past efforts to provide workspaces for MSEs have lacked comprehensiveness and continuity. Recognising that the MSE sector is a very heterogeneous sector with varied workspace requirement, the paper attempts to categorize workspace by broad categories of manufacturing, trade and service categories The proposed model aims at achieving a coherence institutional framework that is decentralised as well as demand-led. Finally, the paper acknowledges that the implementability of such a theoretical model is dependent on other reforms, especially within the local authorities.

LIST OF ABBREVIATIONS

DANIDA	Danish Agency for International Development
DMSED	Department of Micro and Small Enterprises Development
DTI	Department of Trade and Industry
EPZA	Export Processing Zones Authority
GTZ	German Development Agency
ICEG	International Centre for Economic Growth
ICT	Information and Communication Technology
ILO	International Labour Organisation
KIE	Kenya Industrial Estate
KIPPRA	Kenya Institute for Public Policy Research and Analysis
K-REP	Kenya Rural Enterprise Programme
LAs	Local Authorities
LASDAP	Local Authority Service Delivery Action Plan
MLA	Ministry of Local Authorities
MLHRD	Ministry of Labour and Human Resource Development
MSED	Micro and Small Enterprise Development
MSEs	Micro and Small Enterprises
NASVI	National Alliance of Street Vendors in India
NCBDA	Nairobi Central Business District Association
NCSE	National Council for Small Enterprises
PRSP	Poverty Reduction Strategy Paper
SEWA	Self-Employed Women Association
SIDA	Swedish International Development Agency
TOL	Temporary Occupation Licence
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development

CONTENTS

1. BACKGROUND

1.1 Study context

This study relates to one of the components of a three-year USAID-supported project on "Enhanced Policy Formulation and Implementation for Micro and Small Enterprises - MSEs" as proposed and implemented by KIPPRA (2003). The ultimate aim of the project is to increase the level of adoption of policy recommendations and therefore narrow the gap between policy formulation and implementation. The three components of the project are: (1) capacity building and training; (2) coordination, monitoring and evaluation; and (3) empowerment of sectoral MSE organisations.

In the third component, KIPPRA proposed to develop a strategy to empower sectoral MSE organisations by designing a programme that would enhance their access to workspaces, marketing and technology. This would be achieved by: (a) conducting a capacity needs assessment for sectoral MSE organisations; (b) undertaking a situation analysis on workspaces, marketing and technology; and, (c) developing appropriate models for adoption to improve institutional capacities.

According to the project design, the implementation of activity (c) would draw from the outputs under (a) and (b) above, and would involve two stages. In the first stage, theoretical models on workspaces, marketing and technology would be built drawing from secondary sources. This is rationalised by the reasoning that undertaking the situation analyses as well as designing models on workspaces, marketing and technology needed a thorough understanding of theory, policy and best practices. Such an understanding would guide the construction of survey tools and provide the theoretical basis for the models. At the second stage, the theoretical models would be field tested to yield empirical models that would be modified in line with comments generated from stakeholders and KIPPRA staff. Empirical models would be adopted by MSE associations to lobby for improved implementation of policies to access workspaces, technology and marketing services. Given the above reasoning, three background studies, relying heavily on documentary analysis, would be undertaken. The three background studies were:

- *Towards technology models for MSEs in Kenya: Common principles and best practices*,
- *Misallocation of workspaces for MSEs in Kenya: Some lessons and models*, and
- *Developing a marketing model for MSES in Kenya*.

This paper is one of the three background studies. It has been designed to package the theory, policy and best practices in the area of workspaces/ worksites and, thereafter, develop a model that could be adopted by MSE associations for use by MSEs.

1.2 Study motivation

One of Kenya's development goals is to provide an enabling environment for both local and foreign investors. One of the elements of such an environment is an effective and functional physical infrastructure.[1] A dysfunctional infrastructure acts as a disincentive to investments and lowers the productivity and competitiveness of firms by imposing both direct and indirect costs to business (KIPPRA, 2005). One of the key infrastructural services that are of concern to MSEs[2] is the allocation of land and workspaces. According to the 1999 National Baseline Survey,

1 Following Bokea *et al.* (1999), we define physical infrastructure to include land and business workspace (e.g. industrial premises of MSEs), water supply and sewerage, roads, communication facilities and power.

2 We define micro enterprises to include firms employing up to 10 persons and small enterprises as those employing between 11 and 50 persons (Government of Kenya, 1998); see also Section 2.1.3.

the problem of lack of worksites is ranked quite high especially by the urban-based MSEs (Government of Kenya, ICEG and K-Rep, 1999).

Although the role of providing land and workspaces for MSEs rests with local authorities (LAs), this function has been weakened by the absence of MSE policies at the LAs and weak institutional frameworks that are dominated by conflicts between the local authorities and the provincial administration (Government of Kenya, 1998; Government of Kenya, 2005). There are also limitations attributed to inconsistencies between LA regulatory environment and Central Government policy. Local authorities view the provision of MSE incentives as the responsibility of the Central Government, through the provincial administration. Further, the roles of the Provincial Administration tend to overlap and conflict with those of LAs over the enforcement of regulations, as well as on jurisdiction over workspaces, land and utilities (Government of Kenya, 2005).

The relationship between the MSEs and the government (both local and national) has remained hostile, intolerant and marked by violent confrontations (Lee-Smith and Lamba, 1998). Although there has been a positive change in official stance over the years, in practice, MSE activities continue to be viewed as a nuisance to the environment, a blot to urban planning and their economic contribution as marginal (Pratt, 2002). The economic activity of MSEs is not recognised in city planning (Lee-Smith and Lamba, 1998). So labelled, they are rarely consulted during urban physical planning and economic planning processes – placing their needs outside the formal planning systems. Therefore, the resultant policies and urban plans do not reflect the infrastructure, particularly workspace requirements of the sector.

It is surprising that despite the beneficial role that MSEs play in providing employment, generating revenue, productive and efficient use of scarce resources, improving income distribution, regional dispersal of industry and the development of a dynamic private enterprise in LAs, they are deprived of the facilitative aspects of the law – property rights – and yet such rights are indispensable for the growth and competitiveness of business (de Soto, 1989; Government of Kenya, 2005). MSEs are subject to regulatory power that is not only highly dispersed, but also complex and uncertain – all leading to confusion, resentment and frustration (World Bank, 2004). This situation has dampened the trust between the LAs and MSE business community.

The MSEs have been marginalised by lopsided procedures for allocation and administration of urban space (Government of Kenya, 1998). Their access to land is adversely affected by lack of property rights and the encroachment into their workspaces by private developers (GoK, 2005). These facts account for the insecurity of tenure and the permanent fear of relocation by MSEs. In most local authorities (LAs), problems of urban space range from inadequate provision of suitable land, unclear procedures for allocation of land and worksites, inadequate development of markets, workshops and industrial sites and poor maintenance of existing facilities. Similarly, most LAs have failed to evolve policies that encourage private sector participation in services management. In addition, the existing models of providing government operated and wholly subsidised support services have not yielded much success in terms of ensuring secure and adequate workspaces for the MSEs. This study prescribes market-led approaches to the provision of workspaces for the small enterprises.

1.3 Study objective, approach and scope

Despite significant gains in government policy and regulatory reforms initiated to enhance access of MSEs to workspaces, the policy and institutional frameworks remains weak – leading to poor policy implementation (see Section 3.1). Given this limitation, the main objective of this study is to develop a theoretical model that would be applied by

MSE associations to lobby for the implementation of MSEs policies. Ultimately, this would narrow the gap between MSE workspace policy formulation and implementation.

The approach adopted by this study is documentary analysis of secondary sources of information. This approach is applied to enable us develop a good understanding of the theory, existing policies, laws and best practices on MSE workspaces that would, when combined, form the basis of the theoretical model. However, due to paucity of literature on MSE workspaces, we limited the case studies to South Africa, India, Brazil and United Kingdom. United Kingdom is one of the leading countries in terms of development of managed workspaces using the local level approach. India is unique in the sample since its workspace problem almost mirrors the Kenyan case; given the rapid urbanisation processes in India and the associated problems of competition for urban space. Brazil illustrates the use of business incubation in the provision of workspaces, while South Africa is one of the countries in Africa that has initiated innovative approaches of addressing workspace challenges posed by fast horizontal growth of small enterprises in big urban centres like Johannesburg and Durban.

It is acknowledged that the selection of the four case studies may suffer from selection bias. However, this limitation would be addressed by drawing lessons from case studies and combining this with theoretical and empirical lessons – all providing a plausible basis for developing a theoretical model of workspace provision for Kenya. It is also important to note that this study adopts a cautious approach in blending the varied experiences of developed and developing countries. Whereas developed countries' workspace problem is conceptualised in terms of business incubations, industrial parks, technology parks, and science parks, Africa and other developing countries view the problem of workspace as more of providing basic facilities like market places, premises, land spaces either with or without supportive infrastructure (like access roads, water, sanitation, electricity).

Since empirical evidence seems to suggest that workspace is more of an urban problem than it is rural (Government of Kenya, 1998; McCormick, 1999; Government of Kenya, ICEG and K-Rep, 1999)[3] , this paper limits its scope of workspaces analysis to urban-based MSEs that employ up to 50 employees.

The rest of the paper is organised as follows. Section 2 defines the key concepts and provides the theoretical background. This is followed by Section 3, which analyses the policies, laws and regulations that are relevant for MSE workspaces provision in Kenya. The same section discusses the workspaces allocation process. Country case studies and the best practices derived therefrom are the subject of Section 4, while the building blocks of a theoretical workspaces model for Kenya are discussed in Section 5. The discussion is concluded in Section 6.

3 The workspace problem within the rural areas is viewed more in terms of inaccessibility to such infrastructure as electricity, telecommunication, water and access roads, which is not a key focus of this study.

2. THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1 Concepts

2.1.1 Workspaces

In developing countries, the workspace concept seems to have evolved with the idea of business incubation. According to Lalkaka (2003), the first generation of incubators offered affordable space as well as shared facilities. As noted in Section 1.3, Africa and other developing countries view the problem of workspace as that of providing basic facilities like market places, premises and land spaces either with or without supportive infrastructure (like access roads, water, sanitation, electricity). Studies in Kenya have shown that comparatively, supportive infrastructure is a less important constraint for micro and small enterprises (ILO, 1998), the argument being that most of these enterprises have developed without access to most of these formal sector benefits. However, for purposes of our study, we argue that for vertical growth of these enterprises, access to supportive infrastructure is critical. This is why we shall define a w*orkspace* or *worksite* as an affordable physical space catering for micro and small enterprises with or without supportive infrastructure.[4] In Kenya, MSE workspaces range from *Jua Kali* sheds, Kenya Industrial Estate sheds, council markets, open-air markets, open spaces, and so on.

Workspace access is an important location factor for an MSE as it affects its income (Pratt, 2002; Annabel, 2002). Usually, a workspace is composed of several small units with flexible letting, shared facilities like water, sewerage, electricity, access roads and other utilities. Therefore, a major characteristic of workspace is provision of supportive environment to small enterprises. Given the resource configuration of MSEs, an appropriate MSE workspace/worksite has to meet certain basic criteria ((Ministry of Labour

4 There is no clear-cut distinction between workspaces and worksites in the literature and the two concepts are used interchangeably in this paper.

and Human Resource Development, 2003). It has to: (1) be near or next to an area of heavy human traffic (2) be easily accessible, and (3) have direct access to electricity and water.

Access to public space in urban areas is normally controlled through such mechanisms as urban planning. By adopting certain urban designs, local authorities aim to control the use of public space for the main purpose of maintaining public order (Pratt, 2002). Other instruments of controlling space are through such government regulations as zoning, construction, environmental health, transport and highway rules. Authorities may also choose to issue permits as a control measure. Urban spaces are also controlled informally by the explosion of urban population leading to intense competition for land, which pushes up the cost of land rents and thereby excluding the MSEs. Where workspaces exists, there are a number of ways through which MSEs acquire them. These include obtaining an official permit to occupy a designated area or sub-letting from some other enterprise that has been allocated space. However, obtaining a workspace through either corrupt means or invasion is also common (de Soto 1989; Lee-Smith and Lamba, 1998; Pratt, 2002).

2.1.2 Business incubators

The first generation business incubators have evolved from experiences of the last 30 years with industrial estates (Lalkaka, 2003). In the 1980s, business incubators were basically providing affordable workspaces and shared services for slum enterprises. Later in the 1990s, other services like counselling, skills enhancement and networking, seed capital and access to professional support have been added to the business incubators. A second-generation incubator is emerging, ranging from the intended mobilisation of ICT support services to Internet-related ventures.

In this sub-section, we provide three definitions as provided by Lalkaka (2003), European Commission and US National Business Incubation

Association. Lalkaka views the traditional incubator as a micro-environment with a small management team that provides physical workspace, shared office facilities, counselling, information, training and access to finance and professional services in one affordable package. The European Commission defines a *business incubator* as "a place where newly created firms are concentrated in a limited space". Its aim is to improve the chance of growth and rate of survival of these firms by providing them with modular building with common facilities (telefax, computing, etc) as well as with managerial support and back-up services. The main emphasis of business incubation is on "local development and job creation" rather than "the technology orientation", which is often marginal.

The US National Business Incubation Association defines *the business incubator* as "an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services.[5] A business incubators main goal is to produce successful firms that will leave the programme financially viable and freestanding."

Incubators can be considered as "higher" forms of *managed workspaces* (Kinambo, undated). They take many forms, including classical business incubators, industrial estates, export processing zones, technology parks and virtual business incubators.[6] Generally, incubators offer varied services, which include: (i) physical infrastructure, (ii) secretarial services, (iii) telecommunications and information technology services, (iv) Business planning, assistance, resources, counselling services, (v) advertising and marketing services, (vi) financial advice services, (vii) training services, (ix) network services, (x) industrial infrastructure, (xi) aftercare services, and (xii) security services.

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5 See <http://nbia.org> and <http://entrepreneurs.about.com/library/weekly/aa02060>.

6 See (1) <http://www.unece.org/indust/sme/ece-sme/xxx.htm> and (2) Bwisa (2004).

Although incubators offer multiple services, they are still subject to a number of limitations. These include: (i) the criticism that they help only a handful of firms, and do not necessarily fully cover enterprise operation costs yet make it compulsory for the businesses to take part in special programmes, (ii) they are limited in their scope to create jobs, as most of their benefits are short-run, (iii) the possibility of creating dependency on government support, and (iv) the tendency for expensive focused assistance and requirements for external subsidy until they become self-sustainable.

2.1.3 Micro and small enterprises

The definition of MSE (micro and small enterprise) has been the subject of much debate by academics and policy makers. The degree of informality and the size of employment have come to be regarded as the two most readily acceptable criteria of classifying the sector. Following the 1999 National MSE Baseline Survey (GOK, ICEG and K-Rep, 1999), the term *micro and small enterprises* is used in this study to refer to both informal and formal sector enterprises that have 1 to 50 employees. Informal sector refers to those activities that circumvent the costs of complying with burdensome and excessive laws and regulations and thus are excluded from the benefits accruing from the conformity with established institutional structures. Most of informal activities are rarely recorded in the official statistics. The activities under the sector are difficult to define due to their heterogeneous nature.

The formal enterprises conform to regulations to a certain extent, exhibit high levels of human capital and are usually integrated into the formal structures. Although these enterprises are normally left out of the informal sector and poverty-alleviation discourse, they are a potential player as a source of skills or as the glass ceiling for the next category.

MSE activities may be undertaken as the main or secondary activities; they may be permanent, temporary, casual or seasonal. However, they exclude such primary activities as farming, fishing and mining. This definition therefore encompasses "*Jua Kali*" as defined by Bigsten *et al*. (2000), and includes hawkers, street vendors, *jua kali* artisans, retail shops and traders in open-air markets. It also includes vegetable sellers, dressmakers and tailors, and those involved in knitting and embroidery, selling hardware, fruits, water, food and drinks, basket weaving, and grain and wholesale trade in farm products. Included too are the light manufacturing activities (cottage industries) to be found in areas like Kariobangi Light Industries in Nairobi as well as service-based activities like entertainment, hair salons and barbers, repairs and maintenance, shoe shiners, and transport services.

2.1.4 Workspace needs for MSEs

Different categories of MSEs require different types of workspace and worksites. According to Government of Kenya, ICEG, K-Rep (1999), MSEs access to support services, including workspaces, varies by industrial activity, size of enterprise, sex of operator and location. This implies that the identification and selection of workspaces should be differentiated to respond to the unique needs, especially infrastructure,[7] of each enterprise type as indicated in Table 1 and Figure 1.

Categorisation of MSEs is attempted by sectoral distribution and enterprise size (using number of employees criterion).[8] According to GOK, ICEG, K-REP (1999), such categorisations show that over 67.4 per cent of all enterprises in the urban areas are involved in trade. These include the bars, hotels and restaurant activities. The retail trade employees constitute over 51 per cent of all employees within the MSE sector reflecting the

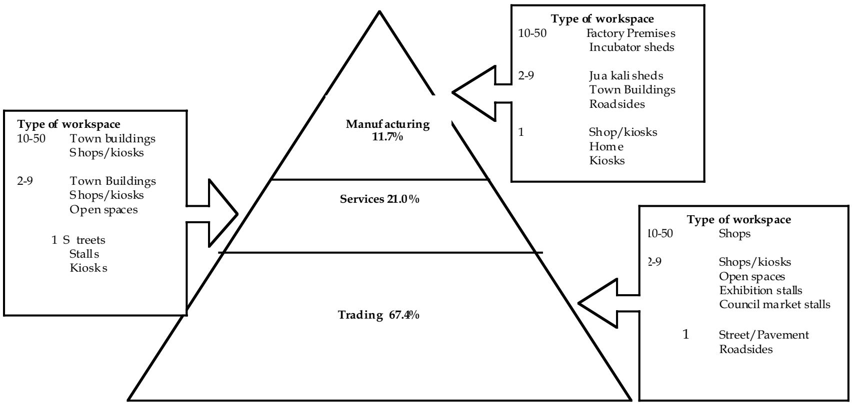
7 Infrastructure in this context relates to adequate electric power, access roads, water and sewerage, telecommunications (Government of Kenya, ICEG, K-REP, 1999).

8 Use of number of employees to categorise size is the only available method given paucity of information on assets or turnover.

Table 1: Characteristics of urban-based MSEs and their workspace needs

Main activities	Percentage distribution	Workspace needs byenterprise size			Infrastructure needs
		1	2-9	10-50	
Manufacturing • Food and beverage manufacture • Textiles and leather • Wood-based manufacturing • Paper and paper products • Earthenware manufacturing • Hardware manufacturing • Other manufacturing • Construction	11.7	• Home/house • Kiosks	• Roadside shops • Town buildings • Serviced sheds	• Factory premises • Town buildings • Serviced sheds	• Electricity intensive • Water intensive • Sanitation and sewerage intensive • Land intensive
Trading • Wholesale • Retail	67.4	• Streets • Pavements • Walkways • Homes • Offices • Market • Stalls	• Shops near streets • Open spaces • Market stalls • Home • Kiosks • Designated areas • Near residential areas	• Shops • Wharehouse • Designated areas	• Electricity for lighting due to security • Toilets and wash-rooms • Storage facilities • Land spaces
Services • Passenger car services • Real estate • Professional service • Entertainment • Repair and other services	21.0	• Bus termini • Designated car parks • Streets • Pavements • Public theatres • Shops • Kiosks	• Town buildings • Repair shops • Kiosks	• Office • Spaces	• Land • Electricity • Telephone

Figure 1: Hierarchical workspace needs for MSE enterprises



dominance of hawkers and vendors. Such subsistence or survivalist micro-enterprises employing 1 employee would prefer *worksites near heavy human traffic,* such as on the main street pavements, next to bus termini, roadsides, walkways, council market stalls and open spaces. They also require storage facilities for their goods, waste disposal facilities, street lighting for security, toilets and washrooms.[9] Given their small scale of operations, they occupy small per unit physical space. However, due to their huge numbers, they cumulatively occupy large urban spaces.

The second category consists of service-oriented enterprises, which make up 21 per cent of the MSE activities in urban Kenya. Such activities range from transport services (or *matatus*) offering public transportation, taxicabs, personal hygiene care services, entertainment services, repairs and maintenance services, ICT firms and professional services. Transport services require large physical spaces to act as bus termini or parking spaces and are usually in direct competition with the street vendors for urban space. Other activities require workspace within town buildings, council market stalls, *jua kali* sheds (e.g. for motor mechanics), roadsides, kiosks, street pavements

9 Approximately 20 per cent of both formal and informal traders operating in the street of Nairobi vend vegetables, fruits, groceries and foodstuffs (NCBDA, 2004). These items are highly perishable.

and shops. A significant proportion of these enterprises require connection to electricity, water facilities and telephone lines.

The third category consists of manufacturing-oriented enterprises comprising 11.7 per cent of the MSE activities within the urban centres. Activities falling under this category include food and beverage processing, tailoring and leather works, carpentry, paper printing, earthenware manufacturing, hardware manufacturing, other manufacturing and construction (masonry, painting, plumbing, wielding). These enterprises require workspaces like factory or industrial premises, town buildings, *jua kali* sheds, KIE incubator sheds, and road-side kiosks. Depending on their sizes, they require electric power, water, waste disposal, sanitation facilities and telecommunication facilities. They also need access roads as they source raw materials from other areas.

2.2 Informal sector theory

Theory on the allocation of urban land and workspaces is nascent. However, theory on dynamics of the informal sector is rich with cases that contextually highlight constraints related to access to infrastructure and other services. Such theory throws some light on why MSEs are unable to access basic infrastructure, including land and workspaces. This sub-section reviews four theories: micro-enterprise view, structuralist approach, dual economy model and the institutional failure view.

2.2.1 Micro-enterprise view

This view considers the informal sector as a group of micro-enterprises that take the option to operate within the informal economy as a rational choice (Orlando, 2001). As rational business people, micro-entrepreneurs evaluate the costs and benefits of formalising in view of their institutional and resource configuration (Loayza, 1997). The costs of formality consist of taxes, registry and licence payments, errand and waiting time, higher labour costs and urban planning regulations, property rights, environment protection, allocation of imported inputs, consumer protection and quality control, workers' welfare, and so on.

The costs of informality include penalties when the informal activity is detected and the inability to take advantage of government-provided goods (Loayza, 1997). The benefits of formality include working in safer areas, more access to credit, more access to public and private services, and more access to technology and markets. By comparing the costs and benefits, and establishing a net loss, the micro-entrepreneurs choose to operate in the informal sector. Therefore, transaction costs, information asymmetries and market failures explain the persistence of the informal economy (Bigsten *et al*., 2000).

One of the main authoritative schools of thought under the micro-enterprise view is the invisible revolution thesis attributable to de Soto (1989). Modelled along the social exclusion problem (Orlando, 2001), this thesis is based on the view that the development fortunes of developing countries will change only when they recognise the informal sector as the cornerstone of development by creating an environment where the entrepreneurial energies of the sector can be harnessed. De Soto argues that economic structures in many developing countries, modelled along the 18th to 19th century European mercantilism, exclude from legality segments of low income earners by denying them property rights, yet their will, imagination and desire to work are unrivalled. State sanctioned legal and regulatory hurdles explain the prevalence of land evasion, which is the only recourse of the poor to gain access to residential or business premises. The poor opt for the informal economy when pushed to the periphery by exclusive legal institutions. It is this illegality that has transformed a great number into micro-entrepreneurs. The legal system has been designed to serve the interests of the formal sector, at the exclusion of the majority of the population who have become permanent outlaws and therefore been condemned to under-development.

In terms of policy, de Soto argues that the informal sector can only be mainstreamed into the formal economy in a system where the state is subordinate to the objective of the citizens, and incentives for private enterprise and returns to creativity are provided. Such a system will espouse reforms of the legal and institutional structures through simplification, decentralisation and deregulation. Simplification involves "de-bureaucratisation" of the rules by removing duplicative and insignificant parts of the law. Decentralisation shifts legislative and administrative roles from the central government to the local government and lower tiers of authority. Deregulation would ensure that legal frameworks and institutions create markets that work for everyone.

2.2.2 Structuralist approach

The approach views the informal sector as a product of either contractions of aggregate demand or an aggregate demand, which is stagnant while there is sustained increase in labour supply (Anderson, 1998; Orlando, 2001). The informal sector could also result from capitalism (Pratt, 2002) and from the need by public servants to supplement their meagre earnings through moonlighting in the informal sector (Anderson, 1998). According to this thesis, therefore, the informal sector arises due to the need to suppress the cost of labour during a recession. This leads to declines in aggregate demand (due to falling natural resource prices), a rise in disguised unemployment and the proliferation of low productivity informal sector activity – implying that the informal sector is the outcome of some response-to-a-crisis. The policy implication is that reduction of informality can be achieved through stimulating aggregate demand and reducing the dependency on resources. It also implies that eliminating labour regulations may not necessarily increase formal employment.

This theory could help us understand the structural implications of the recessionary forces of the 1970s, and the structural adjustment programmes of the 1980s and 1990s that necessitated enterprise and labour-force restructuring. The structural changes led to forceful displacement of urban workers out of the formal employment system into the informal sector where labour conditions are more exploitative. The theory is, however, challenged on account of its failure to explain why governments are generally hostile to the informal sector, but it explains why the sector has suffered policy neglect.

2.2.3 *Dual economy model*

The dual economy model assumes two sectors, one inferior and the other superior, operating side-by-side. The two sectors could be informal and formal, traditional (agriculture/subsistence) and modern (industry, growth-oriented), rural and urban, and so on. Therefore, the model posits that migration of workers between the two sectors is mainly influenced by a wedge in returns and incentives. Therefore, for instance, rural-urban migration would explain the proliferation of the informal sector as new migrants arrive without jobs, providing a large pool of labour for informal "employment" (Anderson, 1998).

Like the structural approach, the dual economy model views the informal sector as a short-term disequilibrium phenomenon that would disappear as the modern sector grows and absorbs the surplus labour (Bigsten *et al*., 2000). A major policy consequence of the dual economy model towards the informal sector has been to ignore the existence of the sector in the hope that it would disappear (Ronge *et al*., 2002). Over time, this theory has been disputed as economies continue to grow with the dual industrial structures. Large-scale firms have continued to grow in the presence of growing number of informal enterprises.

2.2.4 Institutional failure view

When institutions fail, or the state fails, certain sectors of the economy are notoriously neglected under central planning, relative to the outcome one would expect from markets (Anderson, 1998). Therefore, the informal economy emerges as part of the reaction of the market to the demands of consumers. As argued by Loayza (1997), the state, as the institution that both monitors the regulatory and enforcement systems and administers public services, plays a crucial role in the formation of the informal economy. If public officers or interest groups related to them can generate some rent from the presence of the informal economy, they will create excessive regulations that make informality attractive or simply unavoidable. This will imply that the failure of political institutions to protect and promote an efficient market economy would account for the growth of informal sector.

Lee-Smith and Lamba (1998) have argued that the provincial administration in Kenya has created "informal settlements as policy". Officers in the public administration settle people on public land, often requiring bribes to allocate plots to individuals and "private developers". Such allottees build temporary structures (houses or workspaces) without requisite infrastructure and let them out. Due to poorly defined property rights, this results in ownership conflicts over land and workspaces. Evictions of such tenants have always resulted in violence, as the tenants physically resist any evictions.

2.3 Urban planning theory

Physical planning deals with land use and the built-up environments. Within the land uses, the main planning concern is usually with the patterns of location of people, households, firms and organisations and their attendant activities. The planning process usually tries to ensure that these activities conform to social and public goals. Over the years, various approaches have been used to achieve this goal. We review three approaches as documented by Alexander (1995).

2.3.1 Comprehensive planning approach

This approach takes into cognisance all the factors including social and demographical characteristics of the population, economic variable, and transportation factors (Alexander, 1995). It uses this information to formulate a rational and analytical comprehensive plan. The approach is grounded on the technocratic idea that assumes legitimacy of the planner's expertise in representing people's needs. According to Alexander (1995), the approach has been criticised for promoting *status quo*, supporting the political establishment and perpetuating middle class values. Given that most MSEs are enterprises owned by the relatively poor in society, the theory helps us appreciate their exclusion in urban planning. Further, this approach assumes a central agency that has authority and autonomy to develop planning proposals and implement them. In Kenya, examples include the 1948 Nairobi Master Plan for a Colonial Capital and Nairobi Metropolitan Growth Strategy of 1973 (KIPPRA, 2005). The two plans were rarely implemented perhaps due to the underlying assumptions and the highly dynamic nature of the City of Nairobi.

2.3.2 Social planning approach

This approach is a socially oriented planning approach that gives allowance for the wants of particular groups and involves extensive use of social science techniques. It is more effective under government-supported programmes dealing with welfare, health and education (Alexander, 1995). Therefore, it aims at directly intervening in social interactions. Given the existence of multiple conflicting interests in urban societies, implementation of social plans is relatively difficult. Like the comprehensive approach, it makes an assumption of a centralised agency that is benevolent. This too raises questions on the agency's legitimacy and client participation.

2.3.3 Advocacy planning approach

This approach arose out of the shortcomings of the technocratic and centralised values of the previous planning models. The model is based on the premise that society is not homogenous, but rather consists of varied interest groups with competing needs. It recognises that access to resources is not the same for the rich, the poor and the ignorant. The role of the advocate in this model is to give a voice to the groups that are usually marginalised. The approach is faulted on the basis of its inability to correct unequal distribution of resources. Like the comprehensive planning approach, it is also doubtful whether the planner/advocate would represent the interests of marginalised groups like those in the informal sector (Alexander, 1995).

2.4 An overview of the theories

The above discussions over the informal sector have mainly centred on the questions: What are the origins of the informal sector? Do such origins help us to understand why governments are generally hostile and intolerant towards the sector? Why is there a generalised policy neglect of the sector? Does such hostility and policy neglect explain the problem of workspaces in the sector?

Generally, the four theories put across a combination of arguments that are either pessimistic or optimistic. The optimistic views—dualism, structural perspective and the micro-enterprise view, respectively—hold that the sector acts as a reservoir of surplus labour, allows the economy to adjust during disturbances to the economic equilibrium, and is a potential source of economic development. Both the dualistic and structural perspective imply that the informal sector is a "labour sponge" that is more temporary than permanent, and vanishes once the economy starts growing and the modern sector expands large enough to absorb the surplus labour. From a policy perspective, the structuralist and dualist perspectives prescribe policies that increase the size of the formal sector, as this will automatically diminish the informal sector. This explains why the sector has been ignored by policy, and excluded in the physical plans, in LA departmental committees and procedures for allocation and administration of urban space.

The pessimistic views—invisible revolution thesis, structural and institutional failure perspectives—hold that the informal sector is currently either marginalised or exploited by state- sanctioned exclusive institutions. It is this exclusion and marginalisation that explains why the informal sector has been outlawed and neglected by policy, and why there are sporadic skirmishes between hawkers and law enforcement agencies, i.e. City Council *askaris* and police (Lee-Smith and Lamba, 1998). The invisible revolution thesis holds that by formalising micro enterprises, their activities would be mainstreamed into the formal policy, legal and regulatory organs and, therefore, enhance their productivity and growth potential. In terms of policy, the institutional failure framework prescribes governance reforms (simplification, decentralisation and deregulation) that lower opportunities for rent seeking and reduce costs of regulation.

The approaches used in urban physical planning indicate that there is usually a problem of under-representation of the marginalised groups. Players in the informal sector have rarely been consulted in urban planning process. In Kenya, shortage of trained and skilled planners, especially in smaller urban centres, means that some of the assumptions of the planning approaches are not feasible. Local authorities, as central agencies to guide planning, have evolved into institutions that work to the exclusion of MSE from urban planning.

3. SITUATION ANALYSIS OF WORKSPACES IN KENYA

3.1 Polices, laws and regulations

3.1.1 Policies

The key players in the formulation of MSE policy include the Ministry of Local Authorities, the Ministry of Trade and Industry, the Ministry of Labour and Human Resources Development (MLHRD),[10] , the Ministry of Finance, the Ministry of Lands and Housing, the Ministry of Planning and National Development, and the District Development Committees (DDCs). The main problem with MSE policy is that over the years, the central government held the monopoly in matters of MSE policy formulation. However, beginning in the late 1990s when the Poverty Reduction Strategy Paper (PRSP) paradigm in national planning was initiated, matters changed towards greater involvement of stakeholders and less from government monopoly in policy formulation. The *Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction* (Government of Kenya, 2005) is one of the most participatory and inclusive of all the MSE policy documents. The other problem is that the regulatory framework (via by-laws) at the local level has been inconsistent with central government's policy intentions.

Implicit policies on MSEs in Kenya can be traced back to 1965 with the formulation of the *Sessional Paper No. 10 of 1965* (Ronge *et al*., 2002). By then, support for this sector was seen as a means to achieving the Kenyanisation policy by supporting the development of modern small

10 Within the Ministry of Labour and Human Resource Development (MLHRD), the Department of Micro and Small Enterprises Development (DMSED) has been created. Its mission is to formulate, coordinate and monitor policies regarding the development of the small enterprises sector in the country. The department has three divisions, namely: Division for "*Jua Kali*" Development; Division for Business Development Services; and Division for Policy Development, Implementation, Monitoring and Coordination.

industries owned by indigenous Kenyans. Institutions like Kenya Industrial Estates (KIE) were set up in 1967 to provide infrastructure and financial support to small indigenous businesses to enable them enter the manufacturing sector. However, it was not until 1986 that explicit policy proposals on the MSE sector were made—starting with the *Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth* (GoK, 1986a). Table 2 summarises some of the key policy developments as far as provision of MSE worksites is concerned.

Policy concerns of *Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth* (Government of Kenya, 1986) included the reorganisation and rationalisation of vocational training and making credit relatively more accessible to the MSEs. There was a deliberate effort to create an enabling environment for the dispersion of MSEs to all regions of the country through the District Focus for Rural Development strategy. Therefore, the government constructed workspaces/worksites commonly referred to as "*Nyayo Jua Kali Sheds*" in urban areas throughout the country (Government of Kenya, 1998). Though some of the sheds are still operational, the programme lacked continuity in the successive years and the sheds are currently too congested and inadequate for the horizontally growing MSEs. The involvement of LAs in these early activities was also not integrated into their operations.

Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya (Government of Kenya, 1992) formally provided a comprehensive framework for the promotion of MSEs. However, the implementation process was *ad hoc* and lacking in specific time frame (GoK, 1998). The paper failed to match responsible actors with specific tasks, making its implementation difficult. For instance, the role of LAs was not articulated, including their role in the provision and maintenance of workspaces. The *Sessional Paper No. 2 of 1996* sought to provide a facilitative and enabling environment for MSEs through such efforts as

Table 2: Key MSE workspace related policies in Kenya

Policy reference	Prescription
Sessional Paper No 1 of 1986	• Establishment of Rural Trade Promotion Centres through collaborative efforts of District Development Committees and the respective local authorities.
Sessional Paper No 2 of 1992	• Establishment of a Ksh 50 million *Jua Kali* Development Fund under the Ministry of Research and Technology. • Allocation of land for MSEs and provision of funds to the DDCs and local authorities for improving infrastructure for MSEs. • Directed local authorities to conduct needs assessment to determine the priorities of the MSEs in terms of infrastructure facilities.
Sessional Paper No 1 of 1994	• Establishment of new serviced industrial parks accommodating 100 industries to address the constraint imposed by the shortage of land and infrastructure. • Construction of industrial estates capable of accommodating 50-200 medium scale industries in key industrial centres.
Sessional Paper No 2 of 1996	• Providing MSEs with commercially viable sites that can be leased or allocated to the sector and encourage MSEs to graduate into medium-scale enterprises. • Providing infrastructure on a cost recovery basis with priority going towards maintenance, rehabilitation and reconstruction of existing public infrastructure.
Economic Recovery Strategy Paper 2003	• Identification of suitable zones within the local councils that have basic infrastructure to serve as incubators for MSEs.
Sessional Paper No 2 of 2005	• Encouraging private sector participation in development and management of stall and worksites through such instruments as tax incentives and concessionary land rates. • Promoting issuance of Temporary Occupancy Licences for long and specified time. Local Authorities to be encouraged to earmark land for MSE development. • Promoting investment in MSE infrastructure development by encouraging MSE associations to adopt a Community Land Ownership Trust arrangement.

decentralised licensing procedures to the local authority level. The *Economic Recovery Strategy for Wealth and Employment Creation* of 2003 highlighted the lack of serviced worksites for MSEs, insecurity and harassment by local authorities as some of the serious workspace-related problems facing the sector. It identified the need for development of incubators for MSEs within the local councils as one way of overcoming the workspace problem.

Recently, the *Sessional Paper No. 2 of 2005* has highlighted various strategies of dealing with the problem of MSEs workspace. Basically, the strategies target at increasing the quantity of workspaces, improving their management and ensuring security of tenure for MSEs premises. This will be achieved through increased public-private partnerships, availing more land for MSEs and enhancing property rights. The policy is too recent for implementation assessment to be made.

In spite of the above efforts to provide workspace policy framework for the MSE sector, the policy environment remains weak. Lack of clear definition of key players in the sector and the roles they should play in policy implementation has been a major contributor to poor policy implementation. The roles of LAs, the main custodians of MSE operations, have not been clearly spelt out. There is also lack of a clear institutional framework in the coordination of MSE policies and strategies from the central government to the local authority levels.

3.1.2 Laws and regulations

In part, an enabling environment is defined by good and well implemented polices and an optimal legal and regulatory framework (KIPPRA, 2005). Both over-regulation and under-regulation are undesirable as they either lower business competitiveness (by either increasing the cost of compliance) or introducing supply-side deficiencies. Even when well designed, it is the enforcement and implementation of laws and regulations (such as setting unnecessarily high standards of compliance) that imposes a compliance burden on businesses. For MSEs, poor regulation is accompanied by increased fixed costs, lower operational flexibility, higher losses of management and production time, and implicit financial losses (Karingithi,1999).[11]

By definition, MSEs are penalised by resource constraints, and the extra burden imposed on them by complex laws and regulations. These should be seen as avoidable penalties. Such penalties have been reported by the size of bribes they have had to pay, their exposure to risk and uncertainty, insecurity of tenure and property and limited access to public goods and support infrastructure. Larger firms benefit from "administrative economies of scale", and often pass the burden of compliance requirements down their supply chains to MSEs (UNCTAD, undated). Firms that have the interest to comply with regulations are the ones most likely to be penalised, while firms with the interest to evade find it relatively easy to do so. According to UNIDO (undated), such an environment discourages informal sector enterprises to "formalise", and in more extreme cases, formal sector enterprises are induced to "de-formalise" their activities.

- *Local Government Act Cap 265 of 1963:* The Local Government Act came into being shortly after independence to replace the colonial legal systems of local governance. At the time of its legislation, the Government saw the need to create LAs as semi-autonomous entities, but with limited powers since central government was still necessary to rally national interests within a tribally-diverse system. The Act provides the framework for establishment of LAs, their powers, duties and responsibilities.

  Legally, the responsibility of providing land, workspace, roads and utilities in urban areas lies with the local authorities. Nevertheless,

11 MSEs have lower capacity to absorb the compliance costs of overzealous regulation.

this legal obligation is not supported by explicit policies to address the issues and needs in the MSE sector (MLA, 1998). Instead, the LAs directly influence the operation of the MSEs through diverse by-laws including those on infrastructure, planning and regulation. Such by-laws are enshrined in the Local Government Act. This Act gives local authorities extensive powers to regulate use of the trust

Table 3: Laws and regulations

Reference	Subject matter	Observations and comments
Section 201	Enables a local authority to make by-laws that are necessary for the maintenance and well-being of the inhabitants, and for the prevention of nuisance.	• This section gives the LAs a "blank cheque" to design *prohibitive* rather than *facilitative* pieces of legislation. Regulations do not take into account the costs of regulation and are more discretionary. • Stakeholders are rarely involved, yet they bear the weight of the laws. • Some regulations are not proportional to the problem and the failure to differentiate the uniqueness of MSEs simply leads to over-regulation. • Most regulations are not goal-based and are rarely monitored.
Section 145P	Enables LA to control public sales and places of any sales and license people to conduct such sales	• Regulations fail to bind the LA to provide "sale yards" and the necessary infrastructure.
Section 148	Enables LA to charge fees, without resolution on amount for any business licence issued.	• The section lacks uniformity with regard to the level of fees or charges that a LA may impose. • Fees and charges are highly discretionary and are not based on reasonable criteria such as profitability levels.

Section 159L	Enables LA to prohibit and control shops in rural areas.	• Due to limited spatial scope of LAs, it opens opportunities for conflicts over roles with the provincial administration.
Section 161D and 163	Enables LA to control all establishments where food or drink are manufactured, prepared for sale or use, stored, or sold. To prohibit or control peddling, hawking, street trading barbers, second hand goods dealers, and trades and industry deemed to be noxious or offensive.	• The role of the LA may be limited by the weak enforcement capacity. They may lack specific skills; for instance, those related to laboratory tests, environment impact assessments and so on.
Section 165	Enables LA to refuse to grant and to cancel business licences.	• Licensing is the first stage of regulating business. The laws are disproportional to the problem—always being used to "control and punish" rather than to "facilitate and ensure compliance". • Business schedules for all LAs are not harmonised. • Stakeholders are not involved in decision-making processes relating to licensing. • Licences are devoid of security guarantees—yet this should be the basic goal of licensing.
Section 210	To make adoptive by-laws under the Local Government Act and other laws of Kenya, including the building code and the Public Health Act.	• Building by-laws are outdated and poorly enforced. They do not encourage innovative and "low cost" building technologies.

Sources: (Government of Kenya, 1998, 1986b) and our own analysis (see last column)

land under their jurisdiction. Some of the by-laws that have been cited as directly affecting MSEs are outlined in Table 3.

As noted above, LAs have wide-ranging powers under the Local Government Act to regulate land use in the trust land under their jurisdiction. For instance, in section 201, 161 and 163, local councils can prohibit or regulate performance of certain activities. Some of these MSE activities include street vending, barbers, and sale of second-hand goods, which local councils have continued to view as public nuisances. The local authorities also have wide ranging powers to charge fees on various licences issued under the Act as indicated in section 148. These by-laws and licensing requirements have acted as the single, greatest deterrent to entry into and growth of small private sector businesses (Mitullah, 2003).

Enforcement of these by-laws gives local authorities immense control over the activities of MSEs. For example, regulations governing the issuance of hawking licences are not accompanied by security guarantees for continued operations. Therefore, the licence is devoid of the substance or security in which business people are more interested. This gives the MSEs the incentive to operate outside the law.

Regulations have also adversely affected MSEs' participation in the building industry. Local authorities have continued to maintain unrealistically stringent building standards. Such standards have slowed down investment in formal housing by the Government and the private sector, even as there have been changes in building technologies. The shortage in affordable housing has created a market for low-cost housing that can only be supplied by the informal sector, outside the formal building standards. Unfortunately, MSEs cannot be licensed by the LAs in order to formally enter the building industry.

Market by-laws have failed to involve other stakeholders in setting of fees and charges. The procedures for private market owners to be licensed are so stringent. First, the applicant has to follow several approvals (from public health, planning and building and so on). Second, different LAs apply different regulations so that there are no standard conditions for both public and private markets. There is need to involve other players in setting the fees and charges, so that they are designed to respond to profitability/sales/location or other reasonable criteria.

Procurement procedures have also crowded out MSEs from taking part in local authority tenders in the following ways. First, the eligibility rules prefer incorporated business, therefore locking out MSEs, most of which are not registered. Second, the main mode of advertisement – through newspapers – disadvantages MSEs as this is not one of their primary modes of information delivery.[12] Third, minimum capital requirements for financing the bulk purchases fall without the resource constraints of MSEs. Last, the negotiation skills, especially where vested interests exist, are not available in MSE operators rendering them incapable of accessing the tenders.

- *Physical Planning Act (No. 6 of 1996):* Good physical planning is essential in the short and long-term provision of land and physical infrastructure to the MSE sector. The Physical Planning Act (No. 6 of 1996), which came into force in 1998, was enacted mainly to provide the basis of preparation and implementation of physical development plans and other related purposes. It is primarily concerned with the physical planning of land especially in the urban areas (Odhiambo and Nyangito, 2002). Its main focus areas are roads, buildings and factories. The Act, for instance, provides for setting up of Physical Development Liaison Committee that should arbitrate on land use disputes. However, as indicated in the Local Government Act above, local authorities make use of by-laws to determine the use of land within their jurisdiction. This partially

12 A study in Kenya's manufacturing MSEs showed that most of them rely on informal sources of information, such as social networks of friends and relatives, customers, etc) (Moyi, 2003).

explains why land reserved for MSE workspaces has been diverted to other uses (see Annex tables 1, 2 and 3). In addition, LAs have powers to control sub-division of land or building lots into smaller units as indicated in section 162 of the Act.

The above scenario indicates a lack of national land use policy framework upon which an integrated land use strategy could be based. As a result, land use laws and policies adopt a sectoral approach that is neither functionally integrated nor administratively well coordinated. Enforcement of policies in the provision of MSE workspaces will require an integrated and legal framework that is administratively functional. The need to harmonise the legal framework arises out of the need to provide rights of use and predictable security of tenure for MSE business and industrial premises.

- *Chief's Authority Act (Cap 128):* This particular Act gives administrative officials powers to regulate or prohibit use of land (Odhiambo and Nyangito, 2002). Such officials have extensive powers to allocate public spaces like road reserves, riverbanks, etc. This is usually done with no regard to the physical planning framework. It is, therefore, usually in contradiction to the formal planning and other intended uses of land under the Local Authorities Act.

3.1.3 Regulatory environment: An African comparison

A supportive policy and regulatory environments is important for the MSEs. According to Beyene (2002), the absence of conducive policies and regulations forces small enterprises to exit the market prematurely. The basic policy and regulatory framework should encompass a stable fiscal and monetary environment, with policies that minimise MSEs transaction costs and facilitate business operations. Table 4 compares the policy and regulatory framework across a number of African countries.

Table 4 : The regulatory environment in African countries

	Current state			Recent changes		
	Enabling	Variable	Disabling	Improved	Same	Deteriorated
Cameroon			•		•	
Cote d'Voire		•		•		
Ethiopia			•		•	
Gabon			•		•	
Kenya		•		•		
Mauritius	•			•		
Morocco		•		•		
Namibia		•		•		
Nigeria			•		•	
Senegal			•	•		
South Africa		•		•		
Tunisia	•			•		
Uganda			•		•	

Source: Beyene (2002).

From the Table, most countries, Kenya included, have in the recent past improved their policy and regulatory environments. In Kenya, such improvements include the introduction of the Single Business Permit that has simplified some of the legal and regulatory hurdles that MSEs have had to go through. However, contradictory policies, especially on land use within urban areas as defined by the Physical Planning Act and Local Government Act have only worked against a better environment.

3.2 Allocation of workspaces in Kenya: Empirical evidence

3.2.1 Role of the local government

Currently, the worldwide trend is moving towards effective promotion of MSEs through local governments (village, town, city or metropolitan area) (Department of Trade and Industry, 1995). This is based on the reasoning that LAs have direct contact with each enterprise, down to those involved in survival activities, and their administrative infrastructure could be useful for the implementation of support programmes.

Nairobi City Council, like all local authorities, is charged with the role of developing and maintaining roads, supplying water, providing sanitation, public health, primary education, social services and housing, and numerous other functions. The authorities fulfil these roles through ten administrative departments and twelve legislative committees of councillors, as summarised in Table 5 below.

Table 5: Functions of Nairobi City Council' s Departmental committees

Department	Committee	Functions
Town Clerk's	General Purpose and Staff	Policy, legal and valuation, public relations
City Treasurer's	Finance, Audit and Procurement	Payments, collection, financial affairs, procurement
City Engineer's	Works	Public works and maintenance, roads, buildings, electrical, fire brigade, traffic
Water and Sewerage	Water and Sewerage	Planning and development, water payments, connections, leakages, sewage overflow
Public Health	Public Health	Health services, hospitals, school health, public health
City Inspectorate	City Inspectorate	By-law enforcement, licensing, security of Nairobi City Council property, towing, parking meters
Housing and Social Services	Housing and Social Services	Housing stock maintenance and administration, markets, culture, sport, community development
Environment	Environment	Cleansing, parks, environmental impact enforcement and control
Planning	Town planning, LASDAP	Land development, zoning, approvals, sub-divisions, low-cost housing, development control, street names, advertising
Education	Education	Primary education, nursery schools

Source: Lee-Smith and Lamba (1998).

The above committees are responsible for guiding policy implementation within the council, but there is no committee that is specifically charged with the responsibility of policy formulation. In addition, there are conflicts across the functions of the City Inspectorate, City Planning and City Treasurer's Departments. There are also problems related to failure to incorporate other important players (such as NGOs, charitable organisations, organised business, donor agencies, and other government ministries and departments) in the planning of LA activities and committees of the LAs. This explains why, although there are several support institutions providing workspaces, the coordination of workspace support services is weak and the linkages between the institutions with MSEs are not clearly defined and, therefore, remain questionable. This leaves their workspace support services poorly coordinated and mainly supply-driven.

3.2.2 Role of Kenya Industrial Estates (KIE)

The Kenya Industrial Estate has over the years played an important role of providing workspaces to manufacturing-based MSEs through the industrial estate concept. Since the early 1970s, KIE with the support of development partners like DANIDA, Norwegian Government and SIDA, has constructed sheds in form of factory premises. By 1999, KIE had established 28 industrial estates consisting of 414 industrial premises with a total build up area of 76, 000 square metres of working space at a cost of Ksh 156 million (Kalui, 2001). Such premises are found spread out in the provincial headquarters like Embu, Nyeri, Nairobi, Mombassa, Nakuru and Kisumu. The sheds, which were leased to MSEs, were provided with common workshop facilities, electricity, tools, water and sewerage, access roads, technical service centres and canteens.

This industrial estate model was based on the early incubator concept that, among other things, sought to provide premises to MSEs (Bwisa, 2004). MSEs within these premises were expected to operate within the sheds for about five years after which they would move out. Eligibility requirements for prospective MSEs were not complex. As long as an MSE was indigenous, they would identify the available and suitable space for the type of the industry they intended to go into and their application would be processed. Among the prominent enterprises incubated through this model include East African Spectre, Mareba Enterprises, Crescent Industries and Ramboo Furniture, Specialised Towels Manufacturers, Gotab Sanik Enterprises (Bakery), Hacco Industries, Kuguru Foods, and Farm Engineering Industries.

The overall performance of KIE in the provision of workspaces has been adversely affected by political influence, as was the case in 1989 when the then President gave a directive to sell KIE sheds on mortgage at non-commercial rates. This was a shift from the original purpose of incubation. Perhaps another (relative) limitation of the KIE project was its specific focus on manufacturing only, hence excluding investments from other sectors of the economy such as the service industry. Another limitation is attributed to the growth of KIE into unwieldy bureaucratic structure, with highly centralised functions and costly service centres, rendering its services less effective.

3.2.3 Role of Export Processing Zones Authority (EPZA)

Since their establishment, EPZs have played a key role in attracting new productive investment, employment generation, diversifying export products and markets, facilitating technology and skills transfer, and creation of linkages in the economy. However, the main focus of the EPZ has been with the medium and large enterprises in the export markets. Since 1994, small enterprises have sought to benefit from EPZ facilitation (Waithaka, 2004). On realising that the EPZ facilitation did not fit the small enterprises, the EPZA has initiated an incubator project with the objective of nurturing export-oriented Kenyan EPZ SMEs with high potential for growth and a demonstrated modern entrepreneurial practice that could be replicated in other sectors. Among other things, the incubator hopes to provide SMEs with space to establish and grow business, office services, shared utility areas, business support services and access to capital. The basic principles of the incubator include: a business/commercial approach, focus on high export potential enterprises, stringent but fair entry requirement, partnership and SME clustering. Target sectors include horticulture/food processing, textile/apparel and ICT. The incubator will accommodate up to 40 SMEs graduating after 3 years and the pilot phase will be located in Nairobi's Sameer Industrial Park and Athi River EPZ.

The selection criteria of tenants will be on the basis of export orientation, quality of entrepreneur, skills to run a business, market knowledge, acceptance of incubator rules and own resources potential. Financing of the model will be by tenants' rent and services revenues, donor support and a proposed 0.5 per cent export levy from all EPZ firms.

This project is based on a needs assessment survey carried out among small enterprises in Nairobi and its environment, which established some of the needs of small enterprises wishing to enter the export market (Waithaka, 2004). Such needs included suitable premises, export market information and facilitation, business support services and suitable financial packages. The project will meet some these needs through lower EPZ rents, EPZ fees, interest rates and supportive environment and clustering. The project is at an advanced stage of implementation and it is hoped that once it becomes a reality it will provide workspaces for export-oriented MSEs.

3.2.4 "Jua kali" ***sheds programmes***

Government policy on provision of land to MSEs aims at allocation of land and building *Jua kali* sheds in urban centres. This policy aims at ensuring that MSEs benefit from easier access to industrial land, serviced worksites and urban infrastructure such as water supply, sewerage, sanitation and electricity supply (Government of Kenya, 1992). In this regard, the government set aside land for *Jua kali* sites in most urban centres across Kenya.

The "*jua kali*" sheds programme can be traced back to the visit to Kamukunji (a famous industrial cluster of *jua kali* artisans in Nairobi) by President Daniel Arap Moi in November 1985 (Mullei and Bokea, 1999). Over the next three months, the President made four visits and directed the concerned government authorities to initiate action in the following areas: (i) the provisions of sheds, (ii) the possibility of security of tenure through allocation of sheds and titles at no cost, (iii) the possibility of contracts, particularly the repair of government vehicles in the informal workshops, and (iv) the incorporation of the sector into national industrial policy and planning.

Most of the initiatives to construct sheds that followed the Presidential directive were done under the "*Nyayo*" and "*jua kali*" banners. By 2003, there were about 1,235 *Nyayo* and *jua kali* sheds in 82 sites country-wide (Government of Kenya, 2003).[13] These were distributed among the eight provinces as follows: Nairobi -127, Central - 174, Eastern - 156, Coast - 166, North Eastern - 24, Rift Valley - 301, Western – 100, and Nyanza - 187.

Over the period 1989-1990 (the first phase of the construction of *Nyayo* sheds), about 752 sheds were completed in the provinces. The distribution of the sheds during this phase was as follows: Nairobi - 27, Central (Nyeri) - 94, Eastern - 128, Coast -94, North Eastern - 24, Rift Valley - 182, Western – 67, and Nyanza - 136. The second phase (1991-1998) was funded by GTZ to the tune of Ksh 48 million. The 319 GTZ sheds were distributed across five provinces as follows: Central (Nyeri-Karatina) - 64, Eastern (Meru) - 74, Rift Valley (Nakuru) - 119, Nyanza (Kisii) – 31,

13 It is important to note that some of the sheds have been vandalised, while some are incomplete and lacking basic facilities such as access roads, fencing, electricity, water and sanitation. The incomplete sheds need additional work to build boundary walls, instal water and electricity, and develop the drainage system, sanitation and access roads.

and Coast (Taita Taveta) - 41. The third phase (1993-1994) was supported by the Danish Government to the tune of Kshs 48 million. About 31 sheds were constructed in Taita Taveta District (Coast Province).

The Kariobangi National Demonstration and Training Centre consisting of seven blocks in Buru Buru Division, Nairobi, was constructed during 1993-1994. The project was financed through a US grant to Kenya worth US$ 674,000, although UNDP and UNIDO were the implementing agencies for the project. Ziwani Motor mechanics Training centre in Ziwani Division (Nairobi) was built in 1994/95 with a US grant to Kenya worth US$ 522,000. The Training Centre consists of one large building with one storey office block.

The Belgian Government advanced Kenya Ksh 113 million towards developing sheds. Construction of 116 sheds was done over the period 1996-2000. The sheds were distributed across the provinces as follows: Central (Thika) – 36,[14] Eastern (Machakos) – 28,[15] Rift Valley (Kitale) – 20,[16] Western (Kakamega) – 12,[17] and Nyanza (Migori) – 20.[18]

It is worth noting that the success of the *Jua Kali* sheds programme in providing workspaces for the MSEs has not been entirely successful. First, a number of the sheds have been left incomplete while the ones that were completed have been vandalised (Ministry of Labour and Human Resource Development (MLHRD), 2003). Second, quite a number of the worksites lacked other supportive infrastructure like access roads,

14 According to the MLHRD (2003), the project stalled in May 1997 when about 44% of the work was complete. The sheds are still incomplete and will require another contractor as the first contractor vacated the site.

15 The project stalled in May 1997 when 29.5% of the work was complete. The sheds are still incomplete and will require another contractor as the first contractor vacated the site.

16 The sheds are still incomplete as the previous contractor abandoned work with only 39% of the work remaining to complete the structures.

17 These sheds are still incomplete since the previous contractor abandoned work when only 39% complete.

18 The Migori sheds were abandoned with 67% of the work complete.

electricity, water and sanitation. For instance, 21 per cent of the Nyayo *Jua Kali* sheds remained partially complete for a period of 13 years from 1989 to 2002 (MLHRD, 2003). Therefore, in spite of the fact that the government had set up an annual *Jua Kali* Fund amounting to Kshs 50 million under the Exchequer and Audit Act Cap 412, Legal Notice No. 558, the programme implementation was poor.

Thirdly, over 38 per cent of the 1,235 *Jua Kali* sheds were initiated with the assistance of donors including GTZ, DANIDA, UNDP/UNIDO and the Belgian Government. This raises a problem of sustainability of the programmes once donor support diminishes. Another shortcoming of the programme was its focus on providing workspaces for a narrow category of the MSE sector. For instance, trading or services MSEs were not catered for within this programme. Important too was the irregular allocation of land that was initially set aside for the *jua kali* sheds. The MLHRD (2003) report noted that there were many cases where all land or portions of it was re-allocated to individuals or organisations. Finally, the design of the programme seems to have had a weak management framework of the worksites. For instance, it was not clear who would pay the land rates, water or electricity bills for the worksites.

3.2.5 Role of MSE associations

MSE associations are important in ensuring efficient operations of the micro and small businesses (Mitullah, 2003). In Kenya, they are expected to lobby the government on the needs of their members. Among such needs include securing of property rights, quality and safety for their premises. In this regard, some of their core functions include social welfare, loans advancement, advocacy and lobbying. In a forthcoming study on core functions of MSE associations in Kenya, Moyi (forthcoming) finds that 0.5 per cent of associations lobbied for MSE land acquisition, while 12.2 per cent lobbied for acquisition of sheds. He also finds that 43.1 per cent of the associations indicate workspace services as one of the key services they provide to their members. The study also reports a general perception of disabling workspace provision situation. About 56 per cent of the respondents indicate a disabling workspace regulatory environment.

Some of the sheds are purchased through *Jua Kali* Associations (McCormick, 1999). For instance, the Thika Welfare Association purchased as site from the Thika Municipality whereas Ziwani *Jua Kali* Association purchased its site from the Nairobi City Council.

3.2.6 Governance issues

Three land tenure systems can be distinguished in the country: government land, trust land and private land. Ownership of government land lies with the government, while trust land is held under trust by local authorities. Ownership of private land lies with individuals or institutions. The prevalence of corruption and poor governance has hindered the achievement of government intentions in the management of government land and trust land. This is evident in the following observation:

> Urban land is one of the most sought after and politically sensitive resources in this country. For this reason, any time one requests for the allocation of any piece of land in an urban centre, such a request attracts immediate attention from those for or against the purpose for which the land is sought. Those interested in the land for individual gains will want to frustrate the allocation of any state or local authority land to institutions in which they have no direct interests. Others will want to use such requests as a means of apportioning part of the available land, but to which they have had no access, to themselves or their relatives and friends. This situation has arisen in a number of urban centres.
>
> Regrettably, where suites were initially set aside for the *Jua*

> *Kali* programmes, many cases have come to light where all or big portions of the sites have been re-allocated to individuals and other organisations. This has started attracting donor interests in a manner that could affect our plans to develop the sector" (Government of Kenya, 2003)

Weak governance structures over land matters are responsible for the scarcity of public land in Nairobi (including other urban areas) and the excision of forest land. Lack of strong governance structures is also responsible for land conflicts between the MSEs who occupy the land and the allottees of such land or their agents. The prevalence of such conflicts adversely affects the general business climate and diverts state and personal resources from productive investments. This was the case during the Mworoto and Kigali Market skirmishes where small-scale operators were evicted and the land allocated for office development.

Across the country, there is evidence of encroachment of land meant for *Jua Kali* developments. According to internal information from Ministry of Labour and Human Resource Development, about 22 parcels of land in various towns have been encroached by various interest groups. Public officials have been involved in subdivision of this land, later selling it to private developers thereby crippling efforts aimed at provision of worksites or sheds for *Jua kali* enterprises. In other cases, squatters have also vandalised some of the built up sheds and occupied the land.

In most urban areas, government land has become scarce as a result of rapid allocation of such land to individuals. Some of these allocations have been illegal or irregular. The Ndung'u Report (Government of Kenya, 2004) documents some of the irregular land allocations. The Report indicates that about 585 cases of parcels of land[19] approximating over 39 hectares belonging to the Kenya Industrial Estate (Annex table 1) and

19 The actual total size of the plots irregularly allocated is difficult to compute as this was only partially established in the Ndung'u Report (Government of Kenya, 2004).

which was reserved for industrial use and provision of worksites through the incubator model, has over the years been irregularly allocated to private developers (Government of Kenya, 2004).

According to the Report, land that was initially reserved for development of markets and MSE worksites within the main municipalities has been re-allocated for other purposes like residential, commercial, private use, etc. Within Nairobi City Council, over 27 incidents[20] are documented (Annex table 2) where land that was initially set aside for markets has been allocated to individuals and other users who have diverted the land from its original use. In Eldoret Municipality, about 18 hectares of land reserved for industrial use have been reallocated and converted to residential use (Annex table 3). In Mombasa and Kisii municipalities, 4 such cases of diversions of land use from market to business, residential or offices are recorded.

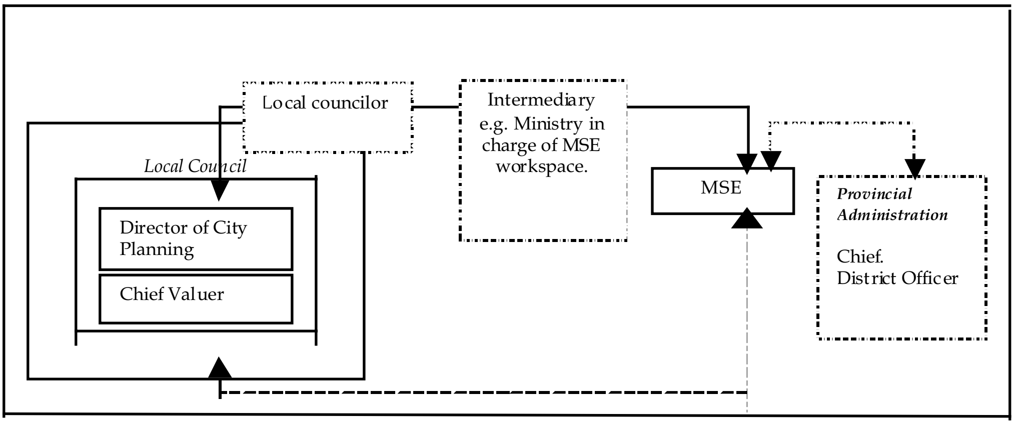
3.2.7 Application and allocation of land and workspaces

Formal access to land by MSEs entails two options (Figure 2). In the first option, the MSE makes an application to the City Council through the Director of City Planning. Given the stiff competition and the uncertainty of the outcome, some MSEs have preferred to forward their application via the Ministry of Sports, Gender, Culture and Social Services or their local councillors. However, this extra procedure lengthens the duration from application to approval. The success of the applications is contingent on the identification of suitable land by the Directorate of City Planning and the sub-division of the land into small plots. The charges for successful applicants include a one-time payment of up to Ksh 13,000 and survey fees of up to Ksh 1,000 that varies with the area.

The second option involves applying for a Temporary Occupation Licence (TOL) that is conditional on the applicant identifying undeveloped land on

20 Total acreage of this land is not given in the Ndung'u Report.

Figure 2 : MSE workspaces allocation within Nairobi City Council



open spaces or wide road reserves. The applications are considered by the Chief Valuer in the Directorate of City Planning who issues the TOL. The law binds the holder of a TOL to vacate the site on notification by Nairobi City Council of proposed development of the plot. The TOL attracts an annual fee. It has also been documented that due to the loopholes existing in the trade licensing, some MSEs have been able to apply to the Directorate of City Inspectorate for a TOL. The confusion comes about due to the overlapping functions of City Inspectorate and City Planning Departments and the City Treasury with regard to allocation of TOLs.

Apart form LAs, the provincial administration has played a key role in regulating informal sector (Lee-Smith and Lamba, 1998). It is common to find Chiefs and Assistant Chiefs allocating public land and road reserves to informal businesses outside any formal city planning process.[21] Presidential decrees have also been used to allocate land to informal sector players on temporary basis. Much of these allocations lack any supportive legislation and the beneficiary MSE operates at the mercy of arbitrary political support.

21 Chiefs and Assistant Chiefs are public officials within the provincial administration. It is important to note that whereas the City Council is expected to be governed as legislature on behalf of the constituents, the provincial administration, which is part of the central government executive, overlaps the council's structure resulting in conflicts (Lee-Smith and Lamba, 1998).

3.2.8 Factors influencing access to workspaces

In Kenya, obtaining a secure site from which to do business is a major problem (McCormick, 1999). Entrepreneurs in the MSE sector face severe constraints in terms of access to worksites and interference from authorities. In a 1999 baseline survey, 22.3 per cent of rural and 77.7 per cent urban MSEs indicated that they had no access to worksites (Government of Kenya, K-REP and ICEG, 1999). In addition, 19.2 per cent of rural and 80.8 per cent of urban MSEs reported harassment by the local authorities as one of the most severe constraints. Worksites for MSEs range from council markets, open-air markets or open spaces. Categories of worksites range from fully developed—complete with basic infrastructure—while others are partially developed and the rest are not developed at all. They can also be owned by the local authorities or by private institutions.

Some studies have established that information flows through ethnic networks influence the allocation of premises on which to do business (Macharia, 1988). Even when food sellers sought a food kiosk from the City Council, they relied on informal sources of information from co-ethnics. Therefore, membership in ethnic networks seemed to play a primary role than filling in application for allocation of a kiosk. It is on the basis of the information received from informal sources that determined the application for a kiosk in a formal way or the acquisition of open spaces outside the industries in industrial area.

Other studies have shown that there exists a positive relationship between small enterprises formality and access to worksites. A study of 320 small-scale manufacturing firms in Kisumu, Eldoret and Meru finds a positive relationship between access to worksite and the formality of the small enterprises (Gray *et al.*, undated). About 35 per cent of the surveyed firms had their workplaces as open air space, at one extreme end of informality, and market stalls and shops at the other more formal end. About 30 per cent of these small enterprises operated from their homes.

The supply of stalls in city/town/municipal markets is determined by the local authorities construction of markets. This, in turn, depends on financial capacity and availability of land. The poor financial base of most local authorities, combined with shortage of urban space, has constrained the capacity for the local authorities to meet the demand from MSEs for stalls and worksites. For MSEs to be allocated a stall or kiosk or space in the Nairobi City Council markets, they formally make an application through the Directorate of Housing and Social Services. All allottees of stalls pay a standard premium and thereafter pay annual rates. Not all MSEs can have access to workspaces through the formal channel. Access to worksites is often informal. While the current Nairobi City Council policy is to confine hawkers out of the Central Business District, this policy goes against the nature of MSE businesses. Most of such businesses are CBD-oriented since they operate ideally next to easily accessible areas of heavy human traffic, such as markets and bus stations.

3.2.9 Physical infrastructure in the worksites

Studies have shown a direct link between infrastructure upgrading and improvement in the living and working environment of the informal enterprises (ILO, 1998). An ideal MSE worksite requires various physical infrastructure, some which include water, sewerage and sanitation, solid waste management services, access roads and drainage, and power supply. This is not the case in Kenya where there is restricted access for small firms (Kimuyu and Mugerwa, 1998). Gray *et al*. (undated) have documented the experience of MSEs in accessing electricity and water. Approximately 75 per cent of the surveyed small manufacturing firms did not have access to water. Restricted access to infrastructure reflects the costs of informality.

Electricity provision constitutes one of the greatest infrastructure problems among small firms (Kimuyu and Mugerwa, 1998). The problem goes beyond inadequate performance to lack of connection to the mains. Provision of electricity to MSE worksites in Kenya remains a responsibility of the Kenya Power and Lighting Company. However, for a worksite to be provided with power, the MSEs must seek a no objection from the LA. Where the MSEs do not own the land, then the LA objects to such connection. Access to electricity by the MSE sector is further constrained by the high cost and the high connection charges (Ronge *et al.*, 2002). MSEs located on road reserves and those operating on the streets tend to benefit from the council's lighting of the streets.

In most cases, the LA has exclusive monopoly of dealing with water, sanitation and solid waste management-related aspects (Government of Kenya, 1998). MSE worksites access their water supply by applying to their respective councils. Water connections are normally approved for the legally recognised worksites, Temporary Occupancy Licence worksites, open spaces or road reserve worksites. However, the general neglect of operations and maintenance usually lead to huge losses of water resulting to shortages. For instance, up to 30 per cent of treated water in Nairobi is wasted. For MSEs operating within the informal or unplanned settlements, unlicensed water vendors provide the water, which is usually not only unsafe, but also expensive.

Provision of sewerage, sanitation and solid waste management services provision for worksites is critical for the promotion of public health and hygiene. Under section 168 of the Local Government Act (Cap 265), local authorities are mandated to develop and maintain sewerage and sanitation within their jurisdictions. However, within most urban centres, provision of these services to MSEs worksites is limited, given the high unit costs of development and provision (MLA, 1998). Most MSEs operate within densely populated areas of the urban centres where poor drainage, uncollected solid wastes and lack of sanitary facilities affects the marketing of their products. According to Ronge *et al*. (2002), over 60 per cent of MSEs lack water in their premises and use open spaces, rivers and streams to dispose their waste. Similarly, about 78 per cent of MSEs either burn or dump their waste. It should be noted that restricted access to water and sanitation constitutes a serious environmental and public health issue.

Access roads and drainage is important for the operations of MSEs. Secure cycle paths, safe foot bridges and footpaths and enhanced crossing points play a major role in enhancing accessibility to MSE worksites (MLA, 1998). Whereas the policy on road maintenance within the local authorities is for them to develop and maintain their local roads network, local authorities like Nairobi expect MSEs to finance the development and maintenance of access to their worksites. This situation has led to poor accessibility to MSE sites resulting in high cost of doing business (Ronge *et al.*, 2002).

3.2.10 Synthesis of empirical evidence

Access to secure workspaces remains a key challenge to the development of the MSE sector especially in urban centres. Development, allocation and management of workspaces are riddled with multiple problems ranging from poor land utilisation policies, poor governance practices, lack of capacity in local authorities and conflicting roles of institutions. The rapid urbanisation and the absence of effective physical planning have resulted in intensive competition for scarce urban land spaces. It has therefore become increasingly difficult for MSEs to have access to workspaces that offer security of tenure.

Programmes that have been initiated to provide MSE workspaces have not been sustainable and are not comprehensive, but rather adopt a narrow focus. In addition, some of the programmes were initiated through political decrees and implemented through donor-led approaches. Such strategies that adopt supply-led approaches and lack local level support have not been sustainable. Development of worksites is an expensive undertaking involving costly building outlays. Right from the initiation, the programme designs have failed to develop in-built cost recovery mechanisms. Further, initial MSEs were allowed to continue staying within the premises even when they needed to move out.

Even where worksites are provided, basic infrastructure like electricity, water, sanitation, telephone and access roads are undeveloped. Local authorities and other utility providing institutions have failed to provide this basic infrastructure partially due to the high initial costs of supplying these facilities.

4. CASE STUDIES

All over the world, many informal and MSE enterprises experience difficulties in finding a suitable premise to operate from. Manufacturing MSEs are usually the hardest hit, as they need premises that have access to relatively developed infrastructure like electricity, telephones and storage facilities. Similarly, access to market spaces is crucial for the survival and competitiveness of informal sector and MSEs. The five case studies presented below (South Africa, India, Brazil and UK) highlight the strategies that various countries have used to bridge the supply-demand gaps in the provision of land and worksites to MSEs.

4.1 South Africa[22]

South Africa has made significant strides in responding to the needs of the informal sector enterprises. This has been achieved mainly through incubators/hives programme, development of comprehensive informal sector policy, improvements in the regulatory framework; setting up full departments to oversee street trade management within local authorities and allocation of more resources for the provision of street trader infrastructure, among others.

4.1.1 Incubators/hives programme

In South Africa, government policy is biased towards providing accessible infrastructure and premises as one vital support to small and medium enterprises. However, due to resource inadequacy, the responsibility of providing a countrywide network of incubator/hives programme has been given to provincial, metropolitan, local governments, Small Business Development Corporation, non-governmental organisations and the private sector. Experiences in South

22 This case study draws on Lund and Skinner (2003) and Isandla Institute (1999).

Africa suggest that where hives and incubators are well located and managed they provide space and market access that would otherwise be unavailable to small enterprises. However, programmes of incubators/hives have been found to be costly. Aspersions have been cast as to whether the programme has enabled tenant firms to grow and mature into formal enterprises.

Given the increasing doubts about the success of incubator/hives programme in South Africa, there is a new strategy of adopting a multi-pronged approach that would involve: (i) development of a diverse support strategy involving all stakeholders (municipal councils, formal business sector, NGOs, communities, existing entrepreneurs); (ii) establishment of an appropriate incubators/hives project structure that has legal status to manage the Hive Fund; (iii) setting up an objective sites selection criteria and refurbishment plans; (iv) adopting a local ownership/development models; and (v) management and operationalisation based on commercial principles through cross-subsidisation, municipal support in terms of provision of land, and buildings.

4.1.2 Improved regulatory framework

Municipal by-laws are an important tool in enabling city officials to manage public space in South African cities. Following this, the Business Act 1993 has been amended to prevent traders obstructing traffic or pedestrians, prevent unsafe stacking of goods, and ensure that traders keep their sites clean. The same Act has helped in removing barriers to the operations of street traders. The Business Act has been devolved to provincial levels allowing different cities to have varying approaches.

Johannesburg declared the inner city a no-trading zone and has built markets to accommodate 10,000 traders previously trading in the inner city. Durban on the other hand has demarcated several trading sites within the inner city. By nature, municipal by-laws tend to be more criminal-oriented as opposed to administrative. They therefore tend to be overly punitive, harshly dealing with transgressions in the process destroying livelihoods. Durban is therefore reforming the city's legal framework governing street trading so that it becomes more administrative-oriented rather than criminal, whereby traders are seen as a public nuisance. Even though traders need to be aware of laws governing their operations in public space to enable them make informed business decisions and operate within a legal framework, the study found that most of the by-laws are in English or Afrikaans, which are not the first languages of the informal traders.

4.1.2 Management of public spaces

Interviews with the informal traders indicated that they prefer when local authorities manage public space because when the latter do not, the former end up paying much more in form of bribes to other "informal" authorities. Further, the traders were willing to pay for sites demarcation as well as permit charges as a way of ensuring security over their sites.

4.1.3 Fees for trading space

Informal traders working within the cities of South Africa are expected to pay monthly fees to local authorities for the space. Such charges for four major cities are given in Table 6. Such fees should be seen as a form of taxation, which should be accompanied by an improvement in infrastructure such as shelter, table, storage facilities and toilets. Unfortunately, payment of these fees is rarely accompanied by improvements in infrastructure.

The practice of charging flat rate levies for sites can be criticised for penalising the very poor while subsidising the well-off informal traders. Durban City has therefore introduced differentiated rentals for different levels of service provision.

Table 6: Monthly fees charged to street traders in four South African cities, compared with Nairobi, 2003

City	Fees (US $)	Services
Durban	5.5 4.5	Site with shelter Site without shelter
Cape Town	19.5	Flat rate for all traders
Johannesburg	10.1-93.5	Depending on level of service provided
Pretoria	10.1-45.5 7.8	Depending on area of site Every six months for mobile vendors selling perishables
Nairobi	7.8	Back street lane sites

Source: Lund and Skinner, 2003.

4.1.4 Acquisition of worksites

Registration and acquisition of site and trade licence in South Africa is a long and complex process that requires a trader to visit numerous different local government departments. A foodstuff trader, for instance, needs to go to a licensing department for a trade licence, Informal Trade and Small Business Branch for site permit and City Health Department for a certificate. The process involves filling a series of forms at different stages.

4.1.5 Informality and workspaces

The informality of informal enterprises precludes their access to governance institutions. This impacts negatively on their capacity to negotiate, bargain and lobby the state over decisions such as sites for new markets, participation in trade fairs, and development priorities. This is worsened by lack of conflict resolution mechanisms, leading to violence as a means to resolve conflicts. In Durban, informal traders are represented as stakeholders in Area Based Management (ABM) Committees. The city has also held a year-long consultative policy development process where the priority areas of informal traders associations were solicited alongside those of other actors.

4.1.6 Periodic markets

The traditional design of South African cities was not meant to accommodate informal enterprises. However, like the formal enterprises, the informal ones need secure space, transparent access to it and a known set of services like water, toilets, security, storage and garbage removal. Provision of such sites and services should also take cognisance of the fact that informal enterprises are unable to pay market rates for such services. The infrastructural needs of informal enterprises also vary with the place and sector. Therefore, in the City of Durban, periodic markets have been initiated to deal with the problem of poor spatial organisations of townships. The markets provide space for local entrepreneurs to sell their products at particular times or days of the week. In other areas of the city, about 350 -700 craft traders at the Durban Beach have been provided with trading space as well as spacious storage facilities at the site with the traders paying R5 and R10 per month.

4.1.7 Lighting programmes

Informal enterprises operating in public spaces are vulnerable to crime due to their visibility. Their goods are robbed and workers assaulted. Equally, informal enterprises working from deserted inner city buildings or from home are also vulnerable because of their invisibility. In some cities like Durban, street lighting programmes have been started in areas with many informal traders.

4.2 India[23]

4.2.1 Street vendors

The case study examined constraints to growth faced by street vendors[24] and garment-making enterprises in the city of Ahmedabad in India,

23 This case study draws on Chen et al (2003).

24 Street vendors are considered a sub-sector of MSEs.

where the study found that they were characterised by low earnings stemming from high costs of doing business. This is attributable to competition for public spaces, insecure places of work, costs of transport, indirect taxes in form of bribes, fines, confiscation and eviction from workplaces and cost of capital (Chen *et al*., 2003). A study by Unni and Rani (2000) cited by Chen *et al*. (2003) estimated that in the year 2000, the total cost of legal fines stood at US$175,000 while that of illegal bribes was estimated US$ 775,000. Self Employed Women's Association (SEWA), one of the largest trade unions of informal entrepreneurs and workers in India, has been fighting for the rights of street vendors to trade. The Association's lawyers represent street vendors in court cases.

Most vendors tend to concentrate in and around the main wholesale markets or in special hawker markets. The most popular areas for the street vendors also serve as the parking areas for bicycles, scooters and cars. It is this overcrowding and congestion that results in competition for public space**.** Increased urban congestion and the rising urban land prices was also found to have put a premium on the vendors' workspaces. Therefore, even the spaces they have been using over the years are no longer secure. The competition is made stiffer as vendors' associations compete against each other for space, for goods and for public recognition. As various interest groups compete for space, the vendors incur costs in term of being denied a workplace to vend, or having their goods confiscated, each of which translate into short-term loss of income and contributes to a longer-term sense of insecurity.

The implication of this competition is that street vendors have no secure workplace or spot from which they carry out their vending. Wholesale, retail traders, transport groups, traffic police and municipal authorities collude with each other to control whether and where vendors carry out their work. Most of these interest groups consider vendors a general public nuisance and even a criminal element. This is facilitated by the current municipal policies, regulations and legislation that are biased against the vendors. In response to this constraint, SEWA has worked with traffic police, local shop owners, consumers and municipalities to create some workspaces for vendors without interfering with traffic or customers of regular shops. The workspaces are managed by a market committee of street vendors, which also collects a daily fee.

Most vendors operate in the open air and have limited access to basic infrastructure—toilets, drinking water and storage facilities. Available storage facilities are only for renting. This results in the vendors storing their leftover goods at home where leaking roofs may result in spoilt goods and therefore investment losses. Vendors who travel long distances to buy or sell their goods incur disproportionately large bribes from local and state tax authorities on the roads as compared to those who transport in trucks, the reason being that vendors are treated as thieves or vagrants. This translates into *higher costs of transport* for the vendors.

The above situation results from the lack of clear official guidelines, policies, regulations and laws governing vendors' operations. Some of the existing laws are traceable to British colonial laws that restricted people from selling in public space unless they are expressly permitted by the relevant authority. This has tended to give public authorities a lot of discretion, an ambiguity (of the legal status) that has left vendors at the mercy of the police, other public authorities and local officials who compete for control of public spaces in the city. In 1999, SEWA organised a national conference of street vendors that led to the formation of a strong lobby group called National Alliance of Street Vendors in India (NASVI). The body, together with SEWA and the government, has embarked on the formulation of a National Policy on Street Vendors.

4.2.2 Garment-making enterprises

Home-based garment-making enterprises are faced with a number of constraints, including poor infrastructure; uncertain tenure of workplace, lack of infrastructure services, market fluctuations, lack of market knowledge and lack of access to new technology and skills. To try and overcome workspace costs and unavailability, most firms operate from their homes. Poor infrastructure constraints arise out of the fact that most of the time, the operators have to combine this enterprise with housework with resultant losses in quality of their products as well as time limitations. Further, their house-cum-workspace is usually small and cannot accommodate significant expansion in terms of new machines or more workers.

Most of the houses are constructed using non-permanent materials—making them vulnerable to pests and weather elements that damage their products and machines. SEWA has played an important role in highlighting that the house can also be a workplace. It therefore offers loans to its members to add a workplace within their houses or to upgrade their existing houses to become more permanent.

In Ahamedabad, most of the working poor live in slums where the land and the dwellings are often illegal. Therefore, even when the home-based garment enterprise owner uses his/her house as a workplace, he/she is still uncertain of the tenure because the municipal authorities can arbitrarily evict them without warning (leading to loss of house cum workspace, destruction of machines and raw materials and relocation costs). SEWA has been fighting evictions of slum dwellers and has also partnered with other stakeholders in slum infrastructure development programmes whereby it highlights the plight of home-based workers.

Even though electricity is key to productivity improvement, most enterprises within the slum areas cannot benefit due to the illegal status of their house/workplace. Supply of basic infrastructure like electricity, water and sanitation cannot be provided by the concerned authorities to illegal settlements. To overcome this problem, the entrepreneurs resort to risky and illegal connections. Women who are the main operators of such enterprises also have to spend more time looking for water, therefore, wasting a lot of their productive time. SEWA has been negotiating with the municipalities and the electricity company, and offering loans to house/workplace enterprise to obtain electrical meters.

4.3 Brazil[25]

This case study is based on an evaluation of two business incubators, Biominas Incubator and Parq Tech Incubator. The study provides some useful lessons on the use of incubators in the provision of workspaces. Biominas consists of custom-built incubators with an area of 2,850 square feet of which 1,080 is rentable. Parqtech consists of renovated premises occupying 1,417 square feet of which 550 square feet are rentable. The two incubators are located in a region with strong business infrastructure, a supportive community and government, and in total accommodate 20 resident enterprises and 63 affiliate enterprises, while 22 enterprises have graduated from the incubators. The main areas of concentration of the enterprises are in biotechnology, informatics and mechanical activities.

Parqtech and Biominas incubators have a very strong financial partnership support from SEBRAE (which is an SME support agency in Brazil). About 80 per cent of Parqtech financing and 62 per cent for Biominas comes from SABRAE. Other sources of revenue are from rental income and fees from tenants, which account for 14 per cent and 31 per cent for Parqtech and Biominas incomes, respectively. Both incubation providers' also get revenue through a cost recovery mechanism in the case of utilities.

Out of the total expenditure, 30 per cent and 48 per cent goes to management services of the incubators for Parqtech and Biominas, respectively, while the other major expenses include maintenance and cleaning services of the incubator buildings, payment of utilities and publications. In 1998, Biominas operated at a surplus of US$ 22,500, while Parqtech operated a deficit of US$ 17,700.

25 The case study is adapted from Lalkaka (2000).

Both incubators have increased employment and sales volumes for the enterprises. Parqtech has generated 237 jobs while Bionamis has generated 92 jobs. The incubators have also generated indirect employment with an estimated employment multiplier of 1.5. In return, the government benefitted from taxes estimated at 25 per cent of the salaried employment and 6 per cent on increased sales volumes. The return on public investment as taxes per year is estimated at US$ 6.34 per US$ 1 subsidy. It is also expected that the subsidy per job should decline as more enterprises graduate and more space becomes available. Important to note is that, while investment is made once, the jobs continue and it is therefore important to think in terms of job years in the stream of incubator benefits. Some of the other benefits of the incubators include excellent infrastructure, enhanced interactions between tenants, and the choice of good locations for start-up microenterprises.

This case study illustrates the potential of incubators in generation of employment as well as a source of tax revenue. It attempts to provide a justification for local authorities initial subsidies in the development of incubators.

4.4 United Kingdom[26]

In the United Kingdom, recent surveys have identified access to premises as a barrier to business development. According to the Small Business Service's SME survey for 2003, one in five SMEs identified the cost or availability of premises as an obstacle to their business success. This is so for small businesses at the start-up phase as well as for small businesses seeking to expand their operations. Factors such as high rents, long lease

26 The case study draws on Renewal (undated), Annabel (2002) and Martin (undated).

and stringent inflexible tenancy agreements have been identified as contributing to the declining demand for premises by SMEs.[27] On the supply side, investors are discouraged by expectations of poor returns on commercial property developments.

4.4.1 Government interventions

To remedy the above situation, the government has initiated a number of interventions that aim at correcting the property market failures and low investment levels in disadvantaged areas. Such interventions include stamp duty exemption, reducing planning delays through introduction of Business Planning Zones, package measures to help local authorities improve planning system and introduction of business premises renovation allowance. Further, regional and local authorities have adopted provision of premises as their priority in support of SMEs. These authorities are also *partnering* with economic development companies, local area enterprise and development trust in the provision of premises. Different models of providing such premise include managed workspaces, business incubators and live/work accommodation.

(i) *Managed workspaces* are industrial and/or commercial premises that cater for a variety of short-term starter small business firms. They are usually small units providing flexible letting and shared services. They differ from incubators in that they accept enterprises already in operation and the enterprise decides when it wants to leave. Studies have shown that most of the tenants of the managed workspaces were enterprises making a transition from their owners' houses or garages.

27 For instance some private landlords asking prospective SME tenants to produce five years audited accounts showing profits in excess of annual rents or a year's rent upfront.

These types of workspaces have a variety of sponsors including local authorities, enterprise agencies and community groups. However, a few of them are run for profit. A number of these managed workspaces are run by national private companies, but majority are run by small local private operators. There are also a few community-run facilities. Majority of the surveyed workspaces (87 %) are located in attractive historical buildings that have been converted into workplaces. But one problem with converted buildings is that they increase the operational cost of sub-division.

Managed workspaces provide a number of benefits for small enterprises, which include: (i) smaller workspaces in prominent or impressive buildings, streets that are not generally available in the market; (ii) easy in and out options as well as scope for expansion within the premises, sharing of casual staff allows flexibility, enabling the enterprise to cope with peaks and troughs; (iii) for sole traders and new enterprises, it reduces the feeling of isolation in addition to fostering subcontracting and mutual support; and, (iv) instalment payments help solve cash flow problems.

(ii) *Incubation:* In the United Kingdom, incubation provides serviced units for small enterprises, offer more intensive support for their tenants and operate a selective entrance and exit policy. Therefore, incubators select those fledgling businesses that are likely to benefit most from support and add value to the incubators and its stakeholders. The support provided is hands-on, including services like business planning, management and mentoring. The on-site incubator manager or team provides the services, otherwise the incubators will contract services from other providers. A mature business is encouraged to transit/graduate from the incubators. Most of the incubators tend to focus on innovative and technology-related businesses located in science parks, near universities or on industrial parks. Therefore, apart from providing premises,

incubators tend to provide much more support services. However, incubators constitute a costly expenditure.

(iii) *Live/work scheme:* These are specifically designed for dual use as residential and employment space. It is different from homework in that the building or units are designed with high proportion of business use. This model has become attractive to housing developers due to its affordability, resulting from the advantage of operating one rather than two properties and the convenience for people who prefer to work where they live. To the policy makers and planners, the model is attractive due to its contribution to urban regeneration, transport reduction, sustainable development and meeting the government urban renewal policy objective of mixed use development.

From the foregoing, it is evident that the different models of providing premises for MSE should incorporate issues of flexibility of the premises to allow entry and expansion of existing firms. The premises should be in a prominent location, provide ample parking and security. The terms of tenancy should also be designed to allow for easy entry and easy out policy. The management and promotion of the premises should be well thought out.

4.6 Lessons and best practices

From the above analyses, it is quite clear that different countries and cities have responded differently in trying to solve the problems of infrastructure and workspaces for MSEs. Due to the heterogeneity and diversity of the sector it may not be possible to replicate good practices wholesome. However, there are some key lessons to be learnt.

- *Recognition of the MSE sector as an economic system:* It is evident that sustainable good practices in assisting MSEs to obtain good infrastructure and reliable worksites should involve the recognition of the MSE or informal sector as part of the economic system and not as a welfare sector. Such recognition may entail location of MSE institutions within appropriate economic or enterprises development departments of the central and local governments.

- *MSE national workspaces policy formulation:* Informal sector players need to be involved in formulation of policies affecting the sector. Their representation should be channelled through local representative committees like area-based management committees in Durban or MSE associations like NASVI in India (see 4.1 and 4.2).
- *Regulatory framework:* The rules for operating in this sector as well as dispute resolution need to be harmonised and negotiated between different players. The laws governing the allocation of MSE workspace have tended to place too much power in the hands of local authorities. In Kenya, India and South Africa, laws are more criminal-oriented rather than administrative. In countries like South Africa, the laws have been reviewed and the legal powers placed on the local authorities limited to administrative roles. In Kenya, some laws in the Local Government Act (Cap 265 of 1963) should be reviewed with a view to making them more administrative rather than criminal-oriented.
- *MSE associations:* The MSEs sector itself needs to build strong, collective, representative and accountable sector associations to lobby for their interests. Effective and strong MSE associations like SEWA and NASVI of India have played a critical role in championing the rights of enterprises, providing loan schemes and lobbying the government to prioritise issues of MSE workspace in the national policies and programmes. Case studies reviewed, especially in India, indicate the necessity of organising micro and small enterprises into local and national membership-based organisations as a way of ensuring sustainability of targeted interventions in support of the enterprises.

- *Institutional set-up:* Local authorities can play a crucial role in improving the investment climate of MSEs and informal sector by creating institutional structures and spaces that facilitate expansion of this sector. There is need to develop simple and transparent licensing and registration mechanisms as means of encouraging more MSEs to formalise their operations. Lengthy and unclear procedures add to transaction costs as well as acting as a disincentive for enterprises whishing to formalise their operations.
- *Development of workspaces:* Local municipal councils have an important role to play in constructing markets where MSEs can carry out their activities. In South Africa, local councils are investing heavily in developing and upgrading markets. In Colombo, the councils have improved their financial base through user charges from developing and renting markets to MSEs operators.
- *Management of workspaces:* Informal enterprises pay more for public spaces when they are in the hands of informal groups. They prefer when local authorities manage public spaces. Alternatively, workspaces should be developed and managed by private developers and the MSEs pay user fees on commercial bases. The importance of this management style is that it provides some level of security of tenure for the workspaces.
- *Infrastructural needs*: Infrastructure needs amongst MSEs vary according to place and sector. Small manufacturing firms would prefer small workplace units where they are close to others doing similar activities. House/live enterprises prefer to secure worksites away from the house, while street vendors require shelter, access to water, storage and toilet facilities.
- *Periodic markets:* By making multiple use of spaces like streets and open spaces, local councils can create additional workspaces for the informal sector. Certain streets are closed from traffic to allow traders to carry out their businesses on specific times or days.

- *Live/work schemes:* This innovative approach, where ones dwelling place also doubles up as the workplace, is increasingly becoming important in providing workspaces for MSEs.
- *Subsidising business incubators:* Traditional incubators providing physical workspaces require initial government support or subsidy. This arises out of the fact that private sector providers may not yet be developed in many developing countries.

5. REQUISITES FOR A WORKSPACES MODEL FOR KENYA

Theories on the development of the informal sector and urban planning have contextually highlighted the policy-induced as well as the legal exclusion of the MSE sector. This suggests that a workspace model should ensure the visibility, recognition and inclusiveness of the sector into the country's economic and legal systems. Such a model should espouse the principles of *decentralisation, transparency* and *flexibility* as well as representative and participatory planning structures that would enhance the leverage of local authorities to determine their own by-laws for provision of workspaces within the general legal system. Such flexibility is necessary to allow the design of rules and regulations that suit local market circumstances and needs. The emphasis of the legal system should be administrative and should champion fair systems of conflict resolution and handling appeals.

Centralised institutions like the Kenya Industrial Estate (KIE) have in the past provided workspace for MSEs through the incubators. However, highly centralised institutions have floundered in providing MSE workspace due to considerable limited local presence (Levitsky, 1996). Case studies, indicate that local authorities in countries like South Africa and United Kingdom have been proactive in the provision of workspaces for MSEs. Therefore, a *locally decentralised* MSE workspaces model that gives local institutions more autonomy is envisaged.

From our analysis, it is evident that MSE workspaces in Kenya have been provided by several players, including the central government (provincial administration, Ministry of Research, Technical Training and Technology), the local authorities and private players. These institutions play this role in the absence of any clear institutional framework. There is very little evidence of cooperation in their support to MSE workspaces provision. Rather, what is evident are overlaps and conflicts over roles.

There is need for a *coherent and formal institutional framework* that clearly spells out the roles of institutions in the provision of MSE workspaces to avoid such conflicts and wastage.

The early incubation models advanced by central government-funded institutions like KIE have been criticised for their supply-side based approach to the provision of MSE workspaces (Levitsky, 1996). They have not been able to justify the huge capital expenditures on buildings and other fixtures. A new model should therefore adopt a *demand-based approach* to the supply of workspaces. It is necessary to inculcate the culture of undertaking needs analyses of MSE workspaces. A public-private sector approach would ensure increased cost effectiveness of provision and management of the workspaces. The private sector would partner with individual councils to build and operate workplaces while MSEs pay user charges at subsidised rates.

5.1 Current workspace model

Currently, policies of workspaces emanate from the Ministry of Labour and Human Resources Development (Department of Micro and Small Enterprises Development) as shown in Figure 3 (Box A) below. Linkages to the main providers of workspaces like the local authorities (Arrow 1),[28] provincial administration, KIE, charitable organisations are weak, conflicting or non-existence. Therefore, most providers operate without a comprehensive general MSE workspace policy framework. The local authorities (Box C) are major providers of workspaces, infrastructural services and land for MSEs (Arrow 4). However, as noted in this paper, the role of the councils in catering for MSEs workspaces has not been effective in terms of quality and quantity.

Another provider of MSE workspaces has been the central government through the *Jua kali* sheds programme (Arrow 2 and Box F). This programme is currently under the Department of Micro and Small

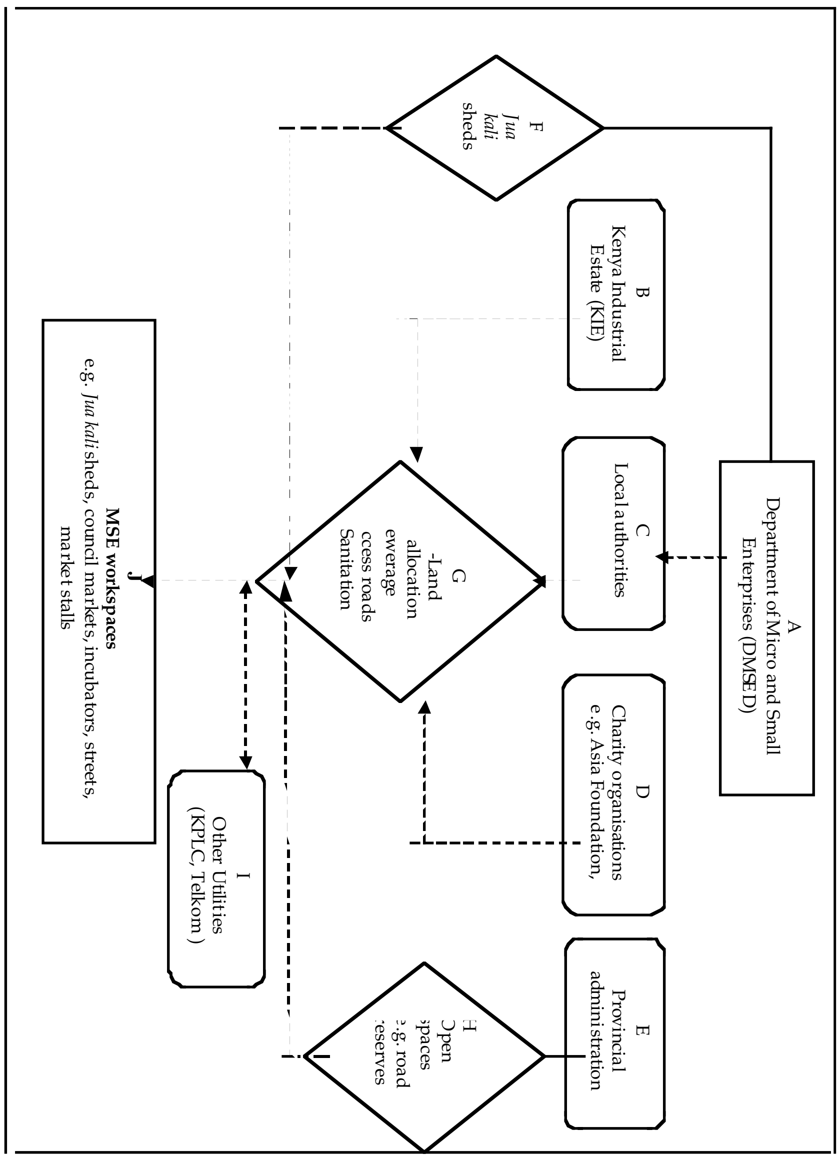
28 A dotted arrow line indicates a weak linkage.

Enterprises. The provincial administration (Box E) also plays a central role in allocating land and open spaces. This role is usually in conflict with the local authority functions and is devoid of any sound legal backing. The access to local authorities services such as land or open space is very weak (Arrow 6).

The Kenya Industrial Estate and charitable organisations like the Asian Foundation in Nairobi (Boxes B and D), have also played an important role of providing workspaces for MSEs. KIE uses the incubation model, though this approach was weakened when the initial incubators were sold off to private individuals. The dotted linkage lines of Arrows 3 and 5 indicate weak linkages in these institutions accessing services or inputs from the local councils. The linkage between the workspace providers with other utility providers like power, telecommunications, etc (Box I) is also weak (arrow 7) arising out of the high unit connection costs and the informal nature of the sector. Therefore, provision of workspaces (Box J) remains unsatisfactory in terms of quantity and quality.

In summary, some of the limitations of the current model include: first, the lack of an effective policy framework for MSEs. Some of the important institutions in provision of workspaces, like KIE, local authorities and charitable institutions, are not linked to DMSED, which is in charge of policy. Second, MSEs find it difficult to access workspace infrastructure like land, water, sanitation, and roads, which are under the jurisdiction of the local authorities. Even when they are accessible, the property rights and obligations are poorly defined, leading to a persistent problem of security of tenure for MSE workspaces. Third, whereas the local authorities are better placed to provide workspace, the central government continues to play a major role through the DSMED and provincial administration. Fourth, the current approach has failed to evolve a proper workspaces management system that would ensure quality services and maintenance procedures. Last, the model has little room for development of markets for workspace provision.

Figure 3: Current model of MSE workspace provision[29]



29 This is a highly summarised model that may not capture all the aspects of the current MSE workspace framework.

5.2 Proposed general workspace model

The current framework of delivering MSE workspaces is poorly conceived, overly centralised, exhibits institutional conflicts, adopts a supply-led approach and lacks a concrete framework of coordination. In figure 4 below, we propose a new model of MSE workspace provision. The analysis of informal sector theories in Section 2.2 and the workspace related policies Section 3.1.1 indicates general neglect and poor coordination of MSE workspace policies. Therefore, in the proposed model, the proposed NSCE and DMSED (Box A) will be responsible for overall coordination of workspace policy formulation, monitoring and evaluation of workspaces provision. The formulation of policies will involve a consultative process where key stakeholders, especially the MSEs through MSE associations (Box B2 and Arrow 1b) and local authorities (Box B1 arrow 1a) will participate. It is also important that other utilities providers (Box 2c arrow 1c) be involved. This national policy framework will guide the local authorities in enhancing their efforts in MSE workspace development.

Our review on theories (see section 2.2 and 2.3) indicates that a simplified, decentralised and deregulated approach would be important in ensuring MSEs are mainstreamed into the formal economy. Further, the analysis of country case studies points to a general worldwide trend of promoting MSEs through local authority (see Sections 4.1 and 4.4). Therefore, our proposed framework adopts a decentralised system of workspace delivery where local authorities will be key players. In this regard, the local authorities (Box B1) will provide land for workspaces development as well as ensuring adequate provision of workspaces related infrastructure and services like water, access roads, sanitation and sewerage, and street lighting at subsidised rates. Well-defined property rights and obligations are key to the delivery of MSE workspaces as they improve security of tenure of MSE premises (see sections 2.1.1, 3.2.6

and 3.2.7). Therefore, as shown in Arrows 2a, 2b, 2c, the local authorities and the main providers of workspaces should evolve a well-defined rights and obligations system that is guided by local authorities laws and by-laws. Such rights should involve, among other things, issuance of title deeds to workspace providers for specified periods. Arrow 2d indicates a strengthened linkage between other utilities providers and the providers of MSE workspaces. This could be through representation of these utility providers in the proposed NCSE.

The new model proposes three main approaches to development and management of workspaces. The first one is the incubation approach (Box C1) whereby business incubators are provided for defined period of time, e.g. five years, after which the MSE should be able to graduate out of the incubator. Evidence from South Africa, Brazil and United Kingdom (Sections 4.1, 4.3 and 4.4) shows that business incubation is an important avenue through which workspaces are provided. In Kenya, institutions providing incubation include KIE and EPZA. This is an important approach especially for manufacturing MSEs.

A second proposed approach is through public/private partnerships (Box C2) where local councils partner with private developers to develop and manage MSE workspaces. The approach is quite common in the United Kingdom and South Africa as local authorities try to overcome their limited financial and human capacities. However, local authorities still have a direct role of providing workspaces through such methods like offering periodic markets by, for instance, closing certain streets for vendors trading.

The third approach is where local communities, charitable organisations, NGOs, etc (Box C3) work with local authorities to develop and manage workspaces for MSEs as is happening with the Asian Foundation in Parklands area of Nairobi. The practice of workspaces provision and management by non-governmental organisations and local communities is also evident in India (see 4.2.1) and in South Africa (see 4.1).

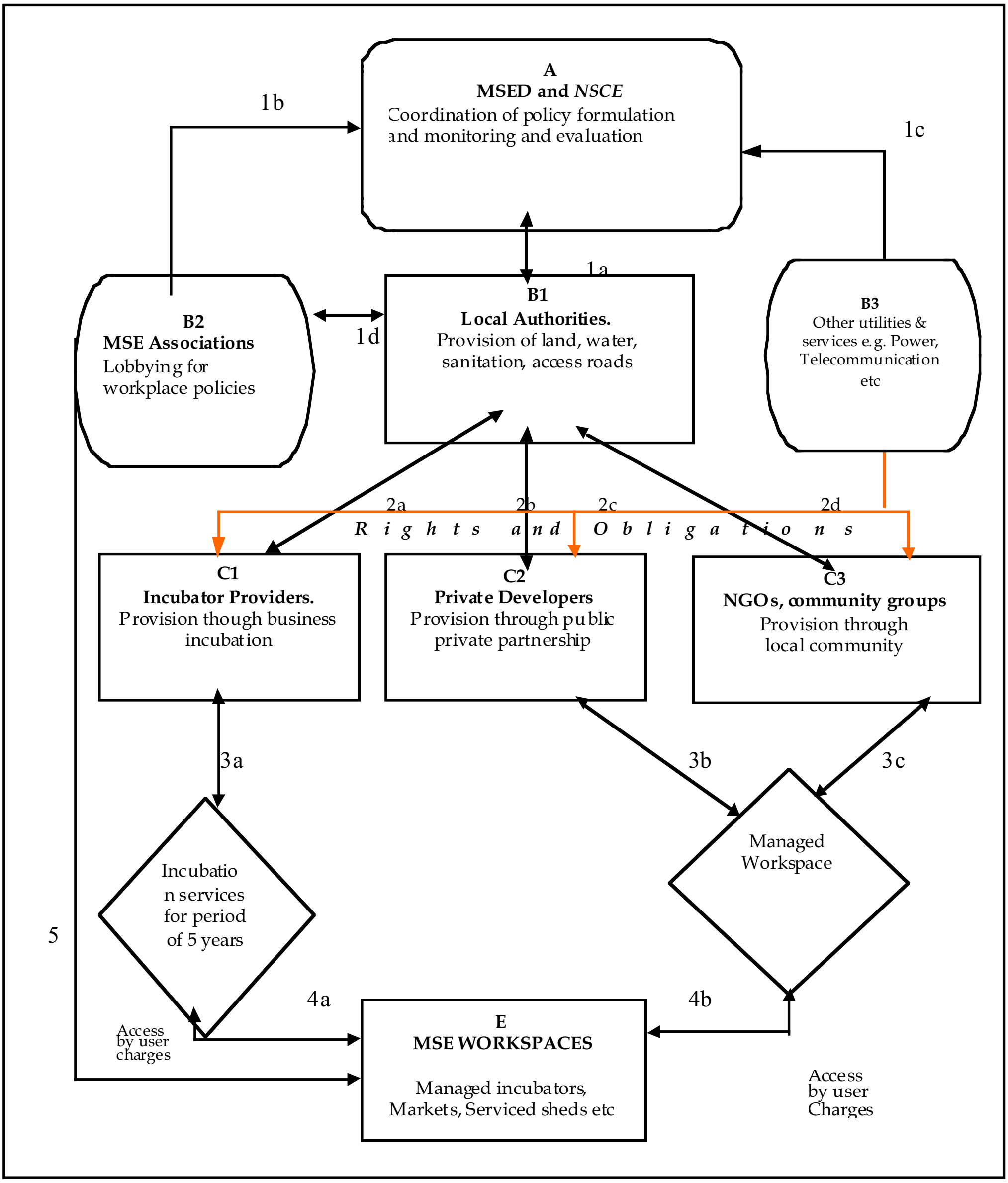
In all the three approaches, it important that local authorities cross-subsidise the provision of the workspaces. In return, the annual taxes and other benefits from local economic development like local employment should offset the initial subsidy by the local councils (Lalkaka, 2000).

Empirical evidence on workspaces provision in Kenya (see section 3.2) is characterised by poor allocation and management practices, while case studies reviewed for UK and Brazil show that there are benefits accruing from managed workspaces. The proposed model therefore proposes improved incubation and management services flows and linkages as depicted with arrows 3a, 3b, 3c. Once workspaces are developed, MSEs will access the workspaces by paying user charges as indicated by arrows 4a and 4b. In return, the MSEs will be assured of quality management services, and enhanced security of tenure for their premises. With the development of market for provision of workspaces, and the involvement of private and community and NGOs, more resources will become available for development of more MSE workspaces. Finally, strong, representative and accountable MSE associations have a key role to play in the proposed model. As is the case in countries like India (see section 4.2) the associations will be expected to lobby for MSE workspaces policies, laws and regulations at the NSCE and MSED level as well as in the implementation at the local authority level.

5.2.1 Manufacturing-oriented MSEs' workspaces

Under the proposed business incubation approach, local authorities will endeavour to attract incubator providers like EPZA, KIE and other private providers through the provision of land at subsidised rates. The incubator providers will then build and manage different types of incubators. Some will simply provide physical space and basic infrastructure like serviced workshops or serviced sheds as shown in Figure 5 . On the more advanced scale, the providers will avail factory premises in terms of incubators where

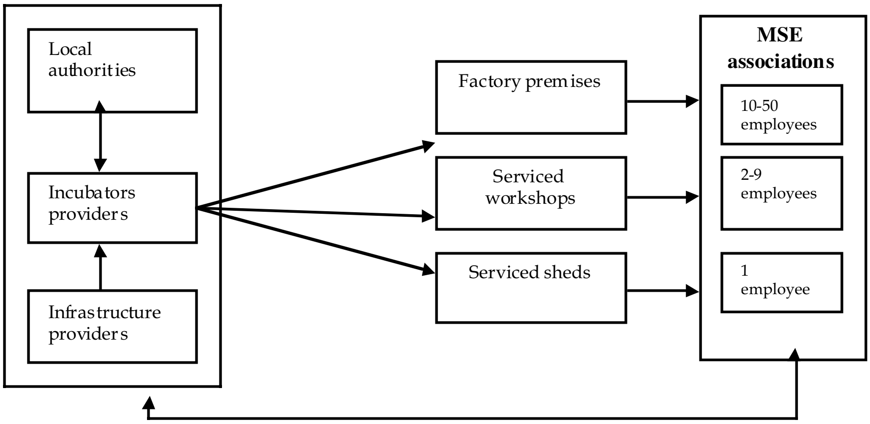
Figure 4: Proposed model of MSE workspace provision and management[30]



enterprises with the highest potential for growth are carefully selected and incubated for a period of five years. Because of the huge financial outlays involved in developing factory premises, it is important that the

30 This is a highly summarised model that may not capture all the aspects of the proposed workspace framework.

Figure 5: Manufacturing-oriented MSEs' workspace model



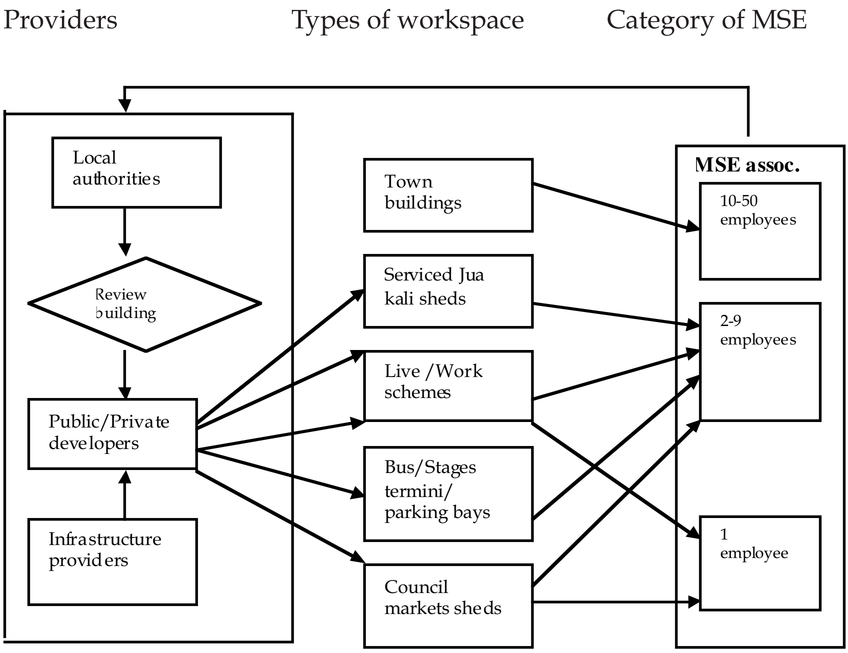
development of the premises be subsidised by the local authorities and the central government through KIE and EPZA.

The role of MSE associations would be to lobby and negotiate with the local authorities and the incubator providers in matters like identification of appropriate incubator location sites. Further, they should negotiate for concessionary rates on land and other infrastructure and ensure such benefits are transferred to the MSEs in terms of subsidised user charges.

5.2.2 *Services-oriented MSEs' workspaces*

Increased provision of workspaces for services-oriented MSEs may require local authorities to review their building standards and licensing regulations to accommodate new approaches to providing workspaces (Figure 6). Regulations and building codes should be reviewed to accommodate approaches such as live/work schemes, which could be applicable for small service-based MSEs. This form of workspace provision should be formalised. It is already being provided in terms of house extensions/shops that serve as workspaces. The regulations could also require that developers of new residential estates commit a certain proportion of their estate to accommodate services-oriented MSEs like

Figure 6: Services-oriented MSEs workspace model



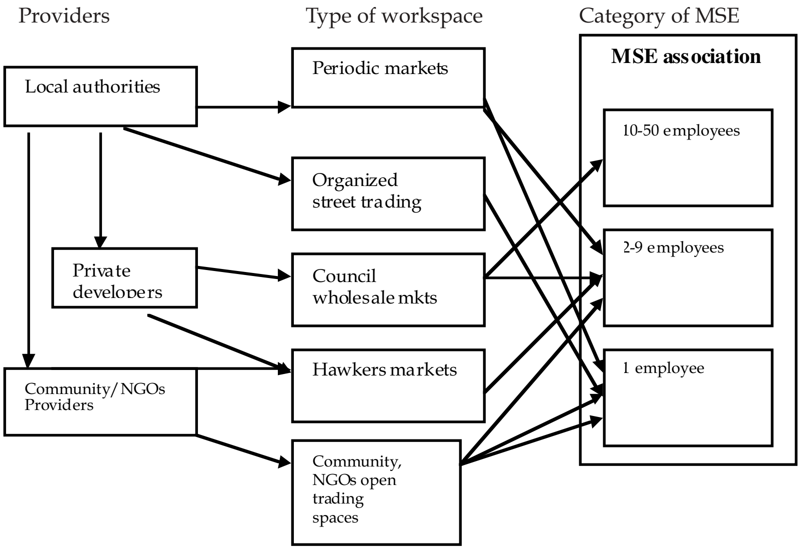
those involved in repairs, maintenance, ICT-based services (like telephone, internet services, etc). One advantage of the live/work scheme is that they remove congestion and competition from town centre spaces.

Local authorities should also provide land at concessionary rates for town property developers who provide workspaces that are suitable for urban-based service-oriented MSEs; for instance, a proportion of the ground floor facing the main streets could be preserved for rental by MSEs like shoe shiners, barbers, hair salons, etc. Private developers should also be enticed to develop serviced *jua kali* sheds for clustered MSEs offering services like motor vehicle repairs, car wash, etc.

5.2.3 Workspace model for trading MSEs

As indicated in Figure 7, private developers, local communities and local authorities should partner to provide managed workspaces for the trading MSEs. The local authorities could zone the towns and allocate

Figure 7: Trading MSEs workspace model



registered traders or vendors in certain designated premises or town streets that are provided with basic facilities like shelter, storage facilities, toilets, lighting, drainage, etc. The local authorities should formalise the concept of periodic markets (e.g. similar to the one at Globe Cinema Maasai market) and confer formal rights to the traders over the premises. The local authorities, through public-private partnerships, should also engage private developers in developing and managing hawkers' markets in designated sites. Local communities, NGOs and charitable organisations with capacities to develop vendors' premises should be facilitated by local authorities through allocation of suitable land served with basic infrastructure.

In all the three approaches, it is expected that the significant property rights to workspaces will be availed to the providers of workspaces. The developers will in turn honour their obligations to the local authorities. The providers should provide efficient management services for all the workspaces. In turn, the MSEs would pay user charges that are commensurate with the type of workspaces and management services that they receive.

6. CONCLUSION

The general approach to the provision of MSE workspaces in Kenya has not been effective. The main thrust of this paper was to develop a theoretical model that would improve the provision of workspaces for MSEs in the country. After developing an understanding of workspace provision via reviews of theory, policies, regulations and the empirical evidence, the study has tried to frame the current model of workspace provision. In addition, best practices of various country case studies have provided some useful lessons and insights that have been built into the proposed model.

Distinguishing characteristics of the proposed model include the need for: decentralisation of workspaces provision, public-private partnership approach, deepening markets for MSE workspace provision and a differentiated approach to provision for trading, manufacturing and services-oriented MSEs. The study also acknowledges the fact that the proposed changes would require a new legal and regulatory framework; and capacity building within local authorities, MSE associations, providers of workspaces and the MSEs themselves. All of these changes are bound to be costly undertakings in terms of time and resources. Therefore, the proposed model is built on important assumptions like the operationalisation of the NCSE, review of local authorities regulations and laws and existence of a potential market for MSE workspaces. It is possible that these and other assumptions may not hold, in which case sub-optimal solutions may have to be thought out. However, the fulfilment of these key assumptions will yield an optimal solution to the MSE workspace problem in Kenya.

Finally, it is hoped that the proposed model would not only initiate policy debate on appropriate workspace models, but it would also inform practitioners, researchers and policy analysts. While the study may not solve any literary disputes arising, one of the key inputs of the study will be to provide the basis for developing survey instruments that would be used to field test the theoretical models. Survey results will enable the refinement of the theoretical model, share the new version with stakeholders and, thereafter, evolve a more realistic empirical model that will be marketed to MSE associations as a strategy of enhancing their negotiation, lobbying and bargaining capacity. This capacity is key in ensuring the implementation of MSE workspace policies as presented in government policy documents.

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ANNEX TABLES

Annex Table 1: KIE irregularly allocated land

	No.	Reserved use	Area (Ha)
Nairobi	**15**	**Industrial**	**7.0127**
Machakos	3	Industrial	0.0671
Tala	47	Industrial	0.8092
Sultan Hamud	31	Industrial	2.1528
Kitui	28	Industrial	1.8111
Embu	24	Industrial	2.5018
Nyeri	30	Industrial	1.4395
Karatina	5	Industrial	0.13541
Mombasa	**26**	**Industrial**	**2.9197**
Malindi	73	Industrial	4.8
Nakuru	**17**	**Industrial**	**2.13917**
Karbarnet	34	Industrial	1.658
Eldoret	31	Industrial	2.4592
Kericho	36	Industrial	2.1884
Kitale	25	Industrial	1.6618
Kisumu	2	Industrial	0.1979
Siaya	16	Industrial	1.2387
Homabay	9	Industrial	0.23478
Kisii	13	Industrial	0.4822
Kakamega	38	Industrial	2.7479
Bungoma	5	Industrial	0.56
			39.21736
Kikima	14	Industrial	NA
Kibwezi	8	Industrial	NA
Muranga	2	Industrial	NA
Voi	16	Industrial	NA
Taveta	21	Industrial	NA
Narok	16	Industrial	NA
	585		**Over 39.21736**

Source: Government of Kenya (2004)

Annex Table 2: Land originally reserved for markets and converted to other uses in Nairobi

Plot	Planned use	Current use	Area (ha)
1. Kariobangi South	Market	12062Pt	0.027
2. Kariobangi South	Market	12062Pt	0.027
3. Kariobangi South	Market	12062Pt	0.027
4. Kariobangi South	Market	12062Pt	0.027
5. Kariobangi South	Market	12062Pt	0.027
6. Kariobangi South	Market	12062Pt	0.027
7. Block 75/1055	Market	Bar	NA
8. Outering Road estate	Shopping centre	Private Developer	NA
9. Outering Road estate	Shopping centre	Private Developer	NA
10. Outering Road estate	Shopping centre	Private Developer	NA
11. Outering Road estate	Shopping centre	Private Developer	NA
12. Outering Road estate	Shopping centre	Private Developer	NA
13. Outering Road estate	Shopping centre	Private Developer	NA
14. LR 209/8407	Retail market		NA
15. LR36/VII/48	Eastleigh market		1.29
16. Mukuru Kwa Njenga	Open Air market	Business/Residential	1.5
17. 72/2271	Market Space	Business/Residential	0.33
18. 72/2932	Market/Parking	Business/Residential	NA
19. 72/2933	Market/Parking	Business/Residential	NA
20. 72/2934	Market/Parking	Business/Residential	NA
21. 72/2937	Market/Parking	Business/Residential	NA
22. 72/2938	Market/Parking	Business/Residential	NA
23. 209/13539/95	*Jua Kali*	*Jua kali*	0.2232
24. Kariobangi South	Market	12062pt	0.027
25. 209/8899	Market		NA
26. 75/1055	Market	Bar	NA
27. 72/2934	Market		NA
Total			**3.5322**

Source: Government of Kenya (2004)

Annex Table 3: Land originally reserved for markets and converted to other uses in other towns

	Town/Plot Reference	Planned use	Current use	Acreage (Ha)
	Meru			0.218
1.	T578	Market	Business/Residential	NA
	Nakuru			0.046
1	BLK10/197	Market	Commercial	NA
	Eldoret			2.2
1	Block 15/1743	Industrial	Residential	2.1
2	Block15/1746	Industrial	Residential	1.2
3	Block 15/1748	Industrial	Residential	2.25
4	Block15/1750	Industrial	Residential	2.469
5	Block 15/1763	Industrial	Residential	4
6	Block15/1809	Industrial	Residential	2
7	Block 15/1819	Industrial	Residential	1
8	Block15/1855	Industrial	Residential	1
9	Block 15/1856	Industrial	Residential	0.928
10	Block15/2050	Industrial	Residential	NA
11	Block 15/2089	Industrial	Residential	NA
	Nyeri			NA
1	Block 111/232	Market	Hotel parking	NA
	Mombasa			NA
1	Block XXVI/849	Market	Business/Residential	0.2203
2	Block XXVI/679	Market	Business/Residential	NA
3	Block XVI/1303	KIE	Residential	NA
4	Block XI/ 969	Open Air Market	Offices	0.1378
				NA
	Kisii			NA
1	3/258	Market parking	Business/Residential	NA
2	3/259	Market parking	Business/Residential	NA
3	3/260	Market parking	Business/Residential	NA
4	3/333	Market parking	Business/Residential	NA
	Kapsabet			NA
1	LR1181/35	Market	Workshop	0.1979
				19.967

Source: Government of Kenya (2004)