SMALL, MEDIUM AND MICRO ENTERPRISES' GROWTH UNDER THE DEVOLVED SYSTEM OF GOVERNMENT IN KENYA

Evelyn Chemutai Tiren

A thesis submitted to the Faculty of Commerce, Law & Management at the University of the Witwatersrand, in fulfilment of the requirements for the degree of Doctor of Philosophy

Supervisor
Dr. Renee Horne
February 2022

Approved: DR RKC HORNE

RKC HORNE; **23/02/2022**

DECLARATION

I **Evelyn Chemutai Tiren**, do hereby declare that this thesis is my own work and that all the data sources that have been used or quoted have been indicated and acknowledged by means of complete references. This thesis has not been previously submitted before for any degree or examination at this or any other university.

Signature:

Date: **10th February 2022**

DEDICATION

I dedicate this thesis to my number one mentors, my late Father – Thomas Kipkorir Tiren and Mum – Jane Mary Ngeringwony Tiren. I made it this far and I am who I am because of you.

ACKNOWLEDGEMENTS

First, I want to thank God for granting me the necessary graces to walk through this journey.

Second, the completion of this thesis would not have been possible without the support of different people. I therefore take this opportunity to acknowledge and extend my gratitude to individuals who assisted me throughout the research process.

Many thanks to my supervisor, Dr. Renee Horne for her support and guidance throughout the PhD journey. Thank you for honing my research skills.

I wish to thank the PhD Program Manager, Mmabatho Leeuw for her resourcefulness and great assistance with regards to the administrative aspects. You are one person who can always be counted on regardless of the day or time one engages you with a problem.

I am grateful to the Bradlow Foundation and the Wits Business School for granting me a scholarship within the second year of my studies. The financial aid was a great boost that enabled me to work through the research process without getting frustrated about money matters.

I also wish to thank my PhD colleagues who constantly encouraged me to continue working on this project even when I would lose hope. I also appreciate their contributions in giving me feedback and guiding me throughout the research process.

Finally, I would like to extend my heartfelt gratitude to my mum and siblings. You are my number one fans and the greatest cheer leading squad. I am grateful for your prayers and words of encouragement throughout this journey. I could not have done it without you.

ABSTRACT

A key argument supporting devolution reforms is that it can facilitate local economic development and therefore enhance SMME growth and productivity. However, empirical evidence linking devolution and SMME development outcomes particularly in developing countries are scarce. This study therefore explores how the devolved system of government outputs affect the business environment and the growth of SMMEs in Kenya through the lens of the soufflé theory of decentralization.

A qualitative methodology was employed using a multiple case study design with six SMMEs from the wholesale and retail sector in Kenya. Data was collected through semi-structured interviews, documentary evidence and observation. Twenty six interviews were conducted with SMME owners, representatives of Business Member Organizations and subnational and national government officials. Data analysis was carried out using Atlas.ti version 8 software.

This study deduced that the devolved system of government in Kenya failed to provide a conducive business environment thus limiting the growth of SMMEs in subnational regions. Unfavourable business regulations were identified as the key challenge affecting SMMEs in subnational regions, hence increasing the cost of doing business and limiting access to markets and resources. Further, contextual barriers such as corruption, limited administrative and fiscal capacity, poor political leadership, poor intergovernmental relations and public participation inefficiencies limited the subnational governments' capacity to support and promote SMME growth.

Therefore, the study made an empirical contribution by exploring how the political, administrative and fiscal dimensions of devolution affected the growth of SMMEs in a developing country context. Extant literature focussed mostly on the effects of the fiscal dimension on SMME growth outcomes in developed countries. Few studies employed a multiple case study method which provided an in-depth understanding of contextual issues that affected subnational governments in their quest to grow SMMEs in Kenya. The study also contributed to decentralization literature by proposing a theoretical framework linking the dimensions of devolution to SMME growth, hence extending the soufflé theory of decentralization. Previous decentralization studies primarily applied the theory in relation to rural development and service delivery outcomes.

Key Words: Soufflé theory of decentralization, SMME growth, Devolved system of government

CONTENTS

List of Abbreviations

ADP	Annual Development Plan
AfDB	African Development Bank
BMO	Business Member Organization
CAQDAS	Computer Assisted Qualitative Data Analysis Software
CBROP	County Budget Review and Outlook Paper
CBS	Central Bureau of Statistics
CDF	Constituency Development Fund
CFSP	County Fiscal Strategy Papers
CGA	County Government Act
CIDP	County Integrated Development Plan
COG	Council of Governors
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus Disease
CRA	Commission on Revenue Allocation
EAC	East African Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOK	Government of Kenya
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IGAD	Inter-governmental Authority on Development
ILO	International Labour Organization
KADU	Kenya African Democratic Union
KAM	Kenya Association of Manufacturers
KANU	Kenya African National Union
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
KNCCI	Kenya National Chamber of Commerce and Industry
KRA	Kenya Revenue Authority
KSG	Kenya School of Government
KSh	Kenya Shilling
LA	Local Authority
LATF	Local Authority Transfer Fund
MPF	Market Preserving Federalism
MSE	Micro and Small Enterprise
MSEA	Micro and Small Enterprise Authority
MTP	Medium Term Plan

NACOSTI	National Commission for Science, Technology and Innovation.
NaMSIP	Nairobi Metropolitan Services Improvement Project
NSE	Nairobi Stock Exchange
OCOB	Office of the Controller of Budget
OECD	Organization for Economic Co-operation and Development
PFMA	Public Finance Management Act
PPP	Private Public Partnerships
PSB	Public Service Board
PSD	Private Sector Development Strategy
PSD	Private Sector Development Strategy
SACCOs	Savings and Credit Cooperative Organizations
SBP	Single Business Permit
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprises
SSA	Sub Saharan Africa
UACA	Urban Areas and Cities Act
UBP	Unified Business Permit
USD	United States Dollar
WTO	World Trade Organization

List of Tables

List of Figures

CHAPTER 1

1. Introduction

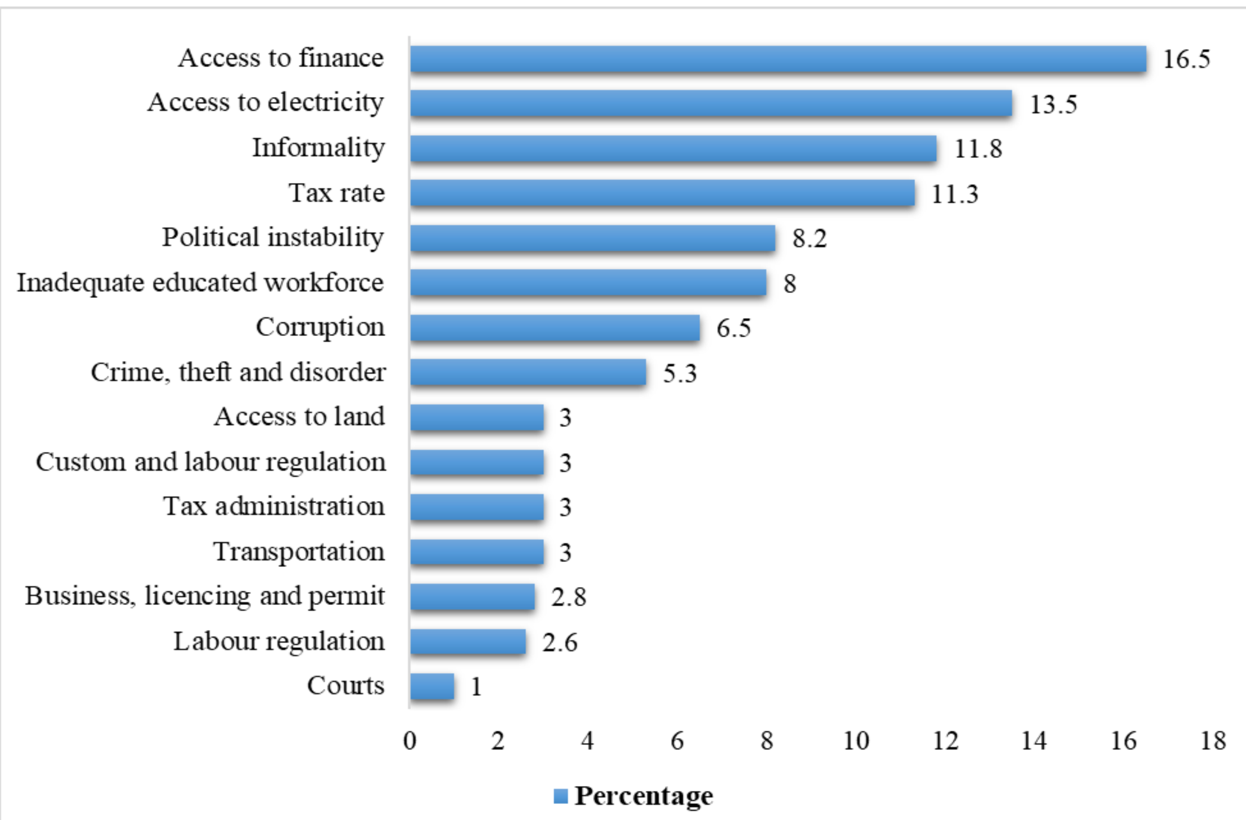
1.1. Background of the Study

The small, medium and micro enterprise (SMME) sector has long been perceived as a driver of economic growth in both developed and developing nations (OECD, 2017; Independent Evaluation Group, 2014; Liedholm, 2002; Mead & Liedholm, 1998). SMMEs are considered sources of employment opportunities, competition, innovation thus increasing levels of productivity and income in countries (Independent Evaluation Group, 2014; Ayyagari et al., 2011). Recent global surveys taken in Organization for Economic Co-operation and Development (OECD) member states indicate that SMMEs account for 99.7% of all enterprises and contribute to 60% of total employment and, approximately 50 – 60% of national value added (OECD, 2017). The contribution of SMMEs to the Gross Domestic Product (GDP) varies from country to country depending on the economic status of nations. Statistics indicate that the contribution could be as low as 16% in low income countries and as high as 51% in high income countries (The Edinburgh Group, 2013).

Despite the contributions SMMEs made towards the global economy, various studies posit that the sector faced many challenges within the business environment. The growth of SMMEs is largely constrained by factors such as lack of finances, rigid labour laws, high transport costs, lack of access to business information, markets, electricity, appropriate technologies and weak institutional capacities (ILO, 2015; Abor & Quartey, 2010; Tambunan, 2008; Ayyagari et al., 2007). A detailed analysis of a survey of 45000 enterprises situated in 106 developing countries reveals that most firms identified lack of finance, electricity and competition from the informal sector as the top three obstacles (see Figure 1.1) (IFC, 2013). The study also shows that the major growth constraints differ according to regions. In Sub-Saharan Africa (SSA), lack of access to electricity is the biggest obstacle, followed by lack of finance and business informality. In East Asia and the Pacific enterprises cited lack of finance as their top constraint while Europe and Central Asia deemed tax rates as their biggest impediment. Further, grouping the constraints thematically, the legal and regulatory framework (which includes tax administration, informality, labour regulations, tax rates, customs and trade regulation, access to land, courts, corruption business licencing and permits) emerged as the biggest concern for businesses. This is followed by infrastructure which includes access to electricity and transportation and access to finance is ranked the third impediment (see Figure 1.2).

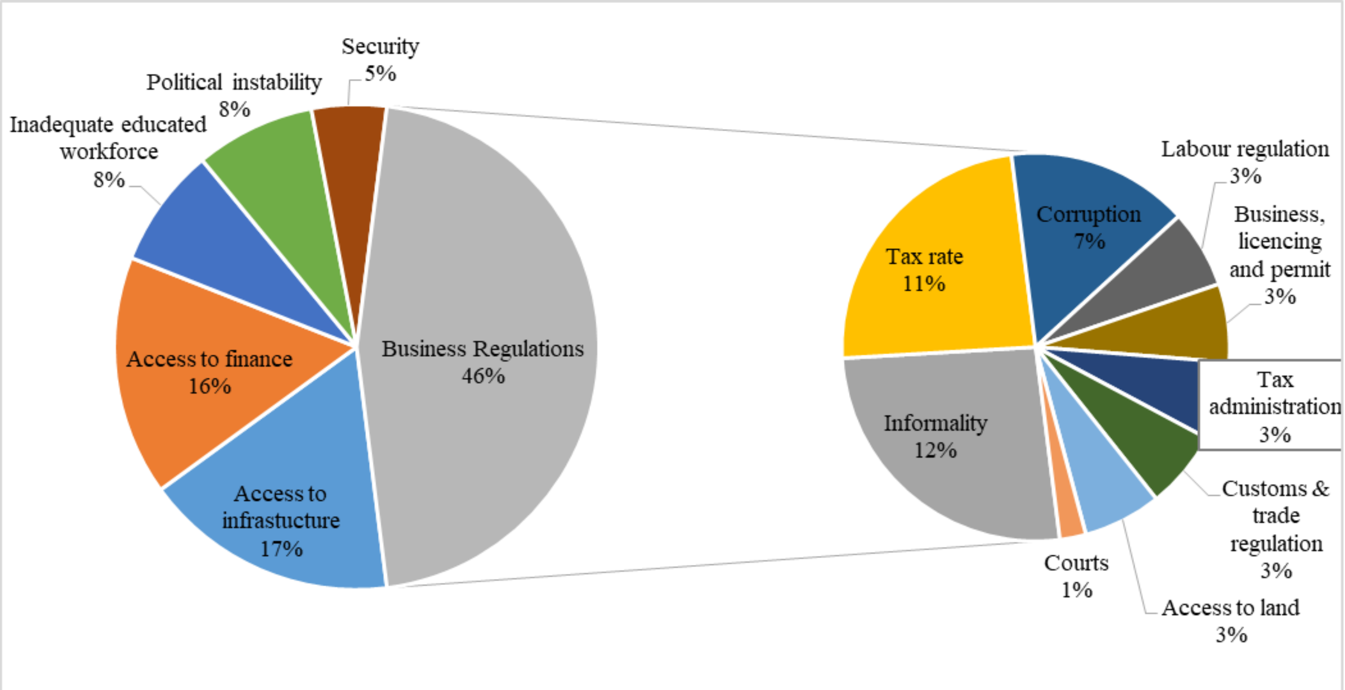
Similar surveys carried out by ILO (2015) in 30 countries affirm that business regulations, access to finance, infrastructure and skills and entrepreneurial training are amongst the top challenges faced by SMEs. Drawing on a World Bank Enterprise survey data from 119 developing countries, Wang (2016) identified the top five SMME growth constraints as access to finance, electricity, competition, tax rates and political factors. Case studies from Africa depict slight differences in the factors that predominantly affect business development. In South Africa, crime, access to electricity and transportation are listed as the top constraints (Mthimkhulu & Aziakpono, 2015), while in Nigeria, access to finance, managerial problems, corruption and poor infrastructure are the four most important impediments (Okpara, 2011). The variations in top constraints suggest distinctiveness of countries, presumably due to variations in political and socio-economical profiles.

Figure 1.1: Major SMME constraints across countries



Source: IFC (2013)

Figure 1.2: Thematic grouping of constraints



Source: IFC (2013)

The need to identify policy approaches to address these challenges to create a more open business environment for SMME growth has been an object of increasing attention by governments, international organizations and communities (OECD, 2017). The business environment determines the activities of firms, therefore the political, legal and social-economic environment which are created by governments play a key role in business development. As Ipinnaiye et al. (2017) put it, the business environment conditions affect firms' output capacities and prices, thus influencing firms' strategies, decisions and subsequent performance. There are two main economic arguments in favour of SME policy formulation for purposes of improving the business environment. First, SME policies are deemed as instruments for addressing market failures, thus improving the performance of enterprises and subsequently their potential to provide employment opportunities. Secondly, SMEs merit support through policy approaches because of their potential to make valuable contributions to economic development and poverty alleviation (Y. Wang, 2016; ILO, 2015; Beck & Demirguc-Kunt, 2006).

An enabling business environment is a prerequisite for robust SME growth, job creation and subsequent economic growth (IFC, 2013). It is defined as a composite of policy, legal, regulatory and institutional conditions that govern business activities (ILO, 2015) and includes: presence of regulatory and institutional framework that facilitates easy entry and exit of businesses, contract enforcement, property rights registration; access to resources such as finance, information, energy and human capital; access to markets which is characterized by availability of infrastructure such as roads, favourable trade, investment and procurement policies; and the presence of an entrepreneurial culture (OECD, 2017). Beck & Demirguc-Kunt (2006) posit that access to finance plays a critical role in the overall business environment as it facilitates the entry and growth of SMMEs. Additionally, the presence of well-developed financial and legal systems enables the growth of smaller firms to their optimal size and to a greater extent than larger firms. Thus, the development of financial and legal institutions aids in narrowing the gap between small and large enterprises.

Governments play a crucial role in regulating the business environment for SMME development. The state's policies influence the external environment in which firms operate and develop, hence the government can be an enabling or stifling force (Smallbone & Welter, 2001). Governments function as enablers of the business environment by establishing effective institutions that enact favourable legislations that ease the tax burden, interest rates, compliance costs; establish macroeconomic policies that ensure economic stability and flow of domestic and foreign investments; facilitate access to business information as well as development of business support infrastructure such as banks and other financial institutions; foster public-private partnerships; simplify and accelerate access to courts and dispute resolution entities; provide utilities such as water, electricity and telecommunication (ILO, 2015; Nichter & Goldmark, 2009; Smallbone & Welter, 2001; Attahir, 1995). Moreover, the overall quality of political governance has a bearing on the depth and quality of entrepreneurial ecosystem and SMME growth (Atiase et al., 2018).

Studies show a link between an enabling business environment and SMME development. While exploring the relationship between the sizes of the SME sector in 76 countries, Ayyagari et al. (2007) found that a competitive business environment is associated with a large SME sector. Specifically, the study results established that easy access to finance, low entry costs and credit information sharing are strongly correlated with a large SME sector within the manufacturing industry. Empirical evidence drawn from Irish firms revealed that besides the firm characteristics and firm strategy, the macro environment (defined in terms of unemployment rate, credit growth, real effective exchange rate and inflation) influenced the growth of small businesses directly

(Ipinnaiye et al., 2017). The study established a significant positive effect between credit growth, lower real interest rates, increased inflation, aggregate unemployment and the turnover growth of SMEs.

On examining the impact of government financial assistance provided to SMEs in Australia, Xiang & Worthington (2017) found that businesses that received direct government funding improved their performance more and at a faster rate than when they received conventional financing from private institutions. Further, a record of past government financial assistance improved these SMEs' chances of obtaining finance in the future from non-government institutions. Drawing on data from 42, 261 SMEs, Park et al. (2020) found that the provision of government based diagnostic and support services coupled with public loan financing enhanced Korean SMEs' sales growth and annual assets. During the COVID-19 pandemic, government support in form of financial and technical assistance had a positive impact on Indonesian SMEs' survival through process and marketing innovation (Najib et al., 2021).

Similarly, using data drawn from 100 SMEs in Kenya, Karogo et al. (2017) found a significant and positive relationship between the business environmental factors (access to finance, information, and infrastructure) and the success of businesses. In Ghana, Ntiamoah et al.(2016) found a strong association between government support in terms of access to finance and the performance of 545 SMEs in the agribusiness sector.

Governments on the other hand may inhibit the growth of SMMEs due to institutional weaknesses that negatively affect the business environment. Research shows that institutional conditions tend to be less favourable in developing and transition economy countries thus exposing SMMEs to the negative effects of the institutional handicaps that ultimately increase the cost and risk of doing business (Peng, 2003; Smallbone & Welter, 2001). Similarly, Bruton et al. (2010) contend that institutional imperfections potentially create a hostile business environment which impede capital investments and places fiscal and regulatory barriers that hinder SMME development.

Studies show that SMMEs in developing countries experience difficulties in growing their businesses due to unfavourable government policies that affect the business environment. For example, on investigating the determinants of growth and survival of micro and small enterprises in Africa and Latin America, Liedholm (2002) noted that government policies often favoured large enterprises over small firms in the areas of access to and prices of inputs. Differentials in import duty serves as a useful illustration of the aforementioned notion. The study shows that large enterprises typically import capital equipment at zero or low tax rates through investment promotion programs. The same cannot be applied to the small and micro enterprises because in most instances they do not qualify to be under the above mentioned investment schemes.

Similarly, Aterido, Hallward-Driemeier, & Pagés (2011) studied 56,000 enterprises in 85 developing countries and 5 developed nations to determine the impact of the business environment (focussing on business regulations, access to finance, infrastructure and corruption) on the growth of SMEs. Their study revealed that government regulatory policies created growth obstacles for small firms compared to large firms. Therefore, small firms limited their expansion to avoid regulatory enforcements. Further the small and micro firms which had less access to formal finance also faced challenges in accessing infrastructural services and paid more bribes compared to the medium sized businesses. The study also shows that the larger firms spent more time dealing with public officials and the bureaucracies compared to the smaller firms.

Evidence from Zimbabwe shows that the a lack of an enabling economic climate in the country suppressed the growth of SMMEs (Edmore, 2017). In particular, the study revealed that SMMEs were adversely affected by burdensome procedures for registering businesses, government policies that incentivize larger enterprises over SMMEs, hostile tariffs, fiscal incentives that limit free flow of cash, insecurity of property, political interference, poor coordination of government policies and policy inconsistencies. These factors not only disincentivized SMMEs from trading, but also inhibited firm strategy formulation subsequently leading to stagnation and decline in firm growth.

Nieuwenhuizen (2019) established that in South Africa, majority of the SMMEs found government imposed legal and regulatory requirements burdensome and costly. Business owners identified excessive red tape with regards to compliance to tax related issues, legal and regulatory requirements, labour laws and municipal regulations as the key constraints to the establishment and growth of SMMEs. Similar results were obtained in Russia, in which case Yukhanaev et al.(2015) identified corruption, high levels of bureaucracy and regulation as well as unequal application of company law as the major deterrents of SME growth prospects.

The foregoing discussion lends support to the view that the role of government is key in ameliorating a nation's economic environment and business climate, thereby providing incentives for SMME development. Governments can achieve the latter by eliminating conditions that create imperfect markets and rigid administrative bureaucracies.

1.2. Devolution and SMME Development

With the wave of devolution in many countries, subnational or local governments have taken the front seat to spur economic development and efficiency at the local level (Rodríguez-Pose & Gill, 2003). Devolution refers to the creation of autonomous and independent subnational government units that have authority over legally defined territories within a country (Rondinelli et al., 1983). Under devolution, the central government grants subnational governments authority for decision making, finance and management to perform public functions (World Bank, 2000a). These government units are accountable to their citizens within their locale and interact reciprocally with the central government (Rondinelli et al., 1989; World Bank, 2000a).

Devolved government units are deemed as more efficient and effective at supporting SMME development than central governments. In support of this notion, Jin, Qian, & Weingast (2005) contend that a devolved government system facilitates the establishment of smaller governments that are limited yet capable of effectively providing a conducive environment for market and enterprise development. Similarly, Atherton & Smallbone (2010) emphasize on the importance of supporting and promoting SMMEs at the local or regional level, first because solely relying on central government policy design and implementation has proven to be ineffective in many countries. Secondly, local SMME policy formulation and implementation enables policy makers at the local level to closely engage with the real needs of entrepreneurs and their businesses. Third, SMME development varies considerably between regions and localities because of spatial variations in terms of economic development, entrepreneurial orientation of the population, differences between rural and urban areas and the institutional capacity of local governments to enable enterprise development.

There is considerable evidence from various countries, which shows subnational governments' efforts to grow the SMME sector in their localities to spur local economic development. Empirical evidence on the effectiveness of devolved governance system on SMME development outcomes vary in scope and focus. Additionally, most studies identify the business environment and the institutional context in which businesses operate as predominant factors that either foster or constrain SMME development within subnational regions. For instance, following the implementation of fiscal decentralization in China, local governments became self-reliant in generating revenue and this led to their efforts to foster local economic development (Cull et al., 2017; Jin et al., 2005; Oi, 1992). SMME development was identified as a key initiative to spur local economic development therefore, Chinese local governments supported local businesses by facilitating access to finance from financial institutions, providing information on business opportunities, products and technologies. These interventions were put in place to address market failures and these led to increased firms' efficiency and growth (Cull et al., 2017; Mei et al., 2016; Wu et al., 2016). Similar positive outcomes were identified by various scholars examining business regulations, government spending, infrastructural investments, citizen engagement, transparency and accountability as subnational government performance indicators that influence SMME growth (Escaleras & Chiang, 2017; Tan & Tran, 2017; Van Cauwenberge et al., 2016; Topal, 2015; Sobel et al., 2013).

Devolution also presents obstacles to SMME growth especially in developing and transition economy countries. In some of these contexts, subnational governments predate on SMMEs rather than playing a supportive role thus restraining their growth (Jin et al., 2005; Zhuravskaya, 2000). Studies depict subnational governments' budgetary deficits, fiscal allocative inefficiencies, high levels of corruption, restrictive regulations and weak institutions as the key SMME developmental constraints (Digdowiseiso & Sugiyanto, 2021; Sokolov & Solanko, 2016; Yukhanaev et al., 2015; Firth et al., 2013; Yakovlev & Zhuravskaya, 2013; De Rosa et al., 2010; Fisman & Svensson, 2007; Rodríguez-Pose & Gill, 2003; Saad, 2001).

Nonetheless, the potential benefits of devolution in relation to local business development have attracted supporters especially in developing countries. Free-market economists prefer working with the government at the local level because transaction costs within subnational regions are deemed relatively low and information problems that lead to central government failures are less acute (Bardhan, 2002). However, scholars argue that the success of devolution in realizing these benefits is dependent on its design and configurations (Tomaney, 2016; Smoke, 2015; Atherton & Smallbone, 2010; Litvack et al., 1998).

The institutional context of devolution and subsequently the structure of its incentives and organization varies across countries. In developing countries, these structures are qualitatively different from those in the developed countries. For example, developing countries have weak local accountability structures and local government elites who frustrate implementation of public service delivery and installation of infrastructural facilities necessary for a conducive business environment in comparison to developed countries (Weingast, 2014; Bardhan, 2002). Nevertheless, devolution is still perceived a means to achieve economic growth through promotion of economic entities such as SMMEs at the local level in developing countries. It is therefore interesting to explore how the devolved system of governance promotes SMME development in the context of a developing nation.

1.3. Context of the Study

In the Kenyan context, SMMEs have gradually grown since the nation's independence. The first most comprehensive SMME survey was published in 1999 and it indicated that the sector's contribution to Gross Domestic Product (GDP) was 18.4% (CBS, 1999). A recent national survey carried out by the government indicated that SMMEs accounted for approximately 93% of employed persons outside of agricultural activities and 34% of Kenya's national economic output (KNBS, 2016). In relation to the latter, SMMEs in the manufacturing, wholesale and retail trade, transport and storage and education services were the largest contributors to the gross value added. In 2016, SMMEs accounted for 89% of the total new jobs created countrywide (KNBS, 2017). Majority of these jobs emanated from the micro and small enterprises, hence depicting their significant contribution towards poverty reduction by decreasing levels of unemployment and increasing household incomes. Further, the wholesale and retail trade sector accounted for more than half of the total persons employed in the SMME sector.

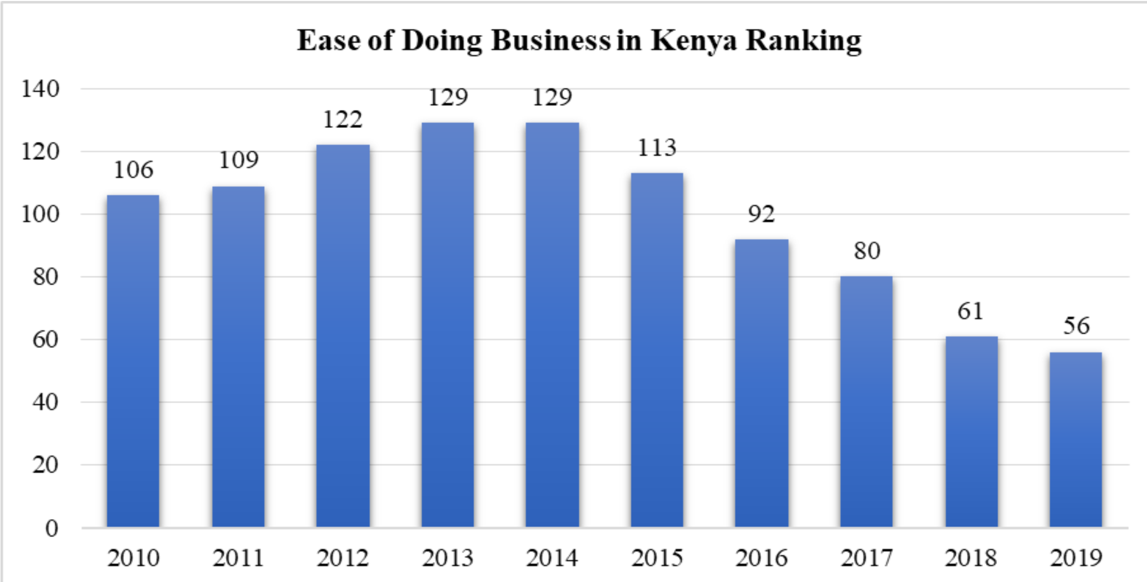
Cognizant of the critical role SMMEs play in Kenya's economy, the government outlined various policy interventions from the time of independence to promote their growth (Ong'olo & Owino, 2013). The policy prescriptions tabled in parliament included *Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya* which indicated the need for establishment of Kenyan owned enterprises; *Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth* which focused on efforts to transform informal entrepreneurs' businesses to large enterprises; *Sessional Paper No 2 of 1992 on Small Enterprises and Jua Kali (Informal SMME sector) Development* recommended establishment of a legal and regulatory framework that would create an enabling business environment for SMMEs; *Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation* *for Poverty Reduction* that outlined criteria for business registration, licensing and taxation (KNBS, 2016).

A conducive business environment is cited as a significant factor that facilitates channelling of competitive resources to the most productive uses, thus enabling SMMEs to increase their investments towards improving productivity and growth (World Bank, 2019b). In line with the above, Kenya's national and subnational governments have in recent years made significant strides towards reforming the business and investment climate, a factor that has transformed the regulatory landscape (World Bank, 2016).

The most recent policy interventions are stipulated in Kenya's development blueprint (Kenya Vision 2030), which seeks to transform Kenya into a middle income nation by 2030 (Shibia & Barako, 2017; KNBS, 2016). The document outlined the enactment of the Micro and Small Enterprise Act in 2012 whose edicts encompassed the establishment of the Micro and Small Enterprise Authority (Shibia & Barako, 2017; Ong'olo & Owino, 2013). The mandate of this institution is to undertake policy reforms and implement programs to support the SMME sector (Micro and Small Enterprises Act, 2012). The document also underscored the need to establish measures targeted at SMMEs for raising productivity, increasing business owners' incomes and public revenue as well as generation of new jobs (GOK, 2013, 2007).

Recent evaluations of Kenya's business environment depict an improvement with regards to the regulatory indices. According to the World Bank annual ratings, Kenya is currently ranked 56 out of 190 economies in the ease of doing business (World Bank, 2020). Historical data as depicted in figure 1.3 illustrate marked improvement in the ease of doing business in Kenya especially in the past 5 years. The ease of doing business ranks countries against each other based on how business regulations and enforcements are conducive for SMEs operations and development. The doing business index captures ten quantitative measures of business regulations, accessing credit, starting a business, payment of taxes, registration of property, access to electricity, approvals for construction permits, trading across borders, protection of minority investors, enforcing contracts and resolution of insolvency (World Bank, 2019a). These factors partly constitute the investment climate and play an important role in firm entry, investment and growth (Beck & Kunt 2006)

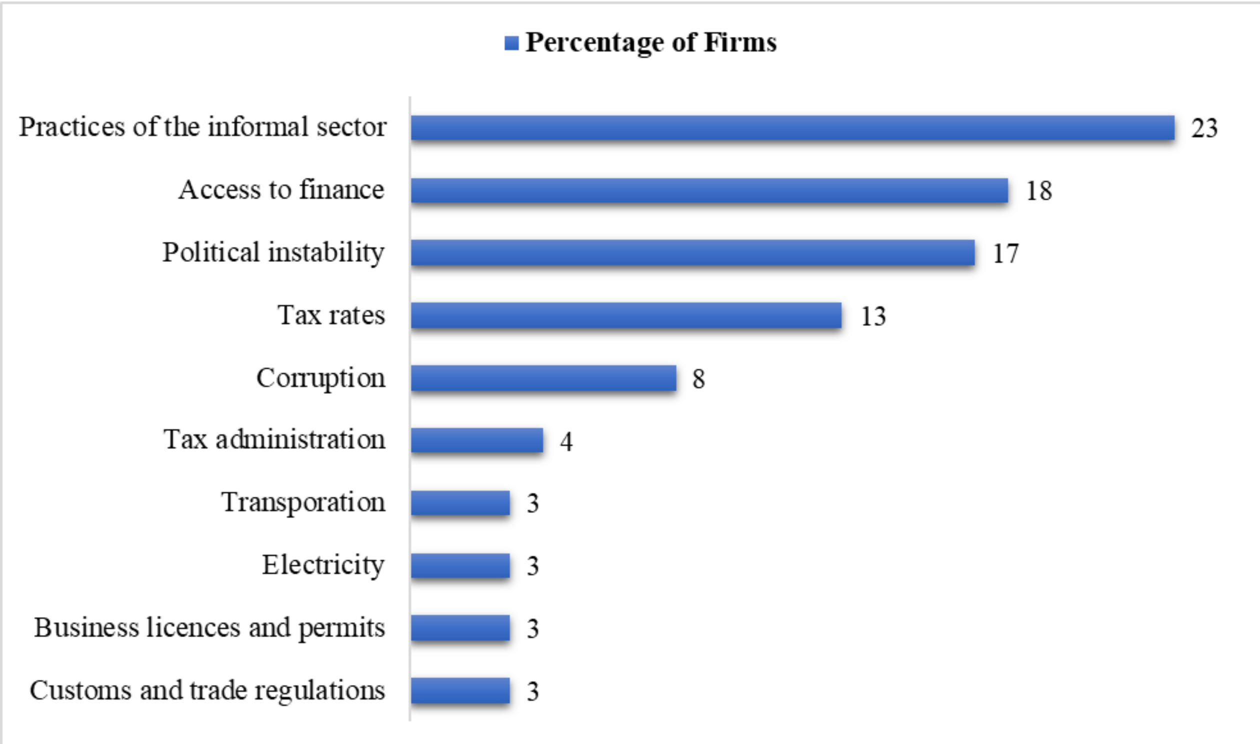
Figure 1.3: Ease of Doing Business in Kenya



Source: World Bank (2020)

Despite the notable growth of SMMEs in Kenya, their significant contribution to the country's economy and the successive reforms to improve business environment, the sector still faces challenges that stifle its development. Some of the major constraints experienced by SMMEs are inability to access cheap credit to finance businesses, costly regulatory policies, poor infrastructure as well as lack of access to markets (KNBS, 2016; Odongo & Wang, 2016; GOK, 2013; Bowen et al., 2009; Muraya, 2006). The most recent World Bank Enterprise survey highlights practices of competitors in the informal sector, access to finance and political instability as the top obstacles hindering SMME growth in Kenya (World Bank, 2019b). Figure 1.4 displays the main business environment challenges in Kenya.

Figure 1.4: Top business environment constraints in Kenya



Source : World Bank (2019b)

The abovementioned challenges lead to closures of businesses within the first three years of operation in Kenya. Approximately 46.3% of business start-ups in Kenya close within the first year of operations and this is mainly attributed to inadequate funds for operations (KNBS, 2016). Further, the bulk of firms in the SMME sector are informal meaning they are not licensed owing to the costly and time consuming processes of registering a businesses (Gitonga, 2008). Informality constrains firms' productivity, ability to grow and expand employment opportunities (World Bank, 2016).

Kenya's Vision 2030 recommended the establishment of the devolved system of governance in order to decentralize the policy making process and public resources in a bid to grow Kenya's economy (GOK, 2007). Consequently, following the promulgation of the Kenya's third constitution in 2010, the government's institutional architecture was reformed and this resulted in two tiers of government that is the national government and 47 subnational governments also known as counties. The reforms involved large scale political, administrative and fiscal decentralization (World Bank, 2014). Political decentralization denotes the transfer of the decision making power to citizens or elected representatives. In this situation, the people at the local level have the power to elect their government leaders and ensure their interests are mapped onto policy decisions (Altmann et al., 2000). Decentralization from an administrative perspective entails the transfer of responsibility for planning, management and allocation of resources from the central government to subnational governments (Rondinelli et al., 1989). Fiscal decentralization on the other hand, is characterized by transparent allocation of predictable amounts of resources from the central government to local governments for utilization and local autonomy to make decisions on how to use the resources allocated (Rondinelli et al., 1983).

Kenya’s devolution is termed as one of the most revolutionary processes in the world. Unlike many countries both in the developed and developing world which decentralized power and resources sequentially, Kenya instituted the three dimensions of devolution all at once in all its newly formed subnational governments (World Bank, 2014). Under the new constitution, Kenya’s electoral process was overhauled and this led to provisions for political representation at the national and subnational government levels through a democratic voting process. The changes also saw key national government functions transferred to the county governments so as to ensure provision of public goods and services at the subnational level. Another major shift was related to the financing of county governments which was effected through unconditional equitable share transfers of at least fifteen percent of the national revenue. County governments also have the mandate to raise their own revenue. Additionally, Kenya’s devolution provided a policy and legal framework for ensuring transparency, citizen participation in local government and holding local leaders to account (World Bank, 2014; The Constitution of Kenya, 2010).

Prior to devolution, development policies targeted at growing the SMME sector were entrenched in nationwide policies (KNBS, 2016; Ong’olo & Owino, 2013). Local strategies that matched the needs of the SMME sector within regions were rarely underscored (Ong’olo & Owino, 2013). However, following the establishment of devolution, it was envisaged that the subnational governments (counties) would create platforms for developing local policy frameworks that would in turn foster business development in counties. Consequently, trade departments were put in place to address issues regarding SMME development in each county.

The county governments through the County Government Act enacted in 2012 were expected to draw up legislations for SMME development through their county assemblies. Further, county governments would be instrumental in resource planning and allocation for the development of SMMEs by establishing fair trading practices, ease licensing of businesses and promoting local tourism as well as cooperative societies (Ong'olo & Owino, 2013). County strategic plans also called County Integrated Development Plans (CIDPs) highlighted policies and programs that county governments would adopt to improve the business environment thus growing the SMME sector. The interventions as depicted in the CIDPs include: (i) establishment of cooperative societies and micro finance corporations to ease access to finance by SMMEs; (ii) installation of street lights and flood lights to enhance security and enable businesses extend working hours; (iii) provision of loans to SMMEs through established county business funds (iv) construction and rehabilitation of roads as well as business premises to improve access to markets; (v) skills development through training in order to develop an entrepreneurial culture; (vi) establish regulatory frameworks to facilitate licensing of businesses; (vii) building of commercial structures with basic amenities for enterprises (Machakos County Government, 2015; GOK, 2013; Elgeyo Marakwet County Government, 2013; Turkana County Government, 2013).

From an institutional perspective, the government of Kenya established the Micro and Small Enterprise Authority (MSEA) to develop, promote and regulate the SMME sector. The strategic plans of MSEA enlisted county governments as one of the key stakeholders the institution would partner with to implement policies geared towards growing the SMME sector in Kenya. The strategic plan document highlighted the key roles of the county governments as enabling the business environment through provision of financial support to SMMEs, providing a conducive regulatory framework for SMMEs and allocating land for SMME infrastructure development (MSEA, 2013).

Despite the formulation and implementation of the aforementioned reforms, it is not clear how the devolved system of government in all its dimensions (fiscal, administrative and political) has affected the growth of SMMEs in Kenya. Available local studies on devolution and SMME development are mainly quantitative and focus on the impact of the legal and regulatory frameworks as well as business support programs rolled out by county governments on business performance (Maingi et al., 2019; Nashikawa & Ogada, 2019; Mbugua & Moronge, 2016; Sharu & Guyo, 2015; M. Mwangi et al., 2013; Ong'olo & Owino, 2013). These studies overlook the interplay of processes and outputs of the dimensions of devolution and how their service outcomes ultimately impact SMME growth.

It is therefore important to appraise the performance of county governments holistically considering the political, administrative and fiscal processes and outputs with regards to growing SMMEs. This forms the basis of this study hence the questions: In what ways has devolution affected the growth of SMMEs in Kenya? Is the business environment under the devolved government structures more conducive for SMME development compared to the period when a centralized system of government existed?

1.4. Research Problem

Jin et al. (2005), contend that devolution of power from the national to subnational levels enables the establishment of limited but effective local governments that are capable of fostering conducive environments for enterprise and market development. In Kenya, devolution was envisaged as an instrument for promoting local economic development through pro-SMME policies (Ong'olo & Owino, 2013). Through the devolved government structures, the national government of Kenya also planned to implement development projects that would support enterprise growth (GOK, 2013). The problem is that, it is not known how the subnational governments' processes, policies and interventions have affected the growth of enterprises post-devolution Kenya. Prior to the establishment of the devolved structures in Kenya, statistics showed that SMMEs contributed 20% towards GDP (African Economic Outlook, 2012) while current figures stood at 34% of GDP (KNBS, 2016). Could the GDP growth be attributed to subnational governments' interventions or other exogenous and endogenous factors?

From a global perspective, there is vast literature on the role of central governments in SMME development in terms of regulatory, institutional and fiscal interventions (Independent Evaluation Group, 2014; Nichter & Goldmark, 2009; Tambunan, 2008; Beck & Demirguc-Kunt, 2006; Beck et al., 2005; Nugent & Yhee, 2002; Smallbone & Welter, 2001; Attahir, 1995) . Few studies have examined the effect of devolution on SMME growth, yet there is a global trend to devolve governments to foster economic growth of which SMMEs largely contribute to. In addition, existing studies are mostly drawn from developed economies in Asia, America and Europe. The experience of the developing nations such as those in Africa remain largely understudied therefore creating gaps in literature. A number of African countries have initiated and instituted devolution reforms to effect political and socioeconomic change (Riedl & Dickovick, 2014). In spite of this, empirical evidence drawn from Africa on the relationship between devolution and SMME growth is limited.

In evaluating enterprise growth, majority of the devolution studies focused on the impact of fiscal decentralization (Cull et al., 2017; Escaleras & Chiang, 2017; Van Cauwenberge et al., 2016; Sobel et al., 2013; Oi, 1995; Jin et al., 2005; Weingast, 1995; Oi, 1992). The political and administrative dimensions of the devolved system of government were overlooked, therefore limiting the conceptualization of devolution holistically. In as much as the aforementioned studies give a focussed and detailed analysis of the impact of one of the dimensions of devolution, they fall short of providing the effect of the devolution process as a whole on SMME development.

Attaining positive devolution outcomes depends on the subnational governments' system development processes and outputs in existence from a political, administrative and fiscal perspective (Parker, 1995). In Smoke's (2015) view, the dimensions of devolution should function interdependently to achieve the desired development outcomes. For instance, political and administrative decisions to deliver services can only be effectively implemented if adequately financed. Therefore, exploring the interaction of all three dimensions of devolution (fiscal, political and administrative decentralization) in the same analysis can bring more robust evidence on the relationship between devolution and SMME development.

1.5. Research Questions

The study aims to answer the following research question:

In what ways has devolution affected the growth of SMMEs in Kenya?

The subsidiary questions are:

a) What are the perceptions of SMME owners on the effect of subnational governments' interventions on the growth of their businesses?
b) In what ways has devolution in each of its dimensions (administrative, political and fiscal decentralization) transformed the business environment to enhance SMME growth in Kenya?
c) What challenges do subnational governments face while implementing reforms for promoting SMME growth?
d) How might subnational governments better support SMMEs to enhance their growth?

1.6. Research Objectives / Purpose

The purpose of this study is to establish how the devolved system of government contributes to SMME growth in a developing country. Specifically, the study will explore how the political, administrative and fiscal dimensions of the devolution process simultaneously affect the local business environment and subsequently SMME growth in Kenya. The study looks at interactions between county governments and SMMEs in Kenya with the objective of:

a) Establishing how the subnational governments' interventions affect the growth of SMMEs based on the perceptions of business owners.
b) Investigating how devolution in each of its dimensions (administrative, political and fiscal decentralization) has transformed the business environment for SMME growth in Kenya.
c) Identifying the challenges that impede subnational governments from effectively supporting SMME growth.
d) Making recommendations on measures that the subnational governments should put in place to enhance the growth of the SMME sector.

1.7. Significance of the Study

The study is expected to make theoretical, methodological, empirical and practical contributions to the body of knowledge on devolution and enterprise development.

First, this research seeks to advance theory on the devolution discourse in relation to enterprise growth in a developing country context. In particular the study seeks to explain the effects of the devolved system of government on SMME growth through the lens of the Soufflé theory of decentralization. Parker (1995) asserted that successful development outcomes under the devolved system of government require the right combination of fiscal, political and administrative elements of decentralization. Hence, he developed the soufflé theory of decentralization which brings together the political, administrative and fiscal dimensions of decentralization and related them to intermediate outcomes that ultimately affected rural development outcomes. The resulting conceptual model provided a framework for analysing each of the dimensions of decentralization, their interplay and subsequent development impact.

Previous studies that applied this theory primarily investigated the impact of decentralization reforms on rural development and service delivery. There is a dearth of literature reflecting the effects of devolution on enterprise development using the soufflé theory of decentralization. This study therefore sought to extend the theory by examining the devolution and SMME development outcomes. Moreover, as earlier mentioned existing studies in this regard mostly focussed on the fiscal dimension of devolution and rarely were the political and administrative dimensions simultaneously included to provide insights of the effects of devolution holistically.

Unlike most research that examine the effect of devolution reforms on the final SMME development outcomes, this study considered the intermediate outcomes which in this case is the business environment. Evaluation of the status of the business environment under the devolved system of government was deemed essential in this research owing to the fact that it is one of the key influencing factors for SMME growth that is shaped by both national and subnational governments.

Second, the study contributes to research methodology as it employs a qualitative approach using the multiple case study method thus extending the methodologies in the area of devolution and enterprise development research. Majority of the studies undertaken in this field have applied quantitative methods such as regression analysis, ordinary least squares, descriptive statistics amongst others. In as much as quantitative measures provided insights based on detailed analysis of the relationships between variables, they fell short of providing in-depth explanations behind the results obtained. Further contextual factors affecting the performance devolved system of government were not adequately captured. Therefore the application of a qualitative multiple case study method provided for these shortfalls.

Third, this research aims at gaining an understanding of the effect of subnational government interventions on the growth of SMMEs. Previous studies mostly focused on the effect of central government policies and initiatives for SMME development. However, many countries globally have shifted to a decentralized system of governance as a means of boosting local economic development of which SMMEs largely contribute to. Further, most studies on decentralization and enterprise development are drawn from developed countries. This study therefore makes an empirical contribution by exploring the effect of devolution holistically considering the interaction of the political, administrative and fiscal dimensions on SMME growth in a developing country context.

From a practical point of view, the findings of this research can be used to inform policy at county government level on interventions that could enhance the performance of SMMEs. Further, the study may provide insights to the national and county governments on the interplay and mutually reinforcing effects of the dimensions of devolution that may facilitate the refinement of strategies and implementation of better designs of the devolved governments that will in turn favour enterprise development. It is also expected to provide insights to other stakeholders, for instance non-governmental organizations and private actors collaborating with local governments in SMME development for purposes of fine-tuning their strategies and informing their decision-making process.

1.8. Terms and Definitions

The terms used in this study are defined as follows:

1.8.1. Decentralization

Decentralization refers to a system of government where the central government of a country bestows substantial power to local, regional or provincial governments (Prud'homme, 2003). The aim of this restructuring process is to establish a system of co-responsibility between national and subnational government institutions thus enhancing the overall quality and effectiveness of governance whilst increasing the capacity and authority of subnational governments (Altmann et al., 2000). The degree of power and responsibility transferred by the central government can vary hence decentralization can be broad or limited in scope (Rondinelli et al., 1983). As a result there are various categories of decentralization and these include:

a) Deconcentration involves the transfer of some administrative responsibilities for certain services from the national government to its regional offices. It is the mildest form of decentralization as it does not entail transfer of authority to subnational governments. (Altmann et al., 2000; World Bank, 2000a; Rondinelli et al., 1983).
b) Delegation entails the transfer of authority and responsibility of specific public functions to local governments and semiautonomous organizations that are indirectly controlled by the national government (Rondinelli et al., 1983).
c) Devolution (see section 1.8.2).

1.8.2. Devolution (or Devolved System of Government)

Devolution is a type of decentralization where local governments are autonomous and independent from the central government. In this arrangement, the central government has little or no control over the local governments (Rondinelli et al., 1989). Devolution is characterized by three factors:

legitimacy, decentralization of authority and resources (Donahue, 1997). It is a political concept which implies the transfer of political, administrative and fiscal authority to lower levels of government created under a country's constitution (Mbondenyi & Lumumba, 2016). Within the devolved system of government the central government works as a partner with local governments as opposed to a controller with regards to policy delivery and decision making (OECD, 2001).

The terms devolution and the devolved system of government will be used interchangeably in this study to mean the same concept.

1.8.3. Local Government

Local government refers to a subnational government unit which exercises its power over a legally defined geographical boundary within a country and performs public functions within this territory (Altmann et al., 2000; Rondinelli et al., 1989).

1.8.4. County government

This is an alternative name given for local or subnational government in the Kenyan context. It is the second tier of government in Kenya (The Constitution of Kenya, 2010).

1.8.5. Local Economic Development

Local Economic Development refers to the process in which partnerships are forged between the local government, private sector, non-governmental organizations and communities to manage the resources available within a defined territory to boost economic activities and generate employment opportunities (Helmsing, 2003).

1.8.6. Small, Medium and Micro Enterprises (SMMEs)

There is no standard definition of SMMEs. The definitions vary across nations depending on the legislations in force and the size of the economies (OECD, 2017). According to Ayyagari et al.(2007), different countries define SMMEs according to employment, sales turnover, net assets and investment level. However, they noted that majority of studies defined SMMEs according to the number of employees enlisted. For instance OECD defines SMMEs as businesses that employ 1 – 249 persons. This is broken down as follows: micro enterprises employ 1-9 persons, small enterprises employ 10-49 persons and medium enterprises employ 50-249 persons. The European Commission defines SMEs as enterprises that employ less than 500 workers while other researchers limit this number to 200 or 100 employees (Abor & Quartey, 2010).

In the Kenyan context SMMEs are classified according to the number of employees and annual turnover. Micro enterprises are defined as firms that employ 1 to 9 persons and have an annual turnover of less than Kenya Shillings 500,000 (USD 4412); small enterprises employ 10-49 persons and have an annual turnover between Kenya Shillings 500,000 (USD 4,412) and 5 million (USD 44,126) (Micro and Small Enterprises Act, 2012). Medium enterprises employ 50 – 99 employees, however the limit of their turnover is not defined (KNBS, 2016).

1.8.7. Growth

Growth in reference to SMMEs refers to the measure of change over time of businesses in terms of the number of employees, sales revenue or profits (McPherson, 1996). It can also be defined in terms of value addition and volume of the business. From a qualitative perspective, the growth of an SMME can be measured in terms of market position, quality of products and the goodwill of customers (Gupta et al., 2013).

1.9. Structure of the Study

Chapter 2: Literature Review

This chapter reviews theoretical and empirical literature on devolution, its impact on political, social and economic outcomes. It also explores the how the outputs of the political, administrative and fiscal dimensions of devolution affect the business environment in subnational regions and their impact on SMME growth. Finally the chapter provides the conceptual framework for the study.

Chapter 3: Research Methodology

This chapter gives an overview of the research paradigm and design applied. It also explains the case study design outlining the justification for using this method. Descriptions of the data collection and analysis process are outlined as well as the limitations of the study.

Chapter 4: Micro Perspective of SMMEs on the Effect of Nairobi and Kiambu County Interventions on SMME Growth

This chapter presents the within-case analyses. The content includes analysed data from the individual SMME cases their highlighting experiences and development outcomes under the devolved system of government.

Chapter 5: Effect of County Government Outputs on SMME Growth

The chapter presents and discusses findings on the process and outputs of the dimensions of devolution and their implications on SMME development from the perspectives of government officials and Business Member Organizations representatives. The chapter also includes the challenges that impede county governments from effectively implementing reforms for SMME development. It also highlights measures and opportunities subnational governments could capitalize on in order to grow SMMEs locally.

Chapter 6: Cross Case Analysis

This chapter presents the cross-case analysis providing a summary of the main themes across the cases.

Chapter 7: Emergent Theoretical Framework

Drawing on the Soufflé theory of decentralization, this chapter presents and discusses the emergent theoretical framework depicting how devolution affected the growth of SMMEs in Kenya. The framework integrates emergent theoretical dimensions drawn from the research findings, thus extending the soufflé theory of decentralization.

Chapter 8: Conclusion

This chapter provides an overview of the main conclusions, contributions of the research, limitations and recommendations for further research. The contribution to knowledge is articulated through an enhanced understanding of how the devolved system of government processes and outputs affect the business environment and SMME growth in a developing country context which in this case is Kenya.

CHAPTER 2

2. Literature Review

2.1. Introduction

The 21st century has seen a marked increase in the number of nations changing their structure of government from a centralized to a devolved system (Bwire & Rodríguez-Pose, 2004; Rodríguez-Pose & Gill, 2003; Bardhan, 2002). The devolved system of governance is largely seen as a key element of participatory democracy and it is characterized by a substantial reduction of power of the national governments over economic policies. Various factors are adduced to explain the advent of the devolution process some of which include cultural, ethnic, religious and political motives (Rodríguez-Pose & Gill, 2003; Litvack et al., 1998). However, in recent times economic arguments have taken centre stage (Tomaney, 2016; Baskaran et al., 2014; Baskaran & Feld, 2013; Thornton, 2007; Rodríguez-Pose & Gill, 2005; Morgan, 2002; Akai & Sakata, 2002). This study draws on these research works to investigate SMME growth under the devolved system of government in Kenya.

This chapter outlines the theoretical perspectives that guided the study. The first part of the chapter reviews literature on the concept of devolution and the underlying factors that led to the widespread establishment of this system of government in most democracies globally. It also includes a synopsis of the different forms of devolution. Secondly, the chapter outlines the effect of devolution with a focus on economic outcomes. Further, the chapter looks at devolved governance and the windows of opportunity this system of government has created for SMME development. The last section of this chapter contains the conceptual framework and the summary of the literature findings.

2.2. Concept of Devolution

Devolution is a form of decentralized system of government in which central governments transfer political, fiscal and administrative powers to subnational governments (Litvack et al., 1998; Rondinelli et al., 1983). The political dimension of devolution allows for public participation in government affairs through engagement of citizens. The citizens have the mandate to elect its local leaders and hold them accountable for implementation of decentralization programs. Fiscal decentralization gives local governments the mandate to collect and allocate fiscal resources to cover the costs of providing public goods and services. Administrative decentralization bestows power to subnational governments to manage personnel, make planning decisions and establish a system of accountability (Parker, 1995).

Under devolution, subnational governments are autonomous; rule over defined and legally recognized geographical boundaries; act as corporate entities that secure resources to drive their development initiatives and provide services tailored to the needs of their citizens (Altmann et al., 2000). Within the devolved system of government the central government works as a partner with local governments as opposed to a controller with regards to policy delivery and decision making (OECD, 2001).

2.2.1. Forms of Devolution

Different countries across the globe have pursued differing levels and forms of devolution. (Silva, 2005). This diversity is attributed to the fact that devolution is a complex and heterogeneous process (Rodríguez-Pose & Gill, 2003). Nonetheless, Donahue (1997) cited three factors to be taken into account when analysing devolution, that is the legitimacy of subnational governments and decentralization of authority and resources. Consequently, devolution takes different forms globally depending on the degree of legitimacy and decentralization of authority as well as resources. Further, according to the OECD (2001), the variations in the models of devolution between countries were due to differences in the structural and institutional designs of the governments.

Devolved government systems can be either symmetrical or asymmetrical. Asymmetric devolution refers to a system of government where some subnational governments within a country have more autonomy than others (McGarry, 2012; OECD, 2001). This type of devolution is mostly established in developed nations such as the United Kingdom, Portugal, Spain, Italy, and Canada. Its emergence was attributed to pressure from constituent regions for autonomy in order to preserve regional peculiarities and in some situations to defuse regional conflict (McGarry, 2012; Wehner, 2000; Keating, 1998). In other countries, asymmetrical arrangements were driven by the capacity of regions in terms of available infrastructure and skilled human capital. Hence, decentralization of political, administrative and fiscal responsibilities was allotted to large cities or urban areas which were more advanced than rural areas in terms of the human resource factors and infrastructure development (Wehner, 2000).

On the converse, a uniform “one size fits all” approach to devolution was adopted in countries such as South Africa and Kenya (The Constitution of Kenya, 2010; Tapscott, 2004). This system accorded subnational governments similar powers to govern their regions. In the South African context, the devolution process was deemed a means of fostering peace and democracy within the country post-apartheid era (Tapscott, 2004; Wehner, 2000). Further, it was envisaged that devolution structures would play the role of rebuilding and integrating communities as well as dismantling enclaves of racism and inequalities that existed in the apartheid era (Koelble & Siddle, 2014). However, there were calls in South Africa for a shift to asymmetric devolution owing to the existence of provinces that lacked capacity to effectively manage their administrative functions (Tapscott, 2004; Wehner, 2000; Litvack et al., 1998). Regions such as the Western Cape that were better developed in terms of hard and soft infrastructure during the apartheid period performed better economically and in the provision of public goods and services than provinces that inherited dysfunctional administrative systems (Wehner, 2000).

Kenya’s devolved system of governance is still young and the focus of the national government is on strengthening the capacity of the devolved units and provision of financial resources to achieve effective delivery of public goods to its citizens (GOK, 2013). Therefore, it is too early to determine the effectiveness of the symmetrical form of devolution in place in achieving the desired national outcomes. However, the constitution of Kenya has provisions for allowing asymmetric devolution depending on the capacity of county governments to perform stipulated functions (The Constitution of Kenya, 2010).

According to Litvack et al. (1998), asymmetrical devolution is feasible and beneficial in countries with diverse economic, social and demographic profiles and yet seek to achieve similar outcomes in all their regions. Additionally, McGarry (2012) recommended asymmetric autonomy as a possible solution for defusing conflicts in volatile countries such as South Sudan (Darfur), Georgia (Abkhazia and South Ossetia) and Moldova (Transnistria). However, Keating (1998) argued that the system presented the problem of unequal material advantage of some regions over others with regards to public expenditure. Further, market distortions and unfair competition were manifest because of differentials in taxation and public expenditure as evidenced by Canadian provinces and Spanish regional governments. Consequently, regional disparities in terms of social and economic development emanated. In order to mitigate these regional imbalances, Litvack et al. (1998) proposed the enactment of laws that would treat all devolved units similarly.

Devolution systems also differ depending on the central government functions and degree of power transferred to the subnational governments. For example, the subnational governments of the United States of America's enjoy political, administrative and fiscal decentralization and they have power over healthcare, education, infrastructure development, employment and social welfare services (Bwire & Rodríguez-Pose, 2004; Oates, 1999). Additionally, the American states have considerable taxation powers and control a large proportion of the revenues raised. In Spain, the regional governments have power over healthcare, policing, education, fiscal matters and tax-raising (Rodríguez-Pose & Gill, 2003). Some of the Spanish regional governments such as the Basque Country and Navarre have a high degree of self-government and full fiscal autonomy while other governments have varying degrees of fiscal autonomy (B. Giordano & Roller, 2004). Germany's federal system is one of the most stable in the world and its states enjoy a high degree of spending power and count on a shared revenue base with the federal government. The regional states are responsible for education, environmental conservation, healthcare, regional economic policies, culture, law and order (Bwire & Rodríguez-Pose, 2004). Further the regional states work collaboratively with the federal government to develop policies.

In the case of India, the subnational governments have power over agriculture, healthcare, policing, prison departments, industrial development, trade and commerce (Rodríguez-Pose & Gill, 2003). However, in as much as Indian states have power over their resources, the central government exercises its control over the subnational units. In addition, the Indian states are heavily reliant on the central government for financing (Bwire & Rodríguez-Pose, 2004). On the contrary, Chinese provinces enjoy considerable freedom over the management of their financial resources. China's decentralization reforms is anchored on fiscal decentralization thus granting subnational governments substantial power and control over their budgets (Weingast, 2014, 2009). However, the country's political functions are centralized. The basis for the Chinese government's institution of fiscal decentralization was to realize economic reforms through establishment of pro-market policies at the regional level (Weingast, 2014; Qian & Weingast, 1997).

In Africa, the uptake of devolution as a system of governance has been a gradual process. From a historical perspective, the decentralization process can be divided into three phases: (a) the colonial period, (b) post-independence period and (c) liberation period (Hyden, 2017). During the colonial period, devolution was a fundamental part of colonial policy as it served as a means of administering multiple ethnic groups residing in the colonies, managing costs of sustaining colonial officials in African territories and ultimately safeguarding the interests of the colonial policy makers in Africa. Through indirect rule, colonial officials relied on native authority to govern regions and thus fostered subordination to political authority, a system that was ultimately institutionalized at the time of independence for most African countries. The post-independence period saw a transition from devolution to centralization. Nationalist leaders preferred to consolidate power at the centre and allowed a minimum of administrative decentralization. The justification for this was to facilitate streamlining of the state, central planning and foster development. This system prevailed for about two to three decades after independence in Africa. The 1990s marked the era of liberation where many African countries reverted to devolution reforms partly due to multiparty politics and the influence of the international donor community that uses it as a toolbox to push its global development agenda. The underlying premise for this shift is that democratic reforms are necessary for the success of the development agenda as the two factors complement each other (Hyden, 2017; Erk, 2014).

Currently devolution in various forms is established in countries such as Ghana, Kenya, Uganda, Ethiopia and South Africa. In Ghana, administrative decentralization was established between 1957 and 1970, followed by political decentralization in 1988 and fiscal decentralization in 1994. Uganda's political instability and civil wars marred the devolution process, however in 1995 the country had constitutional reforms that rebooted decentralization efforts (Awortwi, 2011). The country's initial devolution reforms were political, followed by administrative and fiscal decentralization in later years. Under this system of government, Uganda's local governments were charged with responsibility over education, healthcare, land administration, small scale industries, veterinary and forest services.

Ethiopia's devolution reforms commenced in 1991 and they were grounded on preservation of regional ethnic identity. The first phase of decentralization following the drafting of a new constitution, granted regional states administrative powers and in subsequent years, the government devolved fiscal resources and political power (Riedl & Dickovick, 2014). Devolution in South Africa was entrenched in the country's constitution which was enacted in 1996. The subnational governments were charged with provision of public services such as water and sanitation, electricity reticulation, promotion of social and economic development (Koelble & Siddle, 2014).

Having presented the different forms of devolution across the globe, the following section will discuss the motives for adopting devolution as a system of government in developing countries.

2.2.2. Rationale for Devolution in Developing Countries

Delineating the underlying reasons for the devolution trend is relevant to this current study because it facilitates an understanding of the contextual issues within which decentralization reforms interact with socioeconomic policies and outcomes. Additionally, it forms the basis for designing the conceptual framework for analysing developmental outcomes under devolved governance.

Traditionally, the devolved system of government was established based on ethnic, religious and cultural lines in order to foster regional identity. This was the case for regions such as Tibet and Xinjiang in China, Catalonia and the Basque Country in Spain and Scotland in the United Kingdom (Rodríguez-Pose & Gill, 2003). In recent times, devolution was particularly widespread in developing countries. Research suggests that devolution efforts in these countries were mostly driven by the push for political and economic reforms following central governments' failure to effectively provide public goods to its citizens (Faguet, 2014; Smoke, 2003; Olowu, 2003; Litvack et al., 1998).

From a political standpoint, devolution in developing countries was established to (a) improve the governments' responsiveness to the needs of the citizens consequently providing better quality services; (b) reduce levels of corruption by transferring some state functions and resources to subnational governments; (c) allow citizen participation in the decision making processes and policy development; (d) provide a competitive political platform by offering politicians opportunities to vie for control over regional governments (Faguet, 2014; Bardhan, 2002; Rondinelli et al., 1983). According to Bwire & Rodríguez-Pose (2004), the aforementioned factors were prerequisites for governments to efficiently produce and provide of public goods and services for its citizens.

Other scholars such as Faguet & Pöschl (2015), argued that devolution in some countries was instituted to ensure consolidation and sustenance of political power. For example, in Pakistan, devolution was adopted as a strategy by the military regime to ensure control over the states and to diminish the support of the main ousted political parties. In some countries, political elites pushed for devolution in order to create regions that they could control and exercise their political power (Smoke, 2003).

The advent of multi-party politics and the development of democracy were factors that heavily influenced the push for devolution in African and Latin American countries (Rodríguez-Pose & Gill, 2003; OECD, 2001; Litvack et al., 1998). Other actors such as international donor and development agencies pressed for devolution in Africa as a way of improving governance, deepening democracy and enhancing the effective provision of public goods to citizens (Hyden, 2017; Erk, 2014; Olowu, 2003; Smoke, 2003). Egypt, Cambodia, Mexico and Peru are examples of countries that devolved their central governments' powers in order to deepen democracy and engage more collaboratively with communities in their development agenda (Faguet, 2014).

In some countries, devolution was adopted to address specific governance challenges. For example, South Africa's devolution process was instrumental in helping the country transition from an apartheid regime to a democracy (Koelble & Siddle, 2014; Tapscott, 2004). The main aim was to foster equity and build an integrated non-racial society. Colombia decentralized its government in order to quell violence in the country perpetrated by left and right wing insurgencies (Faguet, 2014). This was effected to ensure that the citizens were involved in public affairs thus mitigating a build-up of discontent amongst its citizens. Devolution of power was also established as a means of defusing ethnic conflict in some countries. For instance, Ethiopia's regional states were created based on ethnicity where major tribes were granted their own territories to govern (Riedl & Dickovick, 2014). This followed a long period of civil strife and the ruling party in Ethiopia devolved power along ethnic lines to mitigate fragmentation of the country and foster national unity. Other regions that decentralized power to repress ethnic tensions include Russia, Bosnia and Herzegovina (OECD, 2001).

In recent times, the leading motive for implementing and sustaining a devolved system of government is greater economic efficiency. This is exemplified in transition and emerging economies such as China, Russia and Eastern European countries (Weingast, 2009; Litvack et al., 1998). Economic efficiency refers to the state in which government resources are optimally used to improve the welfare of citizens. The components of economic efficiency are: a) allocative efficiency which implies government units provide goods and services tailored to the needs of its citizens in order to improve their welfare; b) productive efficiency depicts the relationship between outputs (quantity of goods produced) and inputs (scarce labour and capital injected for the production process) within regions (Prud'homme, 2003).

In view of the above definition, economic efficiency gains emanate from two sources. First, it is assumed that allocative efficiency enables subnational governments to make investment priorities that reflect the preferences of citizens more than those that would have been made by the central government hence ensuring higher citizen satisfaction. Second, production efficiency implies that subnational governments can provide public goods and services at lower costs than central governments. The cost reductions are attributed to availability of cheaper materials, labour costs, less corruption, more efficient project designs and less bureaucratic procedures (Peterson & Muzzini, 2005).

Therefore, scholars argue that devolution plays an instrumental role in enabling subnational governments to formulate and implement economic development policies that match the needs of its citizens (OECD, 2001; Oates, 1999). The underlying theories that support the aforementioned facts are based on the seminal works of scholars such as Hayek and Tiebout. According to Hayek (1945), subnational governments are better placed to make decisions, outline policies and provide goods to meet the needs of its citizens compared to central governments. He argued that the central governments lacked adequate information to craft development policies that suited its citizens' needs. Local governments on the other hand, are in close proximity to their citizens, hence they easily gathered concrete information that would inform decision making and policy in order to achieve the desired economic impact.

Tiebout (1956) on the other hand, developed a model that illustrated the influence of local expenditures on the consumer voter. He indicated that consumer voters moved to regions that offered public goods that were in line with their preferences. The study highlighted the fact that central governments adjusted provision of public goods to the pattern of the consumer voter preferences, whereas local governments had established revenue and expenditure patterns, hence the consumer voters chose the regions that best satisfied their needs. The model's assumptions paved way for competition between jurisdictions, thus the greater the variations in public goods offering, the higher the chances of consumer voters realizing their preference position.

Oates (1999), criticized this model, arguing that it was only feasible in a well-developed nation like the United States whose regions already demonstrated the aforesaid characteristics. He argued that footloose households that migrate to other regions depending on the public menu offerings were only typical in the United States and not in other countries. However, he reiterated that decentralized provision of public goods led to more efficient socio-economic outcomes even in the absence of mobile consumer voters. In a similar vein, scholars such as Bardhan (2002), disputed the applicability of Tiebout's theory in developing countries. He argued that accounting and information systems, local democracy and mechanisms of political accountability in developing countries were weaker than those in developed countries. These factors hindered developing countries from effectively providing public goods and services to their citizens which in turn hampered economic efficiency. Further, he indicated that most developing countries devolved their powers with the main of objective of alleviating poverty as opposed to seeking efficiency in the provision of public goods and services as was the case in developed countries.

In order to address some of the inadequacies of the traditional devolution theory and economic efficiency, Weingast (2009, 1995) suggested that decentralized states could foster local economic prosperity if subnational governments were granted taxation powers and fiscal incentives. He further recommended that intergovernmental fiscal transfers from the central government to subnational governments should be limited so that the latter would focus on local economic development initiatives that will grow their revenue base. His studies presented United States of America, England and China as examples of countries that grew their industries, enterprises and subsequently their economies based on this fiscal decentralization model (Qian & Weingast, 1997; Weingast, 1995). However, Bardhan (2002) and Sinha (2005) indicated that in developing countries, the bulk of tax revenues were collected by central governments and these were shared with local governments for their expenditure. This, therefore limited the applicability of Weingast's theory in developing countries.

Despite the above-mentioned limitations, the potential benefits of devolution in relation to economic efficiency have attracted supporters especially in the developing world. Consequently, international donor and development agencies are actively involved in pushing for and designing devolution policies in developing countries (Smoke, 2015; Bahl, 1999; Litvack et al., 1998). However, there is a dearth of literature from developing countries depicting ideal features of the devolution system customized to yield economic efficiency. Studies on this subject are mostly drawn from developed nations. Therefore, this study explored how devolution in all its dimensions and processes are configured to facilitate economic efficiency with a specific focus on systems and policies in place for the growth of SMMEs in a developing country context.

The next section examines Kenya's devolution process and the basis for its adoption.

2.2.3. Kenya's Devolution and Rationale for its Implementation

Kenya's experience with the devolved system of government began in the colonial era albeit in a different form under the British administration. In the pre-colonial era, various communities co-existed in different territories of Kenya and each had unique cultural features and engaged in economic activities as well as barter trade. These communities had an informal system of government headed by a council of elders whose main responsibility was to ensure the protection of the rights of the community (Bosire, 2013; Okoth-Ogendo, 1972).

During the colonial era which began in 1886, the British drew up colonial boundaries in Kenya and established administrative structures to facilitate control over the land they had taken from the African communities. This brought an end to the traditional co-existence of communities (Mwenda, 2010). The colonial government used the "divide and rule" strategy to acquire territories for their economic activities. The concept of "divide and rule" entailed the colonial government using tactics to create rifts between communities and conquering them (Bosire, 2013).

Kenya experienced its first form of decentralization during the colonial rule as the country was divided into provinces and districts. The head of the province was a provincial commissioner who had executive, judicial and legislative powers. During this time, colonial settlers allotted themselves fertile regions of the country and the Africans were displaced and moved to reserves. These reserves were created along ethnic lines. Taxes were imposed on the Africans, hence they were forced to work in the settler farms in order to pay their dues to the colonial government (Bosire, 2013). Colonial rule led to resentment by Africans because they were excluded from political, economic and development issues. Additionally, their fertile lands were forcefully taken away from them and Africans were restricted from engaging in economic activities such as growing cash crops. These factors led to uprisings and formation of African political parties that agitated for independence from colonial rule (ibid).

Kenya gained independence in 1963 and at this time, Kenya African National Union (KANU) and Kenya African Democratic Union (KADU) were the two main political parties envisioned to take control over the government already established by the colonial rulers. However, both parties had different sentiments on the type of government structure that would be appropriate to run the country. KADU called for a regional system of government while KANU advocated for a unitary system of government. KADU clamoured for a decentralized system of government because they feared being dominated by majority ethnic groups. Their party consisted of minority tribes in Kenya. KANU on the other hand was keen on diminishing the ethnic divisions created through colonial rule, hence they advocated for a centralized government system. Eventually KADU's propositions were incorporated in the independence constitution, however it had little support from KANU (Okoth-Ogendo, 1972).

The regional system of government also known as the *Majimbo* system divided Kenya into seven regions and it provided for a bicameral legislature at national and regional level (The Constitution of the Republic of Kenya, 1963). Conflicts between KANU and KADU emerged and this presented obstacles for the operationalization of the decentralized system of government. KANU frustrated the efforts of implementing the regional governments soon after independence. This was followed by dissolution of KADU and Kenya became a one-party state and the regional system of government was abolished under the second constitution adopted in 1969 (Muia & Chitere, 2011; Mwenda, 2010; Okoth-Ogendo, 1972). Thus, the Central Government became the sole provider of services in Kenya.

Following the enactment of the Local Government Act in 1977, a limited form of decentralization was re-established. The Act paved way for the establishment of different categories of Local Authorities (LAs) comprised of Municipal Councils, County Councils and Town Councils. Municipal Councils were urban local authorities while County Councils had authority over rural areas. Town councils had mandate over towns that were smaller in terms of the population and physical structure compared to towns that were under Municipal Councils. These LAs operated under civic functions which were assigned to elected and nominated councillors and administrative functions which were vested in Town Clerks and County Clerks who were appointed by the government. Decisions within these jurisdictions were made under a committee and a full council comprising the mayors or council chairmen and councillors. Resolutions made during council meetings were adopted and became policy. Local authorities also had the power to enact by-laws covering the areas of conduct of business, health, environment and general nuisance. However these policies and laws had to be approved or disapproved by the Minister for Local Government working within the Central Government (Mbondenyi & Lumumba, 2016).

The central government allotted funds to the LAs through Local Authority Transfer Fund (LATF) created through the LATF Act No. 8 of 1998 (World Bank, 2012). Additionally, the government granted LAs power to charge local taxes and their activities were coordinated by the Ministry of Local Government (World Bank, 2014). The LAs were tasked with assisting the government to provide services with regards to health, primary education, water and sanitation, road maintenance as well construction of markets. Over time, the LAs performed dismally with regards to service provision due to limited financial resources from the central government (Buluma & Obande, 2015). Additionally, lack of mechanisms to include the population in the development agenda as well as implementation of programs through the state's administrative bureaucracy as opposed to the people's representatives led to the failures of decentralization programs (Kithinji, 2019).

The abovementioned failures as well as the Kenyan citizens' perception that too much power was concentrated at the centre both spatially and constitutionally (that is at the capital city of Nairobi) led to the agitation to have powers devolved to other provinces of Kenya (Munya et al., 2015). Additionally, devolution was called for to address the issues of regional disparities, corruption and conflict over resources (Mwenda, 2010). Further, the devolved system of government presented an opportunity for local communities to drive the development agenda and manage resources in their designated regions.

Calls for reforms by opposition leaders led to the restoration of multi-partyism in Kenya in 1992 and this paved way for constitutional and decentralization reforms in subsequent years (Muia & Chitere, 2011). Consequently, in the last two decades, the government initiated two major reforms towards the devolution process. First, through Constituency Development Act of 2003, the government established the Constituency Development Fund (CDF), which was an annual budgetary allocation by the central government to the country's 210 parliamentary jurisdictions also known as constituencies (Kimenyi, 2005). This accounted for 2.5% of the national government ordinary revenue distributed to stimulate local development at the constituency level. This was the government's first attempt to transition towards fiscal decentralization as a means of improving service delivery and reducing social and economic imbalances in the constituencies (Bagaka, 2008). However, the CDF was a partial form of fiscal decentralization because expenditures were not linked to local sources of revenue (Kimenyi, 2005).

Despite the abovementioned piecemeal efforts to address regional inequalities, the political climate remained unstable and citizens in conjunction with political leaders and civil society clamoured for more local autonomy (World Bank, 2012). Thus, the second transformation process ensued and devolution was established following the statutes of the country's third constitution promulgated in 2010. Kenya's devolution involved political, administrative and fiscal decentralization with the aim of reducing regional disparities, vesting subnational governments with higher degrees of autonomy and ensuring a higher level of accountability of the government to its citizens. Another objective of devolution was to enhance the engagement of local governments with its citizens for purposes of drawing up development policies that matched the population's needs (The Constitution of Kenya, 2010). Kenya's devolution was viewed as ambitious owing to the fact that the political, administrative and fiscal powers and functions were implemented at once, unlike in many countries where these attributes of decentralization were attained sequentially (KSG, 2015).

The new constitution introduced changes in the governance structure, which resulted in a two-tier government consisting of the national government and 47 subnational governments, referred to as counties (see Appendix 1). Under the devolved system of government, county governments work interdependently with the national government in the provision of public goods and services (Ong'olo & Owino, 2013; The Constitution of Kenya, 2010). This means that in as much as the two levels of government are distinct, they are required to work in the ambit of mutual cooperation and consultation.

Subnational governments require resources commensurate to their functions, hence the need to consider the issue of revenue assignment, which also plays a critical role in the success of any devolution process. Many subnational governments rely on fiscal transfers from central governments to fund services and goods provided by local governments as a means of ensuring equity and influencing sectorial pattern of local expenditure. These resources are typically allocated based on pre-determined formulae to ensure all jurisdictions are guaranteed a minimum level of per capita expenditures (World Bank, 2000b).

In line with the above, Kenya's County governments are entitled to a minimum of fifteen per cent of the revenue collected by the national government to enable them conduct their functions (The Constitution of Kenya, 2010). Revenue is shared using a formula based on the following parameters: *Population 45%, Equal Basic Share 26%, Poverty Gap 18%, Land Area 8%, Fiscal Effort 2% and Development Index 1%* (CRA, 2016). Additionally, counties are authorized to raise revenue through taxes on property, entertainment, levies for services directly provided by the county and other taxes authorized by an Act of Parliament. Using the allocated and tax revenues, counties are mandated to provide healthcare, pre-primary education, trade development, agricultural, roads maintenance and county planning services.

2.2.4. Impact of Devolution

As indicated in the previous sections, there is diversity in the form and degree of devolution across the globe. Accordingly, research illustrates mixed political, social and economic outcomes of devolution.

From a political perspective, devolution in some countries resulted in the creation of independent states. For instance Eritrea attained its independence from Ethiopia, the fall of the Soviet Union led to the formation of fifteen nations, East Timor gained independence from Indonesia, Yugoslavia was split to five nations and Czechoslovakia was divided to the Czech Republic and Slovakia (Rodríguez-Pose & Gill, 2004). Devolution facilitated political stability and unity in countries that faced the risk of secession of regions as demonstrated in Spain and Ethiopia (Riedl & Dickovick, 2014; B. Giordano & Roller, 2004).

According to Oates (1999), nations across the world turned towards devolution as a means of improving the performance of the public sector with regards to service delivery. A few studies show a correlation between devolution and public service delivery. In Brazil, access to basic sanitation and primary and secondary school enrolment greatly improved within a seven year period (1989 - 1996) following devolution (Bardhan, 2002). In Bolivia, devolution led to massive investments in human capital and social needs especially in poorer regions to improve the socio-economic status of its populace (Faguet, 2004; Bardhan, 2002). A recent study on OECD economies posited a positive correlation between devolution with educational outcomes (Blöchliger, 2013). According to this study, subnational governments provided substantial resources for the education sector and this ultimately led to improved performance in institutions and a more educated workforce that contributed towards enhanced overall productivity.

Habibi et al. (2003) investigated the impact of devolution in Argentina on provincial health and education services. Drawing on panel data consisting of socio-economic and fiscal indicators for

23 provinces over 25 years (1970-1994), the study found that increased expenditures at provincial level significantly reduced infant mortality rates and disparities in educational output. Similarly, using panel data of 36 states in Nigeria covering the period 2002-2009, Ekpo (2008) established that higher fiscal decentralization was consistently associated with higher literacy rates and low mortality rates.

Whereas devolution is still at its infancy stage in Kenya, there is empirical evidence depicting its impact on service delivery. In the healthcare sector, Khaunya et al.(2015) found that health services in counties were compromised because of disputes between health workers and the county governments over remuneration issues which culminated in several cases of strikes. The study attributed the aforementioned challenge to the inadequate administrative capacity of the county governments to take up some of the devolved functions such as healthcare. In another study, Barasa et al.(2017) analysed the level of autonomy of county public hospitals following devolution and its effects on healthcare services. Their findings show that devolution reforms reduced the decision space and financial autonomy of county public hospitals as these functions were transferred to county health departments. Consequently, the quality of health services declined due to weak leadership and management of hospitals, reduced staff morale and inefficiencies in service provision.

Studies also linked devolution with regional disparities. Using a sample of 26 countries, Rodriguez-Pose & Ezcurra (2010) found that devolution affected regional development depending on the economic status of countries. Their findings showed that devolution in developed nations was linked to reduced regional disparities while in developing nations there was a rise in regional inequality. Kyriacou et al. (2013) and Lessmann (2012) obtained similar results using a data set of 54 countries at different stages of economic development and 24 OECD countries respectively. These scholars attributed the disparities to the fiscal, political and institutional capacity constraints that poorer countries faced compared to wealthier nations. Additionally, poorer regions were unable to achieve allocative and productive efficiency due to weak infrastructural, educational, technical capabilities, low tax bases, corruption and inadequate capacity to attract and compete for foreign direct investments. The OECD (2001) argued that regional disparities were a consequence of poor coordination mechanisms. They noted that the disparities were further exacerbated by mobility of skilled labour and investment to more advanced regions in terms of infrastructure and existing industrial and commercial activities.

In India, regional disparities arose due to the fact that richer states wielded greater power over their central government to allocate them more resources than poorer states (Bwire & Rodríguez-Pose, 2004). In the case of South Africa, provinces that were better developed during the apartheid era enjoyed the benefits of devolution to a higher degree than poorer provinces (Wehner, 2000). Additionally, some provinces lagged with regards to service delivery because of inadequate institutional capacities to effectively run administrative functions (Koelble & Siddle, 2014).

Other studies demonstrate an association between devolution and the quality of government. Kyriacou & Roca-Sagalés (2011) found that decentralization improved governance. More specifically, their study established that fiscal decentralization had a positive and statistically significant effect on government quality in 27 OECD countries. Government quality was analysed in terms of control of corruption, regulatory quality, rule of law and government effectiveness. Using a data set of 64 developed and developing countries, Altunbaş & Thornton (2012) established that devolution improved governance by reducing levels of corruption. On the contrary, there is empirical evidence linking devolution to higher levels of corruption particularly in regions with more tiers of government and political representation at the local level (Fan et al., 2009; Bardhan & Mookherjee, 2000). These scholars argue that increased fragmentation of government and number of political officials increased opportunities for corruption.

Kenya's devolution is not immune to the challenges of governance. Whereas devolution in Kenya has produced a political system with a set of robust checks and balances to ensure local representation and accountability, there is evidence of exacerbated levels of corruption. In support of this notion, D'Arcy & Cornell (2016) argue that rather than decreasing levels of corruption, devolution increased rent seeking and political patronage at the county level. In other words, it led to the localization of corruption in Kenya. Increased accessibility of state resources at the county level explicates the higher levels of corruption. Cheeseman et al.(2016) contend that in as much as local political competition and representation serves as an effective means of checking centralized power in Kenya, problematic issues such as amassing of wealth through corrupt means had emerged. Political actors at the county level competed for state resources for political patronage, as a means of weakening political competitors and sustaining their positions rather than for effective planning and implementation of development projects.

Having reviewed the social and political outcomes of decentralization reforms, the next section gives an overview of the impact of devolution on economic growth.

2.2.4.1. Devolution and Economic Growth

Current arguments in favour of devolution are centred on economic gains. Advocates of decentralization have long argued that devolution led to greater efficiency and economic growth. Thus, many authors sought to establish the relationship of devolution and the economic growth of countries (Chu & Zheng, 2013; Rodriguez-Pose & Ezcurra, 2011; Pike & Tomaney, 2009; Thornton, 2007; Rodríguez-Pose & Gill, 2005; Zhang & Zou, 1998). However, their findings yielded mixed results (Table 2.1).

Table 2.1: The link between decentralization and economic performance

Author (year)	Sample	Period	Findings
Akai and Sakata (2002)	USA	1988–1996	Positive and significant
Baskaran and Feld (2009)	23 OECD countries	1975–2001	Negative, but not robust
Davoodi and Zou (1998)	46 countries	1970–1989	Developing: negative, but not significant OECD: no relationship
Iimi (2005)	51 countries	1997–2001	Positive and significant
Lin and Liu (2000)	China	1970–1993	Positive and significant
Rodrı´guez-Pose and Bwire (2004)	Germany, India, Italy, Mexico, Spain and USA	Different periods until 2001	Mostly insignificant, with the exceptions of Mexico, the US, and, partially, India, where it becomes negative
Stansel (2005)	US metropolitan areas	1960–1990	Positive and significant
Thießen (2003)	26 countries	1973–1998	Hump-shaped relationship
Thornton (2007)	19 OECD countries	1980–2000	Not statistically significant
Woller and Phillips (1998)	23 less developed countries (LDCs)	1974–1991	No relationship
Zhang and Zou (1998)	China	1980–1992	Negative and significant
Zhang and Zou (2001)	China	1987–1993	Negative and significant

Source: Rodriguez-Pose & Ezcurra (2011)

In recent times, Thanh & Canh (2020) found that decentralization reforms had a positive effect on the economic growth of 62 Vietnamese provinces. The study further established that the economic growth across the provinces varied depending on the quality of public governance within the subnational regions. Chu & Zheng (2013) found that decentralization in China led to an increased investment in education and physical infrastructure which led to economic growth in 31 Chinese provinces. Gemmell et al. (2013) found positive effects of decentralization on economic growth in 23 OECD countries, however they noted that this was encouraged by revenue decentralization and not expenditure decentralization. Evidence from 14 Indian states, depicts a positive relationship between decentralization and state income, however, unlike the latter study, this was imputed to spending decentralization rather than revenue decentralization (Ganaie et al., 2018). On the other hand, Filipetti & Sacchi (2016) established that economic growth was experienced only in nations where fiscal decentralization was coupled with strong political and administrative authority at the subnational level.

Empirical studies drawn from OECD countries have also depicted a negative relationship between devolution and economic growth (Baskaran & Feld, 2013; Bodman, 2011; Bwire & Rodríguez-Pose, 2004). Bwire & Rodríguez-Pose (2004) attributed this to the possible inability of regional governments to exploit economies of scale, budgetary constraints and inefficiencies arising from overlapping of responsibilities between the central and local governments. Further, Weingast (2009) argued that some central governments limited the political authority and independence of subnational governments and this led to limited economic growth as evidenced by decentralized states of Mexico (from 1940 - 2000), India (1950 - 1989) and Russia (2000 - 2009). The aforementioned fact also applied to African countries and the situation was augmented by inadequate funding from central governments as well as granting unproductive taxes to subnational governments (ibid).

The above research findings illustrate the fact that economic outcomes of devolution are uneven and inconclusive. This is partly explained by the variations in devolution arrangements. Additionally, Filippetti & Sacch (2016), argued that most studies focused on the impact of fiscal decentralization on economic growth while overlooking the influence of the political and institutional factors. The findings of their study posit that a positive correlation between fiscal decentralization and economic growth is dependent on the level of authority of subnational governments. Fiscal decentralization led to economic growth only when coupled with administrative and political decentralization. This therefore, alludes to the need for the simultaneous existence and complementarity of all the dimensions of devolution for subnational governments to achieve their desired economic outcomes. This fact is useful for this study because it seeks to establish how the interplay of political, administrative and fiscal processes and outputs of Kenya's devolution contributes towards the growth of enterprises.

The contradictory empirical results could also be explained by the fact that different methodologies were applied to carry out the studies. The methods employed were predominantly quantitative and included ordinary least square methods, fixed effects model, time series analysis and dynamic panel data methods amongst others. Further, some studies involved single case studies while others were cross country studies. As noted by Smoke (2015), quantitative studies on devolution outcomes may be poorly contextualized and the findings may not be adequately explained for purposes of policy formulation. Therefore qualitative methods are recommended to obtain rich details on contextual factors that influence the performance of devolved governments. Additionally, Faguet & Sánchez (2014) indicated that most of the devolution studies are cross-country comparisons and these suffer the problem of data comparability and differences in institutional, historical and contextual factors. In order to avoid these methodological drawbacks, this study employed a multiple case study design in a single country (Kenya), thus enabling the researcher to focus in depth on the process and institutional context of devolution and probe its effects on enterprise development using qualitative data.

2.2.4.2. Reasons for Variations in Devolution Outcomes across Developed and Developing Countries

Having outlined the effect of devolution across the world, this section provides explanations behind variations in the outcomes of devolution. This is important in order to understand the factors that influence the performance of subnational governments with regards to provision of public goods and services to drive socio-economic change. This is relevant to the current study because one of its focus areas is investigating the challenges faced by subnational governments whilst implementing development policies in a developing nation. Further, this study seeks to identify factors necessary for effective devolution processes in order to attain the desired outcomes.

Devolution exists in multiple forms in both developed and developing nations owing to the differences in devolution structures implemented and underlying objectives for establishing this system of government. Research suggests that contextual factors such as the level of economic development, demographic profiles, social characteristics, aid dependence influence the shape of devolution in a region or country (Smoke, 2015). In a similar vein, Tomaney (2016) argued that globalization, growing demands of states and regional contextual (historical, cultural, political and economic) differences under which devolution was instituted contributed to the variations in devolved structures. In view of these facts, are there differences with regards to the outcomes of devolution in developed and developing nations and what are the underlying reasons for the differentials?

Drawing on data from a panel of 19 developed and 7 developing nations, Rodriguez-Pose & Ezcurra (2011) noted that developed nations enjoyed greater political, administrative and fiscal autonomy than developing nations. In addition, developed nations had significantly lower regional inequalities than developing nations. These facts as well as the developed nations' superior institutional capacity rendered them more effective than developing nations in tailoring policies to citizens' needs and exploiting economic opportunities. Poor governance, corruption unfavourable party politics, weak infrastructure and inadequate skilled human capital are some of the factors that impeded developing nations from optimally reaping the benefits of devolution (Rodriguez-Pose & Ezcurra, 2010; Bardhan, 2002; Prud'homme, 1994). These inadequacies were less prevalent in developed nations.

Prud'homme (1994) proposed a mechanism that enabled developed nations to effectively provide local public goods. His theory posited that developed and wealthy nations have large tax bases from which they draw revenue for the provision of public goods for its citizens according to their preferences. Additionally, these regions offer public goods at lower tax rates than developing and poorer regions. Regions in the United States of America exemplify this model. In contrast, poor nations where the population lacks basic needs, the focus is on providing basic goods and services as opposed to matching the provision of public goods to the preference of the people.

Majority of developing nations are aid dependent and research suggests that they are more prone to taking on devolution reforms following pressure and recommendations from donor agencies compared to self-sufficient countries (Smoke, 2015). According to Smoke, many donor agencies proposed devolution arrangements drawing on experiences and contextual factors of dissimilar countries. In addition, the proposed reforms were often unsustainable from a political and institutional standpoint because the recommended devolution programs did not consider existing capacity limitations and institutional weaknesses in the regions. Consequently, such countries that endorsed devolution under these circumstances faced the risk of failure with regards to implementation of the devolution reforms and subsequent performance.

Democracy played an important role in ensuring accountability and transparency within devolved systems of governments. According to Weingast (2009), true democracy granted citizens freedom of expression of their choices hence they could hold local governments accountable. This fact is characteristic of developed nations while in several developing nations, citizens rarely enjoy the full benefits of democracy. Weingast further demonstrated how democracy failed courtesy of the notion of "tragic brilliance". The latter is a mechanism by which weak democratic regimes which typically tend to be authoritarian, influence the electoral process at the local level to ensure control over the jurisdiction. For example, in Mexico from 1930 – 2000, the central government allocated resources to the regions where it enjoyed political support and denied resources to opposition territories. This was possible because of revenue centralization. Thus, citizens in opposition strongholds were forced to sustain a regime that they did not support.

Another aspect that differentiated devolution outcomes in developing and developed nations is the type of budget constraint endorsed by the governments. There are two types of budget constraints under fiscal decentralization, that is hard and soft budget constraints. Hard budget constraints require subnational governments to meet their financial obligations of all their policy decisions, spend within their means and the national government has no obligation to bail out a region that experiences financial deficits (Weingast, 2009, 1995). In contrast, soft budget constraints allow subnational governments to spend beyond their means and they could count on the central government to provide for their deficits. The hard budget constraint policies are prevalent in developed nations such as the United States of America, England and emerging economies such as China. This facilitated business and industrial development in these countries. The bulk of devolved states in the developing world operate under soft budget constraints because they depend on fiscal transfers from the central government. Brazil in the 1990s and Argentina in the 1980s operated under soft budget constraints. Consequently, their regions spent beyond their revenue allocation limit and their national governments had to bail them out leading to poor national economic performance (Weingast, 2014, 2009; Rodríguez-Pose & Gill, 2003).

2.2.4.3. Section Summary

The inference from the literature reviewed thus far is that the impact of devolution on various performance indicators especially those tied to economic outcomes are inconclusive. According to Litvack et al. (1998), devolution is neither good nor bad for achieving macroeconomic stability, equity and efficiency. In their view, the effects of devolution depend on how the system is designed and the institutional context in which it is implemented. Institutions in this case refers to the rules and the enforcement mechanisms in place within a locale. Similarly, Erk (2014) posits that devolution is not necessarily a cure to all ills within a nation. Making reference to the African context, he calls for the need to study and consider factors that affect the daily workings of devolution in tandem with approaching devolution as a dependent variable reflecting a complex mix of other variables. Smoke (2015) also reiterates the importance of understanding the institutional design of a decentralized state in order to adequately interpret the observed impact of devolution.

Looking at the African context, devolution presented limited sustainable results. Hyden (2017) attributes this to the fact that the discourse on devolution and its effect on development outcomes made little reference to the difficulties encountered in implementing devolution in contemporary Africa. In his view, devolution in Africa has been pursued mostly due to the push by international donor community with more reference being made to prescriptive decentralization models rather than considering the political realities of a country. He therefore points to the need to critique the appropriateness of the devolution model when considering its impact on outcomes.

Understanding the devolution system configurations is relevant to this study because of the role that the political, administrative and fiscal processes and outputs play in shaping the environment in which economic entities such as SMMEs operate. Additionally, scanty literature in this area motivates the need for more research to investigate how political, administrative and fiscal reforms instituted in a developing country affect enterprise growth. The next section discusses the impact of devolution on local business development.

2.3. Devolution and Local Business Development

The role of subnational governments in promoting local business development has been a subject of interest for many countries especially within the transition economies (Bardhan, 2002). Many of these countries adopted the devolved the system of government with the objective of improving local economic development by growing enterprises within their locale. According to Smoke (2003), one of the ways subnational governments contribute towards local economic development is through the provision of services that serve as production and distribution inputs for local enterprises. Additionally, he highlighted the role of subnational governments as agents for establishing a legal and institutional environment that is conducive for business development as well as creating private public partnerships to promote development.

As indicated in the previous section, the institutional design of a country's devolution system affected the performance of subnational governments. Scholars thus, put forth theories depicting institutional arrangements within the devolved system of government that enabled local economic development and enterprise promotion such as market preserving federalism (Weingast, 1995), local state corporatism (Oi, 1995, 1992) and the soufflé theory of decentralization (Parker, 1995).

2.3.1. Market Preserving Federalism

Weingast (1995), proposed the theory of market preserving federalism (MPF) as a mechanism of mitigating government encroachment on business and market development. He defined a government as market preserving if it bore the following five characteristics: (i) presence of a hierarchy or more than one tier of government each of which has authority over a defined and legitimate region. This fact is the foundation of the devolved system of government (ii) decentralized or local governments have the primary regulatory responsibility over the economy; (iii) existence of a common market where there are no trade barriers; (iv) the local governments function under 'hard budget constraints' meaning that they cannot access credit facilities, create their own money and cannot be bailed out by their central governments in case of market failures. The last fact motivates local governments to ensure effective fiscal management within their regions; (v) the allocation of political authority is institutionalized in a way that the devolved system of government is self-enforcing. This means that political leaders at all the tiers of government honour the rules, authority and powers of both the national and subnational government.

In a situation where market preserving federalism is in place, decentralized governments seek to grow private enterprises and market economy through the establishment of favourable regulations, laws and policies (Ghani, 2014). Weingast (1995) argued that decentralization leads to political competition amongst subnational regions for labour, capital and economic activity because it implies offering public policy menus consisting of public goods, levels of taxation, provision of social amenities and security. Consequently, investors as well as skilled labour are attracted to move to subnational regions with the most favourable menu of public policies. This creates an enabling business environment and has a positive effect on enterprise development and subsequently on the economy. A subnational region with a vibrant private sector benefits from tax revenues collected from growing and stable enterprises. This serves as an incentive for local governments to preserve markets (Ghani, 2014; Oates, 1999; Weingast, 1995). In contrast, a government that fails to preserve its market, faces negative consequences which include loss of revenues because of a poor performing private sector (Weingast, 2009).

Historically, market preserving federalism was applied in the eighteenth and nineteenth century in England and the United States of America (Weingast, 1995). This led to the industrial revolution, thriving markets and subsequent economic growth of these nations. In recent times market preserving federalism has been correlated with the industrial and firm growth in China (Cull et al., 2017; Han & Kung, 2015; Jin et al., 2005; Bardhan, 2002).

Although there are strong arguments for market preserving federalism as a mechanism for growing enterprises and the economy, the concept has attracted critical attention. Rodden & Rose-Ackerman (1997) questioned the applicability of the MPF model in real life political systems especially in the developing world context. In their view, it was difficult to achieve the model's conditions simultaneously in many contexts due to various reasons. For example, it was rare that subnational governments bear the primary authority over regulation. Additionally, most intergovernmental systems subscribed to borrowing and intergovernmental revenue sharing models, and very few jurisdictions enjoyed hard budget constraints. Consequently, if the five conditions of MPF were not all met, then the predicted growth outcomes of the model would not be achieved.

Weingast (1995) and Montinola et al.(1995) contend that the MPF model fosters competition, hence it is assumed that less competitive jurisdictions would learn and emulate successful regions. In contrast, Rodden & Rose-Ackerman (1997) noted that in practice the abovementioned outcome was difficult to achieve owing to the prevailing low tax bases and other limitations in poorer subnational regions. Therefore, rather than fostering equality and growth in all regions, the MPF model could exaggerate regional disparities rather than ameliorate them. Similarly, drawing on data from South Africa Rubinfeld (1997) found that economic competition was not possible amongst subnational regions due to revenue collection limitations. The MPF model assumes financial independence of subnational regions to match their expenditure obligations, foster competitiveness and achieve predicted development outcomes. This was not the case for South Africa's subnational regions which were created with limited revenue raising capacities and are characterized by regional inequality. These factors limited the growth of economic activities.

Evidence from Russia indicate that in as much as a decentralized system of government existed in the country, many local governments lacked secure and independent sources of revenue. The local governments could only retain 10% of the tax revenue they collected. Therefore the MPF model results were not achieved as local governments resorted to overregulating businesses to maximize local revenues and limitations in funding hindered the development of infrastructure for private business thus limiting entrepreneurial activity. This factor explained the slow growth of Russia (Zhuravskaya, 2000).

Citing the case study of Argentina, Gordin (2007) argued that the MPF model failed to account for the poor fiscal performance of devolved systems of government in the developing world. The study highlights the fact that weak institutional capacity led to suboptimal fiscal results which in turn affected economic growth of decentralized developing countries. Similarly, Yukhanaev et al.(2015) identified institutional weaknesses characterized by flaws in the legal system, overregulation, over-bureaucratization and corruption as factors that lessened the ease of doing business in Russian subnational regions. These factors are not accounted for in the MPF model, yet they affected the envisaged economic outcomes in transition and developing countries.

The foregoing analysis raises the question as to whether the stipulated results of the MPF theory could be replicated in developing countries where (i) predatory governments are prevalent; (ii) soft budget constraints are established as opposed to hard budget constraints; (iii) there are huge regional disparities (urban areas are more developed and richer than rural areas) and (iv) institutional and human resource capacities are qualitatively lower than those of developed nations. As argued by (Bardhan, 2002) and (Litvack et al., 1998), decentralization systems in developing countries were different from those of developed countries and institutionally weak. Further, Sinha (2005) noted the omission of crucial administrative and political conditions in MPF studies, yet these factors influenced the effectiveness of the fiscal functions in achieving positive development results. Four of the five conditions of the MPF model relate to fiscal matters, focussing little on political and administrative institutions that mediate the impact of devolution on the success of economic outcomes. Hence the above theory may not be applicable to local business development in a developing country owing to the aforesaid limitations.

2.3.2. Local State Corporatism

Local state corporatism is a phenomenon that was used to describe local governments' involvement in entrepreneurship in order to grow the economy in China (Li & Matlay, 2006). The concept is based on scholarly works of Oi (1995, 1992) which provided a conceptual framework depicting the features of local entrepreneurial governments using the context of China. According to Oi (1992), China's economic growth in the 1980s was largely attributed to the fact that local governments treated township and village enterprises as components of a large public corporation. The objective of this model was to correct market failures that existed in rural China in the 1980s (Li & Matlay, 2006). Through this model, local governments engaged in enterprise development by facilitating access to capital to rural enterprises. This was done by proposing and influencing commercial entities to provide capital to the enterprises within their regions. Local government officials acted as board of directors of the collective enterprises hence influencing the strategic direction of the businesses. Additionally, the local government had the mandate to redistribute profits from the enterprises amongst business entities. The local governments also served as guarantors for the township and village enterprises and they also partially controlled credit institutions (Li & Matlay, 2006; Edin, 2003).

Local governments pursued this model for enterprise growth following fiscal reforms and decentralization in the 1980s that required them to be financially independent. Consequently the central government and the local governments entered into a fiscal contracting system that was deemed responsible for China's economic growth (Jin et al., 2005; Qian & Weingast, 1997; Oi, 1995, 1992)

In China, Jin et al. (2005) noted that fiscal decentralization offered strong financial incentives to local governments, hence they were motivated to draw up pro-business policies to promote enterprise growth because this translated to an increased tax revenue. However, they argued that this fact was a reality only in situations where the local government retained a sizeable portion of these revenues which was the case in China. The Chinese national government granted fiscal authority which included hard budget constraints to its provinces. The national government established a fiscal contracting system with the provinces which allowed the latter to raise tax revenues. The provinces shared 50% of the raised tax revenue up to a stated amount with the national government. Any amount above the specified tax revenue level was wholly retained by the province. Through this financial model, local governments were motivated to promote local business development and this led to massive growth of enterprise and industrial clusters in China (Weingast, 2014; Jin et al., 2005).

Indeed, in as much as local state corporatism led to the establishment of thriving local market economies especially in rural China, the model created a platform for rural leaders to enhance their privileges and earnings. Local leaders exploited communal assets under their control and collected commercial taxes for personal gains (Zang & Chen, 2015). Further, increased gaps between political or economic elites and the general population were notable due to an imbalance in the allocation of resources (C. Wang et al., 2014).

From the above discussions, local state corporatism seems to have yielded positive results, however the bulk of research on this concept is primarily drawn from China. Evidence of this theoretical model as it relates to local business development in other countries is scarce. Further its applicability in developing countries is questionable owing to the fact that majority of them do not have fiscal contracting systems in place. Further, most of the taxes are collected by central governments for redistribution to local governments. These facts limit the applicability of the theory in the context of a developing country, therefore rendering it less useful for this study.

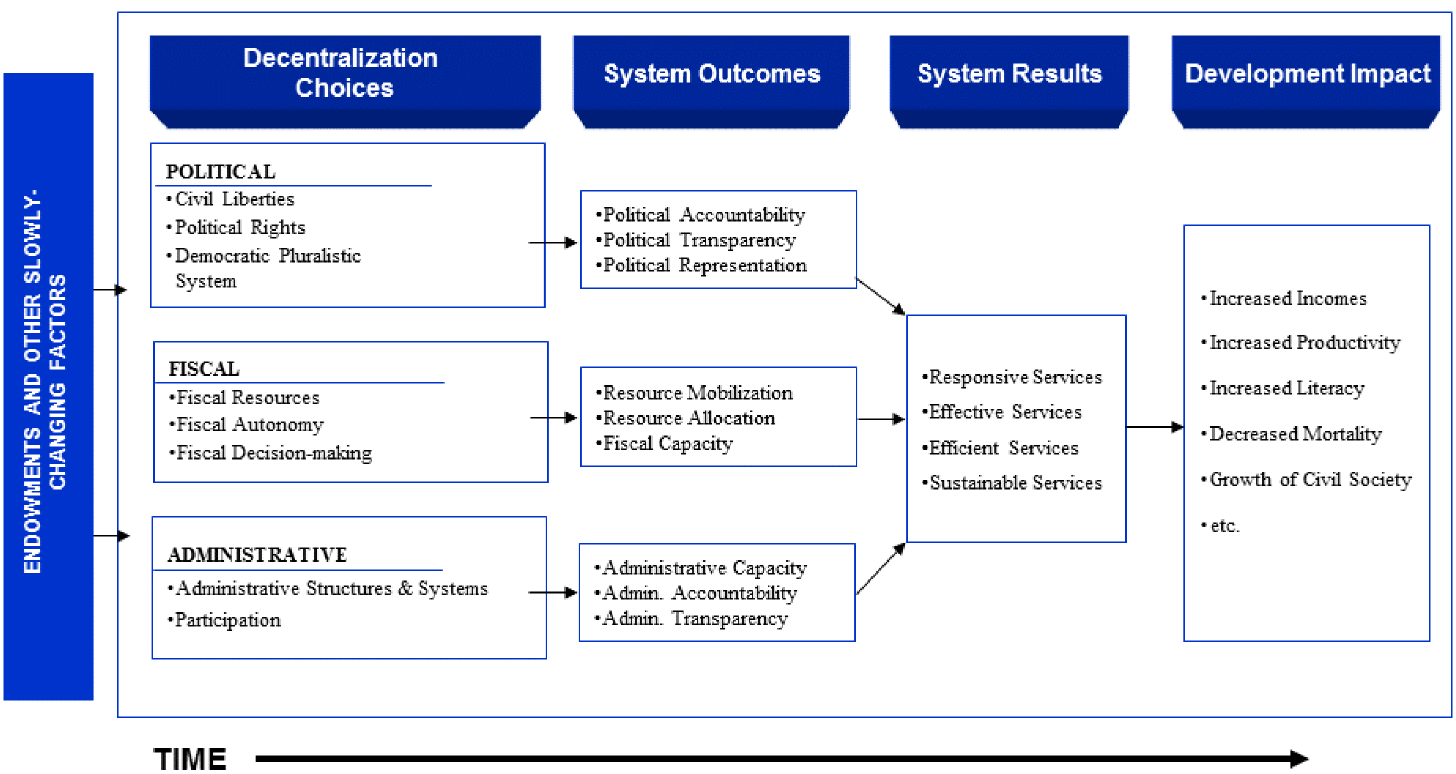
2.3.3. Soufflé Theory of Decentralization

In order to achieve the potential benefits of devolution, it is essential to have the right design of the political, administrative and fiscal institutional framework (Litvack et al., 1998). However, Litvack et al. noted that it was difficult for many countries to achieve the right mix of this institutional frameworks to realize the desired development outcomes. For instance, some countries granted decision making powers to local governments but failed to provide adequate resources to implement development programs. Others granted financial resources to local governments but failed to foster accountability. As indicated by Bardhan (2002), these inadequacies could be explained by the institutional weaknesses present especially in developing countries.

According to Parker (1995), devolution reforms and affiliated programs require the right combination of political, fiscal and administrative institutional elements to achieve the desired development outcomes. This is the basis of the Soufflé theory of decentralization coined by Parker (1995). Similarly, a recent study by Filippetti & Sacch (2016), revealed that fiscal decentralization led to economic growth only when coupled with administrative and political decentralization. They indicated that many studies that evaluated the impact of fiscal decentralization on economic outcomes overlooked the influence of political and administrative factors. This therefore, alludes to the complementary role of the dimensions of devolution in achieving desired development outcomes.

The Soufflé theory of decentralization was used to develop a conceptual framework depicting the link between devolution dimensions and intermediate outcomes that impacted rural development. The World Bank also adapted the framework to characterize devolution and how it affected socioeconomic outcomes as shown in Figure 2.1.

Figure 2.1: Soufflé Theory of Decentralization



Source: Adapted from Parker (1995)

The underlying principle of the conceptual model is that the political, administrative and fiscal dimensions comprising the devolved system of government, complement each other in ensuring subnational governments effectively, efficiently and sustainably deliver services whilst maintaining fiscal discipline (World Bank, 2000). This in turn leads to positive results with regards to development factors.

The theory has been applied in studies that focused on rural development initiatives and outcomes as well as service delivery, however research on its application to enterprise development are scarce. Market preserving federalism and local state corporatism theories inadequately linked devolution to local business development owing to the institutional framework limitations prevalent especially in developing countries. In addition, these theories are mostly described within the realm fiscal decentralization while making little reference to the administrative and political dimensions of devolution. Therefore, this study adopted and modified the soufflé decentralization theory to investigate the effect of devolution on SMMEs in a developing country. The underlying reason for adopting this theory is the fact that it integrates all the dimensions of devolution required for positive development outcomes. It also provides an in-depth understanding of the three dimensions of devolution and how they function interdependently and mutually affect development outcomes. Further, Kenya's devolution process involved simultaneous implementation of the three dimensions of devolution in all the counties.

The next section discusses how devolution in all its dimensions shapes the local business environment and ultimately influences SMME growth.

2.3.3.1. Fiscal Decentralization and Local Business Development

As highlighted in the previous sections, fiscal decentralization grants subnational governments the power to raise and make decisions on how to utilize fiscal resources to provide of public goods and services to their citizens. Financial responsibility is a major component of devolution because subnational governments require adequate levels of revenues to finance and effectively carry out their functions as well as the authority to make decisions on expenditures (Litvack & Seddon, 2002). Therefore fiscal decentralization is deemed as an essential dimension of devolution because it tackles reforms with regards to the expenditure system and intergovernmental revenue transfers (Amin, 2018).

Fiscal decentralization is anchored on four pillars represented in assignment of expenditure responsibilities, revenue allocation, intergovernmental transfers and subnational borrowing (Ahmad et al., 2005). Within this framework, subnational governments determine their expenditure needs which are financed through the following sources of revenue: locally generated resources such as user charges, fees, local taxes; intergovernmental fiscal transfers of centrally raised revenues from the national government to subnational governments for general or specific purposes and borrowing facilitated through loans from financial institutions or by issuance of bonds or securities in the capital market. Financing options also include co-financing or coproduction arrangements which engage users in providing services and infrastructure through monetary and labour contributions (Litvack & Seddon, 2002; Parker, 1995).

In the developing world context there is widespread adoption of fiscal decentralization as a means of weakening the grip of central planning which has been perceived as a failed mechanism for achieving sustainable growth (Oates, 1999). Scholars argue that fiscal decentralization enables subnational governments to provide better goods and services that match the needs of their populace (Oates, 1999; Tiebout, 1956; Hayek, 1945). This is possible because, fiscal decentralization provides a window of opportunity for subnational governments to enhance local economic development (Prud'homme, 2003; Bahl, 1999).

In relation to business development, studies show that fiscal decentralization affects the business environment, entrepreneurial activity and subsequently business growth within subnational regions. Sobel, Dutta, & Roy (2013) contend that fiscal decentralization is correlated with a better business climate within subnational regions. Their study based on data from the USA, posits that fiscal decentralization leads to economic growth because of better policies formulated that are conducive for entrepreneurial activity within subnational regions. The study however, did not outline the particular policies that were implemented to improve the business environment.

Similarly, using panel data of 78 countries, Escaleras & Chiang (2017) found a correlation between fiscal decentralization and the business environment, however they noted that this was subject to the quality of the government. The study indicated that fiscal decentralization provides a channel for enhancing the business environment through improvement of regulatory processes, government effectiveness and reduced levels of corruption. These attributes fall within functions of the political and administrative dimension of devolution. Thus suggesting the need to appraise political, administrative and fiscal decentralization together to determine their effect on business development.

China's subnational regions enjoyed fiscal decentralization reforms from the 1980s and were termed as entrepreneurial owing to their innovative ways to improve the business climate and ultimately economic development (Oi, 1992). Local governments in China strove to improve the business environment for SMME growth by creating mutually beneficial relationships with businesses such as patronage, partnerships and playing a venture capitalist role (Mei et al., 2016). These initiatives were motivated by scarcity of resources within subnational regions. Therefore local government leaders formulated strategies to foster entrepreneurial activities within their regions to raise more resources from businesses and as a means of avoiding central government regulations.

The evolution of the Yiwu market, the world's largest wholesale market located in Zhejiang province, China, is a classic example of the effects of local government engagement in business development (Wu et al., 2016). This was realized through fiscal policy and governance innovations drawn by the subnational government over a 30 year period and as a result SMEs currently account for 58% of the subnational region's GDP. The subnational governments' interventions that largely contributed to the growth of SMEs included investment in physical infrastructure, information technology infrastructure, regulatory measures geared towards improving quality of products, investment in research and development, provision of subsidies as well as coaxing of financial institutions to grant funds to SMEs that ventured into manufacturing.

In Finland, local municipal fiscal policy was found to have an impact on the growth of firms. Data drawn from 70000 firms in 308 municipalities indicated that municipal spending had a statistically significant and positive effect on the firms' employment and added value growth (Van Cauwenberge et al., 2016) . In this study context, municipal spending was financed through the municipalities' own revenue which accounted for 50% of total revenue and 50% was in form of grants from higher levels of government. The main municipality spending categories were transport infrastructure, urban development, public administration education and safety. However, the study also found that as much as municipal taxation played an important role in financing the municipalities' spending, it had a statistically negative effect on firm added value growth.

In other jurisdictions, fiscal decentralization led to undesirable consequences on businesses. For instance, Indonesian local governments faced budgetary deficits because the central government's fiscal allocations were low. Therefore, local officials resorted to reviving levy laws that were done away with in the past as a fiscal strategy to raise local revenue. This had a negative impact on businesses because it increased the cost of doing business. Additionally, interpretation of laws presented a challenge to local officials, hence in some instances they enacted laws that contradicted those of the national government or created distortions in the economy. Legal tussles ensued as business associations challenged local regulations that were applied to business activities arguing that the taxes and levies introduced increased the cost of doing business, hampered long-term business sustainability and weakened the competitiveness of respective regions and commodity exports. In other situations there was duplication of regulation between Indonesian provinces and local governments (Saad, 2001). These challenges fall within the realm of the political and administrative dimensions of devolution further meriting the need to study devolution in totality in relation to business development.

Local governments' costs have also been implicated as an impediment for firm growth. Firth, Gong, & Shan (2013) found that firms located in Chinese provinces that incurred high public administration costs stifled the growth of businesses in terms of market valuation, labour productivity and profitability. Drawing on data from 31 Chinese provinces, the study found that high running costs of provincial governments translated to high fee collections which resulted in a high effective tax burden on businesses. This in turn eroded the profitability and productivity of firms and this led to a lower market valuation. Secondly, high administrative costs led to diversion of budgetary allocations meant for infrastructure and other public goods, thus creating an unfavourable business environment for firm growth.

2.3.3.2. Political Decentralization and Local Business Development

Political decentralization provides a legal framework for power to be exercised at lower levels of government and it enables citizens and elected local leaders to influence public decision making, policy formulation and implementation (Kauzya, 2007; Litvack & Seddon, 2002). It includes organizations and procedures for increasing citizens' and civil society associations' participation in public decision making (Cheema & Rondinelli, 2007). Political decentralization strengthens accountability in the sense that it allows citizens to vote out elected government officials in subsequent elections in situations where poor service delivery has been experienced (Mookherjee, 2015). Therefore, political decentralization aids in reducing the gap between the state and citizens, and facilitates the development of an interactive and responsive state (Muna, 2016).

Eaton, Kaiser, & Smoke (2011) posit that politics and institutional dynamics largely drive and shape the decentralization process. In their view, all facets of decentralization involve deeply political acts and processes from the moment of making the decision to decentralize to the implementation stage. These acts and processes affect the trajectory of decentralization reforms which ultimately have an impact on decentralization with regards to realizing any stated objectives.

One of the economic aims of any centralized government is to maximize wealth for its populace through formulation of sound economic policies. However, central governments lack sufficient knowledge to realize this task (Hayek, 1945). The basis of this argument is that such knowledge is dispersed with different individuals in society. According to Hayek, this is the type of knowledge that entrepreneurs and investors accrue on the fluctuations and progress of the local economies over time. Therefore, minimizing the distance between the decision makers and those with the market knowledge would mitigate the knowledge problem and ultimately facilitate better economic planning.

Political decentralization is thus deemed one of the instruments for solving the knowledge problem because it provides a legal framework for taking the decision making process closer to the people and local government officials. Based on her study on the political economy of Indian and Chinese Special Economic Zones (SEZs), Moberg (2015) demonstrated how political decentralization served as a channel for addressing the knowledge problem in policymaking. Her comparative case study results showed that India’s national government was fully responsible for determining the location and type of production for SEZs. However, poor and unattractive zone locations were chosen, hence the SEZ investments did not match the market conditions. The underlying reason for this failure was the SEZ planners’ limited insights and ability to determine the best zone locations. Additionally, the national government imposed SEZ regulations that impeded businesses within the zones to subcontract with firms outside the zones. This affected negatively the profitability of firms within the SEZs.

Conversely, Moberg argues that China’s decentralization reforms facilitated the growth of SEZs. Her findings depict that local governments which had a better understanding of the local conditions than the central government formulated the SEZ regulations. Further, the local governments made the initial infrastructure investments and ensured proper administration as well as provision of services that greatly contributed to the success of SEZs. These initiatives were further augmented by increased fiscal decentralization which incentivized local government officials to grow the local economy by promoting businesses. The latter supposition concurs with Jin et al. (2005) research findings which posit that regions with strong fiscal incentives experience healthier local business development than those with weak fiscal incentives. The aforementioned facts illustrate the complimentary roles political, administrative and fiscal decentralization play in local business development.

Litvack & Seddon (2002) contend that subnational governments can effectively respond and match public spending to local needs if there is information flow between the local government and citizens. Engaging citizens in business development policy formulation has yielded positive results in some regions. For instance, in China, the advent and subsequent growth of SMMEs within the Yiwu Market (Zhejiang Province) was partly attributed to an initial dialogue between a group of farmers and county government officials in 1982 (Wu et al., 2016). The farmers petitioned the county government to allow them to engage in commercial activities at a time when the national government prohibited such activities. The county government heeded the request of the farmers and allowed them to partake in commercial activities, arbitrage, trading activities with urban residents as well as market competition. This led to the development of the Yiwu market which currently enjoys the status of a global commerce hub.

In the subnational region of Chihuahua in Mexico, decentralization policies provided an opportunity for internationalized local capital which ultimately led to entrepreneurial local development (Topal, 2015). This was realized through the involvement of business groups in the political processes in order to boost competitiveness of the region. Private-public partnerships (PPPs) were forged and these were responsible for the initiation and implementation of all development plans in the region. The business groups got involved in local politics as they realized the local government was the locus of development policies. Hence, they nominated candidates for public offices, provided funds for political parties and designed campaigns for elections. This served as a means of safeguarding business interests by ensuring foreign direct investments (FDIs) and partnerships with the locals continued. Additionally, local businesses empowered and funded civil society associations as a means of fighting centralism for decentralization and democracy as well as promoting an entrepreneurial culture in the region. Consequently, the above-mentioned alliances and efforts transformed Chihuahua to a major centre of the metal and mineral mining, finance and cattle breeding sectors in Mexico.

Another argument in favour political decentralization as a mechanism for local business development is made on the basis of the system's association with preservation of markets. Weingast (1995) argues that a thriving market requires not only an environment that enforces contracts and protects property rights but a political system that has a limited government that does not confiscate the wealth of businesses. Political decentralization limits the powers of the national government in the policy making process at the sub-national regional level thus making it a necessary ingredient for economic reform. According to Weingast, strengthening local power and limiting the ability of the national government in intervening in the local economy, was a critical success factor for the industrial revolution and subsequent growth of enterprises in England and the USA. During this era, regional governments ignored regulations that had traditionally been established by the national governments and this provided an avenue for enterprises to migrate to regions that had favourable business regulations. Similarly, Eaton, Kaiser & Smoke (2011) posit that decentralization of regulation and tax, results in subnational government competition, thus providing a window of opportunity for businesses to negotiate region specific investments with local government leaders.

Regional level political influence has also been cited as factor that affects the performance and growth of businesses within sub-national regions. Using a dataset of 1946 private enterprises located in 21 Chinese provinces, Zhou (2013) found that firms that had political connections enjoyed better access to resources and security in terms of property rights and this resulted in higher reinvestment rates of profits. This factor is cited as one of the contributors of growth of Chinese SMEs. In this study, 68% of the firms had political connections and the effects of these connections were more prevalent in regions that had weaker market and legal institutions. Nonetheless, Zhou's study also demonstrates that as formal institutions improve, the benefits of political influence decrease and the costs increase, thus diminishing the role of political connections. This signifies the importance of developing market and legal institutions to facilitate the growth of enterprises, a task that falls within the domain of political and administrative dimensions of devolution.

In as much as the political dimension of devolution is considered a contributor for business development, it has also presented challenges for businesses. Drawing on data from SMEs in from 402 enterprises in 29 regions in Russia, Sokolov & Solanko (2016) found that subnational regions that were characterized by a weak institutional environment where legislators and laws were up for sale, provided avenues for politically connected firms to influence regional political decision making. Consequently these firms enjoyed enhanced profits and were shielded from liquidation. However, such firms were more vulnerable to exogenous shocks such as the financial crisis of 2008-2009. Similarly, Siegel (2007) posits that in less developed economies, the fortunes of politically influential firms dwindled when new political regimes expropriated power from the political elites they were associated with. Drawing on data from SMEs located in 32 Indonesian provinces, Digdowiseiso & Sugiyanto (2021) found that influential entrepreneurs with strong political affiliations received better treatment with regards to licencing services compared to ordinary business people. This entry barrier limited the creation of new firms hence decreasing the rate of SME growth in Indonesia.

Local politicians may act as protectors of businesses but in turn extract rent from them for personal gain or political mileage (Shleifer & Vishny, 1994). This has a negative effect on firm growth as such firms tend to utilize their profits to pay politicians or influential board members affiliated to politicians in lieu of investment and firm expansion (Mironov & Zhuravskaya, 2016). Local governance has also been associated with strong political competition which can lead to candidates promising voters short term benefits such as low taxes or waivers to the detriment of long-term programs (Mookherjee, 2015) that could be of more value to local business development.

2.3.3.3. Administrative Decentralization and Local Business Development

Administrative decentralization entails the deconcentration of central government structures and bureaucracies as well as the delegation of central government authority to subnational governments (Cheema & Rondinelli, 2007). It enables central governments to transfer the planning and financing responsibilities and management of select public functions to subnational governments (Litvack & Seddon, 2002). Consequently, increased administrative power at the subnational level, gives latitude to local governments to engage more in socioeconomic activities and initiate investment projects that match local needs (Yu & Gao, 2013).

However, the effectiveness of this dimension of devolution depends on a set of discernible conditions which include: (a) a legal framework that defines the decentralized institution or levels of government, how they are constituted and how they relate to each other and the central government; (b) organizational capacity to carry out the responsibilities devolved to subnational governments and improve the service delivery. This implies the need for local technical and managerial capacity as well as clearly defined planning and management procedures for effective formulation, implementation and evaluation of service delivery initiatives; (c) financial resources to acquire equipment, personnel and infrastructural facilities to adequately fulfil decentralized responsibilities (Cheema & Rondinelli, 2007; Parker, 1995; Rondinelli et al., 1989). The aforesaid requirements suggest that effective processes and outcomes of administrative decentralization are influenced by factors that fall within the purview of political and fiscal dimensions of devolution.

Many developing countries have adopted administrative decentralization as a means of fostering local economic development through trade development, nonetheless empirical evidence on its impact on business development are scarce. However, scholars such as Yu & Gao (2013) found some evidence on the relationship between administrative decentralization and enterprise development in China. According to their study, administrative decentralization was implemented as part of central government's strategy to reduce risks associated with market reforms in a bid to grow the economy. It gave Chinese local governments power to make development plans, allocate resources and initiate investment projects thus boosting local economic development. The administrative powers varied from region to region, but most local governments were granted the economic management authority to approve infrastructure and technical upgrading projects, financial activities, land management, qualification of construction enterprises, tax management, labour and human resource affairs. Social management powers were also granted which included the authority to issue foreign residencies and work permits to foreigners.

The abovementioned reforms consequently led to the growth of SEZs and small manufacturing goods markets in Chinese subnational regions. The SEZs provided local experimental zones to test and control market reforms in different regions of China. This affirms Litvack & Seddon (2002) supposition that decentralization can facilitate the implementation of more creative, innovative and suitable economic programs by permitting local experimentation. Moreover, administrative decentralization also aided the Chinese government to amass knowledge on management of the market economy, a factor that is credited for business development and the subsequent economic growth of China. Based on these findings, Yu & Gao (2013) contend that besides fiscal decentralization, administrative decentralization plays a key role in fostering business development and ultimately regional economic growth in China.

A key component of administrative decentralization for purposes of effective operationalization of development plans is managerial and organizational capacity. Using the case of Tabasco, Mexico, Topal (2015) examined the aforementioned in relation to the local economic growth. The findings of the study indicate that Tabasco strengthened its administrative capacities to effectively design and implement development programs thus taking full control of the local development agenda. This was achieved through the formation of local state development agencies which enjoyed professional, logistical and political support for planning more than other regions in Mexico. Further, personnel within the municipalities were trained to ensure they had high technical qualifications and skillsets necessary for addressing the political and socio-economic issues.

The foregoing administrative capacity investments enabled the formulation of strategies for growing businesses in the region. For instance, state managers capitalized on development programs that boosted the exploitation of oil and generation of electricity from water resources. Thus Tabasco came to be known as “the energy state”. Additionally, these managers directed their efforts towards creating an enabling business environment for private capital accumulation. This was achieved through establishment of local business associations to increase the competitiveness of local entrepreneurs and promote FDIs in Tabasco. The government also opened new market offices in the neighbouring United States of America. It also established economic development programs for articulation of local SMEs with state corporations and foreign investors and complemented the lines of credit. Consequently, growth was realized in terms of the state’s financial capacity, businesses especially those affiliated with the oil sector and inflow of investments in the region (ibid).

Similarly, Teixeira & Barros (2014) examined the key determinants of local government involvement in the promotion of internationalization of SMEs in Portugal. Drawing on data from

144 municipalities, they found that assigning staff in the promotion of local economic development and internationalization of SMEs as a factor that was positively and significantly related to the volume of exports and number of local enterprises. They characterized the staff as individuals that are professionally qualified and can independently make decisions albeit bureaucratic and hierarchical processes. This alludes to the need for subnational governments to have adequate administrative capacity in terms of human capital to grow businesses. Nonetheless, the aforementioned correlation was notable only in municipalities with a higher municipal budget amongst other factors such as high levels of literacy and purchasing power of the population. This fact shows that as much as the administrative dimension of devolution is a contributing factor in the development of SMEs, the fiscal dimension is necessary to finance the hiring of professionals to promote businesses.

Tan & Tran (2017) examined administrative decentralization in Vietnam in terms of local governance quality and its effect on firms' productivity. Based on panel data from 63 provinces over the period 2009 - 2012, the study depicts a positive correlation between the business environment and firm productivity. This was driven by less administrative procedures for businesses, fairness in the legal system, less land expropriation risks and less informal charges implying less corruption. Further, the authors contend that the presence of proactive bureaucrats within the provincial governments capable of creating, interpreting and implementing sound policies facilitated improvements in the business environment. In view of the above findings, it can be implied that administrative decentralization requires good governance to realize positive economic outcomes.

In the case of Italy, Giordano, Lanau, Tommasino, & Topalova (2015) evaluated the effect of public sector efficiency on firm productivity using data from 400,000 firms located in all the Italian provinces. Public sector efficiency was measured in terms of the provinces' performance in providing healthcare, child care and waste disposal services whereas firm productivity was reflected in terms of output per euro spent on salaries in firms. The study's findings depicted a significant and positive correlation between public sector efficiency and firm productivity. Further, higher firm productivity was more evident in provinces that had more efficient public spending.

Poor outcomes of administrative decentralization reforms are notable especially in jurisdictions marred by corruption. This factor causes many firms to divert their resources towards nonproductive activities to mitigate administrative bottlenecks thus decreasing their productivity and profitability. In support of this view, De Rosa, Gooroochurn, & Gorg (2010) performed an in-depth study on corruption in Central and Eastern Europe and Central Asia with the aim of examining the effect of bribe tax on firms' productivity. The results of their study indicate that corruption had a statistically negative effect on firms' productivity. According to the study, firms bribed as a way of circumventing stringent regulatory procedures imposed by governments. Further, De Rosa et al. found that corruption was more prevalent in regions that had lower levels of institutional quality hence firms that paid bribes in such environments reduced their levels of productivity due to the increased transactional costs.

Fisman & Svensson (2007) also found that bribery was negatively correlated to firm growth in Uganda. More specifically, the study evaluated the impact of taxation and bribery on the growth of 243 firms based in 5 different regions in Uganda. The results indicated that both factors had a retarding effect on firm growth defined by sales volume, however, bribery reduced growth to a greater extent than taxation.

In the Russian context, Yakovlev & Zhuravskaya (2013) examined the enforcement of national liberalization laws with regards to business regulation and its impact on SME performance and employment in different regions. Their findings depict differentials in enforcement of the liberalization laws across the Russian regions hence differing SME growth outcomes. The main goal of the business regulation reforms was to increase business entry and the growth of the SME sector. The study shows a significant and positive effect of the business regulation reforms (de-licencing, inspection and registration of businesses) on sales growth of firms, number of SMEs and share of employment in small businesses. Nonetheless, this was only evident in regions with higher transparency of governments, higher internet penetration and higher concentration of industries. These facts enabled more effective monitoring by the general public and large businesses. Further, regions with higher fiscal incentives also ensured better enforcement of the liberalization laws as the local government bureaucrats had strong incentives to support businesses rather that to stifle their development through rent seeking.

Nguyen, Mickiewicz, & Du (2018) analysed 300,000 Vietnamese firms during 2006-2012 and found evidence linking higher levels of transparency with increased firm growth. According to the study, administrative transparency concerns availing information and distribution of information as well as resources to the public and firms. Therefore, in regions with high levels of transparency, businesses incurred less costs in acquiring and processing information. Similarly, Malesky, McCulloch, & Nhat (2015) evaluated the impact of transparency on firms' investment levels using data from 8500 Vietnamese private enterprise in 63 provinces. Their findings indicate that transparency in terms of availability and access of local government planning and legal documents such as provincial budget, infrastructure construction development plans, socio-economic plans as well as maps for re-zoning land, is associated with increased SME investments.

Thus, it can be inferred that the quality of local government institutions affects the business climate and SME growth. Transparency and accountability mechanisms are required to strengthen institutional quality therefore facilitating the efficiency in the delivery of outputs with regards to the administrative dimension of devolution and business development. This also requires the presence of competent staff that are strongly incentivized hence mitigating the risks of corruption.

2.3.3.4. Section Summary

A large body of literature asserts a causal relationship between the fiscal dimension of devolution and business development whilst making little or no mention of the administrative and political aspects of the devolution process. However, the foregoing analysis of literature suggests that the effect of fiscal decentralization on business growth is influenced by a mix of factors within the realm of the administrative and political dimensions of devolution. It can thus be inferred that the omission of the political and administrative dimensions in empirical examinations may lead to biased results especially in contexts where all three forms of decentralization are in place simultaneously. This merits the need to understand and examine the interplay and dynamics of all the dimensions of devolution and their simultaneous effect on SMME growth.

The above discussions also suggest that poor governance due to corruption negatively affects business growth and it thrives in situations where strong formal intuitions are lacking. Formal institutions provide codified sets rules and norms (North, 1990) and they play an important role in shaping SMME owners' strategy formulation and implementation, subsequently impacting business performance (Bruton et al., 2010). Development of these institutions require an effective political framework and will, financial muscle and an administrative force that is effective enough to formulate, implement and monitor agreed upon policies and regulations. This is in alignment with Holmes et al.(2013) assertion that there are three types of formal institutions that are important for business managers and SMME development that is political, regulatory and economic institutions. In their view, these institutions collectively define an established order within which SMMEs operate thus affecting their performance.

Dysfunctional formal institutions on the other hand negatively affect enterprise development and open a conduit for entrepreneurs to engage in unproductive, unethical and destructive economic activities (Digdowiseiso & Sugiyanto, 2021; Peng, 2003; Baumol, 1990). Thus, Beck & Demirguc-Kunt (2006) advocate for the need to constantly improve the formal institutions and the business environment as a means of mitigating SME growth constraints and facilitating their contribution to economic development.

The abovementioned facts allude to the need for effective and complimentary operationalization of the fiscal, political and administrative functions of subnational governments to achieve positive SMME developmental outcomes. This supports Parker's (1995) assertions based on the Soufflé theory of decentralization, that devolution reforms require the right mix of administrative, political and fiscal factors to achieve positive development outcomes. Nevertheless, in as much as the three dimensions of devolution are important, it is evident that fiscal decentralization is the overarching dimension that affects the functionality and effectiveness of devolved governments. As depicted in the above analysis strong fiscal incentives were associated with increased investments in infrastructure, programs and services for SMME development in subnational regions. Further, determinants for SMME growth such as adequate administrative capacity, high levels of transparency and presence of strong formal institutions were notable in regions with high budgets and expenditures.

Based on the literature reviewed in this section, it can be inferred that the determinants of SMME growth under devolved governance are as follows (see Table 2.2):

Table 2.2: Determinants of SMME Growth under the Devolved System of Governance

Dimension of Devolution	Determinants of SMME Growth	Author
Fiscal	Power to formulate sound fiscal policies	Sobel et al., 2013; Wu et al., 2016; Mei et al, 2016

	Availability of adequate financial resources	Mei et al., 2016; Moberg, 2015; Teixeira & Barros, 2014; Wu et al., 2016
	Financial investment in infrastructure development	Moberg, 2015; Van Cauwenberge et al., 2016; Wu et al., 2016
	Financial investment in public administration	Van Cauwenberge et al., 2016
Political	Power to make decisions at the subnational level	Weingast, 1995
	Improved Regulatory Processes (Formulation & enactment of Laws)	Escaleras & Chiang, 2017; Eaton et al., 2011; Tan & Tran, 2017; Moberg, 2015
	Freedom from corruption	Sokolov & Solanko, 2016
	Citizen engagement in the decision making process	Litvack & Seddon, 2002; Wu et al., 2016; Topal, 2015
Administrative	Power to formulate and implement governance innovations, development plans	Wu et al., 2016; Yu & Gao, 2013; Topal, 2015
	Power to make decisions on resource allocation	Yu & Gao, 2013
	Government effectiveness with regards to service provision	Escaleras & Chiang, 2017; Wu et al.,2016; Zhou, 2013; Moberg, 2015; Giordano et al., 2015
	Effective interpretation of laws	(Saad, 2001; Tan & Tran, 2017)
	Transparency	Yakovlev & Zhuravskaya, 2013; Nguyen et al., 2018; Malesky et al. 2015
	Effective human resource management	Yu & Gao, 2013; Topal, 2015; Teixeira & Barros, 2014; Tan & Tran, 2017
	Freedom from corruption	Digdowiseiso & Sugiyanto 2021; Tan & Tran, 2017; De Rosa et al., 2010; Escaleras & Chiang, 2017; Fisman & Svensson, 2007;

Source: Author's construction

The next section gives an insight on SMME development in Kenya under devolved governance.

2.3.4. Devolution and SMME Development in Kenya

The SMME sector is a critical pillar for Kenya's economy and it currently contributes to 34% of the country's GDP (KNBS, 2016). Additionally, the sector accounts for majority of business establishments and employs a large proportion of Kenya's working population (KIPPRA, 2016; Gitonga, 2008). Cognizant of the critical role SMMEs play in the growth of Kenya's economy, the government made strides to grow the sector. Therefore, policies outlined in various sessional papers from the time of Kenya's independence were ratified and they focused on strategies for improving the legal and regulatory framework as well as access to finance in order to create a business enabling environment for SMMEs (Shibia & Barako, 2017).

Kenya's business environment is characterized as dualist in that it consists of businesses that operate formally and informally (KIPPRA, 2016; KNBS, 2016). The informal sector refers to businesses that generate income from the production of goods and services but are not registered with the government (Nichter & Goldmark, 2009). Further, the sector is unregulated and they do not pay taxes. These facts make it difficult for these types of businesses to enter and enforce contractual obligations (Mazonde, 2016). The sector faces challenges such as poor access to support infrastructure, inability to participate in government procurement opportunities and limited access to social and investor protection provisions. Owing to the fact that they have no obligation to meet statutory business regulations, the employee wages and the quality of products and service standards tend to be low. However, these business entities incur low costs of compliance, therefore business entry is easier compared to formal enterprises (KIPPRA, 2017). Statistics indicate that 78.9% of Kenya's SMMEs fall within the informal sector and all are micro enterprises mostly operating from households (KNBS, 2016). The government is presently focused on transforming these enterprises to formal business entities by establishing measures targeted at raising their productivity, increasing business owners' incomes and public revenue as well as generation of new jobs (GOK, 2013, 2007).

The formal sector comprises of businesses that are officially registered with the government and generate income from the production of goods and services (Daniels, 1999). This sector is considered as being productive because they have better access to markets and services than informal businesses. Additionally, the formal sector is the hub of government activity because of the revenue it obtains from them in form of taxes (Mazonde, 2016). Statistics indicate that 21.1% of SMMEs in Kenya fall within the formal sector (KNBS, 2016).

SMMEs in Kenya face various challenges most of which emanate from the regulatory environment characterized by unpredictable and inconsistent taxes as well as multiple charges from the national and county governments (KIPPRA, 2017; Mbugua & Moronge, 2016; D. Mwangi, 2014). Other constraints include insecurity, poor infrastructure, lack of access to capital, expensive business loans, lack of access to market and stiff competition (KNBS, 2016). Following devolution reforms and the policies outlined in Kenya’s development blueprint, Kenya Vision 2030, the government and counties initiated strategies to address the aforementioned challenges.

At the national level, recent initiatives implemented to improve the business environment include establishment of Huduma Centres which are state owned entities that provide integrated government services under a single roof thus offering efficient and transparent services to businesses (World Bank, 2016). The government also developed a web-based e-trade portal to provide timely and reliable information to businesses and simplify e-commerce transactions (KIPPRA, 2017). Other initiatives include the reduction construction permit fees; improving property registration by establishing electronic documentation and land registry offices in counties; improving access to credit and expansion of borrower coverage; creation of business producer groups to integrate small entrepreneurs to large associations that provide goods to final consumers (World Bank, 2018, 2016; KIPPRA, 2017).

At the subnational level, county governments have implemented various projects to provide an enabling business environment for SMMEs such as road and infrastructure development to improve access to markets; installation of street and flood lights in order to improve security thus increasing the working hours for small businesses and establishment of micro-finance institutions and cooperative societies to improve access to affordable credit for small businesses (COG, 2016). Statistics indicated that the cooperative societies had grown in number by 47% and their returns rose from USD 312 million to USD 496 million three years after devolution was established thus providing a capital stream for SMMEs (CRA, 2016). Other initiatives include the building of market stands for fresh produce which had increased from 352 to 651 stands and formation of county economic blocs in order to ease trade and improve investor relations (Ogwang, 2017). Counties such as Nairobi introduced a unified business permit which consolidated five permits required for business operation on an online platform. This has made it easier for businesses to access and make payments for the permit (World Bank, 2018). Kisumu County implemented an electronic platform for construction permitting thus reducing the approval time from 30 to 22 days (World Bank, 2016).

There is a dearth of empirical evidence on the effect of the devolved governance on the development of SMMEs in Kenya. However, a few scholars have evaluated the performance of county governments focusing on the impact of legal and regulatory frameworks as well as business development service programs established by county governments for SMMEs. For instance, Ong'olo and Awino (2013) evaluated the institutional and regulatory challenges that affected SMEs in four counties. Their findings revealed various bottlenecks facing SMEs such as poor enforcement of regulatory legislations coupled with a knowledge gap on national and county policies' interface, inadequate private and public dialogue at the county level and poor coordination of SME activities.

With the advent of devolution several county governments drew up policies which led to increased taxation and introduction of new licensing procedures for enterprises. Studies indicate that SMME owners in different counties decried the increased levels of taxation arguing that it reduced their profit margins (Mbugua & Moronge, 2016; D. Mwangi, 2014). Using data drawn from fresh fruit and vegetable traders in Taita Taveta County, Nashikawa & Ogada (2019) established that business owners found the county levies very expensive thus increasing their operational costs which ultimately led them to increase the prices of their goods. Consequently, this aspect made their products and businesses less competitive especially in the urban markets. Additionally, majority of the traders pointed out that the levies were not well regulated and the payment guidelines were not clear thus hampering the SMEs' financial planning.

Whilst the World Bank (2016) commended the reduced turnaround times for business licensing in some of the counties in Kenya, studies in some regions show discontentment of SMME owners with regards to the licensing procedures. On examining the influence of government policy on youth owned enterprises in Nairobi County, Sharu & Guyo (2015), found that the business registration and licensing requirements were cumbersome thus adversely affecting the performance of SMEs. The study also cited corruption and heavy taxation within the county as other factors that limited the growth of youth owned enterprises. A similar study was carried out in Ruiru Sub-County and the results indicated that youth owned enterprises found business licencing a complex and tedious procedure, partly because government officials solicited for bribes to facilitate approvals. Consequently, many entrepreneurs evaded some of the procedures, however in the long run they accrued penalties which ultimately increased the cost of doing business and in some cases this led to business closures by local authorities (Maingi et al., 2019).

Further, some county governments rolled out initiatives to support SMMEs, however, entrepreneurs were not aware of them. For example, in Kiambu county many SMMEs were unaware of county development programs such as provision of loans and training to improve the running of their businesses, hence they did not exploit these opportunities (Mbugua & Moronge, 2016). This implied poor communication, coordination and execution of the county government programs for SMME development.

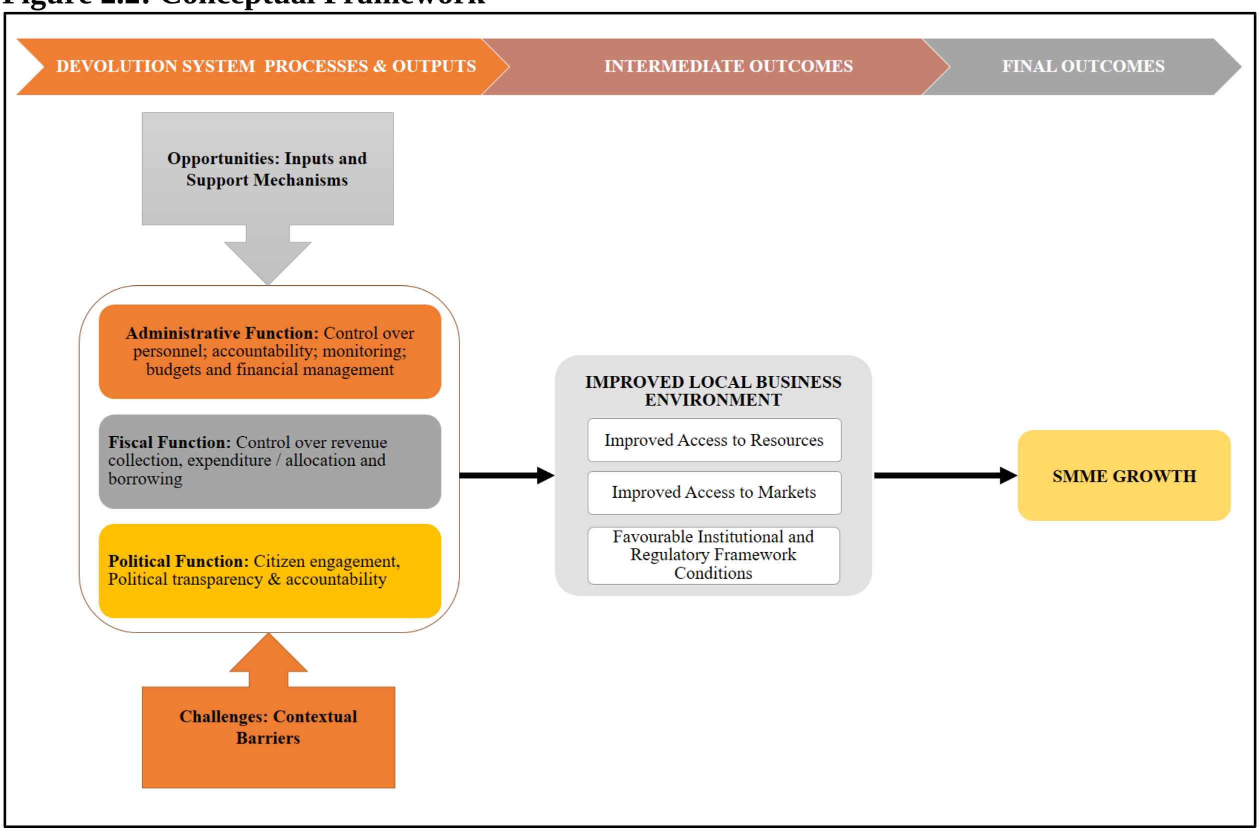
These studies, just as most of the scholarly works on devolution and economic outcomes, used quantitative methodologies primarily employing descriptive surveys to correlate devolution and SMME growth. They did not evaluate the political, administrative and fiscal processes of devolution holistically to determine how they simultaneously function to promote SMME development. Further, studies show that some counties were performing better than others with regards to regulatory reforms to improve the business environment (World Bank, 2016). However, the underlying reasons for the variations were not highlighted. This merited the need to study contextual issues affecting county governments in their quest to provide public goods and services for SMME development. This study thus applied a qualitative method to explore how the devolved system of government is configured to grow the SMME sector, the effect of the system's outputs on SMME development from the perspectives of SMME owners and the challenges impeding the development of SMMEs under the devolved system of government.

2.4. Conceptual Framework

This study sought to determine the effect of devolution on SMME growth through the lens of soufflé theory of decentralization. Previous studies have applied this theory to other development impacts such as rural development and access to service delivery but not SMME development. Thus, this research will build further on the existing theoretical framework depicting the relationship between devolution and SMME development and how the dimensions of devolution affect the local business environment in a developing country context. Drawing on the literature review findings in this chapter, a conceptual framework was developed depicting the domains and relationships of interest in this research. Figure 2.2 represents the framework showing the linkages of the devolved system of government outputs and the outcomes in relation to SMME growth.

The conceptual framework implies that SMME growth is dependent on the presence of a conducive business environment which is in turn pegged on the design and effectiveness of the devolved governments' system processes and outputs. In other words, this study frames the interaction between the political, administrative and fiscal functions of subnational governments and SMMEs performance taking into consideration the status of the local business environment. It explores how the service outputs of the three dimensions of devolution affect the business environment and the consequent impact on SMME growth. The model assumes that the county government system processes and outputs function interdependently to improve the landscape of the local business environment. Further, it alludes to the need to explore contextual challenges that influence the shape and effectiveness of the devolved system of government as well as input mechanisms required to support devolution reforms.

Figure 2.2: Conceptual Framework



Source: Author's construction

2.4.1. Final Outcomes

In this study, SMME growth serves as a measure of the final outcome of the devolved system of governance. Enterprise growth is a key indicator of a successful business or venture. Many countries deem enterprise growth as an important contributor of economic development as it creates a window of opportunity for increased employment and production output of goods and services. Growth can be described in various ways. Firm growth can be measured in terms of profits, sales revenue generated, increase in number of employees, expansion of business volume, value addition, market share, complexity of the product line and increase in number of business locations (Gupta et al., 2013; Davidsson et al., 2005; O'Gorman, 2001; McPherson, 1996). This study adopted sales revenue, number of employees and product line diversification as measures of growth on the basis that these would be data easily accessible from the SMME owners taking part in this research.

Other than depicting growth in terms of the aforementioned indicators, the study sought to understand how devolution affected the growth of businesses through the perspectives of SMME owners. The owners and managers of the SMMEs in this study are the recipients of the services offered by the county governments. Therefore eliciting their views on devolution would offer detailed insights on the performance of the county governments in relation to public services provided for SMME growth. Glaser & Denhardt (2000) argue that understanding the citizens' or service recipients' perception of the performance of a government is essential for bridging the gap between citizens and the government. In their view, this enables a government to set a course for changing the relationship between citizens and their governments. Furthermore, this paves way for governments to enlist service recipients in the design of policies, establishing priorities and providing feedback on public services delivered (Wenene et al., 2016). In a similar vein, Martinez-Vazquez et al. (2017) posit that asking citizens and taxpayers directly how they perceive or feel about decentralized service delivery serves as an alternative to quantitatively measuring changes in the amount and outcomes of public service.

2.4.2. Intermediate Outcomes

This study not only evaluates the final outcome of devolution which in this case is SMME growth, but also examines its effect on the intermediate outcomes, that is the business environment. This is premised on the fact that the business environment is a significant external factor that affects growth and survival firms. One of the mandates of subnational governments is to provide a conducive business environment for enterprise growth. The key elements of such an environment include access to markets, access to resources and presence of a favourable regulatory and institutional framework for businesses (OECD, 2017; ILO, 2015; Nichter & Goldmark, 2009; Ayyagari et al., 2007). These conditions create appropriate conditions for business creation, investment and growth.

The indicators for access to markets include availability of infrastructure such as roads and commercial buildings for trade, favourable trade, investment and public procurement policies. The institutional and regulatory framework provides for policies that ensure ease of business licensing, tax burden and interest rates. It also provides for legislations for contract enforcements and other labour and business regulations. Other key elements of the framework include the presence of competive conditions and public governance taking into account the rule of law, quality of public services and public sector transparency, integrity and effectiveness. Finally, strategic resources critical for SMME development include finance, knowledge, technology, energy and human capital (OECD, 2017).

The underlying assumptions of the conceptual model are that subnational governments are oriented towards making reforms to reshape the business environment for the benefit of SMMEs; enterprises are aware of the reforms and; implementation of reforms will lead to provision of new services that improve performance of SMMEs and decrease their cost of doing business. The study therefore explored the perceptions and experiences of SMME owners, government and non-government actors to understand how devolution system processes and outputs affected the elements of the business environment.

2.4.3. Devolution System Processes and Outputs

Achieving the intermediate outcomes of a conducive business environment depends on the processes and the outputs of the devolved system of government. The functions of each of the dimensions of devolution need to be effectively implemented in order to achieve the desired SMME development outcomes. Scholars argue that the political dimension of devolution brings the decision making process closer to communities and encourages them to actively participate in the political process with the prospect of achieving positive development outcomes (Cheema & Rondinelli, 2007; Parker, 1995). The premise for this argument is that policy development and service delivery at the subnational level will be better informed and more capable of meeting the specific needs of the people compared to the national government (Oates, 1999; Tiebout, 1956; Hayek, 1945). Well-structured political mechanisms also strengthen accountability, therefore if the local people are unhappy with the performance of the local officials they can remove them through the election process.

The administrative dimension of devolution is necessary for ensuring that the subnational government has adequate capacity in terms of qualified and sufficient number of personnel as well as service facilities to carry out responsibilities accorded. Further, effective administrative decentralization is characterized by a proper system of accountability where sanctions can be put in place by constituents if the institutions fail to deliver services (Parker, 1995).

In order to implement policies and programs agreed upon by the county government, adequate fiscal resources will be required to cover their costs (ibid). Subnational governments have three sources of financing: own resources raised from taxes and levies, fiscal transfers from the national government and resources from county government borrowing. Inadequate financing can cripple subnational governments from effectively providing public goods and services to its populace and this in turn may disillusion the citizens and they could disengage from the local political processes (Cheema & Rondinelli, 2007). Moreover, fiscal powers and resources are likely to be misused in the absence of effective political and administrative instruments for accountability (Smoke, 2015). These challenges ultimately lead to poor devolution outcomes and in relation to this study, it would impede the development a competitive business environment necessary for the growth of SMMEs.

The framework accounts for all the three dimensions of devolution based on the following reasons. First, each dimension of devolution imparts its own unique individual effect on SMME development. Therefore omitting one dimension from the empirical analysis presents the risk of overstating or understating the nature of the impact of devolution. Secondly, as previously illustrated the interaction of the dimensions of devolution processes may have a synergistic effect on development outcomes. It could thus be argued and assumed that examining the interplay of the three dimensions has the potential of yielding an added effect on SMME development. Thirdly, devolution reforms in each context may have implementation challenges such as inadequacies in the fiscal function which hamper political and administrative functions. In other situations, the political or administrative functions may face various limitations that ultimately affect fiscal processes. These occurrences depict differentials in the workings and development of the dimensions of devolution. This in turn affects the overall devolution system process and its impact on SMME developmental outcomes.

2.4.4. Challenges: Contextual Barriers

Considering the devolution system processes and outputs, intermediate and final outcomes and their interrelationships does not provide a holistic narrative (Smoke, 2015). As depicted in the previous sections (see section 2.2.4.2), there are various challenges in different contexts that affect the devolution reforms and the resultant development outcomes. Limitations are most notable in developing countries. Hence, the justification to explore and unveil the specific challenges faced by subnational governments in their quest to grow SMMEs in Kenya.

2.4.5. Opportunities: Inputs and Support Mechanisms

Lastly, devolution reforms require inputs and support mechanisms to facilitate the realization of the intermediate and final outcomes. These mechanisms are typically provided by government and nongovernment actors as well as multilateral development agencies and they vary depending on the prevailing contextual issues affecting devolution reforms. This study sought to elicit opinions of the research participants on the appropriate mechanisms needed for a more effective system of devolved governance that would favour the growth of SMMEs.

2.5. Summary

The devolution process is widespread especially in developing countries and one of the underlying forces for its adoption is the quest for economic and social change (Smoke, 2015; Rodríguez-Pose & Gill, 2003; Bardhan, 2002; Oates, 1999; Litvack et al., 1998). Proponents for devolution argue that this system of government facilitates efficient provision of public goods, good governance, reduces regional disparities and enhances economic growth. In recent times, arguments adduced in favour of devolution are centred on market preservation, business development and economic growth. Although devolution is widespread, its performance with regards to the aforementioned economic variables are uneven. Studies done on the impact of devolution on economic growth of nations yielded mixed and inconclusive results. The bulk of these studies were drawn from OECD and developed countries.

Demerits of devolution such as wasteful regional competition, poor fiscal mismanagement and central government predation were mostly experienced in developing nations. As indicated by scholars such as Smoke (2015) and Bardhan (2002), devolution in developing countries differed from that of the developed nations owing to the variation in structure, organization, level of economic development, demographic profiles, social capital and urbanization. Thus, qualitative differences emerged with regards to implementation of policy and the outcomes.

The literature also gives insights on subnational governments' involvement in the growth of SMMEs and subsequent local economic growth. However, the end results differed from country to country depending on the degree and type of involvement of local governments in enterprise development, the quality of government and the strength of fiscal incentives offered by both subnational and national governments. Moreover, empirical literature on this subject is limited, particularly in developing economies.

The review of the literature thus identified gaps as follows: (i) few studies explored how the devolved systems of government affected enterprise growth; (ii) there is limited discussion on the effect of devolution on SMME growth in developing nations; (iii) the debate on whether the devolution structure supported local business development remained unsettled; (iv) there are limited comparative studies on devolution and local business development in developing countries. These gaps merited the need to study the devolution theory and establish how its dimensions are linked to SMME growth in a developing country such as Kenya.

In the Kenyan context, following the promulgation of a new constitution in 2010, subnational governments were established and bestowed powers to undertake development functions within their respective regions. Trade development is one of the development functions that falls within the mandate of Kenya's subnational governments and this entails policy formulation and implementation according to the needs and preferences of the populace and business community. Therefore, a new political dispensation and policy environment provided a justification to conduct this study as a means of gaining a deep understanding of the outcomes and challenges of devolution in relation to SMME development.

CHAPTER 3

3. Research Methodology

3.1. Introduction

This chapter outlines the research paradigm, methods and techniques that were used to gather and analyse data used to draw conclusions for this research. The study employed the qualitative case study approach and the justification for selecting this research strategy is outlined. The chapter also defines the unit of analysis, research instruments, data collection and analysis methods that were employed in the study. The last part of this chapter presents the ethical consideration of the research.

3.2. Research Paradigm

All research is based on philosophical assumptions which underpin the research strategy and methods chosen for the purposes of developing knowledge in a study (Saunders et al., 2009). There are two main categories of philosophical assumptions that is ontology which is concerned with the nature of reality and epistemology which deals with acceptable knowledge within a particular field of study (ibid.). In other words, ontology deals with the truth while epistemology revolves around study of the truth and how to reach it (Tuli, 2011). For this study, the truth according to the researcher is that the devolved system of governance in Kenya has an effect on the business environment and SMME development. Primary and secondary data collected for this study provided the researcher with evidence to justify the above truth and to explain the nature of the effect.

Research is further shaped by bringing into an inquiry worldviews or paradigms which are defined as the set of beliefs that guide action and provide a logical framework for creating theories (Babbie, 2011). Drawing on various literature, Mackenzie & Knipe (2006) categorized research paradigms as positivist (and post-positivist), interpretivist, constructivist, transformative, pragmatism, emancipatory, critical and deconstructivist. Other scholars contend that there is a fine line between research paradigms hence their differentiation between positivism and interpretivism as depicted in table 3.1 below (Lofrida et al., 2014; Saunders et al., 2009).

Table 3.1: Research Paradigms

	Positivism-oriented		Interpretivism-oriented	
	Positivism	**Post-positivism**	**Interpretivism**	**Constructivism**
Ontology: What is reality?	Naïve realism. Objective reality. .	Critical realism Reality is imperfectly apprehended	Subject and object are dependent. The real essence of the object cannot be known. Reality is constructed.	
Epistemology: How do you know?	Dualism Researcher - research. Replicable findings are "true". Reality can be explained.	Dualism is not possible. Replicated findings are "probably" true. Impossible to fully explain reality	Knowledge is interpreted. Reality can be understood.	Knowledge is constructed. Reality can be constructed
Methodologies: How do you find it out?	Experimental, deductive. Mainly quantitative. Relationship cause-effect. Statistical analysis.	Experimental. Mainly quantitative methods, manipulative. Scientific Community plays an important role of validation. Statistical analysis. Probability sampling.	Interpretation. Mainly Qualitative methods. Purposive and Multipurpose sampling.	Mainly Qualitative methods. Purposive and Multipurpose sampling. Stakeholders' involvement.
Quality criteria	Rigorous data produced through scientific method.	Statistical confidence level and objectivity in data produced.	Intersubjective agreement and reasoning reached through dialogue, shared conversation and construction.	

Source: Lofrida et al. (2014)

This study used the interpretivist paradigm, an approach that acknowledges the existence of multiple realities. As such, it requires a researcher to seek an understanding of realities, their characteristics and integrate human interest into a study (Gephart, 2004). Interpretivism is epistemologically subjective because the researcher focusses on the details of a situation, the realities behind these details and seeks to give subjective meanings to the matter being researched (Saunders et al., 2009; Willis, 2007; Gephart, 2004). Thus, the purpose of inquiry through an intepretivist perspective is to understand a phenomenon rather than generalize it to a population

(Farzanfar, 2005). This study sought to explore the experiences of SMMEs in Kenya under the devolved system of government. In particular, the research questions sought to understand and interpret issues pertaining to multiple realities within the realm of devolution and enterprise growth, thus the justification to adopt the interpretive paradigm. This approach gave the researcher the scope to address issues of influence and impact as well as answer the "how" and "what" questions.

Interpretive researchers place strong emphasis on truthful reporting and quotations of conversations from participants' perspectives rather than testing laws of human behaviour (Tuli, 2011; Farzanfar, 2005). Additionally, the researchers generate thick descriptions of actual events in their contexts that uncover and preserve the meanings held by the participants of the research (Gephart, 2004). In this research, the devolved government system processes and outputs for SMME development were studied and adequately understood by engaging heads of departments in subnational governments and their teams to tell their stories. Through this interaction, the researcher sought to understand and interpret the government officials' perceptions of reforms, policies, programs and projects that were implemented towards growing SMMEs. Additionally, the paradigm facilitated the interpretation of the entrepreneurs' and business member organizations' perceptions of how the devolved system of government had affected the business environment and growth of SMMEs.

Interpretivists argue that an understanding of the context within which research is carried out is important for purposes of interpreting the data collected. Further, the core belief of interpretivism is that reality is socially constructed (Willis, 2007). Therefore, interpretivism was adopted in this study to facilitate comprehension and documentation contextual factors affecting the performance of subnational governments in their quest to grow SMMEs that are not easily explored or explained through paradigms such as the positivist approach.

Positivism as a research approach applies the natural science model which works with observable social reality (Denscombe, 2010; Saunders et al., 2009; Gephart, 2004). From an epistemological point of view, the positivist researcher considers observable phenomena as the only means to obtain credible data. Further, the researcher is independent of the data in order to maintain an objective stance while carrying out the research (Saunders et al., 2009). Positivism is based on the assumptions that there are patterns and regularities, causes and effects in the social world

(Denscombe, 2010). The aim of this type of research is to quantitatively measure reality and predict the relationships between variables. The positivist researcher acknowledges that there are laws or theories that govern the world and carries out studies to test and verify these in order understand the world and or a phenomenon. (Saunders et al., 2009; Willis, 2007).

Notably, much of the empirical literature on devolution and economic outcomes (Baskaran & Feld, 2013; Chu & Zheng, 2013; Gemmell et al., 2013; Thornton, 2007; Akai & Sakata, 2002; Zhang & Zou, 1998) have taken the positivist stance. These studies presented quantitative evidence to depict correlations and causal relationships between devolution and economic results. Similarly, there are a number of devolution and enterprise development studies done from a positivistic approach (Nashikawa & Ogada, 2019; Escaleras & Chiang, 2017; Cull et al., 2017; Mbugua & Moronge, 2016; Sokolov & Solanko, 2016; Van Cauwenberge et al., 2016; Han & Kung, 2015; D. Mwangi, 2014; Sobel et al., 2013; Zhou, 2013). However, most of these studies do not sufficiently explain which actors, structures and processes within subnational governments are critical for realizing economic outcomes such as SMME growth. Further detailed considerations of how the aforementioned factors and contextual issues affect the performance of subnational governments in relation to SMME growth are not adequately underscored. These challenges merited the use of a qualitative method of inquiry in this study, applying interpretivism to analyse processes and outputs established by subnational governments for the growth of SMMEs in a developing country.

Moreover, positivism has been criticized for its lack of subjectivity in interpreting social reality (Babbie, 2011; Denscombe, 2010). Positivism treats organizational realities such as those present within devolved government systems and which are complex in nature in terms of statistical deductions. Smoke (2015) argues that the positivist approach is necessary for determining the statistical correlation of devolution outcomes or patterns across countries or regions. However, he calls for an interpretive approach to understand the context of devolution and phenomenon that cannot be easily captured through positivist approach which mostly apply quantitative methods to collect data. In his view, data obtained through positivism can be poorly contextualized whereas the interpretive approach would provide rich details on contextual factors that support or cripple devolution.

In the field of devolution and enterprise development, few studies (Wu et al., 2016; Moberg, 2015; Topal, 2015; Yukhanaev et al., 2015; Ong'olo & Owino, 2013; Li & Matlay, 2006) employed the interpretive approach. Looking at the Kenyan context, studies on devolution and SMME growth have primarily been quantitative and there is a scarcity of qualitative interpretive research. Yet, as earlier indicated, research suggests that diverse contextual factors affect the devolved government system configurations and their ultimate performance within a country (Smoke, 2015). Further, Smoke (ibid) posits that the performance of devolved governments should be understood in terms of the institutional framework and the relationships existing between the government and non-government actors. These issues which form the basis of this research, are suitably captured through observation, people's thoughts and lived experiences and these require interpretation rather than measurement of data collected. Therefore, this justifies the application of interpretivism in this research.

3.3. The Case Study Research Strategy

This study used the case study design which is a strategy of inquiry that explores a contemporary issue or phenomenon within its real-life context especially in research where the boundaries of the phenomenon and the context are not clearly outlined (Yin, 2009). The context of this research is the concurrent occurrence of political decisions and administrative undertakings within subnational governments to mobilize fiscal resources for purposes of improving the local business environment to grow the SMME sector. These decisions and actions constitute the devolution system processes and outcomes as outlined in this study's conceptual framework. Further, Schramm (1971) posited that case studies deal with decisions made, the genesis of these decisions, their impact and the reasons for their implementation in the situation being studied. This study sought to analyse the political, administrative and fiscal decisions and actions made for improving the local business environment and their resultant effect on SMME growth.

Case studies are preferred when the researcher seeks to answer "how", "what" and "why" questions, hence they are often used in descriptive, explanatory and exploratory research (Saunders et al., 2009; Yin, 2009). A descriptive case study utilizes one or more instances of an event to describe a phenomenon with the aim of making the unfamiliar familiar. Explanatory case studies focus on cause and effect relationships and provide explanations to define the phenomenon studied. The exploratory case study investigates key issues such as problems and opportunities affecting those in the study setting (Denscombe, 2010). Exploratory studies also develop hypothesis and propositions that call for further inquiry.

The case study strategy was applied in this research because it offered flexibility to answer the "how" and "what" questions outlined in chapter one with the intention of understanding the devolution system processes and their effect on SMMEs in a holistic way. The questions in this research are predominantly "what" questions hence making the study exploratory (Tellis, 1997). The exploratory nature of this case study is also manifested by the fact that it focussed on identifying contextual issues that affected the performance of subnational governments with regards to SMME development.

Case studies tend to cover issues holistically as opposed to focusing on isolated factors because they emphasize on detailed workings of relationships and social processes rather than the outcomes of these (Denscombe, 2010). The researcher not only considers voices and perspectives of the actors, but those of groups of actors and the interactions between them (Tellis, 1997). Hence, the case study strategy in this research was useful in unveiling in detail the perceptions and sentiments of the government officials, SMME owners and representatives of business member organizations on the interplay of political, administrative and fiscal processes implemented for improving the local business environment and their subsequent impact on SMME growth. This was also useful in unpacking the engagement of state actors, non-state actors and SMME owners with regards to business development.

As argued by Denscombe (2010), a case study focuses on individual occurrences as opposed to a wide spectrum. The reason behind this, is that there are many insights that could be captured that have great implication if an individual case is studied than when research covers large masses as is the situation with surveys. Therefore, by studying the particular, it will be possible to illuminate the general. In light of this, this research encompassed an in-depth study to explore the devolved system of government processes and outputs designed for SMME growth by engaging select few SMMEs situated in two subnational regions in Kenya with the aim of understanding contextual issues that may not be easily apparent through a mass study.

This study used a multiple case design, which according to Yin (2009), allows for a replication of logic to either affirm or disprove the conceptual understanding of a phenomenon. Moreover, multiple cases enable researchers to establish whether the findings of one case were evident in other cases, thus generalizations can be made from these findings (Saunders et al., 2009). Eisenhardt & Graebner (2007) contend that, addition of cases to a single case study significantly affects the quality of emergent theory in that it increases the analytical power. In their view, theory building from multiple cases translates to more robust, generalizable and testable theory compared to single case research.

In view of the above scholarly advice, the researcher focussed on a few select cases that allowed wider exploration of the research questions, and detailed and in-depth description as well as analysis. Therefore, the research concentrated on six SMMEs within two subnational regions in Kenya. State and non-state actors within the selected subnational regions were also enlisted in the research to enrich the research on contextual issues. It was envisaged that the few fitting cases selected for the study would provide meaningful contributions and generalization to theory. The use of two counties with similar devolution powers and functions allowed for replication of data collection to predict differences and similarities in outcomes.

The case study design can be used for theory building and theory testing (Denscombe, 2010). This study sought to build on to the Soufflé theory of decentralization and development impacts. Existing studies have applied this theory to determine the impact of devolution on service delivery and rural development. This research investigated the effect of devolution on SMME development through the lens of the Soufflé theory of decentralization. As depicted in the literature review section, studies on devolution and SMME development were mostly drawn from developed nations and research from developing nations were scarce. Therefore an exploratory multiple case study design was considered ideal for this research to provide insights to extend the Soufflé theory of decentralization in relation to enterprise development in a developing country context. This was realized by drawing patterns of relationships of constructs within and across the cases in this study as well as analysing existing literature.

Theory building from case studies requires an initial research question in broad terms and in some situations a priori identification of constructs drawn from extant literature which are ultimately measured using an interview protocol and questionnaires (Eisenhardt, 1989). However, Eisenhardt (ibid) cautions that as much as the aforementioned are helpful for grounding emergent theory, no construct or research question is guaranteed a place in the ensuing theory. This is because research questions and constructs may change especially during the data collection process. For this study, the researcher developed research questions from extant literature on devolution and local business development which were then measured in the interview protocol.

Case studies have been criticized for lack of rigor on the basis of non-representativeness and a lack of statistical generalizability (Denscombe, 2010; Yin, 2009; Gibbert et al., 2008). However, Yin (2009) contends that case studies are generalizable to theoretical propositions and not to particular populations. Further, the aim of case studies is to expand and generalize theories (analytical generalization) rather than to tally frequencies (statistical generalization). This study focussed on what was said by the research participants as opposed to the quantity of data in order to generate a theory establishing the link between the Soufflé theory of decentralization and SMME development.

Lack of rigor may also arise due to non-adherence to the procedures and researcher bias (Flyvbjerg, 2011; Yin, 2009). In order to mitigate the aforementioned, the researcher used a case study protocol (appendix 4) which carefully documents and clarifies research procedures (Gibbert et al., 2008). Triangulation is also another measure employed in this study to overcome the problem of bias and ensure validity of the research findings (Gibbert et al., 2008; Patton, 2002). Triangulation refers to a multi-method approach to data collection and data analysis whilst studying a particular phenomenon. It allows researchers to identify, explore and understand the units of analysis from different perspectives and dimensions thus enriching and increasing the validity of the findings and interpretations (Given, 2008). Denzin (1978) classified triangulation into four main categories: (a) data source triangulation which entails the use of a variety of data sources; (b) theory triangulation entails the use of different theories to analyse and interpret data; (c) investigator triangulation involves enlisting of more than one researcher to examine the same phenomenon; and (d) methodological triangulation involves the use of multiple methods of data collection.

This research principally applied data source triangulation. As the research was concerned with exploring the effects of the devolved system of government processes and outputs on SMME growth, multiple perspectives of SMME owners, government and non-government actors were captured through interviews. Data was also obtained from various documents and to a small extent through observation to increase the validity of the research findings.

3.4. Research Design

This section discusses the unit of analysis, the processes for case and participant selection, data sources and data collection methods.

3.4.1. Unit of Analysis

The unit of analysis refers to the source of information or entity that is being studied and this includes individuals, organizations, organizational documents, processes and artefacts (Yin, 2009). The units of analysis in this study include the subnational governments' system processes and outputs for improving the local business environment in Nairobi and Kiambu counties. Subnational government officials served as units of data collection. The SMMEs within the wholesale and retail sector were also units of analysis for purposes of drawing information on the growth of enterprises under the devolved system of government. The business owners represented the units of data collection. Business member organizations' representatives were also enlisted in this research and they served as units of data collection to give insights on their perceptions of devolution and SMME growth in Kenya. The analysis of these units provided context for building a representative picture of the participating cases.

3.4.2. Selection of the Case Study Sites

As this study sought to explore devolution and enterprise development outside the developed world context, the researcher purposefully selected a developing country (Kenya) which has undertaken decentralisation reforms over a period of time to provide traction in the available data. Further, Kenya was selected as the case study context because its devolution reforms are considered unique and ambitious compared to other developing countries. Unlike majority of the countries that implemented the dimensions of devolution sequentially or asymmetrical forms of devolution, Kenya embarked on this process by decentralising political, fiscal and administrative functions simultaneously and symmetrically across all subnational regions (KSG, 2015). The ease of access and the researcher's fair knowledge of the country's governance system also played a key role in the selection of the case study site.

Further, two subnational regions (counties) in Kenya, that is Nairobi and Kiambu were selected as the case study locations. The basis of selecting these counties is the fact that they are constituent regions of the Nairobi Metropolitan Region which consists of four counties namely: Nairobi, Kiambu, Kajiado and Machakos. This metro region accounts for approximately 60% of the country's wealth. In terms of contribution to Kenya's GDP, Nairobi and Kiambu are among the highest contributors. Nairobi takes the lead contributing 21.7 percent of GDP over the period 2013-2017, while Kiambu is in the third position contributing 5.5 percent of GDP (KNBS, 2019).

Nairobi city county is the capital of Kenya with an estimated population of over 4 million people (KNBS, 2015b). Kiambu borders Nairobi county to the south and has a population of approximately 1.8 million (KNBS, 2015a). Both counties are home to all ethnic communities in Kenya because they host workers in the towns of these regions. Further, the communities found in these counties have diverse socioeconomic profiles. Another criterion for selecting these counties is the fact that they have amongst the largest number of SMMEs. Additionally, these counties were easily accessible to the researcher. Table 3.2 provides a summary of reasons for selecting the two study sites.

Table 3.2: Case Study Sites and the Criteria for their Selection

<table>
<tr><th>Case Study Site</th><th>Specific Criteria</th><th>General Criteria</th></tr>
<tr><td>NAIROBI</td><td>• It has the largest number of SMMEs in the country
• It primarily bears an urban setting.
• It is the capital region for the country and it enjoyed the benefits of a previous provincial government structure.
• The county is largest contributor of Kenya's GDP.</td><td rowspan="2">• Availability of background information.
• Ease of access in terms of location and through the researcher's existing relationships as well as networks.
• The regions account for a large proportion of the country's wealth.
• The regions play host to a huge number of SMMEs in the country.</td></tr>
<tr><td>KIAMBU</td><td>• It has the fourth largest number of SMMEs in Kenya.
• It bears a rural and urban setting.
• This is a new region established post-devolution Kenya. Prior to devolution, the region had municipal council structures.
• The county is the third largest contributor of Kenya's GDP.</td></tr>
</table>

Source: Author's construction

3.4.3. Case Selection

Given that single case studies face limitations with regards to generalizability and information processing biases (Eisenhardt, 1989), this research as earlier mentioned adopted the multiple case study design. This choice is also anchored on Yin's (2009) supposition that multiple cases provide a stronger base for theory building than single case studies. This fact is pertinent to this research as the purpose of the study is to extend the Soufflé theory of decentralization. Scholars recommend a range of three to ten cases for examination in a multiple case design in order to undertake a deep case oriented analysis (Yin, 2009; Onwuegbuzie & Leech, 2007).

For this research, six SMMEs were purposefully selected from the counties of Nairobi and Kiambu. The selection of the SMMEs was based on following factors. The first is that the SMMEs were drawn from the wholesale and retail trade sector which is the fourth largest contributor to GDP and accounts for 60% of SMMEs in Kenya. Additionally, this sector yields 65% of the total monthly gross turnover generated by SMMEs in Kenya (KNBS, 2016) . Wholesale trade refers to the sale of goods to retailers, commercial, industrial, institutional and other professional business users and related secondary services. It also involves resale, processing and thereafter sale of goods. Retail trade involves the resale of new and used goods to the public for personal and household use. In this case the sale is made without transformation of the goods (GOK, 2017) .

Second, to be eligible for inclusion in this study, the SMMEs selected should have been incorporated prior to or within the year 2010. This ensured that all businesses engaged in this research were in operation at least three years before the implementation of devolution in 2013. Therefore the SMME owners would be in a position to give comparative information on the business environment before and after devolution. The third criterion pertains to a focus on firms that are registered and licensed, a key feature of formal enterprises. The choice of formal SMMEs is in line with Mazonde's (2016) supposition that formal enterprises are more productive than informal businesses and they form a hub for government activity in terms of serving as a base for revenue collection. Additionally, Ayyagari et al.(2007) opined that the importance of formal enterprises increases with GDP per capita while that of informal enterprises decreases with increasing economic development. Finally, as formal enterprises are registered, their interaction with regulators is more certain, hence ensuring the researcher obtained the relevant information required to conduct the study with regards to the business environment.

Fourth, the researcher considered Meyer's (2001) suggestion to find cases that match the dimensions in the dependent variable which in this case is SMME growth and provide variations in the contextual factors. To match the choice of the final outcome variable, the researcher enlisted SMMEs that had experienced growth in the following dimensions: number of employees, product diversification and annualized sales growth for three consecutive years as at the time of the study. As for the contextual factors, three SMMEs were drawn from Kiambu County, while the other three SMMEs were from Nairobi County. These two subnational regions varied in contextual factors in terms of the economic climate and regulatory landscape. Lastly, ease of access and businesses that offered reliable data served as criteria for case selection.

Based on the above criteria, the researcher identified a target population of 27 SMME case candidates that met the criteria. The SMMEs were located through the researcher's professional network and business member organizations as none were known personally to the researcher. These firms were screened by investigating the available data and concentrating on firms whose attributes were most closely aligned to the research questions. To this end, the researcher made contact with all the firms and 16 SMMEs enlisted for the study. Further interrogation through preliminary interviews and screening led to the selection of six firms that finally participated in this study. Additionally, the SMME owners' willingness to participate in the study served as a criterion for their final selection. Table 3.3 displays the profile of the participating cases. The names of the firms were replaced by code names in order to protect their real identities and to conform to the research ethics protocols.

Table 3.3: Case Study SMMEs

Company	County	Year of Incorporation	Sector / Type of Business	Number of Permanent Employees
KSME1	Kiambu	2006	Dairy Products	42
KSME2	Kiambu	2001	Tea Products	70
KSME3	Kiambu	2010	Pharmaceutical	37
NSME1	Nairobi	1982	Auto & Spares	13
NSME2	Nairobi	2005	Paper Products	61
NSME3	Nairobi	2001	Personal Protective Equipment	28

Source: Author's construction

The cases were all owner-managed private firms and fell within the category of small and medium enterprises. In each county, two small and one medium sized enterprises were enlisted for this study.

3.4.4. Participant Selection

Purposive sampling was be used to select respondents from the participating cases. This technique entails looking for participants with particular traits or qualities (Koerber & McMichael, 2008).

Moreover, it is designed to enhance the understandings of the selected participants' experiences or for developing theories and concepts (Devers & Frankel, 2000).This sampling strategy enabled the researcher to select respondents that would best answer the research question and meet the objectives of the study (Saunders et al., 2009). Further, respondents from different contextual settings were selected for the inquiry to ensure multiple perspectives of individuals were represented (Onwuegbuzie & Leech, 2007). An added advantage of this selection criteria is that it enabled the researcher to cross check information provided by one informant against those provided by other informants thus ensuring its validity (Glick et al., 1990).

A total of 26 participants grouped in four categories were purposively selected as key respondents for this research. The first category includes six SMME owner managers who were considered critical for the study because their involvement in the establishment and growth of their firms. Secondly, they play strategic roles in the organizational processes and the performance of the businesses. The second category of respondents consists of County government staff holding key roles in the trade, economic and administration departments. These accounted for 9 participants and they were selected given their proximity to the devolution structure processes and their role in decision making and implementation of policies and programs for improving the local business environment and SMME growth.

The third category of respondents included two independent office representatives, one from the Commission for Revenue Allocation (CRA) and another from the Controller of Budget (CoB) office. These two offices play a key role with regards to national and subnational fiscal planning and budget implementation. More specifically, the CoB is one of the four channels through which the national government exercises its role of oversight over the county governments. This office oversees the implementation of county budgets by approving withdrawal of funds from the County Revenue Fund and other public funds. CRA on the other hand is an independent commission whose primary role is to make recommendations on revenue sharing between the national government and county governments (World Bank, 2014).

The last category of participants included nine representatives of four key business member organizations that work closely both with national and subnational governments with regards to business environment policies and regulations. These were selected because of their supporting and intermediary role, providing a link between the private sector and governments in a bid to foster private public dialogue and to advocate improvements in the business environment.

During the data collection process, it emerged that a focus on county government officials and SMME owners alone to give their perspectives on the devolution process and enterprise growth without engaging intermediaries involved would provide an incomplete narrative on contextual issues. Therefore the researcher enlisted the business member organizations and the national government representatives as participants to provide in-depth insights on the workings of devolution in relation to SMME development. Table 3.4 gives a summary of the participants selected representing a variety of actors drawn from various state and non-state institutions.

Table 3.4: Key Informants and Organizational Affiliation

Organization Type	**Number of Organizations**	**Key Informants**	**Total Number of Key Informants**	**Identification Code**
County Government of Kiambu	1	County officials in the departments of trade, information technology and economic planning.	3	KCO
County Government of Nairobi	1	County officials in the departments of trade, commerce, industrialization, cooperatives, enterprise development and human resources.	6	NCO
Independent Office / Commission	2	Representatives of the Commission of Revenue Authority and Office of the Controller of Budget Office	2	IGO
Whole Sale and Retail Trade SMMEs	6	SMME Owners	6	NSME (Nairobi) and KSME (Kiambu)
Business Member Organizations (BMO)	5	Representatives of retail traders, micro businesses, SMEs in the manufacturing sector and the chamber of commerce.	9	BMO
Total	**15**		**26**	

Source: Author's Construction

3.4.5. Data Sources

Primary and secondary data sources were used to collect data for this study. Key informants as shown in table 3.4 served as the primary sources of data. Secondary data sources included government publications, organizational reports and websites.

3.4.6. Data Collection

The data collection techniques used in case studies include interviews, documents, reports, audio-visual materials and observations (Creswell, 2007; Saunders et al., 2009). These multiple sources of information provide data that is converged through triangulation from which conclusions are made (Yin, 2009). Applying multiple methods of data collection assisted the researcher to unearth the complexities of the devolved governments and contextual factors that affect their performance with regards to promotion of businesses in their locale. This was also relevant in exploring the experiences of entrepreneurs conducting their businesses within the context of devolution. Thus, the data collection methods used in this study include semi-structured interviews, documentary analysis and direct observation. Data collection in the field and subsequent interpretation was the sole responsibility of the researcher of this study. Prior to data collection, one of the key steps undertaken by the researcher was to gain access to the data sources.

3.4.6.1. Negotiating Access

Gaining and maintaining access is vital for any research project that entails data collection from organizations especially in qualitative studies that require in-depth conversations with research participants and immersion within selected research sites (Cunliffe & Alcadipani, 2016). Access is defined as the appropriate ethical and academic practices applied to gain entry into an organization or community for purposes of collecting data for a research project (Given, 2008). For qualitative investigators, gaining access is considered a significant factor that affects the nature and quality of the data collected and subsequently the trustworthiness of the research findings (Shenton & Hayter, 2004).

While a researcher may have all the relevant documentation to gain access, engaging with organizational elites and organizations such as governments may present bureaucratic requirements, suspicion and political machinations that ultimately limit access (Cunliffe & Alcadipani, 2016). This also makes negotiating access a time intensive, costly and frustrating process. For this study, the researcher anticipated access challenges during data collection especially within the county government offices. Organizational red tape was foreseen as the biggest hindrance to accessing senior government officials and documents required for the research. Therefore, the researcher carefully planned the process of identifying and reaching out to respondents well in advance through formal and informal channels as a way of mitigating the risks associated with access.

There is no consensus on the definition of the term elite, however researchers describe them as top echelons of firms; informants who occupy senior or middle level management positions, enjoy high status, have long experience or simply organizational leaders with close proximity to power, decision making or policy making (Mikecz, 2012; Harvey, 2011; Welch et al., 2002). Drawing on the latter definitions, this research is considered an elite study because the research questions investigated policy choices made by respondents in subnational governments with regards to SMME development. Moreover, most of the respondents are in positions of influence with regards to policy or strategic decisions at the subnational and national government level as well as in business member organizations. SMME owners in this study are also termed as elite, owing to the strategic and influential positions they hold within their organizations.

As the objective of this study was to understand the devolution process outputs and SMME development, it was imperative for the researcher to engage individuals who were actively involved in policy formulation and implementation. Thus, the justification for the researcher to engage senior national and subnational government officials, senior representatives of business member organizations and SMME owners for this study. However, one of the main problems encountered was gaining access especially with regards to the government officials. Majority of these officials had rigorous time schedules and some had gatekeepers who controlled access. In as much as gaining access to some respondents was assured, the researcher was exposed to long waiting hours and in some cases scheduled meetings were cancelled. This called for flexibility, patience and persistent innovativeness on the part of the researcher for the purpose of obtaining access and the relevant data to the study. Secondly, it meant that access had to be continuously renegotiated throughout the field work and employing diplomacy to circumvent the politics of access.

There are several ways of obtaining access such as use of personal, social, institutional and professional networks, cold calling, obtaining access from frontline employees, hanging around an organization and enrolling within organizations (Cunliffe & Alcadipani, 2016). With regards to elites, Welch et al. (2002) advise the use of personal connections and influential sponsors whose approval of the project will facilitate easy cooperation of respondents. Mikecz (2012) on the other hand emphasizes on the need to have extensive knowledge of the elite interviewees and the right media to reach them. In his view, these factors facilitate access, enhance trust and rapport that are instrumental in obtaining high quality data from elite interviewees.

For this study, the researcher gained access by making formal written requests to the human resource and administration offices of Nairobi and Kiambu counties. The request contained a brief overview of the research and access specifications to county officials. This was submitted along with a research permit (see Appendix 2) from National Commission for Science, Technology and Innovation. (NACOSTI) and the research approval document from the researcher's affiliated university (see Appendix 3). Besides this, the researcher used the informal channel to gain access to Nairobi County. Through the researcher's professional network, a senior official working in the county was contacted to solicit a face to face meeting with the officer in charge of research approvals. This was facilitated and the researcher met all the requirements needed to proceed with data collection. Thereafter, the officer in question directly introduced the researcher to a senior officer in the trade department.

Accessing Kiambu County was a more difficult process as there were gatekeepers who slowed the process of gaining entry. However, the researcher persistently followed up the applications through multiple phone calls and face to face interactions and after two months, permission was granted to proceed with data collection. This was made possible through a frontline employee who escalated my research application to a higher office within the county office after which access to the relevant county departments was facilitated. Key informants from the national government, business member organizations and SMME were accessed through individuals within the researcher's professional and personal networks. Most of the meetings with respondents recruited for this study were secured through phone calls as this was their preferred mode of correspondence.

Reputational capital, that is, the credentials of the researcher and institutional affiliations also plays a key role in negotiating access and establishing relationships (Aberbach & Rockman, 2002; Welch et al., 2002; Zuckerman, 1972). The researcher capitalized on this factor especially when dealing with business member organizations and government officials. Access was thus granted especially because of the perceived status of the affiliated university and the fact that the research was a PhD study. For instance, while negotiating access to a senior official in one of the key business member organizations that has a footprint in all the 47 counties of Kenya, the targeted respondent mentioned that the only reason he took the researcher's call was the fact that the study was a PhD research. However, he declined to be interviewed but referred the researcher to his deputy who provided highly valuable data and connections to other senior officials working in the county offices. Further, some of the interviewees expressed interest in the final publications of the research as source information for their future policy discussions.

Within the business member organizations and county governments, snowballing proved to be an effective way of finding additional information-rich key interviewees. Snowballing is a sampling method that uses initial selected research respondents to nominate other participants who meet eligibility criteria for a study (Given, 2008). In this case, the researcher asked respondents of the research to provide additional contacts to be interviewed for the research. In other situations, the interviewees volunteered to introduce the researcher to other individuals within their organizations or networks who could give valuable input to the research.

The foregoing discussions show how gaining and maintaining access is affected by various factors such as organizational bureaucracies, politics and the researcher's ability to identify obstacles to access and mitigate these issues. The next section provides insights on how the interviews were conducted.

3.4.6.2. Semi- Structured Interviews

The interview technique involves holding discussions with participants of a research in order get their stories or perspectives on an idea, program or situation (Boyce & Neale, 2006). It allows the researcher to collect rich data that may not be easily available through other data collection techniques such as surveys and document analysis (Saunders et al., 2009; Boyce & Neale, 2006). Semi-structured interviews consist of closed and open ended thematic questions which allow interviewees to talk freely about issues at hand based on their perceptions (Saunders et al., 2009). The open ended questions give latitude to the respondents to fully articulate their responses (Aberbach & Rockman, 2002). Another advantage of using this method of data collection is that it allows the researcher to probe for more information and seek clarification from interviewees on issues that may be sometimes sensitive. This enables the researcher to gain deep and valuable insights from the interview based on the experiences and wisdom of key informants (Denscombe, 2010).

This study is concerned with unpacking reflections on policy choices and their influence on SMME development within the ambit of the devolved system of government in Kenya. Therefore, the researcher relied on the perspectives and experiences of state, non-state actors and business owners as data sources. Semi-structured interviews were used to capture the relevant data mostly relying on open ended questions and using an interview protocol that allowed participants to freely voice their experiences.

Reliance mainly on open ended questions rather than a close-ended approach was influenced by three main considerations following Aberbach's & Rockman's (2002) advice. One is the fact that this study is exploratory in nature aiming to get at the contextual nuances of response with regards to complex issues that had minimally been studied on devolution in a developing world context. A focus on using close-ended questions would not have adequately served the study's aim of exploring the perceptions of elites. Second, open-ended questions allowed the elite respondents to organize their responses in their own style and framework. This is an added advantage as it facilitates maximization of response validity. Third, elite interviewees prefer to express themselves freely, airing their views and their thought processes. Thus the researcher used limited close-ended questions which usually confine a respondent to a restricted set of answers.

The conceptual lens of the soufflé theory of decentralization earlier outlined in the literature review section was used as a guide for the development of the interview protocol (Appendix 4). This is in line with Eisenhardt's (1989) suggestion to initially frame research questions making reference to an existing theory. The research questions were further refined during the interview process to capture aspects that were not initially anticipated by the researcher when crafting the research instrument. This follows Yin's (2009) and Sampson's (2004) recommendations, which highlight the importance using a pilot test to refine data collection plans, research questions and assess degrees of observer biases.

The semi-structured interviews allowed the researcher to gather information from key informants working in governments and business member organizations in order to understand the contextual factors associated with the operations of the devolved system of government geared towards improving the local business environment. The technique was also applied to SMME owners to elicit information related to the growth of their enterprises in the case study areas. Participants were interviewed through face to face interactions at their premises or at a convenient location.

All but two interviews took place at the respondents' offices and this allowed some degree of observation, thus providing insights into the respondents' settings. The interviews were conducted over a seven month period from August 2018 to February 2019.

With regards to the duration of interviews with elites, Harvey (2011) recommends striking the right and optimistic balance to achieve high quality data within the most feasible time frame. He further notes that asking for little time would limit access to quality data, while too much time may lead to respondents' refusal to participate. Taking into consideration the aforementioned advice, the researcher informed respondents that the interviews would last between 45 minutes and 1hour as a means of securing access. Further the researcher considered the tight schedules of the respondents, hence the above proposed time for each interview. On several occasions the interviews took much longer than expected, however majority were about 1 hour 30 minutes long. The shortest interview lasted 40 minutes while the longest took about 3 hours. In the case of the 40 minute interview, the interviewee had adequately prepared for the session as he had requested the researcher to send the research questions days in advance. Secondly, the interviewee was an expert in research and policy matters in relation to devolution and SME development in Kenya. The longest interview took 3 hours because the interviewee was excited to give lengthy details of the company's founding process and success stories. Additionally, the interviewee digressed to other matters unrelated to the research questions.

Prior to interview meetings, the researcher familiarized herself with background information of the participants' organizations and relevant publications. This enabled the researcher to use time efficiently by asking respondents very specific questions, some of which drew answers that were not available in the public domain. Further it improved the respondents' perception of the researcher's knowledgeability thus decreasing the status imbalance that is at times evident when researchers engage elite interviewees (Mikecz, 2012). In one notable instance, the researcher drew the attention of an elite respondent to two major publications released from her department that focussed on devolution and challenges in the realm of business regulations. The respondent acknowledged the researcher's knowledgeability and subsequently the interview took two hours as opposed to the initial forty five minutes agreed upon on gaining access. Secondly the respondent provided valuable supplementary information in form of a draft policy document that had not been released to the public.

In other situations, especially when dealing with officials from the business member organizations and some of the county officials, the respondents requested to have the interview questions emailed to them in advance so that they could prepare adequately for the interview session. The researcher obliged to the request, however during the interview sessions, it was interesting to note that after rapport was established, most of the respondents did not stick to the content of the emails sent. Harvey (2011)explains that this phenomenon arises due to the fact that most business and political elites receive media training and are exposed to media journalists' scrutiny. Therefore they feel threatened when requested to engage in academic interviews that tend to be less straightforward compared to media interviews. Hence their justification to request for the questions in advance.

Generally, qualitative investigators prefer to audio record interview sessions in order to accurately capture information. In the case of elite respondents, Byron (1993) cautions that audio recording may reduce access to respondents and negatively impact the researcher-respondent relationship. Her study indicated that while respondents may agree to have the interviews recorded, some interviewees typically request to have the audio recorder switched off when sensitive information is being relayed. Aberbach & Rockman (2002) note that some respondents may refuse to be audio recorded, however with time they lose their inhibitions in the presence of a recorder. With reference to this study, some interviews were audio recorded with consent from the respondents while others were not because the respondents were fearful of losing control of sensitive information provided. This is partly attributed to the fact that the period in which the interviews were conducted coincided with the national government's anti-corruption purge and high profile individuals in the private and public sector had been arrested or suspended from their offices.

Audio recorded data were transcribed verbatim and saved as electronic files. Written interview responses were also typed out and saved in an electronic file.

3.4.6.3. Documentary Data Collection

The review of documents especially government publications, policies, regulations and legislations provide information that guide the investigation process of a research (Yin, 2009). Moreover, documentary information can be used against data obtained from other sources such as interviews, observations and questionnaires in order to validate and boost evidence (Saunders et al., 2009; Yin, 2009).

In view of the aforementioned, the researcher sought current and archival national and subnational government publications related to devolution in Kenya. The documents included county integrated development plans, annual development plans, budget implementation reports, audit reports, national trade policy, county acts and bills as well as public participation reports. These served as documentary evidence for the purposes of understanding the devolved system government processes and outputs in relation to SMME development. Documents from the participating SMMEs such as annual reports and other internal reports were studied to decipher background information that informed the interview process and analysis. Local media such as daily newspapers covering political and economic news were also used as supplementary sources of data to provide background information that enriched interview sessions with respondents.

3.4.6.4. Observation

Observation offers researchers a distinct way of collecting data as it does not focus on what respondents say or think. It is a direct method of data collection that draws on witnessing events as they unfold thus providing first hand evidence (Denscombe, 2010). The method entails the researcher's participation in the study setting either openly or undercover. It is a suitable for gaining insights into complex realities and social processes (ibid.). This study added observational evidence when an opportunity arose to attend a public participation forum for Nairobi County. Eisenhardt (1989) argues that it is legitimate to add data collection methods during a study especially in theory building because the aim of such a study is to gain an understanding of each case and in as much depth as possible. It is also justifiable in situations where the additional data collection method provides more theoretical insights.

Attendance of the public participation forum provided an opportunity for the researcher to witness the actual process of engagement of county government officials and various stakeholders on county budget implementation. The session was open to the public, therefore the researcher attended as one more participant and took the stance of a fly on the wall following the proceedings of the forum. The researcher made field notes of the observations with regards to the participants' discussions, behaviour and the activities rolled out during the workshop sessions. These were analysed along with the interview data for purposes of enriching and corroborating data collected.

The researcher also maintained a field diary to record impressions of the background and environment of the respondents as well as the experiences of the researcher (Mikecz, 2012).

Denscombe (2010) terms field notes as important records of participant observations that need to be made soon after an observation episode. The researcher also considered Eisenhardt's (1989) advice to make field notes in such a way that they provide a framework for case comparisons and drawing out key learnings. This helped the researcher to not only reflect on the interviews and their contributions to the whole study but also on how to contextualize events and experiences as they emerged during fieldwork (Mikecz, 2012; Yin, 2009).

3.4.7. Data Analysis Methods

Qualitative data analysis consists of "preparing and organizing the data (text data as in transcripts, or image data as in photographs) for analysis, then reducing the data into themes through a process of coding and condensing the codes, and finally representing the data in figures, tables, or a discussion" (Creswell, 2007). The aim of data analysis is to identify patterns, concepts, themes and establish the meanings from the data collected. Data analysis occurs throughout the research process and shapes the data collection process (Denscombe, 2010; Saunders et al., 2009). For instance, initially the researcher had anticipated to interview county officials and SMME owners only, however, an outcome of a preliminary analysis alluded to the need to incorporate BMOs representatives to get a holistic narrative.

For this study, data analysis was guided by the conceptual framework. The researcher analysed data both manually and using software. First, a manual simulation of data contained the interview transcripts and documents was done in order to assess how to organize the content according to the themes of the research. The second step of data analysis entailed the use of a computer assisted qualitative data analysis software (CAQDAS) which has the ability to manage the storage of all types of data collected during fieldwork thus facilitating quick and easy access. Further such software managed coding of data collected through indexing and categorization (Denscombe, 2010). The particular software used for analysis in this study is Atlas.ti. Atlas.ti is a powerful qualitative analysis tool designed to manage large sections of text, visual and audio data. The data are analysed and interpreted using coding and annotating activities (Smit, 2002). This software saved the researcher's time and eased the analysis process. Additionally, it is viewed as a credibility enhancing tool because it can make research processes transparent and replicable (Hwang, 2008).

The researcher carried out a within the case analysis which essentially involved writing up the cases and structuring them according to the already established themes reflecting factors and features of the study (Eisenhardt, 1989). The case narratives were created using the interview, document and observation data. The documents and observation data were useful for validating interview data. This enabled the researcher to deeply familiarize herself with each case, a process that facilitates the emergence of patterns that ultimately provide a framework for case comparisons (ibid).

The next process of the analysis entailed comparison between the cases scrutinizing similarities and differences. As Eisenhardt (1989) puts it, “the idea behind these cross-case searching tactics is to force investigators to go beyond initial impressions, especially through the use of structured and diverse lenses on the data. These tactics improve the likelihood of accurate and reliable theory, that is, a theory with a close fit with the data. Also, cross-case searching tactics enhance the probability that the investigators will capture the novel findings which may exist in the data.”

Within the case and cross case analyses translated to the emergence of concepts, themes and relationships which were then analysed against this study’s conceptual framework and theoretical propositions developed earlier.

3.5. Ensuring Quality of the Research

Establishing the credibility of a research project is considered an integral part of the research process to ensure quality (Denscombe, 2010). Reliability and validity are quality concepts mostly applied especially in quantitative studies to judge the credibility of research with the purpose of explaining (Stenbacka, 2001). From a positivist epistemological stance, reliability is defined as the precision, accuracy and appropriateness of the data with reference to the research question. Reliability on the other hand denotes the ability of a research instrument to produce consistent and similar results when used on multiple occasions (Denscombe, 2010). However, for qualitative studies whose purpose is to generate understanding of phenomena, reliability and validity are conceptualized as trustworthiness, rigor dependability, neutrality or confirmability and transferability (Denscombe, 2010; Golafshani, 2003; Stenbacka, 2001).

Drawing on the aforementioned quality concepts, Yin (2009) outlined the following four logical tests as criteria for judging the quality of case studies: construct validity, internal validity (for causal and explanatory studies and not for exploratory and descriptive case studies); external validity and reliability. He further listed case study tactics and the stages at which they can be applied during the research process. This study utilized this framework to ensure methodological rigour as illustrated in Table 3.5 (Gibbert et al., 2008).

Table 3.5: Case Study Design Tests

Design Test	**Tactic**	**Phase of the research when it was applied**
Construct Validity	• Use of multiple sources of evidence (Data triangulation: archival data, interview data, observational data). • Establish chain evidence (to allow for reconstruction of the process the researcher went through from the research question to study conclusions). • Have peers and key informants review draft case study report.	Data collection Data collection Data composition
Internal Validity	• Pattern matching • Explanation building	Data analysis Data analysis
External Validity	• Use of replication logic in multiple-case studies	Research design
Reliability	• Use of case study protocols • Develop case study database	Data collection Data collection

Source: Adapted from Yin (2009)

3.6. Ethical Considerations

A fundamental feature of good research is prior approval for any investigation that involves collection of data directly from people or data about living people (Denscombe, 2010). Given that this study involved human subjects, the researcher first secured an approval from the University of Witwatersrand non-medical human research ethics committee as a measure to protect the rights and dignity of the research participants. Subsequently the committee issued an ethics clearance certificate (see Appendix 3). Further, the researcher obtained a research permit (see Appendix 2) from NACOSTI which enabled access to data within the counties of Nairobi and Kiambu in Kenya.

At the onset of each interview, the researcher ensured transparency by providing information on the profile of the researcher, the nature and purpose of the research and how the resultant data would be used. Additionally participants were informed of their right to voluntarily participate and withdraw at any time within the research process. The research participants were also assured of anonymity and confidentiality. To this end, the researcher changed the names of the participants and their respective organizations. This information was captured in a detailed participant information sheet (see Appendix 5) and formal consent form (see Appendix 6) issued prior to the interview process. Providing participants with the aforementioned accorded them an opportunity to give informed consent for interviews to take place and allow for audio recording.

3.8. Limitations of the Study Methodology

In as much as the methods of inquiry used in this study were effective in meeting the research objectives, certain limitations are acknowledged. One involves the interview process, where the researcher encountered key informants within county governments who provided scripted responses especially with regards to sensitive information. These informants chose to give narratives that portrayed them in a positive light rather than giving their own perspectives. This confirms Eisenhardt's and Graebner's (2007) claim that interviews tend to provoke a "knee-jerk" reaction hence the data provided may be biased courtesy of the informants' engagement in retrospective sense making and creating a positive impression. Nonetheless, they cite engaging multiple and knowledgeable informants from diverse backgrounds as a measure to employ to mitigate the aforementioned challenge. The researcher followed this advice and enlisted different government officials and business member organizations representatives to provide diverse perspectives.

The second limitation refers to the aspect of generalization. As the study focussed on devolution and SMME growth in Kenya, the research findings cannot be necessarily be generalized to other developing countries. The findings nonetheless are generalizable to the relevant theories and concepts described in this study. The third limitation points to the fact that this study is a cross-sectional study. A longitudinal study would be of benefit to study the devolution processes and outcomes and their influence on SMME development. However this was beyond the scope of this doctoral study due to the time and other resource constraints.

3.9. Summary

This section presented the research paradigm and strategy employed to extract and analyse data related to the devolved system of government in Kenya and its interaction with SMME development. The multi case method was applied in drawing information from various data sources within two subnational regions.

The next two chapters provide an analysis of the results in accordance with the research questions and perspectives of interviewees in the case study contexts. The chapters reflect three levels of data analysis that is the micro, meso and macro levels.

Chapter 4 will provide the micro level of data analysis which presents the perspectives of six SMME cases depicting their experiences under county governance. Chapter 5 presents the macro and meso levels of data analysis for purposes of gaining an in-depth understanding of the workings of devolution and its impact on the business environment and SMME development. The macro level provides perspectives of county government officials and independent government representatives who are enablers of devolution. The data from these officials was synthesized to provide information on the contextual environment for SMMEs and their perceived outcomes. The meso level outlines perspectives of BMOs, who as intermediaries presenting the interests of the SMMEs to the county governments, provided a detailed account of their experiences while working towards making county legislations, policies and programs beneficial for businesses.

CHAPTER 4

4. Micro Perspective of SMMEs on the Effect of Nairobi and Kiambu County Interventions on SMME Growth

This chapter focusses on the within-case analysis providing research evidence that will later facilitate cross-case analysis. It centres on SMMEs as recipients of county government services and elucidates their micro perspectives, thus providing insights on their experiences under the devolved system of government. Themes derived from the interviews are illustrated and supported by verbatim quotes that depict the reflections of the SMME owners.

The analysis is split into five sections that respond to the research questions. The first section covers the first research question and consists of the general perceptions of SMME owners on the effect of county government interventions on the growth of their businesses. The second section portrays the perceptions of SMME owners on the positive outcomes of devolved governance on the business environment and SMMEs. These two sections also covered the second research question which focuses on the dimensions of devolution and their effect on the business environment and SMMEs. However, rather than outlining the effects of each of the dimensions, the responses provided insights on how devolution holistically affected the business environment and SMME growth.

The third section focusses on the challenges limiting county governments from effectively supporting SMME growth thus responding to the third research question. Further data analysis in this section also reflects the state of the business environment in view of the existing county government challenges hence providing more information responding to the second subsidiary question. The fourth section covers the fourth research subsidiary question and it focusses on opportunities that county governments could capitalize on in order to better support SMMEs and enhance their growth. The last section provides a summary of the main research findings.

Six SMMEs participated in the research and their brief profiles are illustrated in Table 4.1 below. The codes assigned to the companies and the respective interviewees are also reflected. Appendix 7 depicts more details of the participating SMMEs.

Table 4.1: SMME Profiles

Company	Year of Incorporation	Number of Permanent Employees	Sector / Type of Business	Company Brief
NSME1	1982	13	Auto & Spares	The company supplies a diverse range of automotive products such as vehicle batteries, lubricants, shock absorbers, brake pads, oil seals and ball bearings on a wholesale and retail basis.
NSME2	2005	61	Paper Products	A wholesale distributor of tissue paper products, serviettes and paper hand towels.
NSME3	2001	28	Personal Protective Equipment	The company supplies safety boots, hand, head and fall protection gear on a wholesale and retail basis.
KSME1	2006	42	Dairy Products	A family owned business whose current product portfolio primarily consists of five flavours of yogurt in various pack sizes (150ml to 5L). The company is involved in both retail and wholesale trade.
KSME2	2001	70	Tea Products	A wholesale distribution company established to merchandise processed tea products.
KSME3	2010	37	Pharmaceutical Products	The company offers a range of pharmaceutical products in form of tablets, syrups and injectable medicines. It is registered as a wholesale and retail distributor.

Key: ***NSME:*** *Code for enterprise located within Nairobi County*
KSME: *Code for enterprise located within Kiambu County*

4.1. General Perception of the Effect of the Devolved System of Government on the Business Environment and SMMEs

With the operationalization of the devolved system of government, there was optimism amongst business owners that county governments would create a more conducive business environment. However as the owners of the SMMEs indicated, these expectations were dashed soon after county governments began fulfilling their mandate to promote and regulate trade in their respective jurisdictions. In their view, the counties' performance failed to match the SMMEs' anticipations. All the six SMMEs indicated that in as much as their businesses experienced growth, the devolved system of government outputs were not accountable for this development. Rather, with the implementation of devolution, adversities within the business environment emerged.

We thought our business issues will be adequately dealt with. But I can assure you there are more negative things than positive ones to say about the county government's initiatives for businesses (NSME1 – 12.2).

According to me, nothing has changed since the county government began its operations. County governments do not add value to my business. Instead they are a source of frustration. Yes my business has grown but, the business environment is quite harsh. Things were slightly better when the national government was in full control (NSME2 -18.1).

In my view nothing is working for us as business people under devolution. Now, we have more business constraints compared to the period before devolution was instituted. We lack finances and infrastructure to efficiently run our businesses. And now taxation has increased. My business has grown but county governance has no hand in it (NSME3 – 1.1).

Being in the milk industry, distributors like us even thought that the milk program for primary schools that existed in the 1980s would be revived by the county governments but this has not materialized to date. In all honesty, the counties do not have an impressive track record when it comes to supporting our businesses (KSME1 – 8.1).

There are no positive aspects of devolution for our business. The county government has not done much to improve the business environment (KSME2 – 15.1).

We counted on increased procurement at the county level as it was the decision of the county health department to use funds according to the healthcare needs of their jurisdictions. But unfortunately, we have not seen much progress in this regard (KSME3 – 22.6).

As demonstrated by one of the SMMEs above and in the interview excerpts below, three of the SMMEs cited the fact that the business environment was more conducive for their development when the trade function was fully under the control of the national government.

During President Kibaki's era (2002-2012), the national government did quite well, business was smooth, payments were made faster, and money was spent by government therefore generating cash flow in the economy. This was a booming period for businesses (NSME1 – 12.1).

In the periods leading to the 2007 elections, business was really good. Government procurement favoured local SMEs and owing to the existing performance contracts at the time, businesses were promptly paid for the tender supplies made. Interest rates at the time were low and the taxes were not punitive at the time. The previous president had the economy under control and he always factored the good of the business community (NSME3 – 1.26).

The SMMEs primarily attributed the growth of their businesses to internal organizational factors and exogenous factors such as national government development initiatives and affiliation to business member organizations.

The major road networks in our county have been done by Kenya National Highways Authority (KeNHA) a national government initiative. This is the case in the different counties where our company *supplies milk products. This has greatly reduced the costs of distribution as the vehicles have less wear and tear. Kiambu County has done very little to repair or construct access roads* (KSME1 – 8.10).

We get more value from the Business Member Organizations to which we belong. We are registered with the Kenya Association of Manufacturers (KAM) which gives us a lot of business information that helps us explore opportunities and they fight for rights of members by tabling business policy briefs to the national government (NSME2-18.15).

In my sector, the already existing co-operative movements are very active in growing businesses engaged in the production and supply of milk products. We have benefitted a lot from the co-operative society we belong to because of the assistance they gave us to expand our market base. This is something that the county government should be doing but to date nothing has been done. (KSME1 – 8.9).

Our membership to the East African Tea Trade Association contributed to our growth trajectory. The association is a BMO for businesses in the trade of tea that facilitates access to markets for the sale of tea, provides capacity building programs for members and resolves trade issues affecting the members collectively. Through this organization, our visibility and networking opportunities increased (KSME2 – 15.5).

Drawing on the above narratives, the emergent themes and subthemes are depicted in table 4.2 below:

Table 4.2: Summary of Perceptions of Business Owners on the Effect of Devolution on the Business Environment and SMMEs

Theme	Subtheme / Theme indicator	Case
The devolved system of government failed to provide a conducive business environment for SMMEs	- More negative aspects than positive ones on county governance	NSME1
	- No value added to businesses - Business environment is quite harsh - County governments are a source of frustration	NSME2
	- Nothing is working for businesses - Business constraints are more prevalent - Lack of finances - Increased taxation	NSME3
	- No support for SMEs from county governments - Inadequate road infrastructure	KSME1
	- No support for SMEs from county governments	KSME2
	- No support for SMEs from county governments - Limited public procurement opportunities	KSME3
The business environment was more favourable when the trade function was fully	- Business environment was better under the national government	NSME2
	- Effective leadership and control over the economy	NSME1

under the national government	- Prompt payments made to SMMEs involved in public procurement	
	- Government procurement favoured SMEs - Prompt payments made to SMMEs involved in public procurement - Low interest rates - Favourable tax regime	NSME3
Business member organizations provide more business support than county governments	- Provision of capacity building programs for SMEs - Provision of business information to improve SMEs' access to markets	KSME1
	- Provision of capacity building programs for SMEs - Provision of business information to improve SMEs' access to markets	KSME2
	- Advocacy activities to represent the needs of businesses - Business information for marketing and investment opportunities	NSME2
National government infrastructure development projects favoured the growth of business	- Development of national road infrastructure	KSME1

On whether any of the policies and programs implemented by the county governments had positive effects on SMMEs, the business owners highlighted some developments attributed to administrative and fiscal reforms as indicated in the next section.

4.2. Positive Outcomes of the Devolved System of Government on the Business Environment and SMMEs

According to four SMME owners some of the administrative and fiscal processes initiated by the county yielded favourable outcomes for the benefit of businesses. Of significance was the automation of the business licencing process which decreased the turnaround times for obtaining business permits.

> *The introduction of an e-service portal for transactions has eased the process of getting business licenses. Today we get all our licenses in a day without having to engage anyone. Previously it took up to a week* (NSME1- 12.4).

> *The only thing I can credit the county government for is the automation of the business licencing process. At least now it is less cumbersome and fast* (NSME2 - 18.2).

> *At least Kiambu County invested and implemented an online system for business licencing. This has increased the speed with which we get our annual business permits. Before devolution, the*

permits would take a week to be processed and it involved a lot of paper work. Currently the permits are obtained within a day. I like the fact the application and payments can be done without going on site to the offices (KSME1 – 8.3).

Business licencing is now an easy affair as everything is done online and you get the permits within a day (KSME3 – 22.5).

The automated system enhanced transparency thus enabling tracking of applications and reducing the costs the business incurred due to corrupt practices that were previously prevalent in the counties.

We are able to monitor the status of the business permit application online. Before you had to follow up through phone calls or going on site (KSME1 – 8.5).

Under the previous city council regime licencing was affected by corruption so one had to engage a city council official to do the paper work which involved four processes on behalf of a business for a fee. With the current system we can see our status at any one time. The e-platform has cut out cartels that made extra cash out of businesses by extorting bribes (NSME1- 12.6)

Infrastructural investments made in Nairobi County improved the business environment in terms of enhanced accessibility, aesthetics and security.

Roads in the inner part of the city have been redone and this has facilitated customers' access to the shops. It also enhances the aesthetics of the commercial area where we run our business (NSME1- 12.8).

We now have street lighting for enhanced security and garbage collection that was initially established by the previous regime prior to devolution. Though in reality garbage collection was only sustained in the first term of devolution after which the services deteriorated when the new governor was elected. (NSME1- 12.10).

SMMEs in Kiambu held opposing views on infrastructural investments within the region. In their view the county failed to improve the road networks hence limiting access to markets.

Kiambu County has not improved the minor road networks which link our business to suppliers yet they collect levies. Small access roads have deteriorated within the county (KSME1 – 8.2).

Unfortunately to date most of the roads are in a state of disrepair and this affects transportation of our products in terms of money and time (KSME2 – 15.4).

One of the SMMEs credited the county's power to autonomously recruit and provide medical cover for its employees as a factor that grew sales for businesses within the pharmaceutical sector.

Counties employed many people to work in their governments. And their pay perks came with healthcare benefits and as a result many were able to seek healthcare in private healthcare facilities. Private medical insurance companies also presented their product offerings to counties.

As a result we saw a surge in the procurement of drugs especially in the private sector (KSME3 – 22.9).

Nonetheless, the above outcome was outweighed by other negative effects of the devolved system of government on pharmaceutical trade.

The counties have many issues that have affected the healthcare system as a whole. So yes may be their employees are contributing to a slight increase of business in the private sector, but the general public is suffering. Many public hospitals have drug shortages and staff strikes and this is because of lack of adequate funding from the county. So that has a spiral negative effect on the movement of pharmaceutical products especially within the wholesale supply chain (KSME3 – 22.8).

Finally, two SMME owners could not identify a single outcome of county government policies and programs that had a positive effect on the performance of enterprises.

As far as I am concerned proper economic structures and strategies that focus on SMEs are non-existent within the county government. We lack finances and infrastructure to efficiently run our businesses (NSME3 – 1.2).

County governance has not been of benefit at all to businesses. We have not seen any significant development activities to support businesses in the region (KSME2 – 15.3).

The above section highlights some developments that had a positive impact on the business environment and SMMEs. The key emerging finding across three SMMEs is that counties investments in e-government services improved the ease of accessing business permits. Infrastructural investments and the counties' ability to recruit and remunerate its employees were highlighted as other factors that increased the growth of SMMEs though to a low a degree. Table 4.3 provides a summary of the emerging themes and subthemes.

Table 4.3: Summary of Positive Outcomes of Devolution on the Business Environment and SMMEs

Theme	Subtheme / Theme indicator	Case
Counties' investments on e-government services improved the business licencing process	- Reduced turnaround times for business licencing	NSME1 NSME2 KSME1 KSME3
	- Increased transparency in the business licencing process	NSME1 KSME1
Counties' investments on road infrastructure improved access to markets	- Improved inner city roads facilitated access to the business - Street lighting infrastructure improved security	NSME1

Counties' control over human resource management contributed to the increased purchasing power	- Increased buying power of county government employees for healthcare services	KSME3

Despite the abovementioned developments under the devolved system of government, the business owners asserted that the counties were limited in their capacity to effectively promote the growth of SMMEs.

4.3. Challenges Experienced Under the Devolved System of Government

County governments failed to significantly improve the state of the business environment and growth of businesses due to the following inefficiencies within the devolved functions:

4.3.1. Corruption

Acts of corruption such as soliciting of bribes and extortion by county officials who exploited the shortfalls of automated revenue collection and compliance systems were evident.

> *Corruption is still an issue. When the automated e-platform was put in place it locked up taps for corrupt individuals, but they found loop holes in the systems. And they maximized on these to extort money from traders* (NSME1- 12.11).

> *Inspection of warehouses takes place but this presents a window for corruption for inspectors. County officials harass business people with haphazard inspections. It is usually their opportunity to ask for bribes, sometimes making false claims that the business has not complied with the regulations of the county* (NSME2 – 18.5).

One of the underlying causes of corruption was the resultant employee redundancy and lack of access to cash due to the installation of automated revenue systems.

> *With the establishment of the e-platform individuals were made redundant, so they looked for other opportunities to make money. Such county officials come to businesses claiming that not all permits are paid for, so they harass business people to pay* (NSME1- 12.12).

To address the abovementioned issues businesses relied on the help of national government parastatals and the BMOs to bypass the unorthodox county inspectorate practices.

> *Kenya Investment Authority facilitated the inspection of our facilities by the National Environment Management Authority. It was less bureaucratic and more peaceful to deal with the investment authority than the county offices* (NSME2 – 18.16).

> *Once the County is aware that you are a member of the BMOs they rarely harass a business. When you report any issue to the BMO, they do their best to intervene to protect the business* (NSME2 – 18.17).

Other businesses circumnavigated the counties' corrupt practices through closure of premises or offered bribes which in turn reduced the firms' profitability.

> *Some small business owners close their shops to avoid them. This affects business sales. When this happens our business also suffers as the small traders are not available to buy our products.* (NSME1- 12.13).

> *To keep off the county officials some traders are forced to bribe them just to get them off their back and continue with business* (NSME1- 12.14).

Corrupt practices were also notable in the public procurement processes within county governments. This was manifested as irregularities in the awarding of tenders in the counties subsequently leading to substandard provision of services.

> *Because of corruption in the procurement processes, currently the garbage collection seems to have been tendered to cronies affiliated to county officials. They are not necessarily experts at delivering the service, their only interest is to secure the proceeds of the tender. This explains why garbage collection was efficient only within the first term of devolution. With time corruption compromised this service.* (NSME1- 12.15).

Further, corruption limited SMMEs' potential to fairly and competitively bid for the available county government tenders as a means of increasing their profitability.

> *The counties typically favour businesses from their localities and worse still, many of these are affiliated or owned by county officials or local politicians. The county staff influence the procurement process and therefore ordinary businesses like ours do not stand a chance of securing business deals. In some situations, county officials ask for bribes in order to be considered for a tender* (NSME2 – 18.8).

> *Businesses attempt to be prequalified as suppliers in county government tenders but never make it over flimsy reasons. Sometimes small businesses simply do not get prequalified because established companies some of which belong to politicians influence and bribe their way through to secure the county tenders* (NSME3 – 1.4).

> *Individuals in the county government specialize in manipulating policy for their gain. In the process cartels control county business and business crimes are then committed* (NSME3 - 1.14).

> *There is a lot of corruption in the county so tender opportunities are not available for businesses. Instead politicians take on the tenders through their companies to enrich themselves* (KSME2 – 15.12).

> *Participation in the tender processes of the county health sector is a hopeless affair because many of these are awarded to cronies or relatives of the county officials or companies owned by the county officials and politicians* (KSME3 – 22.10).

In a situation where one secures a tender with the county, corrupt officials constantly frustrated payments and solicited for a share of the proceeds.

> *If you get a tender, corrupt county officials perpetually demand for a share of the proceeds. If one does not yield, they sabotage payments or further approvals of local purchase orders. So we no longer bid for tenders with the county government, it is not worth the frustrations you get* (NSME2 – 18.9)
>
> *You will have a scenario where the county may grant you a tender to supply drugs but they would like a share of the payment that the pharma business receives. Some ask for a percentage of the value of the local purchase order. Others may tell you that you don't need to supply, just provide an invoice and when the payment comes through we simply share the loot. These are some of the experiences we went through and therefore decided not to get involved in the tender business as much as it would have been lucrative on our part* (KSME3 – 22.11).

Inefficiencies in the management of funds in the county was partly attributed to the prevalence of corrupt practices leading to poor delivery of services.

> *Money is not properly utilized for the intended projects. There is devolved corruption, so that is why many development projects for SMMEs have never been implemented. And if they are, things are done shoddily* (KSME1 – 8.26).

Table 4.4 provides a summary of the effect of corruption within county governments on the business environment and SMMEs.

Table 4.4: Effect of Corruption on SMMEs

Theme	Manifestation of Corruption (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Corruption limited the counties' capacity to grow SMMEs	- Soliciting for bribes from SMMEs over regulatory and compliance matters	- Limitations in the provision of quality goods and services due to unprofessionalism of staff	- Harassment of SMMEs	NSME1 NSME2
			- Reduced SMMEs' profitability	NSME1
	- Irregularities in the awarding of county government tenders	- Limitations in the provision of quality goods and services	- Reception of poor services	NSME1
	- Politicians awarded tenders	- Flawed procurement processes	- Inaccessibility of public procurement opportunities	NSME2 NSME3 KSME2 KSME3

	- Soliciting of bribes from SMEs bidding for tenders		- SMEs avoid public procurement opportunities	NSME2 KSME3
	- Embezzlement of funds	- Lack of funds	- Lack of development programs for SMMEs	KSME1

4.3.2. Organizational Structure Challenges

Inefficiencies within the administrative function of county governments adversely affected the business environment and SMMEs and these manifested as follows:

a. Culture: Differences between old and new staff in the county coupled with a culture of rebellion paralyzed the delivery of services.

> *The county suffers from the fact that there are employees from the past regime mixed with the current ones employed. This leads to sabotage in the provision of services. This is because the old staff feel insecure and some are frustrated because their regular taps of income seem to be shut* (NSME1- 12.16).

b. Deployment of employees: As earlier mentioned, staff redundancy occurred due to county business process automation. However, the county failed to redeploy such staff hence the prevalence of corrupt practices as indicated in section 4.3.1. Additionally, the counties' human resource pool was bloated a factor that increased the running costs of government and the cost of doing business.

> *One of the problems the county has is a huge wage bill because of the bloated workforce which unfortunately consists of many unskilled employees. So I think this is why we are charged multiple fees incurring extra business costs to cater for this bill and it is the same in other counties* (KSME2 – 15.18).

c. Lack of Accountability: Another factor that frustrated SMMEs was inadequate accountability mechanisms in the counties and this created avenues for corruption and harassment. Further, it limited the public's ability to hold county officials and politicians accountable for public funds and development and service deliverables.

> *Now as a business person, when I lodge any complaint nothing is done. And I also think the county staff are in cahoots with the employees on the ground who demand for payments for licenses and we do not understand what they are for* (NSME1- 12.17).

> *Even if I were to lodge a complaint on county services that are below par, I doubt it will be addressed. When it comes to the use of county funds, it is not clear how they spend it and I think that is why we constantly hear about scandals of corruption* (KSME1 – 8.22).

The law on procuring locally manufactured goods and from local suppliers is not followed. We had a situation where one of our clients won a county government tender to supply protective gear. The client subcontracted us to supply the items required. We supplied the first local purchase order. But, for subsequent orders the client imported similar but cheaper and low quality protective gear to maximize his profits. So we lost out on this tender because of such unscrupulous actions. (NSME3 – 1.15).

It is very difficult to tie officials or politicians down on the promises they make on issues of development and even the management of finances of the county. Many politicians are found in public gatherings communicating what they are doing or pushing their political agenda but few have a development record on the ground (KSME1 – 8.17).

d. Lack of Transparency: Other than corruption, the counties' procurement process was criticized for lack for transparency, a factor that favoured successful tender bids by companies affiliated to politicians. Consequently local SMMEs stood little chance of prequalification as county government goods and service providers.

The procurement department may actually grant bids to small businesses however they do not guide the businesses on the terms and conditions for supplying the orders. So what happens is that these small businesses fail to meet the tender obligations and the county government resorts to single sourcing to the benefit of large companies or firms mostly owned or allied to politicians (NSME3 - 1.5).

Accessibility and transmission of relevant information pertaining to development issues proved to be ineffective within Kiambu County Government.

There is poor communication of what is being done for development purposes, the rationale for passing by-laws is not given and neither is the opinion of the business community sought (KSME1 – 8.32).

Laws are passed without considering the impact on the businesses in the region (KSME1 – 8.33).

e. Technical Capacity: Evidence from interview narratives illustrate the counties' limited administrative capacity to provide the requisite services and development programs for SMMEs. Elements of unprofessionalism and bureaucratic processes were notable thus leading to poor customer service, a factor that made some of the businesses less inclined to interact with the county departments.

Engaging the county officials involved in licencing is such an unpleasant experience. They are not friendly (NSME2 - 18.3).

Because of the previous bad experiences at the county council while applying for business licences, I now contract someone within the county to do the job on documentation. This way I do not have to deal with the bureaucracies involved (NSME3 – 1.20).

> *County officials are quick in facilitating reception of documents and payments for business permits. But when it comes to approvals for extension of a business premise, the process can be so long and very bureaucratic and it opens doors for corruption. So we just experience inconsistencies in the services they provide* (KSME1 – 8.15).

> *Lack of professionalism within the government departments is such an issue and this is why businesses are not helped as they should. Because of this we rarely interact with the county government officials. As long as we get our licenses we do not engage further with them* (KSME2 – 15.13).

Flaws in the internal controls of the human resource management system were manifest as it seemed impossible for businesses to identify authentic county officials from the inspectorate department. Individuals who posed as county officials harrassed businesses.

> *Some of the county officials we have encountered are conmen. They claim to be from the county but in reality they are not. The problem is that it is difficult to tell because both legitimate and illegitimate officials do not have formal identification (NSME2 - 18.4).*

Due to lack of coordination within the county government structures, businesses were exposed to misinformation with regards to county rules and regulations.

> *You can have the inspectorate team on the ground giving you different information from what is available in their offices or on the website. So even if you want to comply with the law, you wonder which information you should go by* (NSME2 – 18.12).

Further, one of the SMME owners claimed that the county staff failed to deliver on their mandate of ensuring compliance of businesses to the established regulations through inspections.

> *I think they are not working as such as I have never even seen them coming for inspections to ensure compliance* (NSME3 – 1.21).

Lack of professionalism of the elected leaders was identified as a factor that impeded the implementation of development programs in the counties.

> *There is a lack of professionalism in the way especially the political representatives run the affairs in the county. They simply lack the technical knowhow of managing the county. That is why we do not see any progress* (KSME 1 – 8.16).

> *The politicians at the county level are not professionals and this slows down the development agenda as most focus on populist politics as opposed to development focused politics* (NSME3 – 1.22).

The counties' limited technical capacity led to poor strategy formulation and execution of development plans, hence the lack of visibility of the impact of the county government activities on enterprise promotion.

> *The county has engaged consultants to draft SME development plans, however there is no linkage between their views and the issues at hand for businesses at the grass root level. They do not fully understand the needs of businesses. In the cases where it is well understood and recommendations made, there is no implementation, issues are just left on paper* (NSME3 – 1.9).

> *Strategies that match the needs of the business community are not outlined and if they are any formulated they are not effectively implemented. There is also a poor understanding of what needs to be done for the people and businesses in the region. There are no tangible results that I can name that has been of benefit to my business and the entire SME sector* (KSME1 – 8.18)

> *Individuals employed within the county governments do not understand businesses and how they function. So that is why we have very poor policies* (KSME2 – 15.14).

> *Our great concern is the fact that they do not seem to have a full understanding of the healthcare needs of the region and that is why drug shortages are prevalent. In the process we as businesses in the pharma industry lost out on a sizeable share of business that we used to get from the public hospitals prior to devolution* (KSME3 – 22.7).

> *There is a big gap with regards to capacity building for the business community and the counties have not done much about it. Currently this is mostly done by agencies or organisations within the private sector* (KSME1 – 8.20).

Table 4.5 provides an overview of the effects of the counties' organizational structure challenges on the SMMEs.

Table 4.5: Effect of Organizational Structure Challenges on SMMEs

Theme	Manifestation of Challenges (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Organizational structure challenges limited the counties' capacity to grow SMMEs	- **Culture** of rebellion and sabotage	- Paralysis of county government services	- Reception of poor county government services	NSME1
	- **Inefficiencies in Deployment of Employees -** - Staff redundancy	- Prevalence of corrupt practices	- Harassment of SMEs	NSME1
	- **Inefficiencies in Deployment of Employees** - Bloated workforce	- Huge wage bill	- Increased taxation on businesses to fund county government salaries - Increased cost of doing business	KSME2

	- **Lack of accountability mechanisms**	- Limitations in the provision of quality goods and services	- Harassment of SMMEs	NSME1
		- Failure to follow through procurement procedures - Poor quality control	- Loss of public procurement opportunities	NSME3
		- Embezzlement of funds - Limitations in the provision of quality goods and services	- Reception of poor public services	KSME2
	- **Lack of Transparency**	- Flaws in the procurement process	- Loss of public procurement opportunities	NSME3
	- **Lack of Transparency** – poor communication	- Non-involvement of SMEs in policy making	- Unfavourable trade legislations imposed on SMEs	KSME1
	- **Lack of technical capacity** – unprofessionalism of staff	- Limitations in the provision of quality goods and services	- Reception of poor public services	NSME2 NSME3 KSME2
	- **Lack of technical capacity** – unprofessionalism of political representatives	- Poor execution of development programs	- Reception of poor public services	KSME1 NSME3
	- **Lack of technical capacity** – limited process automation	- Long bureaucratic processes in service provision	- Reception of poor public services	KSME1
	- **Lack of technical capacity** – inefficiencies in human resource management	- Internal control flaws	- SMEs subjected to conmen	NSME2
	- **Lack of technical capacity**	- Poor policy formulation - Poor strategy execution	- Lack of development programs to grow SMMEs	NSME3 KSME1 KSME2
			- Lack of capacity building programs for SMEs	KSME1
			- Limited public procurement opportunities	KSME3

4.3.3. Fiscal Resource Mobilization Inefficiencies

SMMEs faulted the counties for implementing revenue raising strategies and laws that resulted in multiple and increased taxation hence increasing the cost of doing business.

> *Currently my company supplies clients in seven counties. In all these counties we have to apply for business permits. This is ridiculous because in reality a business permit is required only for a firm that is located in the county. We do not have offices or branches in the counties in which we supply yet we pay for a business permit. In addition each time our trucks enter a county they have to pay distribution fees on each entry. This is costly for the business* (NSME2 – 18.2).

> *With devolution taxation has greatly increased. We are paying for many levies and we do not see where these monies go to* (NSME3 – 1.19).

> *Multiple licensing, this has been an issue as we pay license fees to the national regulatory agencies as well as county fees in order to operate. This is a costly affair at the beginning of each financial year* (KSME3 – 22.17).

> *County Governments have put in place many business levies that have increased the cost of goods. As we distribute our products from one county to the next, each delivery truck has to pay a delivery fee as long it has a load. Some counties charge SBP fees even though the business is not located in the county in question. In addition the SBP fee varies from county to county* (KSME1 – 8.23).

> *Businesses are seen as cash cows for raising county revenue. Levies that did not exist before have been introduced such as the distribution fee per truck that crosses the counties to supply tea. This is costly for us as we make several deliveries across counties* (KSME2 – 15.9).

> *Distribution fees between counties is such a frustration because each county has different entry fees. When parking in some counties, a new parking fee needs to be paid when you move say 3 – 5 km from original place of parking. This adds to the distribution cost and we do not understand the rationale for passing such rules* (KSME2 – 15.16).

Other than the increased distribution costs, additional inconveniences were experienced that affected the SMMEs' customer services and operational costs.

> *Dealing with these issues is time wasting and a headache because in a situation where we are unaware that an SBP fee needs to be paid in a county or sub-county, our vehicles are impounded and we waste a lot of time trying to resolve the issue. This is costly to our customer service, because it also leads to delays in delivery or extra costs of sending someone on site to deal with the issue* (KSME1 – 8.24).

The increased cost of doing business threatened some SMMEs' capacity to retain their current human resource pool.

> *With so many fees to pay for, cost of doing business goes up and this affects the staff because it calls for a reduction in a number of employees in order to manage the expenses. We have not cut down the number of employees yet, but if this continues we will have no choice but to reduce the number of employees* (KSME2 – 15.15).

In terms of mobilizing of financial resources, counties were faulted for failing to provide relevant services, yet they resolutely collected revenue in form of taxes, licence fees and service charges from enterprises.

Provision of basic services remains a big challenge. Garbage collection is not as effective as it was during the pre-devolution era (NSME1- 12.18).

After devolution, the county started collecting the cess fees and that was the beginning of many problems. Our roads are full of potholes and the county has not done anything to repair them. Chances are the county uses the cess fees to finance other operational costs. So it is not used for its intended purpose (KSME2 – 15.11).

Basic services such as water are not provided, therefore our company relies on borehole water yet we still pay a meter fee to the county water services board (KSME2 - 15.8).

In this region we all have boreholes to run our businesses. Yet we pay service charges for water. So you wonder why they collect money from us and they do not provide water (KSME1 – 8.29).

A lack of transparency and accountability in the use of county funds was also highlighted as a factor that affected availability of funds in the county for development initiatives and provision of services.

The county's strategy to raise money has been focused on milking money from the business community. Levies were greatly increased and yet there are no tangible results on what the monies they collect from us have been used for (NSME1- 12.16).

Some politicians dish out money to small traders during public meetings, yet there is no audit trail on these funds. Which kitty did they draw these funds from? This could be a possible avenue for siphoning out county funds meant for development and running the county (NSME3 – 1.23).

Counties failed to observe the established payment plans for the goods and services procured, hence frustrating the respective providers. They either defaulted or delayed payments to suppliers, consequently SMMEs avoided bidding for county government tenders.

Getting involved in county tender business is very risky because it is very difficult to get paid. You spend a lot of time chasing for payment and the bureaucracies involved are very frustrating. This is another reason why we do not bid for county tenders (NSME2 – 18.10).

County governments are not very efficient when it comes to making payments. So we do not bid at all otherwise we will just have outstanding debts for so long (KSME1 – 8.28).

We shy away completely from supplying the county facilities and this is because rarely does the county make payments on time and this has an impact on our cash flow. Secondly it is a very tedious process to keep on following up the payments in the county (KSME3 – 22.16).

Inadequate funding affected the counties' capacity to effectively mobilize financial resources thus affecting the demand and supply of goods and services required by public institutions. This factor limited public procurement opportunities for SMMEs.

Counties seem to be underfunded therefore they are not able to meet the healthcare needs of their facilities. So as much as we are aware that the different hospitals require a certain amount and types *of drugs, these needs may not be fully met because of lack of adequate funds from the county. Pharmaceutical distributors do not get as many orders from public hospitals as they used to before devolution* (KSME3 – 22.13).

Further, counties failed to provide favourable financing mechanisms for SMMEs to enhance their development.

The county claims that it has funds for businesses but we do not get it. So we do not bother engaging with them on this. We simply just engage the commercial banks whose interest rates are quite high (NSME2 – 18.7).

As SMEs we still suffer from endemic lack of finances. And it seems the county has no funding or provisions for grants or cheap loans for us business people to access as is the case in countries like China (NSME3 – 1.18).

Table 4.6 provides a summary of the effects of financial resource inefficiencies within counties on SMMEs.

Table 4.6: Effect of Fiscal Resource Mobilization Inefficiencies on SMMEs

Theme	Manifestation of Challenges (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Fiscal resource mobilization challenges limited the counties' capacity to grow SMMEs	**Unfavourable revenue raising laws and strategies** - Multiple taxes and levies, licencing fees - Variations in taxation across counties		- **Increased cost of doing business:** ▪ Multiple SBP permit fees across counties ▪ Payment of distribution fees in each county	NSME2
			- Increased taxation and levies	NSME3
			- Multiple licencing fees	KSME3
			- Increased cost of doing business: ▪ Payment of distribution fees in each county ▪ Multiple parking fees	KSME2
			- **Increased cost of doing business:** ▪ Multiple SBP permit fees across counties ▪ Payment of distribution fees in each county ▪ Variations in county fees ▪ Delays in delivery of goods to customers	KSME1

	Poor financial resource mobilization	Limitations in the provision of quality goods and services	- Reception of poor county government services: e.g. garbage collection	NSME1
			- Poor state of roads - Lack of water supply	KSME2
			- Lack of water supply	KSME1
	Lack of transparency and accountability in the use of funds	Limitations in the provision of quality goods and services	- Reception of poor county government services	NSME1 NSME3
	Defaulting or delaying payments to suppliers	Increased debt	- Negative impact on SMMEs cash flow - SMEs avoid public procurement opportunities	NSME2 KSME1 KSME3
	Lack of funds	Limitations to procure goods and services	- Limited public procurement opportunities for SMES	KSME3
		Lack of funds to finance SMMEs	- Inaccessibility of affordable SME financing	NSME2 NSME3

4.3.4. Lack of Political Will

In terms of political representation, lack of political will to support the SMMEs and address their pertinent issues was evident. This led to a growing disillusionment on the part of business owners with the devolved system of governance as a channel for growing SMMEs.

> *The association of business owners to which we belong, attempted to access the governor to table issues affecting SMEs for purposes of looking for ways to improve the business environment. Initially the governor agreed to the demands of our association but nothing was implemented. Afterwards the governor was never available to meet the business community and in some situations he simply did not show up for agreed upon meetings. Finally the business community gave up engaging with the county government. No one bothers anymore, no one listens* (NSME1- 12.19).

> *There is no goodwill at the county level to invest in small traders to assist them to succeed in business* (NSME3 – 1.7).

> *Politicians do not follow up on businesses to see what their needs are and what measures the county government can put in place to assist the businesses* (NSME3 – 1.8).

> *There are professionals at the County Executive Level and County Chief Officer level but the politicians lack the humility to listen to the experts' opinions for county business improvement. All they care about is their personal interests and pleasing their followers* (NSME3 – 1.24).

Table 4.7 provided an overview of how lack of political will limited the counties' capacity to grow SMMEs.

Table 4.7: Effect of Lack of Political Will on SMMEs

Theme	Manifestation of Challenges (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Lack of political will limited the counties' capacity to grow SMMEs	Non-availability of political leaders	Failure to provide for the development needs of SMMEs	SME development needs and challenges remain unaddressed	NSME1
	Lack of goodwill	Limited investments in traders		NSME3
	Focus on politicians' personal gains			

4.3.5. Political Interference

Politicians were criticised for manipulating regional development policies in order to remain popular amongst citizens and secure procurement opportunities. The resultant inefficiencies in implementation of policies limited SMMEs' capacity to access county government procurement opportunities.

> *The demand for SME products at the county level is low and this is driven by the fact that politicians within the counties set up their own companies to get the tenders to supply. This locks out businesses seeking to compete for these tenders* (NSME3 – 1.37).
>
> *Politicians politicize healthcare, therefore some of the policies outlined by health experts in the county are not realized. Instead the politicians implement programs that may not be a priority but may make them popular amongst citizens. You will find politicians focussing on upgrading health facilities in their home areas whilst ignoring the rest in the county. Or you can find a governor spends money on ambulances but basics such as drugs are lacking in health facilities. So you can see how we lost business from public hospitals because of politics* (KSME3 – 22.12).

Table 4.8 provides a summary of the effects of political interference on SMMEs' development.

Table 4.8: Effect of Political Interference on SMMEs

Theme	Manifestation of Challenges (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Political interference limited the counties' capacity to grow SMMEs	Manipulation of public procurement policies	- Low demand of goods and services from local SMEs - Award of tenders to politicians' companies	Inaccessibility of public procurement opportunities	NSME3

	Inefficiencies in the prioritization of development initiatives	- Limitations in the procurement of goods and services		KSME3

4.3.6. Public Participation Challenges

As much as the county governments' documentation depicted the execution of public participation fora engaging businesses in budget, policy and legislation formulation, SMMEs owners claimed that the process was flawed. SMMEs were rarely engaged in these meetings partly due to poor information dissemination and lack of transparency on the part of the county governments. Consequently SMME challenges remained unaddressed and the counties formulated and implemented unfavourable policies and laws that restricted business development.

> *We are never invited or involved in public participation process. And I think this is why issues affecting SMEs in the county are rarely addressed. Instead we benefit from business member organizations and government parastatals involved in trade for advocacy, capacity building and business information* (NSME2 – 18.11).

> *Public participation meetings are well choreographed inviting business people who may not present a case for businesses. So the agenda of the county is easily passed* (NSME3 – 1.16).

> *Secondly the county does not inform businesses on when and how these meetings take place. And neither do we get feedback on the outcomes of the public participation meetings. Communication in my view is very poor* (NSME3 – 1.17).

> *Businesses are never involved in the decision making processes at the county level. It is not surprising that they end up implementing laws and policies that simply frustrate us. And they also do not understand and prioritize the problems SMEs face* (KSME1 – 8.31).

> *The lawmakers pass by-laws that hurt the business environment. An example is a by-law on cess fees that was passed allowing the county government to collect and manage the fees. No consultations were made with the businesses in the county prior to enacting this law. Yet nothing has been done with that money* (KSME2 – 15.17).

Table 4.9 gives on an overview of how public participation challenges affected the development of SMMEs.

Table 4.9: Effect of Public Participation Challenges on SMMEs

Theme	Manifestation of Challenges (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Public participation challenges limited the counties' capacity to grow SMMEs	- Poor communication - Selective invitation of SMEs	Non-involvement of SMMEs in the decision making process	- SME development needs and challenges remain unaddressed	NSME2
				NSME3
				KSME1
			- Unfavourable trade policies and legislation	KSME1 KSME2

4.3.7. Lack of Collaboration between the National and County Governments

One of the observations made was the fact that the county governments and the national government seemed to be working in silos. This led to duplication of roles, non-alignment of policies and laws hence creating conflicting as well as multiple regulations that frustrated businesses.

> *The other big challenge is the fact that national and county governments are not working as a team. Some of the policies that the counties have implemented counter or are replicas of national government policies. Because of this, there is duplication of roles, so we are subjected to multiple inspections and taxation and this is overwhelming for us as business people* (NSME3 – 1.25).
>
> *There is duplication of roles between the national and county government. You find a situation where we are subjected to similar inspections by both the county and national government departments. This is just a waste of resources and on the part of businesses, it is costly and frustrating* (KSME1 – 8.21).
>
> *There is an overlap in the provision of services. Take for example public health inspection which is executed by both the county and national government. We are visited by officials from both governments at different times* (KSME2 – 15.7).
>
> *Due to the duplication of roles we pay multiples fees for the same service and this increases our business expenses* (KSME2 – 15.10).

Table 4.10 gives a summary of the effects of the lack of collaboration between the national and county governments on the growth of SMMEs.

Table 4.10: Effects of lack of collaboration between the national and county governments on SMMEs

Theme	Manifestation of Challenges (Subthemes)	Effect on County Governments' Functions (Subthemes)	Effect on SMMEs (Subthemes)	Case
Lack collaboration between the national and county governments limited counties' capacity to grow SMMEs	- Non-alignment of laws and policies	Overlap of government services	- **Increased cost of doing business:** ▪ Multiple inspections ▪ Multiple charges	NSME3
	- Duplication of roles			NSME3 KSME1 KSME2

4.3.8. Section Summary

This section provides a synthesis of the challenges faced by businesses under the devolved system of government. The narratives of the SMME owners also depict how the inadequacies of the administrative, fiscal and political functions of the county governments adversely affected the business environment. Considering the key elements of a conducive business environment highlighted in the literature review, it is evident that SMMEs faced limitations in accessing resources, markets and unfavourable institutional and regulatory conditions. Drawing on the interview responses and the analyses made in this section, Table 4.11 provides summary of the status of the business environment under the devolved system of government.

Table 4.11: Perceptions of SMME Owners on the Effect of Devolution System Outputs on the Business Environment

Business Environment Elements	NSME1	NSME2	NSME3	KSME1	KSME2	KSME3
Access to Markets		- Bureaucracies and corruption limit access to public procurement opportunities	- Inadequate road infrastructure - Limited access to public procurement opportunities - Preferential awarding of tenders to politicians' companies and large corporations	- Poor road infrastructure within the county - Limited access to public procurement opportunities	- Poor road infrastructure - Limited public procurement opportunities	- Limited public procurement opportunities

Access to Resources		- Inaccessibility of county SME funds - Limited access to SME capacity building programs	- Limited access to affordable financing - Lack of communication on county reforms affecting businesses	- Lack of access to capacity building programs - Lack of communication on county reforms affecting businesses	- Lack of access to capacity building programs	
Institutional &Regulatory Framework Conditions	- Corruption - county officials soliciting for bribes with regards to business licencing regulations - Corruption in the public procurement process - Focus on collection of fees from businesses and failure to render services e.g. garbage collection	- Multiple business licence fees - Corruption - county officials soliciting for bribes whilst on inspectorate activities - Corruption in the public procurement process - Poor services while accessing business licence services - Poor services - delayed payment of goods and services supplied to counties	- Increased taxes and levies - Corruption within the public procurement process - Political interference in the public procurement process - Inefficiencies in quality control of procured goods - Poor customer service - Lack of professionalism of politicians - Poor implementation of development programs	- Increased taxes and levies - Corruption in the procurement process - Inconsistencies in service provision - Poor execution of planned strategies - Lack of professionalism of politicians - Lack of water supply - Poor services - delayed payment of goods and services supplied to counties	- Increased taxes and levies - Corruption in the procurement process - Lack of professionalism of government departments - Lack of water supply	- Multiple licencing fees - Corruption in the public procurement process - Poor public health services - Poor services - delayed payment of goods and services supplied to counties

4.4. Opportunities for Enhancing SMME Growth

On the mechanisms that the counties could adopt to address challenges afflicting SMMEs within counties, the following recommendations that mostly implied administrative, fiscal and legal reforms were made:

4.4.1. Organizational Structure Reforms

SMMEs proposed streamlining of the counties' human resources management system through recruitment of competent staff and adoption of the right technology to ensure effective delivery of services for businesses.

> *The running of the county government should be transformed so that it is similar to parastatals. In parastatals we have competent staff and technocrats to run government services. We need these types of employees running county affairs* (NSME1- 12.25).

The county needs to hire the right people to run its affairs. Retrenchment also needs to be done to get rid of redundant and unskilled staff. This way we have the right people on board to execute all the development plans that are on paper (NSME3 – 1.29).

An audit and a rationalisation plan needs to be put in place so that the county can reduce the number of employees they have. It does not make sense to retain a huge workforce that does not deliver. So measures need to be put in place to retrench those who need to go and retain plus hire people who know how to run the county government affairs. This will also decrease the current wage bill (KSME2 – 15.19).

Counties need to have on board individuals who clearly understand and provide the right means to address the health issues. Therefore competent staff need to be recruited and constant refinement of their skillsets is required to effectively run the county health department and the facilities (KSME3 – 22.22).

With the right staff on board we shall see better formulation and implementation of policies that will favour our operations as businesses in the healthcare sector. It is also one way to get rid of unnecessary bureaucracies and ensure transparency in procurement processes (KSME3 – 22.23).

The government should employ the right technology to improve service provision (NSME1- 12.24).

To start with, the county needs to streamline all its operations so that we can have effective government services. Like the automation should be done across the board and ensure seamless flow of work. And when this is done corruption will also be minimised (KSME1 – 8.25).

Some of the interviewees also proposed the simplification of the business licencing process to facilitate SMMEs compliance with the stipulated trade laws and regulations.

Licencing should be more straight forward (NSME1- 12.27).

The county should abolish the bottlenecks existing in the licencing process. The licencing and the inspectorate teams should align their activities and data so as to avoid haphazard inspections and harassment by county staff (NSME2 – 18.24)

Another recommendation made was the improvement of the counties' communication strategies to enhance transparency.

The County should carry out civic education for business people in order to enlighten them on the things or changes they are implementing in relation to businesses (NSME1- 12.22).

All decisions made by the county relating to businesses should be published so that all can clearly know what is going on. Secondly proper and better communication channels should be used in order to bridge the gaps between business people and the county (NSME1- 12.23).

The county should provide guidelines for the location of businesses. At the moment this is not very clear and as you have seen in the media commercial buildings are now being demolished because they were constructed on land for other purposes or they posed environmental hazards (NSME2 - 18.21)

4.4.2. Effective Management of the Public Participation Process

SMMEs advocated for the implementation of measures for inclusion of the business community in the decision making processes counties.

> *It is critical for the business community to be involved in the decision making processes of the county for any issues regarding the SMEs. This will open an avenue for business people to express their needs and provide insights on the strategies to uplift the businesses* (NSME1- 12.20).

> *The County Government trade department should be proactive and visit SMEs and find out what their needs are and how they would be protected* (NSME1- 12.21).

> *Only when the county involves SMEs in the decision making process will they identify the needs and the right strategies to grow businesses in the region. If we work together, we shall grow and they will also grow in terms of the revenue they will generate* (KSME1 – 8.19).

> *A lot of importation is taking place for even products that can be found locally and this needs to be addressed for the survival of our businesses. The county therefore needs to create a platform of engagement between its consultants and the businesses on the ground in matters of policy to iron out this and other issues* (NSME3 – 1.27).

> *Regulations are abruptly passed and this hurts businesses because of the adjustments that need to be made. Consultations with business people should be done in order to arrive at amicable ways of formulating and implementing regulations* (KSME2 – 15.23).

4.4.3. Fiscal Management Reforms

Amendment of the current fiscal policies and laws for raising revenue from businesses was advocated for in order to eliminate multiples taxes slapped on SMEs and reduce costs of doing business in the counties.

> *The first step is to ensure counties stop squeezing businesses with a myriad of payments and taxes. These increase our costs of doing businesses. The only tax that we should pay is Value Added Tax* (NSME2 – 18.18).

> *The county should review its finance act and reduce the number of levies charged on businesses* (KSME2 – 15.21).

> *Steps should also be taken to harmonize the taxes and levies across different counties. This should be a discussion between the county governors* (KSME2 – 15.22).

> *The county governments needs to revise their policies on raising revenue. Harmonization of the levies to be charged on businesses should be done. Trade barriers between counties should also be eliminated so as to decrease the cost of doing business* (KSME1 – 8.33).

Lack of finances poses a threat to the survival and growth of SMMEs. For this reason, county governments need to provide mechanisms for improving access to finance.

*The county government should facilitate financing of SMEs. As much as we get funding from commercial banks, the interest rates tend to be quite high. Therefore alternative sources of funding from the county government would be beneficial because it can be accessed as grants or loans with better interest rates than the banks (*NSME2 – 18.19).

Financing is key as this is the lifeline for businesses. The county governments should guarantee financing for businesses in order to grow them (NSME3 – 1.30).

Moreover the county needs to make financial investments to improve infrastructure and establish specialized economic zones to support the development of SMMEs.

The county government needs to be deliberate on the SME development agenda. Developed nations are very intentional in growing their SMEs and the county needs to emulate them by putting up roads, water and energy infrastructure as well as special economic zones. These are the kind of financial investments we as business people would like to see in this county (NSME3 – 1.35).

The necessary financial means should also be availed by both the national and county governments to ensure the requisite services are provided, thus increasing procurement opportunities for SMMEs. This implies increment of counties' own source revenue and funding from the national government.

Counties need to look at ways of improving their own source revenue collection systems and the national government should provide the required budgetary allocations. When finances are available, it is a win-win for the county and the SMEs that provide services. If the county has money they can procure healthcare products to the benefit of citizens. We as businesses on the other hand will benefit from the opportunities to supply (KSME3 – 22.20).

4.4.4. Promotion of Ethical Standards

Corruption is one of the biggest challenges affecting the county government's capacity to deliver services and development initiatives for SMMEs. Therefore SMMEs called for the establishment of systems and measures to curb the vice and enhance transparency and accountability within county governments.

The county needs to fight corruption and foster integrity to ensure money meant for development is not lost. This will also reduce chances of bribery that hurts businesses (NSME1- 12.28).

The county should tame corruption. It is a disease that slows down any form of development in the county. The system loopholes should be identified and fixed so that we can enjoy better services (NSME2 – 18.20).

Kill the cartels existing in the county that manipulate the financial and procurement system to destroy the development of SMEs in the region (KSME2 – 15.24).

Measures need to be put in place to curb corruption and seal all the loop holes that lead to corruption. The county should also be serious to run audits and prosecute individuals caught conducting illegal activities in the county (KSME2 – 15.25).

The county governments simply need to deal with corruption at all costs otherwise they will continue losing revenue and failing on their mandate to deliver services. There has to be willingness to put in place mechanisms to seal all loopholes of corruption and those found guilty of corrupt practices should be immediately charged. Fighting corruption should be the number one priority (KSME3 – 22.21).

4.4.5. Legislative Reforms

One of the recommendations made implied the amendment of Kenya's constitution in order to change the county government leadership from an electoral seat to a civil servant position.

The governor position should not be an elective post. The national government should have the ability to appoint public service experts to run the counties professionally. This is the only way the development agenda will be achieved (KSME1 – 8.36).

Another proposal called for a modification in the country's current decentralization legislation to shift the healthcare function back to the national government as a measure of improving public healthcare services and subsequently grow SMMEs in the pharmaceutical sector.

Perhaps the county health docket should be taken back to the national government as the services were smoother then and business was better. The national government has more experience and expertise to run public healthcare services (KSME3 – 22.19).

4.4.6. Section Summary

This section provided an overview of the perspectives of the SMME owners on measures that should be implemented to refine the workings of the devolved functions to improve the business environment. The emergent themes and subthemes are depicted in table 4.12 below.

Table 4.12: Recommendations for enhancing SMME Growth in Counties

Themes	Subthemes	Case
Organizational Structure Reforms	- Restructuring of the human resource pool	NSME1 NSME3 KSME2 KSME3
	- Capacity building programs for staff	KSME3
	- Adoption of right technology	NSME1
	- Increased process automation	KSME1

	- Improve information dissemination - Further simplification of the business licencing process	NSME1 NSME2
Effective Management of the Public Participation Process	- Inclusion of the business community in the counties' decision making processes	KSME1 KSME2 NSME1 NSME3
Fiscal Management Reforms	- Review of the trade licencing cost structure and legislations	NSME2 KSME1 KSME2
	- Provision of adequate funding and mechanisms to finance SMEs	NSME2 NSME3
	- Provision of adequate funding for infrastructural development	NSME3
	- Provision of adequate funding for procurement of public goods and services	KSME3
Promotion of Ethical Standards	- Improve internal controls to tackle corruption	NSME1 NSME2 KSME2 KSME3
	- Improve internal audit systems - Dismantle corrupt cartels	KSME2
Legislative Reforms	- Heads of counties should be appointed by the national government than elected	KSME1
	- Transfer of some decentralized functions back to the national government	KSME3

4.5. Conclusion

This chapter provided insights on the general perceptions of six SMME owners on the effect of the devolved system of government on the growth of enterprises. The findings indicate that the SMMEs involved in the study had negative perceptions of the effects of devolution on businesses in Nairobi and Kiambu County. The state of the business environment in their view was more favourable prior to the institution of the devolved system of government because prior to devolution, the tax regime and interest rates were more favourable. Further, the national government procurement processes favoured SMMEs thus enhancing their growth.

The county governments faced various challenges that affected the administrative, political and fiscal functions resulting in poor outcomes in terms of regulation, legislation, policy formulation and implementation for SMMEs. Resource mobilization inefficiencies limited the county's capacity to implement development programs for SMMEs and led to increased costs of doing business, limited access to finance and markets as well as stringent administrative bureaucracies.

Interviewees cited flaws such as corruption, limited administrative capacity, lack of funds, intergovernmental relations challenges and lack of engagement of SMMEs in the decision making processes as the root causes of the county government's failure to promote enterprise growth.

Despite the aforementioned challenges, the SMMEs experienced growth and their managers attributed this to internal factors and external factors. The latter referred to national governments development initiatives such infrastructural investments and business member organizations' support.

Further, the SMMEs offered solutions hinged on streamlining of the administrative, fiscal and political functions to facilitate effective resource mobilization for enterprise development purposes. Enhanced measures of accountability and transparency were also proposed to mitigate cases of corruption within the county governments. The most salient solution for both counties is related to fiscal reforms. Inadequate funding was the main obstacle that limited both the fiscal and administrative functions. Adequate financing is required for the hard and soft infrastructural investments in order to boost the SMME sector. Strong fiscal incentives would also limit corrupt practices across the devolved functions and ensure implementation of robust accountability and transparency mechanisms.

CHAPTER 5

5. Effect of County Government Outputs on SMME Growth

This chapter presents a contextual analysis of the case study sites whilst providing additional information to corroborate the responses of the SMMEs. It also depicts how the county governments leverage their respective mandates, policies and legislations (see Appendix 8) for SMME development. The information is based on data drawn from interviews with county government officials (code: NCO & KCO), independent government office staff (code: IGO) and representatives of business member organizations (code: BMO) as well as documents from the respective organizations. In so doing, the content of this chapter responds to the research questions as follows:

- Section 5.1 and 5.2 present the macro perspectives of Nairobi and Kiambu county governments. Within each of these sections, the first three sub-sections present and discuss how each of the dimensions of devolution affected the business environment and SMMEs hence responding to the second research question. The fourth sub-section details the challenges impending the county governments from effecting SMME development reforms while the fifth sub-section presents opportunities for SMME growth. These two sections respond to the third and fourth research questions respectively. The last sub-section provides a summary of the findings.
- Section 5.3 presents the meso perspectives of BMOs and it is divided into four sub-sections. The first sub-section highlights the challenges SMMEs face following devolution reforms in Kenya. The second sub-section responds to the third research question by detailing and discussing the challenges that limit the county governments' capacity to promote SMME growth. The third sub-section responds to the fourth research question by presenting the recommendations for SMME growth. Finally, the fourth sub-section provides a summary and tabulation of the main findings.
- Section 5.4 presents the conclusion of this chapter as well as a framework locating the state of the business environment and implications on SMMEs under the devolved system of government.

5.1. Macro Perspective of Nairobi County

This section details and discusses perspectives of Nairobi County Officials who are responsible for the formulation, implementation and evaluation of policies and programs for SMME development in Nairobi County. Data from interviews from independent government offices staff are also captured owing to their oversight and advisory roles over county government functions.

5.1.1. Fiscal Decentralization Outputs and Implications on SMMEs

The fiscal process in the county is informed by the policies and strategies outlined in the CIPD as well as the legislations passed by the county assembly. This section identifies the budget and revenue mobilization framework designed and implemented for Nairobi County indicating the fiscal decisions and strategies implemented and their effect on SMME development.

5.1.1.1. Revenue and Expenditure Estimation

The County's first CIDP for the period 2013-2017 proposed approximately USD 35.4 million for trade development programs and projects allocated as follows: USD 17.7 million for the construction of a SME industrial park; USD 17.9 million for the construction and rehabilitation of new and existing markets; and USD 2.65 million for capacity building of micro and small enterprises (Nairobi County, 2014a). For the financial years 2018-2022 the county made a budgetary proposal of USD 41.6 million towards improving access to finance for SMMEs, access to markets, development of trading spaces, co-operative development services, SMME business development services, trade licencing services and gaming and betting services and tourism development (Nairobi County, 2018c). The aggregate budget comprises of recurrent and development expenditure allocations. Recurrent expenditure in relation to a county government refers to expenses incurred on operating county services excluding expenditure related to acquisition or renewal of assets owned or managed by the county government. Development expenditure on the other hand refers to expenses incurred for the creation and renewal of county assets (GOK, 2012c).

Despite the abovementioned budgetary proposals, the actual amounts appropriated to the County trade department to execute its functions for purposes of enterprise development were much less. Table 5.1 provides a summary of budgetary allocations for the financial years 2013-2019.

Table 5.1: Nairobi County Trade, Industrialization and Cooperative Department Budget Allocation

FY	Annual Budget Allocation (USD Million)		Exchequer Issues (USD Million)	
	Recurrent	Development	Recurrent	Development
2013/14	0	0	0	0
2014/15	1.79	2.66	0.97	0
2015/16	3.07	3.64	1.75	0
2016/17	5.25	5.04	1.96	0
2017/18	4.59	1.95	3.27	0.78
2018/19	4.26	1.66	4.08	0.13
Total	18.97	14.95	12.04	0.91

Source: Author's construction based on data from OCOB Annual reports (2014-2019)

The annual budget allocation reflects the amounts proposed in the County sectoral plan and CIDP, while the exchequer issues are the amounts approved for withdrawal by the Office of the Controller of Budget (OCOB) to implement the budget obligations. The exchequer issues are based on the approved national government fiscal transfer allocation to counties and the actual amount of revenues collected within the counties.

During the financial years 2013/14 – 2018/2019 the county trade, industrialization and cooperative department budgeted for a total of USD 33.92 million to execute its strategies. However, the OCOB authorized withdrawal and allocation of USD 12.95 million from the County Revenue Fund for the department's operations and development activities. This accounts for 38.2% of the approved budget. The consequences of the budget allocation shortfalls on SMME development are reflected in sections 5.1.2.2 and 5.1.4.1.

5.1.1.2. Revenue Streams

In order to finance the above budget obligations, the County counts on the vertical fiscal transfers from the national government and locally generated revenue. As per the first county implementation plan, the equitable share and conditional grants from the Government stood at 49% of the total county revenue form the financial year 2013/2014, however for the financial year

2018/2019 this increased to 61% while the local revenue dwindled from 51% in 2013 to 39% in 2018. Table 5.2 shows the Nairobi County revenue trends from 2013 – 2019.

Table 5.2: Nairobi County Revenue Trend 2013-2019

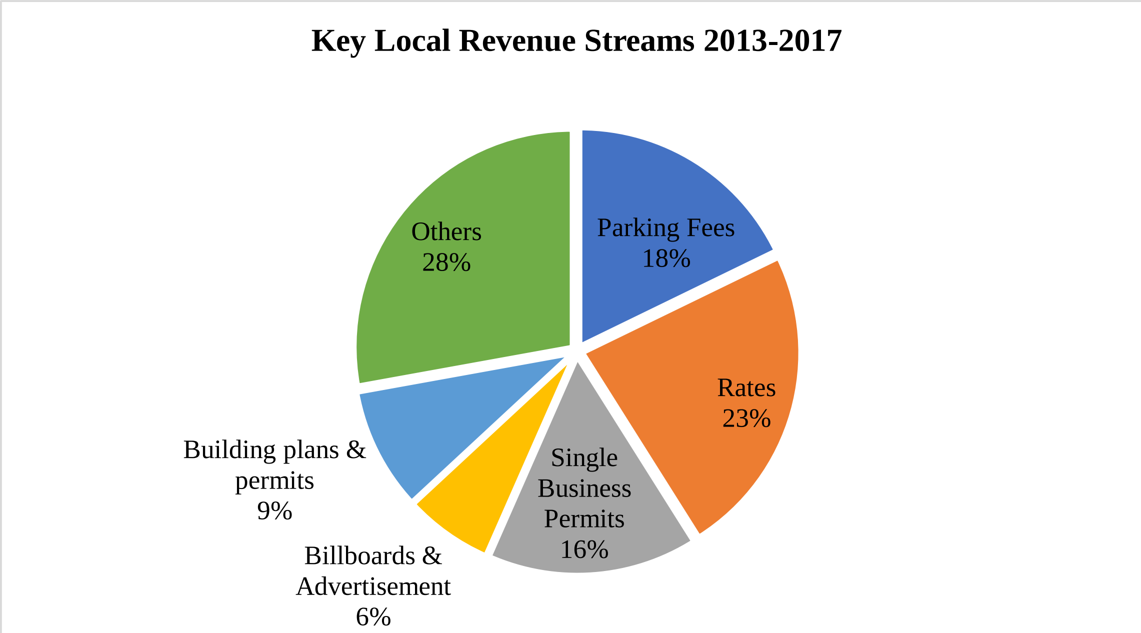
FY	Annual Budget Allocation (USD Million)		Actual Amounts Received (USD Million)			
	National Government Fiscal Transfer	Local Revenue Collection	National Government Fiscal Transfer	% of Actual Total County Revenue	Local Revenue Collection	% of Actual Total County Revenue
2013/14	87.61	140.71	84.96	49%	88.76	51%
2014/15	100.62	117.88	100.62	50%	101.77	50%
2015/16	115.04	135.31	115.04	53%	103.63	47%
2016/17	124.07	173.19	124.07	56%	96.73	44%
2017/18	136.28	152.48	136.28	60%	89.47	40%
2018/19	139.73	137.17	139.73	61%	90.71	39%

Source: Author's construction based on data from OCOB Annual reports (2013-2019)

The five major revenue streams of the county are single business permits, billboards and advertising, parking fees, building plan permits and land rates accounting for slightly less than 75% of the total local revenue raised (Nairobi County, 2018c).

Businesses largely contribute to these revenue streams. A sizeable portion of the fees are solely accrued from enterprises through the single business permits and billboards and advertising fees. These account for approximately 22% of the total local revenue within the period 2013-2017 as depicted in figure 5.1 below. For the financial year 2017/2018, the trade department generated a total of USD 18.05 million in form of various fees and this accounted for 20% of the total revenue collected in the county (Nairobi County, 2018a).

Figure 5.1: Nairobi County Key Local Revenue Streams 2013-2017



Source: Author's construction based on data from Nairobi CIDP 2018-2022

The single business permit fee is levied on businesses and professional trades for purposes of regulating the conduct of a business. The fee is set annually through the County Finance Act based on the nature, size and location of the business and businesses are required to remit payments annually in order to legally operate. The single business permit was established following reforms in Kenya in the 1990s which reduced the fees categories from 16 to 10, thus improving the ease of doing the ease of doing business. Following devolution, Nairobi went a step ahead and introduced the unified business permit (UBP) consolidating five licences into one (trade licence, fire clearance certificate, advertising signage, health certificate and food hygiene). The first two certificates are mandatory while the latter two certificates are dependent on the nature of the business and apply to food handling businesses (IEA, 2017).

The county introduced the UBP as a means of reducing the time spent by business people acquiring the trade licences from different offices (IEA, 2017). The tariff structure is based on the size of the business, thus businesses with larger number of employees pay more (Nairobi County, 2013). In as much as the UBP was introduced as a measure of improving the ease of doing business, its institution presented challenges to SMMEs especially micro enterprises that found the costs prohibitive.

> *Introduction of the unified permit meant that invoicing is done at once for different charges and this became overwhelming for businesses. Business permit certificates can only be issued once the full payment is done. And this became overwhelming especially for micro traders and this led them to absconding from making any payments. Traders were not used to paying lump sum amounts for the licences* (NCO6 – 23.5).

Consequently, some of the SMMEs absconded payments and others capitalized on the county's administrative loopholes on the e-payment platform, thus resorting to cybercrimes to obtain the UBP. Others moved to neighbouring counties where business licencing costs were cheaper than in Nairobi.

> *With increased licencing costs some of the businesses migrated to Mavoko, Kiambu and other businesses closed down. While others simply do not pay for the UBP and constantly dodge the inspectorate team. In fact if you look at the UBP revenue, it has declined since 2014. Another challenge that has emerged is cybercrime. Small traders are now going to cyber cafés to have counterfeit business permits printed out. This partly explains the decreased revenue collection from licensing* (NCO6 – 23.12).

According to the CIDP, UBP revenue in 2014 was USD 15.93 million (81.8% of the projected revenue) while in 2017 the amount had dwindled to USD 15.75 million representing 49.4% of the projected revenue (Nairobi County, 2018c).

Other issues related to the county's revenue raising mission that adversely affected businesses are lack of proper legislation and fiscal policies to regulate businesses. As indicated in the following excerpts, the licencing fee structure established by the county was unfavourable to businesses:

> *Licences are not prorated according to the time one seeks for a trade licence. For example the fee for a licence applied for in October is the same for one who applied in January of the same year. So the process follows a calendar year as opposed to granting licences for a full year starting from the date of application* (NCO6 – 23.10).

> *We also have a scenario in Nairobi where business people have established multiple businesses, for example a grocery shop which also offers MPESA services. These are two businesses in one and this is an emerging issue. The problem is our laws still do not cater for such combinations hence licensing is done separately and this has led to frustrations for business people because of the multiple charges* (NCO6 – 23.9).

Of interest is the fact that in as much as the businesses significantly contribute to the revenue generated in the County, a very small percentage of funds is allocated to the trade department for recurrent and development expenses. During the period FY 2013-2017, SMMEs and large enterprises contributed USD 19.03 million as single business permits and billboards and advertisement fees. Nevertheless within that period only 25% of this amount was allotted to the trade department. The county's sector budget performance reports indicated that the trade, cooperative and industrialization department's proportionate budget allocation in comparison to the county's total approved budget from 2013-2017 was approximately 2.5% (Nairobi County, 2018c). This is one of the lowest allocations compared to other departments such as finance and economic planning, public works and infrastructure, health, the office of the governor which were allocated between 10% - 20% of the approved budget.

An additional source of funding for the county is through donor agencies and multilateral finance institutions as affirmed by one of the County officials:

> *The trade department engages in partnerships with organizations such as the World Bank to get donations for their research, feasibility studies and infrastructural projects.* (NCO4 – 11.9).

The donor funds are transferred to the County Revenue Fund as conditional grants. The County received a total of USD 1.98 million from the World Bank, Danish International Development Agency (DANIDA) and Sweden Agricultural Sector Development Support Programme (SASDSP) for various development projects within the FY 2017-2019 (OCOB, 2018, 2019). In relation to enterprise development, the county government received funding from the World Bank and the African Development Bank (AfDB) to construct Karandini, Mwariro, New Wakulima and Qware Road markets which would accommodate over 7000 traders (Nairobi County, 2020).

5.1.1.3. Nairobi County Government Expenditure

Various financial investments were made in the county since the inception of devolution towards service provision and implementation of development projects to improve the business environment in a bid to grow SMMEs. The expenditure decisions implemented fall within the categories of recurrent expenses and development expenses. The recurrent expenses primarily consist of personnel emoluments and maintenance and operations costs. Development expenditure in the county comprise of infrastructure development, capacity building, e-government services and loan disbursements for SMEs.

An analysis of the budget performance of the trade, cooperatives and industrialization department depict low absorption rates of funds allocated especially for development programs. The bulk of the expenditure in the department is attributed to recurrent expenses which as reflected in the county's financial records overshot the exchequer issues and budget allocations. The department attained a high recurrent budget absorption rate of 102.4%, yet the development budget absorption rate stood at 2.5% in FY 2014/2015. The absorption rate refers to the actual expenditure in relation to the annual budget allocation (OCOB, 2015). In the FY 2018/2019 there was an improvement in the budget performance as the recurrent and development budget absorption rate was 91.3% and 50.3% respectively (OCOB, 2019). Table 5.3 shows budget estimates of the trade department and budget performance for the FY 2014/2015 – 2018/2019.

Table 5.3: Nairobi Trade, Cooperative & Industrialization Department Budget Performance FY 2014-2019

FY	Annual Budget Allocation (USD Million)		Exchequer Issues (USD Million)		Actual Expenses (USD Million)		Expenditure to Exchequer Issues (%)		Absorption Rate (%)	
	Rec.	Dev.	Rec.	Dev.	Rec.	Dev.	Rec.	Dev.	Rec.	Dev.
2014/15	1.79	2.66	0.97	0	1.83	0.07	188.5	0	102.4	2.5
2015/16	3.07	3.64	1.75	0	2.54	3.28	145.1	0	87.2	90.2
2016/17	5.25	5.04	1.96	0	2.81	0.49	129.7	0	53.5	9.7
2017/18	4.59	1.95	3.27	0.78	3.51	0.00	107.6	0	86.6	0
2018/19	4.26	1.66	4.08	0.13	3.89	0.83	95.2	651.6	91.3	50.3

Key: Rec. – Recurrent; Dev. – Development

Author's construction based on data from OCOB Annual reports (2014-2019)

The above data shows that the department since its commencement of operations has never received the budget allocation outlined in its financial plans. Secondly the exchequer issues rarely catered for the development budget and the absorption rate for development for most of the financial years was quite low. Yet, according to the Public Finance Management Act (PFMA), a minimum of thirty percent of the county government's budget should be allocated towards development expenses (GOK, 2012c). It is also notable that in as much as the exchequer issues during the FY 2014-2017 did not appropriate funding for development expenses, the department incurred significant development expenses. This is attributed to the fact that the Nairobi County rarely remitted all its locally generated revenue to the County Revenue Fund and spent at source, a practice that contravened the provisions of Kenya's constitution and the PFMA (OCOB, 2016).

One of the financial investments made in the county to improve the business environment is the construction of wholesale and retail markets in the County. This was an initiative that was long overdue as many traders in the County lacked adequate space to run their businesses. Therefore the trade department in conjunction with national government and multilateral financial institutions embarked on feasibility studies and master plans to develop market infrastructure that had not been invested in since Kenya's independence.

> *Markets currently house 6600 traders out of the expected 300000. Existing markets have remained the same since the colonial era and infrastructure has not been expanded to address the growing numbers of traders and population into the city. The current policy in place is to have 3 markets in every sub county in Nairobi* (NCO4 – 11.1).

The County in collaboration and with funding from the national government, the World Bank and AfDB is presently engaged in the construction of five modern markets with wholesale and retail requirements. These markets will house 9000 traders. Unlike the existing markets which lack many amenities, these markets which are 99 % complete have an underground water tank to ensure constant supply of water, a generator to cater for electricity in case of power blackouts, fire extinguishers, CCTV for security, parking space and several sanitary facilities for the traders (Nairobi County, 2020). The development of these markets are in line with one of Kenya's Vision 2030 objectives to grow the economy and alleviate poverty through the construction of regional trade and business service hubs. One of the main goals of the projects is to increase the volumes of trade, boost commercial farming and promote an entrepreneurial culture within the County (NaMSIP, 2017). In addition to the above the trade department renovated eight markets coupled with the construction of footpaths in the largest market in the County (Nairobi County, 2018c).

Other infrastructural investments made in the county include the construction and rehabilitation of new and existing access roads as well as drainage systems within the city. Approximately 7461 km of roads and 300km of drainage were maintained and rehabilitated within the FY 2013 – 2017 (Nairobi County, 2018c). According to the OCOB reports, the County spent USD 19.47 million on road and drainage construction and maintenance between FY 2013 – 2019. The County also invested over USD 2.65 million for purposes of maintenance of street lights (OCOB, 2015, 2016, 2018, 2019).

The county invested and implemented e-government services that significantly decreased the turnaround times for business and building plan permit transactions. An e-payment solution was procured leading to the automation of 14 out of 136 revenue streams. The county's web portal was redesigned to an interactive, informative and transactional website which enables citizens to make online applications and payments. Further an online development approval system was installed for the approval of building plans and change use of buildings amongst other services. The installation led to reduced turnaround times for the submission and processing of building plan applications. These ICT infrastructure investments facilitated the ease of doing business in Nairobi County hence its improved competitiveness (Nairobi County, 2018c). These reforms contributed to improvements in World Bank rankings on ease of doing business within the County with regards to starting a business and dealing with construction permits between 2012 and 2016 (World Bank, 2016).

Disbursement of loans to finance SMEs is one of the functions that was devolved from the national government. To this end, the county through its Trade Development Joint Loans Board disbursed USD 0.26 million to 144 SMEs between the FY 2013 and 2016 (Nairobi County, 2018c). However, the issuance of these loans was suspended in October 2016 because of lack of appropriate laws at county level for loan disbursement (Nairobi County, 2018h). This fact was affirmed by the one of the county officials

> *There was a loan scheme established for traders and it ran with disbursements being made until October 2016. Although this function was devolved, the county government has been unable to continue giving loans because there is no legal framework for handling the revolving fund at the county level* (NCO2 – 5.12).

Another investment made for the development of enterprises in the county is capacity building programs and provision of business advisory services.

> *We are providing training resources for free to micro traders and advisory services that help them in accessing markets and financing. The department also offers help to SMEs in business planning and linking these businesses to government financial institutions such as Industrial Development Bank (IDB) and the Industrial & Commercial Development Corporation (ICDC) to access loans.* (NCO5 – 16.3).

5.1.2. Administrative Decentralization Outputs and Implications on SMMEs

The administrative aspect entails provision of county services by ensuring the availability and effective management of human and financial resources. These resources are crucial for the implementation of the laid out county strategies for SMME development.

5.1.2.1. Administrative Capacity

Following devolution, the county inherited a large number of staff from the National Government and has continuously expanded its employment pool to provide public services (Nairobi County, 2018c). Further as indicated by county officials, the county has employees seconded from the national government ministries and agencies.

> *The County does not recruit 100% as we also work with staff seconded from the National Government* (NCO1 – 3.5).

> *Within the trade department we have staff seconded from the Ministry of Industrialization, Trade and Enterprise Development working with us* (NCO5 – 16.2).

In addition to recruiting staff to build the workforce of the county, capacity building programs were implemented to equip staff and legislators with the requisite skillsets for efficient and effective service delivery. Various workshops were run for the members of the county sectoral committee members charged with functions related to trade, tourism and cooperatives. The aim of the workshops were to immerse participants in policy formulation, bill origination, law making processes, financial procedures and budget making, mandates and roles of the team (Nairobi County, 2019b, 2019c).

Resource enhancements such as replacement of aging ICT infrastructure with new and modern ICT installations were realized over the FY 2013-2018 (Nairobi County, 2019d). Nonetheless, adequate resources and work environment organization to facilitate effective delivery of administrative, planning and support services within the trade department was wanting. Take for example this field notes passage depicting the customer experience while accessing the trade, tourism and co-operatives sector in the county:

> ***Field Notes:*** *One of the observations made was the fact that the trade, tourism and co-operatives departments are located in different parts of the Nairobi County. The trade and enterprise development and the cooperatives department are located in Nyayo house, while the markets and trade licencing departments are located on different floors in City Hall Annex building. The two buildings are 800 metres apart. Therefore when citizens or business persons need services in the trade and enterprise development and the markets department, it means that they have to shuffle between buildings to access the services.*

The above factor as well as impediments highlighted in county development plans such as lack of internet connectivity and incomplete cabling of ICT and communication infrastructure within departments hampered effective workflow and speed of delivery of services (Nairobi County, 2018c). Secondly, this implied that the movements of the citizenry as they sought services could be cumbersome and time consuming.

The county achieved a 10.3% automation level against the targeted 30% for its revenue collection system over the FY 2013-2017 and it included the implementation of e-payments and online applications for business permits. This was coupled with the reconstruction of the county's web portal which was transformed from a static to an interactive and transactional site that allowed for county service online access and payments. This enabled the county to decrease handling of cash and increased revenue collection (Nairobi County, 2018c). For businesses in Nairobi:

> *The introduction of the e-platform operationalized in 2015 has facilitated online applications, therefore business owners do not need to come to the county offices to obtain the unified business permits. The process is much shorter and straight forward than it was before the introduction of the automated system* (NCO6 – 23.3).

In order to ensure compliance of county laws and regulations, the County Government has in place an inspectorate and investigations department. One of the services the department offers to other sectors in the county is security and inspection services especially for purposes of ensuring and enhancing revenue collection. In their quest to ensure businesses complied with trade regulations, incidences of harassment and corruption were experienced by the business community as indicated by county officials. Though in some situations complaints were found to be illegitimate as the inspectorate team established breach of county laws by businesses that had exploited the loop holes in the county's e-payment platform.

> *On accessing the online system businesses select the cheapest licence fees so that they under charge themselves and this brings issues when inspections take place. Business people claim we harass them but in reality they are not honest* (NCO6 – 23.14).

> *Businesses have been in situations where they have fake licences. You can have a business owner who has 3 businesses at 3 different locations but uses one licence for all of them. This leads to confrontations with the county inspectorate team. The county also has problems with county inspectorate imposters who are crude in how they handle businesses. These are at times county retirees or former employees who go out masquerading as employees of Nairobi County and harass traders as a means of collecting revenues in form of bribes* (NCO2 – 5.10).

The above narratives illustrate the challenges the county experiences while ensuring compliance of trade regulations by SMEs. Further, they expose the administrative internal controls flaws in relation to ICT and human resource management, hence the licence fee revenue seepage.

5.1.2.2. Budget and Financial Management

In as much as the County and its departments ensure timely preparation and submission of budgets, budget implementation challenges are evident. According to county officials:

> *Funds are devolved and budgeted for but they are rarely available for the activities of the department* (NCO3 – 10.7).
>
> *Financing is a big problem. Money is available only on paper but not in reality* (NCO2 – 5.14).

Analysis of the county's budget reports depict inadequacies in the management of the annual budgets. The budget absorption rate for the trade sector (see table 5.3) especially for development purposes within the County's trade sector was dismal, a factor that negatively impacted SMME development in Nairobi County. According to a County trade sector report, the low budget absorption was attributed to change of county government regime following political elections, underperformance in revenue collection (see table 5.4), delays in the procurement processes and payment of suppliers contracted and lack of funds from the national treasury (Nairobi County, 2018d).

Table 5.4: Performance of Key Revenue Streams 2013-2017 for Nairobi County

Revenue Stream	2013/2014		2014/2015		2015/2016		2016/2017	
	Actual (USD million)	Target (USD million)	Actual (USD million)	Target (USD million)	Actual (USD million)	Target (USD million)	Actual (USD million)	Target (USD million)
Parking Fees	13.72	16.11	17.88	24.78	18.05	23.01	19.91	48.67
Rates	23.01	26.99	22.92	24.78	27.52	33.63	17.43	31.33
Single Business Permits	13.27	14.16	15.93	19.47	15.84	25.04	15.75	31.86
Billboards & Advertisement	6.11	4.60	6.02	6.19	5.87	7.08	7.46	15.04
Building Plans & Permits	6.73	19.47	11.95	11.50	10.35	14.60	6.37	10.62

Source: Nairobi County CIDP 2018-2022 (Nairobi County, 2018c)

In other situations, the trade sector sacrificed part of the development expenditure during the formulation of supplementary budgets. This was evident in the FY 2018/19 where USD 0.29 million allocated for development expenditure was transferred to the recurrent expenditure kitty because the latter was underfunded. Consequently trade development projects such as the construction of markets and kiosks which were to be funded within a year were split into 3 years, thus their completion date was revised to the FY 2021 (Nairobi County, 2018d). In the FY 2017/2018, the supplementary budget slashed the trade development budget allocation from USD 3.98 million to USD 1.77 million at which time the trade department had only absorbed 2% of its development budget. Consequently individual market construction funds were cut by half, a factor that perpetuated the problem of inadequate trading spaces in the county (Nairobi County, 2018f). Generally most of the development projects undertaken by the trade department between the FY 2013-2018 stalled because of the poor absorption of the development budget (Nairobi County, 2018g).

Shortfalls in development projects implementation for SMMEs as explained by a county official prevailed partly because of poor budget planning at the initial stages of devolved governance.

> *Budgets preparation is a process we have always fulfilled as per the requirements of the county, but initially no upper ceiling was given from the finance and economics department. Therefore we tended to budget beyond our means and these were approved. So money was then available on paper but not in reality. Though this issue was corrected as the years progressed* (NCO2 – 5.15).

Consequently a mismatch between development budgets and the actual amounts of money available impeded the implementation of some of the development programs of SMMEs.

Along with the above, perennial pending bills hindered the trade department from executing SMME development initiatives and ensuring their sustainability. Part of the revenues received for expenditure was allotted for settling outstanding debts. This also negatively affected SMMEs that supplied goods and services to the county in the sense that many were not paid their dues. As indicated by one of the interviewees:

> *Debts from the previous county regimes is a serious problem. So, many businesses have outstanding debts with county governments. This has adversely affected some SMEs that took loans to service the county tenders* (NCO2 – 5.17).

As a result many SMMEs shy away from trading with the county government as much as opportunities are available courtesy of the Public Procurement and Disposal Act of 2015 that has provisions to reserve 20% of procurement for local businesses (NCO2 – 5.16).

5.1.2.3. Administrative Transparency and Accountability

In compliance with the provisions of the PFMA regulations and as a measure of transparency and accountability, the county treasury provided quarterly and annual budget implementation reports.

Further, quarterly and annual reports on the implementation of annual development plans are produced and availed on the county's website. Despite these measures, the county experienced challenges with regards to coordinating monitoring and evaluation activities within various sectors. This was attributed to lack of committees and policies for monitoring and evaluation (Nairobi County, 2018c). Consequently, in the case of the trade sector, developmental activities for SMMEs were implemented but reports on the impact of the interventions were unavailable.

> *There has been no follow up to evaluate the progress of trained entrepreneurs after the training. We have a database of trained business people, but no database on the progress report. This is because of lack of funds* (NCO2 – 5.3).

Country trade sector reports also point out the inadequacies related to monitoring and evaluation of SMME loan disbursements. *"On the sector achievement, in the FY 2017/2018 the sector planned to distribute loans amounting to Kshs. 2 million but distributed Kshs. 6.8 million. Of concern was that the sector reported that follow up on the loanees was not done"*. Additionally, issues of non-alignment of county long-term and short strategies as outlined in the CIDP and Annual Development Plan (ADP) respectively were evident. *"On the linkage between the CIDP and the ADP, the sector failed to link the ADP 2019/2020 to the approved CIDP as the programmes provided in the CIDP could not be traced in the ADP"* (Nairobi County, 2018h).

According to one of the independent government office interviewees, financial and system auditing was weak in Nairobi County and in other counties. This was attributed to inadequate capacity from a human resource perspective (IGO1 – 14.2).

5.1.3. Political Decentralization Outputs and Implications on SMMEs

The political arm of the county governments is responsible for presenting and approving legislations for purposes of regulating various socio economic activities in the county. Additionally the county assembly has oversight roles in policy and budget formulation and implementation for the good of the citizenry they represent.

5.1.3.1. Development of County Trade Regulatory Framework

Since the inception of devolution, Nairobi county assembly has enacted various laws (see Appendix 8 – Table I) to regulate trade in the county and these ultimately affected the business environment. Majority of the acts, namely the finance acts, trading act, alcoholic drinks control and licensing act and the inspectorate service act underpin the county's revenue structure and design. The finance act which is enacted on an annual basis is the main legislation the county relies for revenue collection because it imposes taxes and fees. The other abovementioned acts mostly provide laws for regulation of trade and contain clauses for ensuring compliance to the requirements laid down on businesses and citizens in the finance acts.

At the onset of devolution, many counties including Nairobi lacked a clear policy and legislative framework for revenue collection. Therefore they resorted to enacting the Finance Acts annually to define taxes and fees as a revenue raising measure (IEA, 2017). SMMEs have thus been affected by the regulations established in these acts. Notably, trade licences and SBP were primarily instituted as regulatory instruments, however they increasingly became revenue collection instruments as the corresponding licence fees were amended and articulated in the finance acts on an annual basis. According to the trade department, the finance acts were increasingly becoming a source of frustration for SMEs because many enterprises complained about the increased cost of doing business since the county government began offering services.

> *The main source of trouble for SMEs is the Finance Act 2013. The county assembly reviewed charges and all business permit fees and taxes went up by a considerable margin. The Act did not seek to protect the business people, rather it was a means to raise revenue for the county. As much as we vouched for minimal increments on existing licence fee structures, our suggestions were overlooked* (NCO6 – 23.6).

The County assembly was faulted for enacting trade by-laws without conducting sufficient research to assess the applicability and impact of the laws on businesses and the citizenry. This sentiment was echoed by one of the county officials who bemoaned flaws in the decision making process of the county members of assembly in enacting laws.

> *New by-laws come in place or new ideas based on benchmarking trips made by members of the county assembly to other countries. However, not enough research is done to see how applicable they are in the county setting as well as the repercussions of the laws in the long-term. Many times the legislators table ideas borrowed from the first world that cannot work in our setting* (NCO6 – 23.8).

Therefore SMMEs bore the brunt of bad decisions that led to unfavourable regulations and legislations. This was also exacerbated by the fact that some of the members of the county assembly were not well versed with the legislation making process as highlighted by one of the interviewees.

County staff working with legislators may present proposals for bills to be drafted based on their expertise and experience, but sometimes their opinions may be disregarded either because the legislators do not fully undertand the law or are interested only in populist politics (NCO5 – 16.14).

5.1.3.2. Citizen Engagement

Kenya's constitution and other legislative instruments such as the County Governments Act (CGA) & PFMA dictate that all county planning, budgets and the budget making process shall be subjected public participation. Every financial year, the Nairobi county holds these consultative meetings in each of its 85 wards and during the public hearings, the participants are provided with the status of projects and programs approved for implementation in previous financial budgets. The fora also provide a platform for county officials to clarify the roles and the mandates of the County Government. The public on the other hand has an opportunity to articulate their proposals to be included in the county's fiscal strategy papers and budgets and air their grievances as well (Nairobi County, 2018e).

One of the measures that the county put in place to strengthen the county systems and mechanisms of engaging citizens was capactiy building programs for staff. During the FY 2018/19, the county trained 120 staff on civic education, public participation and strategies for enhancing transparency and accountability (Nairobi County, 2019d). The county also provided a legal framework for citizen engagement by enacting the Nairobi City County Public Participation Act in 2015.

The county held various public participation fora in accordance with the aforementioned laws. The meetings were generally advertised through newspapers and posters distributed through ward administrators' offices. The fora targeted the city residents, civil society groups, non-governmental organizations, the private sector and organizations with an interest in county government planning processes. As indicated by one of the interviewees:

Annual Development Plans are formulated considering the interests of the micro businesses. This is done through public participation in every ward and with the MCAs being present. Projects are documented and placed in the financial plans. For small and medium enterprises, we have not engaged with them directly but only through the Business Member Organizations of which many are members to (NCO2 – 5.7).

In relation to the business environment and SMME development, the following issues of concern were raised by participants during the County's consultative forums:

a) High costs of trading licences.

b) Double taxation of products.
c) Inadequate trading spaces hence the request for construction of markets in most of the wards.
d) Poor market conditions for small traders.
e) Harrassment of traders by county inspectorate officials.
f) Lack of capacity building programs for small scale traders.
g) Poor state of access roads to markets.
h) Stalled road construction projects within the county.
i) Ineffective channels of communication for public hearings.
j) Inadequate funding allocated for civic education and public participations.
k) Non-involvement of the business community in county development projects from start to finish.
l) Increased levels of insecurity due to non-functional street lights along roads.
m) Lack of mechanisms to monitor and evaluate development projects in the wards.

Discussions also resulted in proposals and measures to address the abovementioned challenges affecting enterprise development in the county (Nairobi County, 2018e).

In some situations, public participation meetings proved to be stumbling blocks for the implementation of SMME development projects in the county. Development projects have in the past stalled due to information incongruity between data provided by the county officials and that of the public during public participation fora. As attested by one of the county officials the anomalies had dire consequences on donor funded projects and in some occassions the trade sector avoided public participation to mitigate these risks:

> *The department in trying to erect or expand markets makes efforts to have public participation however this has proved to be unsuccessful in some situations. Currently we have two big markets in Eastlands that need to be reconstructed and expanded. Feasibility studies were done and there was a hitch as part of the land that was to be developed and which belongs to the county has squatters. Secondly when a head count was done and submitted to the donors the numbers were later disputed. Currently there are 451 structures but individuals, cartels and politicians quoted the number of traders as 8000 citing flaws in the feasibility study during public participation meetings. Eventually the donor pulled out because of this. A similar situation has been witnessed in another market which has 6010 traders but there are claims that they are 16,000. Because of this kind of interference and discrepancies when engaging the public, the department at times shies away from engaging citizens on the ground in development projects* (NCO4 – 11.6).

The above scenarios illustrate how public participation meetings bear the inherent risk of stalling well intended county initiatives designed to improve the business environment for SMMEs. It also demonstrates how such meetings run the risk of being subjected to elite capture thus benefitting individuals with vested interests in the projects.

5.1.3.3. Political transparency and accountability

Elected leaders in the county who consist of representatives of wards and the county governor have the role of representing the interests of the voters in government. They are accountable to the voters and this calls for their active involvement in seeking to know the needs of the people, presenting the needs in the county assembly and ensuring policy and legislation are aligned to these needs.

In the case of Nairobi County, the members of the county assembly (MCA) in the trade, tourism cooperatives department were active in advocating for development projects for SMMEs to be funded and implemented (Nairobi County, 2015b). MCAs were involved in the identification of appropriate land for the development of market infrastructure (NCO2 – 5.6). Further as evidenced in various reports, the team made efforts to follow through complaints and anomalies presented by business people in markets. The complaints included issues of staff and trade harrassment, malpractices as well as cases of corruption. With regards to the latter, the team commissioned investigations which led to submissions of complaints to the Ethics and Anti-Corruption Commission (EACC) to have county staff involved in corruption investigated (Nairobi County, 2014d).

On the downside, politicians were faulted for sabbotaging county SMME development projects to safeguard their political interests. As one of the interviewees put it:

> *The political class either support or do not support projects depending on their political interests. We have a situation where a politician who supported the reconstruction and expansion of a market in his ward was not re-elected. This is because there were traders that were opposed to the project citing issues of diplacement once the project began. The incumbent MCA does not support the building of the market and is happy with the status quo to possibly keep the locals content and ensure the security of his political seat. So the project has been put on hold* (NCO4 – 11.10).

Other than political interests, politicians consider monetary gains as a factor for supporting SMME development projects in the county. As explained by county officials, some intiatives within the trade and co-operatives department did not attract political support because the department’s revenue kitty did not provide monies for their benefit:

There is lack of political will to support the department as in reality it does not generate much income which is basically from registration fees, levies and audits. Many times, MCAs are vocal and active in departments where there is a lot of money generated because they can gain from these funds. Remember they are always looking for where to eat from (NCO3 – 10.11).

Political support is not present when it comes to the training of entrepreneurs. Rarely do political representatives avail themselves or even take interest in what is going on. This is mostly because it is not a revenue generating initiative (NCO5 – 16.11).

MCAs unlike previous councillors have no incentive to work for businesses. Previously they represented the needs of the business communities, spearheaded projects and in return urged traders to remit municipal council fees from which the councilors benefitted from. Currently all the fees go to the county revenue fund and the MCAs do not share in it hence they do not see the need of engaging in an affair where they do not benefit from financially (IGO2 – 21.9).

The above sentiments point to the fact that political representation of SMMEs is hampered by politicians' personal interests.

In other instances the legislators failed to fully appreciate the long-term impact of initiatives for growing SMMEs as highlighted by one of the interviewees:

County assembly members do not see training as a means of increasing the capacity of businesses which in turn perform well and eventually contribute more to the tax kitty of the county (NCO5 – 16.12).

Having outlined how the devolution functions have affected the business environment and SMME development programs in Nairobi, the next section provides insights on the main challenges that hindered the county government from effectively growing the SMME sector.

5.1.4. Factors Impeding the Implementation of Reforms for SMME Growth

Despite the formulation of policies for various SMME development projects in the county, implementation remained a big challenge. As depicted in the field notes excerpt below, citizens expressed their dissatisfaction on this matter:

Field notes: *At a County Fiscal Strategy Paper public participation forum, various participants requested county officials to give reasons as to why each year most of the projects outlined in preceding ADPs and CIDP had not been implemented. Further they expressed their concern over the county's omission to give an account of the status of the projects previously approved for implementation in the county. In their view, since the county began its operations, development projects seem to reappear annually in the county's budget documents* (Public Participation Forum, February 2019).

There were various factors as explained by various county officials in the trade, tourism and cooperative department that affected the implementation of reforms for SMME development. These included:

5.1.4.1. Fiscal Resource Mobilization Inefficiencies

a. Lack of Funding

One of the biggest challenges that the county faced since the inception of devolved governance was lack of funding to finance operations and development initiatives. As depicted in the narratives below, lack of funds had a two pronged effect of hampering delivery of services and adversely affecting the potential growth of SMMEs.

> *Funding from the County is an issue, as we do not get sufficient financing for infrastructural projects* (NCO4 – 11.9).

> *Contracts are given for goods and services to SMEs but eventually the county is unable to pay for them because of lack of funds* (NCO2 – 5.16).

> *One of the challenges we have is inadequate financing to reach out to many groups of businesses to provide our business development services. There are times I have used my resources in order to reach out to our customers. We also do not have sufficient funding to finance businesses* (NCO5 – 16.4).

Lack of financial resources was attributed to delayed disbursements of the equatable share from the national government. This happened because the national government relied on the Kenya Revenue Authority (KRA) to collect funds through taxpayers and sometimes this was not forthcoming as explained in the narrative below:

> *The Equitable Share Fund from the National Government accounts for about 90% of the county budgets. Many counties suffer because of the delayed disbursements from the National Government. These delays also affect the development projects. The delays arise because of the fact that the National Government first has to collect taxes through KRA then collate the monies to disburse. If the targets are not met by KRA as is sometimes the case, then this presents a problem to the county governments. Secondly the National Government's priority is usually to pay off public debt which at the moment is colossal. Other payments for example to counties take second or third priority* (IGO1 – 14.11).

Therefore, the National Government did not follow the schedules of allocation and this was further exacerbated by the fact that there was a lot of bureacracy involved in the release of funds to counties (IGO2 – 21.15).

Another contributing factor is the fact that local revenue collection persistently fell short of target since the county government began its operations (OCOB, 2015, 2016, 2018, 2019). This was attributed to (i) underperformance of the e-payment system due to lack of awareness of the system, resistance to change and incomplete automation which meant persistence of human interface that led to revenue seepage; (ii) weak sectoral revenue mobilization and collection in which case departments focussed more on expenditure and put less effort on revenue collection; (iii) non-payment of debts by the national government for services offered; (iv) inadeqaute working tools for revenue collection; (v) corruption; (vi) inadequate staff and; (vii) refusal by traders to pay fees. (Nairobi County, 2018c).

b. Inefficient Budgeting and Management of Funds

Challenges in resource mobilization were experienced partly because of reallocation of funds meant for SMME development projects to other activities such as the recurrent expenditures. As depicted in one of the county reports, the trade sector was frequently starved of its development funds, despite its large contribution of revenues to the county. For example in the budget for the FY 2018/19, the trade sector was allocated 5% of the county's development budget and 2.7% of the recurrent budget. Yet the sector required more in development funds to grow its revenue kitty and ensure development of Nairobi as a regional trading hub (Nairobi County, 2017a).

Further, despite the fact that in each financial year, the county ensured the development budget allocation was at least 30% of the total budget as required by the PFMA, rarely was this implemented. The amounts were persistently scaled down below the 30% mark in the supplementary budgets, a fact that adversely affected the implementation of projects for SMMEs in the county (Nairobi County, 2018c).

According to one of the interviewees, funds were at times reallocated to non-value adding activities as described below:

> *Budgets for the department are generated but not implemented. For example money may end up being used for MCA foreign travels to attend meetings or conferences on issues regarding trade and cooperatives but the trips do not bring about any value addition* (NCO3 – 10.13).

Accumulation of expenditure arrears is another factor that constantly affected the county's networth value. The county inherited substantial debt from the defunct Nairobi City Council and each financial year the amounts gradually increased. The county's debt portfolio consists of historial loans for infrastructural projects and the amounts have greatly increased in recent years due to the growing wage bill and interests as well as penalties charged by creditors (Nairobi County, 2018b). Therefore in each financial year the county government allocated between USD 8.85 – 16.46 million during the FY 2014-2018 to reduce pending bills (Nairobi County, 2018c). These measures as indicated by one of the county officials greatly reduced the amounts alloted to development expenditure for enterprise initiatives (NCO2 – 5.18).

The OCOB also faulted the county for ineffectively managing its pending bills. The issues raised include slow adoption and implementation of the county's debt management strategy as well as failure to provide comprehensive reports on the status of the pending bills annually (OCOB, 2016, 2019).

Additionally, the county persistently utilized its local revenue at source contrary to the requirements of the constitution and the PFMA which indicate that all locally collected revenue should be deposited in the County Revenue Fund. As a result of this practice, the county exceeded the exchequer issues and budgetary allocations especially on recurrent expenditure. Budget reports indicated that the county's expenditure represented 166.6%, 168.7%, 154.3%, 160%, 116.1% and 120.3% for the FY 2013-2018. This factor distorted budget implementation owing to the county's failure to follow through the approved budget lines and exchequer allocations (OCOB, 2015, 2016, 2017, 2018, 2019).

5.1.4.2. Organizational Structure Challenges

In Nairobi County one of the biggest reforms intiated at the outset of devolution was merging of the former structures of the National Government (Nairobi Provincial Government) and those of the Nairobi County Council. This process took the first four years of devolution and there are still pending issues to be addressed. The County Public Service Board was established with the aim of ensuring that the human resource policies were outlined and implemented as per the 2010 Constitution. The Transition Authority was also in place in order to facilitate the processes and take in suggestions from the Counties. However, their tenure came to an end prior to the implementation of suggestions and policies (NCO1 – 3.1). Various challenges arose following the institution of devolved governance that inhibited the effectiveness of service delivery. In relation to the trade department charged with the delivery of services for SMMEs the following factors highlight the key organizational challenges experienced:

a. **Culture:** Differences in working cultures between national government and county government employees limited the effective delivery of services as depicted in the narrative below:

National Government officers were deployed and others seconded to work together with staff of the former Nairobi City Council. Each worked under a different culture and merging these cultures has been a huge challenge. These differences have led to sabbotage and infighting which inhibit effective delivery of services (NCO1 – 3.3).

b. **Staff Remuneration:** Inefficiencies in resource mobilization from a financial and human capital perspective were evident. The county government had a bloated workforce and a disjointed payroll system as reflected in the interview excerpt below. These factors limited the progress of the development agenda in relation to SMME programs.

The payroll system is highly differentiated and to date it has been very difficult to merge the system into one. There are about five payroll schemes that is, for staff on contract, employees from the defunct city council, deployed national government officers who work on allowances, casual workers and those employed under the devolved government. Another problem is the fact that the salary scales have not been unified. Resources are therefore not effectively utilized because of this. Secondly the work force is huge and the county does not have sufficient own source revenue to fund this (NCOI – 3.4).

Similar sentiments were raised during the public participation forum as indicated in the passage below:

Field Notes: *A county official in response to a query raised on why development expenditure was very low explained that a huge proportion of the county's revenue was alloted to personnel emoluments. The county had over 13000 employees and these were paid up to USD 132.8 million which was almost half of the county's annual budget FY 2018/2019. In his view this was unsustainable and hurting the county's development agenda* (Public Participation Forum, 2019).

The OCOB also noted that the county had a huge wagebill accounting for 46.8% of the total expenditure in the FY 2018/19. In preceding years the figure stood as high as 56.2% of the total expenditure exceeding the limit of 35% permissible under the regulations of the PFMA. This factor reduced the amounts available for other budget items such as development funds, consequently slowing the implementation of development activities (OCOB, 2016, 2019)

Another issue raised by one of the officials was the fact that delays in staff promotions affected the productivity of employees:

Staff promotions have not been taken care of since we began working with the county government. Subsequently we have not received annual salary increments, a factor that demotivates the team (NCO3 – 10.6).

c. **Deployment of Employees:** Effective delivery of services for SMMEs was affected by inefficiencies in the deployment of employees. As depicted in the narrative below, employees were given roles that were not aligned to their qualifications and expertise.

It is difficult to have continuity in the county departments because of professionals being taken to departments they are not experts at, reshuffling of staff and when a new government regime comes in, they bring in their own staff who are sometimes are not necessarily well versed with requirements of the positions they are taking up. Some of these are just political appointees being rewarded after elections. Therefore as a department we are not as effective as we would like to be in serving the SMMEs (NCO6 – 23.15).

d. **Technical Capacity:** Lack of technical expertise and the county's financial limitation to hire adequate numbers of skilled staff impeded the trade department's capacity to adequately execute SMME programs.

There is a lack of technical capacity in most offices. There is a huge work force in the county, but many are not competent enough to run the show (NCO2 – 5.20).

Currently the county has 17 sub-counties but because of constraints of resources in terms of staffing and funding the department works in 8 sub-counties (NCO3 – 10.1).

e. **Staff Development:** The county's investments in staff capacity building to upskill and reskill employees was limited hence affecting the delivery of programs for SMME development.

There is poor staff capacity development at the county level hence leading to poor formulation and implementation of strategies (NCO5 – 16.8).

f. **Bureaucracy:** Execution of development projects in the trade department was hampered by long bureaucratic processes within the county as indicated by one of the interviewees:

The decision making processes were better when at the National Government. At the moment there is a hierarchy within the county government and this really slows down the process. Long lead times in the procurement processes also negatively affects our operations. This means that development projects' implementation are delayed or not done at all (NCO3 – 10.9).

g. **Work Environment and Team Work:** Difficulties in the work environment and lack of team work was evident in the county government departments.

> *The working environment is hostile especially for the newbie technocrats who have been hired. Sabbotage is experienced from the old staff who have been there for many years but cannot be fired. Old staff do not want interruptions of the status quo they have been enjoying for many years. As a result there is a lot of infighting due to insecurities and this affects our productivity and effectiveness* (NCO2 – 5.21).

> *There are internal conflicts within departments in the county that paralyze implementation of development projects. This compromises team efforts* (NCO5 – 16.10).

5.1.4.3. Corruption

Corruption was listed as one of the key factors that created fiscal distortions in the county, thus redirecting money allocated for the operations and development projects of the county. This also weakened service delivery and deprived the business community of their rights to access county services (Nairobi County, 2018c). Two officials' interview responses reiterated the existence of corruption and its negative effects:

> *There are loop holes in revenue management hence not all gets to the county coffers for purposes of development use. Corruption is a big issue* (NCO2 – 5.19).

> *Integrity issues paralyze the works of the department. We lose funding and revenues because of corruption* (NCO3 – 10.12).

Incidences of irregularities in procurement, sub-standard implementation of projects, misuse of public funds and delays in service delivery were experienced due to corruption (EACC, 2015). Media reports also indicated that politicians in the county assembly engaged in corruption for example by extorting bribes from business people to facilitate, secure and protect county business deals (Kabaara, 2020; Kubwa, 2020; Kiarie, 2014). Loss of county revenue from market fees was also reported due to corrupt practices (Nairobi County, 2014b).

5.1.4.4. Political Interference

As earlier mentioned, the county experienced political interference that ultimately affected job placements (see section 5.1.4.2). Therefore employees were deployed in sectors for which they were not skilled thus affecting the quality of services delivered by the county. County officials identified this as a factor that inhibited effective implementation of policies (NCO1 – 3.7; NCO6 – 23.15). Politicians were also known to stall projects that diminished their popularity with their constituents. This is illustrated by the narratives of county officials in section 5.1.3.3.

5.1.4.5. Lack of Collaboration between the County and National Government

In as much as collaboration with the national government, its agencies and other development partners was deemed key for development and service delivery in the county as stipulated in the constitution, this aspect was not always realized. One of the county officials alluded to the fact that the national and county governments worked in silos, a factor that slowed down the pace of delivery of business development services:

> *There is a disjoint between the national government and county governments, so they do not work in a team to provide effective business development services. Each one does their own thing and in the process we also end up with an overlap in terms of roles and functions* (NCO5 – 16.7).

5.1.4.6. Litigation

The county faced various legal hurdles in the first term of county governance that limited the county's operations and revenue collection. Court injunctions and legal challenges arose over land rates, parking fees, bill boards and advertising and betting control and lotteries, thus adversely affecting the county's revenue streams. This was further exacerbated by an inadequate legal and regulatory framework for implementing policies (Nairobi County, 2018c). Litigation slowed the pace of implementing development projects for enterprises as depicted in the interview narrative below:

> *Markets have committees which frustrate the work of the department. For example the County wanted to refurbish one of the big markets in the capital. But this move was blocked by the market committee on the grounds that they were not consulted. Hence there is a case in court that has stalled the renovation process* (NCO4 – 11.11).

5.1.4.7. Public Participation Challenges

It is noteworthy that as much as the meetings in the wards met the minimum threshold of participants for the fora to take off, the numbers of attendees which mostly ranged from 15-100 were a very small fraction of the population they represented. In some wards the consultative meetings did not take place because of non-attendance of the public (Nairobi County, 2018e). Other observations as reflected in the field notes excerpt below point out shortfalls in the organization, execution and attendance profile of the public participation meetings that ultimately affected representation of SMME needs.

> ***Field Notes:*** *The County Fiscal Strategy Paper consultative meeting was predominatly attended by representatives of residential associations, civil society and non-governmental organizations. The business community was not represented, yet the document contained budget items and figures*

that affected SMME development initiatives in the county. Participants raised their concerns over information dissemination in that the CSFP was only available online four days prior to the meeting and hard copies from the county were unavailable. On the day of the meeting, an abridged version of four pages was availed yet the full document was 107 pages. Participants queried how the engagement of the session would take place considering a huge chunk of the paper was unavailable. Further they faulted the time allotted for discussions, indicating that it was too short to deliberate on all the matters. Participants also noted discrepancies in the figures provided in the document used for discussion. Finally participants were dissatisfied with the fact that the county seemed to lack accountability mechanisms in place because of the fact that the county officials failed to provide a detailed progress report of the county's development projects and financial undertakings. Some participants who had attended several fora indicated that the county had not given a detailed account of its activities since inception of devolution. If anything, none of the projects seemed to have been completed and the development plans seem to bear the same initiatives every year. Therefore participants cast doubts upon the legitimacy and credibility of the public participation meetings citing them as public relations activities (Public Participation Forum, 2019).

The above anomalies provide insights on existing shortfalls related to citizen engagement that led to failure in holding the county government accountable for implementation of reforms for SMME development.

5.1.5. Opportunities for Enhancing SMME Growth

Generally county officials indicated that devolution had not worked in favour of SMMEs in Nairobi due to the above mentioned issues. In their view, very little had been done to promote SMMEs since the institution of devolved governance due to poor policy implementation (NCO2 – 5.1; NCO3 – 10.4; NCO4 – 11.5; NCO5 – 16.9; NCO6 – 23.4). Secondly as indicated by some of the county officials, most of the development projects targeted micro traders leaving out small and medium enterprises (NCO2 – 5.2; NCO5 -16.3). Despite the grim picture painted in the above situational analysis, the county government officials expressed optimism that the above issues could be addressed to enhance SMME development. The next section provides an overview of the possible solutions for growing the SMME sector in Nairobi County. The recommendations made were categorized as follows:

5.1.5.1. Organizational Structure Reforms

In order to improve the effectiveness of service delivery and the business environment for SMMEs, county officials advocated for streamlining of the county government's organizational structure coupled with investments in capacity building to up skill employees. The measures recommended are reflected by the following interview responses:

Restructuring needs to be done to ensure uniformity and chains of command are clear. It also means that employees will need to be evaluated afresh in order to take on the new positions. Right placement also needs to be done so that departments work as they should with the right expertise in place (NCO1 – 3.10).

The county needs to establish a favourable working structure that would facilitate the decision making processes and implementation of projects. Besides this, the county should also build the capacity of staff in terms of numbers as well as technical expertise in order to run programs effectively (NCO3 – 10.15).

County staff also proposed other interventions such as increased automation of processes in order to speed up and improve the quality of services offfered to SMMEs. Along with this, procurement of modern ICT hardware and software applications were recommended (Nairobi County, 2018a). As mentioned by one of the county officials, only a small proportion of the county's revenue collections systems was automated, thus the recommendation to enhance the adoption of ICT in order to syncronize administrative processes and ensure seamless flow of work and output (NCO6 – 23.19).

To address the issue of technical incompetence, the county suggested the need to invest in training staff on monitoring and evaluation, form project implementation committees and develep guidelines for monitoring and evaluation. Other capacity building measures proposed included training of the trade, toursim and cooperatives sector working group on Program Based Budget (PBB) Activity Based Costing (ABC) Activity Based Budgeting (ABB) in order to ensure effective budget planning. Training activities would be further reinforced through the implementation of mentoring and coaching programs of staff (Nairobi County, 2018a, 2018c).

The trade sector also recommended improvement of information dissemination to ensure the citzenry was aware of levies, fees and how to comply to enacted laws through various communication media. Suggestions were also made to decentralize trade licencing services at sub-county office levels which implied increasing the number of staff to expedite inspection and enforcement services (Nairobi County, 2018a).

5.1.5.2. Fiscal Management Reforms

To realize the above recommendations the county requires adequate funding. As reflected in the responses below, interviewees reiterated the need for funds to implement development initiatives to boost the SMME sector.

> *We need more facilitation and push for the trade department to get funding to run projects and for monitoring and evaluation of these projects* (NCO2 – 5.25).
>
> *Inject more funds into the department so as to implement activities to boost the co-operatives sector especially through capacity building of societies. If we improve the running of the co-operative societies then they will be more effective at mobilizing capital necessary for funding small traders* (NCO3 – 10.14).

Proposals were also made to increase the revenue base of the county by implementing reforms that would ensure compliance of businesses to tax obligations as indicated below:

> *The county should separate out the costs of the unified business permit so that it is easier for traders to pay for them and avoid defaulting. Secondly, the licence calendar year should be changed from an annual fee covering January to December to prorated licence fees* (NCO6 – 23.18).

Establishing public private partnerships and fostering collaboration with development partners and the national government was also suggested as a strategy for sourcing more funds to finance development initiatives for the SMME sector (Nairobi County, 2018c).

Other complementary measures suggested for effective fiscal management fell within the ambit of ethics owing to the fact a substantial amount of revenue was lost in the county due to corruption. The next section highlights the proposals outlined to curb corruption.

5.1.5.3. Promotion of Ethical Standards

Fostering good ethical standards was suggested as an essential mechanism for enforcing fiscal discipline, seal loopholes that facilitate inefficient use of public funds and revenue seepage. With regards to licencing, one of the interviewees suggested the following:

> *Licensing may have to revert to the manual system so as to streamline the online system to mitigate the issues of cybercrime. With the manual system it is possible to have certificates with the right identification marks and seals so that there are no cases of forgery* (NCO6 – 23.20).

Similarly, recent county development plans vouched for the refinement of ICT systems to curb integrity anomalies with regards to businesses and ultimately reduce county revenue losses. These measures would specifically address irregularities such as under declaration of enterprise sizes while applying for business permits, duplication of business accounts and forgery of SBP documents (Nairobi County, 2018a). Additionally, as indicated by one of the county officials mechanisms needed to be put in place to dismantle cartels and traders who colluded and engaged in corrupt activities to fight development projects for markets and revenue collection (NCO4 – 11.14).

Proposals were also made to improve the internal audit systems and develop a corruption prevention strategy (Nairobi County, 2018a; EACC, 2015). Further, the county's five year strategic plan (2018-2022) outlined development of a corruption eradication policy, formation and operationalization of corruption eradication committees and training of staff on integrity, transparency and accountability measures as interventions for fostering good governance in the county (Nairobi County, 2018c).

5.1.5.4. Effective Political Leadership

County officials argued that poor political leadership hampered the development agenda in Nairobi because they perpetuated impunity for corrupt activities in the county. Below are interview responses from interviewees on the qualities of leadership required to drive the development agenda for SMMEs:

> *The county needs selfless, honest and accountable leaders committed to serve the public interest. We also need people with a sense of commitment to serve the people who elected them* (NCO3 – 10.18)
>
> *We require individuals and political leaders who have the real interest of the ordinary citizens at heart working at the County government* (NCO4 – 11.13).

5.1.5.5. Legislative Reforms

One of the challenges that derailed improvements for the business environment in Nairobi County was the lack of appropriate legislations for operationalizing development initiatives for enterprises. Therefore, one of the recommendations made by interviewees was to develop and actualize relevant legislations for financing businesses and refining licencing processes.

> *We need to have legislations finalized and gazetted for the loan disbursement programs for SMEs* (NCO2 – 5.24).
>
> *Legislations on business taxes and levies should be reviewed in order to decrease the cost of doing business in Nairobi because currently many small businesses are burdened by the multiple taxes. We also need legislation to address the issue of licencing a business that carries out different trades under one roof* (NCO6 – 23.23).

5.1.6. Summary

This section explored how devolution has affected the business environment in Nairobi County from the perspective government officials. The experience of the interviewees indicated that on paper devolution was envisaged to promote the SMME sector. Even though there is some evidence of positive outcomes with regards to services offered to SMMEs, in reality the operationalization of the functions within each dimension of devolution had been inefficient. Rather than improve the business environment, the processes and outputs of devolution in Nairobi had adversely affected the business environment and SMMEs mainly by increasing the cost of doing business (see table 5.5).

The county's ineffectiveness arose due to fiscal management inefficiencies, organizational structure inadequacies, political interference, corruption, anomalies in the public participation process and lack of collaboration and coordination between the national and county governments. The solutions proposed to address the above challenges included fiscal management, legal and organizational structure reforms. Additionally interview respondents called for the promotion of ethical standards to curb corruption and effective political leadership to ensure effective governance.

Table 5.5: Devolved Functions Outputs and their Effects on the Business Environment and SMMEs in Nairobi County

Dimension of the Devolved System of Government	County Government Outputs	Outcome on the Business Environment	Outcome on SMMEs	SMMEs' Response
Fiscal Dimension *County has the discretion to make decisions over revenue collection and expenditure*	**Revenue and Expenditure Estimation:** - Mismatch between budget allocation & exchequer issues - Inadequate budget allocations **Revenue Streams:** - Inadequate funds from own source revenue - Inadequate funds from national government fiscal transfers **Expenditure:** - Financial resource predominantly allocated for recurrent expenses - Limited financial resources allocated for development expenses - Recurrent expenses overshot budget allocations - Spending own source revenue at source	**Access to Resources** - Limited loan disbursements for SMEs - Limited business development services **Institutional and Regulatory Framework Conditions** - Introduction of the unified business permit - Increments in the costs of taxes, levies and fees - Inadequate legislations for SME financing - Poor services	- Increased licencing costs - Harassment of traders to comply with laws - Soliciting of bribes from SMEs	- Migration of businesses to other counties - Non-compliance of traders with references to businesses tax payments - Cybercrime to avoid paying licence fees
Administrative Dimension *County government has discretionary power to recruit staff and facilitate effective resource mobilization for the delivery of services to SMME*	**Administrative capacity:** - Inadequate technology and communication infrastructure - Flaws in administrative internal controls **Budget and Financial Management:** - Low budget absorption - Underperformance in revenue collection - Poor budget planning - Large pending bills - Huge wage bill - Delays in disbursements from national government **Administrative Transparency and Accountability:**	**Access to resources** - Limited access to development programs for SMMEs **Access to Markets** - Stalled construction of markets - Poor implementation of infrastructural projects **Institutional and Regulatory Framework Conditions** - Delayed or non-payment of suppliers (SMEs) providing goods and services to counties in	- Inadequate trading spaces - Limitations of cash flow for SMMEs engaged in county public procurement	- Corrupt practices of traders prevail - SMMEs avoid trading with the county government

	- Inadequacies in monitoring and evaluation mechanisms - Weak auditing systems - Weaknesses in the policy and legal framework	contravention to the legislations on public finance		
Political Dimension *Political leaders represent and support the needs of the business community through enactment of laws, regulations and policies. Businesses involved in the decision making process*	**Development of County Regulatory Framework** - Enactment of Finance Acts as revenue raising instrument - Inadequate and unfavourable regulatory trade laws **Citizen Engagement** - Information incongruity - Non-involvement of SMMEs - Ineffective channels of communication **Political transparency and accountability** - Elite capture - Safeguarding political interests as opposed to the development agenda - Lack of political will to support SME projects	**Institutional and Regulatory Framework Conditions** - Increased business taxes and licencing fees - Multiple taxes and fees **Access to Markets** - Stalled market infrastructure projects **Access to resources** - Limited access to development programs for SMMEs	- Increased cost of doing business - Inadequate trading spaces	- Litigation

Source: Author's Construction

5.2. Macro Perspective of Kiambu County

This section presents the findings on Kiambu County Government's outputs for SMME development drawing on data from county and national government documents as well as interview responses of county officials. The outputs of each of the dimensions of devolution and the resultant effects on the business environment and SMMEs are outlined. Additionally challenges impeding the county's effectiveness with regards to promoting SMMEs are reflected followed by opportunities for further development.

5.2.1. Fiscal Decentralization Outputs and Implications on SMMEs

The following section provides an overview of the fiscal strategies implemented and their effects on SMME development in Kiambu County.

5.2.1.1. Revenue and Expenditure Estimation

Following the requirements of the PFMA, the county prepared budgets taking into consideration each sector's budget proposals and inputs from various stakeholders. According to the county' development plans, the trade, industry and co-operative sector prepared budgets to fund its development projects mostly targeted at boosting the SMME sector. Provisions were made to finance SMME capacity building sessions, construction and renovation of markets, marketing and branding initiatives for the county's products and services, infrastructure development such as road networks and street lighting and establishment of a revolving fund for enterprises (Kiambu County, 2018c).

However, as indicated in the table below (table 5.6), exchequer issues did not match planned budgets. For the FY 2014-2019, the trade sector's budget proposal was USD 15.5 million and the exchequer issues amounted to USD 12 million (77% of the budget). The shortfalls were due to the fact that the county received less funding from the national government and the county did not meet its annual local revenue targets. This had ramifications on the county's SMME development strategies as the trade sector was unable to implement a number of development initiatives (Kiambu County, 2018a).

Table 5.6: Kiambu County Trade, Industrialization and Cooperative Department Budget Allocation

FY	Annual Budget Allocation (USD Million)		Exchequer Issues (USD Million)	
	Recurrent	Development	Recurrent	Development
2013/14	0	0	0	0
2014/15	1.38	1.64	1.37	1.12
2015/16	1.65	1.00	1.65	0.87
2016/17	2.03	2.34	2.03	1.14
2017/18	1.32	0.50	1.32	0.59
2018/19	1.41	2.30	1.41	0.50
Total	**7.79**	**7.78**	**7.78**	**4.23**

Source: Author's construction based on data from OCOB Annual reports (2014-2019)

5.2.1.2. Revenue Streams

To finance its budget obligations, Kiambu County received the bulk of its funding from National Government as a direct transfer into the County Revenue Fund. This was supplemented by the locally raised revenue, however as earlier mentioned, the county was unable to meet its annual targets. Table 5.7 provides an overview of the county's revenue trend from 2013-2019.

Table 5.7: Kiambu County Revenue Trend 2013-2019

FY	Annual Budget Allocation (USD Million)		Actual Amounts Received (USD Million)			
	National Government Fiscal Transfer	Local Revenue Collection	National Government Fiscal Transfer	% of Actual Total County Revenue	Local Revenue Collection	% of Actual Total County Revenue
2013/14	48.67	27.43	51.33	82%	11.06	18%
2014/15	57.61	28.85	58.58	75%	19.56	25%
2015/16	66.02	29.20	66.02	75%	22.04	25%
2016/17	74.34	26.81	74.34	81%	17.96	19%
2017/18	85.49	28.58	85.49	85%	14.96	15%
2018/19	82.83	23.89	82.83	77%	24.25	23%

Source: Author's construction based on data from OCOB Annual reports (2013-2019)

On average, the funding from the national government accounted for 79% of the county's revenue for the FY 2013-2019. This illustrates a heavy reliance on the national government to finance the operations and development initiatives of the county. The county's own source revenue collection dipped in the FY 2016/2017 owing to political interference and inadequacies in the enforcement of development control fees (Kiambu County, 2017c). In the FY 2017/2018, the county experienced a further dismal performance in revenue collection largely due to a prolonged electioneering period in which the initial presidential election results were nullified and a repeat of the electoral process took place thus slowing down public service operations. Additionally, the finance act enacted within the financial year stipulated a general reduction in charges, fees and levies, hence contributing to the decline in revenue collection (Kiambu County, 2019b). Delays in the enactment of the finance act and non-compliance of traders were also identified as factors that hindered optimal collection of revenue in the county (Kiambu County, 2020).

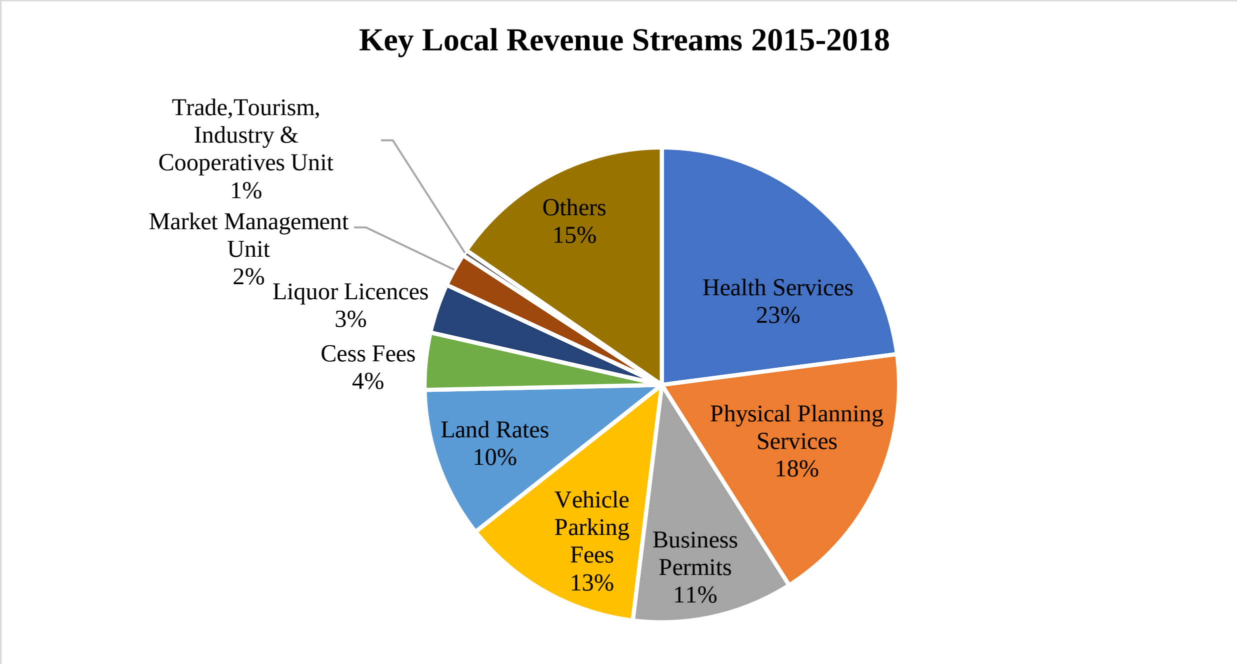
County officials also indicated that organizational structural changes affected revenue collection. The narratives below give an insight of the changes that led to the decline in collection:

> *Council officers in the previous Local Authority regime were motivated to collect revenue, they had targets and were rewarded when they met their goals. This is not the case under the county system. Hence they are not motivated to bring in the numbers. If anything they sabotage the system* (KCO1 -13.21).

> *There have been situations where the old employees have been told to go home or were discredited. Eventually new staff were brought in and revenue collection became difficult for them as they did not have the experience, networks and the necessary working relationships with civilians that facilitated revenue collection for the Local Authority officers* (KCO2 – 26.3).

The main sources of local revenue for the county emanate from health services, physical planning services, vehicle parking fees, business permits and land rates. Figure 5.2 provides an overview of the county's key revenue streams.

Figure 5.2: Kiambu County Key Local Revenue Streams 2015-2018



Source: Author's construction based on data from Kiambu County CSFP and CBROP documents

Based on the above statistics, revenue collected from businesses account for 20% of the county's total revenue. This includes revenue from business permits, liquor licences, cess fees and market management fees. Despite this significant contribution to the county's local revenue fund, the trade and industry department received a very small proportion for its recurrent and development expenditures. Within the FY 2015-2018, the total amounts allocated to the trade department accounted for 2.7% of the total county revenue and 13% of total local revenue raised (Kiambu County, 2020, 2019b, 2017c, 2016d).

Other than the national government, the county also relied on donor funding from development partners. The county secured approximately USD 0.09 million from the Danish Embassy through Kenya Private Sector Association (KEPSA) for a plastic recycling project (Kiambu County, 2018b). Some of the county's markets infrastructure development were financed by the World Bank. According to one of the county officials, four markets in the county were currently under construction through financing from the World Bank (KCO1 – 13.12). In partnership with Japanese International Co-operation Agency (JICA), the county funded training programs on value addition and business management for thirty three business groups (Kiambu County, 2018c).

Owing to the fact that county relied on donor funding and national government transfers to operate, the trade department was limited when it came to supporting SMMEs. As indicated by one of the county officials the fund limitations confined the department to focus on development initiatives for promoting micro enterprises.

> *Our County government depends a lot on donor funding for huge projects, otherwise available funds which are not substantial can only sponsor small projects. So that is why our focus is on infrastructural developments and capacity building programs for micro enterprises and not the small and medium enterprises* (KCO2 – 26.5).

5.2.1.3. Kiambu County Government Expenditure

The county's CIDPs provided substantial budget allocations for development investments directed towards improving the business environment. However, the exchequer issues for development budget did not match the budgets and this ultimately affected the expenditure trends of the trade department. Table 5.8 shows the trends of expenditure of the county's trade sector in relation to exchequer issues for the FY 2014-2019.

Table 5.8: Kiambu Trade, Tourism, Co-operative and Enterprise Development Department Budget Performance FY 2014-2019

FY	**Annual Budget Allocation (USD Million)**		**Exchequer Issues (USD Million)**		**Actual Expenses (USD Million)**		**Expenditure to Exchequer Issues (%)**		**Absorption Rate (%)**	
	Rec.	Dev.	Rec.	Dev.	Rec.	Dev.	Rec.	Dev.	Rec.	Dev.
2014/15	1.38	1.64	1.37	1.12	1.33	0.65	97.7	58.4	96.5	39.9
2015/16	1.65	1.00	1.65	0.87	1.65	0.50	99.9	57.4	99.9	50.0
2016/17	2.03	2.34	2.03	1.14	1.69	1.49	83.2	130.6	83.2	63.7
2017/18	1.32	0.50	1.32	0.59	1.32	0.50	100	84.0	100	100
2018/19	1.41	2.30	1.41	0.50	1.29	0.54	91.1	108.6	91.1	23.6

Key: Rec. – Recurrent; Dev. – Development

Author's construction based on data from OCOB Annual reports (2014-2019)

Except for the FY 2016/17 and 2018/19 where the outlay on development initiatives overshot the exchequer issues, the above data shows that the county generally underutilized its development allocations. The data depicts a higher budget absorption rate for recurrent expenses in comparison to development expenses.

The county made various financial investments in infrastructural, capacity building and business fund projects to improve the business environment. Since the establishment of the county government, the county embarked on refurbishing and renovating twenty three markets in the region. Public service motorcycle sheds were constructed to provide parking space and pick up points for motorcycle transport service providers in a bid to improve their operating environment. Construction and rehabilitation of roads were done and this partly contributed to the opening of areas that had no roads. This included upgrading and rehabilitation of 45 km of roads to bitumen standards and maintenance of over 5000 km of existing roads. These development initiatives were implemented to improve access to markets for SMMEs providing goods and services in the county (Kiambu County, 2017a, 2018c).

Owing to the fact that agriculture is the main economic activity in the county various financial investments were made to boost agribusinesses. To this end capacity building programs were executed and infrastructural installations were procured to enhance the use of value addition technologies by agribusinesses and farmers. These included procurement of pasteurizers, milk coolers and various agro processing equipment. The county also took part in national and international agribusiness trade fairs. These investments were made to improve the quality of products and increase market access for SMMEs within the agribusiness sector (Kiambu County, 2018c). Similar views were reverberated by one of the county officials as follows:

> *The best that the County has done is to establish linkages to markets and it is still ongoing with the governor making trips internationally for this purpose. The whole idea is to create a Kiambu Brand especially for the products in agribusiness. Trade fairs were done during the first county government regime both locally and internationally and this generated interest from investors some of whom came over to the county for further exploration of business opportunities* (KCO1 – 13.52).

To facilitate access to finance for businesses especially those owned by the youth, women and people with disability, the county government established the Kiambu Biashara Fund. The aim of the fund was to provide capital for individuals to start businesses or expand their existing businesses. Through this fund, approximately USD 1.77 million was disbursed to over 3000 individuals and groups as loans with no interest rates and long repayment periods. This was implemented during the FY 2014-2017. Part of the fund was used as grants to purchase equipment for businesses (Kiambu County, 2017a).

The county constructed an Investor Enabling Centre to promote domestic and foreign direct investments in the county (Kiambu County, 2018c). As explained by one of the interviewees:

> *There is an Investment Enabling Centre that was established with the idea of creating a one stop shop for international investors. An office was established by the end of 2017. However with the new governor coming in, the project was halted. Priorities changed and the operationalization of the office is yet to be effected* (KCO2 – 26.6).

The county also embarked on capacity building and regulatory affairs activities to improve the management and governance of cooperative societies in the county. Co-operative societies play an important role in Kiambu County especially in relation to the agribusiness sector, for which these institutions provide affordable financing and marketing services. Efforts were thus directed towards registration and formalization of cooperative societies and audits were done to identify management and operations gaps to be streamlined (Kiambu County, 2018c). The interview excerpt below shows the specific interventions that were made by the cooperative department:

> *The County officials have been involved in facilitating registration of Savings and Credit Cooperative Organizations (SACCOs), educating the members on their management, developing laws to govern the SACCOs and providing audit services which elicit areas of improvement. Civic education on the importance of SACCOs has been extensively done for all types of cooperatives. The whole idea is to foster collective efforts for production, marketing and selling products and services from Kiambu. County officials have also facilitated linkages to markets internally and internationally for produce from Kiambu. This has been especially so with the coffee and tea sector* (KCO1 – 13.51).

Within the first term of devolution the county had registered 262 new cooperative societies, carried out 581 audits and 1250 capacity building forums (Kiambu County, 2018c). As at the end of the FY 2018, the co-operative societies' total turnover stood at USD 15.04 million, an increment from the FY 2013 when the turnover was USD 8.85 million (Kiambu County, 2018a; KNBS, 2015a).

5.2.2. Administrative Decentralization Outputs and Implications on SMMEs

The following section provides an insight on the financial and human resources management and development initiatives executed by the county to ensure provision of services and implementation of programs, policies and legislations.

5.2.2.1. Administrative Capacity

Devolved governance implied substantial structural changes for Kiambu County, owing to the fact that it involved taking on employees of the defunct municipal councils and district employees as well as recruiting of new employees. The county inherited approximately 3750 from the national government employees and 1200 from the defunct local authorities (OCOB, 2014). The county's initial strategic priority was thus to establish functional administrative offices and harmonize the human resource structure and services. To this end the county renovated and equipped ward and sub-county offices for administrators to efficiently provide services at these decentralized units. These enabled decentralization of county services such as liquor licencing at sub-county level and holding public participation fora at ward level (Kiambu County, 2019a, 2018b). Human resource policies, audits and development of an integrated payroll and personnel database were developed with the aim of streamlining public service functions (Kiambu County, 2018c).

Elected leaders were exposed to capacity building programs that provided skillsets on passing of bills. Staff on the other hand were trained on public finance management, program based budgeting, budget implementation and good cooperative governance. This enabled the county staff to prepare county development plans in accordance with the PFMA and CGA such as the county integrated development plans, annual development plans, county strategy fiscal papers and the county budget report outlook papers (Kiambu County, 2018a).

The county automated revenue collection and adopted e-procurement systems to facilitate transparency and accountability. These measures were put in place to seal loopholes of corruption that led to revenue leakage. Consequently in the first year of operation, revenue collection doubled from USD 11.06 million in the FY 2013/14 to USD 19.56 million in 2014/15 (Kiambu County, 2018c). The excerpt below from one of the interviewee's responses sheds light on the ICT investments made in the county to increase revenue collection:

> *The revenue collection IT systems in the county handle the structured revenue streams of the county such as home rents and rates, and unstructured revenues such as market rates and parking fees. The current systems have allowed for substantial amounts of money to be collected in the county* (KCO3 – 20.4).

Moreover, automation increased the speed of county service provision, therefore businesses benefited as it reduced the turnaround times for acquisition of business permits as depicted in the interview excerpt below:

> *SBP is obtained online and this has made it very easy for businesses to obtain these without interaction with the county officers. This has greatly reduced the time it took to get a business permit. In order to ensure integrity of the permits, we encourage the business people to pick the*

permits from the county offices in order to obtain certificates with unique security and colour codes. Secondly to mitigate chances of cyber-crime, the security features and colour codes are changed on an annual basis (KCO3 – 20.6).

The county has offices in Kiambu and Thika town a factor that could be hampering the speed and efficiency of delivery of services to businesses. The field notes below illustrate the experiences the researcher encountered while accessing services from different departments.

Field notes: *While conducting field work in the county, the researcher travelled between the towns of Kiambu and Thika to obtain the relevant permission to carry out the research and also to hold the interviews. The initial process of gaining access of the county to carry out the research began in Kiambu town and was concluded in Thika town. The distance between the two towns is approximately 40 kilometres and commuting takes at least one hour. Therefore if a business person or representative requires services from departments located in the different towns, sufficient time and transport costs need to be factored in.*

5.2.2.2. Budget and Financial Management

The county made strides to comply with the requirements of the PFMA and the constitution in managing its finances. One of the observations made by the OCOB, is the fact that the county deposited all its locally generated revenue to the county revenue fund held at the Central Bank of Kenya in accordance with Article 207 of the constitution. The county was also credited for incurring expenses within the available budget lines in that the total expenditure fell within 90.3% - 98.6% of the total exchequer issues within the FY 2013-2019 (OCOB, 2019, 2018, 2017, 2016, 2015, 2014).

Even though the county budgets were prepared in accordance with the existing legislations, budget and financial management remained a challenge that adversely affected the implementation of county development plans. Drawing on various OCOB reports, the annual budget absorption rates especially for development expenditures were low as depicted in table 5.7. One of the factors that caused the low absorption rates of the development budget were the county's huge wage bills and pending bills. At the advent of devolution the county's wage bill accounted for 59% of the annual budget. The share of expenses on personnel emoluments reduced to 47.6% of the annual budget as at the end of the FY 2018/19, however, this outlay remained a factor that heavily constrained county resources to fund development expenses (OCOB, 2019, 2014).

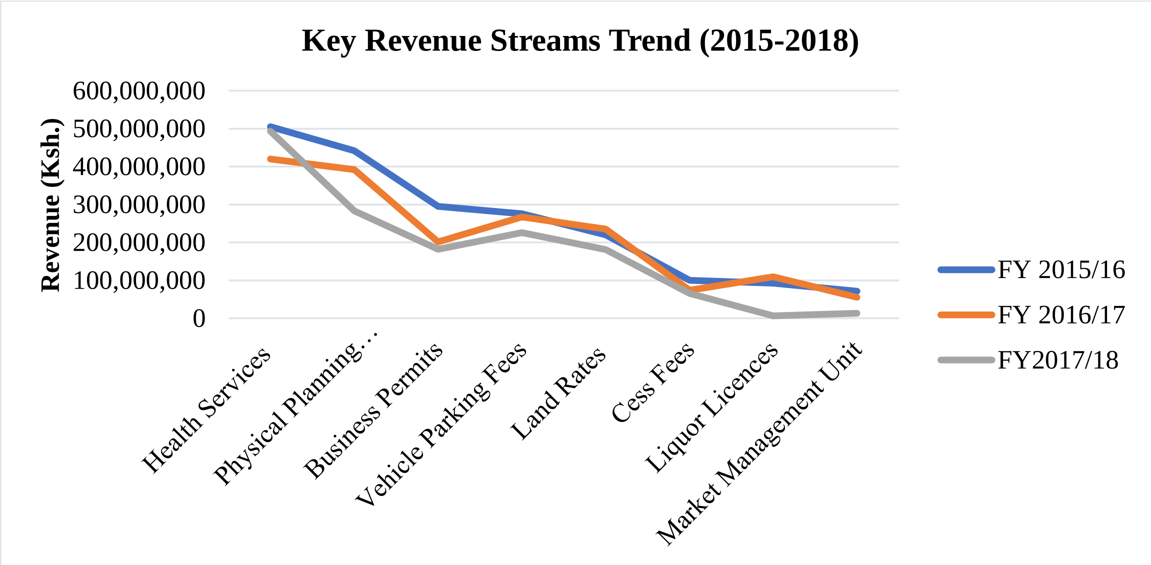
Pending bills for development activities accounted for 27% of funds that were allocated for development initiatives in the FY 2014/15 and this increased to 29% in the FY 2018/19 (OCOB, 2019, 2015). Therefore despite budget approvals for SMME development initiatives within the trade department, the actual amounts disbursed for implementation were greatly reduced by the aforesaid bills. These sentiments were echoed by one of the interviewees whose response is captured below:

> *Unfortunately money released from treasury usually caters for pending bills, so we are left with very little money to execute our programs and projects. This is why as much as we budget and commit to support SMMEs as indicated in our development plans, we eventually shortchange them because of inadequate funds* (KCO1 – 13.17).

Low budget absorption was also attributed to delays in disbursements of monies from the national government and development of key policy documents guiding the budgetary process (OCOB, 2017, 2014). Weak budgetary controls which resulted in outlays in excess of approved budgetary allocations within some of the county sectors limited funds for development initiatives (OCOB, 2019, 2018). The county was also faulted for allocating less than 30% of the total budget to development expenses contrary to the requirements of the PFMA (OCOB, 2016, 2015).

Additionally, the county's performance in collection of revenues dwindled especially from the FY 2015/16 as demonstrated in figure 5.3 below. Consequently some of the key budget items for SMME development under the trade sector annual development plans were not implemented due to inadequate funding (Kiambu County, 2018c, 2018b).

Figure 5.3: Kiambu County Revenue Streams Trend for the FY2015-2018



Source: Author's construction based on data from the CSFPs and CBROPs

5.2.2.3. Administrative Transparency and Accountability

To foster transparency and accountability the county developed made available the CIDPs and ADPs which form the basis of engagement with citizens and other stakeholders. Prior to approval, the documents were subjected to public participation processes with aim of collecting inputs from various stakeholders Further the documents contained a performance monitoring matrix with indicators and established time frames for implementation of various development programs. Other measures put in place to improve service delivery and promote accountability and transparency included the installation and operationalization of an electronic revenue management system and the electronic development application and management system for processing development applications. As indicated in the interview response below this measure reduced revenue losses:

> *The E-platform has sealed a number of loopholes that contributed towards the leakage of cash. This is because currently cash is not handled by individuals. Previously, employees would help themselves from the cash that they had received on a daily basis. The county now has a cashless system of revenue collection. Secondly the county benefits from the fact that cash goes directly to the bank thus minimizing on the losses that were previously there* (KCO3 – 20.5).

The county also adopted the use of Integrated Financial Management Information System (IFMIS) thus tapping into its e-procurement and budget applications to minimize errors and ensure effective governance (Kiambu County, 2018c).

Despite the aforementioned development milestones, the county experienced shortfalls that hampered accountability and transparency. Weak monitoring and evaluation were evident as reports on local resources mobilized were not produced in the FY 2016-2018 (OCOB, 2019, 2018, 2017). Further as indicated in the following responses from county officials:

> *Auditing is quite behind as currently audits for 2016 are being done and we are in 2018. So this needs to be streamlined otherwise people can take off after engaging in corrupt deals and their issue caught on two years later* (KCO1 – 13.32).

> *Impact assessments are done informally so in reality there is no set system in place of accountability. We know what projects we have done to promote enterprises in the region and the impact of the initiatives but unfortunately this is not properly documented. The same applies to capacity building programs for cooperative societies for which proper monitoring and evaluation has not been done* (KCO2 – 26.8).

An independent assessment report attributed the above shortfalls to administrative weaknesses such as lack of: (a) county monitoring and evaluation committee; (b) policy and legal framework for monitoring and evaluation; (c) budget for executing monitoring and evaluation functions; (d) performance management system and; (e) projects completion register. The county was also censured for not producing annual progress reports for review by various stakeholders (Njenga, 2019).

5.2.3. Political Decentralization Outputs and Implications on SMMEs

This section provides an overview of how Kiambu County's political processes and outputs affected the business environment and the development of SMMEs.

5.2.3.1. Development of County Trade Legal and Regulatory Framework

The county assembly credits itself for enacting various legislations (see Appendix 8 – Table II) relevant for regulating the business environment. Other than making provisions for regulating businesses, legislations such as the finance, trade licencing and alcoholic drinks licencing acts, the county relied on the enforcement of these laws as a key mechanism of collecting revenues for the county.

The business community and civil society groups have in recent times expressed dissatisfaction with the county's legal and regulatory framework which in their view had increased the cost of doing business in the county. In 2018, bar owners challenged the Alcoholics Drinks Act in court indicating that the rules stipulated were too stringent for businesses to operate (Njenga, 2019). Similarly a court ruling in 2013 barred the county from enacting the Finance Act whose enforcement would have significantly increased the fees and levies due from businesses operating in Kiambu County (CRA, 2015a).

Besides litigation, some of the SMMEs in the region responded to the county's stringent regulations and legislations by relocating their businesses to counties that had more favourable regulations. The interview response below provides an example of a business sector that had opted for business migration.

> *The Alcoholics Drinks Act prohibits the sale of liquor until 5.00p.m. yet in neighbouring counties it starts as early as 2.00p.m., therefore some businesses have moved to Muranga County so as to enjoy the privileges offered through the provisions of legislations of Muranga County and keep their businesses afloat. This is typical of the bars* (KCO2 – 26.11).

In other circumstances, businesses especially micro traders avoided paying the high fees stipulated in the finance acts of the county by operating the businesses after county government working hours. Thus, evading encounters with the officials from the inspectorate department whose responsibility was to ensure that traders in the county complied with the dictates of the law. This is highlighted in the response below from one of the interviewees:

> *Some businesses in order to avoid harassment for payments of fees, operate in the evening when county inspectorate team has gone home* (KCO1 – 13.25).

The above business responses implied loss of revenues for Kiambu County from businesses to neighbouring counties and lack of payment of fees by traders.

5.2.3.2. Citizen Engagement

To facilitate citizen engagement, the county enacted and operationalized the public participation and citizen petition act by organizing the public to review county bills, legislative proposals and solicited feedback on projects and programs. Capacity building programs were initiated to ensure staff and elected members of the county government were equipped with the requisite skills to execute and oversee public participation processes. The county publicized the public participation through newspapers, radio stations, social media platforms, word of mouth through ward administrators and politicians (Kiambu County, 2018c).

In relation to SMME development, the consultative fora offered citizens and the business community to articulate challenges faced by businesses in the region and these included the poor state and network of roads, inadequate infrastructure to support agribusiness, insecurity and lack of finances. To address these challenges, the following proposals were made to enhance business development in the region:

a) Construction of fruit processing plants as a conduit for value addition of agricultural produce.
b) Construction of milk cooler plants and provision of pasteurizers and milk dispensers.
c) Construction, rehabilitation and maintenance of roads to ease and cost of access to markets.
d) Installation of street and flood lights to enhance security.
e) Conducting seminars on business start-ups and management skills for the youth in the region.

f) Increasing the allocation of the biashara fund to enhance access to finance for businesses owned by women, youth and people with disability.
g) Improving the new county's capacity to provide piped water.
h) Construction and rehabilitation of new and existing markets to promote trade.
i) Construction of sheds for motorcycle public service transport providers in market areas and convenient locations for commuters (Kiambu County, 2016a).

Despite efforts to engage citizens and other stakeholders, the county initially faced challenges in effectively executing public participation fora in accordance with the stipulated legislations in place. In 2013, the county was sued by its residents for failing to adequately advertise public participation meetings to discuss the finance bill. Only a handful of individuals were invited to pass the bill and the documents were not availed in advance to facilitate discussions during the fora. On the basis of these grounds the residents questioned the legality of the Kiambu County Finance Act, 2013. The court declared the Act null and void for not meeting the threshold of public participation, hence during the FY 2013/2014, fees and levies were retained at the same rate (CRA, 2015a).

In more recent times, the county was also sued for enacting the Alcoholics Drinks Act without effectively following all the due processes of public participation. The petitioner, in this case a representative of a civil society organization argued that the county provided a very short window of time for the public to access, review and give feedback on the bill. Secondly views collected during the consultative meetings were not published and requests for these were ignored (*Okiiya Omtatah Okoiti v County Government of Kiambu [2018] eKLR*, 2018). A case filed by the bar owners association also faulted the county for not engaging the organization and other business owners in the drafting of the Alcoholics Drinks Act prior to its publication (*Richard Wainaina Muhindi and 2 Others (Suing on own behalf and on behalf of members of Kikuyu Bar Owners Savings and Co-operative Society Ltd) v County Government of Kiambu*, 2019). There were eleven petitions in the high court questioning the legality of this act awaiting hearings and rulings (Njenga, 2019)

5.2.3.3. Political Transparency and Accountability

In its capacity to fulfil its oversight and representation roles, county reports indicated that the county assembly of Kiambu had made strides in considering, reviewing and passing of relevant legislations and reports for implementation and driving the development agenda of the county. The assembly was also actively involved in mobilizing the constituents to attend and articulate their issues in public participation fora organized to review bills, legislative proposals, development plans and budgets. The assembly members also carried out field inspection and benchmarking visits as measures of monitoring and improving development initiatives for the region (Kiambu County, 2019a, 2018a).

Nonetheless accountability and transparency inadequacies were noted such as lack of reports documenting oversight activities (ibid). Media reports quoting some legislators and executives from the county indicated that corruption affected the effectiveness of MCAs in representing the needs of their constituents. Tenders were allocated to MCAs to compromise their oversight and independence of the county assembly. In some situations the executive organized unnecessary retreats and workshops where MCAs received allowances as a means of convincing them to pass legislations or lean to the wishes of the county executive (Wainaina, 2019).

Politicians' genuine interest in implementing the CIDPs was put into question due to their tendency to slip in their own development projects for personal interests as opposed to catering for the needs of constituents. The interview excerpt below highlights the challenges presented by politicians in this regard:

> *Politicians are always looking for projects that will make them shine in their communities. Secondly they are looking for projects where they can benefit from in monetary terms. So as much as our sectoral plans for promoting SMMEs and other development initiatives have been approved, sometimes these are sidestepped by county assembly members who want to play populist politics and enrich themselves* (KCO3 – 20.8).

5.2.4. Factors Impeding the Implementation of Reforms for SMME Growth

In spite of the efforts made to implement reforms for creating an enabling business environment for SMMEs in Kiambu, various challenges were identified as obstacles slowing the restructuring processes. Below are the emerging issues noted as factors disrupting the county government's efforts to grow the SMME sector.

5.2.4.1. Fiscal Resource Mobilization Inefficiencies

a. Lack of Funding

Inadequate financial resources is one of the key factors that affected the trade sector and the county government as a whole from effectively promoting and growing the SMMEs in the region. This was partly attributed to the fact that the county rarely met its annual target for raising local revenue. County government officials' interview responses adduced organizational structure inadequacies (see section 5.2.1.2) and ineffective decisions (see narrative below) to explain the scarcity of funding.

> *To show you how bad the situation is, in the financial year 2015/2016, the housing sector collected Kshs. 76 million (USD 0.67 million) in rates. In the FY 2017/2018 this was down to 1 million (USD 0.01 million) because of waivers given to everyone courtesy of populist policies. Road side policies declared by politicians affect some of the revenue collection strategies* (KCO1 – 13.23).

Failure of traders domiciled in markets to remit their daily fees to the county government also dwindled the revenue collection as shown in the narrative below:

> *Markets are now not paying the daily KSh.20 (USD 0.18) fee which they usually pay instead of the SBP and this has led to a decrease in revenue collection* (KCO1 – 13.24).

Moreover, the county experienced delays in disbursement of the equitable share of revenue from the national government (Kiambu County, 2018c; OCOB, 2017). Consequently as explained by one of the interviewees, development budgets were adversely affected leading to delayed or non-implementation of strategies outlined in the ADPs.

> *Development budget funds come in very late, for example the budget for the financial year 2018/2019 was approved in June 2018 and as of July we should have received funds to implement and operationalize our department's activities. Now we are in November and we still do not have the funds* (KCO2 – 26.7).

Delays in the release of funds from the national treasury was a double edged sword for the county government and its service providers. It not only affected the performance of the county government in its delivery of services for SMMEs, but also affected the cash flow of the businesses contracted to provide goods and services to the county. This was supported by one of the county official's reponse below:

> *Money for development projects are not released in wholesome, they come in peace meal. This leads to stalling of projects. Additionally sometimes contractors granted projects do not have finances to complete a full project without government payments. Hence if there is a project they are working on, it moves according to the payments they receive from the government* (KCO1 – 13.17).

b. Inefficient Budgeting and Management of Funds

Financial mismanagement and budgeting inefficiencies in the county government had a negative impact on the delivery of services for SMMEs. According to OCOB reports, delays in preparation of key policy documents that guided the budget processes led to delays in implementation of development programs hence the low absorption of budgets. Further, at the advent of devolution, the county was faulted for setting unrealistic targets for revenue collection, consequently affecting available funding for planned development programs (OCOB, 2015). Weak budgetary control was also evident as reflected by expenditure excess of approved budgetary allocations in various departments thus limiting funds available for development initiatives (OCOB, 2019, 2018).

Audit reports also indicated variances between Integrated Financial Management Information System (IFMIS) records and the annual financial statements of the county, unsupported expenditure on goods and services and misclassification of expenses. Anomalies were noted in procurement as evidenced by receipt of goods and services from suppliers whose contracts had long expired. In other situations tenders were awarded to companies that failed to provide quality services hence value for money was not achieved (OAG, 2018, 2016).

High and increasing expenditure on personnel emoluments and foreign and domestic travel reduced the amount of funding for development expenditure. In the FY 2018/2019, the wage bill increased by 12.4% and accounted for 47.6% of the total expenditure. Expenditure on foreign and domestic travel increased by 81% and accounted for 3.9% of total expenditure (OCOB, 2019).

Pending bills were repeatedly carried forward to be settled in the following year's budgetary allocation. This frustrated the implementation of development initiatives for SMMEs as explained in the interview response below:

> *Pending bills from the previous financial year is a big problem. So in reality, when we get money for the new financial year, the net amount is zero because most of the money goes towards settling debts of the previous financial year. Very little money is left for all our planned development strategies for SMMEs* (KCO1 – 13.60).

Shortfalls in financial management policies and regulation affected the sustainability of the Biashara Fund that had been established to finance small businesses in the county. The interview response below provides an insight on the inefficiencies experienced after the fund was launched.

> *The idea of the Biashara fund came from the previous governor who had thought about running a governors' challenge for purposes of getting innovators on board and eventually finance them for their startups. The idea morphed into a business fund called Biashara Fund and USD 2.65 million was allocated for it in the first five year development plan of the county. Eventually the fund was disbursed, however many issues arose:*

- *There were no regulations in place to govern the management and disbursement of the funds.*
- *It was not clear whether it was to be a revolving fund or not.*
- *Monitoring and evaluation was a challenge as nothing was laid down for this. So it is not even clear if people used the funds for what they had intended.*
- *80% of the persons given the funds defaulted.*
- *There were no collaterals as the fund was given out.*
- *The funds were not insulated from politics. It turned out to be a tool to favour populist politics.*
- *Consultations were not made with experts to discern how best to manage the fund.*

This fund was later converted to the Jijenge Fund and a bill was passed to regulate it, however to date there is not much that can be said about it (KCO1 – 13.45).

5.2.4.2. Organizational Structure Challenges

As earlier mentioned, the human resource pool consists of former national government and the defunct local government employees as well as new recruits hired. The county public service board in conjunction with the administration and public service department sought to harmonize all the public service functions by developing policies, procedure manuals and ensuring right deployment and integration of staff. Further, establishment and operationalization of offices at the head offices, sub-county and ward levels was effected to facilitate effective service delivery (Kiambu County, 2018c). Even so, several challenges impeded the county's effectiveness from an administrative aspect and ultimately affecting service delivery for SMMEs in the county. According to one of the county officials:

> *There are no proper structures within the county government. Even if there are, they are on paper but nothing is followed through in terms of communication or decision making. The structures within county governments are not aligned to the national government structures. These two points present a real problem especially for employees who previously worked in the defunct local authorities or national government and seconded to work at the local government level. These officers were used to a hierarchy that worked well in terms of decision making but currently it is not the case and career public servants have become disillusioned in the process.* (KCO2 – 26.4).

Other issues raised are depicted below:

a. **Culture:** A culture of rebellion and resistance was evident following structural changes within the county government. The interview responses below reflect the prevalent working culture that ultimately affected implementation of reforms:

   Reforms were made for digitization but there was resistance internally. Change was difficult to embrace especially for the old staff (KCO2 – 26.9).

Staff from the previous regime at times sabotage the system especially when they realize that their taps for collecting monies on the side has been frozen. When you touch anything to do with money that is when you will have a rebellion (KCO3 – 20.11).

b. **Staff Remuneration:** The county's staff remuneration system has not been harmonized, hence the inefficiencies in financial resource management.

Staffing at the county level is a big issue because of the fact that you have different employment cadres and salary scales based on the method of recruitment. All these create different job groups and scales as well as payment systems, a factor that has negative consequences on the county's finances (KCO1 – 13.56).

c. **Deployment of Employees:** Effective delivery of services at the county level was affected by inefficiencies in the alignment of job roles and employees' expertise.

A lack of understanding of staffing and human resource planning plus political interference leads to deployment of staff to departments they are not trained for. Transfers are made without looking at people's expertise. These directives sometimes come directly from the governor (KCO1 – 13.6).

d. **Technical Capacity:** Staff incompetency was notable in the county government and this factor negatively affected the productivity of departments and quality of service delivery.

Staff with poor qualifications are on board partly because of political interference in the sense that, the human resource department is asked to employ the politicians' people. There's a very small percentage of skilled workforce within the departments and this makes it impossible to work effectively and the few who are skilled are overloaded with work because you do the work of the others (KCO3 – 20.10).

Some of the people we report to have no knowledge of the technicalities hence one spends a lot of time simplifying concepts of projects that are to be presented for implementation. This is because also some of the people in the County Assembly are not well educated (KCO2 – 26.10).

e. **Staff Development:** The county made little effort towards staff capacity building as reflected in the interview excerpt below:

Training of staff is not supported even training done at the Kenya School of Government (KCO1 – 13.9).

f. **Bureaucracy:** Lengthy unwarranted bureaucratic processes inhibited effective operations and service delivery in the county as depicted in the narrative below:

Because politicians are looking for projects that will make them popular in their communities or personally benefit from, approvals for payments to cater for departmental needs at times depend on the priorities listed by the county assembly. Therefore one has to lobby to have their budget requirements included in that list of priorities. One is always playing politics to get things done within the department (KCO3 – 20.13).

g. **Work Environment and Team Work:** The county's reform processses were hampered by lack of teamwork especially between the county staff and the elected members in the decision making processes. In this regard, county assembly members changed or initiated development plans without consulting.

Distortions in the budgets are created as a result of the supplementary budgets created by the MCAs which they do independently in the county assembly without seeking any consultations with the experts employed (KCO2 – 26.12).

Difficuties in engaging with some senior staff within the county also presented challenges in the working environment as illustrated in the interview response below:

In some situations, working with some of the senior county officers can be a tall order. They can be impossible to reach or dialogue with and in the process we get very little accomplished (KCO2 – 26.13).

Further, development initiatives stalled owing to lack of continuity in operations after each election. The change of guard of the governor post translated to changes in the development agenda which also entailed overlooking some of the projects initiated in the previous regime, a factor that demotivated staff and the citizenry.

Discontinuing or discrediting the previous government's projects also hampers the operations of the county government. There is no continuity after each election and this is quite frustrating for staff (KCO1 – 13.27).

5.2.4.3. Corruption

County officials indicated that corruption was one of the biggest challenges that faced the county with regards to fiscal resource mobilization and implementation of development activities as highlighted by the interview responses below:

Cartels operate the markets. They typically form committees that charge entry fees for traders, membership fee, security fees and this is illegal. This set up presents a huge problem to the county government because any market development project is opposed by these cartels because once projects are complete it implies the county government has full control hence their normal revenue streams will be choked. This leads to situations where the county government rather than get into *a negotiating table, they simply bull doze their way to get the development plans implemented* (KCO2 – 26.15).

We face integrity issues in the procurement docket because tenders are awarded to companies affiliated to politicians or employed staff. This is also coupled with bribes paid to county staff to award tenders by potential suppliers. Subsequently we have had experiences of poor or substandard services offered because tenders were awarded to incompetent contractors who bribed their way into the system (KCO3 – 20.14).

5.2.4.4. Political Interference

Resource mobilization inefficiencies were partly attributed to political interference as evidenced by the following interview responses:

Hiring is influenced by politics. Hiring of key positions is done through the politically appointed Public Service Board. This affects the quality of the employees brought on board. Staff loyal to political parties are brought in. Sometimes the qualifications do not matter. (KCO1 – 13.8).

Politics interferes with daily routines of work in the County. As much as projects are discussed and agreed upon in order to come with the CIDP, they are not implemented because politicians have who have the final say at the county assembly drive the business agenda. They bring their other development agenda and that is where funds are diverted (KCO3 – 20.9).

The above scenarios also exhibited poor leadership skills of the elected members of the county government.

5.2.4.5. Lack of Collaboration between the County and National Government

Development reforms were also bedevilled by challenges emanating from a conflictual relationship between the national and county government. Consequently issues of duplication of roles were evident and this adversely affected reforms for improving the business environment for SMMEs as depicted in the interview responses below:

Double taxation is happening within counties because of the fact that there are national agencies also performing similar functions as we do. This factor has increased the cost of doing business in the county (KCO1 – 13.30).

A number of problems come from the fact that the trade development function is not fully devolved. The National Government still has a grip hence institutions such as MSEA and even though the county is to collaborate with this agency, this has not been the case. The county runs its own programs and MSEA implements its own projects yet we are serving the same business community (KCO1 – 13.31).

5.2.4.6. Litigation

The county has encountered various litigation challenges as depicted in sections 5.2.3.1 and 5.2.3.2 consequently halting reforms such as full operationalization of the Alcoholics Drinks Act which regularizes the liquor business sector. Similarly as described in the interview response below, litigation prevented the county from collecting the much needed revenue to finance operations and development initiatives in the county.

> *At the onset of the county government operations, licencing regulations were initially clamped with the finance act. This is because the finance act had everything, and there were disputes in court regarding a clause related to the licensing and this halted everything within the finance act and revenue could not be collected until the issue was resolved* (KCO1 – 13.28).

5.2.4.7. Public Participation Challenges

In as much as the county attempted to put in place mechanisms for public participation such as a legal framework, information dissemination systems and organization of the public to ensure their effective participation, various challenges arose that hampered the process. Consequently as reflected in the interview responses below, development initiatives for the business community either stalled or were poorly implemented.

> *The county has control over the markets and during the public participation process, cartels typically participate and dictate what they want. This has been a problem because they typically fight market development reforms because of the fact that such projects would disrupt their illegal revenue streams* (KCO2 – 26.18).

> *Currently the World Bank has selected 7 markets to put up and 4 are already being built in Kiambu. There were issues with 2 markets where people claimed that there was no public participation and this ended up in court. Typically the World Bank withdraws until all contentious issues are resolved. So for now we cannot do anything about the construction of these two markets* (Interview KCO1 – 13.12).

5.2.5. Opportunities for Enhancing SMME Growth

In general the county officials interviewed indicated that devolved governance had not favoured the development of SMMEs as such owing to the aforementioned challenges (KCO1 – 13.1; KCO2 – 26.1; KCO3 – 20.3). Nonetheless, they provided insights into how the county government could streamline its functions and operations to better serve the SMME sector. Their contributions are depicted in the next section.

5.2.5.1. Organizational Structure Reforms

Proposals made to improve service delivery in order to ensure an enabling business environment fell within the realm of human resource management in terms of recruitment, deployment of staff and capacity building. The interview responses below depict specific measures proposed by county officials:

> *Restructuring of staff should be done. For instance we have staff who were collecting parking fees in the past. But now a number have been rendered redundant because of the automated systems. Yet they have not been redeployed* (KCO3 – 20.17).
>
> *Ensure professionalism within the county governments. This should be facilitated through proper capacity building. There needs to be uniformity of qualifications for the director positions which is currently not the case and this hampers the possibility of transfers to other counties* (KCO2 – 26.16).
>
> *Foster inclusivity in the work force by ensuring that at least 30% of the employees are not from the area as required by law (this is currently not the case in Kiambu) and the national language is used as a mode of communication* (KCO1 – 13.43).
>
> *Declare county government as a civil service department. Let human resource management issues be centralized. That is have the Public Service Board (PSB) from a National perspective and then the PSB at the county level should be a department of the national government office* (KCO1 – 13.34).

It is worth noting that a shift to centralization of human resource management implies constitutional changes through an act of parliament. Therefore the above recommendation is also a legislative proposal.

Capacity building was also advocated for the general population through promotion of civic education to facilitate effective decision making as indicated in the interview response below:

> *The population also needs to be educated so as to make the right decisions at the polls. Civic education should also be given to the political class as well as the population on the requirements of the constitution* (KCO1 – 13.39).

Civic education was also deemed a necessary means of enhancing the citizen's awareness on their role in public participation so as to effectively exert their influence in outlining and prioritizing development projects, policies and legislations in the county (Kiambu County, 2018a).

To curb the issue of poor implementation of projects, the county team made recommendations such as ensuring proper project planning and establishment of robust monitoring and evaluation systems. Additionally, formulation and institution of performance contracts coupled with favourable rewards and incentive schemes was proposed as a measure of increasing staff efficiency and improving results. Close collaboration and coordination amongst departments needs to be in place to ensure seamless flow of work for effective service delivery. This would be reinforced through the institution of clear and effective communication channels within the county government (Kiambu County, 2018a, 2018c).

5.2.5.2. Fiscal Management Reforms

Adequate funding is required to fulfil the aforementioned recommendations and other sectoral plans to promote SMMEs such as operationalization of the SME fund, building and refurbishing of infrastructure for traders and implementation of capacity building programs for enterprises. To this end, county development plans highlighted the following measures for implementation in order to enhance internal revenue and effective revenue mobilization: (a) forging and fostering public private partnerships for financing and implementation of projects; (b) formulation of strategies to enhance own source revenue collection and absorption of development funds; (c) ensure rationalization of non-core budget items in order to provide more fiscal resources for development initiatives; (d) county expenditures should be within the approved budget lines and; (e) the county treasury in accordance with the PFMA should ensure that development budget is at least 30% of the total county expenditure budget (Kiambu County, 2018a; OCOB, 2018, 2019).

5.2.5.3. Promotion of Ethical Standards

Effective accountability and transparency measures were suggested in order to mitigate revenue seepage that occurred due to corruption and administrative loopholes. Measures specified include the full adoption of the IFMIS system to ensure correctness and transparency of financial transactions. Further, the county would need to adopt and streamline appropriate technology for revenue collection. This should be reinforced through the formulation of ICT policy, institutionalization of internal accounting control systems and establishment of risk assessment committees. These measures would ensure effectiveness of internal controls, risk management and governance (Kiambu County, 2018a; OAG, 2018; OCOB, 2016).

5.2.5.4. Effective Political Leadership

Political leadership affects the quality of government and governance outcomes. In the case of Kiambu county political interference as indicated in previous sections affected the operations and effectiveness of the county in delivering services to SMMEs. County officials thus highlighted changes that need to be effected in order to have the right political leadership to drive the development agenda in the county. These changes include election of capable politicians with leadership skillsets that will enable effective execution of development projects aligned to the needs of the county.

> *The political class should stop focusing on politics and put their heads and intentions on working the real issues that affect the County. There should be a real interest in the development agenda of the County. Once it starts at the top then it is possible to cascade this down to all the facets of work in the County and there will be smooth running of activities* (KCO3 – 20.16).

Moreover, county development plans call for adherence to rules and regulations of government by the political class to facilitate implementation of the county strategies (Kiambu County, 2018a).

5.2.5.5. Legislative Reforms

The county's trade department identified refining of the institutional legal and regulatory framework as one of the key development needs to be addressed in order to improve the business environment. The strategy outlined to achieve the aforementioned is the realigning and harmonization of existing laws and policies with the country's constitution (Kiambu County, 2018a). Further interviewees recommended changes for effective governance that implied amendments of the current constitution such as:

> *The tenure for the governors should be lengthened to 7 years so as to allow for ample time for implementation of projects. This will curb the problem of abandoning projects which were not completed by previous governors when a new governor is elected* (KCO2 – 26.19)
>
> *The Governor should be a manager or a technocrat like cabinet ministers and not a politician. As politicians they are lost in wooing their votes and fulfilling their promises, personal interests which are not necessarily in tandem with what is necessary for the common good of the people* (KCO1 - 13.36).
>
> *Reduce counties to manage them better* (KCO1 – 13.42).

5.2.6. Summary

This section provided insights into how devolved governance in Kiambu County affected the development of SMMEs. Positive outcomes were attained with regards to the speed of attaining trade licences and provision of some infrastructural developments such as roads. However, the county generally failed to adequately support the SMME sector due to inefficiencies in administrative, fiscal and political functions as depicted in table 5.9. Consequently enterprises within the county faced issues such as multiple and increased taxation due to the emergent revenue laws, harassment from the county inspectorate team enforcing compliance to the laws as well as incomplete or inadequate infrastructure to facilitate trade. To address the abovementioned challenges, organizational structure, fiscal management and legal reforms as well as promotion of ethical standards and effective political leadership were advocated for to improve the county government's outputs.

Table 5.9: Devolved Functions Outputs and their Effects on the Business Environment in Kiambu County

Dimension of the Devolved System of Government	County Government Outputs	Outcome on the Business Environment	Outcome on SMMEs	SMMEs' Response
Fiscal Dimension *County has the discretion to make decisions over revenue collection and expenditure*	**Revenue and Expenditure Estimation:** - Mismatch between budget allocation & exchequer issues - Inadequate budget allocations **Revenue Streams:** - Inadequate funds from own source revenue - Inadequate funds from national government fiscal transfers **Expenditure:** - Financial resource predominantly allocated for recurrent expenses - Limited financial resources allocated for development expenses	**Access to Resources** - Limited loan disbursements for SMEs - Development initiatives limited to micro traders **Institutional and Regulatory Framework Conditions** - Introduction of the unified business permit - Increments in the costs of taxes, levies and fees - Inadequate legislations for SME financing - Poor services	- Increased licencing costs - Harassment of traders to comply with laws	- Non-compliance of traders with references to businesses tax payments
Administrative Dimension *County government has discretionary power to recruit staff and facilitate effective resource mobilization for the delivery of services to SMME*	**Administrative capacity:** - Inadequate technology and communication infrastructure - Flaws in administrative internal controls **Budget and Financial Management:** - Low budget absorption - Underperformance in revenue collection - Poor budget planning - Weak budget control - Large pending bills - Huge wage bill - Delays in disbursements from national government **Administrative Transparency and Accountability:**	**Access to resources** - Limited access to development programs for SMMEs - Poor services **Access to Markets** - Stalled construction of markets **Institutional and Regulatory Framework Conditions** - Delayed or non-payment of suppliers (SMEs) providing goods and services to counties in contravention to the legislations on public finance	- Inadequate trading spaces - Limitations of cash flow for SMMEs engaged in county public procurement - Soliciting of bribes from SMEs	- Corrupt practices of traders prevail

	- Inadequacies in monitoring and evaluation mechanisms - Weak auditing systems - Weaknesses in the policy and legal framework	- Poor services		
Political Dimension *Political leaders represent and support the needs of the business community through enactment of laws, regulations and policies. Businesses involved in the decision making process*	**Development of County Regulatory Framework** - Enactment of Finance Acts as revenue raising instrument - Inadequate and unfavourable regulatory trade laws **Citizen Engagement** - Information incongruity - Non-involvement of SMMEs - Ineffective channels of communication **Political transparency and accountability** - Elite capture - Safeguarding political interests as opposed to the development agenda - Lack of political will to support SME projects	**Institutional and Regulatory Framework Conditions** - Increased business taxes and licencing fees - Multiple taxes and fees - Stringent business operations regulations **Access to Markets** - Stalled market infrastructure projects - Poor implementation of infrastructural projects **Access to resources** - Limited access to development programs for SMMEs	- Increased cost of doing business - Inadequate trading spaces	- Litigation - Migration of businesses to other counties - Non-compliance of traders with references to businesses tax payments

Source: Author's Construction

5.3. Meso Perspective of Business Member Organizations

Business Member Organizations as earlier mentioned, act as intermediary agents serving SMMEs by articulating and representing their issues to the national and county governments. They are mostly involved with governments in developing and reviewing policies and laws to create a conducive business environment for the enterprises they represent. This section provides an overview of the experiences and perceptions of BMOs on the effect of devolution on the development of SMMEs. In particular this section outlines the challenges that affected county governments in delivering services for SMMEs and the recommendations to course correct their operations. It also includes narratives from independent government officers who closely work with BMOs especially in legislation formulation and whose assertions were taken into account to support the claims made by BMOs.

5.3.1. Challenges affecting SMMEs under Devolved Governance

Devolution in Kenya is lauded for bringing services closer to the people especially in rural areas and previously marginalized regions. Even so, the business community faced various challenges related to increased cost of doing business within counties (BMO1 – 9.24, 2018; BMO7 – 7.17). BMOs expressed their dissatisfaction on the performance of county governments with regards to SMME development as illustrated in the interview responses below:

> *Nothing is working for SMMEs in the counties. Brilliant ideas have been tabled but so far there is no implementation. The national government is more supportive of the micro and small traders especially those in the informal sector than the county governments* (BMO5 – 6.1).

> *At the moment unfortunately nothing is working for SMEs especially with regards to the legislations enacted in the counties* (IGO2 – 21.1).

Rather than focussing on developing policies and legislation to remove barriers to trade and provide incentives for enterprises to invest, counties were faulted for implementing revenue raising strategies that resulted in multiple taxation and licencing costs (KNCCI, 2019). Businesses complained of the manner in which revenue imposition, collection and administration was effected in the counties (CRA, 2015a). From the onset of devolution, counties strove to increase revenue through stop gap measures rather than employing strategies for raising revenue holistically pegged on fiscal policy. Consequently, they disregarded key aspects of revenue collection such as efficient billing systems, public education and awareness on taxes and administrative capacity. The latter was characterized by a large pool of unskilled staff that employed unorthodox methods to enforce payment of taxes by businesses (CRA, 2015b).

Counties revived revenue raising laws that had previously been in place under the defunct local authorities and were scrapped by the national government in a bid to enhance the ease of doing business and grow the economy. The national government in conjunction with the World Bank had introduced the SBP for purposes of harmonizing licencing. However, this collapsed after devolved governance was operationalized as counties introduced SBP fees and other taxes and these varied across counties (BMO7 – 7.1; BMO 8 – 24.4; IGO2 – 21.5).

Kenya's Vision 2030 is guided by market driven principles of economic liberalization under the World Trade Organization (WTO) to which Kenya is a signatory. Implementation of these principles began in the 1990s and this led to the reduction of tariff and non-tariff barriers in Kenya's export markets, a factor that contributed to increased economic activities and improved access to markets for Kenyan enterprises. Regional economic integration was also fostered to enhance liberalization, hence the re-establishment of the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and the Inter-governmental Authority on Development (IGAD) as a measure of furthering the exploitation of export opportunities in African states. It was envisaged that county governments would be privy of these trade agreements and enact revenue laws in alignment with these agreements, conventions and treaties. Thus ensuring that the opportunities and benefits accruing from these agreements were realized to facilitate economic growth in the country (CRA, 2015b).

However, as observed by various BMOs, counties introduced multiple taxes that countered the milestones achieved by the national government courtesy of the existing regional and international agreements to which Kenya subscribes to. Counties introduced taxes, levies and fees charged on businesses without taking into consideration the repercussions they would have on national economic and common market policies (BMO7 – 7.4 & BMO8 – 24).

Of major concern were three categories of fees and levies applied by counties on goods and services transiting across different jurisdictions within the country. These are cess or infrastructure maintenance fees, vehicle branding fees and distribution licence fees. Regrettably, there are no standardized norms to harmonize the basis for charging the aforementioned fees. Counties use different measurements to levy cess. Ideally cess payments should only be made in the county of origin of products. Nonetheless businesses were subjected to multiple cess charges as they transported goods across different counties. Another complaint lodged by businesses is the fact that counties charged vehicle branding fees even for businesses whose commercial location was in another county. Counties classified vehicle branding fees as part advertisement fees. Finally, distribution licence fees were introduced for businesses ferrying their merchandise to distributors or suppliers. Similar to the cess fees, there is no standard norm or measure on which the distribution licence fees are based across counties, thus introducing variations in costs (KNCCI, 2019).

Another bone of contention arose when counties were given the mandate to raise revenue through liquor licencing. The legislations that ensued within counties proved to be very restrictive for businesses within the liquor sector. The interview response below provides an insight on the challenges faced by these businesses:

> *Through the county finance bills, supermarkets are now charged for liquor licence besides other fees that enable them to operate their businesses. Counties also charge liquor licence fees for businesses that either manufacture or import alcohol and the charges differ from county to county. Therefore the Alcohol Beverage Association of Kenya has protested against counties being given the mandate to charge liquor licence fees* (BMO8 – 24.8).

Statistics indicated that 16% of SMMEs in Kenya cited payment of licence fees and other associated costs as one of the key challenges affecting businesses (KNBS, 2016). These increased the cost of doing business consequently leading to closure of businesses, migration of businesses to regions with more favourable conditions and non-compliance of traders to the counties' revenue collection laws as illustrated by the interview responses below:

> *Start-ups are collapsing because the cost of doing business is high due to the many county levies and taxes. As it is some people have rolled up their businesses to go back to employment* (BMO1 – 9.3).

> *With regards to licencing, the SBP does not encompass all licences required and this inconveniences traders. County officers show up at business premises to check if all the licence fees have been paid and if not businesses are harassed to comply. Sometimes these requirements are not necessarily legal as the county officials use these opportunities to ask for bribes. To deal with these crazy harassments, businesses have hired individuals to watch out for any raids and they inform all traders in a street. In these situations businesses close to avoid encounters with the county officials and making any form payment legal or illegal* (BMO2 – 17.5).

> *Advertising fees were imposed on every vehicle that was branded and accessing the county. So businesses resorted to removing the labels in order to avoid these payments and harassment that comes from the county officials* (BMO8 – 24.6).

> *As a result of some of the county frustrations, businesses actually moved from some counties. They could not stand the loading, offloading and parking fees slapped on them along with the harassments. So they moved to regions where regulations were more favourable* (BMO7-7.12).

Multiple fees slapped on businesses increased the cost of distributing goods and services, product prices and consequently this led to reduction in sales for some businesses. The multiple fees created trade barriers that inhibited free movement of goods and services within the country. Further, the high cost of doing business reduced the investment potential of counties thus decreasing opportunities for employment and economic growth (KNCCI, 2019).

5.3.2. Factors Impeding the Implementation of Reforms for SMME Growth in Counties

BMOs attest to the fact that there were provisions in terms of policy for growing the SMME sector within the counties, nevertheless, the main obstacle for reform was poor implementation (BMO1 – 9.18, BMO5 – 6.10 & BMO9 – 19.4). In their dealings with county governments, BMOs identified the following factors that deterred the effective implementation of policies and programs for developing SMMEs within their jurisdictions.

5.3.2.1. Fiscal Resource Mobilization Inefficiencies

a. Lack of funds

The measures taken by counties to increase revenue through business taxation was driven by shortfalls in available funding to finance their operations. This was partly attributed to the fact that the allocation of funds from the national government was not sufficient to finance their budgeted expenses. This is further supported by the following interview response:

> *In a bid to collect as much money as possible to cover their expenditures, counties came up with revenue laws that negatively affected businesses. The other problem is that most of the revenue is channelled to cater for recurrent expenditure and there is very little focus on development expenditure* (BMO7 – 7.2).

In other situations, shortage of funds in counties was due to delayed payments of the equitable share from the national government (BMO1 – 9.12; BMO9 – 19.6; IGO1 – 14.11; IGO2 – 21.15).

b. Inefficient Budgeting and Management of Funds

Inadequate funding arose due to shortfalls in revenue collection in counties partly due to inefficiencies in budgeting. According to one of interviewees:

> *Raising own source revenue is within the control of the counties. Typically the OCOB encourages the counties to have a balanced budget where projected revenues match expenditure. However, county*

> *governments tend to collect less money but begin spending. When they realize there is a deficit then the first docket to suffer is the development projects. The monies available are shifted to cater for recurrent expenditures. Counties would rather pay up salaries to mitigate chances of staff strikes (*IGO1 – 14.6).

Spending revenue collected at source rather than banking monies in the County Revenue Fund as required by the law was identified as a factor that affected the availability of funds for development initiatives. Specifically, it affected the counties' ability to effectively implement their budgets.

> *Counties spend as they collect and this is a big loophole because of budget implementation. What happens is that counties plan with money they do not have and then when it comes, their biggest issue is payment of salaries and other overheads. Hence development projects are easily side-lined because of lack of money* (BMO9 – 19.2).

In situations where county governments altered the budget to finance more of the recurrent expenses due to local revenue deficits or late payments of national government fiscal transfers, delays were experienced in making payments to the service providers of the county. Therefore businesses contracted to provide goods and services were constantly affected as indicated in the responses below:

> *Late payments from the government have made counties not to pay businesses on time. At the moment counties and national government owe SMEs approximately Kshs.70-80 billion (USD 62 – 71 million) which 90% of the debt is accrued by the county governments. There are businesses that have not been paid for work that was done for the county governments 4 years ago* (BMO1 – 9.9).

> *When counties are short of revenue they move monies from development kitties to make sure salaries are paid yet they have issued out contracts to SMEs to provide goods and services. Then this is where SMEs get drained because they do not get paid on time. Or never get paid because their bills remain pending* (IGO1 – 14.7).

Another factor that affected the management of funds within counties was non-adherence to the approved budget allocations.

> *When county governments make requisitions for monies to be released from the national treasury, they do so according to the budgetary allocations they had created. When this money is approved it is disbursed as a lump sum into the County Revenue Fund. But when this money gets to this account, counties do not necessarily follow the requisition lines they had indicated. So you will find money meant for agribusiness development ends up paying salaries for healthcare workers, etc.* (BMO9 – 19.7).

Consequently enterprise development initiatives were short-changed due to the aforementioned financial management anomalies. Poor management of funds also frustrated businesses that had secured tenders with the county.

> *Counties offer business opportunities through tenders to traders after which they issue local purchase orders. However there is a problem with the financial management system. When these tenders go out there is no commitment from the county government to restrict money aside to service the payments of suppliers. So businesses spend time continuously chasing for their payments. This is partly the problem of spending while collecting and not following the budgetary lines. Delayed payments from the National Government also is a cause of this problem* (Interview BMO9 – 19.8).

Further, mismanagement of funds led to inadequacies in provision of services for SMMEs. BMOs decried this fact on account that businesses were obliged to pay various county taxes and fees yet they did not receive the requisite services to facilitate their operations. This is illustrated by the interview responses below:

> *Counties charge levies which in reality should be for rendering services to their citizens but this is not the case. You have a situation where counties introduced the cess taxes at county and sub-county level for maintenance of rural roads so as to boost agribusiness. But as much as businesses are remitting these fees, the roads are not repaired* (BMO 7 – 7.1).

> *County Governments do not adequately offer services such as security, water, garbage collection. These services are paid for through various forms of taxes or levies both via the national government and county governments* (BMO9 – 19.5)

5.3.2.2. Organizational Structure Challenges

In terms of administrative capacity, BMOs identified various shortfalls that affected the effective executions of policies and programs for growing the SMME sector within counties. According to one of the interviewees:

> *County governments lack structure, vision and are very bureaucratic. On paper things look good but in reality there is a lot of disorganization so things are really poorly run* (BMO3 – 27.3).

The organizational structure challenges identified include:

a. Deployment of Employees

Disruptions such as high turnover of employees and legislators following each election period affected the decision making processes and continuity of business in counties.

> *There is usually a high turnover of staff after each election. When a new government regime comes in office, new people are employed therefore continuity is a problem. With the last election there was a turnover of up to 70% of elected members. So CRA has to begin all over again to train MCAs on what the law requires of them* (IGO2 – 21.7)

Other deployment flaws are depicted below:

> *Staff are constantly moved to other departments hence stakeholders are perpetually starting over talks on development project. There is no continuity within the trade department and this affects decision making processes on SME issues* (BMO3 – 27.8).

> *Sometimes one does not get proper representation of county officers in crucial meetings. Junior officers may be sent for such meetings or individuals who are not clued up on the matters to be addressed. These issues slow the decision making processes plus implementation of development activities* (BMO2 – 17.10).

b. Technical Capacity

BMOs and independent government office representatives cited limited technical capacity of the county governments as an obstacle to effective service delivery and implementation of projects for SMMEs.

> *Capacity in terms of skillsets is an issue. We do not have enough skilled persons within the counties to ensure the budgets are well executed* (IGO1 – 14.2).

> *Kiambu County is overstaffed with people who do not know what they are supposed to do and this affects policy formulation and implementation. The few staff who are knowledgeable are given too many responsibilities that they cannot handle* (BMO4 – 4.8).

The foregoing factors led to inefficiencies in formulation and enactment legislation as demonstrated in the interview responses below:

> *Laws and regulations are passed without considering the cost-benefit analysis. For example a cess fee or levy is introduced and it means you need to employ persons who will ensure it is collected. The expense of collecting it could be much more than the fee that is being collected. And this hampers the county government's revenue stream* (IGO2 – 21.10)

> *The persons involved in coming up with these revenue laws are not competent enough to understand trade policies not only at the county level but considering international laws stipulated under the World Trade Organization, the Common Market. So we now have laws that counter the edicts and milestones achieved through regional and international agreements* (BMO7 – 7.4).

> *Within the finance bills, fees and charges proposed that are not based on any law. The county assemblies do not realize that these charges require either new laws or amended laws* (BMO6 – 2.5).

Further poor development outcomes and missed investment opportunities were reported with regards to the trade sector in counties due to poor legislations, policies and strategies.

> *Investors are put away from setting up shop in Kiambu County because of regulations that are unreasonable* (BMO4 – 4.7).

> *Designated market areas in Nairobi do not have supporting infrastructure in order to facilitate trade. We have been advocating for the installation of storage facilities and refrigeration chambers for perishables in markets to boost trade but this has never gone far with the county government* (BMO2 – 17.2).

Here in Kiambu, markets have been built for small traders but in locations where the traders cannot easily get buyers so most of them still come to the major streets to sell. This is partly because of poor feasibility studies (BMO4 – 4.25).

Technical incompetency was also exemplified by poor administrative processes for revenue collection. Counties had in place cumbersome cess administration and collection systems. This was effected by putting up barriers on highways to stop vehicles for purposes of inspection and determining cess fees to be charged. The process was characterized by long waiting times, a factor that adversely affected enterprises involved in ferrying and sale of perishable goods (KNCCI, 2019). Similar sentiments were echoed by an interview respondent as shown in the excerpt below:

We have situations in counties where trucks loaded with flowers for export are stopped and inspected and this leads to damages to the products as they are refrigerated and they should not be opened. Businesses in this industry are frustrated with the losses courtesy of this process (BMO7 – 7.6).

County staff demonstrated aspects of unprofessionalism especially in their dealings with traders while enforcing the county laws and in the delivery of services due to businesses.

The county officers can be very crude especially when handling small traders. If the traders are on the wrong they carry their stock, confiscate and sometimes they don't get it back as it is sold elsewhere. County inspectorate officers are termed as mercenaries (BMO4 – 4.14).

We once held a meeting over licensing requirements as SME owners had asked for the complete list of what is required so that they are later not followed to their premises by county officials. Promises were made that everything will be availed on the online platform and a hotline provided for inquiries and complaints, but this never happened (BMO8 – 24.13).

BMOs noted a lack of innovation and creativity within the county governments that limited their ability to explore opportunities to enhance its revenue streams and reduce the burden of taxation on businesses.

Many counties still wait for the national government to help them with development projects as opposed to them focusing on developing the resources they have to earn their own revenue for development. Counties have not been serious or taken time to explore investment or business opportunities that can grow the local businesses and revenue for the county (BMO1 – 9.13).

There is also overdependence on donors by counties and this makes them sleep on exploring for opportunities in the counties to generate revenue (BMO1 – 9.17).

There is no effort with regards to innovation when it comes to projects presented by wards. Wards simply copy each other's projects. For example if street lighting is done in one ward, all the rest copy and effect the same project (BMO3 – 27.4).

c. Accountability

Poor implementation of development initiatives for promoting SMMEs were partly attributed to inefficiencies with regards to accountability as portrayed by the following interview response:

> *Accountability at the county level is a difficult task owing to the fact that internal audits may not be as effective. Secondly when audits are finally done, it takes a long time and possibly the persons responsible for business crimes may not be in office at the time* (BMO9 – 19.12)

d. Work Environment and Team Work

Unhealthy work environments characterized by lack of collaborative efforts within departments and amongst county staff limited the counties' capacity to effectively support and promote SMMEs.

> *There is a lot of infighting at the county level with each one striving to be senior and to have positions of power* (BMO5 – 6.6).

> *Within the counties, it seems they are still figuring out how to work. Secondly as much as it has been suggested to the counties that departments work together to achieve a common goal, this is rarely the case. Departments work in silos.* (BMO3 – 27.2).

5.3.2.3. Corruption

According to interviewees, corruption was the biggest impediment that curtailed any form of development in the counties. In support of this view, interview respondents indicated that corruption led to revenue seepage, a factor that inhibited effective implementation of budgets.

> *Corruption is a key issue that has led to leakage of money that would have otherwise been used for development. Systems in place are not water tight and there are individuals who capitalize on the confusion with devolution in order to benefit from corruption* (IGO1 – 14.1).

> *Documented strategies for development projects for enhancing business growth are available, however implementation is poor due to corruption and delayed payments which leads counties to use available funds for recurrent expenses* (BMO1 – 9.12).

In other situations, corrupt traders prevail over county regulations thus limiting the ability of counties to optimize revenue collection and service provision to SMMEs.

> *Stalls built by counties were taken over by cartels so the businesses who are in real need did not get an opportunity. Besides this, the cartels collect revenue from the traders and this is illegal. But this persists because there are also corrupt county officials who benefit from these arrangements* (BMO2 – 17.3).

SMMEs have been locked out of opportunities to provide goods and services to the county. This was attributed to corruption in public procurement. The nature of corruption is described by the interview response below:

> *Preferential awarding of tenders for SMEs is present however, greed and corruption has taken root to prevent businesses to serve these tenders. County staff start off companies through their relatives so that they can secure the tenders. In other cases a large enterprise that is known to do business in and out of the county may bribe the county staff to get the tenders and in the process local businesses are locked out of the tenders* (BMO1 – 9.10).

Disbursement of funds for SMMEs was also marred by corruption as indicated in the interview excerpt below:

> *There is a revolving fund to cater for businesses, however it does not go to the right people. There seems to be no criteria on how it is given and there is an element of nepotism when it comes to disbursements* (BMO4 – 4.10).

5.3.2.4. Political Interference

Anomalies in budget, financial and human resource management in counties inhibited the effectiveness of counties to create an enabling business environment for SMMEs. The irregularities reported were partly attributed to political interference and impunity. The interview responses provide an insight on the effects of political interference:

> *When budgets are created, it is politically driven as opposed to considering the needs of stakeholders. MCAs push their developmental plans into the budget without any consideration of the county's capability of raising the amount of revenue required. So counties are permanently running into deficits. The populist politics rules* (BMO9 – 19.10).

> *There is a high level of impunity when it comes to MCAs. They dictate which payments should be made for services or goods to be paid for. Each of them goes to the finance to plead for "their person" to be paid because they owe favours to them or such persons assisted them in the election campaigns. That leaves out others who have no one to fight for them for payments. This is how SMMEs get frustrated when trying to get paid* (IGO1 – 14.15).

> *With each election new people are hired in the departments and the governor comes in with new projects and this leaves former or ongoing projects hanging. This happens because the new governor seeks to reward cronies who were in the campaign trail with jobs. Secondly he comes to fulfil his agenda and discredits projects of the previous governor in order to remain politically popular* (IGO1 – 14.3).

5.3.2.5. Lack of Political Will

Rather than service the needs and interests of the citizenry and the business communities, politicians once elected were faulted for serving their personal interests as opposed to seeking the common good. The interview responses below highlight on the aforementioned facts:

> *The politicians come in to serve their personal interests and not that of the people. Money is a big issue and rather than focusing on how to utilize it for development purposes, most counties are out to guard the monies for their personal gains. So you can have foreign trips organized for MCAs just to please them and accrue allowances* (BMO5 – 6.9).
>
> *There is a disconnect between the County Executives and the MCAs. The experts give their opinions on trade, however little is done or it is shot down because of the political and selfish interests of the politicians who veto the proposals. Decisions are made on the "What is in it for me basis?"* (BMO8 – 24.12).
>
> *The persons enacting unfavourable revenue laws do not think about the repercussions of their actions on the ordinary citizen. In short the common good is not a priority* (BMO7 – 7.3*).*

5.3.2.6. Lack of Collaboration between the County and National Governments

Lack of cooperation between the national and county governments translated into duplication of roles and disputes over revenue collection and allocation which in turn led to the imposition of multiple charges on businesses.

> *Businesses have suffered under devolution because of infighting between the national government and county governments. They work in silos and one of the big issues they fight over is revenue collection and allocation. Each one tries to maximize revenue collection at the expense of the citizens. So we have situations where both government agencies charge fees for similar services* (BMO8 – 24.2).
>
> *There are multiple agencies carrying out inspections on SMEs both from the national government and the county government for licencing purposes and this is a frustration for businesses. There is definitely duplication of roles* (BMO6 – 2.15).

Lack of clarity and harmonization of roles between county and national governments especially on managing national assets also led to double taxation for businesses as illustrated by the interview response below:

> *In places like Mombasa, the county introduced a levy on each container offloaded at the port. This presented a challenge to the business owners as they were paying a similar levy to the national government through Kenya Ports Authority. The levy was for garbage collection that is from ship waste. The port is a national asset and as ships come through, there is garbage that comes in and it is the responsibility of Mombasa County to clear it yet the county does not receive funds collected*

from ships to do this kind of garbage collection. The County faces the challenge of managing and disposing ship waste as it needs expertise which they do not have and this implies hiring and there is no adequate funding for this. This is why the county resorted to imposing charges per container. (BMO7 – 7.7).

5.3.2.7. Public Participation Challenges

Limited ability of the public and the business community to influence the decision making process was evident due to public participation anomalies. This also hindered the public from effectively bringing the county governments to account over development plans for SMMEs. The interview responses below depict the public participation challenges faced and the underlying causes:

> *Rarely does the county government invite individuals or stakeholders to make decisions for example on the Finance Bill or budgets, etc. However there are moments they may invite and the get the people who will simply endorse what they want. In other situations meetings are held but as long as there is participation via register that is enough. Generally in such meetings the county has already made decisions and they are simply informing the public during such fora. Communication for public participation is very poor. Many times it is posted in the newspaper and people do not get to know about it. Invitations are mainly made to large corporations that do not necessarily suffer the issues of SMEs* (BMO8 – 24.14).

> *When it comes to public participation there is no law to bind the counties to hold them accountable. Therefore they have in the past passed laws yet they did not follow the regulations of public participation to the letter and this led to filing of legal suits against the counties by BMOs, businesses and civil society organizations* (BMO4 – 4.18).

> *Another issue is the fact that the economic status of Kenyans is still very low. Ordinary citizens focus on putting food on the table, catering for their basic needs and SMEs focus on sustaining their revenue streams to ensure their survival. So they have no time to protest for poor services or hold government officials accountable* (BMO9 – 19.14).

> *Very little civic education is done to empower people on what is expected in public participation meetings. People on the ground do not understand their rights and obligations as regards public participation* (IGO2 – 21.11).

5.3.3. Opportunities for Enhancing SMME Growth

Notwithstanding the foregoing, BMO representatives expressed optimism that over time devolution would work for the business community and subsequently grow the economy. In their view, a positive outlook on devolution and SMME development hinges on availability of financing, efficient use of resources and curbing corruption. To this end, interviewees made administrative, fiscal and legislative management recommendations to address the challenges that SMMEs faced under devolved governance.

5.3.3.1. Organizational Structure Reforms

In a series of statements, interviewees identified technical competence, restructuring of the staff pool, effective communication strategies and leveraging research and development as the key levers needed to advance the success of devolution in relation to SMME development. On the subject of technical competence, training was recommended to improve the skillsets of staff to provide better services to SMMEs. Training on legislation drafting was also deemed necessary to address the issue of enacting unfavourable revenue laws by the county assembly members. The interview responses below echo the above sentiments.

> *Capacity building of technical staff is required in order to improve their expertise to effectively handle their departments' affairs* (BMO 6 – 2.22).

> *We need to have continuous training of the county assembly and the administration on how to make revenue laws considering their impact on the business environment. We have to ensure the county administration is well equipped to immerse incoming legislators on the requirements especially with regards to revenue laws* (IGO2 – 21.17).

Restructuring of staff through recruitment of staff with the requisite skills to execute county functions was another proposal made to address the issue of poor development outcomes such as flaws in legislation as evidenced in the following interview response.

> *County attorneys are often overwhelmed hence they at times pass documents with laws that are flawed. At times they are not even aware of bills that have been passed. Capacity issues in terms of staffing should then be addressed in this regard* (BMO6 – 2.21).

Measures also need to be in place to curb high staff turnover and ensure stability of personnel to safeguard continuity of county operations (BMO2 – 17.21).

Public participation is one of the pivotal factors that drives devolution outputs to successfully promote development initiatives. This requires effective citizen engagement to hold the county governments accountable. Hence the need for effective communication strategies through the use of the right media of communication to ensure awareness and better attendance of the public participation meetings. In this regard, one of the interviewee respondents made the following suggestion:

> *County governments need to devise better communication strategies for engaging the community in public participation, for example use of radio and use of the people's vernacular language. Because many people especially in the rural areas do not access newspapers, radio is more powerful* (BMO1 – 9.23).

Effective communication mechanisms were also deemed necessary to increase awareness of policies and legislations passed by county government staff to improve their dealings with the business community.

> *Persons on the ground that is all staff that deal with firms directly or indirectly need to be trained about laws as sometimes they are not aware of the laws passed by their office. The county government therefore needs to address the flaws in communication* (BMO6 – 2.19).

> *There is need for tax education to explain to people their purpose and implication on business. This is necessary both for the business community and the legislators responsible for enacting tax laws* (BMO1 – 9.20).

The generation of new knowledge for SMME growth is essential for counties to improve and create an enabling business environment. To this end, a focus on research and development to identify and implement mechanisms for improving productivity of SMMEs was suggested by some respondents.

> *Create an avenue to grow small and medium enterprises to large entities. This calls for business incubation a measure that requires research and formulation of strategies to improve the capacity of businesses so that they can take up at least 20% of local tenders. Such incubation will also give a lifeline to business start-ups. So it means we need functional business incubation centres in counties* (BMO8 – 24.20).

> *More research and development should be done. County Governments need to carry out research to gain clarity on what businesses need and create innovative strategies to address their issues* (BMO3 – 27.5).

5.3.3.2. Fiscal Management Reforms

Other than tackling corruption, BMO stakeholders proposed fine tuning revenue allocation models and inter-governmental relations to improve the availability and management funds in counties for SMME development.

> *We need to push for negotiations with the national government so that they can release funds on time* (BMO1 – 9.22).

> *In regions where there are national assets for example national parks, ports, the national government should come up with a revenue sharing model with counties so that there is a revenue stream for servicing these national assets in counties* (BMO7 – 7.16).

Another measure proposed to improve the county's cash flow is the reduction of the number of staff within counties. According to one of the interview respondents:

County governments should be shrunk so that you have a manageable pool of employees. Currently the counties are bloated and most of the expenses go towards the recurrent expenditure and not development expenditure (BMO5 – 6.13).

Counties also need to explore other sectors' endowments and opportunities for their potential to strengthening and increasing local revenue generation.

Within counties, there should be a focus on the unique value propositions of the region. What are the county's resources and how can it create value with the existing resources? (BMO 7 – 7.15).

5.3.3.3. Legislative Reforms

Suggestions were made for the national government to enact and adopt legislations for purposes of harmonizing and standardizing procedures to be followed for charging taxes and fees in counties (KNCCI, 2019). As one of the interview respondents explained:

There is no law that calls for standardization of legal requirements for businesses, hence the leeway county governments have to create their own laws on levies and taxes. Standardization needs to take place. BMOs need to come together with all other stakeholders to agree on harmonization of taxes and levies or to do away with the tariff and non-tariff barriers that have made the business environment very difficult to operate in (BMO1 – 9.8)

With regards to public participation, one of the respondents indicated that

Clear laws on Public Participation need to be enacted to hold the county governments accountable (BMO4 – 4.28).

Other legislative recommendations made implied amendments in Kenya's Constitution and related Acts and these included:

The governor position should not be an elective seat, rather technocrats should be hired to run the county governments so as to have better development outcomes (BMO5 – 6.14).

The trade function should go back to National Government so that SMMEs stand a better chance of thriving (BMO4 – 4.27).

5.3.4. Summary

This section provided the issues afflicting county governments in their quest to drive the development agenda for SMMEs. Based on the various narratives from interviewees, generally county governments had frustrated SMMEs rather than promoted their growth. Counties targeted SMMEs as sources of local revenue by enacting various revenue laws for business licences. As the experience of the BMOs shows, multiple taxation crippled SMME development in counties and the situation was worsened by the fact that counties did not provide the expected services and development activities to improve the business environment. Table 5.10 provides an overview of the challenges affecting county governments and their impact on devolved function outputs which ultimately affected the business environment and SMMEs. Even so, BMOs were of the opinion that the situation could be salvaged by addressing challenges and refining processes within the realm of administrative, fiscal and political functions of the county as depicted in table 5.11.

Table 5.10: Perspectives of BMOs on Challenges Prevalent in Counties and their Effects on the Business Environment and SMMEs

Challenges	Outcome on County Government Outputs	Outcome on Business Environment	Outcome on SMMEs	SMMEs Response
Corruption	**Fiscal Outputs** - Reduced funds **Administrative Outputs** - Low budget absorption	**Access to Markets** - Inadequate trading spaces - Limited access to county public procurement opportunities **Access to Resources** - Limited access to finance for SMEs		- Closure of business start-ups - Migration of Businesses to other counties - Non-compliance of traders with references to businesses tax payments - Litigation
Political Interference	**Fiscal Outputs** - Distorted budget estimations **Administrative Outputs** - Poor budget planning - Underperformance in revenue collection **Political Outputs** - Elite capture	**Access to Resources** - Limited access to development programs for SMMEs **Institutional and Regulatory Framework Conditions** - Delayed or non-payment of suppliers (SMEs) providing goods and services to counties in contravention to the legislations on public finance	- Limitations of cash flow for SMMEs engaged in county public procurement	
Lack of Political Will	**Political Outputs** - Elite capture - Enactment of unfavourable trade laws	**Access to Resources** - Limited access to development programs for SMMEs **Institutional and Regulatory Framework Conditions** - Increments in the costs of taxes, levies and fees	- Increased cost of doing business	
Lack of Collaboration between the national and county government	**Political Outputs** - Enactment of unfavourable trade policies and laws	**Institutional and Regulatory Framework Conditions** - Increments in the costs of taxes, levies and fees	- Increased cost of doing business	
Public Participation Challenges	**Political Outputs** - Non-involvement of SMMEs in the decision making process	**Institutional and Regulatory Framework Conditions**	- Increased cost of doing business	

	- Poor information dissemination - Enactment of unfavourable trade laws	- Increments in the costs of taxes, levies and fees	- SMME challenges remained unresolved	
Fiscal Resource Mobilization Inefficiencies	**Fiscal Outputs** - Inadequate funds - Use of revenue predominantly for recurrent expenses - Spending revenue at source **Administrative Outputs** - Underperformance in revenue collection - Poor budget planning - Weak budgetary control	**Institutional and Regulatory Framework Conditions** - Increments in the costs of taxes, levies and fees - Delayed or non-payment of suppliers (SMEs) providing goods and services to counties in contravention to the legislations on public finance - Poor service provision **Access to markets** - Poor road infrastructure	- Increased cost of doing business - Limitations of cash flow for SMMEs engaged in county public procurement	
Organizational Structure Challenges	**Administrative Outputs** - Limited staff capability - Large wage bill - Formulation of unfavourable trade laws and policies - Unprofessionalism of staff - Weak auditing systems	**Access to markets** - Inadequate trading spaces **Institutional and Regulatory Framework Conditions** - Increments in the costs of taxes, levies and fees - Poor service provision	- Increased cost of doing business - Harassment of traders to comply with laws - SMMEs challenges remain unresolved	

Source: Author's Construction

5.4. Conclusion

Based on the perspectives of the government officials and business member organizations' representatives, it can be deduced that the devolved system of government failed to provide a conducive environment for the growth of SMMEs in the counties of Nairobi and Kiambu. The thematic displays elucidated in this chapter enabled the identification of themes and subthemes of devolved functions outcomes, existing constraints and the resultant effects on the determinants of the business environment and SMMEs. Figure 5.4 provides a summarized representation of the main themes and subthemes.

The research findings depict how the interplay of the dimensions of devolution affected policy formulation and implementation for SMME development. Inefficiencies within the fiscal function such as lack of funds and inadequate budget allocations affected optimization of administrative capacity. Consequently, staff were not adequately trained, automated systems were inefficient and technical incompetency was prevalent. Inadequate funding also hampered the effective implementation of public participation. These factors resulted in inefficient delivery of services to SMMEs, limited allocation of finances for SMMEs and infrastructure development. Further, the lack of funds led to the enactment and enforcement of stringent trade regulations and legislations that increased taxes and levies charged on SMMEs as a measure of increasing the counties' own source revenue. This shows how an inadequacy in the fiscal function negatively affected the administrative and political functions.

Limitations in the administrative functions conversely affected the fiscal functions. Inefficiencies in organizational and managerial capacity, poor budget and financial management and weak transparency and accountability mechanisms led to fiscal imbalances. This was due to factors such as presence of a bloated work force which increased administrative costs at the expense of SMME development initiatives. Technical incompetency was also evident and this led to poor implementation of fiscal policies and mobilization of fiscal resources for development programs.

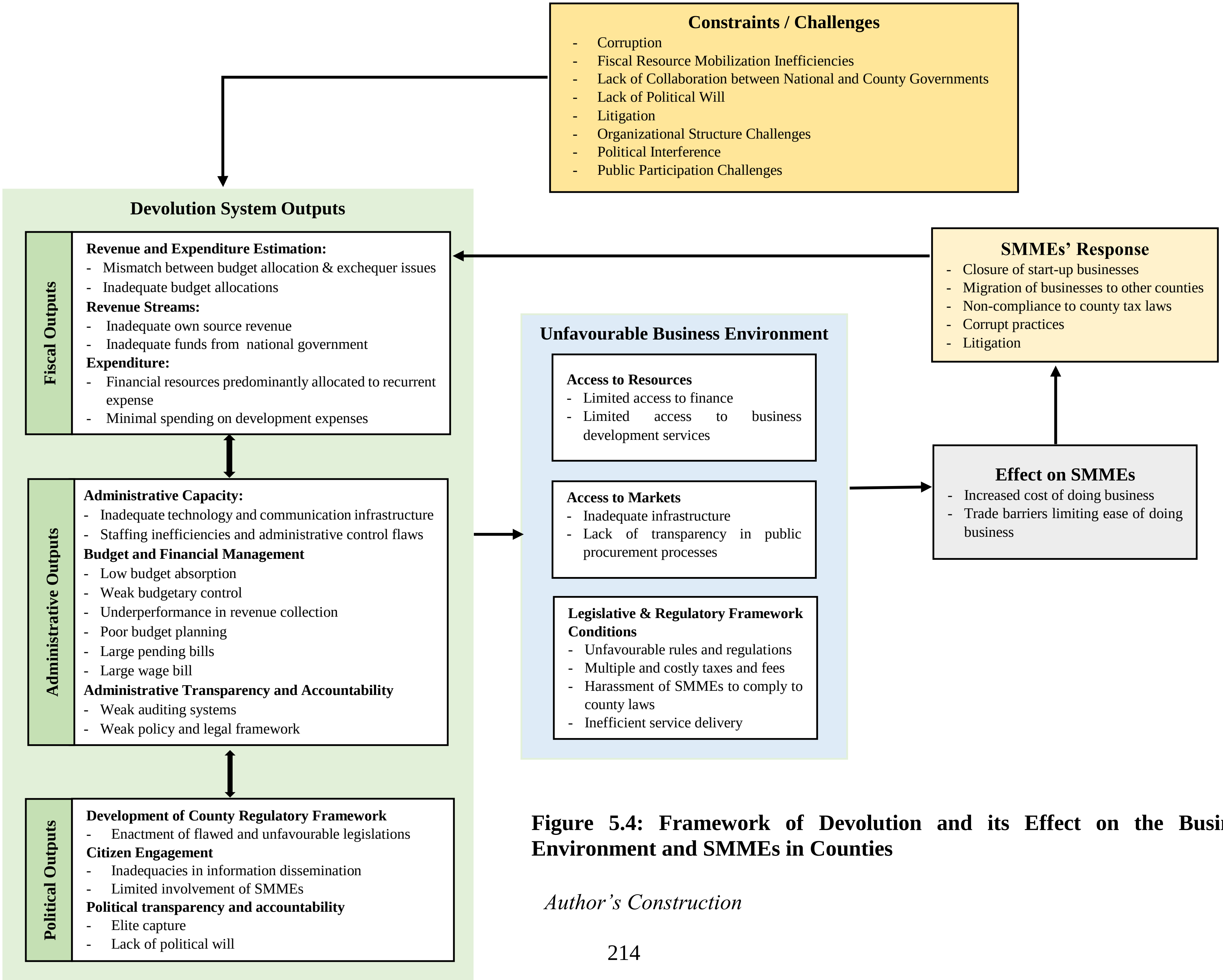


Figure 5.4: Framework of Devolution and its Effect on the Business Environment and SMMEs in Counties

Author's Construction

Another example that depicts the interrelationship between the dimensions of devolution is how political functions anomalies such as misrepresentation of citizens' needs and poor decisions made by county assembly affected the administrative and fiscal functions. As demonstrated in the interview excerpts politicians distorted budgets for their personal and political gains, thus creating financial deficits which in turn compromised the capacity of administrative departments to implement development initiatives for SMMEs. Challenges such as political interference affected deployment of employees a factor that negatively affected the administrative capacity of counties in terms of technical competency, execution of policies and fiscal resource mobilization for SMME development.

Drawing on the research findings, it can be inferred that fiscal function inefficiencies were the key impeding factors that limited the subnational governments' capacity to support SMME development. As much as the administrative and political functions inefficiencies were evident and contributed to the adversities in the business environment, the fiscal inefficiencies played a more central role in eliciting unfavourable conditions for SMMEs. Further, fiscal inefficiencies limited the operationalization of some administrative and political functions leading to poor service delivery outcomes for SMMEs.

As a result SMME development in the counties of Kiambu and Nairobi was not as significant as it was envisaged in the county governments' strategy documents. Based on the perspectives of county officials and government documents, the performance of the devolved functions led to ineffective policy formulation, implementation and service delivery thus making the business environment unfavourable. The policy and legal outputs increased the cost of doing business for SMMEs thus decreasing sales for some businesses while other enterprises closed down or migrated to regions which had more conducive business environments. Enterprises also resorted to fraud and other mechanisms to avoid compliance with the counties' legislations as a means of reducing their costs of operations. Consequently, the business tax and levies' remittances reduced thus decreasing the county governments' own source revenue.

The inefficiencies in the processes and outputs of the devolved system of government were exacerbated and attributed to fiscal resource mobilization inefficiencies, corruption, organizational structure challenges, litigation, political interference, lack of political will, public participation challenges and lack of collaboration between the national and county governments. Even so, various recommendations were outlined as measures for streamlining the devolved functions and outputs to achieve better SMME development outcomes in the counties. Table 5.11 provides a summary of the themes and subthemes in this regard. Macro perspectives represent general findings of county governments while meso perspectives represent business member organizations' findings.

Table 5.11: Recommendations for streamlining the devolved system of Government

Themes	Subthemes (Macro Perspective)	Subthemes (Meso Perspective)
Organizational Structure Reforms	- Restructuring of the human resource pool - Increased process automation - Formulation and implementation of effective human resource policies - Capacity building programs for staff - Improve information dissemination	- Restructuring of the human resource pool - Research and development - Capacity building programs - Improve information dissemination
Fiscal Management Reforms	- Provision of adequate funding - Review of the trade licencing cost structure - Enhanced Public Private Partnerships	- Provision of adequate funding - Timely provision of funds from the national government - Effective revenue sharing models between the national government and county governments - Explore county endowments as additional sources of revenue
Promotion of Ethical Standards	- Streamline the information technology internal controls for revenue collection - Improve internal audit systems - Dismantle corrupt cartels	
Effective Political Leadership	- Selfless and committed individuals - Individuals who represent the needs of the people	
Legislative Reforms	- Improve the legal and regulatory framework for trade - Harmonization of county laws on trade - Lengthening tenure of governors per electoral term - Heads of counties should be appointed by the national government as opposed to being elected	- Improve the legal and regulatory framework for trade - Harmonization of county laws on trade - Heads of counties should be appointed by the national government as opposed to being elected - Transfer of the trade function to the national government

CHAPTER 6

6. Cross Case Analysis

6.1. Introduction

This chapter constitutes the comparison between the six cases using themes derived from the data analysis process in the preceding two chapters to establish similarities and differences in the study findings. The objective of this analytical step is to ensure depth in understanding of the data using structural and diverse lenses. These strategies increase the chances of establishing accurate and reliable theory that closely fits the data (Eisenhardt 1989). Accordingly, this chapter presents the cross case synthesis for the four subsidiary research questions outlined in the first chapter. It begins by presenting the cross-case analysis of findings between the six SMME cases and these were compared and contrasted with results obtained from the BMOs and county governments.

6.2. Cross Case Synthesis of Research Question 1: Perceptions of SMME owners on the Effect of Devolution on the Growth of their Businesses

Drawing on the conceptual framework illustrated in the literature review (section 2.4), the underlying assumption is that the devolved government system outputs in an ideal situation facilitate the creation a conducive business environment and the subsequent growth of SMMEs within subnational regions. The sections below provide a summary of the views held by SMMEs, county governments and business member of organization on the above proposition.

6.2.1. Cross Case Analysis Among SMMEs

In this study SMME owners presented their views in agreement (✓) or in disagreement (X) with the abovementioned notion as displayed in table 6.1.

Table 6.1: Perspectives of Business Owners on the Effect of Devolution on SMME Growth

	NSME1	NSME2	NSME3	KSME1	KSME2	KSME3
Devolution is positively associated with the growth of the SMMEs	X	X	X	X	X	X

Comparison and Contrasts of Views amongst the SMMEs

All the six SMMEs shared the same sentiments on the impact of devolution on the growth of SMMEs. In their view, county governments failed in their mandate to promote trade development and SMME growth. In as much as all the businesses grew under the devolved system of government, none of them credited their growth to the county government's interventions. NSME2, NSME3, KSME3 and NSME3 noted that the prevailing business environment conditions within the county government jurisdictions were unfavourable for SMMEs.

NSME1 and KSME3 on the other hand indicated that there were some positive outcomes from the devolved system of government, however these were outweighed by numerous prevailing challenges within the business environment.

Some of the SMMEs presented unique views on exogenous factors that influenced the growth of their businesses. KSME1 associated part of its growth to some of the national government interventions such as road infrastructure development as opposed to the county government's initiatives. KSME1, KSME2 and NSME2 benefitted more from the business member organizations to which they were affiliated.

Further, three SMMEs, namely NSME1, NSME2, and NSME3 were of the view that the national government prior to the institution of the devolved system of government was more effective in creating a conducive business environment than the current county governments.

6.2.2. Cross-Case Analysis Between perspectives of SMMEs, County Governments and Business Member Organizations

Table 6.2 provides a comparative perspective of the effect of devolution on the growth of SMMEs including the views of county governments and business member organizations.

Table 6.2: Perspectives of SMMEs, County Governments and Business Member Organizations on the Effect of Devolution on SMME Growth

	Micro Perspective						Meso Perspective	Macro Perspective
	NSME1	NSME2	NSME3	KSME1	KSME2	KSME3	Business Member Organizations	County Governments
Devolution is positively associated with the growth of the SMMEs	X	X	X	X	X	X	X	X

Comparisons and Contrasts of Views

Both the county government officials and business member organizations concurred with the SMMEs on the fact that the devolved systems of government was not effective in supporting the growth of businesses. These entities as depicted in chapter 5 indicated that inadequacies in the administrative, fiscal and political functions of the county governments elicited unfavourable conditions within the business environment.

6.3. Cross Case Synthesis of Research Question 2: Effect of Devolution in all its Dimensions on the Business Environment in Kenya

This section provides perspectives of SMME owners in the counties of Nairobi and Kiambu on the effect of the devolved system outputs on the business environment. The findings were also compared with the perspectives of county government officials and business member organizations' representatives to identify similarities and differences in perspectives.

The key elements of a conducive business environment as depicted in the literature review section 2.4.2 include access to markets, access to resources and favourable regulatory and institutional framework conditions for businesses (OECD, 2017; ILO, 2015; Nichter & Goldmark, 2009; Ayyagari et al., 2007). Table 6.3 outlines the theoretical dimensions and indicators of the business environment.

Table 6.3: Business Environment Indicators

Theoretical Dimensions	Indicators
Access to Markets	- Availability of infrastructure (roads and trading spaces) - Favourable trade & investment policies - Favourable public procurement policies and opportunities
Access to Resources	- Access to finances, - Access to knowledge, technology & innovation - Access to energy - Human capital and skills development
Institutional and Regulatory Framework Conditions	- Regulation: Ease of business licensing - Eased tax burden - Effective court and legal framework - Competition - Public Governance: Rule of Law; Integrity; Delivery of Quality Public Services

Source: OECD (2017)

6.3.1. Cross Case Analysis Among SMMEs

Using the above template (table 6.3), the six cases were analysed to establish the presence (✓) or absence (X) of the key elements of a conducive business environment under the devolved system of government. Blank boxes indicate that the respondents from the respective cases did not comment on the corresponding indicators. The indicators enlisted reflect the outcomes within the business environment that are influenced and within the mandate of the county governments in Kenya. Table 6.4 displays the status of the business environment in counties from the perspectives of the SMME owners.

Table 6.4: Status of the Business Environment under the Devolved System of Government

Devolution System Outputs	Business Environment Elements	Indicators	NSME1	NSME2	NSME3	KSME1	KSME2	KSME3
Fiscal, Administrative & Political Outputs	Access to Markets	Availability of infrastructure (roads and trading spaces)	✓			X	X	
		Favourable trade & investment policies	X	X	X	X	X	
		Favourable public procurement policies and opportunities	X	X	X	X	X	X
	Access to Resources	Access to finances		X	X			
		Access to knowledge, technology & innovation		X		X	X	
	Institutional &Regulatory Framework Conditions	Regulation: Ease of business licensing	✓	✓	X	✓	X	✓
		Eased tax burden	X	X	X	X	X	X
		Public Governance: Rule of Law; Integrity; Delivery of quality public services	X	X	X	X	X	X

Comparisons and Contrasts of Views amongst SMMEs

Across all the SMMEs, the absence of most of the key elements of a conducive business environment within counties was notable. The following is a comparison and contrast of views within each of the business environment elements.

a. Access to Markets

All the six SMMEs decried the limitations they faced in accessing the public procurement opportunities in order to grow their businesses. Corruption was highlighted as a key factor that led to flawed public procurement processes hence limiting the ability of SMMEs to make successful county government tender bids. County officials solicited for bribes from businesses to secure procurement opportunities and to access payments following delivery of goods and services. Political interference was also another common factor highlighted by four SMMEs (NSME2, NSME3, KSME2 & KSME3) as an impediment to public procurement opportunities. Politicians manipulated policies and procedures to ensure that they secured tender bids through proxy companies.

Another issue of concern for most of the SMMEs was the formulation and implementation of unfavourable trade and investment policies in the counties. NSME1, NSME2, NSME3, KSME1 and KSME2 noted that SMME challenges remained unaddressed owing to the non-involvement of business community in the decision making processes of the county on matters of trade development. Consequently businesses were subjected to policies that restricted their development with regards to access to markets.

Only three SMMEs noted infrastructural development as a factor that affected the growth of businesses. Further the views were mixed in the sense that NSME1 lauded Nairobi County's efforts to improve the road infrastructure within its business' locations while KSME1 and KSME2 claimed that little had been done in Kiambu County to improve the bad state of the roads in the region. NSME2, NSME3 and KSME3 did not identify any infrastructural developments driven by the county governments that were of value or hindered the growth of their businesses.

b. Access to Resources

NSME2 and NSME3 identified difficulties in accessing finances as an endemic issue that affected the optimal growth and development of their businesses and other SMEs in general. They censured the county governments for failing to provide affordable financing opportunities for SMMEs yet their strategy plans and reports indicated the availability and disbursement of funds for businesses. These entities relied on their profits and expensive loans from commercial banks to inject capital into their businesses. The other SMMEs did not comment on finance as a resource barrier under the devolved system of government.

NSME2, KSME1 and KSME3 noted that at the county level they faced limitations in accessing knowledge exchange opportunities as means of enhancing their access to markets. Notably, these SMMEs indicated that they benefitted from business member organizations as opposed to the county governments in this regard. Yet, it is within the mandate of county governments to create an innovation system for SMMEs to tap into in order to enhance their possibilities to access domestic and global market networks and value chains.

NSME1 and KSME3 did not identify factors that inhibited or enhanced their access to resources within the counties.

c. Institutional and Regulatory Framework Conditions

The study findings noted only one factor within the institutional and regulatory environment that provided enabling conditions for SMME development. In this regard, NSME1, NSME2, KSME2 and KSME3 identified the introduction of e-government services for business licencing as the only positive outcome of the devolved functions outputs within the counties. This development outcome increased transparency and reduced the turnaround times of acquiring business permits. Nonetheless NSME2 indicated that this milestone was an insignificant contributor of business growth in light of the fact that SMMEs were subjected to more barriers emanating from the shortfalls of the county governments' operations.

NSME3 and KSME2 on the other hand did not recognize any positive aspect with regards to the business licencing process.

The six SMMEs shared the same sentiment that increased taxation and levies on businesses was notable following devolution. NSME2, NSME3, KSME1, KSME2 and KSME3 identified the enactment of unfavourable revenue raising policies and legislations as the root cause of the increased costs of doing business within counties. KSME1 noted that the lack of involvement of SMMEs in the decision making processes of the counties contributed to the implementation of unfavourable tax regulations. KSME2 on the other hand indicated that increased operational costs of counties due to the prevalent large wage bills led counties to increase business taxes and levies to enhance their revenue streams to cover the aforementioned operational costs. KSME1 and

KSME2 attributed the duplication of roles between the county governments and the national governments as a factor that increased business licencing and taxation costs.

Finally, all the six SMMEs noted poor public governance as a factor that significantly contributed to the prevailing unfavourable business environment conditions in the counties. Across the six SMMEs, corruption and the failure to provide quality goods and services were identified as the key elements that plagued county governance. Consequently the SMMEs had little confidence in the county governments as the resultant inefficiencies frustrated business planning, operations and profit maximization.

6.3.2. Cross-Case Analysis Between perspectives of SMMEs, County Governments and Business Member Organizations

Table 6.5 provides a summary of the SMMEs', county governments' and BMOs' perspectives on the status of the business environment under the devolved system of government.

Table 6.5: Status of the Business Environment under the Devolved System of Government based on the Perspectives of SMMEs, County Governments and BMOs

		Micro Perspective							Meso Perspective	Macro Perspective
Devolution System Outputs	**Business Environment Elements**	**Indicators**	**NSME 1**	**NSME 2**	**NSME 3**	**KSME 1**	**KSME 2**	**KSME 3**	**Business Member Organizations**	**County Governments**
Fiscal, Administrative & Political Outputs	**Access to Markets**	Availability of infrastructure (roads and trading spaces)	✓			X	X		X	X
		Favourable trade & investment policies	X	X	X	X	X		X	X
		Favourable public procurement policies and opportunities	X	X	X	X	X	X	X	X
	Access to Resources	Access to finances		X	X				X	X
		Access to knowledge, technology & innovation		X		X	X			X
	Institutional &Regulatory Framework Conditions	Regulation: Ease of business licensing	✓	✓	X	✓	X	✓		✓

		Eased tax burden	X	X	X	X	X	X	X	X
		Public Governance: Rule of Law; Integrity; Delivery of quality public services	X	X	X	X	X	X	X	X

Comparison and Contrasts of Views

The following section reflects similarities and differences between the views of SMMEs and those of the BMOs and county governments.

a. Access to Markets

BMOs and the county governments identified lack of infrastructure as a factor that affected the growth of businesses consequently concurring with two SMMEs located in Kiambu County. While SMMEs in this study noted failures with regards to road infrastructure development, the BMOs and county governments indicated that little had been done to create adequate trading spaces due to poor implementation of market development projects. Further, they indicated that this was a factor that affected more the micro enterprises as opposed to the SMEs.

Similar views as SMMEs were also held by BMOs and county governments on the absence of favourable trade and investment policies within counties. BMOs noted policy limitations that increased trade barriers and provided an additional disincentive for SMMEs to invest. County governments on the other hand indicated that poor trade development policies were associated with inefficiencies in the execution of development initiatives for SMMEs.

BMOs and County Governments also shared similar sentiments as SMMEs on the matter of limitations in participating and securing public procurement opportunities. Both entities were in agreement with SMMEs in attributing these constraints to corruption. County governments also noted that businesses avoided making bids for tender bids due to delayed or non-payment of goods and services by county governments.

b. Access to Resources

In agreement with NSME2 and NSME3, BMOs and county governments highlighted inaccessibility of affordable financing as a factor that limited the growth of businesses. Both attributed this shortfall to stalled disbursement of county SME grants and loan schemes due to flaws in policy and legislation for managing these funds.

Similar to the views of NSME2, KSME1 and KSME2, county governments acknowledged that there were limited capacity building programs for SMMEs for purposes of enhancing their productivity and access to markets. They attributed this to lack of funds within the county governments. BMOs on the other hand did not identify gains or setbacks experienced with regards to the county's role of facilitating access to knowledge, technology and innovation.

c. Institutional and Regulatory Framework Conditions

County governments just as most of the SMMEs identified the ease of business licencing as a key positive outcome and milestone of the devolved system of government. BMOs on the other hand made no comment on the business licencing process.

Similar sentiments as SMMEs were shared with the BMOs and county governments on the matter of increased taxation, levies and business licencing costs. These were attributed to the implementation of unfavourable county government revenue raising strategies and legislations.

BMOs and county governments also agreed with SMMEs that shortfalls in public governance negatively affected the business environment and the growth of firms. Similar to the SMMEs, both noted the prevalence of corruption and inefficiencies in the delivery of goods and services as the key impediments to business growth.

6.3.3. Summary

The key implication of this analysis is that SMMEs' growth was primarily frustrated by limitations in accessing markets and unfavourable institutional and regulatory framework conditions. To a lesser degree, the lack of resources was identified as an impediment to business growth. These constraints mainly increased the cost of doing business and restricted the market expansion potential of SMMEs. The adversities within the business environment were attributed to inefficiencies in the administrative, fiscal and political functions of the county governments as depicted in chapter 5.

6.4. Cross Case Synthesis of Research Question 3: Challenges Impeding the Implementation of Reforms for SMME Growth in Counties

The analysis in the preceding sections provides evidence that devolution has not favoured the creation of a conducive business environment and the subsequent growth of SMMEs. This section therefore analyses and exhibits themes that emerged from the individual cases reflecting the challenges that affect the devolved governments in their mandate to support the development of SMMEs. These are compared with the findings from the county governments and business member organizations to establish similarities and differences.

6.4.1. Cross Case Analysis Among SMMEs

The perspectives of the SMMEs are as reflected in table 6.6. (✓) denotes presence of the challenges.

Table 6.6: Cross Case Synthesis of SMMEs – Challenges Limiting County Governments from Effectively Implementing Reforms for Growing SMMEs

CHALLENGE	NSME1	NSME2	NSME3	KSME1	KSME2	KSME3
Corruption	✓	✓	✓	✓	✓	✓
Fiscal Resource Mobilization Inefficiencies	✓	✓	✓	✓	✓	✓
Lack of Collaboration between National and County Governments			✓	✓	✓	
Lack of Political Will	✓		✓			
Organizational Structure Challenges	✓	✓	✓	✓	✓	✓
Political Interference			✓			✓
Public Participation Challenges		✓	✓	✓	✓	

Comparisons and Contrasts of Challenges Identified Among SMMEs

Three common themes were identified across all the six cases and these included corruption, fiscal resource mobilization inefficiencies and organizational structure challenges. The other four themes were supported by the SMMEs in varying degrees. Public participation challenges was common across four cases. The issue of lack of collaboration between national and county governments was notable in NSME3, KSME1 and KSME2. Lack of political will and political interference were noted as stumbling blocks for SMME reforms implementation within county governments by two cases each. The following is a comparison of views for each of the categories of challenges.

a. Corruption

In as much as all the six cases cited corruption as an impeding factor for SMME development within counties, variations in its manifestation were noted. NSME1 and NSME2 identified corruption in form of bribes solicited from traders by county officials over regulatory affairs. NSME1, NSME2, NSME3, KSME2 and KSME3 noted the prevalence of corrupt practices within the procurement docket which translated to the awarding of tenders to politicians and their affiliates. Soliciting of bribes from SMMEs participating in county governments' tender processes was evidenced by NSME2 and KSME3. KSME1 uniquely identified corruption in form of embezzlement of county government funds.

b. Fiscal Resource Mobilization Inefficiencies

Five cases namely, NSME2, NSME3, KSME1, KSME2 and KSME3 cited flaws in the revenue raising strategies that culminated in unfavourable taxation laws as a key factor that affected business growth. In particular these strategies resulted in increased and multiple taxation of businesses as a measure of raising own source revenue for counties.

NSME1, KSME1 and KSME2 identified poor financial resource mobilization as a factor that limited counties from providing the requisite services required by SMMEs for their operations. On the other hand NSME1 and NSME3 attributed the abovementioned inefficiency to lack of transparency and accountability in the use of funds.

Another limitation noted is the lack of funds to finance the counties' operations and development initiatives as indicated by NSME2, NSME3 and KSME3. Further counties were also faulted for defaulting or delaying payments for suppliers thus increasing the governments' debts as evidenced by NSME2, KSME1 and KSME3.

c. Lack of Collaboration between National and County Governments

Only three cases, namely NSME3, KSME1 and KSME2 identified the above factor as an impediment for SMME development within counties. The cases concur that lack of collaboration between the two tiers of governments led to the duplication of roles thus creating an overlap in government services. Consequently this contributed to multiple inspections, licencing and taxation costs experienced by SMMEs.

d. Lack of Political Will

NSME1 and NSME3 identified lack of political will as a barrier to trade development in counties. As a result, both cases indicated that the needs and challenges of SMMEs within counties remained unaddressed.

e. Organizational Structure Challenges

All the cases concur that the county governments' underperformed in their role to deliver services for SMMEs due to limitations in their administrative capacity. Organizational structure challenges were evident in form lack of technical capacity, lack of transparency and accountability mechanisms, inefficiencies in deployment of employees and a culture of rebellion.

Lack of technical capacity was identified by all the cases as a factor that limited the county governments' capacity to deliver quality goods and services, thus contributing to unfavourable institutional and regulatory framework conditions for businesses.

NSME1, NSME3 and KSME2 cited lack of accountability mechanisms within county governments as an element that contributed to harassment of SMMEs, limited public procurement opportunities and poor public services. Lack of transparency was noted as a business development impediment within public procurement and public participation processes by NSME3 and KSME1 respectively.

NSME1 and KSME2 concurred that inefficiencies in the deployment of employees limited the counties' capacity to enhance the growth of businesses. While NSME1 indicated that these limitations led to harassment of SMMEs by county staff, KSME2 highlighted the resultant multiple taxation slapped on businesses to service the counties' operational costs fuelled by the prevailing huge wage bills.

Only NSME1 noted a culture of rebellion within the county governments as a factor that led to the provision of poor government services. Thus creating an unfavourable business environment for SMMEs.

f. Political Interference

NSME3 and KSME3 agreed that political interference limited SMMEs capacity to access public procurement opportunities to enhance their growth. NSME3 argued that politicians manipulated the public procurement processes in their favour while KSME3 indicated that politicians altered the development agenda priorities to serve their personal or political interests.

g. Public Participation Challenges

Four cases argued that SMMEs were rarely involved in the decision making processes of county governments hence the limitations in business growth in counties. According to KSME1 and KSME2 this impediment led to the development of unfavourable trade policies and legislations that negatively affected businesses. NSME2, NSME3 and KSME1 on the other hand indicated that SME development needs and challenges remained unaddressed.

6.4.2. Cross Case Analysis Between perspectives of SMMEs, County Governments and Business Member Organizations

Table 6.7: Cross Case Analysis of Perspectives of SMMEs, County Governments and Business Member Organizations – Challenges Limiting SMME Growth

	Micro Perspective						Meso Perspective	Macro Perspective
CHALLENGE	**NSME 1**	**NSME 2**	**NSME 3**	**KSME 1**	**KSME 2**	**KSME 3**	**Business Member Organizations**	**County Governments**
Corruption	✓	✓	✓	✓	✓	✓	✓	✓
Fiscal Resource Mobilization Inefficiencies	✓	✓	✓	✓	✓	✓	✓	✓
Lack of Collaboration between National and County Governments			✓	✓	✓		✓	✓
Lack of Political Will	✓		✓				✓	✓
Litigation								✓
Organizational Structure Challenges	✓	✓	✓	✓	✓	✓	✓	✓
Political Interference			✓			✓	✓	✓
Public Participation Challenges		✓	✓	✓	✓		✓	✓

Comparison and Contrasts of Views

The following is a comparison of views including the perspectives of BMOs and county governments on the challenges experienced while implementing reforms for SMME growth.

a. Corruption

Both the BMOs and the county governments concur with SMMEs that corruption limited the implementation of reforms for SMME growth in counties. In agreement with five SMMEs, BMOs and county governments noted the prevalence of corrupt practices in the public procurement processes. Further the BMOs and county governments supported KSME1's notion that corruption led to the embezzlement of funds thus creating fiscal distortions.

Unlike the SMMEs, BMOs and county governments identified corruption within the business community as a factor that negatively affected the counties' revenue streams. Both argued that SMMEs circumnavigated the counties' regulations and avoided paying their dues through fraud, offering bribes to county officials and market traders paid their daily fees to cartels as opposed to the counties. Consequently counties' revenue streams targets were rarely met resulting in shortfalls in the provision of public goods and services.

b. Fiscal Resource Mobilization Inefficiencies

In agreement with the SMMEs, BMOs and county governments indicated that lack of funds, poor management of county funds and unfavourable revenue raising strategies as factors that impeded SMME development in counties. Both entities concurred with SMMEs that these inefficiencies resulted in the provision of poor public services and increased taxation on businesses.

c. Lack of Collaboration between National and County Governments

Similar to the SMMEs, BMOs and county governments argued that lack of collaboration between the two tiers of government led to the duplication of roles. BMOs added that this resulted in disputes in revenue collection and allocation. As a result both entities indicated that businesses were thus exposed to multiple and increased taxation, a factor that increased the cost of doing business.

d. Lack of Political Will

In support of NSME1 and NSME3, BMOs and county governments indicated that political leaders in counties rarely supported development initiatives to grow SMMEs. In their view politicians served their personal interests once elected as opposed to the common good of businesses and the citizenry.

e. Organizational Structure Challenges

BMOs and county governments shared the same sentiments as SMMEs on lack of technical capacity, lack of transparency and accountability mechanisms, poor staff deployment and a culture of rebellion as factors impeding SMME growth policy implementation. Other barriers that were absent in the SMME cases and highlighted by BMOs and county governments include lack of staff development, lack of team work and hostile work environments as well as bureaucracy. These factors contributed to mismanagement of funds, poor policy formulation and implementation as well as provision of poor services within counties.

f. Political Interference

BMOs and county governments concurred with NSME3 and KSME3 that political interference limited public procurement opportunities and altered the development agenda for SMMEs. However, both entities identified additional repercussions of political interference such as distortion of county budgets, diversion of funds and inefficiencies in the recruitment and deployment of county government employees. In their view politicians elicited these actions in a bid to serve their personal and political interests. These factors contributed to underperformance in revenue collection and poor county government services.

g. Public Participation Challenges

BMOs and county governments agreed with four SMMEs on public participation anomalies that limited the involvement of businesses in the decision making processes. Both entities indicated that public participation meetings had poor representation of SMMEs partly because of poor information dissemination and lack of accountability and transparency on the part of county governments.

However county governments presented a slightly different insight on the challenges faced while executing public participation meetings. They highlighted the fact that at times traders disputed development initiatives that terminated their illegal activities such as avoidance to pay county licence fees. Therefore the counties avoided running public participation meetings to mitigate the risk of stalling of development projects.

h. Litigation

This was a unique challenge identified only by the county governments. Litigation proceedings filed by businesses and BMOs in response to the increased taxation, negatively affected the counties' functions such as revenue collection. This created fiscal distortions that translated into provision of poor public goods and services.

6.4.3. Summary

The preceding analysis implies that county governments faced a myriad of challenges in operationalizing their decentralized functions, thus limiting their capacity to grow SMMEs. The predominant challenges shared across the SMME cases, BMOs and county governments include corruption, fiscal resource mobilization inefficiencies and organizational structure challenges. Public participation challenges, political interference, lack of political will and lack of collaboration between the two tiers of government were highlighted as other minor impeding factors. These challenges contributed to the unfavourable business environment conditions within counties. Consequently SMMEs bore the brunt of increased cost of doing business and other trade barriers.

6.5. Cross Case Synthesis of Research Question 4: Opportunities for SMME Growth

The section below provides an overview of the proposals made by the six cases as measures to be adopted by county governments for purposes of creating a conducive business environment and enhancing SMME growth.

6.5.1. Cross Case Analysis Among SMMEs

Five categories of reforms were identified and combined across all the cases as depicted in table 6.8 below.

Table 6.8: Proposed County Government Reforms Based on the Perspectives of SMMEs

REFORMS	NSME1	NSME2	NSME3	KSME1	KSME2	KSME3
Organizational Structure Reforms	✓	✓	✓	✓	✓	✓
Effective Management of the Public Participation Process	✓		✓	✓	✓	
Fiscal Management Reforms		✓	✓	✓	✓	✓
Promotion of Ethical Standards	✓	✓			✓	✓
Legislative Reforms				✓		✓

Comparisons and Contrasts of Views on County Government Reforms among SMMEs

The following section reflects similarities and differences in perspectives on the measures the county governments could adopt to support the growth of SMMEs.

a) Organizational Structure Reforms

Across all the six cases, organizational structure reforms were proposed as a measure to streamline the administrative capacities of the county governments. This would enhance the county governments' effectiveness in the formulation and execution of trade policies. In as much as all the SMMEs subscribed to this reform, differences were noted on the types of reforms to be adopted. NSME1, NSME3, KSME2 and KSME3 advocated for the recruitment of competent staff and retrenchment of redundant staff in order to reduce the current wage bill to ensure effective delivery of services. KSME3 additionally recommended the implementation of capacity building programs of staff to improve their productivity.

NSME1 and KSME1 on the other hand focussed on the need for enhanced process automation and the adoption of the right technology to improve the counties' administrative capacity. Finally NSME1 and NSME2 called for the simplification of the business licencing process and improved information dissemination as measures to alleviate the existing bureaucracies in business licencing.

b) Effective Management of the Public Participation Process

NSME1, NSME3, KSME1 and KSME2 concurred that it was essential for county governments to include the business community in the decision making processes so as to ensure the needs of SMMEs are adequately addressed.

c) Fiscal Management Reforms

Two main categories of fiscal management reforms were identified across five cases as means for improving the county governments' effectiveness in supporting the growth of SMMEs. NSME2, KSME1 and KSME2 called for the review of the trade licencing cost structures to reduce the costs of doing business. On the other hand NSME2, NSME3 and KSME3 collectively advocated for the mobilization of adequate funding by county governments to finance development initiatives for SMMEs. While NSME2 and NSME3 suggested the provision of funding to finance SMMEs, KSME3 and NSME3 proposed the allocation of sufficient funds for infrastructural projects and other goods and services. In their view this would also increase public procurement opportunities for SMMEs.

d) Promotion of Ethical Standards

To curb corruption, a vice that handicapped the county governments in their quest to foster trade development, NSME1, NSME2, KSME2 and KSME3 unanimously proposed the improvement of the governments' internal controls. This would in turn improve accountability and transparency within the decentralized functions of county governments, therefore making them more effective in delivering the requisite goods and services for SMMEs. KSME2 identified the dismantling of corrupt cartels within and outside of the county governments as an additional measure for improving public governance.

e) Legislative Reforms

Two cases proposed legislative reforms that implied amendment of the country's current constitution and county government act as measures to improve governance within counties in order to facilitate the growth of SMMEs. While KSME1 advocated for the change of the governor position to a national government appointment as opposed to an elected post, KMSE3 called for the transfer of some of the decentralized functions back to the national government.

6.5.2. Cross Case Analysis Between perspectives of SMMEs, County Governments and Business Member Organizations

Table 6.9 compares the perspectives of SMMEs with that of BMOs and county governments.

Table 6.9: Proposed County Government Reforms Based on the Perspectives of SMMEs, BMOs and County Governments

	Micro Perspective						Meso Perspective	Macro Perspective
REFORMS	**NSME1**	**NSME2**	**NSME3**	**KSME1**	**KSME2**	**KSME3**	**Business Member Organizations**	**County Governments**
Organizational Structure Reforms	✓	✓	✓	✓	✓	✓	✓	✓
Effective Management of the Public Participation Process	✓		✓	✓	✓			
Fiscal Management Reforms		✓	✓	✓	✓	✓	✓	✓
Promotion of Ethical Standards	✓	✓			✓	✓		✓
Legislative Reforms				✓		✓	✓	✓
Effective Political Leadership								✓

Comparison and Contrasts of Views

This section identifies similarities and differences in perspectives between SMMEs, BMOs and county governments on the reforms necessary for SMME growth within counties. As depicted in the above table, BMOs and county governments highlighted similar categories of reforms as SMMEs except for effective management of public participation processes. Effective political leadership is an added reform proposed by county governments only.

a) Organizational Structure Reforms

In concurrence with SMMEs, BMOs and county governments indicated the need for recruiting competent staff, implementing capacity building programs for staff and improving information dissemination for the business licencing process.

County governments further recommended the formulation and implementation of effective human resource policies. BMOs on the other hand added the need to foster research and development within the county governments so as to boost the county governments' capacity with regards to innovation.

b) Fiscal Management Reforms

Similar to the SMMEs, BMOs and county governments identified the need for adequate funding for enterprise development within counties. County governments also concurred with SMMEs on the proposal to review the trade licencing cost structure so as to decrease the cost of doing business.

BMOs and county governments advocated for other reforms that were not identified by SMMEs. In this regard county governments called for enhanced public private partnerships while BMOs recommended timely provision of funds from the national government, effective revenue sharing models between the national government and county governments and the need for county governments to explore their regional endowments as additional sources of revenue.

c) Promotion of Ethical Standards

County governments concurred with the SMMEs on the need to tackle corruption through improved county government internal controls and dismantling the operations of cartels. BMOs on the other hand did not identify this factor as one of the reforms for county governments' improved performance with regards to trade development

d) Legislative Reforms

In relation to legislative reforms, BMOs and county governments were in agreement with SMMEs on the matter of shifting the head of the county government position from an elective post to a national government appointment. An additional recommendation only made by the county governments is the lengthening of the governors' electoral terms to provide ample time for development projects to be implemented.

BMOs also concurred with KSME3 on the need to transfer some of the devolved functions such as trade back to the national government to improve SMME growth outcomes.

Other reforms highlighted by BMOs and county governments that were not proposed by SMMEs include the improvement of the legal and regulatory framework for trade and the harmonization of county legislations on trade.

e) Effective Political Leadership

This factor was only identified by county government as a measure of improving public governance to enhance SMME growth. In particular county governments called for the election and appointment of selfless and committed political representatives who would represent the needs of the citizenry and businesses.

6.5.3. Summary

The above analysis provides an overview of reforms that could be implemented by county governments to render them more effective in promoting the growth of SMMEs. As illustrated above, the main reforms advocated for by SMMEs and seconded by BMOs and county governments target the administrative, political and fiscal functions and outputs of county governments.

Therefore it can be deduced that the effectiveness of the devolved system of government in facilitating SMME growth within Kenya is pegged on inputs and support mechanisms provided by the county governments and national government. As depicted by the above analysis, these include adequate human resources and management, adequate financial resources and management, effective management of the public participation process, promotion of ethical standards to ensure integrity, presence of a sound legislative framework and effective political leadership. These factors shape devolution thus facilitating the realization of intermediate outcomes such as creation of a conducive business environment and final outcomes which in this case is the growth of SMMEs within counties.

6.6. Conclusion

The key implication of the evidence presented in the above sections is that the soufflé theory of decentralization conceptual model in its original form may not completely be instrumental in achieving development outcomes such as SMME growth. This is because it does not explicitly deal with contextual issues that affect the operationalization of devolved governments as suggested by the evidence. Further, the analysis revealed key inputs necessary to ensure the success of the devolved system of government in realizing SMME development outcomes, yet these are also not clearly reflected in the conceptual model. Therefore it is essential to include these emerging dimensions as expressed by the six cases and supported by the BMOs and county governments in the cross case analysis. This implies modification of the conceptual model presented in chapter two and extension of the soufflé theory of decentralization as depicted in the next chapter.

CHAPTER 7

7. Emergent Theoretical Framework

7.1. Introduction

This chapter focusses on analytical generalisation which is a process that entails the application of a previously developed theory as a template to compare the empirical results of the case study (Yin, 2009). Accordingly, this chapter discusses the results of the research, linking the emergent issues with extant literature and the conceptual framework adopted in this thesis.

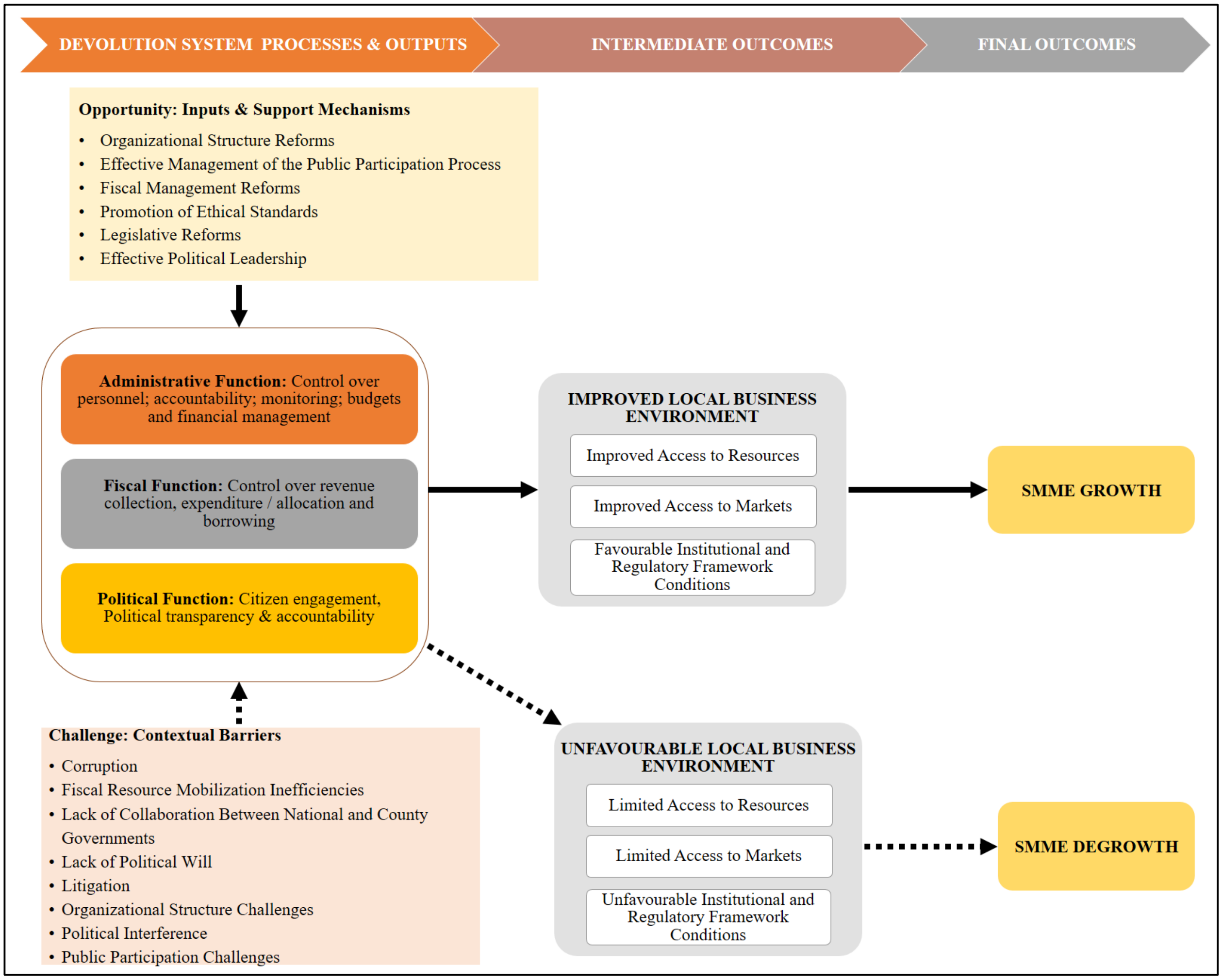
The chapter begins with a presentation and discussion of the emergent theoretical model depicting SMME growth under the devolved system of government derived from this study. The emerging theories which represent this study's major contribution are analysed and the chapter concludes with the key findings.

7.2. Emergent Theoretical Model

Figure 7.1 represents the modified theoretical model for SMME growth under the devolved system of government embracing all the themes analysed in chapters 4, 5 and 6 and the associated theoretical dimensions drawn from the soufflé theory of decentralization in relation to development outcomes. The development outcomes considered in this study were the state of the business environment and the resultant effect on SMME growth. The analysis of the data collected in the different study contexts exposed additional constructs and relationships that should be included in the theory.

Therefore the theoretical model incorporates the study evidence highlighting the workings of the dimensions of devolution, challenges experienced and their effect on the business environment and SMMEs in the counties within which this study was carried out. Further, opportunities for enhancing the devolved functions and addressing prevailing challenges in order to achieve better SMME development outcomes in the counties are illumined. The overarching goal is to achieve a comprehensive framework depicting the development of SMMEs under the devolved system of government in a developing country context.

Figure 7.1: Theoretical Framework for SMME Growth under the Devolved System of Government



Source: Author's Construction

Key:

Represents the flow of processes and outcomes that facilitate the growth of SMMEs under the devolved system of government.

Represents the flow of processes and outcomes that impede the growth of SMMEs under the devolved system of government

The above figure demonstrates the fact that the devolved system of government is a double edged sword for SMME development. It can foster the creation of a conducive business environment for SMME growth or at the same time pose the risk of hampering business development.

Smoke (2015), posits that attributing performance to devolution is a difficult task because the expected decentralization outcomes are affected by various factors, policies and other interventions within jurisdictions. Thus the need to explore and explain which actors, structures and processes were attributable to the development outcomes to derive accurate conclusions. This study embraced this recommendation in order to develop a theoretical framework that takes into consideration the factors that affected the operationalization of devolution to achieve SMME development outcomes. The discussion of the conceptual model exploring the theoretical relationships is given in the next section.

7.2.1. Administrative Decentralization and SMME Growth

Analysis of the findings show that in as much as the county governments in Kenya were accorded the power to plan and manage human and financial resources to provide the requisite goods and services for enterprise development, SMMEs decried their failure in this regard. Poor public services, bureaucracies in accessing public services, poor formulation and implementation of policies related to SMME development were evident. This was attributed to inefficiencies in organizational and managerial capacity, poor budget and financial management and weak transparency and accountability mechanisms. Further, weaknesses within the fiscal and political dimensions of devolution as explained in the ensuing sections contributed to the administrative function shortfalls.

Notable challenges that exacerbated the situation include organizational structure challenges such as staff redundancy and a bloated workforce that increased the wage bill. Accordingly, the county governments were beleaguered with colossal public administration costs predominantly consisting of salaries, a factor that compromised development budgets. The study findings indicate that the high administrative costs fuelled the county governments' decision to increase taxes and levies on businesses to increase revenue to primarily cater for the wage bills. This is in line with research findings of Firth, Gong, & Shan (2013) who found a correlation between high local government costs and increased business tax burdens which eroded firms' profitability. Further corroborating this study's evidence, they established that higher costs of government diverted the scarce fiscal resources away from productive initiatives such as infrastructure development and provision of basic services.

Moreover, lack of technical capacity in terms of staff competency and infrastructure automation led to poor formulation and execution of policies resulting in poor public services and infrastructure development as well as limited access to development programs for SMMEs. The research findings lend support to previous research which depicted poor development outcomes under devolved systems of government in developing countries due to inadequate institutional capacities (Digdowiseiso & Sugiyanto, 2021; Koelble & Siddle, 2014; Kyriacou et al., 2013; Lessmann, 2012; Rodriguez-Pose & Ezcurra, 2010).

Lack of collaboration between the county governments and the national government resulted in duplication of roles and non-alignment of policies and legislations. Consequently, SMMEs were subjected to duplicated regulatory processes and multiple taxation. This confirms Bwire & Rodríguez-Pose (2004) findings that inefficiencies in assigning powers in a non-overlapping way in devolved contexts limited subnational governments' capacity to effectively deliver services. Similarly, Loader (2016) asserts that tension between the national and local governments in relation to policies concerning SMEs limited the ease of access to government services and business opportunities. It also led to confusion with regards to the prioritisation of the policies and how businesses should correspond to the resultant regulations.

Corruption is another factor that was prevalent leading to embezzlement of funds, low revenue collection, low absorption of development budgets and flaws in the procurement processes. Inadequate transparency and accountability mechanisms allowed for the prevalence of corrupt practices within and outside of the county governments. Hence the county governments were limited in providing quality goods and services to SMMEs due to shortage of funds to execute their budgets. Moreover, corrupt practices of government officials also dwindled the profits of businesses due to funds being diverted towards bribes. This reflects existing literature which depict the negative consequences of corruption within subnational governments on the productivity and profitability of businesses (Digdowiseiso & Sugiyanto, 2021; Mironov & Zhuravskaya, 2016; De Rosa et al., 2010; Fisman & Svensson, 2007). Further corroborating this point, Baumol (1990) argues that the prevalence of corruption distorts resource allocation by amassing returns on rent seeking as opposed to productive activities. In support of this notion, Shleifer & Vishny (1994) contend that the more layers of corrupt government agencies that businesses must navigate through to ensure compliance, the higher the chances that they would pay more bribes than making profits.

Consequently limitations in SMME growth were noted due to the resultant increased cost of doing business due to increased taxation, limited public procurement and capacity building opportunities as well as poor county government services. This implies that inefficiencies in the administrative functions of county governments limited access to markets and resources and created unfavourable institutional and regulatory frameworks conditions, hence limiting SMME growth.

7.2.2. Fiscal Decentralization and SMME Growth

Adequate fiscal decentralization is required by subnational governments to enable local officials and electoral representatives to achieve the envisioned development outcomes (Litvack & Seddon, 2002). This means that the local governments require significant fiscal resources and the autonomy over revenue and expenditure decisions to fulfil their mandate. The research findings revealed that Kenya's county governments perpetually faced fiscal deficits due to shortfalls in revenue streams, expenditure and budget provisions. County governments failed to meet their revenue targets partly due to shortfalls in the administrative capacity and corruption as depicted in the previous section.

Existing literature associated soft budget constraints, fiscal indiscipline and mismanagement of debt with economic inefficiencies within subnational regions (Bardhan & Mookherjee, 2015; Weingast, 2014; Bwire & Rodríguez-Pose, 2004; Rodríguez-Pose & Gill, 2003; Weingast, 2009). Fiscal resource deficiencies constrained subnational governments and undermined their ability to deliver the requisite services to the citizenry (Cheema & Rondinelli, 2007). In support of these views, this study established that inadequate budget allocations, own source revenue deficits, poor debt management strategies, misallocation of funds and overspending of county budgets primarily focussing on recurrent expenses curtailed the performance of the county governments in relation to SMME development. Insufficient vertical fiscal transfers and delays in disbursement of funds from the national government were also notable challenges faced by county governments. Hence reflecting the limited support and collaboration of the national government in aiding the success of the subnational governments. This resonates with Cheema & Rondinelli's (2007) argument that too often national governments assign administrative functions to subnational governments without providing the adequate fiscal resources to execute them.

Due to the prevailing fiscal imbalances, county governments resorted to increasing business taxes, levies and user charges in order to cater for their operational costs (Digdowiseiso & Sugiyanto, 2021; Firth et al., 2013; Saad, 2001). Consequently, SMMEs bore the brunt of increased cost of doing business. As in Saad (2001), SMMEs and BMOs challenged the local regulations and resorted to litigation as a means of halting the enforcement of county government finance acts which contained legislations on taxes and levies. The ensuing court injunctions limited the county government's capacity to collect revenue thus widening the fiscal imbalance gap. This confirms previous research showing that litigation processes exerted undue pressure on subnational governments' budgets and overall fiscal conditions (MacManus & Turner, 1993).

Backlogs of infrastructure development demands for roads and trading spaces were evident due to the lack of funds and inefficiencies in allocation of financial resources. County governments were also limited in providing the requisite public goods and services, finances and development programs for SMMEs. Moreover, SMMEs that provided goods and services to the county governments were rarely paid on time and in some cases they incurred bad debts. In summary, inefficiencies of the fiscal function resulted in limited access to markets and resources as well as unfavourable regulatory and legislative framework conditions. These limited the potential growth of SMMEs in counties in Kenya. These outcomes support research findings that reflect subnational governments' limitations to provide the requisite goods and services to enhance the local business environment and SME sector growth (Gamo & Gollagari, 2020).

7.2.3. Political Decentralization and SMME Growth

Literature shows that political forces influence the way the devolved system of government unfolds and performs in relation to various development outcomes (Smoke, 2015; Eaton et al., 2011). Politicians at the subnational level face various incentives to support or oppose reforms within their jurisdictions. The incentives are grounded on their views on development initiatives and their personal goals and political ambitions (Smoke, 2015).

In the Kenyan scenario, the analysis of the findings revealed that the politicians manipulated the development agenda and distorted county budgets to serve their personal and political interests. In some situations, they opposed the outlined development projects such as construction of markets in order to remain popular amongst their constituents and safeguard their electoral seats in subsequent elections. They supported initiatives that ensured their personal wealth creation or enhancement. Consequently they ignored development initiatives for SMMEs that failed to translate to monetary gains on their part. These factors demonstrated their lack of political will to represent the needs of the citizenry and the business community. Underperformance in revenue collection especially from markets was also attributed to politicians' apathy in fostering compliance to trade regulations in the counties. Study findings indicate that politicians failed in this regards because they were not financially incentivized as was the case prior to the institution of the devolved system of government. In other situations, they waived business taxes and levies in order to remain popular amongst voters.

Corroborating the abovementioned facts, Mookherjee (2015) argues that often politicians and voters in subnational regions capitalize on short-term benefits at the expense of long-term goals. This results in credibility problems with regards to the politicians' commitment to subnational government policies that would likely achieve long-term goals such as investments in infrastructure and other projects beneficial to businesses. Similarly, Moberg (2015) posits that politicians especially in subnational regions characterized by inadequate institutional capacity, tend to pursue their personal goals and political ambitions as opposed to growth promoting initiatives for the jurisdictions they govern.

Other than manipulating fiscal decisions, politicians were faulted for irregularly influencing the recruitment and deployment of staff in the county governments. They mostly engaged in this practice to reward their supporters. This factor contributed to the organizational structure challenges that limited the administrative capacity of the county governments to deliver public goods and services. This is in agreement with Cheema & Rondinelli's (2007) assertions that devolution in some regions has been accompanied by high levels of nepotism and corruption thus limiting the administrative capacity of local governments. Many public sector jobs within subnational governments tend to be allocated via ambiguous and elite-centric agreements (Von Luebke, 2009).

Corruption in the procurement process was also attributed to interference from political representatives who sought tender bids for their affiliate companies or institutions that paid them bribes to secure county government contracts. This limited SMMEs from fairly bidding for county government public procurement opportunities. The findings are consistent with Cheema & Rondinelli's (2007) argument that one of the reasons politicians at the local government level engaged in corrupt practices was to obtain contracts and concessions from the local government. The study further established that this was entrenched in local government systems that lacked accountability and anticorruption mechanisms. The research evidence also supports extant literature illustrating the fact that subnational regions characterized by institutional inadequacies allow for political connections to thrive (Mironov & Zhuravskaya, 2016; Sokolov & Solanko, 2016; Zhou, 2013). Consequently firms connected and protected by politicians enjoyed access to resources and in turn politicians sought rent from them for their personal gain and political mileage (Zhou, 2013; Shleifer & Vishny, 1994).

Lack of competency and unprofessionalism of the political representatives was identified as a factor that led to the enactment of unfavourable trade regulations and legislations in the counties. As opposed to identifying long-term measures to enhance the counties' revenue streams, political representatives resorted to enacting laws and policies that led to significant increases on taxes and levies charged on businesses. They mostly revived levies that existed in the previous local government regime prior to devolution. These stop gap measures were arrived at without considering the long term impact of the decisions on the business environment. Additionally, politicians were faulted for failing to heed to experts' views on tax administration hence the punitive tax cost structures slapped on businesses. This is in line with Saad (2001) who showed how local government representatives with an insufficient grasp on revenue raising legislations imposed costly taxes and levies on businesses in various regions in Indonesia. Additionally, levies that had been previously been banned by the national government were reinstated to boost the local governments' revenue streams while disregarding the long-term potential negative impacts on firms. The research evidence also lends support to the argument that in some contexts, the implementation of unfavourable business taxation regulations emanated from the incorrect interpretation of decentralization reforms due to limitations with regards to competencies and capabilities within subnational governments (Digdowiseiso & Sugiyanto, 2021).

Finally public participation challenges were noted as one of the impeding factors for SMME development. The case study findings revealed that the county governments rarely engaged the SMMEs in the decision making processes. This was partly attributed to the unavailability of information and low access to the information dissemination media used by the subnational government to communicate the agenda, dates and venues of the public participation meetings (Okello et al., 2009). Difficulties in accessing information on budgets, legislation and development programs also deterred meaningful public participation meetings (Mbithi et al., 2019). Further some of the public participation meetings simply called for the endorsement of decisions that the county governments had made rather than seeking the opinion of the public on the matters being discussed (Mugambi & Theuri, 2014; Ebdon & Franklin, 2006) . Therefore low representation of SMMEs in public participation meetings was evident because business owners were disillusioned by the fact that their inputs in such fora were not appreciated. This supports the argument of Williamson & Scicchitano (2014) that citizens generally failed to attend public participation meetings in situations where their contributions were not taken into account in the decision making process. The abovementioned impediments translated to budgets being passed by county governments whilst overlooking the needs of the SMMEs. Further unfavourable regulations and legislations such as increased taxation were enacted without consulting the business community. Hence businesses bore the brunt of the increased cost of doing business.

The foregoing analysis demonstrates how the inefficiencies of the political dimension functions limited access to markets, resources and created unfavourable regulatory and legislative frameworks conditions for businesses hence limiting their growth.

7.2.4. Opportunities for SMME Growth: Inputs and Support Mechanisms

The findings of this study support Smoke's (2015) argument that the operationalization of the devolved system of government requires various inputs and support mechanisms provided by government and non-government actors to achieve development outcomes. The research findings identified various reforms for implementation by county governments to facilitate the creation of a conducive business environment and SMME growth.

Organizational structure reforms were advocated for to improve the county governments' capacity to support SMME growth. In particular the cases collectively called for the restructuring of the human resource pool in the county governments to ensure the recruitment of competent staff, right placement of staff and redeployment or retrenchment of redundant staff. Implementation of capacity building programs to up skill employees, adoption of the right technology infrastructure to enhance process automation and refining of information dissemination were also recommended as additional measures to improve the county governments' administrative capacity. These propositions affirm previous research which identified adequate organizational and managerial capacity within subnational governments as a key determinant for growing SMMEs in subnational regions (Digdowiseiso & Sugiyanto, 2021; Tan & Tran, 2017; Teixeira & Barros, 2014; Topal, 2015). The study findings also support the assertions of Bertucci & Senese (2007) which advocate for the adoption of ICT by local governments to enhance accountability, transparency and public participation in the decision making process to achieve socioeconomic growth.

Fiscal management reforms defined in terms of provision of adequate funding and effective management of the financial resources are necessary to enable county governments deliver the requisite goods and services to SMMEs. Sufficient funding will facilitate the county governments' administrative capacity to execute development programs such as financing, capacity building programs and infrastructural initiatives for SMMEs. This also implies timely provision of funds from the national government, enhancing public private partnerships and exploring other avenues of enhancing own source revenue. This is consistent with extant literature which reiterate the importance of adequate financing and effective fiscal resource mobilization for development initiatives within subnational regions that support the growth of SMMEs (Mei et al., 2016; Van Cauwenberge et al., 2016; Wu et al., 2016).

The success of the abovementioned reforms are dependent on the county governments' level of integrity. Therefore promotion of ethical standards are necessary to curb the vice of corruption and enhance the levels of transparency and accountability. This requires improvement of internal audit systems and streamlining of county governments' internal controls. This is consistent with assertions of various scholars that high levels of accountability and transparency within subnational governments facilitates the growth of firms (Digdowiseiso & Sugiyanto, 2021; Nguyen et al., 2018; Malesky et al., 2015). In their view, these mechanisms strengthen the institutional quality hence increasing the efficiency of the devolved system processes and outputs which in turn lead to improvements in the business environment conditions. Similarly, Cheema (2007) calls for the effective implementation of mechanisms and instruments to promote accountability, transparency and anticorruption at local government level to ensure effective delivery of public goods and services. Some of the measures the study advocated for include the establishment of anticorruption bodies, accountable and transparent systems of public procurement, participatory budgeting and auditing and promotion of ethics and integrity among local public officials.

Furthermore, inclusion of business community in the decision making processes of the county governments was deemed as an essential measure for ensuring the challenges of SMMEs are addressed. Thus the need for refining the public participation process. This supports extant literature which state that citizens should be considered as resources for solving problems because of their capability to provide context specific information for improving public service delivery that is otherwise not available to public managers (Neshkova & Guo, 2012; Moynihan, 2003; Beierle & Cayford, 2002; Litvack & Seddon, 2002). Moreover, research findings associate citizen engagement in the decision making processes of local governments with more conducive business environment conditions and better business development outcomes (Wu et al., 2016; Topal, 2015). Wang & Yu (2017) provide evidence that SMEs' involvement in government activities enhances government-business connections, and this ultimately improves the firms' perceptions of the business environment. This is because involving the SMEs in the government decision making process shows a symbolic gesture of supporting SME development and satisfies the businesses' expectations to be engaged by political stakeholders.

The foregoing discussion affirms Parker's (1995) research findings that identified more institutional capacity building, greater resource mobilization, increased accountability and enhanced public participation as critical factors for achieving positive development outcomes under the devolved system of government. The aforementioned factors constitute the intermediate outcomes of devolutions processes and outputs as reflected in the conceptual model of the Soufflé theory of decentralization.

Other support mechanisms proposed include the review of the existing legislative frameworks to alleviate factors that impede SMME growth. In particular the study findings established the need for harmonization of trade legislations across counties and the refinement of the existing legal and regulatory framework for trade (World Bank, 2016). Disparate legislations within the trade sector elicits confusion and disillusionment among businesses and encourages non-compliance with regulations as depicted in the study evidence.

Owing to the existing shortfalls of county governments in their role of facilitating trade development, propositions were made to amend the existing legislations to shift the trade function to the national government. Another suggestion made was to change the county government leadership post from an electoral seat to a national government appointment so as to ensure effective management of the county governments. These proposals are in line with Rondinelli's (2007) argument that decentralized administrative options should be explored and instituted in situations where subnational governments are characterized by weak institutional capacity.

Finally effective political leadership was identified as a critical element for the success of devolved government units to achieve positive SMME development outcomes. This is in line with existing research findings that rated local political leadership as the most significant business environment enabling factor (N. Meyer & Meyer, 2016). Further, the study evidence outlined competency, commitment and selflessness as key attributes required of politicians to ensure the needs of the business community were adequately addressed. This agrees with the assertions of some scholars that local governments' effectiveness in achieving development outcomes is pegged on good leadership characterized by the presence of honest and competent local government representatives (Digdowiseiso & Sugiyanto, 2021; Von Luebke, 2009; Cheema, 2007). Similarly, Malesky (2019) cites intelligent and visionary political leadership as a prerequisite for achieving long term dividends for enhancing business performance within subnational regions. Von Luebke's (2009) research findings associate greater leadership qualities with more efficient administrative services, more effective anticorruption controls and better tax regulations which are critical elements for a conducive business environment for SMMEs to thrive.

7.3. Conclusion

The findings of this study revealed that the devolved system of government in Kenya failed to provide a conducive business environment thus limiting the potential growth of SMMEs. The evidence contradicts findings by various scholars that associate firm growth with the institution of the devolved system of government (Cull et al., 2017; Escaleras & Chiang, 2017; Mei et al., 2016; Van Cauwenberge et al., 2016; Wu et al., 2016; Sobel et al., 2013). Instead, the study evidence confirms the argument that devolution especially in developing and transition economies does not necessarily translate to positive SMME development outcomes (Digdowiseiso & Sugiyanto, 2021; Jin et al., 2005; Yakovlev & Zhuravskaya, 2013; Zhuravskaya, 2000). Rather than playing a supporting role, subnational governments in these contexts take on a predatory stance thus restraining the growth of SMMEs. Further, subnational governments failed to optimally implement policies for SMME development due to non-alignment of policies with firms' problems, limited involvement of businesses in the decision making processes and lack of capacity building programs for supporting businesses (Shohibul et al., 2019).

The results also agree with the conclusion arrived at by Abdullatif et al. (2013) indicating that devolution was generally associated with increased costs of doing business. Similar to the research findings of Digdowiseiso & Sugiyanto (2021) and IFC (2013), this study identified unfavourable business regulations as the primary factor that increased the cost of doing business for SMMEs.

In conclusion, this chapter demonstrates how devolution reforms in a developing country context affected the growth of SMMEs through the lens of the Soufflé theory of decentralization. The foregoing discussions allude to the fact that the outcomes of devolution processes and outputs are influenced by the prevailing contextual factors within the country's subnational regions. Hence the extension of the aforementioned theory by incorporating the prevailing contextual barriers that limited the subnational governments' capacity to improve the business environment and SMME growth. The theory was further extended by integrating the context specific inputs and support mechanisms that need to be in place to improve the operationalization of devolved functions to achieve the expected SMME development outcomes.

The next chapter presents the contributions of this study, the limitations and recommendations for future research.

CHAPTER 8

8. Conclusion

8.1. Introduction

This study set out to explore how the devolved system of government in Kenya affected the growth of SMMEs adopting the soufflé theory of decentralization. Having analysed and discussed the findings as reflected in chapters 4 to 7, this chapter provides a summary of the main conclusions. Thus, section 8.2 demonstrates that the objectives of the research were attained by revisiting the research questions outlined in chapter 1. Section 8.3 highlights the study's original contributions to the body of knowledge. Section 8.4 discusses the limitations and suggestions for future research. Investigate

8.2. Summary of the Main Conclusions

The study's main objective was to establish how devolution affected the growth of SMMEs in Kenya. To achieve this objective, four subsidiary questions were outlined to guide the research process. The findings of the research as depicted in Chapters 4-7 provided responses to the subsidiary questions hence addressing the overall research question.

The conclusions arrived at are as follows:

a) *What are the perceptions of SMME owners on the effect of subnational governments' interventions on the growth of their businesses?*

Generally, as depicted in chapter 4, SMME owners in the counties of Nairobi and Kiambu were of the view that subnational governments had failed to promote the growth of SMMEs. Following the implementation of the devolved system of government, unfavourable business environment conditions were notable. Business regulation constraints were the main challenges that affected SMMEs within the subnational regions leading to increased cost of doing business, limited access to markets and resources. These challenges were attributed to inefficiencies within the administrative, fiscal and political decentralization functions.

b) *In what ways has devolution in each of its dimensions (administrative, political and fiscal decentralization) transformed the business environment to enhance SMME growth in Kenya?*

The research findings depict only one positive outcome emanating from the processes and outputs of the devolved system of government. This is the ease of business licencing, which is an element of the institutional and regulatory framework conditions. As much as this development outcome was lauded by most of the SMMEs, its impact was perceived as insignificant because businesses faced a myriad of other challenges within the subnational regions.

The findings of the research generally point to the inefficiencies of the fiscal, administrative and political functions of the county governments which limited the growth of SMMEs. SMMEs were frustrated by limitations in accessing markets and resources as well as unfavourable institutional and regulatory framework conditions. As depicted in chapter 5, fiscal function inefficiencies limited access to finances and business development services as well as provision of infrastructural facilities for SMMEs. Further lack of funding and poor management of funds in the county governments resulted in increased taxation as a means to augment the counties' revenue streams.

Administrative function inefficiencies were mainly attributed to insufficient funding within the county governments. On the flip side, administrative inefficiencies also hampered the fiscal processes and outputs leading to budget distortions. Consequently, poor implementation of infrastructural and business development programs was notable. Further, SMMEs were short changed with regards to processes related to public procurement opportunities. SMMEs were either denied opportunities to provide goods and services to the county governments or faced problems with regards to payments in the event they secured a tender.

Finally political function inefficiencies resulted in the enactment of unfavourable legislations that altered the tax and levy cost structures within counties. As earlier indicated this was done as a means of generating revenue for the cash strapped county governments. Increased taxes and levies led to the increased cost of doing business hence eroding the profitability of SMMEs. Further, lack of political transparency and accountability limited the administrative and fiscal capacities of the county governments, thus stalling the implementation of development strategies for SMMEs. Finally inefficiencies with regards to public participation implied poor decision making on legislations and strategies for SMME development.

c) *What challenges do subnational governments face while implementing reforms for promoting SMME growth?*

As depicted in the literature review section, devolution reforms especially in developing countries were shaped by various contextual factors. Consequently variations in development outcomes emerged within subnational regions. The findings of this research identified corruption, limited administrative and fiscal capacity, political leadership inefficiencies, poor intergovernmental relations and public participation challenges as the key contextual factors that impeded the subnational governments from implementing reforms for SMME development. These factors exacerbated the inefficiencies of the fiscal, administrative and political functions thus creating unfavourable business environment conditions within the counties.

d) *How might subnational governments better support SMMEs to enhance their growth?*

The success of the devolved system of government in achieving positive SMME development outcomes hinges on a robust administrative capacity, availability and effective management of fiscal resources, effective citizen engagement processes, presence of anticorruption mechanisms, sound legislative framework and effective political leadership. However, as noted in the preceding chapters, reforms within the fiscal dimension are the most critical to ensure improvements in the processes and outputs of the devolved system of government. Adequate financing and autonomy to make decisions and mobilize fiscal resources are key to streamline subnational governments' administrative and political functions.

8.3. Contributions of the Study

This research builds further on the conceptual framework of decentralization and development outcomes. In particular it extends the existing soufflé theory of decentralization by providing an empirical examination of how devolution in all its dimensions affects SMME growth in a developing country. Rondinelli et al.(1983) outlined the importance of the administrative, fiscal and political dimensions of devolution as a means of fostering socioeconomic growth, however these authors did not explicitly relate these dimensions to specific development outcomes. Parker (1995) on the other hand developed the soufflé theory of decentralization and related all the three dimensions of devolution to rural development outcomes. Other studies examining the effect of the three dimensions of devolution primarily focus on their simultaneous impact on service delivery (Wagana, 2017; Saavedra, 2009). Literature linking devolution in all its dimensions with the growth of businesses is limited (Malesky, 2019). More so, there is a dearth of literature with particular reference to the developing world context.

8.3.1. Theoretical Contribution

The study made theoretical contributions by first providing a theoretical framework (see figure 7.1) for SMME growth under the devolved system of government adopting an existing and evolving theory (soufflé theory of decentralization). The framework illustrates how the processes and outputs of each of the dimensions of devolution affected the growth of SMMEs in a developing country context. Secondly, the research not only considered the effect of devolution on SMME growth, but also the impact on the business environment which is an intermediate attribute that affects the performance of SMMEs. Extant literature considering devolution reforms and local business development focus on the final outcomes such as firm performance, entrepreneurial activity, profitability and productivity (Cull et al., 2017; Escaleras & Chiang, 2017; Sobel et al., 2013). Few studies reflect the performance of subnational governments with regards to creating a conducive business environment for SMME growth. Thus the status of the business environment following the implementation of devolution in Kenya is reflected. Specifically the study considered the access to markets, access to resources and the legal and regulatory framework conditions as the key elements of the business environment.

Third, the study analysed the devolved system of government considering the effects of all the dimensions simultaneously on SMMEs. Extant literature on this topic mostly focusses on a single dimension of devolution that is the fiscal, administrative or political decentralization. Therefore the study responded to Filippetti & Sacchi's (2016) call to take into account other dimensions of devolution in evaluating any form of economic outcomes as opposed to only focussing on one dimension.

Moreover, the findings demonstrated how the interplay of each of the dimensions of devolution affected SMME development outcomes. For example, the inefficiencies of the administrative functions affected fiscal decisions, the management of fiscal resources hence undermining the effectiveness of the fiscal functions in delivering SMME development initiatives. Limitations of the fiscal dimension affected the administrative capacity of the subnational governments and the political function inefficiencies were shown to limit the administrative and fiscal functions. These results support the central argument of this study about the importance of considering all the dimensions of the devolution process in examining the effects of this reform on political and socioeconomic development outcomes. Each of the dimensions of devolution play a complimentary role hence providing a mutually-reinforcing effect on the business environment and SMME growth.

Finally the theoretical framework makes important extensions to the soufflé theory of decentralization. The soufflé theory of decentralization as is, assumes well designed and managed devolved systems of governments that enable positive development outcomes (World Bank, 2000a; Parker, 1995). However, the underlying factors that influence the design and implementation of decentralization and the outcomes of development efforts are not explicitly highlighted. Further, features of devolution arrangements that would facilitate positive development outcomes are not reflected. As argued by Smoke (2015), devolution does not develop in a vacuum, hence the need to contextualize this reform to make generalizable assessments of how it shapes development outcomes. Therefore, the theoretical framework makes important extensions to the soufflé theory of decentralization by incorporating contextual barriers that affect devolution processes and outputs in relation to SMME development. It also includes inputs and mechanisms for the support of devolved government units to achieve positive SMME development outcomes in a developing country context.

8.3.2. Empirical Contribution

As earlier mentioned, empirical studies linking devolution and SMME growth are limited, mostly drawn from developed countries and the emerging results are mixed. Therefore this study has contributed to the body of knowledge on decentralization and SMME development in a developing country context. The study evidence shows that as much as devolution is acclaimed as an institutional reform for developing countries to undertake to achieve economic development outcomes such as SMME growth, various contextual issues present challenges to its success. Various inputs and mechanisms need to be in place to address or mitigate the challenges in order to achieve the desired development outcomes. This is important especially because of the push in recent times for developing countries to adopt devolution reforms as a means of improving governance and boosting socioeconomic growth. The case analysis and the narratives provide rich empirical data that scholars, policy makers, government administrators, politicians and business entities can learn from.

8.3.3. Methodological contribution

The study applied a qualitative multiple case design to investigate the effect of devolution on SMME growth in a developing country context. This was in response to Smoke's (2015) call to consider qualitative methodologies in order to decipher contextual issues that shape decentralization processes and the subsequent development outcomes. Further, the bulk of research on this subject in the study context applied quantitative methods thus limiting the appreciation of contextual factors that supported or undermined devolution and SMME development outcomes.

The methodology adopted a multi perspective analysis by exploring experiences of SMME owners, business member organizations and subnational government officials a process that has not been widely adopted in previous decentralization and SMME development studies in Kenya. The convergence of the views enhanced the validity of the study empirical findings.

8.3.4. Recommendations

The results of this study have policy implications for policy makers, bureaucrats and politicians at the subnational and national government level involved in the implementation of devolution reforms for purposes of achieving development outcomes. Although studies confirm conceptual expectations about devolution such as improved business performance, the findings of this research allude to the fact that such results occur only under certain conditions. Hence the need for a greater and deeper understanding among the abovementioned stakeholders on contextual issues such as political economy dynamics that threaten positive development outcomes within subnational regions.

The study illustrates the fact that Kenya's counties were characterized by weak governance structures, institutional and fiscal capacity. Therefore policy makers, bureaucrats and politicians need to find ways of addressing the challenges that affect the implementation of devolution within this type of setting. This calls for collaborative efforts of stakeholders from the national and subnational governments to ensure:

a) Enhanced administrative capacity within the subnational governments to guarantee effective implementation and management of devolution reforms.
b) Sufficient fiscal resources are available to operate the county governments. This entails seeking pragmatic solutions to ensure timely and adequate vertical fiscal transfers for the operation of subnational governments. Additionally, the subnational governments need to

explore ways to maximize own source revenue collection. Innovative and attractive revenue sharing models need to be explored to provide incentives for subnational governments to increase their local revenue raising capacity without exploiting the citizenry and the business community.

c) Local budgeting and planning within subnational regions that is strongly linked to citizen engagement. Hence effective participatory mechanisms need to be in place to ensure the needs of the citizens and businesses are taken care of. This also implies more investment in civic education to build the capacity of the citizenry to appreciate their role and power in subnational government decision making.

d) Alignment of policies and legislations from a national and subnational government perspective to facilitate the harmonization of tax and levy legislations across counties and the country as a whole.

e) Better transparency and accountability mechanisms are in place to mitigate risks of corruption and weak political leadership.

In the event that some subnational governments' institutional capacity is extremely limited and devolution reforms seem to worsen outcomes, alternative measures should be considered to manage the subnational government. This includes the takeover of some administrative and fiscal responsibilities by the national government whilst investments are concurrently made to improve the institutional capacity of the subnational governments in question. Further, development partnerships should be forged with the private sector and multilateral development institutions to build capacity and address the specific challenges that plague poor performing subnational governments.

8.4. Limitations of the Study and Suggestions for Future Research

Even though this study provides insights into the effect of devolution on SMME growth, it only considered data drawn from two out of the forty seven subnational regions in Kenya. Secondly, the results were drawn from a single country's experience. The implication is that the results cannot provide robust generalizations, in as much as they are applicable and relevant to the country and other developing nations. Therefore future research in other counties have the potential to provide insights that would further enrich the results obtained in this study. Further, a cross country analysis of the research would be beneficial to examine how the experiences of SMMEs in other devolved states compare and contrast with those of the Kenyan enterprises studied.

The study adopted the case study methodology to generate theoretical constructs to extend an existing theory. Rich contextual factors that influence devolution and SMME development were illumined. Therefore the study was limited to theory generation leaving out the testing component. Hence, quantitative studies could be carried out to test the extended theory and determine the extent of the effects of each of the dimensions of devolution on SMME growth. Such studies would also facilitate the investigation of causality relationships and patterns of SMME growth within the context of devolution across different regions.

Another limitation is the fact that the study is cross-sectional in that it was conducted over a short period of time. Hence a longitudinal study would also be advisable so as to ensure clarity and validity of results regarding the relationship between devolution and SMME development. Developmental trends can also be captured across time.

The study was limited to exploring how subnational government machinery affected the development of SMMEs. The influence of development partners such as the multilateral development institutions or donors was not examined, yet as mentioned in the literature such organizations have been involved in lobbying and financing of devolution reforms in developing countries. What role have the development partners played at the subnational government level in promoting SMME development? Is their involvement beneficial or detrimental to subnational governments' performance in this regard?

Another factor that is highlighted in the study is the fact that lack of collaboration between the national government and county governments affected the performance of the county governments. The extent to which the national government influenced the capacity of the county governments to grow SMMEs is not captured. This is important considering the county governments heavily relied on financing from the national government. Therefore a study that further explores this dimension in relation to devolution and SMME development would be worthwhile.

References

Aberbach, J. D., & Rockman, B. A. (2002). Conducting and Coding Elite Interviews. *Political Science & Politics*, *35*(04), 673–676. https://doi.org/10.1017/S1049096502001142

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, *39*(6), 215–228.

African Economic Outlook. (2012). *African Economic Outlook 2012*. AfDB,OECD, UNDP, UNECA.

Ahmad, J., Devarajan, S., Khemani, S., & Shah, S. (2005). *Decentralization and Service Delivery* [World Bank Policy Research Working Paper 3603]. World Bank.

Akai, N., & Sakata, M. (2002). Fiscal decentralization contributes to economic growth: Evidence from state-level cross-section data for the United States. *Journal of Urban Economics*, *52*, 93–108.

Altmann, J., Cariño, L., Flaman, R., Kulessa, M., & Schulz, I. (2000). *The UNDP Role in Decentralization and Local Governance: A Joint UNDP – Government of Germany Evaluation*. United Nations Development Programme.

Altunbaş, Y., & Thornton, J. (2012). Fiscal Decentralization and Governance. *Public Finance Review*, *40*(1), 66–85. https://doi.org/10.1177/1091142111424276

Amin, D. K. Z. (2018). *Fiscal Decentralization as an Approach to Finance and Achieve SDGs in Africa*. UNECA.

Aterido, R., Hallward-Driemeier, M., & Pagés, C. (2011). Big Constraints to Small Firms' Growth? Business Environment and Employment Growth across Firms. *Economic Development and Cultural Change*, *59*(3), 609–647. https://doi.org/10.1086/658349

Atherton, A., & Smallbone, D. (2010). State promotion of SME development at the local level in China: An examination of two cases. *Journal of Chinese Entrepreneurship*, *2*(3), 225–241. https://doi.org/10.1108/17561391011078721

Atiase, V. Y., Mahmood, S., Wang, Y., & Botchie, D. (2018). Developing entrepreneurship in Africa: Investigating critical resource challenges. *Journal of Small Business and Enterprise Development*, *25*(4), 644–666. https://doi.org/10.1108/JSBED-03-2017-0084

Attahir, Y. (1995). Critical success factors for small business: Perceptions of South Pacific entrepreneurs. *Journal of Small Business Management*, *33*(2).

Awortwi, N. (2011). An unbreakable path? A comparative study of decentralization and local government development trajectories in Ghana and Uganda. *International Review of Administrative Sciences*, *77*(2), 347–377. https://doi.org/10.1177/0020852311399844

Ayyagari, M., Beck, T., & Demirguc-Kunt, A. (2007). Small and Medium Enterprises Across the Globe. *Small Business Economics*, *29*(4), 415–434. https://doi.org/10.1007/s11187-006-9002-5

Ayyagari, M., Demirguc-Kunt, A., & Maksimovic, V. (2011). *Small vs. Young Firms across the World Contribution to Employment, Job Creation, and Growth* (Policy Research Working Paper No. 5631). World Bank.

Babbie, E. (2011). *The Basics of Social Research*. Cengage Learning.

Bagaka, O. (2008, October 23). *Fiscal Decentralization in Kenya: The Constituency Development Fund and the Growth of Government*. 20th Annual Conference of the Association for Budgeting and Financial Management, Chicago.

Bahl, R. (1999). *Implementation Rules for Fiscal Decentralization*. 35.

Barasa, E. W., Manyara, A. M., Molyneux, S., & Tsofa, B. (2017). Recentralization within decentralization: County hospital autonomy under devolution in Kenya. *PLOS ONE*, *12*(8), e0182440. https://doi.org/10.1371/journal.pone.0182440

Bardhan, P. (2002). Decentralization of governance and development. *The Journal of Economic Perspectives*, *16*(4), 185–205.

Bardhan, P., & Mookherjee, D. (2000). Capture and Governance at Local and National Levels. *American Economic Review*, *90*(2), 135–139. https://doi.org/10.1257/aer.90.2.135

Bardhan, P., & Mookherjee, D. (2015). Decentralization and development: Dilemmas, trade-offs and safeguards. In *Handbook of Multilevel Finance* (pp. 461–470). Edward Elgar Publishing Limited.

Baskaran, T., & Feld, L. P. (2013). Fiscal Decentralization and Economic Growth in OECD Countries: Is There a Relationship? *Public Finance Review*, *41*(4), 421–445. https://doi.org/10.1177/1091142112463726

Baskaran, T., Feld, L. P., & Schnellenbach, J. (2014). *Fiscal federalism, decentralization and economic growth: Survey and meta-analysis*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2507735

Baumol, W. J. (1990). Entrepreneurship: Productive, Unproductive, and Destructive. *Journal of Political Economy*, *98*(5,), 893–921.

Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, *30*(11), 2931–2943. https://doi.org/10.1016/j.jbankfin.2006.05.009

Beck, T., Demirguc-Kunt, A., & Levine, R. (2005). SMEs, growth, and poverty: Cross-country evidence. *Journal of Economic Growth*, *10*(3), 199–229.

Beierle, T. C., & Cayford, J. (2002). *Democracy in Practice: Public Participation in Environment Decisions*. Resources for the Future.

Bertucci, G., & Senese, M. S. (2007). Decentralization and Electronic Governance. In *Decentralizing Governance: Emerging Concepts and Practices* (pp. 43–55). Brookings Institution Press.

Blöchliger, H. (2013). *Decentralisation and Economic Growth - Part 1: How Fiscal Federalism Affects Long-Term Development* (OECD Working Papers on Fiscal Federalism No. 14). https://doi.org/10.1787/5k4559gx1q8r-en

Bodman, P. (2011). Fiscal decentralization and economic growth in the OECD. *Applied Economics*, *43*(23), 3021–3035. https://doi.org/10.1080/00036840903427208

Bosire, C. M. (2013). *Devolution for development, conflict resolution, and limiting central power: An analysis of the constitution of Kenya 2010*.

Bowen, M., Morara, M., & Mureithi, S. (2009). Management of business challenges among small and micro enterprises in Nairobi-Kenya. *KCA Journal of Business Management*, *2*(1), 16–31.

Boyce, C., & Neale, P. (2006). *Conducting in-depth interviews: A guide for designing and conducting in-depth interviews for evaluation input*. Pathfinder International.

Bruton, G. D., Ahlstrom, D., & Li, H.-L. (2010). Institutional Theory and Entrepreneurship: Where Are We Now and Where Do We Need to Move in the Future? *Entrepreneurship Theory and Practice*, *34*(3), 421–440. https://doi.org/10.1111/j.1540-6520.2010.00390.x

Buluma, F. C. O., & Obande, M. N. M. (2015). Justification for a Devolved Systems of Government: Corporate Governance and Financial Management Issues in Kenya. *European Journal of Business and Management*, *7*(31).

Bwire, A., & Rodríguez-Pose, A. (2004). The economic (in)efficiency of devolution. *Environment and Planning A*, *36*(11).

Byron, M. (1993). Using Audio: Visual Aids in Geography Research: Questions of Access and Responsibility. *Area*, *25*(4), 8.

CBS. (1999). *National Micro and Small Enterprise Baseline Survey 1999*. Government of Kenya.

Cheema, G. S. (2007). Devolution with Accountability: Learning from Good Practices. In *Decentralizing Governance: Emerging Concepts and Practices* (pp. 170–188). Brookings Institution Press.

Cheema, G. S., & Rondinelli, D. A. (2007). *Decentralizing Governance*. Brookings Institution Press.

Cheeseman, N., Lynch, G., & Willis, J. (2016). Decentralisation in Kenya: The governance of governors. *The Journal of Modern African Studies*, *54*(1), 1–35. https://doi.org/10.1017/S0022278X1500097X

Chu, J., & Zheng, X.-P. (2013). China's Fiscal Decentralization and Regional Economic Growth: China's Fiscal Decentralization and Regional Economic Growth. *Japanese Economic Review*, *64*(4), 537–549. https://doi.org/10.1111/jere.12013

COG. (2016). *Counties Flagship Projects 2013 -2015*. https://cog.go.ke/index.php/best-practices/county-developments#county-flagship-projects-2016

CRA. (2015a). *Constitutional and Legislative Policy Instructing the Drafting of County Revenue Laws in Kenya*. Commission of Revenue Authority.

CRA. (2016). *Commission on Revenue Allocation (CRA): First Commissioners' End Term Report*. Government of Kenya.

CRA, K. (2015b). *Economic Policy Framework Instructing the Drafting of County Revenue Legislation*. Commission of Revenue Authority.

Creswell, J. W. (2007). *Qualitative inquiry & research design: Choosing among five approaches* (2nd ed). Sage Publications.

Cull, R., Xu, L. C., Yang, X., Zhou, L.-A., & Zhu, T. (2017). Market facilitation by local government and firm efficiency: Evidence from China. *Journal of Corporate Finance*, *42*, 460–480. https://doi.org/10.1016/j.jcorpfin.2015.06.002

Cunliffe, A. L., & Alcadipani, R. (2016). The Politics of Access in Fieldwork: Immersion, Backstage Dramas, and Deception. *Organizational Research Methods*, *19*(4), 535–561. https://doi.org/10.1177/1094428116639134

Daniels, L. (1999). The role of small enterprises in the household and national economy in Kenya: A significant contribution or a last resort? *World Development*, *27*(1), 55–65.

D'Arcy, M., & Cornell, A. (2016). Devolution and corruption in Kenya: Everyone's turn to eat? *African Affairs*, *115*(459), 246–273. https://doi.org/10.1093/afraf/adw002

Davidsson, P., Achtenhagen, L., & Naldi, L. (2005). *Research on Small Firm Growth: A Review*. 27.

De Rosa, D., Gooroochurn, N., & Gorg, H. (2010). *Corruption And Productivity: Firm-Level Evidence From The BEEPS Survey*. The World Bank. https://doi.org/10.1596/1813-9450-5348

Denscombe, M. (2010). *The good research guide for small-scale social research projects*. McGraw-Hill/Open University Press.

Denzin, N. K. (1978). *Sociological Methods: A Sourcebook*. McGraw-Hill.

Devers, K. J., & Frankel, R. M. (2000). Study Design in Qualitative Research-2: Sampling and Data Collection Strategies. *Education for Health*, *13*(2), 10.

Digdowiseiso, K., & Sugiyanto, E. (2021). How effective is institutional quality for the creation of small & medium enterprises (SMEs) in Indonesia? *Economics & Sociology*, *14*(1), 263–274. https://doi.org/10.14254/2071-789X.2021/14-1/17

Donahue, J. D. (1997). *Disunited States*. Harper Collins.

EACC. (2015). *Corruption and Ethics in Devolved Services: County Public Officers' Experiences, 2015*. Ethics and Anti-Corruption Commission.

Eaton, K., Kaiser, K.-A., & Smoke, P. J. (2011). *The Political Economy of Decentralization Reforms: Implications for Aid Effectiveness*. The World Bank. https://doi.org/10.1596/978-0-8213-8840-2

Ebdon, C., & Franklin, A. L. (2006). Citizen Participation in Budgeting Theory. *Public Administration Review*, *66*(3), 437–447. https://doi.org/10.1111/j.1540-6210.2006.00600.x

Edin, M. (2003). Local state corporatism and private business. *Journal of Peasant Studies*, *30*(3–4), 278–295. https://doi.org/10.1080/03066150412331311309

Edmore, M. (2017). The Impact of Legal and Regulatory Framework on SMEs Development: Evidence from Zimbabwe. *Research Journal of Finance and Accounting*, 7.

Eisenhardt, K. M. (1989). Building Theories from Case Study Research. *The Academy of Management Review*, *14*(4), 532–550.

Eisenhardt, K. M., & Graebner, M. E. (2007). Theory Building from Cases: Opportunities and Challenges. *The Academy of Management Journal*, *50*(1), 25–32.

Ekpo, A. H. (2008). *Decentralization and Service Delivery: A Framework Paper Prepared for the African Economic Research Consortium*.

Elgeyo Marakwet County Government. (2013). *Elgeyo Marakwet County Integrated Development Plan*. Elgeyo Marakwet County.

Erk, J. (2014). Federalism and Decentralization in Sub-Saharan Africa: Five Patterns of Evolution. *Regional & Federal Studies*, *24*(5), 535–552. https://doi.org/10.1080/13597566.2014.971769

Escaleras, M., & Chiang, E. P. (2017). Fiscal decentralization and institutional quality on the business environment. *Economics Letters*, *159*, 161–163. https://doi.org/10.1016/j.econlet.2017.07.019

Faguet, J.-P. (2004). Does decentralization increase government responsiveness to local needs? *Journal of Public Economics*, *88*(3–4), 867–893. https://doi.org/10.1016/S0047-2727(02)00185-8

Faguet, J.-P. (2014). Decentralization and Governance. *World Development*, *53*, 2–13. https://doi.org/10.1016/j.worlddev.2013.01.002

Faguet, J.-P., & Pöschl, C. (2015). *Is Decentralization Good for Development?: Perspectives from Academics and Policy Makers* (First). Oxford University Press.

Faguet, J.-P., & Sánchez, F. (2014). Decentralization and access to social services in Colombia. *Public Choice*, *160*(1–2), 227–249.

Fan, C. S., Lin, C., & Treisman, D. (2009). Political decentralization and corruption: Evidence from around the world. *Journal of Public Economics*, *93*(1–2), 14–34. https://doi.org/10.1016/j.jpubeco.2008.09.001

Farzanfar, R. (2005). *Using Qualitative Research Methods to Evaluate Automated Health Promotion/Disease Prevention Technologies: A Procedures' Manual*. Boston University. Robert Wood Johnson Foundation.

Filippetti, A., & Sacchi, A. (2016). Decentralization and economic growth reconsidered: The role of regional authority. *Environment and Planning C: Government and Policy*, *34*(8), 1793–1824. https://doi.org/10.1177/0263774X16642230

Firth, M., Gong, S. X., & Shan, L. (2013). Cost of government and firm value. *Journal of Corporate Finance*, *21*, 136–152. https://doi.org/10.1016/j.jcorpfin.2013.01.008

Fisman, R., & Svensson, J. (2007). Are corruption and taxation really harmful to growth? Firm level evidence. *Journal of Development Economics*, *83*(1), 63–75. https://doi.org/10.1016/j.jdeveco.2005.09.009

Flyvbjerg, B. (2011). Case Study. In *The Sage Handbook of Qualitative Research* (4th ed., pp. 301–316). Thousand Oaks.

Gamo, K. G., & Gollagari, R. (2020). Role of Local Government and MSMEs Performance: The Case of Ethiopia. *International Journal of Small and Medium Enterprises*, *3*(1), 1–17. https://doi.org/10.46281/ijsmes.v3i1.511

Ganaie, A. A., Bhat, S. A., Kamaiah, B., & Khan, N. A. (2018). Fiscal Decentralization and Economic Growth: Evidence from Indian States. *South Asian Journal of Macroeconomics and Public Finance*, *7*(1), 83–108. https://doi.org/10.1177/2277978718760071

Gemmell, N., Kneller, R., & Sanz, I. (2013). FISCAL DECENTRALIZATION AND ECONOMIC GROWTH: SPENDING VERSUS REVENUE DECENTRALIZATION. *Economic Inquiry*, *51*(4), 1915–1931. https://doi.org/10.1111/j.1465-7295.2012.00508.x

Gephart, R. P. (2004). Qualitative research and the Academy of Management Journal. *Academy of Management Journal*, *47*(4), 454–462.

Ghani, J. (2014). *Market preserving federalism: Implications for Malaysia*. Victoria University.

Gibbert, M., Ruigrok, W., & Wicki, B. (2008). What passes as a rigorous case study? *Strategic Management Journal*, *29*(13), 1465–1474. https://doi.org/10.1002/smj.722

Giordano, B., & Roller, E. (2004). 'Té Para Todos'? A Comparison of the Processes of Devolution in Spain and the UK. *Environment and Planning A*, *36*(12), 2163–2181. https://doi.org/10.1068/a3622

Giordano, R., Lanau, S., Tommasino, P., & Topalova, P. (2015). Does Public Sector Inefficiency Constrain Firm Productivity: Evidence from Italian Provinces. *IMF Working Papers*, *15*(168), 1. https://doi.org/10.5089/9781513580630.001

Gitonga, A. (2008). *Factors affecting growth of micro and small enterprises in Kenya*. Kenya Institute for Public Policy Research and Analysis.

Given, L. M. (Ed.). (2008). *The Sage encyclopedia of qualitative research methods*. Sage Publications.

Glaser, M. A., & Denhardt, R. B. (2000). Local government performance through the eyes of citizens. *Journal of Public Budgeting, Accounting & Financial Management*, *12*(1), 49–73.

Glick, W. H., Huber, G. P., Miller, C. C., Doty, D. H., & Sutcliffe, K. M. (1990). Studying Changes in Organizational Design and Effectiveness: Retrospective Event Histories and Periodic Assessments. *Organization Science*, *1*(3), 293–312. https://doi.org/10.1287/orsc.1.3.293

The Constitution of the Republic of Kenya, Pub. L. No. 1968 (1963).

GOK. (2007). *Kenya Vision 2030*. Government of Kenya.

The Constitution of Kenya, (2010).

GOK. (2011). *Urban Areas and Cities Act*. National Council for Law Reporting.

GOK. (2012a). *County Governments Act*. National Council for Law Reporting.

GOK. (2012b). *Intergovernmental Relations Act*. National Council for Law Reporting.

GOK. (2012c). *The Public Finance Management Act 2012*. National Council for Law Reporting.

Micro and Small Enterprises Act, Pub. L. No. 55 (2012).

GOK. (2013). *Vision 2030 Second Medium Term Plan 2013-2017*. Government of Kenya.

GOK. (2017). *National Trade Policy*. Government of Kenya.

Golafshani, N. (2003). Understanding Reliability and Validity in Qualitative Research. *The Quality Report*, *8*(4), 12.

Gordin, J. P. (2007). Patronage-Preserving Federalism? Legislative Malapportionment and Subnational Fiscal Policies in Argentina. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.999338

Gupta, P. D., Guha, S., & Krishnaswami, S. S. (2013). Firm growth and its determinants. *Journal of Innovation and Entrepreneurship*, *2*(1), 15.

Habibi, N., Huang, C., Miranda, D., Murillo, V., Ranis, G., Sarkar, M., & Stewart, F. (2003). Decentralization and Human Development in Argentina. *Journal of Human Development*, *4*(1), 73–101. https://doi.org/10.1080/1464988032000051496

Han, L., & Kung, J. K.-S. (2015). Fiscal incentives and policy choices of local governments: Evidence from China. *Journal of Development Economics*, *116*, 89–104. https://doi.org/10.1016/j.jdeveco.2015.04.003

Harvey, W. S. (2011). Strategies for conducting elite interviews. *Qualitative Research*, *11*(4), 431–441. https://doi.org/10.1177/1468794111404329

Hayek, F. A. (1945). The use of knowledge in society. *The American Economic Review*, 519–530.

Helmsing, A. H. J. (2003). Local economic development: New generations of actors, policies and instruments for Africa. *Public Administration and Development*, *23*(1), 67–76. https://doi.org/10.1002/pad.260

Holmes, R. M., Miller, T., Hitt, M. A., & Salmador, M. P. (2013). The Interrelationships Among Informal Institutions, Formal Institutions, and Inward Foreign Direct Investment. *Journal of Management*, *39*(2), 531–566. https://doi.org/10.1177/0149206310393503

Hwang, S. (2008). Utilizing Qualitative Data Analysis Software: A Review of Atlas.ti. *Social Science Computer Review*, *26*(4), 519–527. https://doi.org/10.1177/0894439307312485

Hyden, G. (2017). The decentralization experience in Africa: Beyond donor-driven approaches. *Africa Review*, *9*(1), 98–114. https://doi.org/10.1080/09744053.2016.1239930

IEA. (2017). *Enhancing Mobilization of Own Source Revenue in Nairobi City County: Issues and Opportunities*. Institute of Economic Affairs.

IFC. (2013). *IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction* (No. 83508).

ILO. (2015). *Small and medium-sized enterprises and decent and productive employment creation: Fourth item on the agenda* (IV; International Labour Conference). International Labour Office.

Independent Evaluation Group. (2014). *The Big Business of Small Enterprises: Evaluation of the World Bank Group Experience with Targeted Support to Small, and Medium-Size Enterprises, 2006-2012*. World Bank. https://openknowledge.worldbank.org/handle/10986/21191

Ipinnaiye, O., Dineen, D., & Lenihan, H. (2017). Drivers of SME performance: A holistic and multivariate approach. *Small Business Economics*, *48*(4), 883–911. https://doi.org/10.1007/s11187-016-9819-5

Jin, H., Qian, Y., & Weingast, B. R. (2005). Regional decentralization and fiscal incentives: Federalism, Chinese style. *Journal of Public Economics*, *89*(9–10), 1719–1742. https://doi.org/10.1016/j.jpubeco.2004.11.008

Kabaara, D. (2020, March 6). Better public participation can help in clearing Nairobi mess. *Business Daily Africa*. https://www.businessdailyafrica.com/analysis/ideas/Better-public-participation-can-help-in-clearing-Nairobi-mess/4259414-5479948-qojo98/index.html

Karogo, M. G., Nyaboga, A., Marwa, M., & Waiguchu, M. (2017). INFLUENCE OF ENVIRONMENTAL FACTORS ON SUCCESS OF ENTREPRENEURS IN THE TRADE SUB-SECTOR IN. *European Journal of Business and Strategic Management*, *9*, 29.

Kauzya, J.-M. (2007). *Political Decentralization in Africa: Experiences of Uganda, Rwanda and South Africa Discussion Paper.* 17.

Keating, M. (1998). What's wrong with asymmetrical government? *Regional & Federal Studies*, *8*(1), 195–218. https://doi.org/10.1080/13597569808421041

Okiiya Omtatah Okoiti v County Government of Kiambu [2018] eKLR, (High Court of Kenya - Kiambu December 2, 2018).

Richard Wainaina Muhindi and 2 Others (Suing on own behalf and on behalf of members of Kikuyu Bar Owners Savings and Co-operative Society Ltd) v County Government of Kiambu, (High Court of Kenya - Kiambu December 11, 2019).

Khaunya, M. F., Wawire, B. P., & Chepng'eno, V. (2015). Devolved Governance in Kenya; Is it a False Start in Democratic Decentralization for Development? *International Journal of Economics, Finance and Management*, *4*(1), 11.

Kiambu County. (2014). *The Kiambu County Finance Act, 2014*. The Government Printer, Nairobi.

Kiambu County. (2016a). *Kiambu County MTEF Stakeholders' Forums Report*.

Kiambu County. (2016b). *The Kiambu County Trade Licence Act, 2016*. The Government Printer, Nairobi.

Kiambu County. (2016c). *The Kiambu County Valuation and Rating Act, 2016*. The Government Printer, Nairobi.

Kiambu County. (2016d). *County Budget Review and Outlook Paper 2016*. Kiambu County Treasury.

Kiambu County. (2017a). *Summary of Key Achievements by Kiambu County Government*.

Kiambu County. (2017b). *The Kiambu County Citizen Petition and Participation Act, 2017*. The Government Printer, Nairobi.

Kiambu County. (2017c). *County Budget Review and Outlook Paper 2017*. Kiambu County Treasury.

Kiambu County. (2018a). *County Annual Development Plan 2018-2019*.

Kiambu County. (2018b). *County Annual Development Plan 2019-2020*.

Kiambu County. (2018c). *Kiambu County Integrated Development Plan 2018-2022*. County Government of Kiambu.

Kiambu County. (2018d). *The Kiambu County Alcoholic Drinks Control Act, 2018*. The Government Printer, Nairobi.

Kiambu County. (2018e). *The Kiambu County Co-operative Societies Act, 2018*. The Government Printer, Nairobi.

Kiambu County. (2018f). *The Kiambu County Enforcement Act, 2018*. The Government Printer, Nairobi.

Kiambu County. (2018g). *The Kiambu County Jijenge Fund Act, 2018*. The Government Printer, Nairobi.

Kiambu County. (2019a). *County Annual Development Plan FY 2020-2021*.

Kiambu County. (2019b). *County Fiscal Strategy Paper 2019*. Kiambu County Treasury.

Kiambu County. (2020). *County Fiscal Strategy Paper 2020*. Kiambu County Treasury.

Kiarie, N. (2014, August 14). Three Nairobi MCAs arrested in Sh280,000 bribery sting. *Business Daily Africa*.

Kimenyi, M. S. (2005). Efficiency and Efficacy of Kenya’s Constituency Development Fund: Theory and Evidence. *Economics Working Papers.200542*.

KIPPRA. (2016). *Kenya Economic Report 2016*. Kenya Institute for Public Policy Research and Analysis.

KIPPRA. (2017). *Kenya Economic Report 2017*. Kenya Institute for Public Policy Research and Analysis.

Kithinji, K. L. (2019). Navigating through the tides of a corrupt state: Youths engagement with SMEs and ICT in rural Kenya. In *ASC-TUFS Working Papers 2018: Development, Migration, and Resources in Africa* (p. 20). African Studies Center - Tokyo University of Foreign Studies.

KNBS. (2015a). *County Statistical Abstract: Kiambu County*. Kenya National Bureau of Statistics.

KNBS. (2015b). *County Statistical Abstract: Nairobi City County*. Kenya National Bureau of Statistics.

KNBS. (2016). *Micro, Small and Medium Establishments Basic Report 2016*. Government of Kenya.

KNBS. (2017). *Economic Survey 2017*. Government of Kenya.

KNBS. (2019). *Gross County Product 2019*. Kenya National Bureau of Statistics.

KNCCI. (2019). *Policy Brief: Eliminating Business Unfriendly Policies on Multiple Inter-County Taxation Affecting Micro, Small and Medium Enterprises*. Kenya National Chamber of Commerce & Industry.

Koelble, T. A., & Siddle, A. (2014). Decentralization in Post-Apartheid South Africa. *Regional & Federal Studies*, *24*(5), 607–623. https://doi.org/10.1080/13597566.2014.971773

Koerber, A., & McMichael, L. (2008). Qualitative Sampling Methods: A Primer for Technical Communicators. *Journal of Business and Technical Communication*, *22*(4), 454–473. https://doi.org/10.1177/1050651908320362

KSG. (2015). *Building Public Participation in Kenya’s Devolved Government*. Kenya School of Government.

Kubwa, C. (2020, May 1). Sh1m bribery claim: 3 Nairobi MCAs have case to answer. *The Star*. https://www.the-star.co.ke/news/2020-05-01-sh1m-bribery-claim-3-nairobi-mcas-have-case-to-answer/

Kyriacou, A. P., Muinelo-Gallo, L., & Roca-Sagalés, O. (2013). Fiscal decentralization and regional disparities_ The importance of good governance.pdf. *Regional Science*, *94*(1).

Kyriacou, A. P., & Roca-Sagalés, O. (2011). Fiscal decentralization and government quality in the OECD. *Economics Letters*, *111*(3), 191–193. https://doi.org/10.1016/j.econlet.2011.02.019

Lessmann, C. (2012). Regional Inequality and Decentralization: An Empirical Analysis. *Environment and Planning A: Economy and Space*, *44*(6), 1363–1388. https://doi.org/10.1068/a44267

Li, J., & Matlay, H. (2006). Chinese entrepreneurship and small business development: An overview and research agenda. *Journal of Small Business and Enterprise Development*, *13*(2), 248–262. https://doi.org/10.1108/14626000610665953

Liedholm, C. (2002). Small firm dynamics: Evidence from Africa and Latin America. *Small Business Economics*, *18*(1–3), 225–240.

Litvack, J. I., Ahmad, J., & Bird, R. M. (1998). *Rethinking decentralization in developing countries*. World Bank.

Litvack, & Seddon, J. (2002). *Decentralization Briefing Notes*. World Bank Institute. https://doi.org/10.1596/978-1-4648-0484-7

Loader, K. (2016). Is local authority procurement supporting SMEs? An analysis of practice in English local authorities. *Local Government Studies*, *42*(3), 464–484. https://doi.org/10.1080/03003930.2016.1157068

Lofrida, N., Luca, A. I. D., Strano, A., & Gulisano, G. (2014). Social Life Cycle Assessment in a Constructivist Realism Perspective: A Methodological Proposal. *Social LCA in Progress*, 8.

Machakos County Government. (2015). *Machakos County Integrated Development Plan*. Machakos County Government.

Mackenzie, N., & Knipe. (2006). Research Dilemmas Paradigms Methods and Methodology.pdf. *Issues in Educational Research*, *16*(2), 193–205.

MacManus, S. A., & Turner, P. A. (1993). Litigation as a Budgetary Constraint: Problem Areas and Costs. *Public Administration Review*, *53*(5), 462. https://doi.org/10.2307/976347

Maingi, S. M., Kinanga, R., & Odimba, P. (2019). Effect of Business Regulatory Procedures on Growth of Youth Òwned Small Medium Enterprises in Kenya: A Case Study of Ruiru Sub County. *The International Journal of Business & Management*, *7*(7). https://doi.org/10.24940/theijbm/2019/v7/i7/BM1907-003

Malesky, E. (2019). Decentralization and Business Performance. In *Decentralized Governance and Accountability: Academic Research and the Future of Donor Programming*. Cambridge University Press.

Malesky, E., McCulloch, N., & Nhat, N. D. (2015). The impact of governance and transparency on firm investment in Vietnam. *Economics of Transition*, 40.

Martinez-Vazquez, J., Lago-Peñas, S., & Sacchi, A. (2017). THE IMPACT OF FISCAL DECENTRALIZATION: A SURVEY: THE IMPACT OF FISCAL DECENTRALIZATION. *Journal of Economic Surveys*, *31*(4), 1095–1129. https://doi.org/10.1111/joes.12182

Mazonde, N. B. (2016). *Culture and the self-identity of women entrepreneurs in a developing country* [PhD Thesis].

Mbithi, A., Ndambuki, D., & Juma, F. O. (2019). Determinants of Public Participation in Kenya County Governments. *Journal of Asian and African Studies*, *54*(1), 52–69. https://doi.org/10.1177/0021909618794028

Mbondenyi, M. K., & Lumumba, P. (2016). A Conceptual and Historical Overview of Kenya’s Devolved System of Government. In *Devolution in Kenya: A Commentary* (p. 245). LawAfrica Publishing Ltd.

Mbugua, F., & Moronge, M. (2016). Effects of county government policies on the performance of small and medium enterprise in Kenya: A case of Kiambu County. *Strategic Journal of Business & Change Management*, *3*(2).

McGarry, J. (2012). The United Kingdom's Experiment in Asymmetric Autonomy and the Lessons Learned. In *Multinational Federalism* (pp. 129–148). Springer. http://link.springer.com/chapter/10.1057/9781137016744_7

McPherson, M. A. (1996). Growth of micro and small enterprises in southern Africa. *Journal of Development Economics*, *48*(2), 253–277. https://doi.org/10.1016/0304-3878(95)00027-5

Mead, D. C., & Liedholm, C. (1998). The dynamics of micro and small enterprises in developing countries. *World Development*, *26*(1), 61–74.

Mei, C., Chen, K., & Wu, X. (2016). Local Government Entrepreneurship in China: A Public Policy Perspective. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2928230

Meyer, C. B. (2001). A case in case study methodology. *Field Methods*, *13*(4), 329–352.

Meyer, N., & Meyer, D. F. (2016). The Relationship between the Creation of an Enabling Environment and Economic Development: A Comparative Analysis of Management at Local Government Sphere. *Polish Journal of Management Studies*, *14*(2), 150–160. https://doi.org/10.17512/pjms.2016.14.2.14

Mikecz, R. (2012). Interviewing Elites: Addressing Methodological Issues. *Qualitative Inquiry*, *18*(6), 482–493. https://doi.org/10.1177/1077800412442818

Mironov, M., & Zhuravskaya, E. (2016). Corruption in Procurement and the Political Cycle in Tunneling: Evidence from Financial Transactions Data. *American Economic Journal: Economic Policy*, *8*(2), 287–321. https://doi.org/10.1257/pol.20140188

Moberg, L. (2015). The political economy of special economic zones. *Journal of Institutional Economics*, *11*(1), 167–190. https://doi.org/10.1017/S1744137414000241

Montinola, G., Qian, Y., & Weingast, B. R. (1995). Federalism, Chinese Style: The Political Basis for Economic Success. *World Politics*, 30.

Mookherjee, D. (2015). Political Decentralization. *Annual Review of Economics*, *7*(1), 231–249. https://doi.org/10.1146/annurev-economics-080614-115527

Morgan, K. (2002). English Question: Regional Perspectives on a Fractured Nation. *Regional Studies*, *36*(7), 797–810.

Moynihan, D. P. (2003). Normative and Instrumental Perspectives on Public Participation Citizen Summits in Washington, D.C. *The American Review of Public Administration*, *33*(2), 164–188.

MSEA. (2013). *Micro and Small Enterprises Authority (MSEA) Strategic Plan 2013—2017*. Government of Kenya.

Mthimkhulu, A. M., & Aziakpono, M. J. (2015). What impedes micro, small and medium firms' growth the most in South Africa? Evidence from World Bank Enterprise Surveys. *South African Journal of Business Management*, *46*(2), 15–27. https://doi.org/10.4102/sajbm.v46i2.88

Mugambi, K. W., & Theuri, F. S. (2014). The Challenges Encountered By County Goverments In Kenya During Budget Preparation. *IOSR Journal of Business and Management*, *16*(2), 7.

Muia, D., & Chitere, P. (2011). Devolution of functions and authority to sub-national government in Kenya: Reflections on capacities of villages, locations and districts for self-governance. In *Working with rural communities participatory action research in Kenya*. University of Nairobi Press.

Muna, W. K. (2016). *Fiscal Decentralization in Kenya: An Analysis of the Implementation of the Constituency Development Fund in the Naivasha and Gatanga Constituencies*. University of KwaZulu-Natal.

Munya, A., Hussain, N. H. M., & Njuguna, M. B. (2015). Can devolution and rural capacity trigger de-urbanization? Case studies in Kenya and Malaysia respectively. *GeoJournal*, *80*(3), 427–443. https://doi.org/10.1007/s10708-014-9559-5

Muraya, P. W. K. (2006). Urban planning and small-scale enterprises in Nairobi, Kenya. *Habitat International*, *30*(1), 127–143. https://doi.org/10.1016/j.habitatint.2004.08.002

Mwangi, D. (2014). Effect of Devolution on Small and Medium Enterprises Performance in Kenya. *Strategic Journal of Business & Change Management*, *1*(2).

Mwangi, M., George, G. E., Mindila, R., Nyakwara, S., Ongeri, J., & Okeyo, H. N. (2013). An evaluation of Financing and Development of Small and Medium Enterprises in Mombasa County Kenya. *European Journal of Business and Management*, *5*(14).

Mwenda, K. A. (2010). *Devolution in Kenya: Prospects, challenges and the future* (IEA Research Paper No. 24). Institute of Economic Affairs.

Nairobi County. (2013). *The Nairobi City County Finance Act, 2013*. The Government Printer, Nairobi.

Nairobi County. (2014a). *Nairobi County Integrated Development Plan 2014*. Nairobi City County.

Nairobi County. (2014b). *The Inquiry into the Alleged Malpractice in the Market Sector*. Nairobi City County.

Nairobi County. (2014c). *The Nairobi City County Alcoholic Drinks Control and Licensing Act, 2014*. The Government Printer, Nairobi.

Nairobi County. (2014d). *The Inquiry into Alleged Malpractices in the Markets Sector, Department of Trade, Industrialization, Co-operative Development and Tourism*. Nairobi City County.

Nairobi County. (2015a). *The Nairobi City County Public Participation Act, 2015*. The Government Printer, Nairobi.

Nairobi County. (2015b). *Report of the Committee on Trade, Tourism and Co-operatives on Site Visit to Muthurwa Hawker's Markets*. Nairobi City County.

Nairobi County. (2017a). *County Annual Development Plan (CADP) 2018/2019*. Nairobi City County.

Nairobi County. (2017b). *The Nairobi City County Inspectorate Service Act, 2017*. The Government Printer, Nairobi.

Nairobi County. (2018a). *County Annual Development Plan (CADP) 2019/2020*. Nairobi City County.

Nairobi County. (2018b). *Medium Term Debt Management Strategy 2018/2019*. Nairobi City County.

Nairobi County. (2018c). *Nairobi County Integrated Development plan 2018-2022*. Nairobi City County.

Nairobi County. (2018d). *The Report of the Sectoral Committee on Trade, Tourism and Cooperatives on the Consideration of the Sector Budget Estimates for the Financial Year 2018/2019*. Nairobi City County.

Nairobi County. (2018e). *Medium Term Expenditure Framework (MTEF) Public Participation Report Financial Year 2018/2019*. Nairobi City County.

Nairobi County. (2018f). *The Report of the Sectoral Committee on Trade, Tourism and Cooperatives on the Examination of Supplementary Budget Estimates for the Financial Year 2017/2018*. Nairobi City County.

Nairobi County. (2018g). *The Third Report of the Sectoral Committee on Trade, Tourism and Co-operatives on the Consideration of the County Integrated Plan 2018-2022 and the Annual Development Plan 2018-2019*. Nairobi City County.

Nairobi County. (2018h). *The Report of the Sectoral Committee on Trade, Tourism and Cooperatives on the Consideration of the County Annual Development Plan 2019/2020 for the Sector of Commerce, Tourism and Cooperatives*. Nairobi City County.

Nairobi County. (2019a). *The Nairobi City County Trade Licensing Act, 2019*. The Government Printer, Nairobi.

Nairobi County. (2019b). *The Report of the Sectoral Committee on Trade, Tourism and Cooperatives on Financial Procedures and Budget Making Process*. Nairobi City County.

Nairobi County. (2019c). *The Report of the Sectoral Committee on Trade, Tourism and Cooperatives on the Training Workshop on Conceptualization and Development of Legislative Proposals*. Nairobi City County.

Nairobi County. (2019d). *Nairobi City County Annual Development Plan (CADP) 2020-21*. Nairobi City County.

Nairobi County. (2020, June 15). *Sonko roots for fair allocation as new markets open*. Nairobi City County. https://nairobi.go.ke/sonko-roots-fair-allocation-new-markets-open/

Najib, M., Abdul Rahman, A. A., & Fahma, F. (2021). Business Survival of Small and Medium-Sized Restaurants through a Crisis: The Role of Government Support and Innovation. *Sustainability*, *13*(19), 10535. https://doi.org/10.3390/su131910535

NaMSIP. (2017). *Environmental and Social Impact Assessment Report for Proposed Construction of Karandini Market*. Government of Kenya.

Nashikawa, A., & Ogada, M. (2019). Contributions of County Levies to the Total Cost of Fresh Fruit and Vegetables' Business in Taita Taveta County, Kenya. *International Journal of Development and Management Review*, *14*(1), 16.

Neshkova, M. I., & Guo, H. (2012). Public Participation and Organizational Performance: Evidence from State Agencies. *Journal of Public Administration Research and Theory*, *22*(2), 267–288. https://doi.org/10.1093/jopart/mur038

Nguyen, B., Mickiewicz, T., & Du, J. (2018). Local governance and business performance in Vietnam: The transaction costs' perspective. *REGIONAL STUDIES*, *52*(4), 17.

Nichter, S., & Goldmark, L. (2009). Small Firm Growth in Developing Countries. *World Development*, *37*(9), 1453–1464. https://doi.org/10.1016/j.worlddev.2009.01.013

Nieuwenhuizen, C. (2019). The effect of regulations and legislation on small, micro and medium enterprises in South Africa. *Development Southern Africa*, *36*(5), 666–677. https://doi.org/10.1080/0376835X.2019.1581053

Njenga, S. (2019, July 18). Kiambaa bar owners oppose new licensing law. *The Star*. https://www.the-star.co.ke/counties/central/2019-07-18-kiambaa-bar-owners-oppose-new-licensing-law/

North, D. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press.

Ntiamoah, B. E., Li, D., & Kwamega, M. (2016). Impact of Government and Other Institutions' Support on Performance of Small and Medium Enterprises in the Agribusiness Sector in Ghana. *American Journal of Industrial and Business Management*, *06*(05), 558–567. https://doi.org/10.4236/ajibm.2016.65052

Nugent, J. B., & Yhee, S.-J. (2002). Small and medium enterprises in Korea: Achievements, constraints and policy issues. *Small Business Economics*, *18*(1–3), 85–119.

OAG. (2016). *Report of the Auditor General on the Financial Statements of County Executive of Kiambu for the year ended 30th June 2016*.

OAG. (2018). *Report of the Auditor General on the Financial Statements of County Assembly of Kiambu for the year ended 30th June 2018*. Kenya National Audit Office.

Oates, W. E. (1999). An essay on fiscal federalism. *Journal of Economic Literature*, *37*(3), 1120–1149.

OCOB. (2014). *Annual County Governments Budget Implementation Review Report for FY 2013/14*. Government of Kenya.

OCOB. (2015). *Annual County Governments Budget Implementation Review Report for FY 2014/15*. Government of Kenya.

OCOB. (2016). *Annual County Governments Budget Implementation Review Report for FY 2015/16*. Government of Kenya.

OCOB. (2017). *Annual County Governments Budget Implementation Review Report for FY 2016/17*. Government of Kenya.

OCOB. (2018). *Annual County Governments Budget Implementation Review Report for FY 2017/18*. Government of Kenya.

OCOB. (2019). *Annual County Governments Budget Implementation Review Report for FY 2018/19*. Government of Kenya.

Odongo, N. H., & Wang, D. (2016). CONSTRAINTS IN DEVELOPMENT OF MICRO AND SMALL ENTERPRISES IN THE ECONOMY OF KENYA. *International Journal of Management Research & Review*, *6*(6), 10.

OECD. (2001). *Devolution and globalisation: Implications for local decision-makers* (Vol. 498). OECD Publishing.

OECD. (2017). *Small, Medium, Strong. Trends in SME Performance and Business Conditions*. OECD Publishing. https://doi.org/10.1787/9789264275683-en

O'Gorman, C. (2001). The sustainability of growth in small- and medium-sized enterprises. *International Journal of Entrepreneurial Behavior & Research*, *7*, 60–75. https://doi.org/10.1108/13552550110396095

Ogwang, Y. (2017, January 29). Devolution has been a boon for trade and economy. *Daily Nation*. http://www.nation.co.ke/oped/Opinion/Devolution-boon-for-trade-/440808-3790860-ar0v4az/index.html

Oi, J. C. (1992). Fiscal Reform and the Economic Foundations of Local State Corporatism in China. *World Politics*, *45*(01), 99–126. https://doi.org/10.2307/2010520

Oi, J. C. (1995). The role of the local state in China's transitional economy. *The China Quarterly*, *144*, 1132–1149.

Okello, N., Beevers, L., Douven, W., & Leentvaar, J. (2009). The doing and un-doing of public participation during environmental impact assessments in Kenya. *Impact Assessment and Project Appraisal*, *27*(3), 217–226. https://doi.org/10.3152/146155109X465940

Okoth-Ogendo, H. W. (1972). The politics of constitutional change in Kenya since independence, 1963-69. *African Affairs*, *71*(282), 9–34.

Okpara, J. O. (2011). Factors constraining the growth and survival of SMEs in Nigeria: Implications for poverty alleviation. *Management Research Review*, *34*(2), 156–171. https://doi.org/10.1108/01409171111102786

Olowu, D. (2003). Local institutional and political structures and processes: Recent experience in Africa. *Public Administration and Development*, *23*(1), 41–52. https://doi.org/10.1002/pad.258

Ong'olo, D., & Owino, S. (2013). *SMEs Development in the Devolved Governance System* (Research Report No. 71/13). CUTS Centre for International Trade Economics and Environment.

Onwuegbuzie, A. J., & Leech, N. L. (2007). A Call for Qualitative Power Analyses. *Quality & Quantity*, *41*(1), 105–121. https://doi.org/10.1007/s11135-005-1098-1

Park, S., Lee, I. H., & Kim, J. E. (2020). Government support and small- and medium-sized enterprise (SME) performance: The moderating effects of diagnostic and support services. *Asian Business & Management*, *19*(2), 213–238. https://doi.org/10.1057/s41291-019-00061-7

Parker, A. N. (1995). *Decentralization: The way forward for rural development?* (Vol. 1475). World Bank Publications.

Patton, M. Q. (2002). *Qualitative Research and Evaluation Methods* (3rd Ed). Sage Publications.

Peng, M. W. (2003). Institutional Transitions and Strategic Choices. *The Academy of Management Review*, *28*(2), 23.

Peterson, G. E., & Muzzini, E. (2005). Decentralizing Basic Infrastructure Services. In *East Asia Decentralizes: Making Local Government Work* (pp. 209–236). World Bank.

Pike, A., & Tomaney, J. (2009). The state and uneven development: The governance of economic development in England in the post-devolution UK. *Cambridge Journal of Regions Economy and Society*, *2*(1), 13–34. https://doi.org/10.1093/cjres/rsn025

Prud'homme, R. (1994). *On the dangers of decentralization* (No. WPS1252; p. 1). The World Bank.

Prud'homme, R. (2003). Fiscal decentralisation in Africa: A framework for considering reform. *Public Administration and Development*, *23*(1), 17–27. https://doi.org/10.1002/pad.256

Qian, Y., & Weingast, B. R. (1997). Federalism as a commitment to preserving market incentives. *The Journal of Economic Perspectives*, *11*(4), 83–92.

Riedl, R. B., & Dickovick, J. T. (2014). Party Systems and Decentralization in Africa. *Studies in Comparative International Development*, *49*(3), 321–342. https://doi.org/10.1007/s12116-013-9144-9

Rodden, J., & Rose-Ackerman, S. (1997). Does Federalism Preserve Markets? *Virginia Law Review*, *83*(7), 1521. https://doi.org/10.2307/1073767

Rodriguez-Pose, A., & Ezcurra, R. (2010). Does decentralization matter for regional disparities? A cross-country analysis. *Journal of Economic Geography*, *10*(5), 619–644. https://doi.org/10.1093/jeg/lbp049

Rodriguez-Pose, A., & Ezcurra, R. (2011). Is fiscal decentralization harmful for economic growth? Evidence from the OECD countries. *Journal of Economic Geography*, *11*(4), 619–643. https://doi.org/10.1093/jeg/lbq025

Rodríguez-Pose, A., & Gill, N. (2003). The Global Trend towards Devolution and its Implications. *Environment and Planning C: Government and Policy*, *21*(3), 333–351. https://doi.org/10.1068/c0235

Rodríguez-Pose, A., & Gill, N. (2004). Is There a Global Link between Regional Disparities and Devolution? *Environment and Planning A*, *36*(12), 2097–2117. https://doi.org/10.1068/a362

Rodríguez-Pose, A., & Gill, N. (2005). On the 'economic dividend' of devolution. *Regional Studies*, *39*(4), 405–420. https://doi.org/10.1080/00343400500128390

Rondinelli, D. A. (2007). Parallel and Partnership Approaches to Decentralized Governance: Experience in Weak States. In *Decentralizing Governance: Emerging Concepts and Practices* (pp. 21–40). Brookings Institution Press.

Rondinelli, D. A., McCullough, J. S., & Johnson, R. W. (1989). Analysing decentralization policies in developing countries: A political-economy framework. *Development and Change*, *20*(1), 57–87.

Rondinelli, D. A., Nellis, J. R., & Cheema, G. S. (1983). *Decentralization in developing countries: A review of recent experience*. World Bank.

Rubinfeld, D. L. (1997). On Federalism and Economic Development. *Virginia Law Review*, *83*(7), 1581. https://doi.org/10.2307/1073769

Saad, I. (2001). Indonesia's Decentralization Policy: The Budget Allocation and Its Implications for the Business Environment. *Decentralization and Democratization in Southeast Asia*, 23.

Saavedra, P. A. (2009). *A Study of the Impact of Decentralization on Access to Service Delivery*. George State University.

Sampson, H. (2004). Navigating the waves: The usefulness of a pilot in qualitative research. *Qualitative Research*, *4*(3), 383–402. https://doi.org/10.1177/1468794104047236

Saunders, M. N. K., Lewis, P., & Thornhill, A. (2009). *Research methods for business students* (5th ed). Prentice Hall.

Schramm, W. (1971). *Notes on Case Studies of Instructional Media Projects.*

Sharu, H., & Guyo, W. (2015). Factors Influencing Growth of Youth Owned Small and Medium Enterprises in Nairobi County, Kenya. *International Journal of Science and Research (IJSR)*, *4*(4), 973–987.

Shenton, A. K., & Hayter, S. (2004). Strategies for gaining access to organisations and informants in qualitative studies. *Education for Information*, *22*(3–4), 223–231. https://doi.org/10.3233/EFI-2004-223-404

Shibia, A. G., & Barako, D. G. (2017). Determinants of micro and small enterprises growth in Kenya. *Journal of Small Business and Enterprise Development*, *24*(1), 105–118. https://doi.org/10.1108/JSBED-07-2016-0118

Shleifer, A., & Vishny, R. W. (1994). Politicians and Firms. *The Quarterly Journal of Economics*, *109*(4), 995–1025. https://doi.org/10.2307/2118354

Shohibul, A., Sarjiyanto, S., & Sarwoto, S. (2019). Are SME's Product and Local Government Programs (OVOP) Coherent? *JEJAK*, *12*(1), 100–126. https://doi.org/10.15294/jejak.v12i1.17137

Siegel, J. (2007). Contingent Political Capital and International Alliances: Evidence from South Korea. *Administrative Science Quarterly*, *52*(4), 621–666. https://doi.org/10.2189/asqu.52.4.621

Silva, J. A. (2005). Devolution and regional disparities in the Philippines: Is there a connection? *Environment and Planning C: Government and Policy*, *23*, 399–417.

Sinha, A. (2005). Political Foundations of Market-Enhancing Federalism: Theoretical Lessons from India and China. *Comparative Politics*, *37*(3), 337. https://doi.org/10.2307/20072893

Smallbone, D., & Welter, F. (2001). The Role of Government in SME Development in Transition Economies. *International Small Business Journal: Researching Entrepreneurship*, *19*(4).

Smit, B. (2002). Atlas. Ti for qualitative data analysis. *Perspectives in Education*, *20*(3), 65–75.

Smoke, P. (2003). Decentralisation in Africa: Goals, dimensions, myths and challenges. *Public Administration and Development*, *23*(1), 7–16. https://doi.org/10.1002/pad.255

Smoke, P. (2015). Rethinking Decentralization: Assessing Challenges to a Popular Public Sector Reform: Assessing Challenges to a Popular Public Sector Reform. *Public Administration and Development*, *35*(2), 97–112. https://doi.org/10.1002/pad.1703

Sobel, R. S., Dutta, N., & Roy, S. (2013). Does fiscal decentralization result in a better business climate? *Applied Economic Letters*, *20*, 84–91.

Sokolov, V., & Solanko, L. (2016). Political Influence, Firm Performance and Survival. *BOFIT Discussion Papers*. https://doi.org/10.2139/ssrn.3000367

Stenbacka, C. (2001). Qualitative research requires quality concepts of its own. *Management Decision*, *39*(7), 551–556. https://doi.org/10.1108/EUM0000000005801

Tambunan, T. (2008). SME development, economic growth, and government intervention in a developing country: The Indonesian story. *Journal of International Entrepreneurship*, *6*(4), 147–167. https://doi.org/10.1007/s10843-008-0025-7

Tan, S. W., & Tran, T. T. (2017). *The Effect of Local Governance on Firm Productivity and Resource Allocation: Evidence from Vietnam*. The World Bank. https://doi.org/10.1596/1813-9450-8118

Tapscott, C. (2004). Does one size-fit-all? The case for the asymmetrical devolution of local power in South Africa. *Journal of Public Administration*, *223*. https://journals.co.za/content/jpad/39/1/EJC51317

Teixeira, A. C., & Barros, M. J. (2014). Local municipalities' involvement in promoting the internationalisation of SMEs. *Local Economy: The Journal of the Local Economy Policy Unit*, *29*(1–2), 141–162. https://doi.org/10.1177/0269094214522115

Tellis, W. M. (1997). Application of a case study methodology. *The Qualitative Report*, *3*(3), 1–19.

Thanh, S. D., & Canh, N. P. (2020). Fiscal Decentralization and Economic Growth of Vietnamese Provinces: The Role of Local Public Governance. *Annals of Public and Cooperative Economics*, *91*(1), 119–149. https://doi.org/10.1111/apce.12255

The Edinburgh Group. (2013). *Growing the global economy through SMEs*. The Edinburgh Group.

Thornton, J. (2007). Fiscal decentralization and economic growth reconsidered. *Journal of Urban Economics*, *61*(1), 64–70. https://doi.org/10.1016/j.jue.2006.06.001

Tiebout, C. M. (1956). A pure theory of local expenditures. *Journal of Political Economy*, *64*(5), 416–424.

Tomaney, J. (2016). Limits of Devolution: Localism, Economics and Post-democracy. *The Political Quarterly*, *87*(4), 546–552.

Topal, A. (2015). Global Processes and Local Consequences of Decentralization: A Sub-national Comparison in Mexico. *Regional Studies*, *49*(7), 1126–1139. https://doi.org/10.1080/00343404.2013.812782

Tuli, F. (2011). The Basis of Distinction Between Qualitative and Quantitative Research in Social Science: *Reflection on Ontological, Epistemological and Methodological Perspectives*. *Ethiopian Journal of Education and Sciences*, *6*(1). https://doi.org/10.4314/ejesc.v6i1.65384

Turkana County Government. (2013). *Turkana County Integrated Development Plan*. Turkana County Government.

Van Cauwenberge, P., Beyne, P., & Vander Bauwhede, H. (2016). An empirical investigation of the influence of municipal fiscal policy on firm growth. *Environment and Planning C: Government and Policy*, *34*(8), 1825–1842. https://doi.org/10.1177/0263774X16642767

Von Luebke, C. (2009). The Political Economy of Local Governance: Findings from an Indonesian Field Study. *Bulletin of Indonesian Economic Studies*, *45*(2), 201–230.

Wagana, D. M. (2017). *Effect of Governance Decentralization on Service Delivery in County Governments in Kenya*. Jomo Kenyatta University of Agriculture and Technology.

Wainaina, E. (2019, August 15). County Assemblies accused of going to bed with governors. *People Daily*. https://www.pd.co.ke/news/national/county-assemblies-accused-of-going-to-bed-with-governors-1878/

Wang, C., Ye, J., & Franco, J. (2014). Local State Corporatism or Neo-Guanxilism? Observations from the county level of government in China. *Journal of Contemporary China*, *23*(87), 498–515. https://doi.org/10.1080/10670564.2013.843925

Wang, J., & Yu, W. (2017). Government Performance in the Eyes of Business: An Empirical Study of SMEs in China. *Public Performance & Management Review*, *40*(4), 701–721. https://doi.org/10.1080/15309576.2017.1335219

Wang, Y. (2016). What are the biggest obstacles to growth of SMEs in developing countries? - An empirical evidence from an enterprise survey. *Borsa Instanbul Review*, *16*(3), 167–176.

Wehner, J. H.-G. (2000). Asymmetrical devolution. *Development Southern Africa*, *17*(2), 249–262. https://doi.org/10.1080/713661401

Weingast, B. R. (1995). The economic role of political institutions: Market-preserving federalism and economic development. *Journal of Law, Economics, & Organization*, 1–31.

Weingast, B. R. (2009). Second generation fiscal federalism: The implications of fiscal incentives. *Journal of Urban Economics, 65*.

Weingast, B. R. (2014). Second generation fiscal federalism: Political aspects of decentralization and economic development. *World Development*, *53*, 14–25.

Welch, C., Marschan-Piekkari, R., Penttinen, H., & Tahvanainen, M. (2002). Corporate elites as informants in qualitative international business research. *International Business Review*, *11*(5), 611–628. https://doi.org/10.1016/S0969-5931(02)00039-2

Wenene, M. T., Steen, T., & Rutgers, M. R. (2016). Civil servants' perspectives on the role of citizens in public service delivery in Uganda. *International Review of Administrative Sciences*, *82*(1), 169–189. https://doi.org/10.1177/0020852315576704

Williamson, A. R., & Scicchitano, M. J. (2014). Dimensions of Public Meeting Participation. *Urban Affairs Review*, *50*(1), 13.

Willis, J. (2007). History and Foundations of Interpretivist Research. In *Foundations of Qualitative Research: Interpretive and Critical Approaches*. SAGE Publications, Inc. https://doi.org/10.4135/9781452230108

World Bank. (2000a). *Decentralization Toolkit*. World Bank. http://www1.worldbank.org/publicsector/decentralization/toolkit9.pdf

World Bank (Ed.). (2000b). *Entering the 21st century: World development report, 1999/2000*. Published for the World Bank, Oxford University Press.

World Bank. (2012). *Devolution without Disruption: Pathways to a Successful New Kenya* (No. 72297). World Bank.

World Bank. (2014). *The Evolution of Kenya's Devolution: What's Working Well; What Could Work Better*. World Bank.

World Bank. (2016). *Doing Business in Kenya 2016*. World Bank.

World Bank. (2018). *Doing Business 2018 Kenya*. World Bank.

World Bank. (2019a). *Doing Business 2020: Economy Profile Kenya* (p. 69). World Bank.

World Bank. (2019b). *The World Bank Enterprise Surveys: Kenya 2018 Country Profile* (p. 12). World Bank.

World Bank. (2020, February 27). *Ease of Doing Business in Kenya*. Trading Economics. https://tradingeconomics.com/kenya/ease-of-doing-business

Wu, X., Ramesh, M., Howlett, M. P., & Gu, Q. (2016). Local Government Entrepreneurship and Global Competitiveness: A Case Study of Yiwu Market in China. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2928215

Xiang, D., & Worthington, A. C. (2017). The impact of government financial assistance on the performance and financing of Australian SMEs. *Accounting Research Journal*, *30*(4), 447–464. https://doi.org/10.1108/ARJ-04-2014-0034

Yakovlev, E., & Zhuravskaya, E. (2013). The Unequal Enforcement of Liberalization: Evidence From Russia's Reform of Business Regulation: The Unequal Enforcement of Liberalization. *Journal of the European Economic Association*, *11*(4), 808–838. https://doi.org/10.1111/jeea.12026

Yin, R. K. (2009). *Case Study Research Design and Methods* (2nd ed, Vol. 5). Sage Publications.

Yu, J., & Gao, X. (2013). Redefining Decentralization: Devolution of Administrative Authority to County Governments in Zhejiang Province. *Australian Journal of Public Administration*, *72*(3), 239–250. https://doi.org/10.1111/1467-8500.12038

Yukhanaev, A., Fallon, G., Baranchenko, Y., & Anisimova, A. (2015). An Investigation into the Formal Institutional Constraints that Restrict Entrepreneurship and SME Growth in Russia. *Journal of East-West Business*, *21*(4), 313–341. https://doi.org/10.1080/10669868.2015.1092190

Zang, X., & Chen, N. (2015). How Do Rural Elites Reproduce Privileges in Post-1978 China? Local corporatism, informal bargaining and opportunistic parasitism. *Journal of Contemporary China*, *24*(94), 628–643. https://doi.org/10.1080/10670564.2014.975956

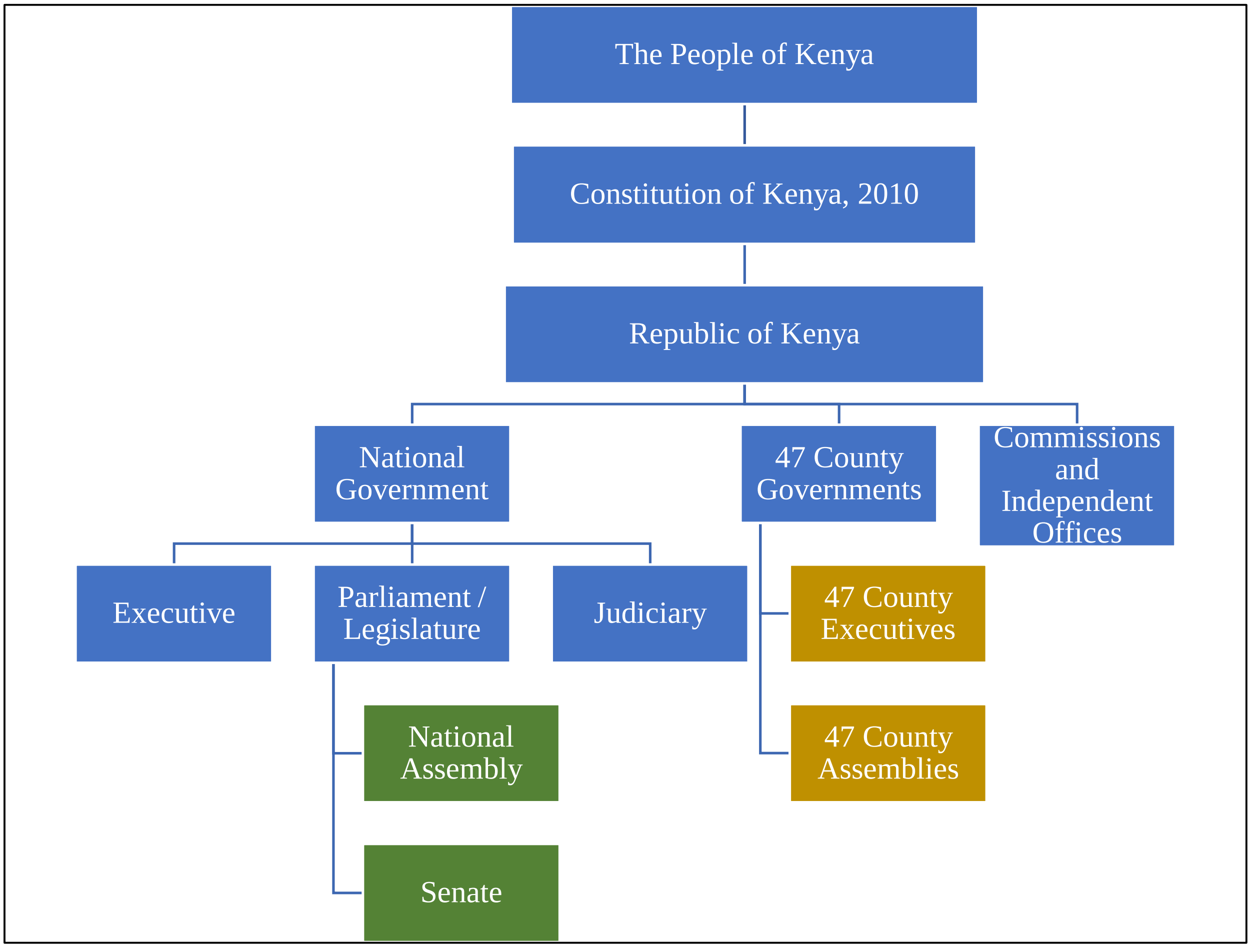
Zhang, T., & Zou, H. (1998). Fiscal decentralization, public spending, and economic growth in China. *Journal of Public Economics*, *67*(2), 221–240.

Zhou, W. (2013). Political connections and entrepreneurial investment: Evidence from China's transition economy. *Journal of Business Venturing*, *28*(2), 299–315. https://doi.org/10.1016/j.jbusvent.2012.05.004

Zhuravskaya, E. V. (2000). Incentives to provide local public goods: Fiscal federalism, Russian style. *Journal of Public Economics*, *76*(3), 337–368.

Zuckerman, H. (1972). Interviewing an Ultra-Elite. *Public Opinion Quarterly*, *36*(2), 159. https://doi.org/10.1086/267989

Appendix 1: The Structure of the Republic of Kenya



Source: Adapted from The Constitution of Kenya (The Constitution of Kenya, 2010) *& World Bank (2014)*

Appendix 2: Research Permit

THIS IS TO CERTIFY THAT:
MISS. EVELYN CHEMUTAI TIREN
of UNIVERSITY OF THE WITWATERSRAND, 0-606 Nairobi,has been permitted to conduct research in
Kiambu , Nairobi Counties

on the topic: ***SMALL MEDIUM AND MICRO ENTERPRISES GROWTH UNDER THE DEVOLVED SYSTEM OF GOVERNMENT IN KENYA***

for the period ending:
6th September,2019

Permit No : NACOSTI/P/18/47148/25054
Date Of Issue : 6th September,2018
Fee Recieved :Ksh 2000

....
Applicant's Signature

....
Director General
National Commission for Science, Technology & Innovation

Appendix 3: Ethics Clearance Certificate

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Tiren

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER: H18/06/37**
PROJECT TITLE	Small, medium and micro entreprises' growth under the devolved system of government in Kenya
INVESTIGATOR(S)	Miss E Tiren
SCHOOL/DEPARTMENT	Wits Business School/
DATE CONSIDERED	22 June 2018
DECISION OF THE COMMITTEE	Approved
EXPIRY DATE	23 July 2021
DATE 24 July 2018	**CHAIRPERSON** (Professor J Knight)

cc: Supervisor : Dr R Horne

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10004, 10th Floor, Senate House, University. Unreported changes to the application may invalidate the clearance given by the HREC (Non-Medical)

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

Signature

21 / 09 / 18
Date

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

Appendix 4: Interview Protocol

Title of project: **Small, Medium and Micro Enterprises' Growth under the Devolved System of Government in Kenya**

A. Interview Guide for County Government Officials

Purpose: To obtain the county government officials' perspectives on the policies drawn and interventions implemented by their respective county governments to improve the local business environment and subsequently enhance SMME growth. The interview questions are also designed to elicit information on the challenges faced by county governments in their quest to improve the local business environment and solicit recommendations that will improve their effectiveness with regards to growing SMMEs.

Date:

Location (County):

Identifier Code:

Position Held in the County:

How long have you been working in the County Government? ______________________

Interview Questions

Starting Point: Prior to devolution, SMME development policies were drawn at the national level taking little consideration of regional needs. However, with devolution in place the SMME development agenda is in the hands of county governments. Please tell me:

1. How does the county government recruit its employees?
2. In your opinion, has the county government's power to hire and fire government employees improved the quality of services rendered to SMMEs? Explain your answer.
3. How has the county government's power to raise its own revenue and make decisions over its expenditures affected the local business environment?
4. What monetary policies have been drawn and implemented in relation to SMMEs? How have these affected the business environment and ultimately the growth of SMMEs?
5. What development projects have been financed to improve the business environment in your county? How have these projects improved the business environment and ultimately the growth of SMMEs?
6. How has the county assembly's power to pass laws affected policy formulation and implementation in relation to SMMEs?
7. Does the county government consider the citizen's or the business community's input in policy formulation, budgeting and selection of development projects for improving the business environment?

a. If yes, what is the nature of this engagement?

b. If no, what are the reasons for not engaging citizens in the decision making processes?

8. What measures are in place to ensure accountability of the county government in delivering public goods and services for SMMEs?

9. What are the challenges your department has faced while implementing policies or programs for SMME development?

10. What measures have been put in place to overcome the above challenges?

11. What recommendations do you have to improve the business environment thus enhancing SMME growth in your county and other counties?

Close:

12. Is there anything that you would like to add that I have not covered?
13. Thank you for your time and information shared.

B. Interview Guide for SMME Owners

Purpose: To obtain the SMME owners' perspectives on the effect of the county governments policies and interventions on the growth of their businesses. The interview questions are also designed to elicit information on the challenges faced by county governments in their quest to improve the local business environment and solicit recommendations that will improve their effectiveness with regards to growing SMMEs.

Date:

Location (County):

Identifier Code:

How long has your business been in operation? ______________________

Interview Questions

Starting Point: Prior to devolution, SMME development policies were drawn at the national level taking little consideration of regional needs. However, with devolution in place the SMME development agenda is in the hands of county governments. Please tell me

1. In what ways have the following county government interventions on the growth of your business:

   a. Infrastructural projects such as building of roads, street lighting and commercial buildings?

   b. Electronic platforms for accessing services and making e-transactions?

   c. County bylaws or regulations related to SMMEs?

   d. County taxes and levies?

   e. County SMME funds and / or establishment of microfinance institutions?

2. In your opinion, has the county government's power to hire and fire government employees improved the quality of services rendered to SMMEs? Elaborate your answer
3. Does the county government consider the citizen's or the business community's input in policy formulation, budgeting and selection of development projects for improving the business environment? Elaborate your answer
4. In your opinion does your county have in place measures of ensuring accountability with regards to public goods and services rendered to SMMEs? Elaborate your answer
5. What challenges do you think the county governments face while implementing policies, programs or projects for SMME development?
6. What recommendations would you make to the county government to adopt in order to grow SMMEs?

Close:

7. Is there anything that you would like to add that I have not covered?
8. Thank you for your time and information shared

C. Interview Guide for Business Member Organizations Representatives

Purpose: To obtain the BMOs representatives' perspectives on the effect of the county governments policies and interventions on the growth of their businesses. The interview questions are also designed to elicit information on the challenges faced by county governments in their quest to improve the local business environment and solicit recommendations that will improve their effectiveness with regards to growing SMMEs.

Date:

Location (County):

Identifier Code:

How long have you been working in your organization? ______________________

Interview Questions

Starting Point: Prior to devolution, SMME development policies were drawn at the national level taking little consideration of regional needs. However, with devolution in place the SMME development agenda is in the hands of county governments. Please tell me:

1. In what ways have county governments' policies and programs affected the SMME growth since the inception of devolution?

2. In your opinion, has the county government's power to hire and fire government employees improved the quality of services rendered to SMMEs? Elaborate your answer
3. Does the county government consider business member organizations' input in policy formulation, budgeting and selection of development projects for improving the business environment? Elaborate your answer
4. In your opinion does your county have in place measures of ensuring accountability with regards to public goods and services rendered to SMMEs? Elaborate your answer
5. What challenges do you think the county governments face while implementing policies, programs or projects for SMME development?
6. What recommendations would you make to the county government to adopt in order to grow SMMEs?

Close:

7. Is there anything that you would like to add that I have not covered?
8. Thank you for your time and information shared

Appendix 5: Participant Information Sheet

PARTICIPANT INFORMATION SHEET

Dear Sir/Madam,

My name is Evelyn Tiren and I am a PhD in student in Business and Management in the Wits Business School, University of Witwatersrand in Johannesburg. As part of my studies I have to undertake a research project, and I am investigating **Small, Medium and Micro Enterprises' Growth under the Devolved System of Government in Kenya.** The aim of this research project is to explore how the political, administrative and fiscal dimensions of the devolution process simultaneously affect the local business environment and subsequently Small Medium and Micro Enterprises' growth in Kenya.

As part of this project I would like to invite you to take part in an interview. This activity will involve answering a set of predefined questions and the interview will take a maximum of one hour. In the event that I may need further clarification on the information you have shared with me after the first interview, I may engage you in a second interview. With your permission, I would also like to record the interview using a digital device. As soon as we complete the interview, I shall transfer the data to a password protected computer and delete the information stored on the audio recorder to ensure security of the information.

You will not receive any direct benefits from participating in this study, and there are no disadvantages or penalties for not participating. You may withdraw at any time or not answer any question if you do not want to. The interview will be completely confidential and the information you give to me will be held securely and not disclosed to anyone else. Your participation will also be anonymous, and you will not be personally identified in the final research report. However, considering that you will be speaking in an official capacity, as a government official, you may be identifiable based on your official role. I will be using a pseudonym (false name) to represent your participation, in my final research report. If you experience any distress or discomfort, we will stop the interview or resume another time.

If you have any questions afterwards about this research, feel free to contact me on the details listed below. This study will be written up as a research report which will be available online through the university library website. If you wish to receive a summary of this report, I will be happy to send it to you upon request. If you have any queries, concerns or complaints regarding the ethical procedures of this study, you are welcome to contact the University Human Research Ethics Committee (non-medical), telephone + 27(0)11 717 1408, email hrec-medical.researchoffice@wits.ac.za/ Shaun.Schoeman@wits.ac.za

Yours sincerely,
Evelyn Chemutai Tiren

Evelyn C. Tiren (Student)
evatiren@gmail.com
+254718918731 / +27729965949

Dr. Renee Horne (Supervisor)
renee.horne@wits.ac.za
+27 79 576 8754

Appendix 6: Formal Consent Form

FORMAL CONSENT FORM

Title of project:	**Small, Medium and Micro Enterprises' Growth under the Devolved System of Government in Kenya**
Name of researcher:	**Evelyn Tiren**

I ………………………………………………………………. agree to participate in this research project. The research has been explained to me and I understand what my participation will involve.

I agree that my participation will remain anonymous	YES	NO	(please circle)
I agree that the researcher may use anonymous quotes in his research report	YES	NO	
I agree that the interview may be audio recorded	YES	NO	
I agree that the information I provide may be used anonymously by other researchers following this study	YES	NO	
I agree that the information I provide may be used anonymously and presented in seminars, conferences and published in academic papers and the final thesis which will be available on the University of Witwatersrand online library systems.	YES	NO	

………………………………………………………… (Signature)

…………………………………………………………. (Name of participant)

………………………………………………………….. (Date)

Appendix 7: Case Profiles

NSME1

NSME1 was started in 1982 and the initial product offering was ball bearings for vehicles and machine parts. The company is family owned and it had only one employee when it began its operations. Today the company has 13 employees and 4 branches that supply a diversified range of products. The products include vehicle batteries, lubricants, shock absorbers, brake pads and oil seals for different types of vehicles and machines and other auto accessories. The products are imported from the Middle East and Asian Countries and sold on a wholesale and retail basis in Kenya.

The company's strategy for expansion over the years had been introduction of new products every two years. In addition once a new product was introduced, the focus was to ensure that the entire range of the product was available for all types of vehicles and machines available in Kenya. The decision to take in new products was informed by the customer requirements. The firm's product portfolio was largely influenced by its clients' demands. In other situations, new products were introduced to serve an opportunity that was present for a limited period of time as depicted in the interview excerpt below.

> *There is a time the national government enforced rules that required all public service vehicles to install passenger safety belts and speed governors. Very few firms had these vehicle accessories in stock. So the year this law was enforced we massively imported these accessories to cash in on the opportunity* (NSME1-12.5).

The strategy of introducing new products every two years had not always worked owing to exogenous factors such as the political climate.

> *As business people every election year is a nightmare. Our sales dwindle during the election year and it takes time for them to pick up. This is what has affected our sales in 2017-2018. For a long time elections in Kenya create a climate of uncertainty so trading reduces dramatically until businesses are sure of peace and stability* (NSME1-12.9).

The locations of the business also play a critical role in the growth of the business. The branches are located in the automative parts business cluster in Nairobi. Therefore majority of the clients are within a walking distance of the company's shops. One of the shops is located in the industrial area of the city thus serving as a depot and supply source for factories located in the area. The organization's clients are primarily located in Nairobi.

Over the years the company grew in terms of sales revenue, number of employees, types of products sold and the number of branches. Below is the growth profile from 2013 - 2018:

Table A: NSME1 Growth Profile

	2013	2014	2015	2016	2017	2018
No. of Employees	13	13	13	13	13	13
Types of products sold	Bearings Oil seals Batteries	Bearings Oil seals Batteries	Bearings Oil seals Batteries	Bearings Oil Seals Batteries, Lubricants Shock Absorbers Brake Pads Tyre Inflators	Bearings Oil Seals Batteries, Lubricants Shock Absorbers Brake Pads Tyre Inflators	Bearings Oil Seals Batteries, Lubricants Shock Absorbers Brake Pads Tyre Inflators
Number of Business & Locations	3 shops	4 shops	4 shops	4 shops	4 shops	4 shops
Sales turnover annually (USD)	267,015	314,402	319,678	313,439	289,745	306,524

Source: Company Profile and Interview Data

Financing the business was very difficult especially in the 1980s and 1990s because banks were very stringent when it came to giving loans. It was not possible to get a loan on a salary, therefore injecting capital into the business was a difficult task. Many at times the company relied on the directors' savings, salaries and profits made from the business to grow the business. Things changed with the liberalization of the banking sector in the late 1990s and it was much easier to get loans to finance the business. The business currently functions with loans from the commercial banks.

When NSME1 was established, very few Kenyans were engaged in the automative spare parts business. Secondly, the auto industry grew at a very slow pace. Therefore the company had the advantage of being among the first in the industry with very few competitors. In the late 1990s and early 2000s there was a surge in the acquisition of second hand cars from Japan and United Arab Emirates. These cars were cheaper than the new cars and Kenya being a low income country, the population went for these because of affordability. This followed a World Bank imposed structural adjustment program in mid-1993 which led to the removal of many trade restrictions. Amongst the economic liberalization policies that came in place was the allowance of the importation of used cars. This factor facilitated the growth of NSME1. The company mainly focused on supplying ball bearings for the ex-Japanese second hand cars.

With time the volume of second hand cars purchases increased greatly due to the availability of affordable credit facilities from financial institutions especially targeting the Kenya's growing middle class. Between 2003 and 2012, the volume of imported second hand cars grew by 300%. The annual growth per annum stood at between 10-12%. This factor greatly contributed to the growth of NSME1. With increased number of vehicles, the company had no choice but to provide the spare parts for repair and maintenance of these cars. The informal sector comprising of mechanic businesses also grew and these fed into NSME1's client database.

NSME2

NSME2 began its operations in 2005 as a distributor of tissue paper products. Prior to its establishment, the founder owned a soft drink distribution company. She began as a sub-distributor and later transitioned to a super distributor. However, with time the founder realized that she was not experiencing any growth with the client she served and was limited by the terms and conditions of the contract that bound her. She could not inject new ideas, though she excelled and managed to be a top distributor. She kept on thinking about starting her own business where she could put in as much energy as she did for her current contractor and get better returns.

In 2005 NSME2's founder had a light bulb moment to sell tissue paper. The rationale for picking this item for sale was the fact that it was an item that was in constant use in her house. In November 2005, NSME2 was registered as a sole proprietorship company. The founder borrowed USD 1000 from a women's cooperative society to which she belonged to start off the business. She initially subcontracted the business for the production of bales of tissues and purchased wrapping paper. Wrapping was done manually at the back of her yard and she had her house help doing this at an extra fee on certain days of the week. By this time the founder had also registered the brand of her products with Kenya Industrial Property Institute.

The founder began selling the tissue paper rolls along with the soft drinks. Her soft drink clients were kiosk owners and she convinced them to add tissue paper to their orders. With time she let go of the soft drink distribution business and focussed on growing NSME2. She converted her business to a partnership which yielded additional capital for the company from the new partner. She also secured a loan of USD 7200 from Kenya Women Finance Trust (KWFT) in order to finance her business. The funds were used to buy a machine to produce tissue paper rolls because she incurred a heavy cost subcontracting production and this led to very low profit margins. Subcontracting also increased the pricing of the tissue papers making them less competive in the market. This factor affected the sales of NSME2, thus the strategy to procure a machine to make the toilet paper rolls. The first machine was purchased from India and NSME2 employed two people, one for packaging and another for loading. The company also leased a canter truck for distribution and a warehouse to put up the machine as the insurer required a premise in order to cover the equipment.

In 2010, the founder got an opportunity to go for an entrepreneurship training in United States International University (USIU) which was part of a global program to train 10000 female entrepreneurs. This gave her mileage as it was a six months program that shaped her mind on how to run the business. Further, the organizers of the program convinced one of the commercial banks to grant NSME2 a loan and the organizers became the guarantors.

In 2012, the company moved premises to the industrial area of the city, partly because it was a convenient address from the point of security and accessibility. The initial physical address was problematic as a number of people could not easily identify and access the company. As a result the sales proceeds were not sufficient to finance the loans that had begun crippling company. The move to the industrial area placed the business in a strategic location for more clients to access the company. This improved the turnover of the company.

Another factor that facilitated the growth of the business is its affiliation to business member organizations. As stated by the founder:

> *We get more value from the Business Member Organizations to which we belong. We are registered with the Kenya Association of Manufacturers (KAM) which gives us a lot of business information that helps us explore opportunities and they fight for rights of members by tabling business policy briefs to the national government* (NSME2-18.15).

Over time the business grew and achieved various milestones. The company bought a wrapper machine from Malaysia and a locally fabricated machine to make tissue roll cores. With these installations in place, the company diversified its services by producing tissue paper for other companies. NSME2 also enhanced it product portfolio to include cleaning and other paper products. The company supplies cleaning services of toilets at churches and provides dispensers which have NSME2's tissue products. The company started with two employees and now it has sixty one employees. In 2017 a board was formed with six directors to improve the governance of the company.

Initially, NSME2's client base was predominantly in the low income areas of Nairobi County. Courtesy of various improvements made on the quality and production capacity as well as intensive marketing, the company currently supplies clients in seven counties.

Table B: NSME2 Growth Profile

	2013	**2014**	**2015**	**2016**	**2017**	**2018**
No. of Employees	40	40	56	56	57	61
Types of products sold	Tissue (2 product lines) Hand Gel	Tissue (3 product lines)	Tissue (3 product lines) Serviettes Hand towels	Tissue (3 product lines) Serviettes Hand towels	Tissue (3 product lines) Serviettes Hand towels	Tissue (3 product lines) Serviettes Hand towels

			Shampoos (2 product lines)	Kitchen towels (2 product lines) Shampoos (2 product lines)	Kitchen towels (2 product lines) Shampoos (2 product lines)	Kitchen towels (2 product lines) Shampoos (4 product lines)
Number of Clients	87	120	145	225	283	350
Sales turnover annually (USD)	222,336	241,595	311,825	385,745	390,499	461,411

Source: Company Profile and Interview Data

NSME3

NSME3 is a company that sells personal protective equipment on a wholesale and retail basis. The business began its operations in 2001 following insights the founder had while working on architectural projects in Uganda. He began the business using his own capital to purchase construction boots imported from South Africa. With time the customers demanded for other protective clothing and each year the company introduced new products. According to the founder, the company's expansion strategy was mainly informed by customers' demands.

Initially the founder had partners in Uganda before splitting and establishing the business in Kenya. Currently the organization has 13 permanent employees and 15 employees hired on contract basis. In terms of clientele, the organization has clients from the commercial, government and services sectors. The commercial sector consists of industries or factories, the government sector includes parastatals while the services sector includes logistics and agricultural businesses. 80% of the company's business is from the commercial sector, 10% from the logistics sector and 10% is attributed to the agricultural sector. The company does not engage with government bodies for business because of the fact it had not fared well in the tender processes.

One of the biggest challenges the business faced over the years was lack of finances. According to the founder, accessing finance was very difficult because many financial institutions were not very willing to support businesses. In his view, financial institutions were predatory in the sense that they made money out of businesses by offering loans with very high interest rates rather than offering more favourable terms for finances for enterprises to thrive. Therefore the founder indicated that he constantly pumped back the profits the company made to ensure its sustenance and growth.

Another stumbling block was the fact that it was not easy to get inroads with local organizations to procure personal protective equipment because occupational safety was not given a priority from a business strategy perspective. Organizations did not have a full appreciation of the need for protective equipment as was the case in the developed nations. This was partly due to ignorance, cost cutting measures employed to maximize profits and lack of accountability mechanisms in place to ensure that organizations met safety standards at all costs. The regulatory bodies failed to carry out inspections and ensure enforcement of the occupational safety laws and regulations in the different industries.

As mentioned earlier, the company did not engage with government entities as such, yet in reality there were many business opportunities in the different state corporations. This was because the tender processes through which organizations were prequalified to be suppliers of government were marred by corruption and political interference. In this regard the founder indicated that as much as the firm would have liked to secure government tenders, the company constantly failed the test due to the aforementioned anomalies. In his view, successful tender bids required one to be connected with relevant government officials involved in the procurement process and this also implied payment of bribes to ensure prequalification. Additionally politicians ensured their own companies or those they were affiliated to secure the government tenders.

Another thorny issue was the availability of markets. Access to markets was a challenge because the government had allowed for massive imports especially from Asia. Products from this region were cheaper than local products and this gave suppliers of these products an unfair advantage over the SMEs in the local market.

Moreover, the government rarely engaged the business community therefore SMEs' needs were rarely addressed. According to the founder, the national government only engaged with businesses when issues of taxes arose. However, he noted that the aforementioned issues were prevalent in more recent years. Prior to the establishment of devolved system of governance, the national government had fared well in its efforts to promote SMEs.

> *In the periods leading to the 2007 elections, business was really good. Government procurement favoured local SMEs and owing to the existing performance contracts at the time, businesses were promptly paid for the tender supplies made. Interest rates at the time were low and the taxes were not punitive at the time. The post-election violence of 2007-2008 changed the business climate and things went on a downward spiral from then on until 2010 when the economy recovered and the government then instituted devolution* (NSME3 – 1.26).

Despite the aforementioned challenges, NSME3 enjoyed a steady growth in terms of sales revenue and product diversification. This was attributed to the fact that the company constantly ensured supply of quality products a factor that led to customer loyalty and referrals to other businesses. Secondly, the company focussed on growth strategies despite the frustrations faced in the business environment which involved constantly winning new customers especially in the commercial sector. The growth profile for our company is as follows:

Table C: NSME3 Growth Profile

	2013	2014	2015	2016	2017	2018
No. of Employees	24	25	27	27	28	28
Types of products sold	Safety Boots (3 product lines) Hand Protection (13 product lines) Head Protection (26 product lines) Fall protection (2 product lines)	Safety Boots (4 product lines) Hand Protection (17 product lines) Head Protection (31 product lines) Fall protection (2 product lines)	Safety Boots (4 product lines) Hand Protection (17 product lines) Head Protection 39 product lines) Fall protection (3 product lines)	Safety Boots (4 product lines) Hand Protection (20 product lines) Head Protection (43 product lines) Fall protection (3 product lines)	Safety Boots (4 product lines) Hand Protection (25 product lines) Head Protection (50 product lines) Fall protection (3 product lines)	Safety Boots (4 product lines) Hand Protection (25 product lines) Head Protection (50 product lines) Fall protection (3 product lines)
Sales turnover annually (USD)	369,754	464,188	544,808	652,421	658,313	687,028

Source: Company Profile and Interview Data

KSME1

KSME1 began its operations as a family owned business in 2006 supplying milk and home-made yoghurt. The company steadily grew in terms of its product offering, client base and human resource pool. Currently the company has 42 permanent employees, up from the initial 6 employees when it began operations. To finance its expansion, the company relied on funds from bank loans, proceeds from other family businesses and its own profits.

Prior to venturing into the sale of yoghurt products, KSME1 only sold milk but this presented challenges in terms of preservation and storage as milk had a very short shelf life. This was the case especially on occasions when the firm had excess milk. To address this problem, the management team came up with the idea of value addition. This led to the production of yoghurt as it had a longer shelf life compared to milk and sour milk. The management team attended various agricultural fairs and conferences in order to gain a better understanding of the yoghurt industry. Additionally investments were made for the purchase of the equipment and storage facilities for this new range of products. The company began by packing yoghurt in sachets but later transitioned to bottles of 250ml and 500ml of vanilla and strawberry flavours. The company's current product portfolio includes five different flavours packed in cups and bottles whose volumes range from 150 ml to 5 L.

The company's growth strategy was pegged on the consumer buying behaviour of dairy products. For many years, the dairy products that occupied supermarket shelves in Kenya were milk, sour milk and butter. However in recent years the dairy produce market experienced a surge in the demand for other products such as yoghurt and cheese by consumers. This was attributed to increased consumer awareness of these products. KSME1 capitalized on the opportunities that arose due to the aforementioned.

Sailing through the yoghurt industry had been challenging for KSME1 partly because of heavy competition from large producers who took up a sizeable share of the market. Such organisations had sufficient funding for production and distribution of their products. Competition was also faced from cottage industries which mostly failed to comply with the laid down standard quality procedures and statutory obligations, hence the low prices of their products. Nonetheless, KSME1 continuously improved the packaging of their products to match those of top notch yoghurt producers as a strategy to promote its brand. Secondly the company strove to gain inroads and expand its market share within the retail sector.

KSME2's client base largely consists of minimarkets and supermarkets within Kiambu County. Smaller retails shops also formed part of its clientele, however majority were limited with regards to storage of yoghurt products as very few had refrigeration facilities. Thus the focus of sales targeting the large retail chains which have sufficient refrigeration storage capacity. In recent years the company expanded its distribution network to other counties. Currently the company has clients in ten counties.

Table D provides an overview of KSME2's growth in terms of number of employees, product diversification and annual turnover for the period 2013 – 2018.

Table D: KSME1 Growth Profile

	2013	2014	2015	2016	2017	2018
No. of Employees	33	33	39	40	42	42
Types of products sold	3 Flavours of Yoghurt Packed in 150ml, 250ml, 500ml, 1L, 3L,5L	3 Flavours of Yoghurt Packed in 150ml, 250ml, 500ml, 1L, 3L,5L	4 Flavours of Yoghurt Packed in 150ml, 250ml, 500ml, 1L, 3L,5L	5 Flavours of Yoghurt Packed in 150ml, 250ml, 500ml, 1L, 3L,5L	5 Flavours of Yoghurt Packed in 150ml, 250ml, 500ml, 1L, 3L,5L	5 Flavours of Yoghurt Packed in 150ml, 250ml, 500ml, 1L, 3L,5L
Sales turnover annually (USD)	506,754	523,191	600,827	660,164	660,190	762,356

Source: Company Profile and Interview Data

KSME2

KSME2 is a wholesale distribution company established in 2001 and whose core business is to merchandise processed tea products. The company was established at a time when tea products in the Kenyan market were primarily supplied by multinational companies. KSME2 was thus established as one of the few local distributors providing tea at a more reasonable costs than the multinational companies. It began its operations with nine employees and supplied its products only in Kiambu County. Currently the company distributes its products to wholesalers and retailers in seven counties in Kenya. The company steadily grew in terms of sales turnover, but experienced a dip in sales and profitability between the financial years 2014 and 2015 because of poor management. With new management in place in 2016 the company was revamped and experienced massive growth in sales turnover. The company sold different blends of tea packaged in various pack sizes and its largest base of clients were located in the rural areas where the culture of drinking tea was still prevalent. The sale of tea in the urban areas was lower due to the fact that the culture of hosting people for tea was waning and many city dwellers most of whom resided in informal settlements could not afford to buy tea on a regular basis. Other factors that contributed to the growth of KSME2 were the high quality of tea, heavy investments in advertising and constant improvement in the quality and aesthetics of the packaging.

KSME2's membership to the East African Tea Trade Association contributed to its growth trajectory. The association is a BMO for businesses in the trade of tea that facilitates access to markets for the sale of tea, provides capacity building programs for members and resolves trade issues affecting the members collectively. Through this organization, KSME2's visibility and networking opportunities increased.

Some of the biggest challenges KSME2 faced in the local market was increased costs of distribution due to the multiple fees paid across counties and competition from other established tea brands in the market. Nonetheless the company sustained its growth by increasing its client base in the different counties. Table E provides the growth profile of the company from 2013-2018.

Table E: KSME2 Growth Profile

	2013	2014	2015	2016	2017	2018
No. of Employees	57	57	51	63	65	70
Volume of Black Tea Sold annually (Kg)	264,693.40	240,241.05	233,157.34	277,200.73	299,012.25	320,214.65
Number of Clients	80	61	53	56	60	87

Sales turnover annually (USD)	643,751	557,664	557,968	620,012	669,735	754,835

Source: Company and Interview data

KSME3

KSME3 was established as a pharmaceutical distributor of hospital consumables such as gloves and laboratory reagents in 2010. The founder used his own savings and proceeds from another family owned business as seed capital to start off the company. At the time, it was difficult to secure a bank loan because commercial banks required healthy financial statements to approve any form of lending. In the first two years of operation, the business incurred huge losses and this was partly attributed to the fact that the initial feasibility study done to establish the right products to procure for sale was to some extent inaccurate. The product specifications especially for the laboratory reagents was erroneous hence the company imported a huge supply of the product, but very few clients made purchases. Secondly the national government introduced an additional tax on the surgical gloves which translated to increased cost of the products. Consequently the company ended up with dead stock in the second year of operation. As the products had limited shelf life KSME3 donated most of the products to move them out of the warehouse.

Over time it was evident to KSME's founder that it was better to venture into the sale of pharmaceutical drugs as opposed to the hospital consumables. This is partly because the founder was well versed with the nature of the pharmaceutical drug business as he had previously worked in this industry for more than twenty years. Therefore in 2012, the company transitioned to procuring pharmaceutical drugs from a manufacturing pharmaceutical firm in India. The initial costs were exorbitant and the company made huge losses in 2012 and 2013. Positive growth was first experienced in 2014.

Initially the pharmaceutical drug products were targeted to wholesale and retail pharmacies in the nearby capital city that is Nairobi. However with time, the strategy proved to be fruitless because in as much as KSME3 got orders from them, the products would be returned because of poor stock movements. This was attributed to the fact that the products were not well known by doctors and pharmacies in Nairobi which was already flooded with different brands of products from numerous pharmaceutical firms that had been in business for many years. So the question that kept on lingering in the minds of the management team were: *"How do we crack this market? How do we get our products moving in Nairobi as that is the central region where one needs to have the products rooted?"* Additionally, the buying power was strong in Nairobi as the largest pharmaceutical distributors were located in the capital city.

The management team identified the strategy to create demand from outside the city especially in rural areas where other companies made little marketing inroads and investments. The strategy entailed marketing the pharmaceuticals in remote regions targeting doctors, clinics and hospitals that were minimally visited by medical sales representatives and had potential buying power. This started paying off though initially KSME3 suffered getting payments on time due to the fact that the clientele tended to serve populations that were not well off and the company had not put in place strong financial systems to manage the credit portfolio.

With time the company revamped its financial system to make it more robust to address the cash flow issue. Another key success factor for the business was streamlining the inventory management system. This was fully automated to ensure the right stock levels were maintained. Recruitment of sales personnel was effected to generate prescriptions for the company's drugs in hospitals and clinics in order to liquidate the company's products in wholesale and retail pharmacies. The company also ventured into tenders from the major hospitals and institutions. These measures saw KSME3 products' demand rise and eventually wholesalers in the small towns began requesting for huge orders from their suppliers in Nairobi. This is how the company started to gain ground in the Nairobi market through distributors. Eventually KSME3 began employing medical representatives to market the products in Nairobi. Once again the company focused on clinics and hospitals that were away from the central business district while also making efforts to gain inroads to the major hospitals.

In 2013, KSME3 had 7 pharmaceutical products and as at the end of the financial year 2018, this number stood at 36. Introduction of new products was informed by customer needs. It had been possible to grow the business partly because of financing from another family business, bank loans and the fact that the main supplier of the drugs relaxed the terms of payment. Table F provides an overview of KSME3's growth profile.

Table F: KSME3 Growth Profile

	2013	2014	2015	2016	2017	2018
Number of employees	15	20	25	28	30	37
Number of Registered Pharmaceuticals in Stock	7	13	15	20	33	36
Number of Clients	120	301	457	502	613	649
Sales Revenue in USD	91,536	109,235	665,711	950,691	1,186,833	1,312,539

Source: Company Profile and Interview Data

The business faced various challenges in its bid to expand its market share such as competition from other firms in the field some of which were not professionally run. Such firms engaged in corrupt deals in order to get sales for their products. The prevalence of counterfeits and substandard products in the market prevented KSME3 capacity to optimally sell its products. Pricing wars also affected the movement of KSME3's products as there were so many similar brands in the market. Another factor that affected the growth of the business was the fact that many physicians still prescribed drugs according to brand names partly because of brand loyalty, perceived and known efficacy of the drugs over others in the market. Therefore prescriptions were usually biased towards old established brands thus making it difficult KSME3 to make inroads in the pharmaceutical retail sector.

Appendix 8: Legal and Policy Framework for SMME Development under Devolved Governance

The fourth schedule of the constitution delineates the functions of the national and county governments. Fourteen functions are devolved to county governments and these include county planning and development, county transport, county health facilities, trade development and regulation, agriculture, pre-primary education and polytechnics amongst others. Further, five laws were enacted to provide a framework for the operationalization of devolution. These are the Public Finance Management Act, the County Government Act 2012, 2012, Urban Areas and Cities Act, 2011, the Transition to Devolved Government Act,2012 and the Intergovernmental Relations Act, 2012 (The Constitution of Kenya, 2010).

Additionally, the Micro and Small Enterprises Act was enacted to invigorate the growth of SMMEs at the national and subnational levels. The National Trade Policy was subsequently formulated and its recommendations count on the collaborative efforts of the national and subnational governments to effect strategies for SMME development.

I. Laws and Policies Affecting County Government Functions

Below are acts enacted to give effect to county governance:

a) County Governments Act, 2012

The CGA gives effect to the eleventh chapter for Kenya's constitution, thus it oversees and governs the operations of the county system. It provides for the functions of the county governments which include responsibility over county legislation, establishing and staffing offices in its public service and exercising mandated executive and legislative powers (GOK, 2012a).

As outlined in the constitution, one of the key functions of the County Government is promotion of trade development and regulation including markets, trade licenses (excluding regulation of professions), fair trading practices, local tourism and cooperative societies (The Constitution of Kenya, 2010). The county governments act thus provides an institutional and legislative framework for policy formulation, resource allocation and implementation of development plans for SMMEs in Kenya.

b) Urban Areas and Cities Act, 2011

This act provides for classification, governance and management of urban areas and cities; criteria for establishing urban areas; and principles for participation of residents in the governance of urban areas and cities (GOK, 2011). According to this legislation, the management of cities and municipalities is vested in the county government and their administration is under a board constituted according to the provisions of the act. One of the key functions of the board is the mandate over the use of land, land subdivision, development and zoning by the public and private sector for any purpose. In relation to the SMME sector, the Urban Areas and Cities Act (UACA) gives the city and municipal boards the mandate to determine use of land for markets, shops, industries, employment centres, entertainment spots, freight and transit stations. The County Government and these boards ensure alignment of infrastructural development plans for commercial and residential purposes. The UACA further supports the County Governments Act with regards to citizen participation in the decision making processes within counties.

c) Intergovernmental Relations Act, 2012

In as much as county governments enjoy decision making powers over their jurisdictions, the constitution limits their independence in terms of their operations. Kenya's constitution describes the national and subnational governments as distinct and interdependent. This means that the modus operandi of the two levels of government is on the basis of consultation and cooperation. In order to give effect to this aspect of the constitution, the Intergovernmental Relations Act was enacted to provide a legislative framework for consultation and cooperation between the national government and county governments and amongst county governments. Additionally the legislation provides intergovernmental dispute resolution mechanisms (GOK, 2012b).

d) Public Finance Management Act, 2012

In order to effectively manage fiscal responsibilities, the Public Finance Management Act (PFMA) was enacted. It provides for the effective management of public finances at the national and county governments as well as the oversight responsibilities of parliament, county assemblies and other government entities (GOK, 2012c).

The PFMA provides guidelines for the budget process, cap spending on recurrent and development expenditure, limits on borrowing and ceilings for debt at the county and national level. Further, it contains clauses that ensure financial transparency and participatory budget planning. Therefore, all budget documents should be published and availed to citizens in user friendly formats in order to facilitate their engagement. The Act also calls for the establishment of structures, guidelines and mechanisms for citizen participation in budgeting. The County Government departments are thus required to consult with citizens and other stakeholders and their views captured in the County Budget Review and Outlook Paper (CBROP).

In relation to SMME development, the PFMA provides a window of opportunity for business owners and associations to hold meaningful consultations with the county government over the budget process.

e) Micro and Small Enterprises Act, 2012

This legislation was enacted to provide for the legal and institutional framework for the promotion and development of MSEs in Kenya. The Act's main objectives are to establish an enabling business environment for firms, establish an entrepreneurial culture, facilitate the formalization of informal businesses, improve access to business development services and promote the establishment of representative associations of MSEs (Micro and Small Enterprises Act, 2012).

f) National Trade Policy

The National Trade Policy was formulated within the framework of Kenya's Vision 2030 and guided by the current constitution which recognizes the concurrent roles of the national and subnational governments in trade issues. The overarching goal of the policy document is to reinvigorate trade in Kenya as a means of decreasing poverty and foster wealth creation. Cognizant of the critical role SMMEs play in job creation, reduction of poverty and economic development, the trade policy identifies mainstreaming of enterprises in global trade and creation of an enabling investment environment as some of the key focus areas (GOK, 2017).

The vision and mission of the trade policy is to foster the efficiency of Kenya's domestic market, transform the country to an export led global economy, enhance regional integration and international trade. This will be achieved through the development of competitive and export oriented policies, creation of an enabling business environment and by ensuring that counties morph into centres of trade and investment. Further the trade policy counts on the collaboration of the national and county governments in the development of domestic and international trade.

II. Legislations Affecting SMMEs in Nairobi County

Nairobi County enacted various legislations most of which facilitate revenue collection from the citizens and the business community. Table I provides a summary of legislations regulating the operations of businesses in Nairobi County.

Table I: Nairobi County Legislative Framework for Business Operations

Law	**Description**
Nairobi City County Finance Acts	The Finance Act provides for taxes, fees service charges and other revenue measures payable to the county government by the citizens and businesses (Nairobi County, 2013).
Nairobi City County Trading Act, 2019	The act provides a legal framework for business licencing management, ensuring fair business practices, implementation of the county business plan, regulation of business practices, promotion of the trade sector and promotion of self-regulation of the trade associations. The act also contains schedules outlining fees and service charges for all types of businesses in the county (Nairobi County, 2019a).
Nairobi City County Alcoholics Drinks Control and Licensing Act, 2014	This act provides for liquor business licensing, regulation of manufacture, advertising and sale and consumption of alcoholic drinks (Nairobi County, 2014c).
Nairobi City County Public Participation Act, 2015	This act establishes a framework for public participation in the formulation of policies, legislation and implementation of development programs under the County Government. It also has provisions that enables citizens to hold the county government accountable with regards to public service delivery (Nairobi County, 2015a).
Nairobi City County Inspectorate Service Act, 2017	This legislation provides a framework for the establishment of inspectorate services to ensure compliance of the county's legislations (Nairobi County, 2017b).

Source: Adapted from Nairobi City County Acts

III. Legislations Affecting SMMEs in Kiambu County

Kiambu County enacted the following legislations to provide a legal and regulatory framework for enterprises (see Table II).

Table II: Kiambu County Legislative Framework for Business Operations

Law	Description
Kiambu County Finance Acts	The Finance Act provides for permit, licence and rent fees and other service charges within the county (Kiambu County, 2014).
Kiambu County Trading Licence Act, 2016	The act provides a legal framework for issuance of trade licences and schedules for fees and service charges for all types of businesses in the county (Kiambu County, 2016b).
Kiambu County Valuation and Rating Act, 2016	This legislations provides a framework for rating and valuing land to ensure compliance of rates, equity, fairness, efficiency, transparency and accountability in land valuation and rating processes (Kiambu County, 2016c).
Kiambu County Alcoholic Drinks Act, 2018	This legislation provides a legal framework for licencing and regulation of the production, sale, advertising, distribution and consumption of liquor in Kiambu County (Kiambu County, 2018d).
Kiambu County Citizen Petition and Participation Act,2016	The legislation gives effect to the constitution to provide a platform for public participation in the enactment of laws and policies, CIDPs, county fiscal strategy papers and any other matter requiring public participation as stipulated in national laws (Kiambu County, 2017b).
Kiambu County Co-operative Societies Act, 2018	The act was enacted to provide regulation of cooperative societies to promote their growth, governance and facilitate dispute resolution so that they can make meaningful contributions towards local economic growth (Kiambu County, 2018e).
Kiambu County Enforcement Act, 2018	The act provides a legal framework for the establishment of the directorate of enforcement and compliance of county laws (Kiambu County, 2018f).
Kiambu County Jijenge Fund Act, 2018	The act provides regulation for disbursement of loans to youth, women, people with disability and vulnerable persons for capital financing of start-ups (Kiambu County, 2018g).

Source: Adapted from the Kiambu County Acts