Preface

Business in Kenya: Institutions and Interactions is based on research that was carried out between 2000 and 2003 by a research team from the Institute for Development Studies (IDS), University of Nairobi. The overall aim of the research was to describe and analyse Kenya's business system in order to characterise it and assess its prospects for further development. The research also aimed at proposing strategies for improving the quality of life of Kenyans through industrialisation. It is based on the premise that business is carried out in different ways in different parts of the world. As such, the team began research expecting to find features that make Kenyan business recognisable as a business system.

The focus of this work is on processes internal to Kenya but we realise that Kenya exists within an increasingly globalised world. Actions taken locally are shaped by global events and have the potential to shape institutions and actors located elsewhere. Our task in this volume is to explore these ideas using the lenses of specific productive sectors in Kenya. From the analysis, we draw conclusions and examine their practical and theoretical implications.

The major focus of the research was on the system as a whole but we recognised that viewing the system from the perspective of particular sectors would give depth to the study and allow for useful comparisons. A number of considerations influenced the choice of sectors to include in the research. We first resolved to include production and services since both are necessary parts of the business system and we believed that they would reveal different patterns of institutional interaction. On the production side, we chose two manufacturing sub-sectors and two in the area of agro-processing. In choosing the textile and metal sectors to represent manufacturing, we considered various sub-sectors' importance to the Kenyan economy, the expected institutional variation, and the presence in the sector of micro and small enterprises as well as larger firms. We also considered our own individual and institutional experience with these two sectors. The choice of the coffee and tea sub-sectors to represent agro-processing was based on their longstanding importance as export earners and on the recent changes in each of them. Trade and transport, were chosen because of their direct contribution to the economy and the fact that they feature in nearly every other economic activity.

The authors of the sectoral chapters in *Part Two* of the book carried out the project fieldwork. Primary data were gathered using combinations of structured questionnaires, semi-structured interview guides, and checklists. The main unit of analysis was the firm, though in the case of micro and small enterprises, considerable information on the entrepreneurs was also gathered. Key informant interviews, focus group interviews, and case studies were also used to provide in-depth information. More detailed descriptions of methodology are available in the sectoral chapters but the overall analysis can best be described as synthetic. We have used primary data from field research carried out as part of the IDS/Centre for Development Research (CDR) Business Systems Project; primary data from related research; secondary data from a variety of published and unpublished sources; and feedback from a series of stakeholder workshops. Data were analysed both quantitatively and qualitatively. Working and conference papers were developed and presented. These form the backbone and main resource for the sectoral chapters.

The volume is in three parts, but in writing the book, we have attempted to create a structure and linkages that weave into a coherent whole. Thus, *Part One* of the book establishes the theoretical and practical context for business in Kenya. It has seven chapters. Chapter One gives an overview of business systems and serves as an introduction to part one. Chapter Two explores the theoretical underpinnings of the business systems approach. The detailed discussion of economic, political and social institutions and their potential impact on business provides the foundation for the analysis of business in Kenya

Chapter Three takes up the crucial issue of government policies and regulations, examining in detail four groups of policies – macro-economic, incentive, institutional, and infrastructure – together with a number of related sets of regulations. It is noted that, although many of these have been supportive of business development, some have actually impeded development of the private sector in Kenya. The negative outcomes are attributed to poor quality of government institutions, corruption, and poor implementation of policies and programmes. Chapter Four examines the current state of Kenya's power, water, and sanitation infrastructure. A number of key questions are raised concerning the adequacy of these services, which are very important to business activity. The chapter then goes on to look at the need and prospects for their improvement.

Chapter Five describes Kenya as a multi-ethnic country with a diversity of cultural practices and beliefs. The areas examined comprise Kenya's growth performance, demographic trends, rural-urban linkages, and the distribution and magnitude of poverty, human capital, physical infrastructure, and natural resources. Chapter Six reviews trade and production systems in Kenya since independence. It focuses on institutions believed to facilitate trade and production such as cooperatives, parastatals, labour markets, technology, and foreign aid. Chapter Seven argues that a well functioning financial sector is necessary for development. The areas examined include the establishment and evolution of the financial system, the financial sector reform effort, and the blossoming of micro-finance institutions. It concludes with the implications of these institutions for the growth of the business system.

Part Two takes a sectoral perspective and has five chapters. Chapter Eight focuses on linkages and competition in the metal products sub-sector. The nature of competition, the size of the market, pervasive mistrust and rivalry, as well as a weak technological system working against firm linkage, are highlighted. It is noted that lack of appreciation of what business associations can or should do means that firms fail to benefit from collective action. Chapter Nine identifies three separate tiers of firms in the textile industry. The first tier consists of thousands of micro and small enterprises, most of which are making clothing. The second tier contains about 150 small to large firms spanning the full range of textile activities from fibre to final products. Most of these have existed since the import substitution era and have struggled to survive in the era of market liberalisation. The third tier is the relatively small number of global exporters that are benefiting from greatly increased trade in textile products. The detailed analysis of each of these tiers clearly demonstrates the book's hypothesis that both sector and firm size are important for understanding the impact of various institutions.

Chapter Ten provides an overview of the tea industry in Kenya, and then goes on to discuss the relationship of the new free trade (*Soko Huru*) on small producers. The detailed description of market changes and the interactions between formal and informal actors highlight the importance of information and suggests a need to improve the quality of information available to small producers. Chapter Eleven examines the impact of liberalisation on coffee production and marketing. It describes the retreat of the state and the emergence of new actors and institutions.

Chapter Twelve returns to the theme of business linkages. The chapter analyses the scope, pattern, and trends of the interrelated process of trade and transport in Kenya, taking a network perspective. The conclusions highlight the importance of historical factors dating back as far as the pre-colonial period in shaping current patterns of trade and transport. The ways in which government has used legislation on trade to achieve social as well as economic objectives are noted; and the importance of structural adjustment, especially import liberalisation, in changing the economics of trade in the country, are underscored. Changes in ownership and new actors, networks, and relationships as important factors in the transformation of trade are pointed out. It is predicted that trade is likely to transform even further with the advent of the Internet.

Finally, *Part Three* reflects on what the findings have to say about doing business in Kenya. It focuses on the analysis of interactions as revealed by the sectoral studies: interactions between business and government, business and society, and businesses with each other. This leads to an examination of the incentive structure and investment patterns within the business system, which suggest the elements of a strategy for building a more competitive business system.

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