

IMPROVING THE BUSINESS CLIMATE UNDER THE HOT SUN:
DO SMALL BUSINESS ASSOCIATIONS MAKE A DIFFERENCE?
[A STUDY OF FOUR DISTRICTS IN NYANZA PROVINCE, KENYA]

A DISSERTATION
SUBMITTED TO THE SCHOOL OF LAW
AND THE COMMITTEE ON GRADUATE STUDIES
OF STANFORD UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
DOCTOR OF THE SCIENCE OF LAW

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March 2010

Abstract

Millions of people in developing countries make their living as small business entrepreneurs. Globally, governments and international donors are looking to smaller enterprises to create job opportunities to accelerate economic growth and reduce poverty. To this end, this study assesses in a rich and detailed fashion the current business climate in Kenya for small businesses and evaluates a government program whose stated intent is to stimulate the economic growth of the small business sector. This development program allocates so-called *jua kali* sites free of charge to small business associations (known as *jua kali* associations). The *jua kali* sites are business incubators located on government land furnished with basic infrastructure.

This study measures, for the first time, the effectiveness of the program by analyzing whether membership in an association is associated with more success compared to business owners who are not members. Secondly, it has been argued that small business associations can propel economic growth by supplying their members with services, such as mediation, which are otherwise not readily available in a developing economy. Hence, a second hypothesis tests whether membership in an association that provides their members with services is associated with greater success in comparison to members that do not obtain such services. As it is widely recognized that micro and small enterprise profit in developing countries is very challenging to measure (Meads 1994, Daniels 2003), this study uses “having one or more employees” as a proxy for success.

To address these questions, a mixed methodology approach was employed. Thus, qualitative and quantitative fieldwork was conducted among 279 randomly selected small manufacturing and service businesses in seven towns in Nyanza Province, Kenya from May 2007 to December 2007. In each town, there was one business association. Half of the study participants were members of an association and half were not.

This research project contributes to the understanding of why these associations were formed and what function they play in the Kenyan society. This study places the *jua kali*

site program in its socio-political context and discusses how the *jua kali* program and the formation of *jua kali* associations was launched by president Moi in the mid-1980s as a means to create a loyal base of supporters within the *jua kali* business community. By drawing on the literature of Bates, de Sardan and others, this dissertation shows that the business associations included in the study were formed by individuals as a means to gain access to free government concessions; the government's *jua kali* site program. Once these individuals had formed a committee and secured the site, they were reluctant to give up the control over the association and the site. For this reason, as opposed to the common narrative, these associations were not primarily formed to take collective actions to improve the members' business environment but were formed as a mean to gain access to the *jua kali* sites. Hence, the study found that five of the seven business associations did not provide their members with services while two associations provided their members with certain services (mediation, joint business permits, joint night security and welfare assistance). The dissertation discusses the circumstances which enabled these two associations to undergo a leadership change which made it possible for the new committee members to start supplying their members with these services.

Using a logistic regression model, this study shows that being a member of a *jua kali* association was associated with an increase of 2.4 times the odds of having one or more employees in comparison with non-members (OR=2.441, 95% C.I. 1.382 – 4.314, $p=.002$). However, membership in a service-providing association was not associated with success in comparison to members of non-service providing associations ($p=.896$). A possible explanation for these findings is that it is more important to be connected to a network which can access government concessions than it is to access services that are otherwise not readily available in the business environment. Thus, the evidence from this study did not support the hypothesis that members of service-providing associations do better than members of non-service providing associations. Yet an alternative supposition is that the services that these two associations provided were rather marginal and if they were scaled-up or if additional or different services were provided, we might have found a different result.

Although the data from this cross-sectional study do not permit us to establish the direction of causality, these results provides new insights into the operation of business associations in Africa and deserve further study.

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