WORKING POLICY FRAMEWORK TOWARDS MSME DEVELOPMENT IN OIL & GAS COUNTIES

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KENYA NATIONAL CHAMBER OF COMMERCE & INDUSTRY

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The discovery of Oil & Gas resources in Kenya has opened up an unprecedented opportunity to accelerate poverty alleviation initiatives and economic development in previously marginalised areas of the country. These resources not only offer additional sources of revenue for development spending but provide opportunities to cultivate business models across the value chain. Unlocking the potential of the private sector will be a key determinant of carrying out rigorous economic growth and development at the county level. Micro, Small and Medium Enterprise (MSME) Development in the Oil & Gas Sector must therefore become a key priority for resource-rich counties. Adequate policy, regulatory and governance structures must be put in place to foster county-level MSME development within these emerging economic sectors.

This document seeks to provide a guiding framework outlining the types of targeted policy interventions that County Governments can adopt to facilitate the development of MSMEs supporting the oil & gas sector. Using lessons from across the world, case studies, academic theory and expert input, this guide transposes practical examples for MSME development in the Oil & Gas sector into a Kenya-specific working policy framework for County Governments. The framework not only succinctly describes potential policy interventions needed but also provides comments on the opportunities and challenges policymakers may face in their execution. It is envisaged that this guide will provide a holistic overview of MSME development in the Oil & Gas sector for County Governments.

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Content

Foreword

The role of Micro, Small and Medium Enterprises (MSMEs) in the effective functioning of an economy is a phenomenon evident across the World. Indeed, MSMEs have been recognized as the backbone of the many industrialized nations and have been feted for driving innovation and export competitiveness in an increasingly globalized World.

In Kenya, a great majority of businesses fall under the MSME category and these establishments provide the largest source of employment. Despite their prevalence, the impact of MSMEs on the Kenyan economy has been muted and significantly held back by structural constraints. The majority of MSMEs in Kenya operate informally and find it difficult to expand and grow beyond the 'micro' classification. In order to reap the holistic potential of MSMEs for both economic growth and job creation, these establishments must be encouraged to expand, innovate, effectively participate and access markets beyond the borders of Kenya.

The Kenya National Chamber of Commerce and Industry (KNCCI) is at the vanguard of championing the transformative potential of MSMEs for inclusive and sustainable economic development in Kenya. With full cognizance of the existing importance of these establishments in providing a livelihood for millions of Kenyans, the KNCCI has been developing a working policy framework that seeks to outline and address key issues facing MSME development in the country. While the working policy framework provides a generic approach to enterprise development, it shall be translated into specific, sector focused guides to enhance its utility to various actors across the entire policy process.

It is with great pleasure, therefore, that we introduce this first working policy framework for County-Level MSME development with a focus on the nascent Oil & Gas sector in Kenya. As the sector begins to take full stride, it is imperative that strategic policy interventions are introduced by County Governments to improve prospects for local value capture of opportunities by MSMEs. This will go a long way in accelerating socio-economic transformation and wealth creation in regions of Kenya long disconnected from the national economy. This guide will provide a series of policy options available to County Governments in order to fully reap the transformative potential of MSME development in the Oil & Gas sector.

The KNCCI has been arduously developing the working policy framework for enterprise development and this specific guide through a broad-based process of research, stakeholder engagement and expert input and we would like to greatly thank all involved in the project. Particular thanks to the Kenya Extractives Programme (K-EXPRO) for their support and Sahil S.R Shah who was the lead consultant in the development of both the working policy framework and this specific publication. We are further grateful to all our members for their continued support and engagement without which all our work would be for naught.

We have all the potential to transform Kenya into a prosperous and inclusive nation. KNCCI hopes to continue playing our role in helping achieve this vision through the production of value-driven content such as this guide.

ANGELA NDAMBUKI
CEO, Kenya National Chamber of Industry and Commerce

KIPPRONO KITTONY
Chairman, Kenya National Chamber of Commerce and Industry

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KENYA NATIONAL CHAMBER OF COMMERCE & INDUSTRY

Introduction ...

Micro, Small and Medium Enterprises (MSMEs) have been recognised across the world by governments, multilateral institutions and development organisations alike as a key pillar of economic growth and development. Indeed, a fundamental strategy employed by most countries to promote economic growth over the past thirty years has been trying to expand the number, scope and reach of MSMEs (Audrestch & Thurik, 2001).

Emerging out of the pressures of globalisation and increasing need for nimble enterprises, these businesses have become the principal drivers of sectoral competitiveness and innovation and provide a sustainable avenue of job creation across the economy. In many advanced nations, the contemporary economy revolves not around large conglomerates or multinationals but rather the MSMEs who service them, collectively employing and generating most of the country's Gross Domestic Product (Audrestch & Thurik, 2001). MSME development is therefore a crucial and unavoidable policy priority for any country seeking to foster greater economic growth and wealth creation.

In Kenya, MSME development has been an evident policy priority since the 1980s with numerous strategy and sessional papers authored with the aim of fast-tracking its progress. The importance of the sector for Kenya's economy is unquestionable, MSMEs currently employ close to 14.9 million Kenyans and represent 33.8% of national output. More than 80% of all businesses in Kenya fall under the MSME category and are estimated to be 7.41 million in number (KNBS, 2016). Despite these impressive statistics, the MSME sector faces numerous challenges, manifesting itself in a majority of businesses unable to grow out of only employing one or two people and operating within the informal economy as unlicensed enterprises.

Another manifestation of the challenges facing MSME development in Kenya is in the geographic concentration of these businesses. Close to 50% of all MSMEs in Kenya are located in Nairobi County and neighbouring counties within a 100 kilometre radius of the capital. In sharp contrast, periphery counties such as Turkana, Elgeyo Marakwet, West Pokot, Marsabit and Baringo collectively host less than 5% of all MSMEs in Kenya (See Figure 1). This significant divergence can predominantly be attributed to geographical and historical factors. The periphery counties identified are located within arid and semi-arid lands where

Kenya's traditional sectors such as agriculture or tourism have not touched. Kenya, since the colonial era, has principally revolved around an agricultural economy concentrated within the 100 Km radius aforementioned. Government economic policy focus for the greater part of Kenya's history has thus been on developing agriculture and the associated regions viable for this sector. Due to these reasons, periphery counties have been isolated from the national economy for decades.

This situation, however, is being turned on its head due to devolution and the discovery of seemingly commercial quantities of oil & gas. The intersection of these two recent milestones now provides an unprecedented opportunity to foster economic growth and wealth creation in periphery counties. The previously isolated regions now have both significant natural endowments and institutions mandated with developing tailored interventions to ensure that the full economic potential of these resources are realised. The oil & gas sector thus

MSMES CURRENTLY EMPLOY CLOSE TO **14.9 MILLION KENYANS** AND REPRESENT 33.8% OF NATIONAL OUTPUT.

provides a ripe avenue for MSME development at the county level through leveraging business opportunities across the industry's value chain.

Policy conversations and formal initiatives around these opportunities have already begun at the national stage. A Local Content Bill was proposed to the Senate of Kenya in 2016 and a year prior to this the Ministry of Industrialisation, Trade and Cooperatives had identified local content in the oil & gas sector as a key pillar of the Kenya Industrial Transformation Programme (KITP).

A primary goal of both is to foster more local value addition from the oil & gas industry through direct employment, preferred access to procurement and the formation of local businesses to serve the sectors needs. Local content policy and legislation at the national level is the first step towards leveraging business opportunities across the oil & gas value chain. Across the world, local content policy and legislation has been used to ensure the creation and capture of value in various extractives industries, crucially extending benefits beyond revenues to leave a lasting industrial legacy.

However, local content is also highly subjective and dependent on country context. Whereas some countries have used local content to build on existing capacity and capabilities and develop cross-sectoral enterprises, this is not possible everywhere. An important consideration, therefore, is the need for discussions around the implementation and operationalization of these policy positions.

Local content legislation and strategy

LOCAL CONTENT POLICY AND LEGISLATION AT THE NATIONAL LEVEL IS THE FIRST STEP TOWARDS LEVERAGING BUSINESS OPPORTUNITIES ACROSS THE OIL & GAS VALUE CHAIN.

documents in Kenya certainly lay the foundation for the emergence of local value capture around the oil & gas sector, but the formation of MSMEs at a county level is dependent on a multitude of other factors as well. The mere emergence of national legislation and strategy papers trying to augment local content opportunities is unlikely to guarantee an immediate market response, especially at the county level where the need is greatest.

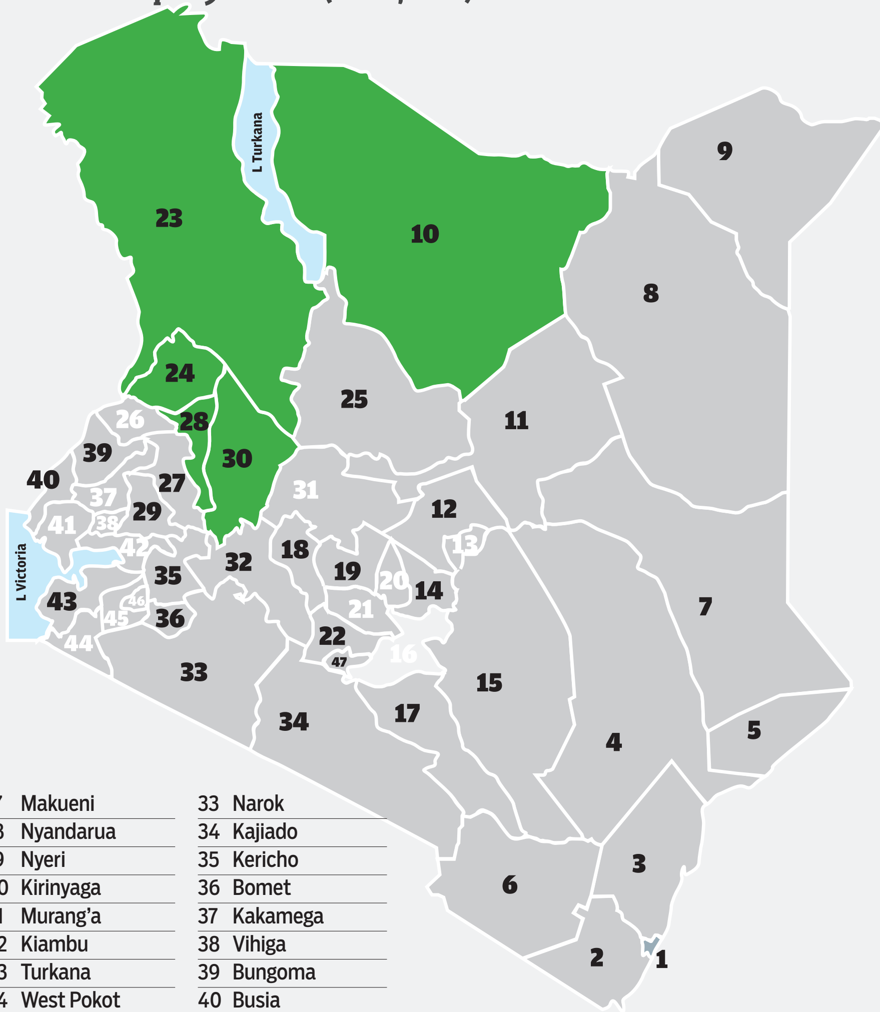
Due to the highly specialised nature of the oil & gas industry, as well as limited knowledge about this new sector, the organic growth of MSMEs around it is highly unlikely. This is particularly the case for the counties in Kenya that host oil & gas reserves as there is next to no existing capacity to immediately seize the emerging opportunities.

Therefore, even before the national level debates and decisions on local content are finalised, a concerted effort to put in place measures that foster a conducive business environment around the oil & gas sector in these counties needs to be adopted. Targeted policy interventions to ensure that businesses can access and profit from the oil & gas sector is critical and County governments must take steps in preparing for this emerging sector. They can put in place the requisite policies, structures and institutions needed to ensure its holistic development beyond the receipt of resource revenue.

This document seeks to provide a guiding framework outlining the types of targeted policy interventions that County Governments can adopt to facilitate the development of MSMEs supporting the oil & gas sector. The framework not only succinctly describes key policy interventions needed but also provides comments on the potential opportunities and challenges policymakers may face in their execution.

It is envisaged that this guide will provide a holistic overview of MSME development in the oil & gas sector for County Governments.

Figure 1 Number of MSMEs in Periphery Counties (KNBS, 2016)



County

1 Mombasa
2 Kwale
3 Kilifi
4 Tana River
5 Lamu
6 Taita Taveta
7 Garissa
8 Wajir
9 Mandera
10 Marsabit
11 Isiolo
12 Meru
13 Tharaka Nithi
14 Embu
15 Kitui
16 Machakos
17 Makueni
18 Nyandarua
19 Nyeri
20 Kirinyaga
21 Murang'a
22 Kiambu
23 Turkana
24 West Pokot
25 Samburu
26 Trans Nzoia
27 Uasin Gishu
28 Elgeyo Marakwet
29 Nandi
30 Baringo
31 Laikipia
32 Nakuru
33 Narok
34 Kajiado
35 Kericho
36 Bomet
37 Kakamega
38 Vihiga
39 Bungoma
40 Busia
41 Siaya
42 Kisumu
43 Homa Bay
44 Migori
45 Kisii
46 Nyamira
47 Nairobi

County	Licensed MSMEs ('000)	Unlicensed MSMEs ('000)	Total MSMEs in the County ('000)	% of Total MSMEs in Kenya (7.4 million)
Turkana	7.3	108.8	116.1	1.57%
Elgeyo Marakwet	5.6	21.8	27.4	0.37%
West Pokot	3.1	64.4	67.5	0.91%
Marsabit	2.2	37.9	40.1	0.54%
Baringo	16.9	84.1	101	1.36%
TOTAL	**35.1**	**317**	**352.1**	**4.75%**

The Oil & Gas Sector

This section seeks to provide a brief overview of the salient characteristics of the oil & gas industry with particular references to the key stages of the sector's value chain. The section will further highlight Kenya's current position within this value chain and its projected trajectory and timelines.

Hydrocarbons

Oil & gas reserves are formed over thousands of years through the integration of organic material (remains of plants and animals) with forming rock. The exposure of this mix to high temperatures and pressures deep with the earth's crust produces the chemical compound known as hydrocarbons, the core component of oil & gas.

Upstream Activity

These hydrocarbons are brought up to the surface through the process of drilling into a reservoir. Once the reservoir is tapped, and commercially viable quantities of hydrocarbons are found, it can be pumped to the surface. This entire process if referred to as upstream oil & gas activity and is carried out by Exploration and Production (E&P) companies. These companies focus on sourcing reservoirs, drilling wells, and producing and selling these materials for further processing into products such as petrol (Harman, 2016). E&P companies generally do not have in-house drilling equipment or a drill team, they hire companies to carry out the work of drilling wells. Referred to as oilfield/gas field service companies, they provide the infrastructure, equipment and services required to extract the resources. This includes seismic testing, transporting and building rigs as well as the actual drilling process. Once a well is drilled, many other activities are involved in generating and maintaining its production over time. These activities include well logging, cementing, casing, perforating, fracturing and are collectively referred to as well servicing. These are sometimes undertaken by oilfield service companies but can be outsourced to further companies (Harman, 2016).

Midstream Activity

Once the hydrocarbons are extracted from the reservoirs and brought up to the surface, they must be appropriately stored and transported for processing. This activity is carried out in varied ways depending on the country-specific situation. Pipelines, rail, barrage, oil tankers or trucks are all modes of transport used across the World.

Downstream Activity

The processing of hydrocarbons through the refining of crude oil and purifying of natural gas into numerous consumer products constitutes one segment of downstream activity. This segment is mainly carried out by refining companies who operate large-scale industrial processing plants that transform the hydrocarbons into more useful products such as kerosene, gasoline and diesel fuel. The other segment of downstream activity involves the marketing and retail distribution of the products all the way down to the point of sale. A number of large oil companies are vertically integrated across both the upstream and downstream sectors but a significant portion of the latter activities are carried out by smaller companies who deal directly with end-user consumers.
are carried out by smaller companies who deal directly with end-user consumers.

Kenya's Oil & Gas Sector

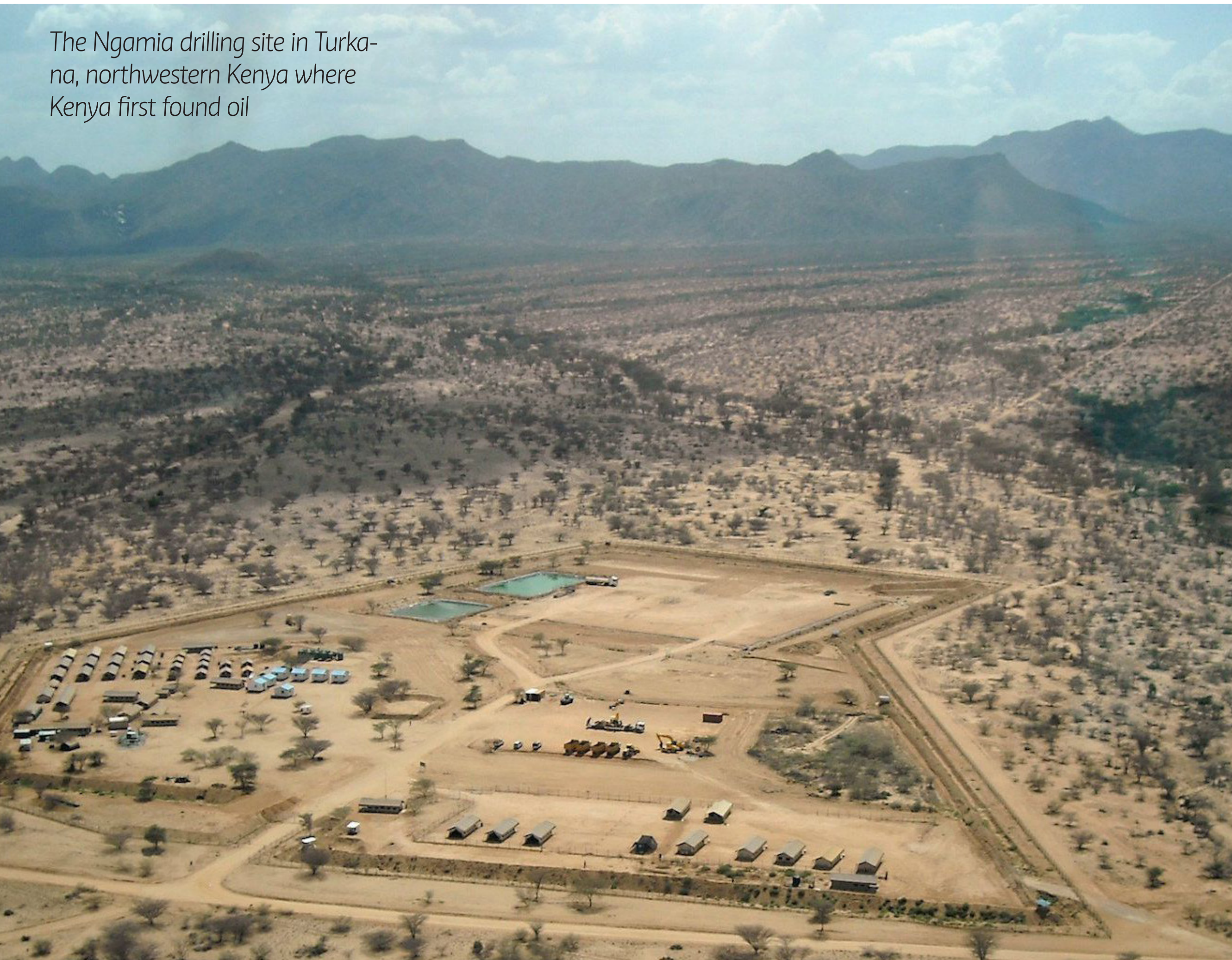
The first recoverable oil resources in Kenya were discovered in the Lokichar Basin of Turkana County in 2012. Since then, an accelerated exploration and appraisal campaign has been completed in the basin and initial assessments indicate recoverable resources of up to 750 million barrels of oil. While these may seem to be significant, put into context, the proven reserves in Kenya are a mere 2% of Nigeria's proven reserves of 37.2 billion barrels and just 1.6% of Libya's proven 46.4 billion barrels. Kenya will not therefore become a leading producer of exporter of oil on the global stage.

Nevertheless, the sector provides an unprecedented opportunity to foster economic development in periphery counties through augmented fiscal revenues for socioeconomic spending and local content opportunities. Due to large-scale infrastructural necessities of the industry and the geographic location of the deposits, it will take a number of years to optimally develop the fields and begin production. It is estimated that oil production will begin sometime between the years 2020 – 2022. The production of natural gas, on the other hand, is expected to begin in 2025 and peak by 2033 (World Bank, 2016).

As the information and data above shows, the upstream sector in Kenya is still at a preliminary and frontier stage with a number of years still to go before production is expected to begin. This is highly dependent on proposed midstream infrastructural development plans which will play a key role in the viability calculations and decisions of E&P companies. This latter aspect is the preserve and responsibility of national Government and has seen some progress with the proposition of an 820 km pipeline running from Lokichar to Lamu, with the expected completion year set for 2021.

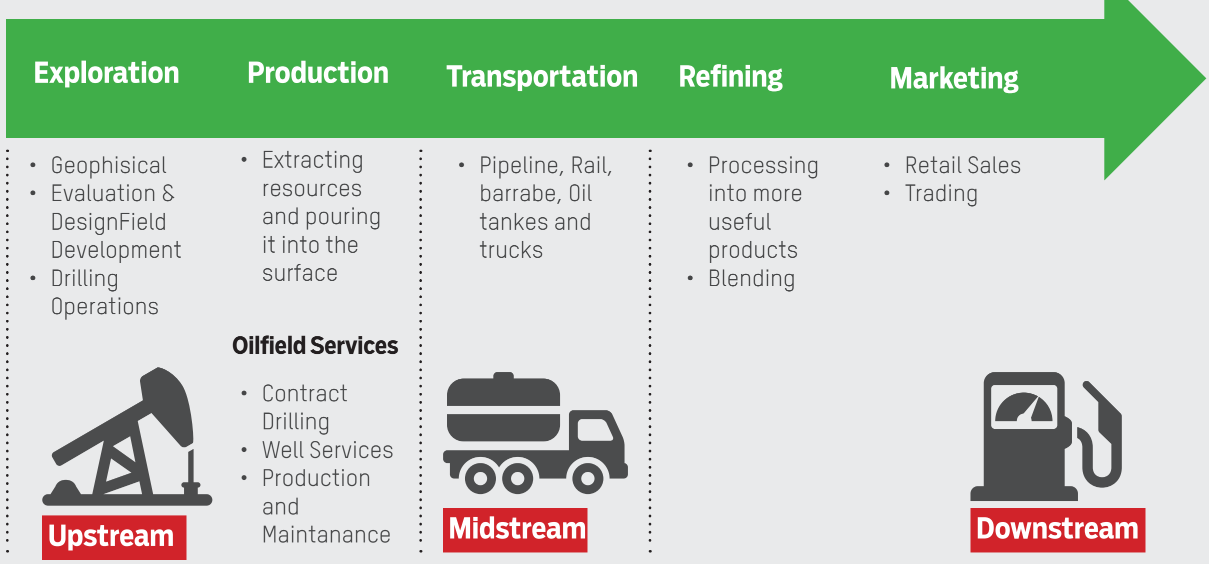
The downstream sector for oil in Kenya has been well established for decades delivering products to consumers. Kenya Pipeline Company (KPC) is the main player in this sector with the mandate to own and operate a multi-product pipeline network and facilities for transportation, storage and distribution of refined petroleum products. In terms of the other downstream activity of refining, prior to its closure in 2013, the Kenya Petroleum Refineries Limited (KPRL) was the main player. Discussions on revamping these activities are still ongoing with new refineries proposed for the port of Lamu where the Lokichar pipeline is expected to terminate (KEPTAP, 2016).

Notwithstanding this, it is important to note that the majority of downstream activities will happen outside of the periphery counties identified with hydrocarbon reserves and its harmonisation with the upstream sector is a priority and function of the national Government. Therefore, this guide and the envisaged interventions by County Governments will primarily focus on value capture in the upstream sector with some attention given to opportunities across midstream activities.



The Ngamia drilling site in Turkana, northwestern Kenya where Kenya first found oil

The Oil Value Chain



The Policy Framework

Creating and capturing value in the oil & gas industry for local enterprise is expected to focus on backward linkages through preferred procurement and utilization of locally produced input materials, linking the nascent oil sector with existing sectors in the local economy (Adedeji & Sidique, 2015).

This is conventionally initiated through affirmative action initiatives, such as local content policy and legislation, with indigenous firms expected to be able to respond to the opportunities arising from this period of protection.

For periphery counties, however, an immediate market response to affirmative action initiatives is unlikely as they have the lowest number of MSMEs in the entire country. Therefore, it is imperative to design and implement concerted MSME and entrepreneurship development policies as an antecedent to local value capture within the oil & gas industry.

The constraints to business activity must first be identified and interventions designed by County Governments to prepare for the emerging opportunities. This guide presents a working five-point policy framework to assist the respective County Governments in designing and implementing the required interventions to foster MSME development with specific reference to the nascent oil & gas sector.

01

INFORMATION & AWARENESS

KEY ISSUES

- Information & awareness on starting a business in the County
- Information & awareness on the sector, its developments and opportunities
- Information & awareness on the standards and procedures required to meet opportunities
- Information & awareness on procurement opportunities when they arise

The role of information and awareness in MSME development, especially for developing economies, has generally revolved around the availability and accessibility of information on the steps required to start and operate a business (Hanna, 2009).

This is complementary to the next point of the framework and seeks to clearly elucidate the legal and regulatory requirements of starting a business within the industry.

While this is certainly an important consideration with respect to the overall framework, when it comes to the oil & sector it is but one of many others. As aforementioned in the introductory sections, the sector is often treated as specialist due to the ubiquity of technical jargon and complicated business processes.

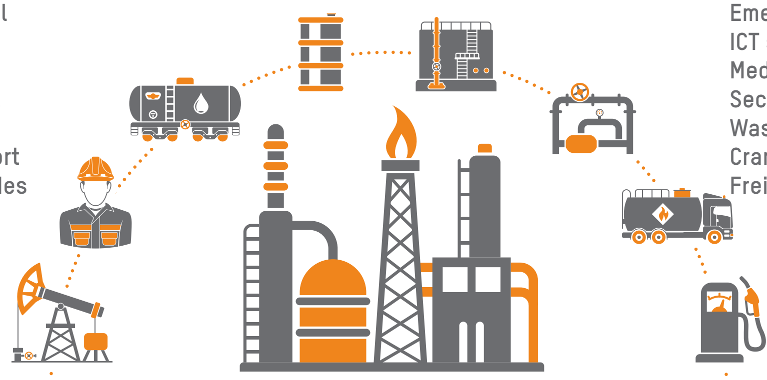
In order to open up business opportunities and improve the entry and access of MSMEs within the industry, this information and awareness barrier must be overcome.

For the oil & gas sector in Africa, it is an empirically proven fact that insufficient information on the industry including oil developments, prospects and existing business opportunities as well as insufficient information on procedures for entering into contract agreements with oil companies has a direct impact on the participation of SMEs and willingness to invest in the industry (Wamono & Kikabi, 2013).

Indeed, so significant is this variable to initiating private sector development in the sector that countries such as Uganda and Angola have developed national level communication and sensitization strategies to counter the information barrier.

BUSINESS OPPORTUNITIES IN THE OIL & GAS VALUE CHAIN

DIRECT	SPECIALIST	INDIRECT
Infield services	Seismic surveys	Hospitality services
Inspections	Well drilling	Human resources
International Freight services		Customs clearance
Civil, electrical & mechanical engineering		Training
Environmental services		Emergency services
Infield transport		ICT services
Specialist trades		Medical services
		Security services
		Waste management
		Crane hire
		Freight forwarding



Key Issue	Description	Action	Output	Comments
Information & awareness on starting a business in the County	Each step required in the process of registering and operating a business within the given legal & regulatory environment of the County and Country at large.	Research and compile a document outlining the step-by-step approach required to start and operate a business in the respective County.	An online portal/ physical pamphlet that gives details on the process and outlines each step required.	This is will not only be useful and effective for emerging MSMEs the oil & gas sector but will serve the wider role of improving the overall business environment for the respective Counties.
Information & awareness on the sector, its developments and opportunities #1 PRIORITY	General information about the sector, its main characteristics, the expected timeframe of development, emerging opportunities, data and statistics and business models and processes. Such as that provided in the preceding information snapshot and introductory section on sector characteristics.	Research and translate information on the sector into accessible forms to general public. Formulate communication strategy targeting sensitization and awareness creation on upcoming plans, developments and opportunities in the sector.	Bite-size information pieces on the oil & gas sector transmitted with an effective communication strategy targeting outreach through innovative and effective means such as via enterprise/information centres, chambers of commerce and community notice boards.	This point of the framework not only will assist the formation and operation of MSMEs to capture local content opportunities but through clear information and improved awareness, one can also manage expectations and reduce speculation. These are two very real issues already manifesting themselves in counties such as Turkana.
Information & awareness on the standards and procedures required to meet opportunities	Specific information sourced from the oil companies on the technical, safety, quality, time, and operational requirements to meet the standards for various opportunities presented.	Collaborate directly with oil companies to document standards, procedures, policies and certifications required by them to comply for contracts/ opportunities. Conduct seminars and workshops on this information, clearly outlining to the key stakeholder group the compliance requirements.	An online portal/ physical pamphlet clearly detailing the standards, procedures, policies and certifications required to qualify for opportunities. Also communicated through the alternative communication channels detailed above.	This is an action required at latter stages of this point of the framework after the first priority above is addressed. The difficulty in executing this particular point will be identifying the key stakeholders to transmit this information to and developing an effective outreach strategy to ensure they receive and understand the information.
Information & awareness on procurement opportunities as they arise	Adverts/ posts on the various procurement opportunities across the oil & gas value chain as and when they arise.	Collaborate directly with oil companies to continuously and promptly receive updates on the procurement opportunities as and when they arise.	An online portal that hosts and continuously updates the various procurement opportunities that arise from the sector.	The online portal envisaged here would be in unison with the preceding point on the standards and procedures required as the two work in tandem.

02

LEGAL & REGULATORY ENVIRONMENT

KEY ISSUES

- Ease of Entry & Access
- Business Registration
- Licenses & Permits
- Tax, Fines & Fees

Around 79% of all MSMEs are unlicensed while only 21% operate with a license

A streamlined legal & regulatory environment for MSMEs is an imperative aspect in ensuring both the seamless growth and effective operation of these enterprises. For Kenya, business regulatory environment has been identified as the main constraint facing MSME development; this is principally characterised by the number and cost of licenses and permits, bureaucratic process of business registration and high taxes (KNBS, 2016).

These findings are further reflected through the World Banks's 'Ease of Doing Business' report as well as the sheer number of unlicensed enterprises compared with their licensed counterparts. For the former, despite successive improvements in overall ranking, Kenya's score for the 'starting a business', 'dealing with construction permits' and 'paying taxes' parameters are ranked significantly poorer than the global average (World Bank, 2017). The latter point is a manifestation of the fact that in an economy with a less than conducive business environment, there are bound to be more unlicensed enterprises (Hanna, 2009). In Kenya, around 79% of all MSMEs are unlicensed while only 21% operate with a license.

The above description outlines the overall national position and average, and therefore the situation in the five periphery counties identified is no different. On some levels, however, the five counties come out significantly poorer. Out of the 352,000 MSMEs currently operating within the five counties, only 10% are licensed while 90% remain unlicensed (see figure 1, page 8). Not only do unlicensed enterprises have fewer opportunities to grow, get credit and build capacity, they will not be able to access local content opportunities presented by multinational firms.

The two most important and cross-cutting sub-variables for each of the last three of the issues identified are time & cost. County Governments must therefore tackle these issues by asking themselves; how can we reduce the time and cost of this process for businesses?

While the majority of issues identified for this first point of the framework are present across all counties in Kenya, the ease of entry and access to the market is specifically relevant to the five counties and the oil & gas sector. Due to its highly specialised nature and often unknown business processes, improving entry and access to the oil & gas sector is dependent on a very precise form of intervention namely local content policy/legislation. This intervention lays the foundation for market entry and is an unavoidable prerequisite to ensuring that businesses can access industry opportunities. It is thus the number one priority for County Governments to pursue for this point of the framework.

Key Issue	Description	Action	Output	Comments
Ease of Entry & Access	Before seizing opportunities available, it is imperative that businesses are able to access them. Improving entry into the market is the principal consideration for this point of the framework.	Translate National Local Content Policy & Legislation to the County Level	County Local Content Policy & Legislation	The national level local content policy & legislation is yet to be harmonised and finalised. This may delay the process for County Governments but they must nevertheless proactively engage in the process at the national level as key stakeholders.
Business Registration	This involves the process and procedures of applying for a business permit. It has been generally described as being difficult, bureaucratic and expensive.	Standardise costs and process of business registration based on National model and average.	Lower costs and faster process of business registration	The issue of business registration has been identified and is being addressed at a national level. There are no novel interventions but simply appropriating and implementing what exists at the county level.
Licenses & Permits **#1 PRIORITY**	This is the various other licenses and permits required to operate within a specific industry. Again, the issues that arise here primarily emerge from the sheer number required and their cost.	Create one, all-inclusive license for business operations within the oil & gas sector and standardise with other sectors.	Oil & Gas Sector Business License/Permit	Much like for the first point, this is also specific to the oil & gas industry. Due to the fact that the majority of local content opportunities will be found through backward linkages at the production stage of the value chain, a single license/permit can be created specifically for these operations.
Tax, Fines & Fees	Kenya is notorious for its heavy taxation but also the numerous (and often informal) fines & fees levied upon businesses. Much like the preceding two issues, this one also revolves around the time and cost factors.	Research and develop a tax strategy/ policy for the county that takes into consideration the challenges facing MSMEs. Introduce short-term tax exemption for local businesses operating within the oil & gas sector value chain.	County-Level Tax strategy and policy	Due to the slow pace of fiscal decentralisation there is a natural inclination to raise additional county-level taxes to supplement revenue disbursements from the national government. While efforts can be made to dissuade the introduction of these additional taxes, until the issues at a national level are addressed, County Government incentives will always be aligned to raising more taxes for additional revenue.

SPECULATION AND LOST BUSINESS IN TURKANA
Turkana woman with traditional big basket on the head at Ellyie Springs remote village, Lake Turkana

03

ACCESS TO FINANCE

KEY ISSUES

- Supply of Finance from Formal and Innovative Lending Institutions
- Viability of MSMEs to Absorb Finance

It is a commonly recognised fact, across both developed and developing countries, that access to finance is a major challenge for MSME development (Berger & Udell, 2005).

Finance is the lifeblood of any business and is required for the process of both starting a venture and maintaining operations. MSMEs find it particularly difficult to access finance due to a number of factors including an inadequate number of assets to use as collateral, lack of satisfactory business plans and accounting reports, and insufficiently high levels of profitability or liquidity. These constraints force MSMEs to move away from formal lending institutions and seek alternative sources of funding such as those displayed in the graphic below for Kenya:

For the oil and gas sector, it is difficult to see how these alternative sources of finance would be sufficient to meet the required levels of capital for both start up and operations. Therefore, policy interventions must be focussed on improving access to formal and innovative lending institutions so that MSMEs can effectively initiate business activity and expand capacity with sufficient capital. However, improving the supply and access to finance from formal institutions is only one of the hurdles that face MSMEs for this particular point of the framework.

As mentioned above, the main reason MSMEs move away from formal lending mechanisms is because of certain characteristics that they inherently possess such as low collateral and lack of accounting reports.

Therefore, the second hurdle to addressing this point of the framework is in improving the viability of MSMEs to absorb capital from formal and innovative lending institutions. The challenge of access to finance must be addressed through successively solving the two hurdles; supply of finance from formal and innovative lending institutions and the viability of MSMEs to absorb this finance.

ACCORDING TO THE SURVEY RESULTS,

80.6%

OF ESTABLISHMENTS REPORTED FAMILY/OWN FUNDS AS THE MAIN SOURCE OF START-UP CAPITAL

4.2

OF BUSINESS OWNERS GOT LOANS FROM FAMILY AND/OR FRIENDS TO START THEIR BUSINESS

- BANKS FINANCE 5.65% OF MSMES,
- CHAMAS 1.4%
- COOPERATIVES ONLY 0.4%
- THE GOVERNMENT FUNDS 0.1%

3.1. Supply of Finance from Formal Lending Institutions

When it comes to the particular context of MSME development within the oil & gas sector, three general categories of formal lending mechanisms can be identified:

1. Commercial Finance – this refers to loans extended to enterprises from institutions operating from within the private sector such as commercial banks, micro-finance institutions and others.
2. Development Finance – this refers to loans obtained and extended from development finance institutions such as the International Finance Cooperation (IFC), African Development Bank (AfDB) etc.
3. Affirmative Action Finance – this refers to funds set up by public sector actors such as Governments or development agencies for the specific purpose of promoting a development agenda such as job creation and self-employment.

For commercial finance, lending institutions that work under this category focus on a market and profit oriented model i.e. they will set up and extend loans in the geographic areas and sectors that they believe will yield them a high return.

As it stands, in some of the most commercially robust regions and sectors in Kenya, loans are difficult for MSMEs to obtain; as the graphic above shows, banks only finance 5.6% of all MSMEs in Kenya. Given this situation, as well as the fact that the oil & gas is a relatively new and risk-prone sector, it is difficult to see how these lending institutions would be attracted to set up and extend loans to MSMEs in periphery counties without any tangible evidence of the profitability of enterprises operating within the sector. Development finance is an alternative lending mechanism to private enterprises that has become increasingly apparent and widespread amongst developing countries over the last decade. Development Finance Institutions (DFIs) such as the African Development Bank, the World Bank (through the IFC) etc. provide credit in the form of higher risk loans, equity positions and risk guarantee instruments. DFIs are usually founded and backed by developed economies as part of their economic development cooperation mandates. Increasingly, DFIs have begun attempts to bridge the financing gap for SMEs through targeted initiatives, the World Bank Group's Finance and Markets Global Practice, for example, has around $3 billion committed globally in lines of credit to SMEs.

The third category, affirmative action finance is arguably the most appropriate and indeed innovative for the context of this study and promoting the development of MSMEs in the oil & gas sector (there is already an active fund operating within this specific area with a large scope for expansion). Affirmative action finance for MSMEs already exist in Kenya through the Youth Enterprise Development Fund and Uwezo Fund and have been deployed to promote job creation and reduce unemployment levels.

These funds certainly have great potential to provide an initial impetus for enterprise development and in doing so augment the commercial viability of local content within the oil & gas sector. This latter point has the further potential to naturally attract more market oriented lending institutions mentioned above to participate in the sector's development.

Key Issue	Description	Action	Output	Comments
Supply of Finance from formal lending institutions **(Affirmative Action Finance)** **#1 PRIORITY**	Amongst the three formal financing mechanisms identified, the option of affirmative action finance is deemed to be the most appropriate for this particular context. This is because these funds already exist in Kenya and within the specific sector in question as well as the inherent characteristics of the oil & gas sector which is likely to deter commercial finance. It is herein argued that the focus of County Governments should be on actualising the potential of affirmative action funds with development finance providing an optional supporting hand through technical assistance and additional capital.	Partner with existing funds like the Northern Kenya Growth Capital (NKGC)	Memorandum of Understanding extending technical and financial support to existing funds.	This is an option available to all counties identified (because NKGC operates in Northern Kenya as a whole) but is most immediately applicable to Turkana County due to the partner Turkana Catalyst Initiative (TCI).
		Create new fund from development budget and with support from DFIs	Allocate money in the county budget for a fund that targets SMEs in the oil & gas sector.	Organically developing a home-grown fund is another option available to County Governments. This is, however, the most technically difficult and expensive option of the three provided.
		Partner with Youth Enterprise Development Fund/ Uwezo Fund	Memorandum of Understanding with the respective affirmative action fund, extending technical and logistical support.	The penetration of the existing (National) affirmative action funds can be augmented through a partnership with County Governments and thus presents a mutually beneficial outcome.

3.2. Viability of MSMEs to Absorb Finance

While the supply of finance from formal lending institutions is indeed important, an increased supply will be for nought if MSMEs are not adept to absorb this finance. Across the world, the issues frequently cited as being the reasons for low formal MSME financing revolved around the internal characteristics of MSMEs. These issues can be elaborated through the *5Cs of Credit* framework which is used by many lenders to determine the creditworthiness of potential borrowers.

Key Issue	Description	Action	Output	Comments
Character	This is the indicator of stability and refers to the experience, track record and credit history of a business.	Set up or sponsor training facilities that address the fundamentals of financial management and literacy.	Accessible, functional and sustainable training facilities	This intervention could begin to address one of the basic concerns outlined in the introduction on improving sound business practices amongst MSMEs.
Capacity	This is the indicator of a borrower's ability to repay the loan extended and focusses on the debt-income ratio of the business.	Develop formal system/ framework for Local Purchase Order (LPO) verification and validation that provides a level of credence to the enterprise's activities and transactions.	LPO Verification/ Validation System	Projected incomes from local content opportunities will be based on procurement schedules of the larger firms and thus LPOs provide a substantial guarantee of income and especially if verified by a formal system within the County Government administration.
Capital	This is the business's net worth i.e. how much of the borrower's own money is invested in the enterprise. Assets minus liabilities.	Address concerns and implement one of the options outlined under section 3.1. above on affirmative action financing.	Supporting and expanding reach of affirmative action funds.	It is envisaged that the affirmative action funds will be able to provide an initial injection of capital into the enterprise that improves the standing of the business in this regard.
Collateral	These are the (fixed) assets that the potential borrower can use to give assurances to the lender and which the latter can repossess in case of default.	Develop legal and policy framework for secured transaction registries that provide enterprises with an opportunity to leverage movable assets (inventory, accounts receivables & equipment) into capital.	Legal and policy framework for secured transaction registries.	There has been some recent success in Nigeria, through the World Bank, developing an online collateral registry. This can potentially be synergised with the LPO verification system and one online platform developed.
Conditions	These are the wider, external circumstances that affect the business e.g. macroeconomic environment, commodity prices & security concerns.	Improve security and protection of local enterprises.	Lower security risk for enterprises.	There is, unfortunately, not much County Governments can do to influence the macroeconomic risk or commodity prices. County Governments can, however, seek to address conditions such as security.

04

CAPACITY BUILDING

One of the key tenets of MSME Development recognised by Vision 2030 is the need for capacity building initiatives. To this end, the Micro and Small Enterprise Authority (MSEA), established in 2012, has as one of its direct mandates, 'to formulate capacity building programmes for micro and small enterprises' (KNBS, 2016). The capacity building referred to above primarily revolves around internal management and decision-making abilities of the respective enterprise's owner. Ensuring these decisions are sound, therefore, comprises an important component of MSME development and the success of these enterprises.

While this form of capacity building is important, when it comes to the oil & gas sector there are further, more technical, forms of capacity that are required to ensure success. This draws directly from Point 1 of the overall framework, that outlines one of the key issues as improving information and awareness on the standards and procedures required to meet local content opportunities. These are the specific technical, safety, quality and operational requirements to meet the standards for various opportunities presented. This particular point of the overall framework must therefore address both the generic capacity building needs of MSMEs such as internal management practices as well as the more technical requirements needed to meet procurement standards of the larger firms operating within the sector.

While two different categories of capacity building have been identified above, the answer for both can be effectively encompassed through one intervention, namely the establishment of enterprise centres. These centres impart business skills and facilitate the exchange of information between buyers and suppliers and thus help streamline supply chains in the oil and gas industry.

Enterprise centres have been proven successful in the oil and gas sector of both Angola and Chad and provide a remarkably simple but effective intervention to boost MSME participation across the industry's supply chain.

KEY ISSUES

Enterprise Centres

CASE STUDY: ANGOLA
Centro de Apoio Empresarial (CAE)

- Established in 2005
- Generated 4809 jobs and certified more than 100 companies
- Delivered over 224 training courses
- Participant SMEs won 300+ contracts
- Established a database of over 1400 SMEs
- Notable alumni SMEs include NASA Commercial Import and Export Ltd who have been supplying protective equipment to Chevron for the past ten years.

CASE STUDY: CHAD
The Chad Enterprise Centre

- Established in 2004
- SME database containing more than 1300 enterprises
- 30 local SMEs recipients of 3-5 year contracts ranging from $99,000 - $600,000.
- SMEs have received contracts totalling $56 million and purchases of goods and service from local suppliers have totalled $175 million.

Key Issue	Description	Action	Output	Comments
Enterprise Centres **#1 PRIORITY**	Enterprise centres are networking and training hubs that allow citizens and local companies to gain business skills, information, contacts and other skills required to capture local content opportunities. These centres focus on skills development and improving the participation of local companies in the supply of goods and services in the oil and gas industry. Enterprise centres are envisaged to provide support to MSMEs in the overall effort to boost local content and participation in extractives industry.	Carry out pre-project research and data gathering and develop a rigorous stakeholder analysis/ engagement strategy.	Report outlining the viability of enterprise centres within given context. Consensus amongst stakeholders on the need for enterprise centres.	The process of successfully establishing and operating enterprise centres is dependent on the cooperation of all stakeholders in the oil and gas industry. Therefore, the first step in implementing this point of the framework is carrying out comprehensive research and engaging key actors in the process. The experience of both Angola and Chad suggests that this is the most fundamental step. A minimum consensus must be generated in order to establish and operate enterprise centres. Achievement of this action directly feeds into the process of implementing the second action outlined below.
		Seek strategic partnerships to set up & operationalise the enterprise centres.	Agreements and MoUs extending financial and technical support towards the development and operationalization of county-level enterprise centres.	Angola's enterprise centres were established through the support (technical & financial) of the national oil company and multinational oil companies working in the country. This both supports the process of initiating the centres and greatly augments relevant content delivery through leveraging these partnerships. Chad's enterprise centres were set up through a partnership with the IFC and the national chamber of commerce. This provided both financial and technical support as well as a pre-existing network of business expertise. Counties must similarly seek strategic partnerships with multinational oil companies, chambers of commerce, DFIs and relevant authorities such as the MSEA.

05

SUPPORTING INFRASTRUCTURE

KEY ISSUES

- Access to electricity
- Access to water
- Access to telecommunication & computer services

"The ease of access to these utilities is important in all business-related activities especially in the manufacturing and services sectors...and the quality of available infrastructure has a significant influence on MSMEs competitiveness." (KNBS, 2016)

The four preceding points of the overall framework discussed hitherto, have focussed on policy interventions that build the 'soft' infrastructure required for MSME development i.e. the institutions, regulations, capacity, processes and governance mechanisms. However, to effectively realise the transformational potential of the oil & gas industry at the county level, 'hard' infrastructure projects must also be aptly designed and implemented.

Infrastructure such as roads, pipelines, electricity transmission lines are a key part of the overall development of a successful oil & gas industry. They directly influence the commercial viability of discoveries and determine the pace of extraction and midstream sector development.

In Kenya, the oil & gas reserves are located in some of the most remote areas of the country that have long been disconnected from the mainstream economy. The infrastructure deficit in these counties is thus far more palpable than in other areas of the country.

County governments must continue to prioritise and streamline transport infrastructure such as roads, as part of their overall economic transformation goals. However, the development of larger (midstream) infrastructure requirements is a function of the national Government and County Governments must seek to work alongside the relevant national agencies in harmonising overall infrastructure plans for the oil & gas sector.

When it comes to MSME development, large infrastructure projects such as roads certainly benefit these enterprises but there are more basic infrastructure requirements that provide an immediate hurdle to their activities. The MSME Survey 2016 identified three key issues as a proxy for the assessment of the quality of infrastructure available to entrepreneurs. These are; access to electricity, water and telecommunication & computer services.

Basic infrastructure and utilities are a priority for any County Government and represent a core component of economic and social transformation initiatives. County Governments, through their County Integrated Development Plans (CIDPs) and County Investment Plans (CIPs), already have a predisposition towards building and upgrading supporting infrastructure projects identified.

This point of the policy framework, therefore, does not seek to introduce new ideas or prescribe new policy interventions but rather emphasise how focussing on alleviating basic infrastructural deficits has significant cross-linkages to private sector development and wealth creation. Rationalising basic infrastructure facilities through the context of the overall five-point framework will highlight how necessary prioritising the development of these utilities are for MSME development in the oil & gas sector and beyond.

Key Issue	Description	Action	Output	Comments
Access to Electricity #1 PRIORITY	Access to an affordable and reliable source of electricity is a prerequisite for the effective operation and functioning of any businesses. The five counties identified have very low connectivity to the national grid. **Access to electricity in Turkana, for example, is estimated at only 1% of the entire population.**	Prioritise 'access to electricity' and coordinate projects alongside national Government agencies like the Rural Electrification Authority. (Turkana has set an ambitious target of 30% by 2019 in their County Investment Plan).	A greater percentage of the county population with access to electricity.	The five counties identified have highly dispersed populations with a population density 4 times lower than the national average. Therefore, county governments must work alongside national Government agencies in implementing electrification projects. Harmonising county plans with proposed interventions from national agencies will be crucial to success.
Access to Water	Water is an important input in certain businesses activities within the oil & gas supply chain such as construction and hospitality services. Access to an affordable and reliable source of water is therefore an important factor that will influence the success of MSMEs in these counties. As aforementioned, the five counties identified are in geographic areas declared as arid or semi-arid with very limited access to water. In fact, water is often a source of conflict and represents a security threat to the counties if not addressed. With this in mind, interventions to improve access to water must be very contextual and specifically designed given the situation.	Carry out research on expected water needs of businesses and enterprises taking into account relevant county context.	Study on current and projected water needs of MSMEs within the county that informs contextual and innovative interventions by national Government.	Access to water within the five counties identified is a sensitive topic and one that must be approached with due research and process. Water is not a devolved function and therefore interventions are carried out by national agencies. As it stands there is limited information of current water infrastructure and whether this suits the needs of an emerging oil & gas sector. The first step to addressing this challenge is carrying out a situational analysis and then mapping out the expected needs of the sector to design specific interventions.
Access to telecommunications and computer services.	Telecommunications and computer services, in the digital and information age, are important utilities for business. This function is crucial in operationalising the 'access to information' point of the overall framework allowing businesses to gain knowledge on best-practice, opportunities and indeed submit registration documents, requests for proposals (RFPs) and tender documents.	Prioritise developing telecommunications and computer infrastructure.	A greater percentage of the county population with access to telecommunications and computer services. Faster, more stable and affordable services.	Telecommunication penetration in Kenya is quite high compared with regional counterparts. It is estimated that almost 90% of the population use mobile phones and 99% of access to internet is through mobile phones. The goal here is improving the speed, reliability and price of services in periphery counties, as well increasing the penetration and use of computer services.

WAY FORWARD

Way Forward

USING THE POLICY FRAMEWORK

The five-point policy framework outlined provides an overview of options available to County Governments to foster MSME development within the oil & gas sector. It is important to emphasise, however, that policy design and implementation is highly contextual. The framework provides an overall guide but interventions must account for the idiosyncrasies, dynamics, culture and relative socioeconomic conditions of the respective county in question. Translating the suggested interventions into effective policy will require a rigorous and concerted process of design, implementation and continuous review.

An immediate step in practically using this document would be to carry out a base assessment of the County in question. This first step would be to simply carry out an overall review based on the sub-components of each of the five-points of the policy framework. Essentially using the framework and a series of questions as a filter to distil and map out areas already being worked on, the status of the same and areas that are yet to be considered. The base assessment would provide a simple, resource-light but significant first step in using the framework for effective policy action.

Example 1

BASE ASSESSMENT
Framework Point 1: Information & Awareness
Subcomponent 1: Information & Awareness on Starting a Business in the County

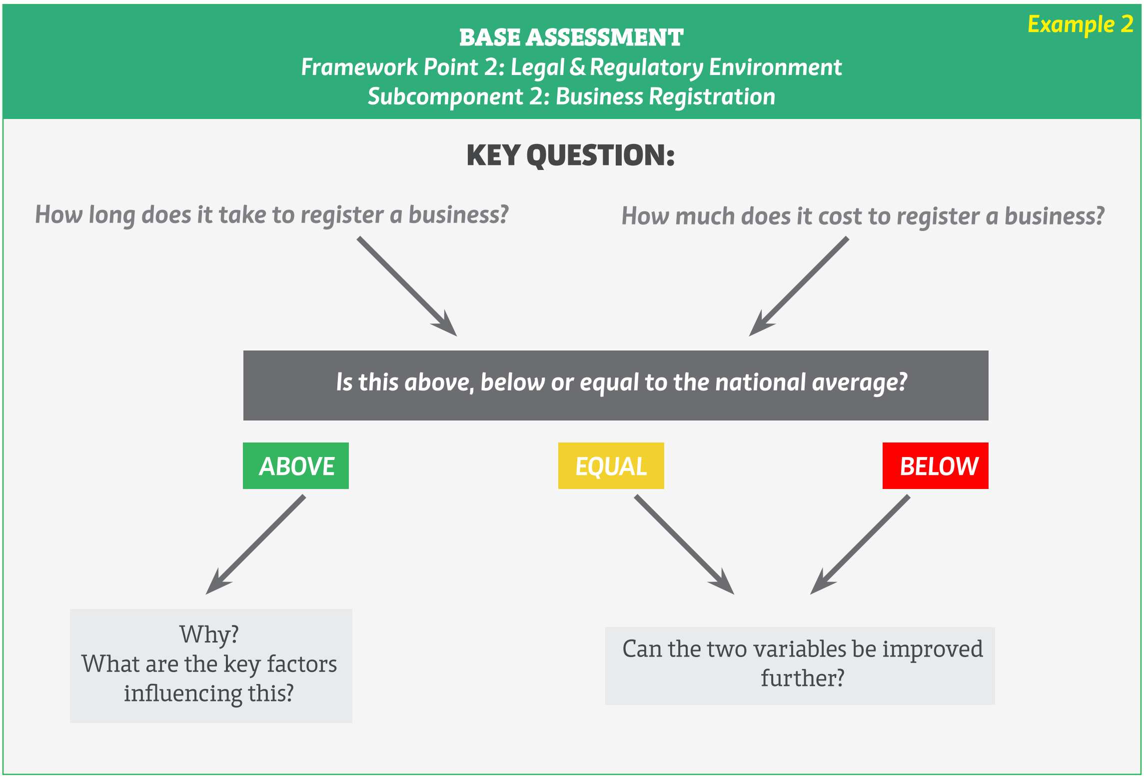
KEY QUESTION:
Does a concise step-by-step guide on starting a business in the county exist?

YES

- How accessible is this guide?
- What are the mediums of dissemination?

NO

- Where is the information currently being held?
- Are there any gaps in the information?
- Can the information be easily collected?
- Is there internal capacity to develop a step-by-step guide?



The base assessment as exemplified in the two diagrams above explore each of the five points through a process of self-analysis, using a series of simple questions to begin investigating the key issues underlying MSME development in the oil & gas sector and beyond. These self-analytical questions are intended to be organically developed by the user from their understanding of each issue at hand.
This is based solely on the 'Description' column provided in each point of the framework and thus ensuring a focus on the idiosyncratic context.

Following the base assessment, the user will be able to update the 'Description' column of each matrix with much greater detail. This will then pave the way for a structured and deeper analysis of the key issues outlined in each of the five points of the policy framework further adjusting the 'Action' and 'Output' column based on information collected.

KEY ISSUE	DESCRIPTION	ACTION	OUTPUT
Information & awareness on starting a business in the County	BASE ASSESSMENT		

Base Assessment

CASE STUDY: TURKANA COUNTY

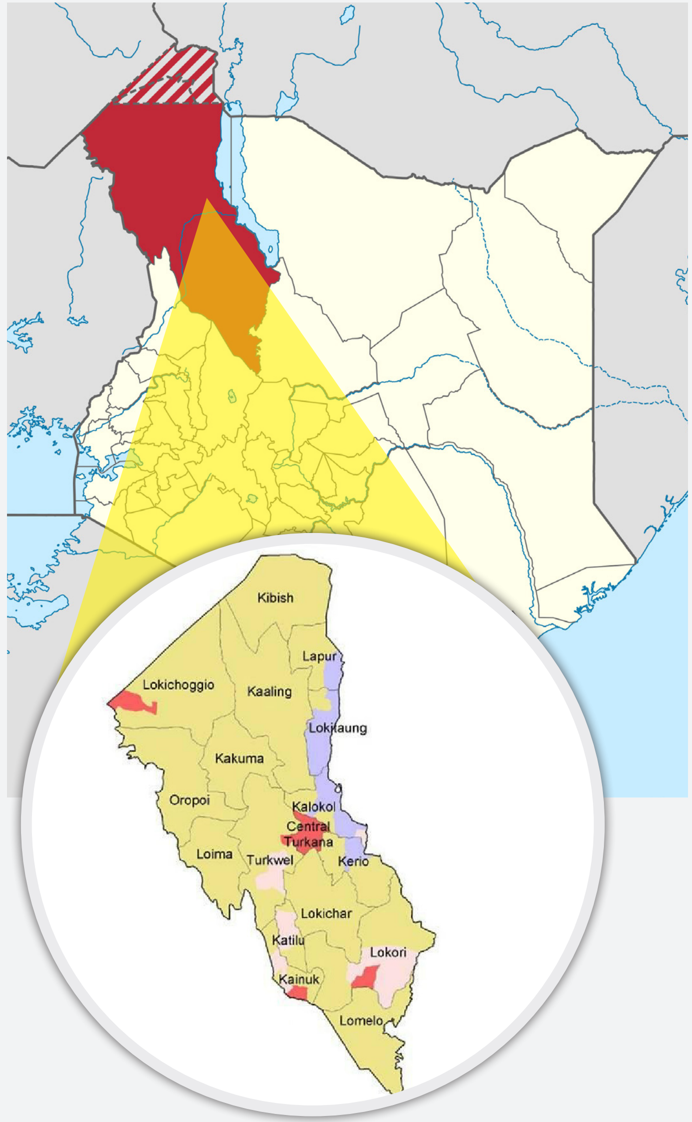
Introduction
This section provides a preliminary example of how to operationalize the MSME Development Policy Framework through an assessment of Turkana County. Being the county currently hosting the most recoverable reserves of oil, Turkana County will be at the forefront of oil & gas activity in Kenya. Therefore, this working policy framework is especially pertinent for Turkana County and its plans to ensure a holistic reward from the extraction of resources.

The contents of this section were developed with the Turkana Chapter of the KNCCI and Turkana County Government officers from the Department of Trade after a comprehensive period of research and information collection that revolved around field visits to the county. It is apparent from this process that there is a general dearth of information and data on Turkana County around the five points of the MSME Development Policy Framework. The framework provided an effective analytical tool through which to probe each point and seek out priorities for policy interventions using the key areas identified.

County Overview
Turkana County is the second largest county in Kenya ranging 68,680 KM^2 and bordering three countries. The county has a population of approximately 856,000 people and 124,000 households, this constitutes 2.2% of the national population. Lodwar town is the largest urban center in Turkana hosting 6% of the county's population followed by Kakuma and Lokichogio representing 4% and 2% respectively.Youth aged between 15 and 35 years make up 35% of the population while about 46% of the population are considered dependent (the population below 15 and above 65 who do not work and rely on a working citizen for their livelihood).

The county has 202 primary schools and 19 secondary schools. 71% of the population have primary education but only 9.5% have a secondary education. 18.1% of the county's population can read and write, the second lowest in the country (KIRA, 2014). Turkana has 6 sub-counties namely Turkana North, Turkana West, Turkana Central, Loima, Turkana South and Turkana East. Turkana County is served by a high court based in Lodwar which also serves as the administrative capital of the county. Oil deposits are located primarily in Turkana South around the town of Lokichar.

The large majority of the population are pastoralist with their main economic activity being livestock farming. Turkana hosts only 1.6% of all Micro, Small and Medium Enterprises (MSMEs) in Kenya and of these only 6% are formal enterprises with licenses, close to 94% operate informally without a license. Turkana County is considered the poorest county in Kenya with the rate of poverty being 94.3%, significantly higher than the national rate of 45.9%.



POINT 1: INFORMATION & AWARENESS

OVERALL STATUS	COMMENTS
There is a general dearth of data and information on private sector and business activities in Turkana County. Awareness around the need and applicability of business analytics for both public and private sector decision-making is low. As a county long disconnected from national economic priorities and sectors, there are very limited quantities of data on Turkana County from national institutions. Since the advent of devolution, more information is being captured by the County Government and its various departments such as the Biashara Centre which has a significant repository of information on the number and sector category of enterprises. This information, however, is not being processed, analyzed or utilized further. A significant interest to take an initiative amongst county officers interviewed was identified. With particular reference to the oil & gas sector, there is a noticeable lack of awareness and significant misinformation about the oil findings in Lokichar and the general nature of the oil industry. In the absence of information on the sector, expectations are generally high and some misplaced. With a very underdeveloped private sector, the value of sectoral information is not considered and the primary medium of information dissemination on business/economic matters is word of mouth. Local business people around Turkana do not believe that there is much business opportunity for them around the oil & gas sector and those who have attempted to engage with the sector have faced procurement standards requirements as a key and discouraging hurdle.	Expanding Information & awareness is certainly pivotal for private sector development as a whole but it is even more fundamental when dealing with the oil & gas sector due to the deep-rooted perceptions individuals hold on its lucrative nature. This latter point can potentially fuel instability out of a simple lack of information and awareness. The collection and analysis of economic statistics and the transformation of these statistics into an accessible and understandable format should be placed as a key priority the County Government. The Biashara Centre under the Department of Trade of the County Government of Turkana is the best placed County Government institution to drive this particular point of the framework. They have both an existing repository of data on business registration and hold a mandate to support private sector development in the county. The Biashara Centre, with technical support, could address the first two key areas of this point namely information on starting a business in the county and sectoral information. Invest in Africa through their flagship initiative 'The African Partner Pool' have set up an online marketplace that connectslocal businesses directly with multinationals and large companies. The initiative advertises tenders and opportunities as well as validates the awarding of contracts.

KEY AREAS	STATUS
Starting a Business in the County	Limited
Macroeconomic & Sectoral Information	Very Limited
Standards & Technical Requirements	Very Limited
Government/Other Procurement Opportunities	Limited

KEY RECOMMENDATIONS

- Prioritize the need for information collection, analysis and dissemination on business activity and the economy.
- The Biashara Centre should take the lead role in developing the first two key areas under this point of the policy framework.
- Beyond collecting and analyzing the information, select and develop mediumsand strategiesfor dissemination that appeals to the target audience is pivotal.
- The first key area on information around 'Starting a Business in the County' provides the opportunity for a quick win and delivery of output within a short period of time.

POINT 2: LEGAL & REGULATORY ENVIRONMENT

OVERALL STATUS	COMMENTS
Business registration is carried out through a national online site called eCitizen, this is a streamlined and accessible service that is expected to take less than 7 minutes.For those without access to a computer or internet connection, the Biashara Centre and Huduma Centre both located in Lodwar offer assistance and support services. Despite this progressive step, the KNBS MSME Survey 2016 indicates that Turkana County has about 15 times more unlicensed businesses than licensed ones. The ratio is expected to lower with the progressive moves on business registration and increased economic activities as a result of devolution. The Biashara Centre has reported that there has been a noticeable increase in business registration since the oil discovery, particularly from people residing in South Turkana. The primary license required for enterprise activity in Turkana County is the Single-Business Permit. This is issued by the Department of Trade and is required to be renewed every year and holds the infamous reputation of being the second most expensive permit in the country after Nairobi County. A Trade Licensing Bill, 2017 has been submitted to the Turkana County Assembly to streamline the process of issuing and renewing licenses and permits. This is yet to be approved but proposes that the Biashara Centre takes over the function of inspecting and invoicing businesses for the permit that can then be paid via MPESA or bank deposit. Currently, the revenue department of the county government carries out the inspection and collects cash directly from proprietors increasing risks of extortion. Beyond the Single-Business Permit and other specific operating requirements, such as the liquor license, business people in Turkana have consistently signaled out informal fees and fines as a constraint and overlap of other permit costs paid. These have been primarily identified around physical markets where both entry and exit to sell, purchase and exchange in commercial activities is charged. Various claims have been placed that this is being done through officials from the county government but no evidence has been verified to this end. They, nevertheless, pose a potential barrier to market entry and commercial activity in Turkana County.	Prior to the introduction of eCitizen business registration, prospective entrepreneurs from Turkana had to travel almost 600KM to Nairobi to simply register a business. This is perhaps a contributing reason for the incredibly high number of informal enterprises quoted – the time and cost of registering a business for someone in Turkana was significantly higher than the national average due to the travel required. Constrained fiscal decentralization and limited avenues of own-source revenue has led the Turkana County Government to hike up costs of its limited avenues of revenue such as the licenses and permits for business activity. The Trade Licensing Bill, 2017 is a progressive move to streamline the process of inspection and invoicing of annual permits for enterprise activity in the county but still needs to be approved and signed into law to take effect. The KNCCI Turkana Chapter alongside the Biashara Centre has hosted multiple business roundtables between the Governor of Turkana County and the business community to discuss issues facing enterprise and commercial activities in the county such as the prevalence of informal fees and fines.

KEY AREAS	STATUS
Ease of Entry & Access	Limited
Business Registration	Progressive
Licenses & Permits	Under-Review
Tax, Fees & Fines	Primarily Informal

KEY RECOMMENDATIONS

- Promote use of eCitizen to register businesses and seek to place Turkana County under the eCitizen portal under County Services as has been done by Mombasa, Nyeri and Kisumu counties.
- Fast-track approval and ascension of Trade Licensing Bill, 2017 and seek to carry out wider public participation from the business community in the development of legislation.
- Seek to significantly reduce cost of Single-Business Permit below the national average.
- Address issue of informal fees and fines through enhanced monitoring and regulation of physical markets.

POINT 3: ACCESS TO FINANCE

OVERALL STATUS	COMMENTS
As is the case at a national level, informal financing mechanisms are the predominant source of funds for business activity in Turkana. In addition to the conventional sources of informal finance such as family/own funds, there are also more collective mechanisms emerging such as the Village Savings Groups that hold sums of up to Kshs 5 Million and operate in the method of SACCOs. These, often called 'under the table', lending platforms are growing but lack the appropriate framework for formalization and accreditation to build the requisite credit history an individual would need to access larger sums in the future should the need arise. Formal financing is much less developed in Turkana County but has significant room for growth.There are 44 registered SACCOs and 5 commercial banks currently operating in Lodwar (Kenya Commercial Bank, Equity Bank, Cooperative Bank, Post Bank and National Bank). The county has several micro finance schemes serving the local residents including KWFT and Kadet Micro-Finance. The County Government has its own affirmative action fund for enterprise development named the Biashara Fund which is managed by the Biashara Centre under the Department of Trade. The Biashara Fund disburses low-value loans to applicants ranging from a minimum of Kshs 20,000 to a maximum of Kshs 300,000. Administrators of the fund have reported an increase in applications for finance since the discovery of oil. There have also been a number of innovative mechanisms developed by various development partners and institutions. The Turkana Catalyst Initiative set up by the Lundin Foundation is an affirmative action fund and capacity building programme specifically set up to increase the capacity of local businesses to benefit from opportunities arising from the emerging oil & gas sector. Beyond the supply of finance from formal institutions, access to funds is also determined by the capacity of MSMEs to absorb this finance based on the 5Cs of Credit. Amongst the 5Cs, capacity stands out as the biggest issue for Turkana County. It is apparent from the sheer percentage of unlicensed businesses and interviews with local stakeholders that Turkana has a significant deficit of skills around business reporting, financial literacy and keeping books. This is an immediate hurdle facing access to finance and is addressed in more detail in the next matrix on capacity building.	Both the informal Village Savings Groups and the formal Biashara Fund have limited capacity and can only disburse low-value loans that are unlikely to be sufficient for establishing competitive enterprise activities or scaling these up. This is particularly important when it comes to the high-value oil & gas sector. Nevertheless, the savings culture slowly being developed through the Village Savings Group is a promising sign of the potential of these mechanisms to scale up and seek innovative methods to create a 'book-keeping' and reporting culture so as to develop credit histories for members. Turkana County is the single most-funded per capita County Government in Kenya and sub-National Government in East Africa. There are considerable resources deployed to the county that can be used to buttress and expand existing mechanisms such as the Biashara Fund. The SMEs and Economic Empowerment Programme deployed by the County Government is one such progressive initiative. Invest in Africa have extended bridge financing to a number of local MSMEs in Turkana under the Credit Guarantee Scheme in partnership with the Turkana County Government. Projects such as the Turkana Catalyst Initiative represent significant progress and concerted effort towards addressing the twin issues facing access to finance namely supply and absorption capacity. This latter point is particularly important because even if the supply of finance was to increase it would be for naught without the requisite absorption capacity on the part of MSMEs. The general commercial risk of Turkana County is significantly higher than the national average due to a number of factors including its geographic location, notoriety for insecurity and a small population.
KEY AREAS	**STATUS**
Supply of Finance from Formal Institutions	Limited but Growing
Capacity of MSMEs to Absorb Finance	Very Limited

KEY RECOMMENDATIONS

- Strengthen and increase the capacity of the Biashara Fund to soundly assess, disburse and monitor higher value loans.
- Build on concerted efforts of the Turkana Catalyst Initiative to address the twin challenges facing this point of the framework.
- Build on initiatives such as the SMEs and Economic Empowerment Programme and prioritize SME development within economic planning.
- Seek innovative solutions to promote credit referencing and peer guarantee, pushing the Village Savings Groups towards a more formal model.

POINT 4: CAPACITY BUILDING

OVERALL STATUS	COMMENTS
Turkana hosts only 1.6% of all MSMEs in Kenya. The majority of these are unlicensed enterprises reflecting the historically limited capacity of commerce across the county. Since devolution and discovery of oil reserves, however, this is slowly changing. Interest around building a robust business and entrepreneurial ecosystem is a priority for both the County Government and development partners. In the last few years alone, numerous enterprise capacity building initiatives have been launched and carried out. In 2016, through the support of the UNDP, the Biashara Centre was launched in Lodwar Town with a mandate to support capacity building and skills training in business. In the same year, Tullow Oil launched an Enterprise Development Centre (EDC) in Lokichar that is labelled as a one-stop-shop for business mentorship and capacity building. The trainings under the EDC were being conducted by the Equity Group Foundation alongside the Lundin Foundation. In 2018, Invest In Africa-Kenya carried out week-long business skills training in Lodwar at the Lodwar Vocational Training Center that attracted over 30 SMEs from the region. The aim was to specifically empower SMEs and build their capacity to respond to the needs of the Oil and Gas industry supply chain.	There has been an increase in capacity building initiatives across the board from public and private sector stakeholders over the last few years alone; this is a priority that must be maintained. The focus of business capacity building has naturally been on entrepreneurial skills, as is consistent across the world. However, after laying this foundational level of capacity, more specific initiatives around capacity to meet standards must also be pursued. A key development has been the actual infrastructural setting up of training spaces such as the Biashara Centre and Enterprise Development Centre building on existing ones such as the Lodwar Vocational Training Centre. These physical premises now require consistent use through regular courses and training sessions. With a growing level of mobile phone use and internet penetration there is an opportunity to leverage and deploy ICT driven capacity building initiatives that overcome the barrier of geographic mobility that counties such as Turkana face.

KEY AREAS	STATUS
Business, Financial & Entrepreneurial Skills	Limited
Capacity to Meet Standards	Very Limited

KEY RECOMMENDATIONS

- Leverage established infrastructure in the form of the Biashara Centre, Enterprise Development Centre and Vocational Training Centre to offer and provide more training.
- Seek to use ICT driven capacity building initiatives via mobile and internet platforms to expand reach of training courses.
- Expand on entrepreneurial capacity building through transitioning graduates of these trainings to more technical courses on standards and procurement requirements.
- Seek partnerships with private sector players such as commercial banks to develop curated courses specifically on issues including the 5Cs of Credit.

POINT 5: Supporting Infrastructure

OVERALL STATUS	COMMENTS
Having been disconnected from national economic activities and planning for the majority of Kenya's independence, the state of infrastructural development in Turkana is poor. The County got its first tarmacked road in Lodwar in 2014 but has made significant advances since then. The majority of Turkana County is disconnected from the national grid of electricity supply. Lodwar Town is supplied by the Kenya Power and Lighting Company (KPLC) through three independent, diesel fueled generators. Electricity supply is thus fully dependent on the effective functioning of these generators and cannot be considered sustainable. As a County located within an arid region, water is in very scarce supply and susceptible to natural weather phenomenon such as drought. During drought, reduced water tables are common leading to low yielding boreholes and longer waiting times at the few water points available. The rainfall pattern and distribution is erratic and unreliable both with time and space. Since the advent of devolution, Turkana has witnessed growing connectivity of telecommunications and ICT infrastructure. For the latter in particular there has been significant advancements through the Eastern Africa Regional Transport, Trade and Development Facilitation Project which plans to connect Kenya and South Sudan with a high-speed fibre optic cable. Through the ICT Authority and Last Mile Fibre Connectivity, Turkana county headquarters, Lokichogio, Kakuma, Lokichar, Lodwar are all expected to be upgraded.	Turkana County is one of the most feasible regions in the continent for both wind and solar energy production. There are ongoing projects around renewable energy but the demand for energy within the County does not justify connections to these sources. The County Government has recognized the issue of water supply and developed a comprehensive Water and Sanitation Policy (2017) to address issues in water management and supply. Lake Turkana is the largest and most saline of the Rift Valley lakes. There is no outlet, and with reduced inflows and high evaporation this results into depositing of salt in the soil and capping on the surface. The water level is subject to three to four metres seasonal fluctuations. Two underground aquifers holding some 250bn cubic metres of water have been discovered in Turkana County. Telecommunications and ICT is one of the more positive stories of infrastructural development in Turkana and is benefiting from regional initiatives to boost connectivity and quality of broadband between Kenya and South Sudan.ICT infrastructural development will be particularly conducive for mobile and e-commerce activities that can offset the deficiencies of physical infrastructure. Infrastructure is pivotal to bolstering Turkana's trade with neighboring countries. As it stands, trade with Uganda is a key source of income for businesses in Uganda. Developing cross-border infrastructure would boost trade and increase the commercial appeal and viability of the county.
KEY AREAS	**STATUS**
Access to Electricity	Limited
Access to Water	Very Limited
Access to Telecommunications	Limited but Growing

KEY RECOMMENDATIONS

- Seek to boost local grid connections to renewable energy sources.
- Implement Water and Sanitation Policy, 2017 and drive towards sound water governance.
- Telecommunications and ICT infrastructure plans at a national level must be monitored and streamlined into County development plans and priorities.
- Leverage increasing mobile connectivity for business by developing a conducive environment for mobile and e-commerce.

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WORKING POLICY FRAMEWORK TOWARDS MSME DEVELOPMENT IN OIL & GAS COUNTIES

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