



A New Perspective on Small Firms in Kenya

SUMMARY OF KEY FINDINGS

Main Points

1. A Unique Group: The firms in the Small Firm Diaries sample are not at the bottom of the pyramid and consequently are not served by microfinance. They are also not large enough to show up in the statistics and are not consistently served by commercial banks. They are dynamic, but they are not growing and they are not "escaping" poverty. They have a unique set of employees who typically do not have alternative sources of income. They are banked, but not enough.
2. Seek Stability: "Gung-Ho" and "Reluctant" are not the only two types of small entrepreneurs. The largest group of firms in the Diaries aspires to grow but also to become more stable. They want to grow, but step by step. The firms face high levels of volatility, but are resilient. They look for tools to cope with volatility, minimize months with negative operating margins and to keep their businesses stable. They do not have a critical financial situation, but they are unable to meaningfully grow or take on further risk necessary to expand.
3. What They're Missing—Liquidity: Many of the firms have access to a variety of formal financial tools, but not to the tools they need to manage the volatility they face. They lack tools to manage cash flow, rather than for capital asset investment. They use, and give, credit from suppliers and customers as much as they use bank loans.

FOR WHAT DO YOU USE CREDIT?

The primary use of credit is managing cash flow.

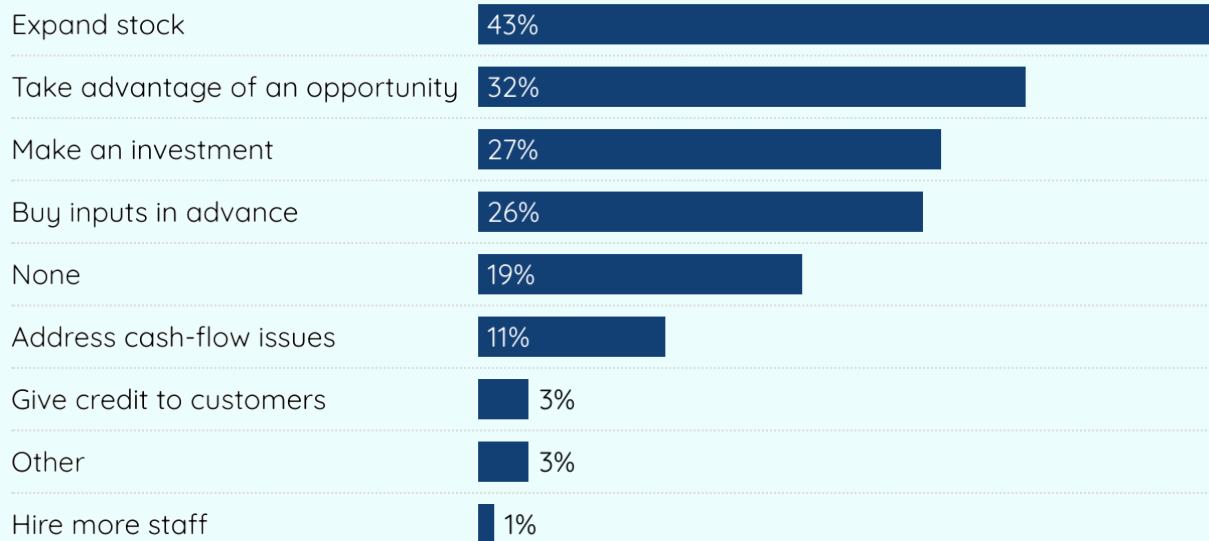


Chart: Financial Access Initiative - NYU Wagner • Source: Small Firm Diaries

4. Fragile Jobs, Vulnerable Employees: Firms pass volatility in earnings on to employees, who have even less ability to manage volatility. Many of the jobs in the firms are short-lived, as the firm copes with ups-and-downs in revenue. Employees indicate that they rotate in similar businesses in the same industry, with the same unfavorable and inconsistent conditions. A third of employees indicated that they lacked money to meet their basic or food needs at some point during the study.

FLUCTUATIONS IN EMPLOYEE COUNT

The slight rightward skew in the distribution of the total unique employees illustrates that many jobs are short lived.

- Mode of number of employees paid monthly
- Total unique employees paid over one year

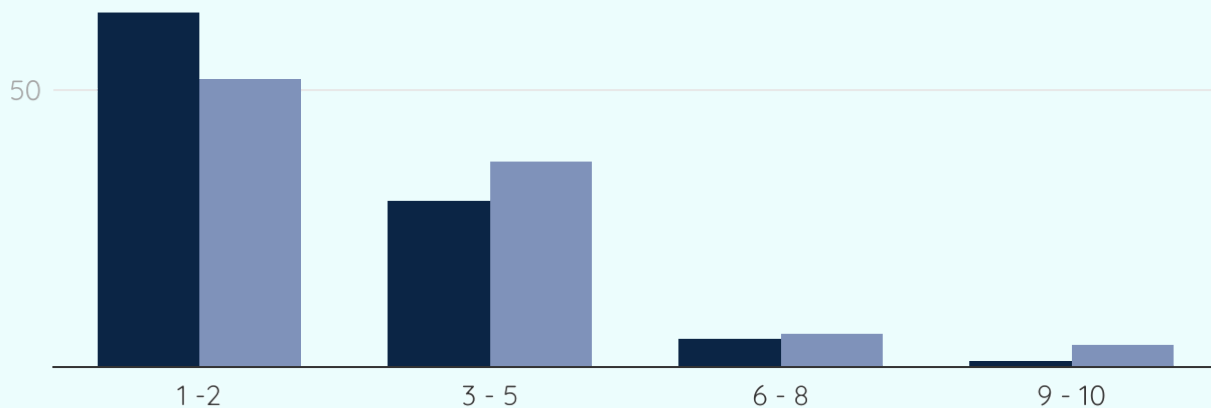


Chart: Financial Access Initiative - NYU Wagner • Source: Small Firm Diaries

Recommendations

1. Focused attention on small firms: Small firms, not just micro or larger firms, deserve specific attention. They are distinct from other types of firms, yet are a critical source of jobs and incomes for low-income groups.
2. Design policies and programs around achieving stability: The focus of policies and programs should shift toward reducing volatility and achieving stability. Design training programs around risk management and liquidity management to help firms achieve greater stability.
3. Explore liquidity and working capital lending: New products focused on increasing liquidity are desperately needed. Explore new alliances to create business models for working capital financing.
4. Focus on employees too: While volatility is passed on to employees, there is no guarantee that greater stability for firms will be passed on to employees. Develop programs and policies that directly support the workers in small firms.

Contacts:

Timothy Ogden
Managing Director,
Financial Access Initiative, NYU
Investigador Principal,
Small Firm Diaries Global

Amrik Heyer
Director of Research
FSD Kenya
Principal Investigator,
Small Firm Diaries Kenya

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