

**Department for  
International Development**

**The Kenya Management Assistance  
Programme: Innovative Delivery of  
Counselling and Training**

A Case Study on  
Business Development Services for SMEs

by

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## 1. INTRODUCTION

The Kenya Management Assistance Programme (K-MAP) was established in 1986 to assist small- and medium-sized enterprises (SMEs) by tapping into the human resources of large- and medium-scale businesses based in Kenya, in the form of technical and managerial training and counselling. From the outset it was a Kenyan initiative, the brainchild of Victor Pratt, a locally-based entrepreneur, based on the view that successful businesses should assist small and fledgling enterprises to develop and grow. It recognised that executive time was often not totally utilised by employers, and that this surplus time could potentially be used to assist SMEs.

K-MAP's goal is to overcome barriers to SME growth and address the problem of the "missing middle", namely the paucity of dynamic, high-growth, indigenous, SMEs which is so characteristic of many African economies. Specifically, it seeks to transfer expertise from established enterprises in the form of:

- Growth focused assistance to existing SMEs; and,
- Start up assistance to potential entrepreneurs<sup>1</sup>.

K-MAP's approach to SME service provision - the innovative use of the experience and technical capacity of large-scale businesses - is distinctive. These businesses become members of K-MAP, paying membership subscriptions, and releasing executives (on a voluntary basis) to K-MAP to form the backbone of its counselling and training services. K-MAP therefore not only seeks to assist SMEs (its clients) but also provides a vehicle for larger businesses (its members) to contribute to SME and national development.

This case study examines K-MAP against the preliminary framework of good practice principles agreed by the Committee of Donor Agencies for Small Enterprise Development (1). While it does provide considerable detail on K-MAP's organisation, finances and services, its key focus is on the key issues emerging from K-MAP's experience which are of wider interest. Its main objective is to identify key lessons and principles of good practice in BDS and, where possible, benchmark performance indicators. The case is structured in nine parts, addressing respectively in Section 2-8, services, clients, the market, financial viability, the institution, funding and impact. Finally Section 9 outlines some conclusions to come from the case analysis and the implications for BDS more widely. Four appendices offer more detailed analysis on the Kenyan SME context and K-MAP's products, finances and organisation.

## 2. THE SERVICES

K-MAP's two core services are counselling and training.

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<sup>1</sup> K-MAP is also concerned with other activities, for example, improving access to small-scale finance and with the replication of the K-MAP model elsewhere in Africa, under the A-MAP (Africa Management Assistance Programme) initiative. However, these are not examined in this paper.

## 2.1 Counselling (One-to one technical assistance)

K-MAP's members donate executive time and expertise to provide counselling services to SMEs. Registration as a K-MAP client entitles the client to 5 counselling sessions. These take place at mutually acceptable times, usually weekends, when both the client and counsellor can meet without disrupting their work. Further counselling requires re-registration and an additional fee, although in practice this is not strictly adhered to. Assistance focuses on business planning, proposal preparation, business development and business diagnosis and rehabilitation. The underpinning principle of delivering counselling services is to engender *ownership* of new initiatives and solutions by the client. It has been found that the client is most likely to effect change if the initiative has arisen through a mutual effort between counsellor and client, as opposed to the counsellor imposing a solution on the client.

Counselling lies at the core of K-MAP's service provision. The ethos of voluntarism, of "giving something back", known in Kenya as 'harambee' spirit is K-MAP's *raison d'être* and underpins the culture of the entire organisation. Latterly the provision of counselling services has also drawn on the donation of services from private consultants, counsellors and technical specialists. Indeed, a number of K-MAP staff noted that member companies have found it increasingly difficult to give up executives to provide K-MAP counselling services.

### **Box 1: Counsellor recruitment and allocation**

Over time K-MAP has developed a comprehensive system to allocate counsellors to clients. This has been one of the major challenges of the organisation and has required the development and maintenance of a large database of both client and counsellor information. The key elements in the system are as follows:

#### *Recruitment of new counsellors*

- \* Advertising campaign to attract applicants.
- \* Business Growth Centre manager or staff vet applications, based on CVs.
- \* Shortlisted candidates are then invited to interview and are assessed on business experience, education and personality suitability for counselling.
- \* Those accepted undergo an induction process where they are introduced to K-MAP and its approach to BDS.
- \* Finally new counsellors take part in one of K-MAP's quarterly counsellor training programmes. These are designed not to enhance professional and technical expertise, but practical counselling techniques and human relation skills. Counsellors clearly find these courses very valuable for both K-MAP counselling activities and their individual professional development. Counsellors are provided with a counselling guidebook and a counselling workbook to record details of their activities.

#### *Allocation of counsellors to clients*

- \* When a client enterprise joins K-MAP a company profile is compiled.
- \* K-MAP then undertakes a client diagnosis to identify the client's perceived and real needs. The counselling co-ordinator matches the 'problem' with a specific skill area, and then identifies suitable counsellors from a counsellor database. K-MAP also considers other non-business factors when allocating a counsellor, including location and cultural suitability.
- \* Having identified a suitable counsellor, K-MAP then sends a letter to both the counsellor and the client, informing each of the arrangement. It is important to note that K-MAP then leaves the client and counsellor to agree timing and work methods to their satisfaction. This is done in order to promote rapport and ownership over activities.
- \* Counsellors produce a short standardised report for K-MAP after each session describing the session's activities. Clients are encouraged to report back to K-MAP with feedback, and may change counsellors if they deem that the existing counsellor is unsuitable.

## 2.2 Training

K-MAP runs its training and counselling under the *aegis* of its Business Growth Centre (BGC). Products offered include short training workshops, some tailor-made products, and its flagship intensive training courses which are made up of class-based workshops, practical sessions and complementary counselling sessions. These are longer courses (typically 5 – 7 days), delivered over a number of weeks and designed to cater to SME needs as they develop and grow over time. They comprise four main training areas: business start-up (including specific programmes for graduates and redeployment of formal sector executives), business growth, women entrepreneurship and business export. For a summary of K-MAP’s products see Appendix II<sup>2</sup>.

## 2.3 Product development

The role of external inputs in the development of K-MAP’s services has been significant. The counselling service was founded on formal sector professional expertise adapted to the needs and conditions of SMEs. Counselling, like the portfolio of training products offered by the BGC has partly been developed with technical assistance from two academic institutions in the UK<sup>3</sup>, funded by DFID over a period of three years, specifically for material development, counsellor training and logistical support.

Although external support has clearly been important, K-MAP’s approach to product development appears to be both continuous and based on clients’ needs. The business growth programme for example, a training package that was originally developed in the UK, was shortened and rationalised in response to feedback from clients after the initial pilot programmes. Similarly the business survival programme was stopped because clients indicated that specific and focused ‘action-oriented’ counselling sessions in the workplace were more valuable than ‘learning-oriented’ training.

## 3. THE CLIENT BASE

Since 1986 K-MAP has provided approximately 20,000 hours of counselling to 1100 small businesses, and delivered training to over 5500 actual or aspiring entrepreneurs, of which more than 3000 were female<sup>4</sup>. “Clients” for K-MAP are those businesses that register as K-MAP clients and pay the registration fee, currently \$60. SMEs attending training courses only are therefore not included as clients.

**Figure 1: Registered clients (cumulative)**

	1991	1992	1993	1994	1995	1996	1997 (May)	1998 (June)
No. of clients	310	412	527	627	854	949	1038	1168

<sup>2</sup> K-MAP provides training to its business counsellors, who in turn normally deliver the bulk of K-MAP training products.

<sup>3</sup> Bristol and Stirling Universities.

<sup>4</sup> This figure includes 2020 participants in the Women Express Programme (see Appendix II).

K-MAP does not target the informal or microenterprise sector. Instead it focuses on small-sized, formally incorporated enterprises with established premises and assets. The BGC portfolio of products is targeted at enterprises or individuals that demonstrate potential for growth. In reality this means individuals with some form of premises, a reasonable level of education and in the case of the re-deployment start up programme, “aspiring or actual owner-managers with executive-level formal sector experience”. The majority of clients are between 30 and 40 years of age and of good education (almost 50% to university level) and appear to have considerable business experience. The rationale for this approach is that such enterprises and individuals have the strongest potential for growth and employment creation, and thus technical assistance is likely to have the greatest impact. K-MAP believes that such enterprises have specific requirements for the high quality technical inputs that they can provide and that their owners understand the value of education and training.

Clearly given their educational and employment background K-MAP’s clients are not poor. Recent studies have shown that the majority of clients had permanent housing, monthly income of between \$800 and \$3,500 (60% are over \$3,500)<sup>5</sup>. However it can be assumed that the benefits of their businesses’ growth has positive impact on their employees, who may be from low income groups<sup>6</sup>.

Enterprise size is quite varied but the parameters appear to be annual turnover of between approximately \$2,000 and \$2m, workforce between 1 and 113, and assets between \$1,500 and \$1.2m. Client enterprises are from manufacturing (48%), trade (28%) and service (24%) sectors. Approximately 40% of K-MAP clients are women, and there is a specific commitment to facilitating the involvement of women in business in the form of the Women Express Programme.

#### **4. THE MARKET**

The Kenyan economy is characterised by a heavy concentration of micro-sized enterprises with very small workforces (typically 1- 3 people) the so called ‘jua kali’<sup>7</sup>. The proportion of enterprises that formally employ workers is less than 20%; the majority are owned and operated by a single individual and often staffed by family. A 1995 GEMINI (2) survey confirms this view, finding that income generated by these SMEs is dominated by net returns to owners or unpaid employees (usually family members), rather than by payments made to employees as wages.

Jua kali enterprises, which make up over 80% of Kenyan enterprise (by employment), do not fall within K-MAP’s target market. K-MAP has a very specific niche market of growth oriented enterprises and educated individuals. K-MAP have not undertaken any market analysis for their segment, and are unable to identify potential market size or their market share. An evaluation in 1996<sup>8</sup> estimated that K-MAP’s potential market was in the region of 35,000 SMEs, and calculated that K-MAP had achieved

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<sup>5</sup> Source: *Impact Assessment of K-MAP Business Growth Training Project*. Njeru, E and Nganda, B. 1998.

<sup>6</sup> With per capita incomes in Kenya at below \$300, this is obviously a relatively wealthy group

<sup>7</sup> Jua Kali is Swahili for ‘hot sun’ and has come to refer to small-scale informal enterprises, particularly artisans.

<sup>8</sup> Wilson, P. *Mid-term evaluation*. DFID (1996)

3% market penetration. However, the basis for calculation of these estimates is rather arbitrary and should only be viewed as a “best guess”.

**Figure 2: Kenyan small enterprise - breakdown by size**

Number of workers	1995
1 worker	56.5%
2 workers	31.1%
3 – 5 workers	11.2%
6 – 10 workers	1.1%
11 – 50 workers	0.3%
<b>Total</b>	<b>100%</b>
<b>Average number of workers per enterprise</b>	<b>1.66</b>

**Figure 3: Kenyan small enterprise - breakdown of SME workforce**

Breakdown of SME workforce	1995
Working owner	66.9%
Unpaid workers	14.5%
<i>Subtotal (family workforce)</i>	<i>81.4%</i>
Paid employees	15.4%
Apprentices	3.2%
<b>Total</b>	<b>100%</b>

#### 4.1 Marketing and promotion

Traditionally K-MAP has relied on its strong network and word-of-mouth endorsements from clients and counsellors. Active marketing had a low priority initially. Acknowledging this weakness, in recent years K-MAP has undertaken marketing and promotion on a much greater scale. For example under the DFID-supported project (bursary scheme proposal, 1996) provision of \$20,000 was made for marketing of services. A marketing manager was hired (later resigning) and a separate department established in 1997. K-MAP has subsequently undertaken a range of print and television promotions that appear to have been successful in raising the organisation’s profile.

K-MAP has adopted the approach of ‘bundling’ services, combining fee-generating training with counselling. This has three purposes:

- Improving the perceived offer of K-MAP to clients: enhancing the overall package to clients;
- Improving learning and practice: providing the follow up to training, assisting the entrepreneur to apply newly acquired knowledge;
- Improving client commitment: K-MAP has experienced great difficulty charging a fee for counselling services; bundling counselling with training ensures that the client is making some concrete contribution, and therefore a commitment, to services provided.

#### 4.2 Competitors

K-MAP feels it occupies an almost unique niche in the market for the provision of BDS to SMEs. Its clients fall between the micro-scale, informal sector clientele of

projects such as the SITE (Strengthening Informal Sector Training and Enterprise), and the larger companies who are served by conventional accounting and management consulting firms. The Kenyan Institute of Management (KIM) has been cited as a potential competitor to K-MAP. Recently, however, KIM's focus on small business support activities has diminished as donor support has ended and it has concentrated instead on strengthening the management capacity of larger companies. Moreover, K-MAP's with respect to its unique selling point - counselling services from other members of the business community - K-MAP remains unchallenged by other BDS providers.

#### **4.3 Linkages and complementary services**

K-MAP is dependent on its network of members and counsellors. In reality this network extends beyond the provision of BDS to SMEs and encompasses a variety of organisations other than its members. K-MAP's position is as a focal point for the business community, akin to an 'information brokerage'. This contributes to the relevance of the organisation and is a crucial part of its appeal to member companies and counsellors.

A number of K-MAP's services rely on direct collaboration with other organisations, most notably its credit facilitation services, where it works with Barclays Bank and Co-operative Bank. K-MAP maintains links with a wide range of other organisations on a formal and informal basis including universities, NGOs and the commercial sector.

### **5. FINANCIAL VIABILITY**

The financial viability of K-MAP can be assessed at two levels: first, in relation to the profitability of services; and second, in relation to the institution as a whole, especially the role of voluntarism within the organisation.

#### **5.1 Services**

Figure 4 (overleaf) shows an estimate of the cost and revenue for K-MAP's two flagship cost-covering products, the business growth programme and the start up programme for the past three years. Revenues here are from both SME clients and donors (DFID); "profitability" therefore should not be seen as synonymous with self-financing. It is also important to note that these calculations only include financial costs of training provision. Training is delivered using voluntary counsellors and thus labour input costs are low; usually an honorarium of approximately \$25 is paid to trainers and not a *full* daily fee.

**Figure 4: K-MAP “profitability” for two key training products**

Product	Year		
	1997/8	1996/7	1995/6
<u>Business growth programme</u>	US\$	US\$	US\$
Total revenue	25,279	20,925	7,000
Total direct expense <sup>9</sup>	11,141	8,631	1,783
Contribution to overhead	14,138	12,294	5,217
Contribution margin (%)	56%	59%	75%
<u>Business start up programme<sup>10</sup></u>			
Total revenue	9,750	9,000	2,250
Total direct expense	5,544	5,124	630
Contribution to overhead	4,206	3,876	1,620
Contribution margin (%)	43%	43%	72%

K-MAP adopts a conventional approach to product pricing and breakeven analysis. Overheads are absorbed on the basis of training days per programme per year. A mark-up on total cost per programme of 35% is used. Margins fell markedly as sales revenue/volume increased between 1995/6 and 1996/7. Prices were not reduced and further analysis shows that percentage increases in delivery expense were far greater than revenue increases. While there is no obvious explanation for this rise, it is noteworthy that during this period total organisation costs were also rising dramatically (see Figure 5).

DFID has subsidised the provision of certain products under its bursary scheme<sup>11</sup>, paying K-MAP on the basis of number participants trained. Subsidy levels (at March 1997 rates) for the business growth and start up programmes were 15% of overall cost. The graduate start up and redeployment programmes were further subsidised by universities and former employers respectively, in as much as they pay the bulk of training rather than the participants. K-MAP also offers discounted rates for organisations that enrol more than one participant on a programme.

Training is also delivered by K-MAP under the World Bank’s Medium and Small Enterprise Training and Technology project (MSETT) which provides funds to the Kenyan government to support the issue of training vouchers to SMEs. Participating enterprises pay a small contribution to the cost of training (10%), the remainder is reimbursable upon redemption of training vouchers.

## 5.2 Institution

In the mid-1990s the issue of financial sustainability became a much more prominent objective for both K-MAP and its donor partners, with K-MAP setting a target of increasing internally generated revenues to between 80% - 90% of total income. To this end a much stronger revenue generating strategy has been developed which has dramatically increased operational income. Most significantly K-MAP has developed a strong portfolio of cost-covering training products and diversified its revenue stream with the sale of a series of publications and information materials. Currently financial self-sufficiency stands at around 50%. (See appendix III). Figure 5 shows K-MAP’s

<sup>9</sup> Direct costs of delivery, includes: event specific promotion, trainers’ honoraria, facilities and refreshments, travel, training materials (Source: K-MAP general ledger).

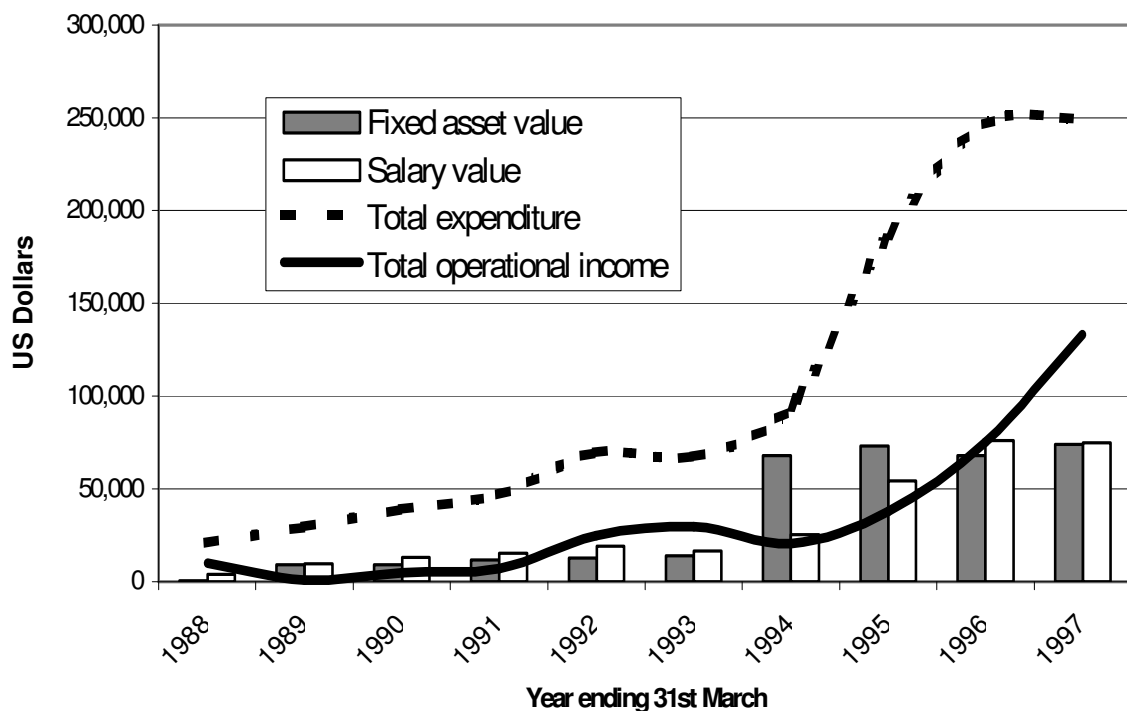
<sup>10</sup> Does not include graduate or re-deployment start up programmes.

<sup>11</sup> For further information regarding the bursary scheme see section 7.

progress towards financial sustainability and indicates a number of distinct phases in the organisation's development:

- *A start up phase* with relatively low levels of activity and capacity.
- *A growth phase* which sees K-MAP's income and expenditure levels rising steadily. Levels of financial sustainability are low, that is to say below 50%, with a high level of dependency on donor funds.
- *A capacity expansion phase*: an expansion of K-MAP's organisational and technical capacity (in the form of staff, equipment, facilities and new branch offices), accompanied by a dramatic increase in expenditure needed to support this additional capacity, and donor support to finance this expansion. A key input during this period was DFID's funding to establish the business growth centre and its portfolio of training products. Increased capacity to deliver a new range of cost-covering products has increased income significantly.
- *A consolidation phase*. Since 1996 K-MAP has started to increase its level of income, while controlling its expenditure and without significant additions to its capacity. Donor support during this period has declined. With expenditure levelling out and income rising, K-MAP is making marked progress along the path to financial sustainability.

**Figure 5: K-MAP financial sustainability<sup>12</sup>**



<sup>12</sup> A comprehensive analysis is contained in Appendix III.

The preceding financial analysis makes no consideration of K-MAP’s non-financial inputs (‘goodwill’) – its counsellors’ time and knowledge. Clearly as these individuals undertake the bulk of counselling and training activities, and represent the human capital through which K-MAP generates a large proportion of its revenue, an assessment of their notional value should be made. K-MAP is well aware of the significance of these inputs and has estimated their notional value as shown in Figure 6. “Contribution” here refers to the notional value that K-MAP derives from the sale of counsellors’ services, for both counselling and training services. This is based on a rate of US\$ 30 per hour. Expenditure is the notional cost to K-MAP of counsellors’ inputs.

**Figure 6: Estimate of in-kind contribution and expenditure<sup>13</sup>**

	Year end Mar 1998	Year end Mar 1997	Year end Mar 1996
	US\$	US\$	US\$
Contribution	307,920	424,770	412,221
Expenditure	116,640	276,480	313,200
Net surplus	191,280	148,290	99,021

Clearly a central pillar of K-MAP’s financial sustainability is the voluntary input of expertise, which permits it to deliver high quality services at low cost. Without voluntary inputs, achieving financial sustainability would be considerably more difficult. Maintaining and developing the voluntarism which sustains the organisation’s distinctive approach is therefore a major priority for the K-MAP.

Notwithstanding the fact that K-MAP’s principal revenue generating agents (counsellors who deliver training) are available at very low cost, K-MAP is still not 100% self-financing. In order to attain financial sustainability K-MAP needs to significantly increase the volume of turnover, or increase margins on products or reduce overheads. Of these the greatest emphasis is given to increasing turnover volume; overheads appear to be relatively stable and prices are being gradually increased on an annual basis

There are several additional implications arising from the voluntary inputs of counsellors:

- A skewed cost base: since direct costs of services are lower than would normally be expected, administrative and support expenditure appears disproportionately high, leaving the cost base of K-MAP appearing heavily skewed towards non-revenue generating activities (see Appendix III).
- The cost of counselling: despite free labour inputs, counselling represents a considerable cost to K-MAP: administrative operations needed to manage counsellors; training for counsellors; materials; travel and related expenses. In order for counselling to be sustainable K-MAP needs to be able to cross-subsidise,

<sup>13</sup> K-MAP data.

through margin-making training services and alternative revenue streams (such as publishing and information provision).

- The 'true' cost of training: while some products (for example the business growth programmes) cover costs, this does not include the real market cost of trainers' time. Therefore there is a substantial *de facto* subsidy on all services.

## **6. INSTITUTIONAL ANALYSIS**

### **6.1 The organisation**

K-MAP has a total staff of eighteen, the bulk of which form the secretariat based in the Nairobi office. K-MAP staff are rarely involved with clients as either counsellors or trainers. The role of core staff is the administration of service delivery and support functions. Two new branch offices in Mombasa and Eldoret each have a staff of two. Over the past 12 months staff numbers have fallen from twenty-two, as a result of staff turnover and cost cutting. A diagrammatic representation of K-MAP's organisation structure is contained in Appendix IV.

To take advantage of increasing demand from outside Nairobi for K-MAP services, and in response to criticisms of a Nairobi bias, two branch offices were opened; one in Mombasa, Kenya's main port in January 1997, and the second in Eldoret in January 1998. Both these offices have minimal staff (a manager and secretary) and offer similar services to the Nairobi office.

### **6.2 Members**

K-MAP has 200 members: 48 patron members, 32 ordinary members and 120 associate members. These organisations provide the bulk of K-MAP's counsellors. Membership charges vary – a patron member pays a one-time membership fee of \$340 and an annual subscription fee of \$50. Only patron members can become board members. Member companies include international companies such as Barclays Bank, Unilever, Toyota, Colgate Palmolive and large Kenyan companies such as White Rose Dry Cleaners.

### **6.3 Capacity building**

K-MAP has been the recipient of substantial donor funds, much of which has been for the development of the organisation's capacity to deliver BDS. In terms of organisation scale and systems it is fair to say that donor support has been influential in shaping K-MAP's capacity. This applies partly to tangible capacity in terms of staff and equipment, but also in terms of the systems and procedures that have developed iteratively, partly through the evolving needs of the organisation and partly in response to donor reporting requirements.

USAID's Private Enterprise Development Project supported the development of the K-MAP secretariat, the organisational structure and capacity that is the backbone of its service delivery mechanism. Subsequent USAID funding was provided to support the delivery of counselling services and research and information activities.

DFID funding was provided for a technical assistance package to support the development of K-MAP's capacity to deliver specific business training products,

through the development of K-MAP's Business Growth Centre. Broadly this support has been judged a success and these growth-oriented products have become 'cash cows' for K-MAP. Inevitably, however, DFID were concerned not only with the structure and content of specific products, but also how the BGC delivers services, and by extension, wider issues of K-MAP management. DFID saw the BGC as an identifiable project-derived entity that they were instrumental in developing. Conversely K-MAP regarded the BGC as an integral part of K-MAP, fitting within an established management and control structure. These differing perspectives were the cause of some disagreement.

## 6.4 The people

### (a) Staff

Staff have good standards of education and in many cases extensive career experience, most having worked in commercial or development organisations before joining K-MAP. Most noticeable however is the strong sense of mission that pervades the secretariat; clearly the K-MAP *ethic* is strong. Despite this developmental mission, K-MAP does not 'feel' like an NGO. The language used is entrepreneurial and standards of dress and work practice belong to the world of commerce. The business orientation of senior staff is very apparent, there is a high degree of service orientation throughout the organisation and a discernible sense that staff are aware of their roles and operate efficiently. Staff salaries are relatively high by Kenyan standards and commensurate with positions in industry. No incentive system is in place.

Staff and donors alike note that there has been a minor staff turnover problem. An organisation like K-MAP that is characterised by entrepreneurial leadership and a very strong organisational culture can sometimes be a difficult environment for some people to settle into and grow – to 'fit in'. Some high level staff departures within K-MAP may well have been due to this factor.

### (b) Counsellors

As Figure 7 shows K-MAP's pool of counsellors has grown steadily. Throughout K-MAP, among its members, counsellors and clients there appears to be unanimity that counsellors are the single most important element in the organisation. Currently counsellors number in the region of 600, 75% come from K-MAP's members. However an increasing number of counsellors are from private consultancies and academia, which K-MAP terms 'walk-in' counsellors (meaning that they have no membership affiliation). K-MAP stipulates that all counsellors should have demonstrable business experience and at least a first degree. Box 2 describes some of the key issues faced in developing the counsellor resource.

**Figure 7: Registered counsellors**

	1991	1992	1993	1994	1995	1996	1997 (Sept)	1998 (June)
No. of counsellors	177	228	249	274	320	413	450+	540+

**Box 2: Managing counsellors**

K-MAP faces two major challenges:

*1. Motivation – sustaining voluntarism*

Some may argue that voluntarism may not be the best foundation for the delivery of BDS. However when this point was raised many people made reference to ‘Harambee’ spirit- the Swahili word for ‘pulling together’. The donation of money, time or skill to a community initiative is quite common in Kenya– e.g. to build a school, or pay for someone’s studies, and voluntary counsellors should be seen in that respect. However it should be noted that there are a number of tangible, non-financial benefits for counsellors from acting as counsellors:

- \* They attend K-MAP’s Business Counsellor Training programme;
- \* Counselling is seen as an opportunity for skill development, learning and maintaining relevance;
- \* Becoming a K-MAP counsellor is beneficial in terms of professional status and networking opportunities;
- \* K-MAP has an annual ‘Counsellor of the Year’ award worth US\$ 160 to the best counsellor.

Furthermore counsellors only undertake K-MAP obligations during leisure time or in periods when there will be no clash with ‘paying’ work’. This mitigates the opportunity cost of counselling to the counsellor.

*2. Allocating counsellors*

As might be expected K-MAP has encountered problems in this respect.

- \* Matching: getting the right counsellor for the client. K-MAP undertakes a diagnosis of client’s problem and then allocates a counsellor to ensure that matching is appropriate. If unsuitable the client can change a counsellor;
- \* Availability: because counselling sessions are conducted on the basis of mutual convenience, there is the risk of delay. This has been the cause of some client dissatisfaction;
- \* The problem of dormancy. Staff indicated that a significant proportion of counsellors were effectively inactive. From the database systems it is difficult to assess how many were dormant. Clearly there is a cost to K-MAP of dormant counsellors (e.g. wasted training, under-utilised capacity) and ideally the database should be routinely purged in order to monitor the ‘real’ level of counselling capacity.

## 7. FUNDING STRATEGIES

K-MAP began with funding of US\$ 40,000 from the Kenyan business community and although this source of support is vital to the organisation’s operations and identity, in sheer volume terms, external donor support has been more significant. In 1987 USAID’s Private Enterprise Development Project agreed to support K-MAP for three years (subsequently extended to five years), providing funds of US\$ 500,000. A second phase of funding was approved for the period 1996 –1999 for US\$ 482,150. The UK government’s Department for International Development (DFID), formerly the ODA, have provided US\$ 664,000 over three years from 1994. Other sources have also been received for specific activities such as research, for example from the Centre for International Private Enterprise (CIPE). The Netherlands government is also considering a three-year US\$ 150,000 funding package but as yet no funds have been disbursed. In total donor funding amounts to over US\$ 1.6m over 11 years (see Appendix III).

The most notable feature of recent funding to K-MAP has been the approach of DFID. In response to difficulties encountered with the capacity building focus of the Business Growth Training project, DFID funding was changed to a system whereby disbursement of funding was determined by a measure of performance. Payment to K-

MAP is based on a set percentage of course fee paid for every participant trained, a so-called bursary system.

There is some evidence to suggest that this system has been successful stimulating a more business-like, revenue-driven motivation within K-MAP, demonstrated by significant growth in income on the introduction of the scheme (see Figure 5 and Appendix III). However, there are limitations to this approach:

- Financial sustainability: while linking funding to the volume of training delivered may stimulate the BDS provider to maximise outreach, and increase income, it may not necessarily lead to financial sustainability. If this is to be the objective of conditional funding the basis for conditionality needs to include some link to the *contribution* that any given training product makes to overheads, i.e. net income rather than gross income.
- Quality and relevance: funding disbursements, if based simply on the number of trainees, may fail to emphasise sufficiently the quality and relevance of training delivered. Furthermore if either participants or the organisation delivering training are overly subsidised the link between price, demand and quality may be diminished. Pricing impinges directly on organisations funding but, as important, it sets the terms of the exchange between provider and client. Ultimately, clients' willingness to pay is a strong indicator of both training quality and perceived benefit.

## 8. IMPACT

The most recent external assessment of K-MAP generated a positive view of its performance. From a sample of 63 businesses<sup>14</sup> listed in K-MAP's database 37 had experienced growth in sales volume above 30% after training had been undertaken. Similarly, growth in employment for the sample enterprises has been broadly positive with 46 out of the 63 enterprises increasing workforce by over 20%<sup>15</sup>. Physical assets (plant and equipment by value) were also found to have increased for most businesses sampled.

An earlier assessment of impact undertaken by USAID in 1994 suggests an even more pleasing picture based on a number of performance measures (over two years, 1992-1994): survival rate after two years of 94%; employment growth of 106%; growth in sales revenue of 292%; asset growth of 189%; cost per job created is US\$ 400.

Considerable caution should be exercised in interpreting these figures. The extent to which K-MAP interventions have caused these changes in performance - the degree to which they are genuinely "additional" - is not clear. Indeed, it is likely that K-MAP clients are more progressive and "go-ahead" than most businesses and so one would expect a relatively strong performance from them. Impact assessments do not appear to have used more immediate indicators related to K-MAP inputs - such as change in work practice or procedure - which are less influenced by other factors. Moreover, the extent to which improved performance among K-MAP clients displaces other

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<sup>14</sup> Njeru, E. & Nganda, B. *Impact Assessment*. DFID (1998).

<sup>15</sup> It should be noted that the period of time over which these changes took place is not specified; K-MAP records indicate it could be between 1 – 3 years.

business activity and core impact issues - what is meant by a job? - is left unexamined.

These caveats do not change the nature of the emerging overall impact picture: it is clear that K-MAP's support has had a significant and positive impact on clients. However, quantifying this impact is difficult and the value of some measures of performance - specifically the cost per job measure - limited.

Perhaps more importantly feedback about training and counselling has shown that clients have generally been satisfied with K-MAP and many have reported significant changes or improvements. Focus group discussions have identified key benefits as being introducing greater clarity and focus for the entrepreneur, innovation and new approaches to established practices and problems, strengthening planning capacity which was found to be particularly important in accessing finance. Focus group discussions also highlighted areas of weakness in K-MAP services, for example, in the mixture of participants in training programmes (too diverse) and the relevance of some counsellors to SMEs (too big business-focused).

## **9. CONCLUSIONS AND IMPLICATIONS**

K-MAP has undergone a major process of development since its inception in 1986. Its range of services has broadened; its capacity to manage, develop and deliver services has deepened; and the scale of its operations has grown. It has developed into a business-like provider of BDS and there is considerable evidence to suggest that K-MAP is having significant positive impacts on clients. Moreover despite this extensive development it has maintained the distinctive innovativeness of its approach. K-MAP's experience is characterised by a number of notable achievements from which wider lessons can be drawn. It also raises some key issues in BDS.

### **9.1 Achievements**

Amidst a number of positive dimensions in its performance, five achievements stand out:

1. The development of a low cost approach to one-to-one business counselling and to training: by tapping in to the human resource in larger companies, K-MAP has been able to deliver services at a significantly reduced cost. This has enabled it to adapt relatively expensive "models" of SME support from industrialised high-income economies to the resource realities of a low-income economy such as Kenya.
2. The development of a practical "bundling" approach to counselling: even with low cost volunteers, administering counselling incurs costs. Mixing counselling with fee-paying training makes it more practical and cost-effective.
3. The development of "financially sustainable" products: although most K-MAP products have been partially subsidised, a number are now being delivered with no subsidy. SME clients, even with subsidy, have shown themselves prepared to pay relatively large amounts (over \$500 for one programme) for high quality and relevant services.

4. The development of growing financial autonomy: direct donor funding for K-MAP reduced to less than 50% in 1997. Recent figures for 1998 indicate that this growth in financial sustainability is continuing.
5. The development of a strong, locally-owned BDS organisation: K-MAP has been built around a strong sense of mission developed by its own management, not one which has been imported or imposed.

## 9.2 Lessons

The above achievements can be attributed to four key factors, some of which link closely with the general principles established by the Donor Committee.

1. Building on local (low cost) networks and resources: K-MAP shows that it possible to identify and marshal resources for BDS at a relatively low cost. Many of the BDS models from wealthier economies such as business counselling are, at best, inappropriate for low-income economies because of their inherently high cost. By using voluntary counsellors, K-MAP has reduced its direct personnel costs to around 15-25% of the “professional” level. In doing so, they have developed a greater chance of closing the gap between provider and client, especially for one-to-one products without recourse to subsidy.
2. Building upon demonstrated entrepreneurial initiative: K-MAP’s founder and chairman and key donors such as DFID both agree that their working relationship has been at times problematic. K-MAP, like small businesses and like many BDS providers is, to a considerable degree, defined by its entrepreneurial founder. Such people - with ideas, energy and enthusiasm - are essential for an organisation to succeed yet working with them may not be easy. Supporting BDS organisations without undermining ownership, conflicting with indigenous leadership or radically altering an already successful structure is a major challenge for donor agencies.
3. Tailoring donor support: how to find a way of supporting entrepreneurial people and their organisations while maintaining programme coherence and accountability; this is the challenge facing many donors. Two specific lessons emerge from DFID’s experience with K-MAP:
  - being prepared to invest in people - individual or teams - with potential (ideas, skills etc.) rather than, more traditionally, invest in projects. This *social venture capital approach* does not abandon the discipline of project design but it does understand that it is the people who “own” a project who will determine its performance;
  - developing a transactional basis to a relationship: delivery-based rewards may reduce quality but can usefully focus the minds of BDS organisations on priority targets.
4. Ensuring realistic pricing for “upper-end” SMEs: until this year (1998), most of K-MAP’s services received some subsidy for delivery. Notwithstanding whether this is justified, it is clear that high growth potential SMEs, owned by non-poor people, will pay substantial sums for good quality, relevant products.

### 9.3 Issues

The above positive factors are key learning points for BDS organisations. However, the K-MAP experience also generates two more problematic issues for BDS support.

#### How can voluntarism be sustained?

The challenge for any organisation founded on voluntarism is maintaining the commitment and involvement of volunteers. Trends change, enthusiasm wanes, alternative commitments can build up; people's approach to voluntary commitments - usually not a "simple" act of altruism but based around mutual-benefits - can change over time. Successful approaches here may therefore include developing an attractive non-financial offer that volunteers value, for example in the form of a professional forum, career development and training, and a useful networking system. Or for corporate "volunteers", a sense of corporate and civil citizenship, and of belonging to a relatively exclusive club.

The difficulty for donors is that the *transaction of voluntarism* is different from that of a money-based business exchange. It is likely to be culture-specific, embedded in local values and structures. Identifying and supporting indigenous systems of voluntarism successfully has often proved difficult for donor agencies. However, in the absence of the financial resources that support most BDS in industrialised economies, sustainable BDS in low-income countries will often have to rely on aspects of voluntarism.

#### How can donor support build the business-like BDS organisation?

External donor support aimed at developing demand-led BDS organisations that are close to their clients faces formidable challenges. The core problem is that donor funds and work practices can have an indirect effect on partner organisations, driving a wedge between it and its clients in terms of systems, culture and scale. For example:

- many donor interventions, especially those focusing on institutional development, build up an organisation in advance of need. (Contrast such an approach with a small business that grows and develops in response to increasing demand). The result of such 'front end' investment may be a bloated cost base;
- donor reporting requirements may not be strictly relevant to the BDS provider's priorities; the requirement for additional procedures and systems may again raise costs and undermine operational efficiency and focus;
- exposure to donor practices and training can influence organisational culture, potentially moving the BDS provider closer to being a bureaucracy than a 'business-like' SME support organisation.

The net effect of institutional support therefore can be *distorting* in relation to their original objective of developing business-like, demand-led organisations. The challenge for donors is to develop approaches for technical assistance that account for such artificiality. This may involve, for example, building a transactional, financial relationship around conditions and performance targets. Alternatively, given the complications of building BDS organisations it may suggest that BDS products, rather than institutions, should be the appropriate focus for interventions.

## **References**

- (1) Committee of Donor Agencies for Small Enterprise Development (1998); *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*
- (2) GEMINI Technical Report No. 92 (1995); *Employment and Income in Micro and Small Enterprises in Kenya*
- (3) GEMINI Technical Report No. 75 (1993); *Micro and Small Enterprises in Kenya*
- (4) ILO (1972) *Employment, Incomes and Equality in Kenya*

## **APPENDIX I: The Kenyan Economic Context**

Over the past five years Kenya has experienced growth of around 5%, modest inflation of 15% and relative exchange rate stability (at the time of writing US\$ 1: KSh 60). Significantly this consistent economic growth has failed to address one of Kenya's biggest challenges, unemployment, which is currently running at around 45%. More recently the outlook for continuing economic growth has been less positive. The government has been forced to make drastic budget cuts in all areas, notably in education and physical infrastructure. For example the road from the port of Mombasa to Nairobi, a vital link for Kenya and a key trade route to landlocked countries such as Uganda is in an appalling condition. (A journey that formerly took six hours now takes fourteen hours). Deteriorating infrastructure and facilities place a heavy burden on business of all sizes<sup>16</sup>. Furthermore the coastal region has been troubled by recent ethnic and factional violence that has damaged confidence, with deleterious effects on the tourism industry – previously one of Kenya's primary sources of foreign exchange.

### **The SME context**

A 1993 GEMINI (3) survey estimates that there are approximately 910,000 micro and small enterprises (less than 50 employees) in Kenya, employing more than 2m individuals or about 16% of the labour force and accounting for 12 – 14% of Kenya's GDP<sup>17</sup>. Trading and manufacturing are the most important non-agricultural activities in terms of contribution to GDP. In rural areas manufacturing is proportionately more significant than in urban areas as a source of employment (especially using non-metallic minerals e.g. pottery and brick making).<sup>18</sup> The 1993 survey found that only 38% of micro and small enterprises had grown since being started and that 47% were single person operations. Equally, it found that one third of the 325,000 SMEs started in 1993 had failed or closed in that year, as well as another 90,000 failures or closures of businesses started in previous years. This lack of dynamism and growth is a common phenomenon in Africa, resulting in a paucity of indigenous, small- and medium-scale enterprises: the so-called 'missing middle'.

The need to promote and support small-scale and informal enterprise has been recognised in Kenya for over two decades as employment in the formal sector has consistently failed to keep up with an expanding labour force (ILO, (4)). The government of Kenya has made explicit commitments to SME development in a series of Sessional Papers (Nos. 1 (1986), 2 (1992), 2 (1996)) and in National Development plans. However the perception among small business owners is that the climate for small enterprise is becoming increasingly difficult. Ironically the contraction of government spending, combined with low levels of civil service pay is forcing more and more public sector employees to seek supplementary sources of income in the form of 'side-line' businesses.

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<sup>16</sup> One entrepreneur reported that the cost of shipping a 46-tonne container from Mombasa to Nairobi rose from US\$ 1330 to more than US\$ 2600 overnight. Furthermore shipments of imported materials were taking weeks to leave Mombasa port instead of days due to disruption and corruption within the port authorities.

<sup>17</sup> It should be noted that the 1995 GEMINI report found the number of SMEs to be considerably lower; 708,000 enterprises employing 1.2 m people.

Product		Description	Price US\$	Products delivered <sup>19</sup>		Outreach <sup>20</sup>	
				Target	Actual	Target	Actual
1	One-on-one counselling service	5 counselling sessions are provided upon registration as a K-MAP client. Similar counselling services are included within the business growth and start up programmes.	Registration fee 60				
2	Women Express programme (WEP)	Business idea, start up skills, business management (40% of all clients women). <sup>21</sup>	17	5	10	74	2020 <sup>22</sup>
3	Start up programmes						
	• Regular start up programme	5 day programme	167	5	10	74	84
	• Graduate self-employment programme	5 day start up package (with linkages to credit) for unemployed graduate, to overcome skill mismatch. Via 5 universities and 2 polytechnics.	333 (UNDP scholarship)		7		365
	• Employee re-deployment programme	7-day programme assisting retrenched executives to start their own businesses.	583 (from employer)		5		90
4	Business growth programme	For 'growth potential' SMEs. Usually established business (not micro) owned by those with a	583	5	12	74	206

<sup>19</sup> As per final evaluation 1998.

<sup>20</sup> Ibid.

<sup>21</sup> This programme is now effectively a marketing tool. One-day seminars are held specifically for women that address issues facing women in business, and explain the range of K-MAP's growth and start up products with a view to incorporating women into the mainstream of K-MAP clients.

<sup>22</sup> K-MAP data. Note that programme changed from 4-day to 1-day course in mid-1996. Total participation for both courses was given as 2020 for a total of 14 courses; for 4-day course only participation was 20 for 2 courses.

Product		Description	Price US\$	Products delivered <sup>19</sup>		Outreach <sup>20</sup>	
				Target	Actual	Target	Actual
		relatively high level of education or former business experience					
5	Business survival programme	This 3-day programme has now ceased, as it was found that intensive counselling better suited clients needs.	250	3	2	50	32
6	Business export programme	To assist established enterprises to move into export markets 3 days	250	3	2	50	18
7	Technical and management training for MSETT <sup>23</sup> programme	This is a World Bank funded scheme where funds are provided to the Ministry of Technology. In turn vouchers are issued to SMEs to purchase training. Payment is from Ministry of Research and Technology on redemption of vouchers. Same as regular growth programme.	250		5		83
8	Business counsellor training programme	Training of trainers: K-MAP counsellors, other SME development service providers 2 ½ day	Free for K-MAP counsellors	3	16 <sup>24</sup>	90	305
9	Income generating group programmes	Programme assisting development of rural income generating groups (5-day programme).	1000 per group		2		350

Source: K-MAP documents

<sup>23</sup> The World Bank's Medium and Small Enterprise Training and Technology Project.

<sup>24</sup> Includes 3 courses (80 participants) from other institutions who paid a fee of approx. US\$ 167.

## K-MAP FINANCIAL ANALYSIS

Year ending 31st March	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>DONOR FUNDING</b>										
Donor operating grant	13,331	29,459	35,103	40,269	45,292	40,252	70,438	181,746	171,339	135,798
Donor capital grant		10,366	1,559	4,255	2,692	4,025	59,646	19,718	7,765	17,206
<b>FINANCIAL PERFORMANCE</b>										
Internally generated revenue	525	1,019	4,787	6,145	23,915	27,131	19,483	34,276	72,659	131,059
Members fees	9,507	67	123	615	754	2,608	850	3,417	2,488	2,042
<b>Total operational income</b>	<b>10,032</b>	<b>1,086</b>	<b>4,910</b>	<b>6,760</b>	<b>24,669</b>	<b>29,738</b>	<b>20,333</b>	<b>37,693</b>	<b>75,147</b>	<b>133,101</b>
<i>Annual change</i>		-89%	352%	38%	265%	21%	-32%	85%	99%	77%
<b>Total expenditure</b>	<b>20,932</b>	<b>29,659</b>	<b>39,248</b>	<b>47,088</b>	<b>69,548</b>	<b>67,517</b>	<b>94,352</b>	<b>187,044</b>	<b>246,360</b>	<b>249,366</b>
<i>Annual change</i>		42%	32%	20%	48%	-3%	40%	98%	32%	1%
<b>Financial sustainability</b>	<b>48%</b>	<b>4%</b>	<b>13%</b>	<b>14%</b>	<b>35%</b>	<b>44%</b>	<b>22%</b>	<b>20%</b>	<b>31%</b>	<b>53%</b>
<b>GROWTH</b>										
Fixed assets (NBV)	409	9,028	8,963	11,760	12,476	13,825	67,637	73,175	67,997	73,932
<i>Annual change</i>		2106%	-1%	31%	6%	11%	389%	8%	-7%	9%
Salaries	4,030	9,623	13,246	15,291	19,206	16,529	25,009	54,537	75,919	74,772
<i>Annual change</i>		139%	38%	15%	26%	-14%	51%	118%	39%	-2%

### Funding history

1987 USAID funding (continuing)  
 1994 - 1997 DFID funding  
 1995 CIPE funding (continuing)  
 1996 BESO Endowment (1 year)

Non service income analysis	1994	1995	1996	1997
<b>Total non service income</b>	<b>3,701</b>	<b>6,674</b>	<b>31,236</b>	<b>9,067</b>
Information materials	973	984	1,818	1,146
Other income	2,728	5,690	29,419	7,920

*Source: K-MAP audited financial statements*

### Total donor funding

Kenya shilling	53,415,527
US dollar	890,259

### Notes

(a) A constant exchange rate based on the 1998 rate of US\$1 = KSh 60 has been used throughout.  
 (b) Note also that the figure for total donor funding (US\$ 0.89m) differs from that stated in the text of US\$ 1.6m (Section 7).  
 Donor funding as per analysis above only includes funds received directly by K-MAP - for example this does not include DFID funds received by UK institutions for technical assistance provided to K-MAP.

<b>K-MAP EFFICIENCY</b>				
<b>Expenditure breakdown</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Total expenditure</b>	<b>249,366</b>	<b>256,887</b>	<b>187,044</b>	<b>94,352</b>
Direct cost of training delivery	55,837	53,701	34,759	18,774
Administration and support	193,529	203,187	152,285	75,578
<i>Percentage of total expense</i>	<i>22%</i>	<i>21%</i>	<i>19%</i>	<i>20%</i>

Source: K-MAP audited financial statements

Direct expense was calculated from the audited financial statements. Expenditure is not broken down into direct and indirect costs, therefore the calculation is only an estimation. Items included in the calculation of the direct cost of training delivery are:

- workshop expenses
- training materials
- local transport and travel
- printing and stationery
- wordprocessing and photocopying maintenance
- promotional expense

The cost of delivering counselling could not be identified.

<b>K-MAP PROFITABILITY</b>			
<i>for two key training products</i>			
<b>Product</b>	<b>1997/8</b>	<b>1996/7</b>	<b>1995/6</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Business growth programme</b>			
Total revenue	25,279	20,925	7,000
Total direct expense*	11,141	8,631	1,783
Contribution to overhead	14,138	12,294	5,217
<i>Contribution margin</i>	<i>56%</i>	<i>59%</i>	<i>75%</i>
<b>Business start up programme**</b>			
Total revenue	9,750	9,000	2,250
Total direct expense*	5,544	5,124	630
Contribution to overhead	4,206	3,876	1,620
<i>Contribution margin</i>	<i>43%</i>	<i>43%</i>	<i>72%</i>

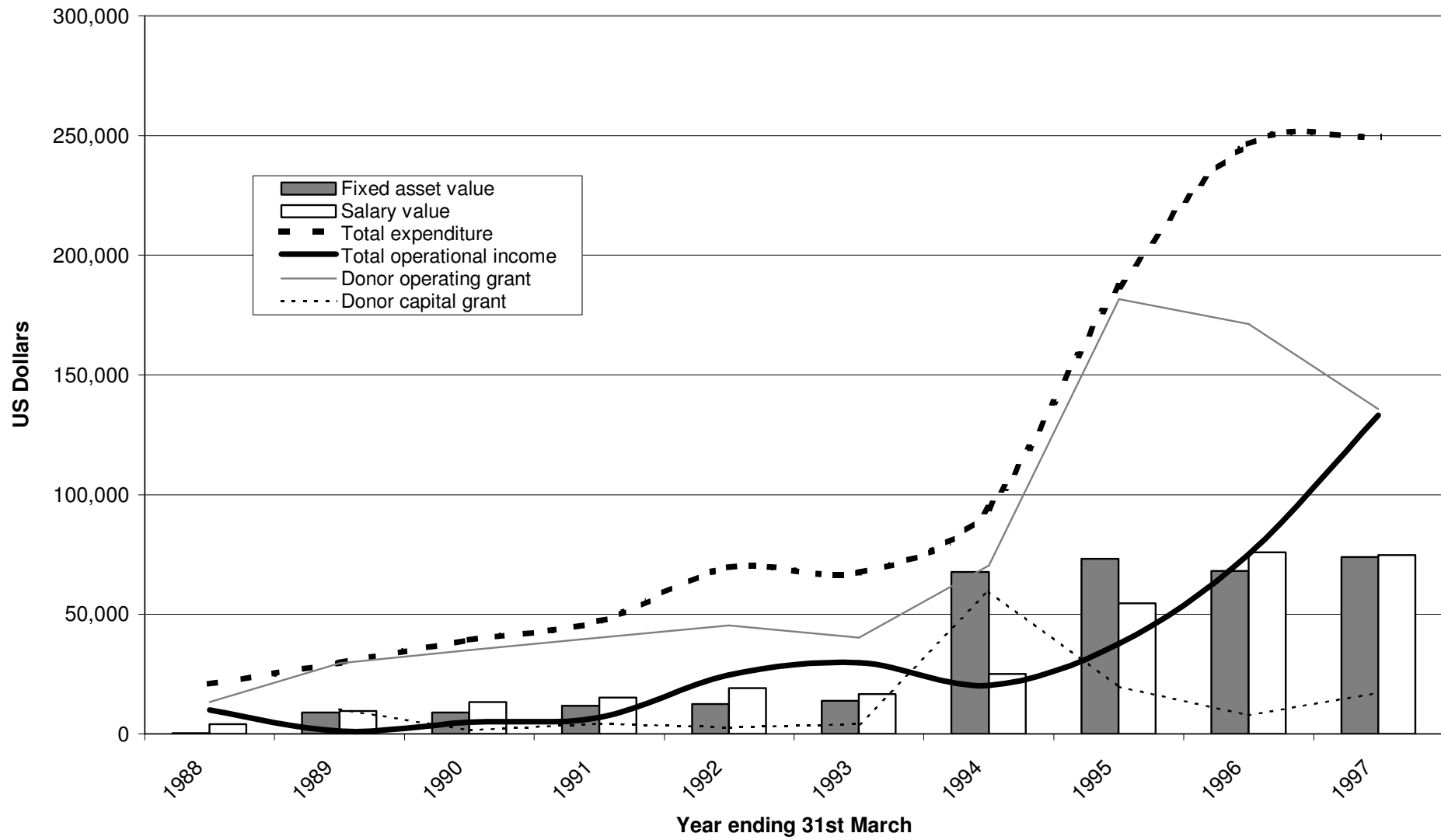
Source: K-MAP general ledger

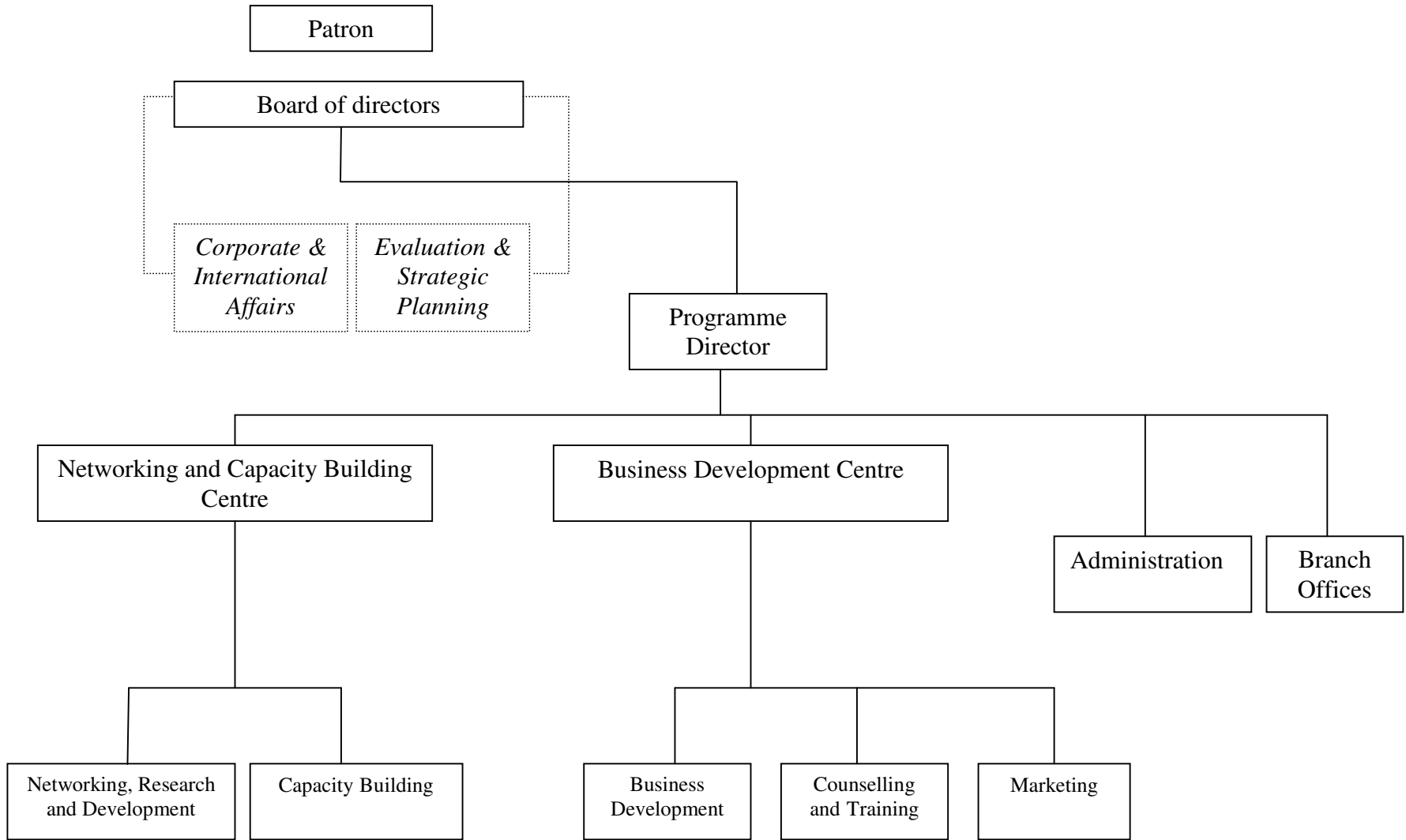
\*\* Direct costs of delivery, includes:

- event specific promotion
- trainers honoraria
- facilities
- travel
- refreshments
- training materials

\* Does not include graduate or re-deployment start up programmes

### K-MAP Financial Analysis 1988 - 1997





APPENDIX IV: K-MAP organisation structure