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EFFECT OF DEVOLUTION ON SMALL AND MEDIUM ENTERPRISES PERFORMANCE IN KENYA

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ABSTRACT

The rationale for considering decentralization in anti-poverty programs is that it might have positive effects on the economic development. Decentralization brings the government closer to the people. Local officials are better informed on the local needs, and are thus more capable of providing the optimal mix of local policies. While the SMEs subsector constitute close to 80% of employment, it only contributes to about twenty percent (20%) of the Gross Domestic Product (GDP) in 2011 in Kenya. This implies dismal subsector performance despite its potential contribution to employment, income and equity as was asserted in the ILO report in 1972. The performance of the SMEs in Kenya is linked to several constraints among which the regulatory and institutional framework is alleged to be one of the factors. SMEs in Kenya are threatened for survival as a competitive enterprise. The purpose of the study was to establish the effect of devolution on small and medium enterprises performance in Kenya. The study adopted a descriptive survey research design. The target population of this study composed of representatives of the various industries including the matatu, dairy, supermarkets, jua kali and small manufacturing companies in Nairobi and its environs. The target population of this study was therefore 1015. The study used stratified random sampling method to select 10% of the respondents who formed a sampling frame of 102 respondents. Data was collected using questionnaires. Data was analyzed using descriptive statistics done with the help of software program SPSS version 21 and presented using frequency tables. In addition, multivariate regression model was applied to determine the relative importance of each of the two variables with respect to SME performance. The study revealed that that fees and levies, affect the performance of Small and Medium Enterprises in Kenya to a moderate extent. The study concluded that fees and levies, cess and rates by the county government affect the performance of Small and Medium Enterprises in Kenya. The study also concluded that SME financing mechanism, fair trading practices, capacity development, mechanism for value addition and increase in supply, distribution and access to goods and services affect the performance of Small and Medium Enterprises affect the performance of SMEs in Kenya. The recommends that the county government should use the finances collected from fees and levies, cess and rates in proper and controlled manner with a goal of improving the working environment for the SMEs in Kenya. The study also recommends that the county government should put in strict measures to ensure that there is no corruption in the fees and levies, cess and rates collection process to ensure that the amount collected do not go to the hands of few individuals and that a substantial amount can be received to support the plans and policies of the county government. The study suggested that a similar study should be carried out in other counties to find out whether it will yield the same results. The study focused on SMEs, another study should be carried out to find out the effect of devolution on large companies.

Key Words: Decentralization, anti-poverty programs, economic development

INTRODUCTION

Throughout history, there has been a tendency for governments to centralize power. During the late 20th century, however, groups in both federal and unitary systems increasingly sought to reduce the power of central governments by devolving power to local or regional governments. For example, supporters of states' rights in the United States favoured diffusing power away from Washington, toward state and counties. This trend was also experienced throughout the world, though perhaps the two most notable instances of devolution occurred in France in the 1980s and the United Kingdom in the late 1990s.

Global Perspective

Prior to the 1980s France was one of the most centralized states in the world. The national government in Paris had to give prior approval for all major decisions made by the regions, departments, and communes, ranging from their annual budget to the names of new schools or streets. As the size and responsibilities of sub national governments grew, however, most mayors objected to the centralization of power, known as the tutelle ("supervision"). To somewhat reduce the scope of power exercised by the central government, the socialist government of Pres. François Mitterrand (1981–95), through one of its first major pieces of legislation, dramatically expanded the authority of the three layers of subnational government and removed the *tutelle* from almost all aspects of policy making.

Devolution became a major political issue in the United Kingdom beginning in the early 1970s. Many people in Scotland and Wales began demanding greater control over their own affairs, a trend reflected in a rise in support for the Scottish National Party (SNP) and Plaid Cymru (Party of Wales). In 1979 the Labour Party government, supported by the SNP and Plaid Cymru as well as the Liberal Party, held referenda that would have devolved power, but they were rejected by voters in both Wales and Scotland (a majority of voters in Scotland actually favoured devolution, but the proportion did not exceed the two-fifths of the electorate required for passage). During the 1980s and '90s, however, support for devolution increased in both countries, particularly because, despite the fact that voters in both Scotland and Wales elected Labour candidates to the House of Commons by an overwhelming majority, the national government in London was dominated continuously for more than 18 years by the Conservative Party (1979–97).

Regional Perspective

The majority of developing countries heavily depend on external resources. In some of the poorest countries, such as Burundi or Sierra Leone, development aid amounts to more than 30% of gross national income (World Bank, 2009). The rationale for considering decentralization in anti-poverty programs is that it might have positive effects on the economic development (Oates, 2012). Decentralization brings the government closer to the people. Local officials are better informed on the local needs, and are thus more capable of providing the optimal mix of local policies. This increase in efficiency contributes to economic growth, in particular in an economy with heterogeneous regions (Oates, 2007). The efficiency argument also plays an important role in the case of aid assignment.

Local Perspective

The importance of the SMEs in Kenya was first recognized in the International Labour Organization report (ILO) in 1972 on 'Employment, Income and Equity in Kenya' (ILO, 1972). The importance of the sector was also affirmed in the African Economic Outlook, 2011 report. According to the report, the SME subsector plays a significant role in the Kenya's economic structure, where the sector employed close to 80% of Kenya's total workforce in 2011 (African Economic Outlook, 2011 report).

There is no standard definition of SME in Kenya. The concept of SMEs varies from one country to another depending on the indicators used (Visser, 1997). The first criteria, based on the number of employees, defines SMEs as those enterprises below a certain number of workers (i.e. can range from less than 10 to less than 50 employees). The second criterion defines the SMEs as the degree of legal formality, and has been used to distinguish between the formal and informal sectors. Here, Micro, small and medium enterprises (MSMEs) are considered as enterprises which are not registered and do not comply with the legal obligations concerning safety, taxes and labour laws. The third criterion defines SMEs as based on the limited amounts of capital and skills per worker.

Problem Statement

While the SMEs subsector constitute close to 80% of employment, it only contributes to about twenty percent (20%) of the Gross Domestic Product (GDP) in 2011 in Kenya (RoK, 2012). This is too low as compared to the United States, 99.7 per cent (Heneman, Tansky, and Camp, 2012), China, 99 per cent (Cunningham & Rowley, 2008), Europe, 99 per cent (Rauch and Frese, 2011) among others. This implies dismal subsector performance despite its potential contribution to employment, income and equity as was asserted in the ILO report in 1972. The performance of the SMEs in Kenya is linked to several constraints among which the regulatory and institutional framework is alleged to be one of the factors.

Past studies identified that a significant number of new SMEs fail within first five years of their business operation (Zimmerer, Searborough and Wilson 2008; Hodgents & Kuratko 2004). Several studies from Australia, USA and England showed that approximately 80% to 90% of SMEs fail within 5-10 years (Zimmerer et al. 2008; Ahmad et al. 2011). Sessional Paper No.2 of 2005 (RoK, 2005) and Ministry of Economic planning report on SMEs (RoK, 2007) show that three out of five SMEs fail within their first three years of operation in Kenya. This implies that SMEs in Kenya are threatened for survival as a competitive enterprise.

County regulations are still at the initial stages and different counties are still formulating new laws. This is making SME's investors undecided if to invest in some counties or not. It is in this regard that this study sought to find out the effect of devolution on performance of SMEs.

Objectives of the Study

The key objective of this study was to establish the effect of devolution on small and medium enterprises performance in Kenya. The specific objectives of this study were: To establish effect of county levies and to determine the effect of institutional and county regulatory framework on performance of small and medium enterprises in Kenya.

Research Questions

The study sought to seek answers to the following research questions:

i. How do county levies affect performance of small and medium enterprises in Kenya?
ii. To what extent does institutional and county regulatory framework affect performance of small and medium enterprises in Kenya?

Scope of the Study

The study focused on the effect of devolution on SME's performance in Kenya. The study was undertaken to research on activities within the scope of the issues addressed by the research objectives; this ensured that, all the study findings contribute towards achievement of the main objective of the study. The study considered four counties and five subsectors in various industries including the Matatu, dairy, supermarkets, jua kali and small manufacturing companies. The four counties were selected on a convenience basis by the researcher.

LITERATURE REVIEW

a) Theory of Fiscal Decentralization

In recent years the use of regional policy by central government to tackle the imbalance of regional economic performance was considered to be inadequate and the policy focus moved in favour of devolving greater economic autonomy to the regions and sub-regions (HM Treasury 2003). The essential idea supporting the anticipated benefits of local economic policy is based on the decentralization theorem (Oates 1972; 1999). This argues that within societies that practice representative government, local or devolved governance will enable a clearer and more focused articulation of the demand for local services by the electorate. It is also argued that the provision of such services by locally elected political representatives will tend to be more efficient on account of their local focus and the incentive effect of being answerable to the electorate in subsequent elections. Additionally, it is argued that competition between regions (Tiebout, 2006) for firms and residents to increase employment opportunities and tax revenue will bring about allocative efficiency in much the same way as is expected for the provision of private goods and labour in competitive markets.

The significance of devolution for economic activity lies in the decentralization of spending and tax-raising powers that is sometimes referred to as 'fiscal federalism'. Decentralization means to distribute the administrative functions or powers of a central authority among several local authorities and differs somewhat from devolution in that there need not be a national or cultural dimension. Additionally, devolution differs from decentralization in that it may involve granting limited autonomy for the government of the devolved territory to enact legislation that is contained within its administrative boundary and subject to the approval of the state government. In these terms it would be possible for further decentralization to take place within the devolved but not further devolution. By contrast, federalism means a system of government in which power is passed between a central authority and its constituent political units (Oates 1999).

The significance of the theory of fiscal decentralization (FD) for expectations for devolution derives from the devolving of taxing and spending powers to sub-national government. FD can occur without devolution, but the opposite is not the case, as devolution also involves the political authority to manage essential services. For the purposes of this work it is assumed that the major economic consequences of devolution are associated with the exercise of fiscal policy by the devolved territory (Jawahar& McLaughlin, 2001). Monetary policy is not easily devolved as the management of credit control and interest rate policy can only be exerted coherently by a single authority. It is possible for economic results to be associated with non-economic policy. It may be that the 'psychic' income enjoyed by supporters of independence results in positive consequences for work effort and business growth, but these effects are difficult to quantify and are, we might hope, likely to be picked up within the residuals of any estimated econometric equations.

The Decentralization Theorem of Oates suggests that social welfare is likely to be enhanced if efficient levels of public goods are provided by sub-national governments rather than by the provision of a common level of consumption determined by a national government (Oates, 1972). The source of the benefits from the provision by sub-national governments depends on the existence of variations in the preferences of constituents for public and private goods between different jurisdictions. Majority voting in national elections may result in what has been termed the 'tyranny of the majority' that may be remedied by the ability of sub-national jurisdictions' to choose alternative electoral systems, mixes of goods and, by analogy, different tax outcomes. The antecedents of these ideas can be found in the Tiebout

Hypothesis which postulates that local government provision of public services is more likely to correspond to voters' preferences when voters can choose in which constituency they wish to live (Tiebout 2006). Central government provision can then be likened to a private-sector monopoly denying voters a choice. This raises a number of issues suggesting that the demographic characteristics of a population may be instrumental in voters' choices regarding housing location. For example, families with children of school age and sufficient incomes will locate within the catchment areas of desirable schools while pensioners will be attracted to areas that offer services and benefits consistent with their needs.

Prud'homme (2005) is suspicious of the policy of decentralization and its effect on macroeconomic policies. Decentralization of taxing and spending reduces central government's leverage over fiscal policy and there is no guarantee that the decentralized jurisdictions' policies will be consistent with those of central government. This creates a potential for tension between central government and the devolved territories over sensitive issues such as health care and education that has been the case within the UK in recent years

b) Ability to Pay Theory

In the ability to pay theory postulated by Slade (1939), the most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter (Kirwan, 2009). It is argued that this has discouraged those in the higher income bracket not to take up more assignment instead they engage much in leisure activities. The principle establishes the areas taxation has potential and its tax collection efforts. It further determines what a community needs or is willing to spend. It ensures equity by transferring the excess to other poverty stricken areas. The inter-governmental transfer is meant to off-load the surplus to needy areas. Hence, the attainment of equity in a good tax system.

According to the theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This principle has been subjected to severe criticism.First and foremost,if the state maintains a certain connection between the benefits conferred and the benefits derived it will be against the basic principle of taxation.

Tax is compulsory contribution made to the public authorities from county levies such asfees and levies, property rates and cessto meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quoin the case of a tax. Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual, every year, for instance, it's not easy to equate individual benefits derived from security provided by the police service and the military forces, to the citizen. Thirdly,if the principle is to be implemented, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. In relation to the study, the benefit theory does not allow for the inter-governmental transfers (Nienhuser, 2008). It prohibits the levies allocation as they try to link individual benefits to the contributions made. Also it will impact on negative regional imbalances. Regions that exerts allot of efforts in tax collection will be expected to provide more benefit to its residence. This will eventually widen the poverty disparity levels within counties. Thus do not help in the attainment of county interest, which is the main purpose of levies.

Conceptual Framework

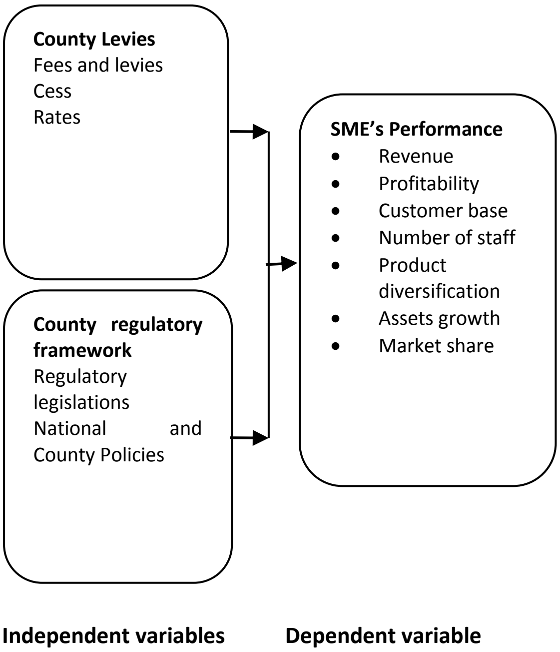

Figure 1 Conceptual framework

According to the existing theory on governance, devolution is expected to promote participatory development through pro poor LED policies; increased LED activities (like those related to value addition activities) and increase the capacity of the SMEs to actively participate in decision making. The socio-economic impact of devolution process on economic activities depends on the design and effectiveness of the existing institutional and regulatory framework for SMEs at the county level. To enhance LED through SMEs growth, the local development strategy for SMEs should emphasize on the importance of an enabling policy and institutional environment etc. to support the contribution of devolution on SMEs related growth.

Empirical Review

a) County Levies

Devolution provides for a unified national tax system with limited tax raising powers for devolved units (property taxes, entertainment taxes, service charges). Counties have a number of regulatory and economic instruments available to them that can help them influence public behavior. They can be categorized as rate structures and charges, fees for permits and other governmental services, special taxes and surcharges, incentives such as rebates and bonuses and fines and penalties (Lidija and Basta, 2009). Since local residents do not appreciate the need of contributing to the council levies, no satisfactory service is provided by the council in return. This leads to low taxable efforts. Hence, the need to emphasize on the revenue enhancement plan.

A study conducted by World Bank (2010) revealed that transfer of money from one level of government to another is an incentive to the sub-government to comply with the national policies. It expounds further to state that such funds enhances cohesion in the governance structures. County creates structural networks for inter-governmental funds' proper usage and controls, with the ultimate goal of improving taxable efforts of the County.

From April 2013, the Government has reformed the way in which counties are funded through the introduction of the business rates retention scheme. According to the Finance Bill that has been enacted by the county government, application fees for a single business permit is Sh1,000 while renewal costs Sh500 if done before November 30, 2013. A local independent dealer is required to pay a minimum of Sh10, 000 to be allowed to set up business while a multinational dealer will pay double the amount. The county government charges Sh500 for registration of all motorbikes and taxis operating in the area. Slaughterhouse charges are Sh250 per cow, Sh150 per sheep or goat and Sh20 per chicken. Daily market fees for those who roast maize is Sh30, Sh50 for those who fry fish on roadsides and Sh20 for those who repair shoes. The burial fee in the county is Sh300 per destitute body, Sh1,500 per adult and Sh500 per child. The monthly charge for sand stacking is Sh3,000 while an annual license costs Sh10,000. The architectural charge and structural fees for residential housing have doubled since devolution started. Traders in many counties have protested at the high fees being charged by the county government (Sunday Nation, February 23, 2014).

County Regulatory Framework

The current constitutional framework and the Medium and Small Enterprise (MSE) Act, 2012 provide a window of opportunity through which the evolution of SMEs can be fostered under the devolved governance system. However, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy. The institutional frameworks proposed under the new SMEs Act are important developments that can lead to further evolution and success of SMEs in Kenya, if properly implemented. The authority is envisaged to focus on policy articulation, promotion, development and protection of SMEs. It is also expected to monitor the execution of the formulated policies and the effectiveness in their implementation (Hayek in Ostrom et al., 2012).

For devolution and SMEs to contribute to LED at the county level, there are core institutional and regulatory elements to be considered. The county system is governed by the current County government Act enacted in 2012. The Act is expected to oversee the operation of the county system like enacting respective county legislations related to SMEs development through the county assemblies. The extent at which the new county system contributes to SMEs development in the respective counties depends on how best the current SMEs Act, 2012 is restructured to factor in the administrative changes as outlined in the current administrative structure. There is thus need for each county to develop its SMEs policies based on the local needs and such policies should indicate how the institutional and regulatory framework will link up with the governance structure at the county level under the current constitution (Ostrom et al., 2012).

The ability to enhance inclusive public participation in the governance process exist when devolution system contributes to sustainable development in terms of promoting participatory policy formulation process, and the formulation of policies which are adapted to local needs (Sharma, 2012). An effective devolved system is expected to increase the incentives and the capacity of the poor to actively participate in the decision-making, to decide and lobby for their interests (Manor, 2009), bringing about their ‘empowerment’ as well as contributing to pro poor policies. Devolution can equally bring about efficiency gains, especially in service delivery, given that the local officials are supposed to have a better knowledge of local needs and preferences (Ostrom et al., 2012).Thus, devolution process requires a participatory process to enhance inclusive policy development to enhance Local Economic development.

Ong’olo and Awino (2013) analyzed the current and past regulatory and institutional framework inclined to SMEs, the institutional and regulatory challenges facing the SMEs at county levels, and the mechanisms or channels through which the new devolved government will contribute to innovative and value addition activities at the county level. The study adopted Participatory Appraisal Competitive Advantage (PACA) methodology to collect the primary data to inform on the analysis**.** A case study of Irish potatoes, Dairy, Fishing, Pineapples, and Oranges was used to understand the various institutional and regulatory challenges facing the SMEs in Kenya. The study findings depict various institutional and regulatory challenges facing the SMEs in Kenya. These include poor coordination of the SMEs Activities; Inadequate Private and Public Dialogue at the County Level; Poor enforcement of Regulatory legislations; and Knowledge Gap on National and County Policies Interface. The study recommends the need to establish an inclusive private-public dialogue; support the establishment of stronger business associations at the county level:

formulate specific county LED SMEs policies aligned with overall SMEs policy; need to establish tailored training institutes for SMEs at the county level; need to establish SMEs oriented financial institutions in each county; establishing an import and export bank for SMEs; need for a central government to coordinate the SMEs issues in the country; establish a SMEs development organization, establishing an entry level for SMEs groups; cross county knowledge sharing and field experiences.

Given the recent developments in the Kenya's institutional and regulatory framework, it is imperative to appraise the regulatory and institutional framework for SMEs. The contours of such appraisal should evaluate the existing and potential institutional and regulatory challenges which might be a bottleneck to the revitalization of SMEs, at the county level (Manor, 2009).

Critique of Literature

Several efforts have been made to revitalize the SMEs subsector in Kenya through various policy reforms. Some of the policies have focused on the SMEs subsector, while other policies have partially integrated SMEs issues in various National development plans (Development Plan 2010-2009). Despite the reforms, the policies are inadequate in providing guidance on the establishment of the various SMEs related institutions and regulations. Such condition has been confirmed by poor coordination and existence of various departments in different Ministries handling SMEs Issues. The poor coordination has been agitated by lack of directive pointer to support the overall management of the SMEs in Kenya.

According to Kimenyi (2012), given the new structure of governance, the county LED SMEs policies in the proposed SMEs legislation should be aligned to the trade, industrial department and regulation service departments. At the same time, the subsector committee should interface with the other service departments in the county system. It is in this context that there have been various efforts to align operation to the county system. However, much more preparation is still needed to establish requisite regulatory and promotional institutions to catalyze local economic development by up scaling the SMEs activities.

Research Gaps

Despite the positive relationship between devolution and local economic development, the impact of devolution process initiatives depends upon a number of internal and external factors, like age, size, nature of tasks, technology, internal management, regulatory and administrative capacity, and sociopolitical and economic factors (Kiggundu, 2012). Hence there is no automatic relationship between devolution and local economic development under the county system. There is need for a demand-driven county regulatory and institutional framework, to support the development of various local led economic activities like those related to SMEs at the county level. Such framework would promote increased mechanisms for public participation and increased linkages between government and Non state actors (Boyle and Humphreys, 2001).

The empirical indicates that it is evident that research in the area of devolution has been done but not in a comprehensive approach in developing countries. Most of them are from developed countries whose strategic approach and financial footing is different from that of Kenya. This study therefore intends to fill theses pertinent gaps in literature by studying the selected independent variables on the relationship between the devolution and the performance of SMEs in Kenya. This study will add value to existing literature by providing empirical evidence on the influence of devolution on the performance of SMEs in Kenya and fill the existing contextual and conceptual gaps.

RESEARCH METHODOLGY

Research Design

Research design is a roadmap of how one goes about answering the research questions (Bryman& Bell, 2007). A descriptive survey research design was used this study. A descriptive research design determines and reports the way things are (Mugenda&Mugenda, 2003). The design was chosen since it portrays the characteristics of a population fully (Chandran, 2004). Creswell (2003) observes that a descriptive research design is used when data are collected to describe persons, organizations, settings or phenomena. The design also has enough provision for protection of bias and maximized reliability (Kothari, 2008).

Target Population

Mugenda and Mugenda (2003) described population as, the entire group of individuals or items under consideration in any field of inquiry and have a common observable characteristic. The target population of this study composed of representatives of the various industries including the matatu, dairy, supermarkets, jua kali and small manufacturing companies in Nairobi and its environs. The target population of this study was therefore 1015.

Sample Frame and Sampling Technique

This research study used a stratified random sampling method to select 10% of the respondents. According to Mugenda and Mugenda (2003), a sample size of 10% is a good representation of the target population and is large enough so long as it allows for reliable data analysis. The researcher therefore selected102 respondents.

Data collection Instruments

The primary research data was collected from the owners of the SMEs using a self-administered semi structured questionnaire. Closed ended questions were used in an effort to conserve time and money as well as to facilitate an easier analysis as they are in immediate usable form; while the open ended questions were used as they encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information. With open ended questions, a respondent's response gives an insight to his or her feelings, background, hidden motivation, interests and decisions.

Data Analysis

This section discusses the techniques that were used to analyze data and test the variables. Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. The quantitative data collected was analyzed using descriptive statistics such as includes frequency, percentages, mean and standard deviation. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor. Data analysis was done with help of software programme SPSS version 21 which is the most current verion in the market and Microsoft excels to generate quantitative reports and the findings presented using frequency tables and graphs. Content analysis was used in processing of qualitative data from the open ended questions and results presented in prose form.

In addition, a multivariate regression model was applied to determine the relative importance of each of the two variables with respect to SME performance. The regression model was as follows:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

Where:

Y = SME performance

β_0 = Constant (coefficient of intercept)

$B_1 \ldots B_4$ = regression coefficient of four variables.

X_1= County Levies

X_2= County regulatory framework

ε = Error term

Inferential statistics such non parametric test which include analysis of variance (ANOVA) was used to test the significance of the overall model at 95% level of significance. According to Mugenda (2008) analysis of variance is used because it makes use of the F – test in terms of sums of squares residual.

FINDING AND DISCUSSION

Response Rate

The study targeted 102 respondents and to determine the actual number of the respondents who actively participated in the research study by filling and submitting back the questionnaires. From the findings 85 people out of 102 respondents filled and returned the questionnaire which contributed to 83.3%

Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved the sample respondents from representatives of the various industries including the matatu, dairy, supermarkets, jua kali and small manufacturing companies in Nairobi and its environs. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Cronbach Alpha was established for every objective which formed a scale. The table shows that county levieshad the highest reliability (α= 0.915), followed by institutional and county regulatory framework (α=0. 835. This illustrates that the two variables were reliable as their reliability values exceeded the prescribed threshold of 0.6.

Table 1: **Reliability Analysis**

Scale	Cronbach's Alpha	Number of Items
Institutional and county regulatory framework	0.835	7
County regulation framework	0. 835	8

Demographic Information

Gender Composition

The study sought to find out the respondents' gender. From the findings, majority of the respondents were male comprising of 56.5% who were closely followed by female whose percentage was 44.4%.

Age of the responents

The study sought to find out the age bracket of the respondents. According to the findings majority of the respondents (38.8%) were aged between 36-45 years, 34.1% of the respondents were aged between 26-36 years, 15.3% were aged between 18-25 years, 8.2% were aged between 46-55 years and 3.5% were over 56 years.

4.4.3 Marital Status

The study sought to establish the marital status of the respondents. The findings are as shown in Table 4.5.

Marital Status

The findings indicate that majority of the respondents (64.1%) were married, 21.8% were single, 11.5% were divorced and 2.6% were widowed.

Nature of Business

The study also sought to find out the nature of business that the respondents were operating. According to the findings majority of the respondents (56.5%) were in trade nature of business, 37.6% were in service nature of business and 5.9% were in manufacturing nature of business.

How long the business has been in operation

The study sought to know establish how long the business was in operation. The findings indicate that majority (52.9%) of the businesses had being in operation for 2-4 years, 17.6% of the businesses had being in operation for 5-8 years, 14.1% of the businesses had being in operation for less than 2 years, 10.6% of the businesses had being in operation for 8-10 years and 4.7% of the businesses had being in operation for more than 10 years.

Current position of the Respondents

The study also sought to find out the current position of the respondents in the business. According to the findings, majority of the respondents (45.9%) of the respondents were the owner of the business, 25.9% of the respondents were the co-owner of the business, 12.9% of the respondents were the partners in the business, 5.9% of the respondents were the directors of the business and 4% of the respondents were the managers of the business and another 4% of the respondents were executives of the business.

Academic Qualification

The study also sought to find out the academic qualification of the respondents. The findings indicate that majority of the respondents (34.1%) had a first degree, 30.6% of the respondents had a diploma, 23.5% of the respondents had a master's level, 8.2% of the respondents had a KCSE level and 3.5% of the respondents had a PhD level.

County Levies

The study sought to find out the extent to which County Levies affect the performance of Small and Medium Enterprises in Kenya. The results are as shown in table 2.

Table 2: Extent of effect of county levies to the performance of SMEs in Kenya

	Frequency	Percentage
Very great extent	14	16.5
Great extent	46	54.1
Moderate extent	18	21.2
Little extent	6	7.1
No extent	1	1.2
Total	**85**	**100.0**

The results in Table 2 indicate that majority of the respondents (54.1%) indicated that county levies affect the performance of Small and Medium Enterprises in Kenya to a great extent, 21.2% to a moderate extent, 16.5% to a very great extent, 7.1% to a little extent and 1.2% to no extent.

The study also sought to establish the extent that various aspects of county levies affect the performance of Small and Medium Enterprises in Kenya. The results are as shown in Table 3.

Table 3: Extent that various County Levies affect the performance of Small and Medium Enterprises in Kenya

	Mean	Standard Deviation
Fees and levies	3.254	0.6854
Cess	3.211	0.7.912
Rates	3.054	0.9214

According to the findings the respondents indicated that fees and levies, cess and rates affect the performance of Small and Medium Enterprises in Kenya to a moderate stent as expressed by a mean score 3.254, 3.211 and 3.054 respectively.

In addition, the interviewees indicated that the main County Levies they pay for them to operate the business in their respective counties included dairy operating market fees, motor vehicle parking fees, slaughter house charges, business permit fees, house and land fees and fines due to late renewal of business permit. The interviewees also indicated that the charges are normally high and not representative of what they make in business, the county charges them even when they are making very little profit due to poor market and the fines are normally high when one does not get a business permit which is costly on time. As a result the interviewees indicated that they are at times forced to close their business when they don't have the business permits or money for the daily rates in fear of the county officers which affects their sales. Consequently, this has a negative impact on the performance of SME businesses in the Counties and in some counties the traders have taken to the streets to protest about the high rates and the mistreatment by some county officers.

County Regulatory Framework

The study sought to establish the extent which the county regulatory framework affect the performance of Small Medium Enterprises in Kenya. The results are as shown in Table 4.

Table 4: Extent which the county regulatory framework affect the performance of Small Medium Enterprises in Kenya

	Frequency	Percentage
Very great extent	15	17.6
Great extent	46	54.1
Moderate extent	22	25.9
Little extent	2	2.4
No extent	0	0.0
Total	**85**	**100.0**

The findings indicate that majority of the respondents (54.1%) indicated that county regulatory framework affect the performance of SMEs in Kenya to a great extent, 25.9% to a moderate extent, 17.6% to a very great extent and2.4% to a little extent.

The study also sought to establish the extent to which various aspects of county regulatory framework affect the performance of SMEs in Kenya. The results are as shown in Table 5.

Table 5. Extent to which various aspects of county regulatory framework affect the performance of SMEs in Kenya

	Mean	Standard Deviation
National and County Policies	3.842	0.7845
Regulatory legislations	3.632	0.6247

According to the findings the respondents indicated that National and County Policies and regulatory legislations affect the performance of SMEs in Kenya to a great extent as expressed by a mean score of 3.842 and 3.632 respectively.

In addition, the interviewees indicated that the regulatory framework that came with devolution affect the operation of business in their area as there are new rules that were introduced by the county government that affect business. An example given is the hiking of daily fees and parking fees in the counties which have a negative effect on business operations. However some interviewees indicated that the county government has made it easy for operators to open new businesses as business licensing period has been significantly reduced.

Regression Analysis

Table 6: Model Summary of the relationship between SME performance and the four predictive variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8662	0.7503	0.6902	0.7325

R-Squared is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 69.02% of the changes in the SME performance could be attributed to the combined effect of the two predictor variables which are county levies and county regulatory framework.

Table 7: **Summary of One-Way ANOVA results**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9.223	4	2.306	4.302	0.003
Residual	42.876	80	0.536		
Total	52.099	84			

The probability value of 0.003 indicates that the regression relationship was highly significant in predicting how county levies and county regulatory framework influenced SME performance. The F calculated at 5% level of significance was 4.302 since F calculated is greater than the F critical (value = 2.49), this shows that the overall model was significant.

Table 8: Regression coefficients of the relationship between SME performance and the four predictive variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.053	0.217		2.889	0.005
County Levies	0.682	0.149	0.613	5.309	0.000
County regulatory framework	0.701	0.181	0.149	3.210	0.002

Dependent variable: SME performance

As per the SPSS generated table above, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + + \varepsilon}$) becomes:

$Y= 1.053 + 0.682X_1+ 0.701X_2$

The regression equation above has established that taking all factors into account (county levies and county regulatory framework,) constant at zero SME performance will be 1.053. The findings presented also show that taking all other independent variables at zero, a unit increase in the county levies would lead to a 0.682 increase in the scores of SME performance and a unit increase in the scores of county regulatory framework would lead to a 0.701 increase in the scores of SME performance.

SUMMARY OF FINDINGS

County Levies

The study revealed that county levies affect the performance of Small and Medium Enterprises in Kenya to a great extent. The study also revealed that that fees and levies, cess and rates affect the performance of Small and Medium Enterprises in Kenya to a moderate extent.

The study revealed that county levies affect the performance of Small and Medium Enterprises in Kenya to a great extent. The study also revealed that that fees and levies, cess and rates affect the performance of Small and Medium Enterprises in Kenya to a moderate extent. This correlates with Lidija and Basta (2009) who states that counties have a number of regulatory and economic instruments available to them that can help them influence public behavior. They can be categorized as rate structures and charges, fees for permits and other governmental services, special taxes and surcharges, incentives such as rebates and bonuses and fines and penalties. They continue to state that local residents do not appreciate the need of contributing to the council levies hence no satisfactory service is provided by the council in return. This leads to low taxable efforts. Therefore, there is the need to emphasize on the revenue enhancement plan.

County Regulatory Framework

The study established that county regulatory framework affect the performance of SMEs in Kenya to a great extent. The study also established that National and County Policies and regulatory legislations affect the performance of SMEs in Kenya to a great extent. This correlates with Manor (2009) who argues that an effective devolved system is expected to increase the incentives and the capacity of the poor to actively participate in the decision-making, to decide and lobby for their interests. Manor (2009) goes ahead to state that given the recent developments in the Kenya’s institutional and regulatory framework, it is imperative to appraise the regulatory and institutional framework for SMEs. The contours of such appraisal should evaluate the existing and potential institutional and regulatory challenges which might be a bottleneck to the revitalization of SMEs, at the county level. Sharma (2012) states that the ability to enhance inclusive public participation in the governance process exist when devolution system contributes to sustainable development in terms of promoting participatory policy formulation process, and the formulation of policies which are adapted to local needs.

The study established that county regulatory framework affect the performance of SMEs in Kenya to a great extent. The study also established that National and County Policies and regulatory legislations affect the performance of SMEs in Kenya to a great extent.

Conclusions

From the findings, the study concludes that county levies such as fees and levies, cess and rates by the county government affect the performance of Small and Medium Enterprises in Kenya.

The study further concludes that county regulatory framework and national policies and regulatory legislations affect the performance of SMEs in Kenya.

Recommendations

The recommends that the county government should use the finances collected from fees and levies, cess and rates in proper and controlled manner with a goal of improving the working environment for the SMEs in Kenya.

The study also recommends that the county government should put in strict measures to ensure that there is no corruption in the fees and levies, cess and rates collection process to ensure that the amount collected do not go to the hands of few individuals and that a substantial amount can be received to support the plans and policies of the county government.

The study further recommends that the national and the county government should come up with policies and regulatory legislations that are directed towards the promotion of SMEs in Kenya.

Suggestions for Further Studies

This study focused on the effect of devolution on Small Scale and Medium Enterprises performance in Kenya and it was limited to Nairobi County. A similar study should be carried out in other counties to find out whether it will yield the same results. The study focused on SMEs, another study should be carried out to find out the effect of devolution on large companies.

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