

Abstract

The general failure by micro and small enterprises (MSEs) to grow vertically to fill the missing middle gap in the industrial structure, their potential notwithstanding, is a puzzle that policymakers and researchers have yearned to crack for many years. Motivated by this concern, this paper seeks to inquire how MSEs could be facilitated to grow and graduate. It argues, based on literature review and selected country experiences that clustered firms are able to export and expand in employment size because clusters can relax the three most severe constraints that restrict growth of small firms, namely lack of credit, market information, and technology. Selected country experiences reveal that local-foreign firm collaborations facilitate technological transfer, quality improvement, and product development. High levels of formal education, managerial, marketing, and technical skills of producers hasten this process and contribute to enterprise success. In some economies, governments establish and expand clusters, provide incentives to exporters, and facilitate MSE participation in trade fairs through public-private partnership. Thus, to enhance MSE growth and graduation in Kenya, two recommendations are in order. First, the quantity and quality of formal education of producers should be raised through training to enhance their ability to assimilate new technologies, innovate, and imitate perfectly. Second, cluster development should be promoted by such means as establishing new ones, reducing costly licensing procedures, and encouraging MSEs to participate in public procurement.