

## The Micro and Small Medium Enterprises Development in Kenya

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Micro, small, and medium-sized enterprises (MSMEs) are the economic backbone in Kenya comprising the majority (98%) of all business entities, registered and non-registered, in the country. The sector remains highly informal as only 20% of the 7.4 million MSMEs operate as licensed entities.

The MSMEs sector provides enormous opportunity for the socio-economic transformation of Kenya's economy. It also provides opportunities for absorbing low-skill and economically excluded individuals of the labour force including youth, women, persons with disabilities and those with low levels of education. The majority of these MSMEs operate in the agribusiness, manufacturing, trade and services.

### The MSME's Policy Review Process

The policies in Kenya targeted at the development of MSME's can be traced from the Sessional Paper No. 10 of 1965 "African Socialism and its Application to Planning in Kenya" that emphasised African ownership, management of enterprises, skills and cooperative development. The Policies birthed the Micro Small Enterprises (MSEs) Act No. 55 of 2012 which advocated for a regulatory framework that culminated into the enactment of the MSEs Act No. 55 of 2012 that grants the Micro Small Enterprise Authority its mandate of promoting, developing and regulating the MSE's sector in Kenya.

### Structure of MSEs

There are 7.4 million MSEs operating in Kenya. About 98% of the MSEs are micro enterprises that employ less than 10 people in each small enterprise. The medium enter-

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prises account for only 0.2% of MSMEs in the economy. Formalisation, involving the process of obtaining licenses, registering with registrar companies and compliance with statutory requirements such as taxation, social security and labour laws, serves as an important avenue for MSEs to access markets and services.

### **Gender Mainstreaming**

Gender mainstreaming in development as articulated in the Constitution of Kenya and the Kenya Vision 2030 is an important consideration for promotion and development of MSEs. The ownership of MSEs is male-dominated either through individual or joint ownership. Males have ownership in 71% of the 7.4 million MSEs, individually or jointly. On the other hand, females have ownership in 53% of the total MSEs, individually or jointly.

### **Contribution of MSEs in Kenya**

MSEs in Kenya account for 24% the GDP, with micro enterprises alone accounting for 12% of the GDP and small enterprises accounting for 11% of the GDP. The sector provides immense employment opportunities for youth, women and persons with disabilities.

### **Government Interventions**

To support this important sector, the Government of Kenya has put in place several structures and interventions such as affordable credit facilities with key banks, an MSE fund (i.e. 'hustlers fund') that will be kick-started in December 2022 to support small businesses, infrastructure development to promote decent working spaces, and sensitisation and formalisation of the businesses to inform government on required interventions. Others include capacity-building through training and coaching, market access through trade fairs and exhibitions etc.

### **Challenges faced by MSEs**

Some of the challenges faced by Micro Small Enterprises include access to affordable credit, market access, infrastructure and logistical challenges. The MSEs require capacity-building in product development to improve quality and standards. Digitisation of businesses is crucial to adoption of e-commerce, which most MSEs are not able to adopt, thus missing out on the available opportunities.

A large proportion of MSEs in Kenya are informal with limited financial resources and face tremendous barriers in accessing conventional financial institutions for start-up businesses due to lack of collateral. This financial challenge is common in Kenya and particularly affects entrepreneurs among rural women and other socially disadvantaged groups. Lack of adequate knowledge and awareness about the African Continental Free Trade Area (AfCFTA) and other Trade agreements restricts capitalisation of the opportunities the agreements provides.

### **Opportunities for Kenyan MSEs**

The challenges affecting the Kenyans MSEs have also presented several opportunities like devolution of the governance structure which prioritises flagship projects beneficial to development of MSEs.

Other existing initiatives that benefit MSEs include access to Government Procurement Opportunities (AGPO) and affirmative action funds targeting youth, women and persons with disabilities. Kenya continually offers MSEs Platforms for trade exhibitions and trade fairs to promote market access to a wider scope. The sector has further opportunities available under the existing regional trading blocs and trade agreements for expanded markets (e.g. EAC, COMESA, AfCFTA and AGOA). The county enjoys political goodwill from leaders who have fully supported the sector. Other opportunities lie in product value addition, research development, innovation, skills and technological transfer.

Adaptability is key in ensuring Kenya's small enterprises become globally competitive. Embracing e-commerce and mobile financial transactions is crucial for business growth. The future of these businesses lies in investing in the digital transformation, risk management, business succession planning and embracing digital technology to improve business efficiency for market access.

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### **References**

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