



**MICRO AND SMALL MEDIUM ENTERPRISE
DEVELOPMENT IN KENYA**

OCTOBER 2022



Outline

- Background of MSEs Development in Kenya
- Policy Review Process/Policy Evolution
- Structure of MSEs
- Contribution of Mses in Kenya
- Challenges Facing Mses In Kenya
- Opportunities



MSES Outlook

Majority of these MSMEs operate in Four sectors

- **Agribusiness**
 - **Manufacturing,**
 - **Trade**
 - **Services sectors**
- This sectors generate about a third (30 per cent) of job opportunities and contributes approximately 40 per cent to the GDP in Kenya annually.

MSEs Development in Kenya

Micro-small, and medium-sized enterprises (MSMEs) are the economic backbone in Kenya, comprising majority (98 per cent) of all the business entities (registered and non-registered) in the country.

- ▶ However, the sector remains highly informal as only 20 per cent of the 7.4 million MSMEs operate as licensed entities.
- ▶ Micro and Small Enterprises (MSEs) provide enormous opportunities for socio-economic transformation of Kenya's economy. While the Sector has received policy attention since 1965, it is yet to fully achieve its full potential
- ▶ The Micro and Small Enterprises (MSEs) account for a larger share of private sector enterprises across various sectors of the economy and 93% of total labour force in the economy
- ▶ The MSEs sector provides opportunities for absorbing low-skill and economically excluded segment of the labour force including youth, women, persons with disabilities and those with low levels of education.

MSEs Policy Review Process

- ▶ The policies in Kenya targeted at development of the MSEs can be traced from the Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya that emphasised on African ownership and management of enterprises, skills and cooperative development
- ▶ The Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth explicitly recognised the role of MSEs then termed 'informal sector and small-scale industries' in economic development.
- ▶ The Sessional Paper No. 2 of 1992 on Small Enterprises and Jua Kali Development in Kenya which prioritised improved business environment for MSEs; access to finance through rural enterprise funds, venture capital development, credit guarantee schemes; innovation and adoption and utilization of technology; worksites and improved infrastructural facilities; access to markets by encouraging local consumption and the promotion exports;
- ▶ The Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction builds on proposed interventions of the 1992 Sessional Paper. The policy prioritised MSEs access to markets, including public procurement reservations. It further provided for institutional support; technology development, acquisition and transfer, infrastructural development, information documentation and management, linkages between MSEs with medium and large firms; and access to finance through promotion of Micro Finance Institutions, SACCOs, and use of micro leasing thereby calling for enactment of relevant legal framework.

The Policies Birthed the MSEs Act No. 55 of 2012

- ▶ The policy advocated for a regulatory framework that culminated into the enactment of the MSEs Act No. 55 of 2012 which established the Micro Small Enterprise Authority with the mandate of promoting, developing and regulating the MSEs sector.
- ▶ The envisaged policy interventions were however weakened due to delayed operationalization of some provisions articulated in the MSEs Act, including the office of Registrar of MSEs, the MSEs Tribunal and the MSEs Development Fund.
- ▶ The MSEs fund is intended to finance promotion and development of MSEs including access to finance, capacity building, Research & Development (R&D), innovation and transfer of technology
- ▶ The Sessional Paper No. 9 of 2012 on the National Industrialization Policy Framework for Kenya 2012-2030 builds on the aspirations of the industrialisation agenda of the Kenya Vision 2030. It calls for measures to support MSEs in the industrial sector through incubation centres, one-stop shop for enhanced services, sub-contracting linkages, establishment of industrial parks, access to public procurement, access to market information and establishment of industrial development fund

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 persons.
- ▶ The medium enterprises account for only 0.2% of MSMEs in the economy.
- ▶ Three sectors including wholesale and retail trade, manufacturing, and food and accommodation services jointly account for 76% of the MSEs in Kenya.
- ▶ Formalization, involving the process of obtaining licenses, registering with registrar of 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
- ▶ About 21% of MSEs operate with licenses from county governments, out of which only 27% are registered with the registrar of companies
- ▶ 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% GDP, The micro enterprises alone account for 12% of GDP while small enterprises account for 11% of GDP.
- ▶ 14.1 % employment accounting for 93% of the total labor force in the economy. The sector provides immense employment opportunities for youth, women and persons with disabilities
- ▶ Business reinvestments, investments in new businesses and savings and meeting various households needs.

Government inventions

INFRASTRUCTURE DEVELOPMENT

Provision of Worksites/CIDCs



AFFORDABLE CREDIT

MSE Fund



CAPACITY BUILDING/BDS

Training and Coaching of MSEs



Government Inventions

MARKET ACCESS

Local, National and Regional Trade Exhibitions,
Shows



FORMALIZATION/REGISTRATION OF MSEs

Office of Registrar of MSEs



JOB CREATION

Provision of grants/bds- KYEOP



KYEOP MILESTONES

Cumulative Numbers:



Currently, grants worth approximately
Kshs **2.7 Billion** has been disbursed



69,069

Number of youth who have received grants



7,362

Number of youth who have received
Business Development Support

Cycle 8 Targets

Atleast **7,500** grants beneficiaries

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Challenges faced by MSEs in Kenya

- ❖ Market access, infrastructure, legal and regulatory and finance constraints were reported as the top constraints experienced by 70% of micro enterprises and 62% of small enterprises
- ❖ Capacity building in terms of product development on improved standards
- ❖ E commerce adoption and technological knowhow
- ❖ Intellectual property management
- ❖ Knowledge and Awareness of the African Continental Free Trade Area

Opportunities

National and sectoral policies that enhance synergy in development of MSEs.

- ▶ Devolved governance structure with the county integrated development plans prioritizing flagship projects beneficial to development of MSEs.
- ▶ Huduma centres across the country and Biashara/support centres.
- ▶ Continued automation of the public service delivery system that serves to ease cost of doing business.
- ▶ Existing initiatives that benefit the MSEs – Access to Government Procurement Opportunities (AGPO), and affirmative action funds targeting youth, women and persons with disabilities (YEDF, WEF, Uwezo Fund); platforms for trade exhibitions and trade fairs, and introduction of the Kenya Trade Portal (SDT) and multi-agency initiatives to combat illicit trade.
- ▶ Regional trading blocs and trade agreements for expanded markets e.g. EAC, COMESA and AfCFTA, AGOA.
- ▶ Value addition in agriculture, livestock, blue economy and extractives.
- ▶ Robust tertiary institutions to support Research & Development, innovation, skills and technological transfer.
- ▶ Youthful population.
- ▶ Political good will

EMERGING GLOBAL BUSINESS TRENDS FOR MSMES TO ADOPT

- ❖ New business guidelines to embrace e-commerce and cashless transactions.
- ❖ Mobile Financial Transactions – The apparent shift to mobile/digital financial transactions requires enterprises to adopt them as well as invest in opportunities in the digital financial space.
- ❖ Risk management and insurance against unforeseen circumstances
- ❖ Focus on Healthcare – MSEs can now consult online on health matters that ensures wellness while conducting business

Business succession planning for posterity

- ❖ Digital Transformation - To ensure business continuity, improve productivity and launch new business models to remain competitive.



References

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- <https://msea.go.ke/msea-draft-strategic-plan/>
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AHSANTE

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