REPUBLIC OF KENYA

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) DEVELOPMENT

State Department for Micro, Small and Medium Enterprises(MSMEs) Development

**MINISITY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) DEVELOPMENT**

**STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPISES (MSMEs) DEVELOPMENT**

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## Abbreviations

| | |
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| AFCFTA | African Continental Free Trade Area |
| AU | African Union |
| BETA | Bottom-up Economic Transformation Agenda |
| CAIPS | County Aggregation and Industrial Parks |
| CGS | Credit Guarantee Scheme (CGS) |
| CIDC | Constituency Industrial Development Centres |
| COMESA | Common Market for Eastern and Southern Africa |
| EAC | East Africa Community |
| EPA | Economic Partnership Agreement |
| GDP | Gross Domestic Product |
| ILO | International Labour Organization |
| KIPPRA | Kenya Institute for Public Policy Research and Analysis |
| KNBS | Kenya National Bureau of Statistics |
| MSEA | Micro Small Enterprise Authority |
| MSME | Micro Small Medium Enterprises |
| MTP | Medium Term Plan |
| SDGs | Sustainable Economic Development Goals |
| UNDP | United Nations Development Programme |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNICTRAL | United Nations Commission on International Trade Law |
| WTO | World Trade Organization |

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

The Micro and small Enterprise Act of 2012 classified MSMEs by either their annual turnover, the number of employees engaged or by their total financial investment. The specific definitions for each category are as follows: Micro enterprise as any firm with an annual turnover not exceeding Ksh.500,000 and employing (or rather engaging) 1to 9 people. The total assets and financial investment or the registered capital of the enterprise does not exceed Ksh.10 million in the manufacturing sector and does not exceed Ksh.5 million in the service and farming sector.
Small enterprises as any firm with an annual turnover of between Ksh.500,000 and Ksh.5 million and engaging 10 to 49 employees. In the manufacturing sector, investment in plant and machinery should be between Ksh.10 million and Ksh.50 million and registered capital of the enterprise between Ksh.5 million and Ksh.25 million in the service and farming sector.
Medium enterprises as any firm with an annual turnover of between Ksh.5 to 100 million and engaging between 51-250 employees; in the manufacturing sector, total assets and investment in plant and machinery or the registered capital of the enterprise does not exceed Ksh.250 million; in the service and agricultural sectors, investment in equipment or registered capital of the enterprise does not exceed Ksh.125 million.

Micro, small, and medium enterprises (MSMEs) are critical drivers towards Kenya's socio-economic growth and contribute substantially towards poverty reduction, employment, and income generation. According to the KNBS, MSME Survey of 2016, there are over 7.4 million MSMEs in Kenya, employing over 14.4 million Kenyans across all sectors. These MSMEs contributed approximately 33.8 percent to the national GDP in 2015. Over the years, the MSME Sector contribution to GDP has increased from 33.8 percent to 40 percent, according to a UNDP and MSEA report on the Impact of COVID-19 on Kenyan MSMEs Strategies for Resilience and Recovery. Further, there were 1.56 million formal MSMEs and 5.84 million informal MSMEs employing approximately 14.9 million individuals across various sectors. Despite informality, the sector contributes significantly to employment, creating around 800,000 jobs annually. It thus 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 MSMEs operate in all sectors of the economy, with large concentrations in wholesale and retail trade, manufacturing, and food services. Wholesale and retail trade, repairs of motor vehicles and motorcycles accounted for 57.1 percent of licensed businesses and 62.9 percent of unlicensed businesses.

The MSMEs sector significantly contributes to the achievement of the aspirations of key national and global goals as espoused in Bottom-up Economic Transformation Agenda (BETA), Kenya Vision 2030, EAC Vision 2050, AU Agenda 2063, and Sustainable Economic Development Goals (SDGs). Under BETA, the MSME Sector has been identified as a sector with real potential to contribute to an enlargement of Kenya's economy by approximately 60% if its productivity is incentivized and enhanced. Further, the MSME sector has the capacity to contribute significantly to enabling the country to achieve its Vision 2030 goals of stimulating growth in varied sectors by diversifying the economy and reducing reliance on traditional sectors. The sector contributes to EAC Vision 2050 achievement by diversifying economies through industrialization, value addition, and promoting the service sector as well as African Union Agenda 2063 three pillars namely custom union, common market, and monetary union. It is also important to mention that the MSME Sector plays a key role in the realization of SDG 1(No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good health and well-being), SDG 5 (Gender equality), SDG 8 (Decent work and economic growth), SDG 9 (Industry, innovation and infrastructure), and SDG 12 (Responsible consumption and production).

In recognition of the sector's importance to the economy, the Government of Kenya in collaboration with key stakeholders has developed various policies and implemented programs, and initiatives to support MSMEs. These include: The Hustler Fund which is providing accessible, low-interest loans to foster financial inclusion and encourage saving; The expanded Credit Guarantee Scheme (CGS) further supports MSMEs by reducing loan risks and increasing accessible funds through partnerships with banks and international organizations; Digital transformation efforts, including e-commerce training and partnerships, equip MSMEs to tap into online markets; Streamlined registration promotes formalization; Programs that train youth for digital and entrepreneurial opportunities, enabling them to capitalize on remote work and freelancing; Refurbishment of Constituency Industrial Development Centres (CIDCs); Development of industrial hubs which offer MSMEs shared resources and infrastructure, reducing costs and enhancing productivity, and position MSMEs as vital drivers of Kenya's economic inclusivity and growth.

Inspite of the aforementioned initiatives, key challenges still persist in the MSME sector including limited access to finance, inadequate infrastructure, lack of skilled labour, limited market access, lack of technology adoption, regulatory and compliance issues, fragmented policies and laws on MSME, policy lacuna focusing on the ecosystems for start- ups, lack of coordination between development partners and stakeholders, lack of coordination and synergy for MSMEs initiatives, limited awareness of the provisions of the MSE Act and Policy, vulnerability to covariate shocks such as flooding and COVID-19, gender discrimination and cultural barriers that exclude special interest groups, lack of business skills and training and extensive informality.
In recognition of the sector's potential, this policy seeks to build on the gains of the previous policy initiatives while seeking to address the weaknesses, policy gaps, and persistent and emerging challenges facing the sector.

## 1.2 Policy Review Process

The formulation of this policy was guided by an extensive review of literature, relevant surveys and critical review of the past and existing policies, strategies, plans and studies. The reviews were guided by the aspirations and provisions articulated in the Constitution of Kenya, Kenya Vision 2030, BETA, the United Nations 2030 Agenda for Sustainable Development Goals, the Africa Union Agenda 2063 and the East Africa Community Vision 2050.

## 1.3 Rationale for Reviewing the MSE Policy 2020

The rationale for formulating this policy on MSMEs is three-fold. First is addressing issues identified under previous MSE policy 2020, integrate new MSME support approach as espoused under MTP IV and address emerging issues captured through literature review, Kenya's international commitments and stakeholder feedback.

The MSE policy 2020 was aimed at addressing the following challenges ; Entrenchment of entrepreneur culture , skills and capacity development, access to domestic and export market , access to affordable and diversified range if financial products and services , access to affordable and decent infrastructure , promotion of formalization , enhanced coordination and implementation of support programs targeting development of the sector, conducive regulatory environment at the national and county levels and mitigation of business external risk among others. The policy also provided the role of the counties in MSME development as stipulated in the constitution 2010 as well as coordination and collaboration framework. Progress has been made in implementation of MSE policy 2020, however, there is much more to be done to enable MSMEs realize their full potential.

The government is reviewing the MSE policy 2020 to integrate government priorities including value chain approach and cluster development amongst others. Secondly, inclusion of medium enterprise to complete the transition cycle from micro to small to medium which was missing in MSE Policy 2020.

Further, it aims to address persistent challenges and emerging issues. In addition, the policy review aims to align with Kenya's international commitments, such as the Sustainable Development Goals (SDGs), the African Continental Free Trade Area (AfCFTA), AU Agenda 2063, and East African Community (EAC) Vision 2050. Moreover, this review will streamline interventions and enhance coordination to reduce duplication by various stakeholders so as to foster a cohesive, well-coordinated approach that maximizes the impact of government, private sector, and development partner initiatives around MSME growth and development. Finally, the reviewed MSME policy will facilitate the alignment and amendment of the MSME Act of 2012.

## 1.4 Policy Goal and Objectives

### 1.4.1 Policy Goal

This policy aims to provide an integrated enabling business environment for a productive, competitive and sustainable MSME sector for wealth and employment creation.

### 1.4.2 Policy Objectives

The policy objectives are to:

1. Strengthening enabling legal, policy and regulatory environment for the MSMEs sector
2. Fostering entrepreneurial culture and enhancing skills development for MSMEs
3. Support the formalization of MSMEs
4. Enhance access to decent and affordable infrastructure for the MSMEs sector
5. Access to diversified and affordable financial products and services for MSMEs.
6. Enhance market access and economic opportunities for MSMEs products and services.
7. Innovation, research and development for the MSMEs sector.
8. Building MSME Resilience and Adaptability

## 1.5 Scope of the Policy

This policy applies to both National and County Governments, as well as Micro, Small, and Medium Enterprises (MSMEs) and the broad network of supporting institutions including private sector entities, development partners, and other non-state actors involved in MSME development. At the national level, the policy guides overarching strategic planning and implementation regulatory frameworks, and resource allocation to foster a supportive ecosystem for MSMEs.

At the county level, the policy will guide county policy development, address localized implementation, capacity building, infrastructure development, and market access tailored to regional needs. Together, these efforts promote a coordinated, inclusive, and sustainable approach to MSME growth across all levels, ensuring cohesive support and alignment with the unique socio-economic dynamics of each county.

## 1.6 Structure of the Policy

The policy is structured as per the following sections: Introduction consisting of the background, rationale, and policy objectives; Situation analysis; Policy statements; Policy coordination and implementation framework and Monitoring and evaluation.

# CHAPTER 2

# SITUATIONAL ANALYSIS OF THE MSE SECTOR

## 2.1 Overview of MSME sector in Kenya

According to the KNBS, MSME Survey of 2016, there are over 7.4 million MSMEs (1.6 million MSMEs licensed by the county governments with 5.8 million unlicensed MSMEs) in Kenya, employing over 14.9 million Kenyans across all sectors with unlicensed establishment contributing 57.8 percent. Recent employment data from the 2024 KNBS Economic Survey Report found that employment in the informal sector, which is dominated by Micro, Small and Medium Enterprises (MSMEs) created 720,900 new jobs in 2023, which is 85% of all new jobs created.

The value of the MSMEs output is estimated at Ksh 3,371.7 billion against a national output of Ksh 9,971.4 billion representing a contribution of 33.8 percent in 2015.
Manufacturing ranked the highest by contributing 24.3 percent of MSMEs gross value added. Wholesale and retail trade, transport and storage, and education services ranked high by contributing 22.8, 15.4 and 7.3 percent respectively to the gross value added. Unlicensed establishments contributed 10.4 percent of MSMEs gross value added. In terms of sector distribution, majority of MSMEs are in the service sector with most operating in wholesale and retail trade, repair of motor vehicle and motorcycle followed accommodation and food services.

MSME size distribution is highly skewed towards micro with the KNBS findings indicating 92.2 percent of licensed establishments being micro employing between 1 to 9 employees while at the same time all unlicensed businesses are micro. Small and medium establishments accounted for 7.1 percent and 0.7 percent respectively highlighting the challenge commonly referred to as the 'missing middle', suggesting constraints that limit growth of MSEs consequently denying the economy decent jobs and wealth creation. As such there is a need to address the constraints facing MSEs that limit their growth and hence their graduation to medium enterprises. The MSEs sector also 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.

The 2019 Kenya Population and Housing Census reveals persons below 35 years of age account for 76% of the population, an indication of a rising demand for job opportunities. The Census further reveals that youth in the age bracket of 15 to 34 years represents 36% of the population. On labour force 2.6 million of the economically active population is seeking work, of which females represent 44% and youth 68%. The youth are therefore disproportionately affected by unemployment. Additionally, 2% of the population live with disabilities of various forms including visual, hearing, communication, cognition, mobility and selfcare. Among the Persons with Disabilities (PWDs), 55% reported facing difficulties in engaging in economic activities. A large proportion of the labour force derive their livelihood from the MSE sector. The sector therefore provides income for the poor and presents an avenue for reducing poverty. Poverty reduction has been a key policy priority in Kenya. The 2015/2016 KIHBS shows that while overall headcount poverty decreased from 47% in 2005/2006 to 36% in 2015/2016; the incidence is still high in rural areas at 40%.

The crucial role of MSMEs is underscored in Kenya's vision 2030, Kenya's development blueprint which seeks to transform Kenya into an industrial middle-income country. The MSME sector has been identified and prioritized as a key growth driver for the achievement of the development blueprint
Fourth Medium Term Plan (MTP IV), which has been aligned to the aspirations of the Kenya Vision 2030 and the Kenya Kwanza Bottom-Up Economic Transformation Agenda (BETA) planning approach and its key priorities. Under MTP IV The Government aims to transform agriculture by raising productivity of key value chains that include leather and leather products, textile and apparel, dairy, tea, rice, edible oils, the blue economy, minerals including forestry, and construction/building materials. A

key element of the value chain approach will be to support Micro, Small and Medium Enterprises (MSMEs) to provide employment and income opportunities for economically excluded segments of the population

## 2.2 Role of Counties in MSME Development

The Fourth Schedule of the Constitution assigns counties functions of trade development and regulation Including markets, trade licenses excluding professions, fair trade practices, local tourism and cooperative societies.

Intergovernmental Relations Act the Kenya Gazette Vol. CXXVI-No.219 Gazette notice No.16472 delineates counties with the overall function; implement national policies, standards and norms on international trade, develop and implement county policies on trade development and regulations, provide business development services to MSMEs engaged in trade, trade licensing (excluding professional services), promote fair trade practices and development and regulations of markets among others. The counties will also collect business information and manage county Business Information Centres. Other functions of the counties include county planning and development.

Moreover, County Governments can improve the business environment for MSMEs through providing requisite infrastructure, various county tailored policies, legislative and administrative interventions.

The 2019 KIPPRA study on “County Business Environment for Micro and Small Enterprises in Kenya identifies five key areas essential to unlocking MSE potential and include worksites and adequacy of their infrastructure; market environment; financial and technical capacity; and governance and regulatory framework.

County Governments in Kenya play a critical role in the Development of MSMEs, which are core to addressing poverty, job creation and other development issues. Since the advent of devolution, counties have made strides in some areas, notably provision of markets and decent workspaces and simplification and automation of business licensing.

However, challenges in coordinated market access, affordable financing, multiple levies and CESS that hamper inter-county trade, and adoption of modern technology, remain largely unresolved. A collaborative approach with all stakeholders for aligned policies and county-level partnerships is necessary to address the unique local challenges and empower MSMEs to thrive.

There is an evident need for continued intergovernmental cooperation between the institutions and agencies of both levels of government to harness their interdependence and respective mandates to ensure that the combined bureaucracy of government remains a catalyst of business.

## 2.3 Policy and Regulatory Framework

Kenya's policy and regulatory framework for MSMEs has made significant strides, but gaps remain in terms of policy coverage, regulatory burdens, and institutional coordination. Although the MSE Act No. 55 of 2012, along with other policies like the National Trade Policy and Sessional Paper No. 5 of 2020, provide a solid foundation for MSMEs sector development, greater attention is needed to address emerging trends, such as digitalization, globalization, AfCFTA and the need to include medium-sized enterprises.
To fully realize the potential of MSMEs, the government, private sector, and non-state actors must work together to create a more enabling environment that supports MSMEs in addressing their challenges and harnessing opportunities for growth.

### 2.3.1 Evolution of MSME Policy in Kenya

The government of Kenya has recognized the importance of MSMEs and has implemented various policies and strategies to support their growth and development. An overview of MSME policy development in Kenya includes:

The ***Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya*** that emphasized on African ownership and management of enterprises, skills and cooperative development. The ***Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth*** that recognized 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 was informed by the report of a Special Taskforce established in March 1987 to review all policies for promoting small-scale enterprises in the country, provided a more comprehensive policy framework targeting the sector. The ***Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction*** that prioritized MSEs access to markets, including public procurement reservations. The **National Policy on Micro, Small, and Medium Enterprises (MSMEs) in Kenya (2005)** that aimed to foster the development of MSMEs by providing an enabling environment. The enactment of the **MSEs Act 2012**, established MSEA with the mandate of promoting, developing and regulating the MSEs sector. The **Kenya Vision 2030** that recognized MSMEs as a crucial component of Kenya's long-term development plan under Vision 2030. The **Big Four Agenda (2017–2022)** that recognized the critical role of MSMEs in the manufacturing pillar, as they are seen as vital drivers of industrialization, innovation, and job creation. Further, the **Bottom-Up Economic Transformation Agenda (BETA)** places MSMEs at the core of economic development. It positions MSMEs at the heart of Kenya's economic agenda, emphasizing their empowerment to drive equitable and inclusive growth and uplift underserved communities. This focus aligns with global frameworks like the **Sustainable Development Goals (SDGs)** and **African Union Agenda 2063**, both recognizing MSMEs as catalysts for sustainable, inclusive development across Africa.

### 2.3.2 Policy Framework Review

The **MSE Act of 2012** is a cornerstone policy guiding the development of the sector in Kenya. The Act outlines provisions for the creation of a supportive ecosystem for MSEs through access to credit, market opportunities, capacity building and technology, while emphasizing the formalization of businesses. It established the Micro and Small Enterprises Authority (MSEA) as responsible for coordinating MSE programs and policies. The Act also aims to streamline licensing and registration processes to promote the formalization of MSEs.

While the MSE Act has laid a strong foundation, several gaps remain. One limitation is the focus on micro and small enterprises, with insufficient attention paid to medium-sized enterprises, which face distinct challenges yet offer immense opportunity for value creation, employment creation and economic growth. Additionally, the Act does not fully address emerging trends, such as digitalization, globalization, AfCFTA, Gender and social inclusion, which have a great impact on business operations. Consequently, subsequent policies have sought to fill these gaps and enhance the MSME ecosystem.

Several policies developed after the enactment of the MSE Act are particularly relevant. The **National Trade Policy 2019** and **Kenya Investment Policy 2019** emphasize the need to support MSMEs by providing affordable financing, capacity building, access to infrastructure, and local and international markets. These policies highlight the importance of integrating MSMEs into value chains and facilitating their participation in global trade.

Similarly, the **Kenya Youth Development Policy 2019** and the **Digital Economy Blueprint 2019** recognize the role of young entrepreneurs and information and communication technology (ICT) in driving MSE growth. These policies encourage youth engagement in the MSME sector and promote digital solutions to enhance business competitiveness.

The **Cooperative Development Policy 2019** provides another crucial avenue for MSME growth by focusing on the modernization of cooperatives, which serve as vital aggregators for MSMEs. The policy aims to increase the participation of women and youth in cooperatives, thus providing them with access to financing, technical support, and markets through collective action.

The **Sessional Paper No. 5 of 2020** on **Kenya Micro and Small Enterprises Policy** offers a comprehensive framework that outlines ten objectives to promote MSME development. These include fostering an entrepreneurial culture, providing MSMEs with access to domestic and international markets, enhancing access to diversified financial products, and ensuring decent infrastructure. The policy also prioritizes the formalization of informal businesses, the mitigation of external risks, and the creation of a conducive regulatory environment at both national and county levels.

Other acts of parliament that are relevant to MSMEs are:

**Companies Act, 2015:** The objective of the Act is to facilitate commerce, industry and other socioeconomic activities by enabling one or more natural persons to incorporate as entities including MSMEs with perpetual succession, with or without limited liability, and to provide for the regulation of those entities in the public interest, and in the interests of their members and creditors. The acts simplifies company registration procedures and promotes ease of doing business.

**Tax Laws:** Various tax laws, such as the Income Tax Act and the Value Added Tax Act, contain provisions that offer tax incentives and exemptions to MSMEs, encouraging their growth and development.

**Public Procurement and Asset Disposal Act, 2015:** This Act promotes transparency and accountability in government procurement processes, providing opportunities for MSMEs to participate in government tenders and contracts.

**Industrial Training Act:** This Act promotes skills development and training within the workforce, which is crucial for the success of MSMEs.

**Copyright Act:** This Act protects the intellectual property rights of MSMEs, encouraging innovation and creativity.

Some of East Africa Community acts supporting MSMEs include: East African Community Customs Management Act, 2004, East African Trade Negotiations Act, 2008 and EAC Competition Act among others

### 2.3.3 Legal Framework Analysis

#### 2.3.3.1 National Legal Framework

**The Constitution of Kenya of 2010**

The Constitution of Kenya provides as follows where Micro and Small Enterprises are concerned:
a) Article 2(5) and (6) of the Kenyan Constitution states that international laws, to which Kenya is a signatory, automatically become part of the country's legal framework. This integration ensures that Kenya's domestic laws are aligned with its international obligations, without needing additional legislation.
b) Article 40 provides for the right to property which is crucial for Micro and Small Enterprises to own and operate business.
c)Article 43 gives a guarantee to economic and social rights including the right to social security which may be linked to the support and protection of Micro and Small Enterprises.
d)Article 46 Grants consumer rights, ensuring access to goods and services of reasonable quality, providing necessary information, and protecting health, safety, and economic interests. This article requires both public and private entities to offer quality goods and services.
e) Article 176 of the Constitution provides that there shall be an establishment for county governments that shall consist of a county assembly and a county executive.
f) Article 174 (f) and (h) provides that one of the objectives of devolution is to promote social and economic development and the provision of easily accessible services throughout the country. The Fourth Schedule of the Constitution mandates county governments with the responsibility of trade development and regulation including markets, local tourism and licensing and control of businesses; and
g) Article 189(1) of the Constitution provides that the Government at either level shall perform its powers in a manner that respects the functional and institutional integrity of the government at the other level and respects the constitutional status and institutions of government at the other level and in the case of the county government within the county level. Article 189(4) provides that National legislation shall provide procedures for settling intergovernmental disputes by alternative dispute resolution mechanisms, including negotiation, mediation and arbitration.

**Micro and Small Enterprises Act, Cap 499C**
The Act outlines provisions for the creation of a supportive ecosystem for Micro and Small Enterprises through access to credit, market opportunities, capacity building and technology, while emphasizing the formalization of businesses. Section 29 of the Act establishes the Micro and Small Enterprises Authority (MSEA) as responsible state corporation for coordinating Micro and Small Enterprises programs and policies. In addition to this the statute establishes the Micro and Small Enterprises Fund under Section 51 whose core purpose is to finance the promotion of Micro and Small Enterprises, provide affordable and accessible credit to micro and small enterprises, finance the capacity building of micro and small enterprises, and finance research, innovation and transfer technology.

**Competition Act, Cap 504**

The Competition Act aims to promote and safeguard competition in the national economy. Section 7 establishes the Competition Authority, which is responsible for enforcing and promoting compliance with the Act. This statute protects consumers from unfair and misleading market conduct and outlines the establishment, powers, and functions of the Competition Authority and the Competition Tribunal.

**Companies Act, Cap 486**

The main mandate of the Companies Act is to facilitate commerce, industry, and other socio-economic activities by allowing one or more individuals to incorporate entities with perpetual succession. It also aims to regulate these entities in the public interest, specifically focusing on protecting the interests of their members and creditors.

### Limited Liability Partnership Act, Cap 30

The Limited Liability Partnerships Act enables individuals to register a partnership with a corporate status similar to that of a company. Key features of this statute include granting the partnership the status of a body corporate, complete with a seal and the capacity for perpetual succession, similar to the provisions under the Companies Act. Additionally, the Act allows a Limited Liability Partnership (LLP) to convert to a Private Limited Company, in accordance with Section 25 of the Limited Liability Partnerships Act.

### Public Procurement Assets and Disposal Act, Cap 412C

This Act promotes transparency and accountability in government procurement processes, providing opportunities for Micro and Small Enterprises to participate in government tenders and contracts.
Section 53(6) of the Public Procurement Assets and Disposal Act requires county governments to implement affirmative action programs, including procurement opportunities for MSEs. In addition to this, Section 155 (1) (a) ensures that 30% of public procurement is reserved for youth, women and persons with disabilities, directly benefiting small enterprises.

### County Licensing (Uniform Procedures) Act No 8 of 2024

This legislation aims to foster a business-friendly environment by streamlining and standardizing licensing procedures across the county. This legislation reduces bureaucratic hurdles, making it easier for businesses to obtain licenses, thus unlocking significant economic potential. By minimizing paperwork and time required for compliance, this act promotes sustainable growth and creates a more efficient framework for businesses to thrive. Overall, it is designed to drive substantial economic growth and development throughout the country.

### The Movable Property Security Rights Act, Cap 499A

This statute also established an e-collateral registry to ease credit access by Micro and Small Enterprises.

### The Copyright Act, Cap 130

This statute establishes the Kenya Copyright Board to oversee the administration and enforcement of copyright laws. The Act defines works eligible for copyright protection, including literary, musical, artistic, and audio-visual works, as well as computer programs. It also outlines the rights of authors, including moral rights, and specifies the procedures for copyright registration.
The Act prohibits unauthorized reproduction, distribution, and public performance of copyrighted works and provides penalties for copyright infringement. It also includes provisions for technological protection measures, rights of performers, and the establishment of collective management organizations to administer and collect royalties on behalf of rights holders. Additionally, the Act outlines the role of inspectors in enforcing copyright laws and provides mechanisms for resolving disputes related to copyright infringement.

### The County Government Act, Cap 265

Section 5(1) (g) of the County Government Act provides that counties are responsible for creating an enabling environment for businesses and environment. Section 36(1)(b) allows counties to establish economic zones, business incubators and industrial parks to promote entrepreneurship and job creation. Section 104(1) (e) mandates counties to develop integrated development plans that include policies for Micro and Small Enterprises.

### 2.3.3.2 International Legal Framework

The international framework governing Micro, Medium and Small Enterprises is guided by the United Nations Commission on International Trade Law (UNICTRAL). The guidance given by this legislative body that harmonizes international Trade law is as follows:

**UNCITRAL Legislative Guide on Key Principles of a Business Registry (2019)**: The legislative guide aims to simplify and streamline business registration processes to promote the formalization of Micro, Small, and Medium Enterprises. It emphasizes designing these processes from the perspective of businesses, making them accessible, simple, and efficient. Key recommendations include creating a single entry point for registration, allowing simultaneous registration with relevant authorities, using electronic registries and unique business identifiers, establishing one-stop shops (physical or virtual) for simultaneous registration with all relevant authorities, and ensuring transparency and accessibility by providing easy access to business information, which facilitates the search for potential business partners, clients, or financial sources. These measures aim to reduce the registration burden and cost for Micro and Small Enterprises promoting their formalization and integration into the formal economy.

**UNCITRAL Legislative Guide on Limited Liability Enterprises (2021)**: the legislative guide assists legislators and policymakers in creating a simplified legal framework for Micro, Small, and Medium Enterprises, focusing on their unique needs. It promotes a "think small first" approach, aiming to reduce unnecessary legal burdens and streamline the incorporation process to encourage formalization. The guide emphasizes operational efficiency by reducing regulatory hurdles and fostering economic inclusion, especially for women and other disadvantaged entrepreneurs. Overall, it aims to enhance the sustainability and growth of MSMEs by making legal processes more accessible and efficient; and

**UNCITRAL Legislative Guide on Insolvency Law for Micro- and Small Enterprises (2021):** This guide provides mechanisms and solutions specifically tailored for Micro and Small Enterprises. Globally, it is acknowledged that MSEs often have intermingled business and personal debts and operate under a centralized governance model. They frequently encounter cash flow problems, higher interest rates, and larger collateral requirements. The guide aims to address these challenges by offering mechanisms to resolve financial difficulties and support the sustainability and growth of Micro Small Enterprises.

**World Trade Organization Trade Facilitation Agreement:** The World Trade Organization's Trade Facilitation Agreement supports micro and small enterprises by simplifying trade processes, cutting costs, and increasing transparency. Article 2 of the Agreement provides that Government should publish trade regulations online and have private sector input on trade policies. Article 3 enhances customs predictability, while Articles 6, 7, and 10 focus on streamlining customs fees, electronic payments, and documentation, minimizing bureaucratic delays. Additionally, Article 8 promotes border agency coordination, improving trade efficiency. By reducing trade barriers, the Trade Facilitation Agreement facilitates greater participation of small businesses in global markets.

In addition to the aforementioned acts, the East African legal framework impacting the Small and Medium Enterprises includes:

**The East African Community Customs Act** This law governs the management and administration of customs within the East African Community (EAC). It provides regulations for warehousing dutiable goods and outlines procedures for the disembarkation and clearance of passengers. Additionally, it details procedures for customs control of goods, including entry, examination, and delivery.

The East African Trade Negotiations Act, 2008

This law aims to streamline joint trade negotiations and develop a unified trade regime within the East African Community (EAC). Its key objectives include establishing the East African Trade Commission to oversee trade negotiations, mandating that partner states negotiate as a bloc in bilateral, regional, and multilateral trade matters, and promoting the establishment of a common trade regime in line with the EAC Treaty and Customs Union Protocol.

**The East African Competition Act, 2006** This law is designed to foster and safeguard fair competition within the East African Community. This law prohibits the anti-competitive practices and the abuse of market dominance, ensuring consumer protection and welfare. The statute establishes the East African Competition Authority to enforce the law and oversee competition matters within the region.

### 2.3.4 Institutional framework supporting MSMEs in Kenya

The State Department for Micro, Small and Medium Enterprises (MSME) Development established vide Executive Order No. 1 of 2023 under the Ministry of Cooperatives and Micro, Small and Medium Enterprises Development is charged with the responsibility of coordinating and mainstreaming the MSMEs development function in Kenya.

The Executive Order outlines the functions of the State Department as transformation of MSMEs sector including MSME Policies, financing, administration of Financial Inclusion (Hustler Fund) and Affirmative Funds, Capacity development, market development, technology upgradation and modernization and enhancing competitiveness of MSMEs.
The state department of MSMEs has a number of agencies that supports its core mandate and include:

**The Kenya Institute of Business training** a training Institution whose mandate is to provide Business and Management Development Services to MSMEs and other Interest Groups through: Training, Research, Consultancy, Counselling, Extension Services and Business Information for improved performance,
**Hustler Fund** whose objective is to offer holistic financial solutions targeting people at the bottom of the pyramid. The financial inclusion fund as five pillars of: affordable credit, competitive savings and Pensions products, comprehensive insurance solutions, access to affordable housing , market linkages and Financial Literacy
**Kenya Industrial Estate** whose mandate is facilitating the industrial sector by promoting entrepreneurship, providing medium- and long-term development finance to indigenous MSME and incubation of MSMEs countrywide to facilitate their survival and growth.

**Uwezo Fund** whose objectives are to expand access to loans for the promotion of youth and women businesses and enterprises at the constituency level and thereby enhance economic growth towards the realization of the goals of Vision 2030, to generate gainful self-employment for the youth and women; and to model an alternative framework in funding community driven development.

**Micro and Small Enterprise Authority (MSEA)** a state corporation established under the Micro and Small Enterprise Act No. 55 of 2012 and mandated to formulate and coordinate policies that will facilitate the integration and harmonization of various public and private sector initiatives, for the promotion, development and regulation of the Micro and Small Enterprises to become key Industries of tomorrow.

Other government agencies that offer MSMEs support include:
**Kenya Industrial Research and Development Institute (KIRDI)** whose mandate is to undertake research, development and innovation in industrial and allied technologies and disseminate research findings to support industrial development. KIRDI offers MSMEs capacity building, access to common manufacturing facilities, product standardization and quality assurance, industrial incubation and equipment design and fabrication among others
**Kenya Bureau of Standards** (**KEBS**) whose mandate among others is to promote standardization in industry and commerce. KEBS activities have grown from the development of standards and quality control for a limited number of locally made products in the 1970s to the provision of more comprehensive standards development, Metrology, Conformity Assessment, Training and Certification services.
**The Business Registration Service** is a State Corporation established to administer policies, laws and other matters relating to the registration of Companies, partnerships and firms, and corporations carrying

on business under a business name, bankruptcy, hire-purchase, and security rights (Section 4(1) of BRS Act, 2015).
**Youth Enterprise Fund** is a state corporation mandated to provide financial and business development support services to youth owned enterprises
**Women Enterprise Fund** whose mandate is to : provide subsidized credit to Kenyan women entrepreneurs for enterprise development, capacity building of women entrepreneurs and their organizations, attract and facilitate investment in MSME oriented infrastructure such as business markets or business incubators that will be beneficial to women enterprises, Support women oriented MSMEs to develop linkages with large enterprises and facilitate marketing of products and services of women enterprises in both domestic and international markets
**Kenya Development Corporation Ltd (KDC)** is a Development Finance Institution which was established in 2020 to merge the operations of Industrial and Commercial Development Corporation (ICDC), Tourism Finance Corporation (TFC) and IDB Capital Limited. KDC is mandated to play a catalytic role in Kenya's socio-economic development by providing long-term financing and other financial, investment and business advisory services. Therefore, KDC plays an important role in addressing critical gaps for long-term funding that cannot be met by commercial banks in target sectors in Kenya and elsewhere.

**Export Processing Zones Authority (EPZA):** The Export Processing Zone (EPZ) program is managed by the Export Processing Zones Authority (EPZA) was created to promote export oriented industrial investment within designated zones. EPZA has the EPZA SME Development Programme whose aim is to nurture SME exporters with the majority local Kenyan shareholding desiring to set up under the EPZA program. It targets SMEs from the Horticulture/food processing, Textile/apparel, Leather, Commercial crafts, BPO, and ICT sectors.

**The Kenya Export Promotion and Branding Agency (KEPROBA)** is a State Corporation established under the State Corporations Act Cap 446 through Legal Notice No.110 of August 9th, 2019, after the merger of the Export Promotion Council and Brand Kenya Board. The Agency's mandate is to implement export promotion and nation branding initiatives and policies to promote Kenya's export of goods and services

**The Kenya National Trading Corporation Ltd (KNTC)** is state corporation under the Ministry of Investments, Trade and Industry mandated to serve as a procurement agent for the Government. Specific mandate that impact MSMEs are participate in the promotion of wholesale, retail business and e-trade in line with Vision 2030, the medium-term plan and the parent Ministry's Strategic Plan and promote the development of SMEs markets, expansion and diversifications of trade in line with the Government Policy.

**Kenya Industrial Property Institute (KIPI)** is a State Corporation under the Ministry of Investments, Trade and Industry. The Institute was established on 2nd May 2002 upon the coming into force of the Industrial Property Act 2001. Previously the Institute existed as Kenya Industrial Property Office (KIPO), which was established in February 1990 after enactment of the Industrial Property Act, CAP 509 of the Laws of Kenya.
The mandate of the Institute as provided for under the Industrial Property Act and the Trademarks Act is to promote inventive and innovative activities and facilitate the acquisition of technology through registration and regulation of patents, utility models, technovations, industrial designs and trademarks.

**The Kenya Copyright Board (KECOBO)** is a State Corporation under the Ministry of Gender, Culture, the Arts and Heritage - State Department for Culture, The Arts & Heritage. It was established by section 3 of the Copyright Act 2001 and mandated with the administration and enforcement of copyright and related rights. The Board is responsible for organizing legislation on copyright and related rights; conducting training programmes on copyright and related rights; enlightening and informing the public on matters related to copyright; licensing and supervising the activities of collective management societies; and maintaining an effective databank on authors and their works.

## 2.4 Challenges Facing MSME Sector

### 2.4.1 Entrepreneurial Culture

Entrepreneurial culture constitutes values, beliefs, mindset and behaviours that promote or curtail individual entrepreneurs or society from successfully starting and running a business.

Self-employment is often considered a reserve for the less educated and those who fail to secure white collar jobs with MSEs in Kenya are often associated with low returns and often remains unattractive to young people. Additionally, the entrepreneurial ecosystem in Kenya lacks sufficient visibility of successful entrepreneurs who could serve as role models thus many aspiring business owners lack guidance and inspiration.

Different countries seek to integrates entrepreneurship and enterprise education into schools at secondary level through various approaches depending on resource availability. Entrepreneurship education is a collection of formalized teachings that informs, trains and educate anyone interested in participating in socio economic development through a project to promote entrepreneurship awareness, business creation and small business development.

Study findings from UNESCO and ILO report titled Towards an entrepreneurial culture for the twenty first century , stimulating entrepreneurial spirit through entrepreneurship education in secondary schools contends that it's important to change the orientation of secondary education in order to prepare students for work and living in society noting that it's during the crucial years of secondary education that young people are beginning to make decisions on how they should channel their talent, skills and energy learning to assume the responsibilities of adulthood and preparing to entering the world of work and society.
The report recommends that national education system must: Increase job related content into academic education streams which traditionally prepares young people for tertiary education and entry to universities and increase work-based content (dual training model) in the vocational skills stream.

### 2.4.2 Skills for MSMEs Capacity

Kenya's socio-economic growth largely depends upon the effectiveness and quality of the country's Human Resources Development (HRD) system. Vision 2030 places great emphasis on the link between education, training and labour market to develop relevant and skilled workforce. The country faces a severe shortage of quality and relevantly skilled workforce due to the mismatch between skills produced and labour market needs. However, demographic structure indicates that 92% of Kenyan youths have unrecognized competencies acquired through informal and non-formal means but not certified to practice.
Further MSMEs in Kenya are characterized by low managerial, financial, technical, technological and industry relevant skills. Many MSMEs are not aware of available training opportunities or struggle to find accessible and affordable training opportunities.

Formal education and training face challenges in resolving emerging issues due to rigid systems and broad scope of courses while workplaces are increasingly changing towards highly specialized narrow skills for work
To strengthen Technical and vocational education and training Kenya adopted dual training policy which aims to address the skills mismatch in the labour market by integrating classroom instruction with hands on industry training
To address the challenge of recognition and lack of certification of artisan with practical experiences, Kenya established and adopted a recognition of prior Learning policy framework critical to the development of a responsive and equitable education and training system that facilitates access,

mobility, progression and fair chances to the disadvantaged, discouraged and traditionally marginalized groups including MSMEs

### 2.4.3 Access to Markets and Linkages

From the KNBS MSME Survey, most unlicensed businesses (17%) and licensed businesses (15%) enterprises in Kenya reported market access challenges as the most serious constraint to their growth and development. The main consumers of MSMEs goods and services in Kenya are individual local consumers. Most MSMEs are not able to supply their goods and services to domestic multinationals and corporations due to low scale of production and quality.

Many MSMEs lack reliable information about market demand, pricing, consumer preferences and taste skewed towards foreign made products and competitor activity making it difficult to make informed decisions about product offerings, pricing, and expansion strategies. Further, the MSME survey revealed that a large proportion of MSMEs did not market/advertise their goods or services at all.

This is because they lack the resources and expertise to invest in branding, marketing, and customer engagement strategies. There is also low uptake of intellectual property protection amongst MSEs such as trademarks due to low awareness on significance of IP protection in market access. As a result, there is low awareness of the MSME products and services to their consumers and potential buyers.
In addition, the market for locally manufactured products by MSMEs is shrinking, largely due to competition from larger domestic firms and the influx of cheaper imported goods especially in retail and manufacturing sectors.

This trend has made it difficult for local MSMEs to compete, especially as Kenyan consumers increasingly view imported products as superior in quality compared to domestic alternatives. This undercuts the prices of goods and services of local MSMES, reducing their profits and volume of sales. This also results in job losses.

There are limited business linkages and low levels of collaborations between MSEs and medium and large firms. These linkages are crucial for knowledge transfer and market access and growth. The large firms could be aggregators or processors who bulk and offtake MSE’s produce thereby offering a reliable market.

According to the KNBS MSME Survey, there is low participation of MSMEs in the Access to Government Procurement Opportunities (AGPO). Whereas the government has provided for quotas for local products in government procurement under Buy Kenya and Build Kenya as well as AGPO these quotas are not met due to lack of capital, delayed payment and lack of technical capacity in some specialized areas.

Although e-commerce provides new market opportunities, many MSMEs face barriers in accessing online markets due to low digital literacy and limited internet connectivity with the additional challenge of inadequate cybersecurity measures and payment processing issues making it challenging for MSMEs to establish functional online presence thus missing out on the growing consumer base in the digital market.

Very few MSMSEs participate in export markets even where Kenya has negotiated international trade agreements like EPA, WTO and afCFTA or joined regional trading blocs like COMESA and EAC. This is because of high certification and export market requirements on product standards, quality, safety, and packaging which require substantial investment and technical knowledge that many MSMEs lack. Other factors include high cost of doing business, lack of market intelligence, low production capacity and fluctuating currency.

Although there have been several trade promotion programs, many MSMEs report difficulty in accessing these resources due to bureaucracy and limited awareness. Trade missions and expos, which could help MSMEs build connections abroad, are often beyond their reach due to associated costs and lack of information on these opportunities. As a result, the MSMEs are not able to take advantage of these opportunities.

### 2.4.4 Access to Financial Services and Products

Kenya has a vibrant financial sector though unmet need for financing persists over the years for MSMEs. According to The International Finance Corporation estimates of 2019, there exists an annual unmet need for financing for Kenyan MSMEs of Kshs.4 trillion. Further, the Central Bank of Kenya (CBK) 2022 survey report on MSME access to bank credit indicates there were 1.18 million active MSME loan accounts in the banking industry as of December 2022, with a total value of Ksh.783.3 billion leaving out a significant portion to be met by non-bank and informal lenders.

Similarly, KNBS survey 2016 indicated that 71% of MSMEs who borrowed working capital reported receiving inadequate loans. The 2022 CBK report on MSME access to bank credit further asserts the proportion of the MSME loan portfolio to the total banking sector loan book as at December 2022 stood at 21.3 percent compared to 20.9 percent as at the end of 2020 despite MSMEs being a significant source of funding for the banking industry, accounting for 14.9 percent and 59.5 percent of total customer deposits held in commercial banks and MFBs, respectively as well as also more than 55 percent of all commercial banks offer products targeting all the three categories of MSMEs, i.e. micro, small and medium-sized enterprises. Further 21 percent of commercial banks offer products targeting only enterprises in the medium category, while 10 percent offer products targeting enterprises in the small and medium categories. 43 percent of MFBs offer products targeting all three MSME categories, while 14 percent offer products targeting only micro and small enterprises.

Financial Sector Deepening (FSD) transforming MSMEs in Kenya report estimated that 11% of SME's in Kenya are fully financially constrained defined as those that find it challenging to obtain credit while 17% of the micro enterprises are fully financially constrained, 25% of micro-enterprises are partly financially constrained defined as those that have been somewhat successful in obtaining external financing in Kenya while 20% of SME's are partly financially constrained this compared to other markets, on average, 21% of microenterprises in developing countries are fully constrained, 19% are partially constrained, and 60 percent are unconstrained.

There are limited financial products for MSMEs with traditional loans from commercial banks being the main products. KNBS survey 2016 reveals that 78.6 percent of credit for licensed MSMEs came from commercial banks, MFIs and SACCOs at 56.1, 12.5 and 10.0 per cent, respectively. For the unlicensed businesses, 74.4 percent of loans were sourced from commercial banks, Rotating Savings and Credit Associations (ROSCAs) and MFIs and 80.6% of MSME start-ups relying on family or own funds as the source of start-up capital. Many MSMEs lack the collateral required by banks and financial institutions to secure loans. Further, many financial products are not tailor-made to the unique needs of MSMEs in different sectors. The average rate of interest charged on facilities to MSMEs as at December 2022 was 15.5 percent and 27.0 percent for commercial banks and MFBs respectively, indicating high interest rates making borrowing unsustainable for businesses with limited profit margins.

Digital lending has emerged as additional line of credit for MSMEs with the Central Bank of Kenya (CBK) pursuant to Section 59(2) of the Central Bank of Kenya Act (CBK Act) licensing 85 Digital Credit Providers (DCPs) as of 2024.

The government has established catalytic funds to address the needs of different categories of MSMEs. These include Financial Inclusion Fund, UWEZO fund, Youth Enterprise Development Fund, Women Enterprise Fund. Many MSMEs report difficulties in accessing government catalytic funds due to bureaucratic hurdles, limited outreach, and lack of information on how to apply. Most of these funds record operational challenges and high loan default rates that limit their sustainability. Furthermore, the government initiative to finance medium sized enterprises through institutions such as Kenya Industrial Estates, IDC amongst others has only reached a small proportion of the target group.

The Government, through the National Treasury, launched the Credit Guarantee Scheme (CGS) on 8th December 2020 to support access to quality and affordable credit by Micro, Small and Medium Enterprises (MSMEs). The CGS is anchored on the Public Finance Management (Amendment) (No. 2) Act, 2020 and operationalized through the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020. So far implementation of the CGS has supported 4,121 MSMEs to access credit amounting to Ksh. 6.29 billion as at 30th June, 2024.

The CGS has so far achieved a leverage ratio of Ksh. 2.32. This implies that every one shilling committed by the Government has unlocked private sector credit worth Ksh. 2.32 to MSMEs. This proves that the CGS initiative is a cost-efficient tool to target support MSMEs in accessing finance. However, the high level of informality and poor financial literacy among MSMEs make many of them ineligible for facilities covered by CGS in accordance with the PFM Act and CGS Regulations.
Enterprises have limited access to financing from the international ecosystem where there is possibility of lower interest rates and larger volumes of financing. Beyond credit there are other important financial products and services vital for development of MSEs such as insurance, leasing and capital market instruments that still require further development.
The lack of an effective dispute resolution arbitration mechanism for Micro, Small, and Medium Enterprises (MSMEs) is a notable challenge that affects their growth and sustainability. MSMEs often face barriers when trying to resolve disputes with financial institutions or lenders. Traditional court systems can be costly, time-consuming, and complex for small businesses to navigate, which makes it hard to enforce contracts or resolve financial disputes quickly.

### 2.4.5 Infrastructure

Workspace is a basic factor of economic production necessary in entrepreneurship. It provides a conducive physical environment to carry out economic activities primarily to produce goods and offer services. It offers necessary physical infrastructure and amenities that optimizes engagement in economic activities with minimal challenges and interruptions. MSMEs due to the nature of their activities and scale of operations largely lack the means to develop, establish, or acquire appropriate and affordable workspace. Many operate in cottages in the backyard of their homes and others in open air resulting in the coining of the word “Jua Kali” enterprises.

The key aspects considered in relation to worksite include access to worksite, access to common manufacturing facilities, and adequacy on infrastructure services such as electricity connection, water connection, public toilets, and waste management.

To transform the MSMEs economy, the government considers it a key pillar in the bottom-up economic transformation agenda. The medium-term plan four (MTP IV) of vision 2030 targets to raise the manufacturing contribution to GDP from current 7% to 15% by 2027 and to 20% by 2030. The government has deployed a multi-pronged approach to providing affordable and appropriate workspace to MSMEs in various sectors of the economy. Through collaboration with counties, the government is developing County Aggregation and Industrial Parks (CAIPS) to help aggregation, value addition, and processing of farm products at county level. In addition, the national and county governments have engaged in construction of markets of farm produce and other goods in major urban towns to provide MSMEs affordable workspace.

The markets have necessary infrastructure such as cold rooms for storage of highly perishable farm produce. In addition, to enable e-commerce, these markets have been installed with free public Wifi. The 2009/10 economic stimulus programme entailed construction and equipping of workshops/jua kali centres in the 210 constituencies. The government constructed Constituency Industrial Development Centres to spur industrial economic activities at constituency level.

The government through Kenya Industrial Estates, developed industrial estates across the country to incubate industrial activities creating enterprises and jobs. Industrial estates have varying workspaces in sizes and design depending on the intended industrial activities targeted. Enterprises within the incubators also access a pool of shared support services to reduce overhead/production costs (e.g. water, electricity, waste disposal, security services, training centres/halls and exhibition halls); Management and technical assistance (skills upgrading, marketing and advisory services); Networking services (synergy between client firms and associations); Acquisition of machinery/equipment and financial support services. The government through KIRDI has established centres to incubate industrial and allied innovations for commercialization.

The government has made efforts to establish equipped workspaces with machinery, mainly common user facilities and technical assistance centres where MSMEs can share capital intensive machinery and centres to offer technical assistance to MSMEs. The government spatial planning has set aside designated areas for industrial activities where private enterprises lease and develop their workspaces

Demand for workspace is higher than the available workspaces particularly in the urban centres with KIPPRA County business environment for micro and small enterprises in Kenya report indicating a significant proportion of MSEs operate in illegal sites, heightening their vulnerability to demolition by the national and county governments. There is also limited land to construct worksites, in some cases inappropriate locality for the worksites and inability of the existing worksites to meet growing demands. With rural urban migration, there is a high population increase in many urban towns thus needing more markets to serve them. More markets and home-based(cottage) industries are sporadically sprouting both in rural and urban places thus need for more formal structured and zoned markets.

MSEs' workshops are inadequate and lack safety gears, limiting the use of common manufacturing facilities. While electricity connection ranks high among the 20 indicators, various challenges require attention, including power outages, connection costs and pending bills. Other key challenges facing MSEs include the cost of water connection especially where contractors handed incomplete projects, poor drainage and sewerage system, and lack of waste disposal facilities based on KIPPRA County business environment for micro and small enterprises in Kenya report.

Some of the workspaces particularly markets have had challenges of uptake by MSMEs particularly storied workspaces MSMEs citing lack of proximity to customers. Many MSMEs particularly in trade prefer operating by the roadside where there is high human traffic thus attracting more customers and there is no cost of workspace. This results in encroachment of pedestrian walkways and obstruction of traffic flow which at times has resulted in motor vehicle accidents at times with fatalities. In addition, encroachment of public land, public spaces and road reserves proves difficult to reverse once MSMEs established themselves.

MSMEs engaged in agribusiness suffer losses due to the highly perishable farm produce they handle. Further, aggregators largely lack the capacity to acquire capital intensive machinery to process their farm produce resulting in post-harvest losses or poor sale-prices. There lacks a clear sector lease framework to enable MSMEs in aggregation to engage already established processors and manufacturers to partly lease their machinery on short-term for periodic production.

KIPPRA contends that to create an enabling environment for MSEs to operate, the national government through institutions such as Micro and Small Enterprises Authority (MSEA) and Kenya Industrial Estates (KIE), and the county governments need to work closely to facilitate development of adequately equipped worksites designated for MSEs to save them from sporadic disruptions caused by demolitions and save on cost of production. Construction of worksites should factor in easy access to markets, amenities and growth

### 2.4.6 Limited Adoption of Innovation and Information communication and Technology

Innovation is the driving force behind MSME growth, enabling businesses to adapt, compete, and thrive in dynamic markets. By embracing innovation, MSMEs can boost efficiency, improve product offerings, and unravel new opportunities for success. Further innovation enables MSMEs to stay ahead of competitors by enhancing product quality, optimizing processes, and addressing customer needs effectively. Further adoption of ICT tools such as Enterprise Resource Planning (ERP) software, Customer Relationship Management (CRM) systems, MSMEs can automate routine tasks, save time, and focus on strategic growth.

One of the most profound impacts of adopting appropriate technology and ICT by any business is its ability to streamline operations and enhance operational efficiency which is crucial for maintaining a competitive edge. Automation tools can take over repetitive and time-consuming tasks. Cloud-based solutions enable real-time data access and collaboration, making it easier for teams to coordinate and manage projects from anywhere. Data analytics and business intelligence tools provide MSMEs with valuable insights into customer behaviour, market trends, and operational performance.

The adoption of appropriate technology and ICT by MSMEs reduces human error, broadens market reach both locally and globally, ensures accuracy, and frees up resources that can be redirected toward strategic growth initiatives. In addition, technology and ICT facilitates more efficient financial management, internal operations, and data analysis. All these efforts can help MSMEs reduce operational costs, improve product and service quality, and enhance their competitiveness. Digital platforms and e-commerce have revolutionized the way MSMEs reach and interact with customers. Online marketplaces and social media platforms have levelled the playing field, allowing MSMEs to compete with larger enterprises on a global scale. E-commerce websites provide MSMEs with a ready-made infrastructure to sell products online, while social media platforms offer powerful marketing tools to engage with customers and build brand loyalty.

The cost of acquisition, installation and maintenance of appropriate technology and ICT is high. Technology and ICT infrastructure is not a one-time cost because there are ongoing costs of maintenance, upgrading, and human capacity building. Large firms have adequate resources to invest in appropriate technology and this gives them a competitive advantage over the MSMEs.

The level of education and technical skills is a key determinant for MSMES in adopting technology for their operations. A number of MSME owners and employees lack the necessary knowledge and skills to effectively use technology in their operations and are unaware of how technology can improve their business operations. This means MSMEs don't optimally leverage on opportunities presented by advancements in Technology and emerging ICT such as AI, Robotics, Machine learning, social media among others. This lack of awareness stems from limited exposure to latest technologies and a focus on immediate operational challenges rather than long-term investments. Some MSME owners prefer traditional business practices and are sceptical of new technologies which may arise from fear of change, a perception that technology is complex, or concerns over security and data privacy. It is important to note that programs to facilitate technology access are often not widely publicized, and bureaucratic barriers make it difficult for small businesses to access these resources.

The disparities in infrastructural development across the country disadvantages some regions in adopting new technologies. Most new technologies and ICT require electricity and internet for operations. Though the government has made substantial investments in electricity and ICT infrastructure, some regions are yet to be reached. This digital divide hampers MSMEs' ability to engage in e-commerce, access online training, or adopt digital solutions that could make them competitive. Therefore, MSMEs in some regions cannot take advantage of the latest technology and this constrains their growth.

### 2.4.7 Limited Support of Innovation, research and development

Research and Development (R&D) plays a pivotal role in the manufacturing sector, serving as the engine that drives innovation, technological advancement, and overall progress with most developed nations witnessing unprecedented changes in their socio-economic development driven by rapid developments in frontier technologies, encompassed by the 4th and 5th IR.

Kenya’s manufacturing sector is recognized as a key driver for economic growth due to its ability to create direct and indirect jobs and backward and forward linkages with other sectors, such as agriculture. However, performance of the manufacturing sector has declined over the last five years, with contribution to GDP decreasing from 8.4 percent in 2017 to 7.2 percent in 2022.

Manufacturing Kenya is still largely focused on low technology industries with the low level of manufacturing value added per capita underpinned on low rate of conversion of Science, Technology, and Innovation ( STI) outputs into new or improved products and processes. In addition, external and internal shocks including, high cost of production inputs, inadequate infrastructure, dominance of low technology manufacturing activities, weak innovation ecosystem, skills deficits and limited access to affordable credit also hamper industrial growth.

Raising the manufacturing’s sector share of GDP is hinged on increasing productivity and competitiveness of local industries. Industrial productivity and competitiveness can only be guaranteed by mainstreaming STI in industrial processes and structures. STI is important in supporting the manufacturing sector through knowledge transfer to create new and improved products and processes.

Without robust investment in R&D, MSMEs face challenges in developing unique products and services, reducing their competitiveness in local and international markets. The situation is evidenced by KNBS 2016 MSME report which indicates that individual consumers and other MSMEs were main buyers of goods and services with direct exports accounting for 0.1 percent, 1 percent and 3.5 percent for licensed micro, small and medium establishments respectively.

This has been recognized in several national, regional and industrial policy agendas. Countries that have effectively translated STI outputs into improved products and processes are able to achieve faster economic growth and improve their global competitiveness. In addition, countries with strong manufacturing capabilities and diversified industrial sectors are better able to weather economic downturns. The government aims to increase manufacturing contribution to GDP from 7.2 percent in 2022 to 15 percent in 2027 and 30 percent in 2030 by enhancing resource allocation to medium and high technology industries in five priority sectors: agro-processing, MSME economy, housing and settlement, healthcare and digital superhighway.

The manufacturing objective of MTP IV is to increase the share of manufacturing contribution to GDP from 7.5 percent in 2022 to 15 per cent by 2027 and 20 percent by 2030. The sector also aims to inject one million new jobs annually into the economy. This will be achieved through development of industrial clusters, attracting investments into Special Economic Zones and Industrial Parks, instituting business sector reforms, and promoting growth and development of MSMEs through development of MSME parks. MTP IV seeks to promote manufacture of affordable construction materials; electrical and electronic products; pharmaceutical and other medical supplies; machinery, equipment and parts for motor vehicles, motorcycles, aerospace and ship-building industry. It shall also facilitate establishment of integrated iron and steel mill plant and mineral value addition.

BETA is the development agenda for the current government (2022-2027). This agenda is cognizant of the critical role played by enterprises at the bottom of the economic pyramid in employment and wealth creation. Consequently, BETA seeks to direct the limited national resources to sectors with the highest economic impact by supporting economic activities at the bottom of the pyramid. The BETA has identified five priority sectors for economic transformation: agriculture and agro-processing, MSME economy, housing and settlement, healthcare, digital superhighway and creative economy. The government will adopt a value chain approach to support growth of the manufacturing sector. It has prioritized nine value chains for support, namely, leather, cotton, dairy, edible oils, tea, rice, blue economy, natural resources (minerals and forestry), and building materials. Other priority areas of focus in BETA include assembly of automotive components and electronics; chemicals and pharmaceuticals industries; manufacture of metals and engineering products; petroleum and petrochemical processing; ICT and software engineering; and clean and renewable energy

### 2.4.8 Survival of new Micro businesses and upgrade to Medium

MSMEs are the engine of Kenya's economy by accounting for 33.8 per cent of the national output (KNBS Economic Survey, 2022). The survival and growth from micro to small, small to medium and medium to large is key to robust growth of the economy and jobs creation. However, developing countries have many microenterprises and some large firms, but far fewer small and medium enterprises.
In high-income countries, small and medium enterprises (MSMEs) are responsible for over 50% of GDP and over 60% of employment, but in low-income countries they are less than half of that: 30% of employment and 17% of GDP (World Bank).

This MSME gap is called the 'missing middle'. The 2016 MSMEs Survey reveals that there is high mortality amongst MSEs newly set up enterprises. About 2.2 million MSEs closed within five years with 46% having not made it past the first year of operation. Among the owners who closed businesses; 34% indicated they were not engaged in any other business; 29% started working for someone else; and 23% started other businesses.

The main reasons for closures include finance constraints (30%); personal reasons (23%); market access constraints (20%) and shortage of stock or raw materials (6%).

The low survival rates are attributed to hurdles disproportionately facing MSMEs, such as unfair competition practices, including incidences where buyer firms with superior bargaining power delay payments, impose unfair contract terms, or transfer costs when dealing with suppliers. Additionally, poor management, poor market research and planning, competition from large enterprises, high cost of operations coupled with a weak regulatory framework, Unfair exclusive agreements imposed by big players which foreclose the distribution chain by creating barriers to entry and expansion, while price-fixing contraventions render certain services inaccessible to and unaffordable for MSMEs.

### 2.4.9 Formalization of MSMEs

The KNBS 2016 MSME survey describes informal enterprises as unincorporated enterprises owned by households-based enterprises which are distinguished from corporations, quasi-corporations based on their legal status. The segment comprises either self-owned enterprises or only those which are not registered under specific forms of national legislation such as companies act, partnership acts, tax or social security laws, professional groups regulations or similar acts, laws or regulations established by national legislative bodies. The report further defines formal enterprises as those registered at the registrar of companies as provided by business names act, partnership act and company's act.

The International labour organization (ILO) defines enterprise formalization as a process that firms go through when formalizing their business and involves the following dimensions: Registration and licensing with the national, provincial and municipal authorities; Access to social security for the business owner and his/her employees; Compliance with the legal framework, including tax, social security and labour laws.

According to the KNBS, MSME Survey of 2016, there are over 7.4 million MSMEs (1.6 million MSMEs licensed by the county governments with 5.8 million unlicensed MSMEs) in Kenya. The high unlicensed phenomena impede data driven policy making, undermines optimal budgetary allocation, accessing financial services, and enabling MSMEs to contribute more meaningfully to national development. Further the high lack of registration poses challenges to MSMEs including: Exclusion from businesses from loans and credit; Difficulty in accessing larger markets, formal tenders, or government contracts; Informal MSMEs lack legal protection and exposure to exploitation by authorities; Limited access to resources, technology, and training reduces growth potential and; Widespread informality undermines government revenue and creates an uneven playing field; exposure to calamities due to lack of social security.

There are issues that have discouraged full registration of MSMEs. Lack of clear incentives, such as tax reliefs or subsidies, to encourage MSMEs to formalize. Complex regulatory frameworks including lengthy and complicated procedures for business registration and licensing, need for several licenses and permits from different authorities which increase costs and administrative burden and, inadequate coordination between MDACs leads to duplicative and contradictory requirements. Secondly registration fees, licensing charges, and other compliance costs are often unaffordable for MSMEs.

Many formalization policies are designed without adequate input from MSME stakeholders, leading to poor alignment with their needs. MSMEs are often unaware of the benefits, processes, or requirements of formalization. Many MSMEs lack the technological tools and knowledge to leverage digital platforms for formalization, Lack of integrated framework for formalization of the informal economy.

### 2.4.10 Legal and Regulatory Business Environment

The regulatory business environment constraints have been identified as the third main constraint experienced by micro (15%) and small (13%) enterprises in Kenya which emanate from regulatory environment. A weak regulatory framework presents significant challenges for micro small and medium-sized enterprises (MSMEs). A primary issue is regulatory compliance, which is complex and often costly for MSMEs to navigate.

These businesses must adhere to various requirements from multiple authorities, including the Kenya Revenue Authority (KRA), the Capital Markets Authority (CMA), and the National Environmental Management Authority (NEMA). Non-compliance with these regulations, such as failing to meet tax or environmental standards, can result in heavy penalties, license suspensions, and even complete business closures, which stifles MSME growth and sustainability. Moreover, frequent changes in policies and regulations add uncertainty, limiting MSMEs' capacity for long-term planning and investment. For instance, shifts in tax policies or sudden adjustments to sector-specific regulations make it challenging for MSMEs to remain agile and profitable. Regulatory inconsistencies across different counties also create confusion, as MSMEs operating in multiple locations must meet distinct local requirements, adding to operational costs and complexity. Additionally, the cost of compliance itself can be prohibitive for MSMEs with limited resources, leading some to operate informally to avoid regulatory burdens. This situation affects their access to credit, market opportunities, and overall growth potential.

### 2.4.11 Co-ordination and Implementation of MSEs Policies and Programmes

The National and County Governments play a critical role in the development of the MSME Sector in the Country. In addition, the development partners, private sector, academic and research institutions as well as non-governmental organizations have been implementing and supporting programmes and initiatives targeting the MSMEs. Therefore, non-state actors complement the government efforts. These diverse efforts by the government and other stakeholders in promoting MSME sector development include policy formulation; training and capacity building; infrastructure development; support technology upgrade and modernization; support market access by MSMEs as well as financing.

The multiplicity of actors in the MSME sector with each pursuing their own agenda in furtherance of their strategic focus presents a challenge in coordination. This conflict of interest leads to missed opportunities for collaboration and learning from each other. This fragmentation of efforts within government institutions and non-state actors leads to duplication of efforts, policy implementation gaps and inefficient use of the available human, financial and infrastructure resources. The uncoordinated efforts from all these stakeholders have tended to curtail the growth of the sector despite the breath of human and business opportunities within it. In addition, the initiatives and progarmmes from different stakeholders tend to compete, rather than complement each other. A well-coordinated sector will enable well-informed policy making, in addition to the achievement of key government policy objectives. Operational linkages among the academia, MSMEs and government are weak resulting in a poor enabling environment for growth of innovations and low rate of commercialization of research outputs. In addition, the operational structures and financial support to facilitate the necessary linkages among the key actors are weak. This constrains the growth of the sector.

The current interventions and programmes by the government and other stakeholders largely focus on select larger or more formal enterprises, often leave out smaller MSEs and those run by women or youth, who struggle with access to finance, training, and markets. This impedes the growth of the sector by condemning the Micro and Small enterprises to their own devices.
Monitoring, evaluation and reporting are critical in tracking and evaluating the policies, strategies, regulations, plans, projects and projects for Sector development. Now there is no integrated monitoring, evaluation and reporting framework to guide all the actors in the Sector. Therefore, there is a challenge in tracking the progress of the sector in achieving its national development goals as well as determining the relevance and effectiveness of the projects and programmes in the Sector.

Access to complete, timely, accurate, reliable and quality data and information is key to the development of the Sector. MSME data is not only valuable to the actors in the sector, but across many other sectors of the economy at County, National and International levels. The lack of an integrated database is a significant challenge that affects policy formulation, planning, credit allocation, and support mechanisms for the Sector. Without a centralized and reliable source of MSME data, it's difficult to understand the sector’s real size, its growth patterns, and the specific challenges it faces. The Sector experiences gaps in data management capacity. There is no clear framework for data collection, collation and analysis across the MSME ecosystem. There are also infrastructural and institutional barriers that affect data collection, analysis, sharing and use both at the National and County levels as well as to other non-state actors. An integrated data management framework will be an important pillar in enhancing collaboration and coordination among the MSME sector player

### 2.4.12 Inadequate Data Driven MSME incentives

Incentives are necessary to the creation, survival and growth of MSMEs. They cushion MSMEs at their nascent stage from the stiff competition and stringent requirements in the business environment. Incentives are both fiscal and non-fiscal that MSMEs may need while running an enterprise. The government has Fiscal incentives accessible to (MSMEs) include Credit Guarantee Scheme (CGS) for loans MSMEs, capital allowances on building and machinery investments, exemptions on import duties for raw materials in certain industries; investment deduction allowances, reduced corporate tax rates for specific sectors, and tax holidays in designated Special Economic Zones (SEZs), all aimed at encouraging business growth and investment by MSMEs.

Non-fiscal incentives for MSMEs include things like access to specialized training programs, business development support, mentorship opportunities, streamlined regulatory processes, access to government procurement contracts, participation in trade missions, and facilitating connections with potential investors, all aimed at supporting their growth without direct financial assistance from the government.

The sub optimal MSME uptake of current incentives suggests that the Kenyan government may not be effectively using data to design and implement incentives for Micro, Small, and Medium Enterprises (MSMEs) leading to; resource misallocation, inefficient programs and missed opportunities among other implications

### 2.4.13 Low Levels of Productivity, Creativity and Competitiveness

MSMEs in Kenya are faced with Low levels of productivity, innovation, and competitiveness which hinder their growth and development. These issues can be attributed to various factors:
Many MSMEs lack the resources to invest in new technology, which restricts their productivity and limits their ability to compete in larger markets resulting in inefficiencies and higher production costs. Lack of technical and business skills among MSE owners and employees affects MSMEs' ability to innovate, take up new practices, and improve productivity. Lack of training or limited access to training in areas such as digital literacy, financial management, and technical skills further hinders their competitiveness.

Most MSMEs typically do not invest in Research and Development due to financial constraints or lack of awareness about the potential benefits. This limits their capacity to develop new products, adapt to changing market demands, or enhance operational efficiency.

MSMEs produce at a smaller scale due to High Costs of Production and therefore are not able to benefit from Economies of Scale. These high costs reduce their competitiveness, particularly in markets where they face competition from larger firms or cheaper imports.

Digital tools can significantly boost productivity and innovation, yet many MSMEs lack the resources or knowledge to leverage them effectively. Lack of internet access, digital literacy, and digital tools limits their ability to tap into e-commerce, marketing, and product development.

## 2.5 Emerging Opportunities for MSMEs Growth and Sustainability

Emerging issues in the MSME sector have been drawn from the MSE Policy 2020, MTP IV and insights gathered through literature review. The issues include gender equality and social inclusion, value chain approach, Market expansion through trade agreements, Participation in Sustainable Supply Chains MSME Resilience and Adaptability

### 2.5.1 Gender Equality and Social Inclusion

The Fourth Medium Term Plan (MTP IV) integrates gender equality and social inclusion into its strategies for developing MSMEs. Section 31(e) of the Micro and Small Enterprises Act, No 55 of 2012 provides for the promotion of mainstreaming of youth and gender and persons with disabilities in all micro and small enterprises programs.

The Kenya National Bureau of Statistics report indicates that MSME ownership is predominantly male with 47.9% of the licensed establishments being owned by male and 32.2% owned by females. In addition, 60.7% of unlicensed are solely owned by females.

Establishment owned by male- female partners accounted for 16.5% and 6.4 % of licensed and unlicensed businesses respectively. In addition to this, the data indicates that female ownership is significantly higher among micro enterprises than in small enterprises. However, women-owned enterprises are primarily informal and face substantial barriers in accessing opportunities such as financing and markets. Informal micro enterprises are largely operated by women most of whom have only a primary level of education whereas informal small and medium enterprises are predominantly managed by men who have attained college- level education.

Youth and persons with disabilities also face unique challenges in the MSME sector. Young entrepreneurs often encounter difficulties in securing financing and may lack the necessary experience or networks to navigate the business landscape effectively. Similarly, individuals with disabilities frequently confront additional barriers that limit their access to opportunities, resources, and support systems.

In addressing these disparities, it is essential to incorporate gender responsiveness, youth and disability inclusion across all aspects of MSME development. The key indicators for achieving gender equality and social inclusion include targeted financing programs that provide accessible loans and grants for women, youth and persons with disabilities.

There is a need to include comprehensive training initiatives that equip these groups with necessary skills in business management and entrepreneurship programs specifically designed to support marginalized groups. In ensuring these strategies and programs accommodate the diverse needs of all individuals, an equitable environment can be fostered that supports the growth and sustainability of MSMEs for women, youth and persons with disabilities.

### 2.5.2 Value Chain Approach

The Cambridge Institute for Sustainability Leadership defines a value chain as “the full cycle of a product or process including material sourcing, production, consumption and disposal/ recycling processes”.

The fourth Medium Term Plan (MTP IV) highlights that a key element of the value chain approach is to support MSMEs to harness opportunities and provide employment for economically excluded segments of the population. However, the absence of robust value chain linkages reduces opportunities for economic growth, and competitiveness of Micro, Small, and Medium Enterprises (MSMEs), social inclusion, and environmental sustainability.

A value chain approach is critical in addressing inefficiencies, improving productivity, and fostering sustainable linkages. However, many MSMEs lack the resources, knowledge, and capacity to fully integrate into value chains. This disconnect undermines their potential to contribute significantly to Kenya's socio-economic development, including realizing Kenya Vision 2030 and other related agendas.

With the increasing need for sustainability, digital transformation, and regional integration, MSMEs face unique pressures to adapt to global trends while leveraging supportive government policies and initiatives. MSMEs can navigate evolving environmental, economic, and regulatory shifts, capitalizing on sectors like the green, blue, and circular economies. By addressing these issues and tapping into new opportunities, MSMEs have the potential to drive inclusive growth, innovation, and job creation across Kenya, strengthening their role as engines of economic development.

### 2.5.3 MSME Resilience and Adaptability

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Kenyan economy, contributing significantly to GDP growth, employment, and innovation. However, these enterprises face numerous challenges that hinder their resilience and adaptability, especially in the face of economic shocks, natural disasters, and other disruptions.

Some key factors that undermine Kenyan MSMEs are: economic shocks that manifest in the form of global economic downturns, currency fluctuations and commodity price volatility, political and social instability, natural disasters such as droughts and floods, climate change and environmental risks, technological disruption due to rapid change and cybersecurity threat, competition for larger firms, limited access to resources, changing consumer preference and regulatory changes among others

These are just some of the key factors that affect the resilience and adaptability of MSMEs in Kenya. Addressing these challenges requires a multi-pronged approach involving government interventions, private sector engagement, and community support.

### 2.5.4 Market expansion through trade agreements

Regional and international trade agreements provide Kenyan MSMEs access to larger markets. These include the East Africa Community, the Common Market for East and Southern Africa, the African Continental Free Trade Area (AfCFTA) which open Africa-wide trade, while the Economic Partnership Agreement (EPA) with the European Union and. These agreements simplify market entry, reduce tariffs, and help MSMEs expand their reach to new consumers across Africa, Europe, and North America.; Tripartite Free Trade Area

### 2.5.5 Participation in Sustainable Supply Chains

Global companies increasingly seek MSMEs that align with sustainable supply chain standards. Kenyan MSMEs that meet Environmental, Social, and Governance (ESG) criteria could secure contracts with international firms, particularly in high-demand sectors for example agribusiness, textiles, and crafts.

# CHAPTER THREE

# 3.0 MSME SECTOR POLICY STATEMENTS

The policy interventions highlighted in this section are envisaged to address the challenges that cut across MSEs with a view of growing them to medium and ultimately large enterprises. The policy is anchored on an integrated value chain approach and structured around nine (8) policy strategic objective areas stated in the following section.

## 3.1 Strengthening enabling legal, policy and regulatory environment for the MSMEs sector

The following interventions will be pursued to provide a conducive legal and regulatory environment for MSMEs:

i. Strengthen legislation to enhance compliance, financing, business development services coordination mechanisms, and institutional frameworks for the MSME sector.
ii. Promote targeted fiscal and business incentives for MSMEs.
iii. Strengthen governance in MSME associations and umbrella organizations.
iv. Enhance data and knowledge management in the MSMEs sector.
v. Establish a single window portal for the simplified licences/approvals/registration of MSMEs
vi. Encourage the use of simplified and alternative dispute resolution mechanisms for MSMEs

## 3.2 Fostering entrepreneurial culture and enhancing skills development for MSMEs

To enhance managerial skills, financial skills, technical skills, technology and innovation, and industry-relevant skills the following interventions will be pursued:

i. Strengthen and standardize Business Development Service (BDS).
ii. Promote captain of industry mentorship and coaching of MSMEs
iii. Strengthen and promote the linkages between the learning and research institutions, technology developers and MSMEs for skills transfer.
iv. Strengthen and integrate entrepreneurship programs into the existing education curriculum.
v. Promote acquisition of Intellectual Property Rights/ Support use of IP
vi. Promote the adoption of digital technologies to enhance business operations and market reach.

## 3.3 Support the formalization of MSMEs

To promote the Formalization of a micro, small, and medium enterprise (MSME) the following policy interventions will be pursued:

i. Centralization, harmonization and simplification of MSMEs registration processes.
ii. Enhance Collaboration among relevant MDACs towards the formalization of MSMEs; and
iii. Create incentives to promote formalization.

## 3.4 Enhance access to decent and affordable infrastructure for the MSMEs sector.

To enhance access to decent and affordable infrastructure for MSMEs, the following policy interventions will be pursued:

i. Mainstream and integrate MSME zones in the national and County spatial planning
ii. Promote establishment and use of common user facilities
iii. Promote standardization of workspaces, markets.

## 3.5 Access to diversified and affordable financial products and services for MSMEs.

To enhance access to diversified and affordable financial products and services for MSMEs the following policy interventions will be pursued:

i. Promote innovative financial products and leveraging partnerships to suit MSMEs
ii. Develop policy Incentives to Encourage Financial Institutions to develop MSME-friendly financial products.
iii. Promote financial Literacy among MSMEs.
iv. Promote alternative credit underwriting.
v. Strengthen existing funds/financial institutions dedicated towards the provision of affordable credit to MSMEs.
vi. Promote insurance uptake among MSMEs

## 3.6 Enhance market access and economic opportunities for MSMEs products and services.

To enhance market access and economic opportunities for MSME's products and services, the following policy interventions will be pursued:

i. Strengthen preferential treatment for locally manufactured MSME products
ii. Promote digital trade
iii. Facilitate linkages between MSMEs and large enterprises
iv. Promote standardization of MSME products
v. Advance the internationalization of Kenyan MSMEs and products
vi. Strengthen Cluster and Value chain Approach for MSME sector development

## 3.7 Innovation, research and development for the MSMEs sector.

To support and enhance innovation and development of the MSME sector and promote Innovation by MSMEs the policy will pursue the following interventions:

i. Mobilise Fiscal Resources for R&D
ii. Promote affordable access to non-fiscal R&D resources including laboratories, equipment and technical expertise for MSMEs
iii. Establish a structured approach for technology transfer and commercialization of innovations.
iv. Strengthen partnerships, linkages and Collaboration with players in the R&D ecosystem and the MSMEs sector
v. Ease the process of registering Intellectual Property (IP).

## 3.8 Building MSME Resilience and Adaptability

To enhance MSME resilience and Adaptability the Policy will Pursue the following interventions:

i. Promote climate change awareness and knowledge building among MSMEs
ii. Promote adoption of climate-smart technologies and supporting sustainable practices
iii. Coordinate and harmonise MSME disaster support programs
iv. Promote risk management and mitigation strategies
v. Establish and implement MSME disaster economic recovery program
vi. Promote access to social protection and occupational health and safety for MSMEs

# CHAPTER FOUR

## 4.0 POLICY COORDINATION & IMPLEMENTATION

### 4.1 Policy Coordination and Implementation

There are several stakeholders at the national and county levels both state and non-state actors, that play a critical role in the implementation of MSMEs policies and programs. Coordination of the activities undertaken by these stakeholders and the integration of the public and private sector activities, programs and development plans relating to MSEs is the mandate of MSEA as established in the MSEs Act No. 55 of 2012. The Authority in meeting this mandate, will, in collaboration with the Ministry in charge of MSMEs undertake to implement the policy statements and strategies enumerated under chapter 3 above as well as the following activities:

i. Review the MSEs Act No. 55 of 2012 to fully align to this policy and accommodate new developments with the aim of enhancing coordination and implementation of MSEs policies and programmes.
ii. Establish a multi-stakeholder team comprising state and non-state actors in the MSMEs sector at county and national level chaired by PS state department for MSMES to meet quarterly to discuss MSMEs issues.
iii. Hold at least one MSMEs round table meeting per year to deliberate MSMEs issues
iv. Develop a framework for the coordination and implementation of MSEs policies and programmes aimed at ensuring efficiency and effectiveness.
v. Adopt a collaborative stakeholder approach for policy planning, budgeting and implementation through sector and thematic working groups.
vi. Establish an effective institutional framework for identifying actors that are involved, undertake mapping of relevant stakeholders, create a database of MSEs support institutions and services provided, and disseminate the same as prescribed in the policy interventions.
vii. Facilitate the establishment of collaborations among stakeholders with common interests/goals.
viii. Develop a tool to facilitate in monitoring the business environment for the purpose of informing policy implementation, identifying policy intervention areas and facilitating the growth and development of MSEs across counties.
ix. Undertake frequent research to inform policy decisions.
x. Undertake surveys every five years aimed to inform policy decisions; and
xi. Adopt effective M&E mechanism as presented in Chapter 5 of this policy to continuously and systematically review, analyse and assess MSEs policies and programmes using an integrated approach with the overall aim of ensuring effective implementation.

### 4.2 The Role of Stakeholders

#### 4.2.1 State Actors

The key mandate of the Government is to provide policy direction, and interventions and monitor implementation of the MSEs policy. The stakeholders that will play a central role include:

***The Ministry responsible for MSMEs development-*** Formulate MSME Policies, financing, administration of Financial Inclusion (Hustler Fund) and Affirmative Funds, Capacity development, market development, technology upgradation and modernization and enhancing competitiveness of MSMEs.

***The Micro and Small Enterprise Authority (MSEA)-*** coordinate, monitor and evaluate policies and programmes and advise the government on the implementation process of MSEs policy. Reports from these activities will be disseminated to implementing agencies and other stakeholders to inform policy implementation. MSEA is further mandated to undertake activities that promote and develop MSEs in terms of access to finance, markets, product development, infrastructure development, technology and capacity building opportunities. In addition, the office of MSE Registrar which is within MSEA is mandated to register and regulate MSE Associations.

***MSEs Tribunal***-resolves disputes among MSEs and between MSEs and support institutions.
The Tribunal is operational. Other state departments such as Cooperatives, ICT, Trade, Industrialization as well

***Small Claims Court*** is a specialized commercial court created by statute with specific duties and powers designed to provide a judicial determination involving small amounts of money.
In line with the Small Claims Court Act, 2016 the Judiciary has operationalized the Small Claims Courts (SCCs).
The underpinning logic behind the establishment and subsequent operationalization of the Small Claims Courts is to enhance the access to and expeditious delivery of justice and to further provide a platform within the justice system where civil and commercial disputes whose value does not exceed Kshs 1 million are dealt with in a simple, efficient and cost-efficient manner.
The establishment of the court was also part of a wider initiative to enhance the ease of doing business in the country, by creation of an enabling environment for the Micro Small and Medium Enterprises MSMEs to thrive by reducing the cost and time for enforcement of commercial disputes.

***County Governments*** as per trade development and regulation functions delineated by the Intergovernmental Relations Act the Kenya Gazette Vol. CXXVI-No.219 Gazette notice No.16472 have the overall function ; implement national policies, standards and norms on international trade, develop and implement county policies on trade development and regulations , provide business development services to MSMEs engaged in trade, trade licensing (excluding professional services ), promote fair trade practices and development and regulations of markets among others. The counties will also collect business information and manage county Business Information Centres. Other functions of the counties include county planning and development.

Other Ministries, Departments, and Agencies (MDAs) will also play important roles in the implementation of MSE policy through the provision of intervention support. Key support functions areas include infrastructural and financial. Product development, market access, and research. These stakeholders are identified in the implementation plan.

### 4.2.2 Non-State Actors

***Micro small and medium enterprises associations and umbrella business associations*** will be integrated in the public policy process as they play important roles in disseminating information and channelling support services to individual MSMEs, as well as monitoring the implementation of the policy and lobbying the government.

***The private sector.*** The private sector is central in industrial and economic development. The sector players provide the investment, goods and services necessary in various fields including infrastructure, training/education, finance and technology for enterprise growth and development and play an important role in monitoring the implementation of the policy and providing support to inform implementation. The private sector institutions that the sector will leverage on for support include: FKE; KEPSA; KAM; KNCCI, ASSEK, ACIH and KNFJKA.

***Development partners*** provide support to inform implementation of the policy in various ways including but not limited to financial and technical support. The sector will leverage on partnership with development partners going forward to enhance the performance of the sector.

# CHAPTER FIVE

## 5.0 MONITORING AND EVALUATION

Monitoring and Evaluations (M&E) will be adopted to measure the efficiency and effectiveness of the policy. The establishment of the M&E system is informed by the National Monitoring and Evaluation Policy 2022. The policy prioritizes the establishment of reliable mechanisms to collect and analyse policy implementation and to assess interventions and programmes related to MSMEs to ensure they meet the intended objectives, outcomes and impacts, ensuring they remain relevant, efficient, effective, impactful and sustainable.

The M&E mechanism is aimed at providing government agencies with information on possible interventions and assessments of performance and impacts. This policy will complement the National M&E Policy 2022 through the provision of timely and accurate information at regular intervals aimed at informing policy implementation for evidenced-based decision-making.

The State Department for MSMEs Development will undertake the following measures in line with monitoring and evaluating this policy:

i. Build human and institutional capacity within the State Department for MSMEs Development to undertake M&E effectively and efficiently.
ii. Track the progress of implementation of the policy through the e-NIMES/e-CIMES
iii. Establish a multisectoral M&E framework for the sector which outlines the objectives, inputs and outcomes of MSME policy and related policies .
iv. Establish M&E Plan to outline the resources necessary for the M&E function including baseline data, stakeholders responsible and data collection tools. The M&E plan will provide the necessary requirements and accompanying budget. This includes staff, trainings, workshops and other resources required for data collection, data analysis, data verification, evaluations and impact assessments; and
v. Undertake monitoring through continuous data and information collection during policy implementation period. To achieve this, the following activities will be undertaken:

a) Strengthen and streamline institutional capacity among implementing agencies at national and government levels to undertake M&E

b) Strengthen reporting of performance in implementation of programmes, policies and project undertaken at county and national government levels.

c) Establish a participatory monitoring mechanism involving relevant stakeholders. MSEA will therefore collaborate with relevant stakeholders to design data collection, reporting and analysis tools and indicators; and

d) Establish reporting mechanisms from all stakeholders from sub-county level building on County Integrated Monitoring and Evaluation System (CIMES) and National Integrated Monitoring and Evaluation System (NIMES).

As guided by the National Monitoring and Evaluation Policy 2022, data and information will inform M&E quarterly and annual reports which will be amalgamated at the Ministerial level and presented to the Principal Secretary of the State Department for Planning to inform policy decisions. Data and information will be presented in annual reports which are made accessible to the stakeholders. The reports will include:

i. Annual reports, as provided in MSE Act 2012 Section 73 which is to provide status, progress, impact and challenges in the implementation of MSMEs development policies and programmes.
ii. Other monitoring reports aimed at assessing MSE Policy and programme performance.
iii. Data and information captured to inform implementers and other stakeholders on progress;
iv. Lessons learnt.

The assessment of the policy will be undertaken annually to gauge the implementation progress. The impact evaluation of the policy will be undertaken every five years to analyse the extent to which the objectives have been achieved.

# ANNEX 1: IMPLEMENTATION MATRIX

| Policy Objectives | Strengthening enabling legal, policy and regulatory environment for the MSMEs sector | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Outputs** | **Timeframe** | **Estimated Cost (Million)** | **Funding Sources** | **Responsibilities**<br>**LEAD** | **Responsibilities**<br>**SUPPORT** |
| Strengthen legislation to enhance compliance, financing, business development services coordination mechanisms, and institutional frameworks for the MSME sector | Enhanced MSME Compliance<br>Enhanced Competitiveness-Export Market<br>Reduced Risk for Lenders<br>Improved Creditworthiness-Finaccess<br>Enhanced MSME ease of doing business<br>Improved Policy Coherence and Effectiveness<br>Enhanced Resource Utilization<br>Improved Service Delivery | 1-% of MSMEs registered in the harmonized database<br>1-No of government agencies accessing the database<br>2-No of active CSO and Private Sector partners engaged<br>2-Stakeholder satisfaction with TWG coordination<br>2-Total amount of funding mobilized for MSMEs through TWG efforts<br>3-% of government procurement contracts awarded to MSMEs<br>3-No of government agencies complying with MSME procurement targets | 1-Harmonisation of MSME database and coordinating MSME funding in government<br>2-MSME Technical working group coordinating CSO/Private sector MSME funding<br>3-Enforcement Mechanisms to support MSME in preferential procurement opportunities | | 200 | GOK | State Department | MSEA |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Increased Accountability and Transparency | 3-Value of procurement contracts awarded to MSMEs<br><br>3-No of sanctions imposed for non-compliance | | | | | | |
| Promote targeted fiscal and business incentives for MSMEs | Increased employment by MSMEs<br><br>Increased Business Registration<br><br>Increased Innovation<br><br>Increased access to new markets<br><br>Improved Competitiveness | 1-No of county governments with established MSME incentive programs<br><br>1-No of MSMEs benefiting from county incentive programs<br><br>2- No of national government fees, taxes, and levies affecting MSMEs<br><br>2-No of agencies collecting fees, taxes, and levies from MSMEs<br><br>2-Average compliance cost for MSMEs | 1-Framework to facilitate MSME incentives at county { MSME Technical working group coordinating national government MSMEs interventions and county government tariffs}<br><br>2-Harmonisation of and coordinating national government fees, taxes and levies affecting MSMEs} | | 100 | | State Department | National Treasury<br><br>COG<br><br>MSEA |
| Strengthen governance in MSME associations and umbrella organizations | Enhanced Representation and Advocacy<br><br>Increased Accountability and Transparency<br><br>Enhanced Collaboration and Networking | No of associations/umbrella organizations adopting or revising governance documents to best practice<br><br>No of trainers trained on governance best practices<br><br>No of training programs conducted for MSME | Training of MSME associations and umbrella organizations on governance | | 50 | | MSEA | COG |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Increased Member Engagement and public Participation | associations and umbrella organizations<br>Development and dissemination of governance resources and tools<br>Establishment of peer learning and networking platforms<br>Implementation of Good Governance Practices | | | | | | |
| Enhance data and knowledge management in the MSMEs sector | Evidence-Based Policymaking<br>Enhanced Policy Monitoring and Evaluation<br>Increased access to Trade Opportunities<br>Data-Driven BDS support to MSMEs<br>Improved Coordination among Stakeholders | Completion of system development within budget and timeline<br>No of government agencies integrated into the system<br>% of estimated MSMEs registered in the system<br>No of government agencies accessing and utilizing the system<br>Data accuracy and validity<br>Data standardization and consistency<br>User satisfaction with system functionality and usability | Integrated national MSME database system<br>Annual MSME Abstract Report | | 100 | | State Department | MSEA<br>KNBS<br>COG<br>KIE<br>State and non states actors |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Establish a single window portal for the simplified licences/approvals/registration of high MSMEs | Simplified registration, approvals and licensing processes | Completion of portal development within budget and timeline<br><br>No of government agencies integrated into the portal<br><br>No of license and registration processes available on the portal<br><br>Portal uptime and reliability<br><br>Portal security measures implemented and tested<br><br>No of MSMEs registered on the portal<br><br>No of license and registration applications submitted through the portal<br><br>User satisfaction with portal functionality and usability<br><br>Average time taken to process license and registration applications through the portal | Integrated single window portal for the simplified licences/approvals/registration of MSMEs | | 100 | | MSEA | ICTA<br><br>Ecitizen |
| Encourage the use of simplified and alternative dispute resolution mechanisms for MSMEs | Higher rates of MSME dispute resolution through ADR | No of MSMEs reached by sensitization campaigns<br><br>Reach of different sensitization channels | sensitization of MSMES on available ADR including small claims court, MSE tribunal, mediation, arbitration | | 50 | | MSEA | Judiciary |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Lower cost of dispute resolution for MSMEs<br><br>Enhanced Business Environment<br><br>Higher levels of awareness among MSMEs about available ADR options | (e.g., social media, radio, print media)<br><br>Geographic coverage of sensitization campaigns<br><br>No of MSMEs utilizing ADR mechanisms to resolve disputes<br><br>Time taken to resolve disputes through ADR compared to traditional courts<br><br>No of ADR practitioners trained on MSME-related disputes | | | | | | |
| **Policy Objective** | **Fostering Entrepreneurial Culture and Enhancing Skills Development for MSMEs** | | | | | | | |
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Outputs** | **Timeframe** | **Estimated Cost** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |
| Strengthen and Standardize Business Development Services | Enhanced Managerial and Technical Skills<br><br>Increased Productivity and Efficiency<br><br>Higher Business Survival Rates<br><br>Enhanced Quality and Consistency of BDS | No of standardized BDS modules/curricula developed and adopted<br><br>% of BDS providers adhering to standardized curricula<br><br>No of BDS providers certified or accredited based on standardized criteria | Harmonised and standardized of BDS provider programs | | 50 | | State Department | KIBT<br><br>MSEA<br><br>KIE |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Increased Export Readiness<br>Enhanced Inclusivity and Equity-Gender and Underserved MSMEs | No of MSMEs reached by harmonized BDS programs | | | | | | | |
| Promote captain of industry mentorship and coaching of MSMEs | Enhanced MSME Managerial and Technical Capacity<br><br>Increased MSME Growth and Competitiveness<br><br>Increased Entrepreneurial Culture and Leadership Development | No of mentors recruited and trained<br><br>No of MSMEs (mentees) participating in the program<br><br>Frequency and quality of mentor-mentee interactions<br><br>No of Public campaign to promote entrepreneurship | MSME mentorship program<br><br>Public campaign to promote entrepreneurship | | 50 | | MSEA | KIE<br><br>KIBT |
| Strengthen and promote the linkages between learning institutions and research institutions, technology developers and MSMEs for skills transfer | Greater adoption of new technologies by MSMEs<br><br>Increased collaboration on research and development<br><br>More relevant skills training for MSME workforce | No of private sector companies participating in MSME innovation and skills development initiatives<br><br>Total value of private sector investment in MSME innovation and skills development<br><br>No of public-private partnerships (PPPs) established to support MSME innovation and skills development | Public Private sector collaboration framework in supporting MSME innovation and new technology skills | | 50 | | State Department | KIRDI,KIE,MSEA |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | No of corporate social responsibility (CSR) initiatives focused on MSME innovation and new tech skills<br><br>No of MSMEs benefiting from private sector-led innovation and skills development programs<br><br>Uptake rate of private sector incentives (e.g., tax breaks, grants, matching funds) for MSME support | | | | | | |
| Strengthen and integrate entrepreneurship programs into existing education curriculum | Increased entrepreneurial knowledge and skills among graduates<br><br>Higher rate of business start-ups among graduates<br><br>Increased collaboration between educational institutions and businesses<br>Improved alignment of education with industry needs | No of students reached by the program (disaggregated by education level)<br><br>No of mentors recruited and trained (disaggregated by sector/expertise)<br><br>No of student participation rates in program activities | Mentorship program in primary, secondary, college and universities. | | 50 | | State Department | KICD, TVETA |
| Promote acquisition of IP rights/support use of IP | Enhanced MSME competitiveness | No of MSMEs reached by sensitization campaigns | MSME IP rights sensitization program | | 50 | | State Department | KIPI,MSEA |

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| | Enhanced MSME attractiveness to investors<br><br>Increased business value | Reach of different sensitization channels (e.g., social media, radio, print media, online platforms)<br><br>Geographic coverage of sensitization campaigns<br><br>No of MSMEs applying for trademarks, patents, copyrights, or industrial designs<br><br>No of new products and services launched by MSMEs based on IP<br><br>MSME export performance linked to IP | | | | | | | |
| Promote the adoption of digital technologies to enhance business operations and market reach | Increased Productivity<br><br>Access to New Markets<br><br>Improved Record-Keeping and Reporting<br><br>Increased Business Formalization | 1-% of MSMEs with access to reliable internet connectivity<br><br>1-Availability of affordable internet plans for MSMEs<br><br>1-Development and accessibility of digital hubs or tech parks for MSMEs<br><br>2-No of MSMEs reached by capacity building programs | 1-Tech infrastructure to facilitate digital adoption<br><br>2-Training/capacity building | | 50 | | State Department | ICTA<br><br>KEPROBA |

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| | | (disaggregated by sector, size, location)<br><br>2-No of trainers trained and certified on digital technologies and MSME training methodologies<br><br>2-No of partnerships established with technology providers, industry associations, and other stakeholders<br><br>2-No of MSMEs utilizing e-commerce platforms to sell their products/services | | | | | | |
| **Policy Objective** | **Support the formalization of MSMEs** | | | | | | | |
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Outputs** | **Timeframe** | **Estimated Cost (Million)** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |
| Centralization, harmonization and simplification of MSME associations and umbrella bodies registration processes | Higher Registration Rates<br><br>Reduced Informality<br><br>Improved Business Environment<br><br>Improved Data on the MSME Sector<br><br>Better Planning and Resource Allocation | Completion of portal development within budget and timeline<br><br>No of relevant government agencies integrated into the portal<br><br>No of license, approval, and registration processes available on the portal<br><br>No of MSME associations and | Integrated single-window portal for the simplified licenses/approvals/registration | | 100 | | State Department | MSEA |

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| | Greater Participation in Government Programs | umbrella bodies registered on the portal<br>No of license, approval, and registration applications submitted through the portal | | | | | | |
| Enhance collaboration among relevant MDACs towards formalization of MSMEs | Streamlined and Efficient Registration Processes<br>Improved Data Collection and Sharing<br>Coordinated support services<br>Increased MSME Formalization Rates | No of inter-agency meetings and joint initiatives<br>No of MoUs or agreements signed between agencies<br>No of data sharing agreements established between agencies | MDAC MSME formalisation coordination and harmonisation mechanism | | 50 | | State Department | MSEA<br>Registrar of Co<br>Social Sevives<br>BRS |
| Create Incentives to support formalization | Higher Registration Rates<br>Improved Tax Revenue<br>Easier access to finance<br>Greater Participation in Government Programs<br>Increased Competitiveness | 1-No of different types of non-fiscal incentives offered by the county<br>1-No of MSMEs benefiting from each type of non-fiscal incentive<br>1-Geographic distribution of MSME beneficiaries<br>2-No of different types of non-fiscal incentives offered by national government ministries | 1-Framework to facilitate MSME non fiscal incentives at county<br>2-Harmonisation of and coordinating national government non fiscal incentives<br>3- MSME award and recogntion program<br>4-Incentive program for procuring entities that are paying MSMEs | | 50 | | State Department | MSEA<br>COG |

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| | Improved access to export market<br>Better Planning and Resource Allocation | (disaggregated by ministry)<br><br>2-Degree of harmonization of non-fiscal incentives across ministries<br><br>2-No of MSMEs benefiting from each type of non-fiscal incentive (disaggregated by ministry and incentive type)<br><br>3-Program Reach and Participation<br><br>3-Increase in revenue of winning MSMEs<br><br>3-Increase in employment generated by winning MSMEs<br><br>3-Increase in market access for winning MSMEs | | | | | | |
| **Policy Objective** | **Enhance access to decent and affordable infrastructure for the MSME sector** | | | | | | | |
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Outputs** | **Timeframe** | **Estimated Cost** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |
| Mainstream and integrate MSME zones in the national and County spatial planning | Better planning and resource allocation<br><br>Improved access to market | % of County Spatial Plans that explicitly include MSME zones<br><br>No of MSME zones designated within County Spatial Plans | MSME Zones | | 50 | | State Department | MSEA<br><br>COG<br><br>Min of lands |

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| | Improved social and economic inclusion<br>Improved livelihoods for local communities | % of public investment allocated to infrastructure development within designated MSME zones<br><br>No of MSMEs operating within designated zones<br><br>No of consultations held with MSMEs in the development of spatial plans<br>No of public-private partnerships established for MSME development within designated zones | | | | | | | |
| Promote Establishment and use of common user facilities | Enhanced access to technology<br><br>Improved product quality and competitiveness<br><br>Increased market share and export potential | No of CUFs established<br><br>Types of CUFs established<br><br>No of MSMEs accessing CUFs<br><br>Increase in MSME productivity and efficiency<br><br>MSME revenue and profitability<br><br>Financial sustainability of CUFs | Sustainable Business model for value chained based CUF | | 50 | | State Department | KIE<br><br>MSEA<br><br>KIRDI<br><br>MITI<br><br>COG<br><br>National Treasury |

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| | | Effectiveness of CUF management<br><br>No of partnerships established between government, private sector, and communities for CUF development<br>Level of community participation in the design and utilization of CUFs | | | | | | |
| Promote standardization of workspaces and markets | Reduction in workplace accidents and injuries<br><br>Compliance with workplace safety and health regulations<br><br>Improved productivity and efficiency<br><br>Enhanced consumer confidence | % of MSMEs adhering to national quality standards<br><br>Compliance rates with workplace safety and health standards<br><br>% of MSMEs accessing public and private manufacturing spaces | Fit for purpose value chain-based workspace and markets<br><br>Comprehensive and competitive MSME Manufacturing spaces | | 50 | | MSEA | COG |

| **Policy Objective** | **Access to diversified and affordable financial products and services for MSMEs** | | | | | | | |
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| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Output** | **Timeframe** | **Estimated Cost (million)** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |

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| Promote innovative financial products and leveraging partnerships to suit MSMEs | Increased access to credit<br><br>Improved product quality and competitiveness | Increase in MSME loan applications and approvals<br><br>% of MSME in financial institutions total loan book<br><br>Average loan size and interest rates for MSMEs<br><br>No of new innovative financial products developed for MSMEs<br><br>Adoption rates of innovative financial products by MSMEs<br><br>Number of partnerships established between government, financial institutions, and MSMEs<br><br>Financial inclusion rates for MSME | Affordable, accessible and appropriate financial products | | 50 | | State Department | ,CBK, FIF (Hustler Fund)<br><br>Affirmative action funds (KIE,UWEZO Fund ,YOUT(WEDF, YEDF), Commercial banks |
| Develop policy incentives to encourage financial institutions to develop MSME friendly financial products | Increased Availability of MSME-Friendly Financial Products<br><br>Improved Affordability and Accessibility of Financial Services | 1-No of MSMEs benefiting from credit guarantees<br><br>1-Value of loans guaranteed under the scheme<br><br>1-No of participating financial institutions (PFIs) offering guaranteed loans<br><br>1-% of claims paid out by the guarantee scheme<br><br>1-Increase in MSME lending volume by PFIs<br><br>2- No of MSMEs receiving government-backed loans through banks and FinTech's | 1-Enhanced MSME credit guarantee ecosystem<br><br>2-Government lending through banks and fintech's | | 500 | | State Department | MSEA<br><br>The National Treasury |

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| | | 2- Total value of government-backed loans disbursed through banks and FinTech's<br><br>2-Average time taken to process loan applications (disaggregated by bank/fintech channel)<br><br>2-No of loan applications submitted online (through bank or fintech platforms) | | | | | | |
| Promote Financial Literacy among MSMEs | Improved Financial Management Practices within MSMEs | Reach and Participation in Financial Literacy Programs | Enhance financial literacy skills for MSMEs | | 50 | | MSEA | KIE<br><br>KIBT<br><br>FIF<br><br>Commercial banks |
| Promote alternative credit underwriting | Increased Access to Credit for Underserved MSMEs<br><br>Improved Accuracy and Efficiency of Credit Assessment<br><br>Development of a Robust and Inclusive Credit Ecosystem | 1-Completion of the credit scoring methodology development within budget and timeline<br><br>1-Accuracy and predictive power of the credit scoring model (measured through back testing and validation)<br><br>1-Robustness and stability of the credit scoring model (measured through stress testing and sensitivity analysis)<br><br>1-No of government agencies adopting the national MSME credit scoring methodology<br><br>2- No of participating credit providers (banks, MFIs, SACCOs, fintech companies) | 1-National MSME Credit Score Methodology<br><br>2-Credit information sharing mechanisms | | 50 | | State Department | FIF<br><br>CBK<br><br>KBA<br><br>CRBs |

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| | | 2- No of MSME credit records shared through the mechanism<br><br>2-No of financial institutions accessing MSME credit information through the mechanism<br><br>2-increase in access to credit for previously underserved MSME segments (e.g., women-owned businesses, youth-led enterprises, rural MSMEs) | | | | | | |
| Strengthen existing funds/financial institutions dedicated towards the provision of affordable credit to MSMEs | Enhanced Accessibility and Reach of MSME Financing<br><br>Improved Efficiency and Effectiveness of Fund Operations<br><br>Long-Term Sustainability of MSME Funds | Clarity and transparency of fund governance structure and operational procedures<br><br>Efficiency of fund administration (measured by administrative cost ratio)<br><br>Frequency and quality of fund audits and financial reporting<br><br>Implementation of risk management framework | Strengthen business model of existing funds | | 50 | | State Department | National treasury |
| Promote insurance uptake among MSMEs | Increased Insurance Coverage among MSMEs<br><br>Enhanced MSME Understanding and Awareness of Insurance<br><br>Improved Affordability and Accessibility of Insurance Products | No of different types of insurance products available to MSMEs<br><br>Average cost of insurance premiums as a percentage of MSME revenue<br><br>Availability of microinsurance products tailored to the needs of micro and small enterprises<br><br>No of premium payment options available to MSMEs | Mechanism for affordable, accessible and appropriate insurance products for MSMEs | | 50 | | State Department | MSEA<br><br>FIF<br><br>IRA<br><br>Credit GUARANTEE SCHEME |

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| | Enhanced MSME Resilience and Business Continuity | No of MSMEs with active insurance policies | | | | | | |
| **Policy Objective** | **Enhance market access and economic opportunities for MSMEs products and Services** | | | | | | | |
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Output** | **Timeframe** | **Estimated Cost (Million)** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |
| Strengthen preferential treatment for locally manufactured MSME products | Increased Market Access for Locally Produced MSME Products<br><br>improved Competitiveness of MSME Products | 1-No of new market linkages created for MSME products<br><br>1-No of MSMEs participating in trade fairs, exhibitions, and other market access events<br><br>1-No of MSME products exported to regional and international markets<br><br>1-No of MSMEs receiving support for product development and improvement<br><br>1-No of MSME products meeting quality standards and certifications<br><br>1-No of MSME products adopted by larger businesses or incorporated into their supply chains<br><br>2- Completion of the RoO framework development within budget and timeline<br><br>2-Clarity and simplicity of the RoO criteria<br><br>2-Publication and dissemination of the RoO | 1-Mechanism for Enhanced markets for locally produced MSME products<br><br>2-Framework of identifying locally produced MSME products through a rule of origin for local products (MSE Act incorporation) | | 50 | | State Department | MITI<br><br>National treasury<br><br>KEBS<br><br>KEPROBA |

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| | | framework to relevant stakeholders<br>2-Awareness and Understanding of RoO<br>2-No of MSME products certified as locally produced under the RoO<br>2-Efficiency of the RoO certification process<br>2-No of audits and verification checks conducted to ensure RoO compliance<br>2-Improvement in the competitiveness of locally produced MSME products | | | | | | |
| Promote Digital Trade | Increased Participation of SMEs in Digital Trade<br>Enhanced Competitiveness and Market Access for SMEs<br>Improved Efficiency and Productivity of SME Operations | % of MSMEs with access to reliable internet connectivity<br>Availability and affordability of digital devices<br>No of MSMEs registered on e-commerce platforms and online marketplaces<br>No of MSMEs utilizing digital payment systems (mobile money, online payment gateways)<br>No of MSMEs trained on digital trade skills<br>% of MSMEs actively selling products/services online | Enhanced adoption of digital trade for MSMEs | | 50 | | State Dep | ICTA<br>KEPROBA<br>KENTRADE<br>MSEA |

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| Facilitate linkages between MSMEs and large enterprises | Increased MSME Participation in LE Supply Chains<br><br>Enhanced MSME Access to Markets and Finance<br><br>Capacity Building and Technology Transfer to MSMEs<br><br>Enhanced Competitiveness and Growth of both MSMEs and LEs | Policy and regulatory framework supporting MSME-LE collaboration<br><br>No of collaboration platforms/mechanisms established<br><br>No of LEs sourcing products/services from MSMEs | MSME and large enterprise collaboration farmwork ie<br><br>(Mandate large enterprises undertaking government contracts to subcontract certain % MSMEs certified by MSEA (MSE Act)) | | 50 | | State Department | KIE<br><br>MSEA<br><br>KEPSA<br><br>KAM<br><br>KNCCI<br><br>KNFKJA |
| Promote Standardization of MSME products | Improved Product Quality and Consistency<br><br>Enhanced Market Access for MSME Products<br><br>Increased Competitiveness of MSME Products | No of product standards developed and adopted for MSME products<br><br>Inclusivity of the standards development process<br><br>Alignment of MSME product standards with regional and international standards<br><br>Accessibility and affordability of MSME product standards<br><br>No of MSMEs trained on product standardization and quality management<br><br>No of MSME products certified to meet relevant standards | MSME product standardization program | | 50 | | State Department | KEBS |
| Advance the internationalization of Kenyan MSMEs and products | Expansion of Export Destinations for MSME Products<br><br>Growth and Diversification of | No of new international markets accessed by Kenyan MSMEs<br><br>No of trade missions, exhibitions, and other export | Enhanced and diversified markets for MSME products | | 50 | | State Dept | MSEA<br><br>KEPROBA<br><br>KENTRADE |

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| | MSME Export Products<br><br>Enhanced MSME Export Competitiveness | promotion events attended by Kenyan MSMEs<br><br>No of partnerships established between Kenyan MSMEs and international buyers/distributors<br><br>No of export-focused business development service providers (BDS) supporting Kenyan MSMEs<br><br>Value of MSME product exports<br><br>No of MSME products certified to meet international quality standards | | | | | | KESPA<br><br>KAM<br><br>KNCCI |
| Strengthen cluster and value chain approach for MSME sector development | Increased MSME Participation in Global Value Chains<br><br>Enhanced MSME Competitiveness and Productivity | Greater integration of MSMEs as suppliers and producers within key value chains<br><br>Increased adoption of improved technologies and production practices by MSMEs<br><br>Improved access to inputs and raw materials for MSMEs<br><br>Improved Quality and Standards of MSME Products<br><br>Increased MSME Market Access and Sales | Increased value chain based production | | 100 | | State Dept | KIE<br><br>MSEA<br><br>KNFJKA<br><br>Kenya leather council<br><br>MITI<br><br>Min of Agri<br><br>KAM |
| **Policy Objective** | **Innovation, Research and Development for the MSME sector** | | | | | | | |
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Output** | **Timeframe** | **Estimated Cost (Million)** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |

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| Mobilise Fiscal Resources for R&D | Increased Investment in MSME R&D<br><br>Increased Innovation and Commercialization within MSMEs<br><br>Enhanced MSME Competitiveness and Growth | Total amount of fiscal resources mobilized for MSME R&D<br><br>% of government budget allocated to MSME R&D<br><br>No of partnerships established with private sector and development partners to co-fund MSME R&D<br><br>No of MSMEs accessing fiscal resources for R&D<br><br>Value of fiscal resources disbursed to MSMEs for R&D<br><br>Number of new products, processes, or services developed by MSMEs with fiscal support<br><br>Number of patents, trademarks, and other intellectual property rights (IPR) generated by MSMEs with fiscal support | Mechanism for fiscal R&D resources mobilised | | 500 | | State Dept | KIRDI<br><br>Min of Education<br><br>National treasury<br><br>NITA |
| Promote affordable access to non-fiscal R&D resources including laboratories, equipment and technical expertise for MSMEs | Increased Private Sector Engagement in MSME R&D<br><br>Enhanced Access to Technical Assistance and Expertise for MSME R&D<br><br>Strengthened Networks and Collaboration for MSME R&D | No of partnerships established between MSMEs and large enterprises for R&D<br><br>Value of private sector investment leveraged for MSME R&D<br><br>No of MSMEs accessing technical assistance and expertise for R&D<br><br>No of MSMEs participating in R&D-focused incubators, | Mchanism for Non-fiscal R&D resources accessed | | 500 | | State Dept | MITI<br><br>KIRDI<br><br>NITA |

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| | | accelerators, and innovation hubs | | | | | | |
| Establish structured approach for technology transfer and commercialisation of innovations | Improved discoverability of relevant technologies for SMEs<br>Increased Adoption of Appropriate Technologies by SMEs<br>Enhanced SME Productivity and Efficiency | Completion of the technology map database within budget and timeline<br>No of technology solutions mapped and categorized (disaggregated by sector, technology type, and readiness level)<br>Accessibility and usability of the technology map database (e.g., online platform, search functionality, user-friendly interface)<br>No of SMEs reached by awareness campaigns and outreach activities<br>No of SMEs accessing and utilizing the technology map database<br>No of connections facilitated between SMEs and technology providers/developers: | Framework for mapping and awareness creation of available technology | | 50 | | State Department | ICTA<br>KIE<br>KENIA |
| Strengthen partnerships, linkages and collaboration with players in the R&D ecosystem and MSME sector | Increased Collaboration between MSMEs and R&D Players<br>Enhanced MSME Access to R&D Resources and Expertise | 1-Development and Availability of the Partnership Framework<br>1-Level of awareness of the partnership framework among MSMEs and R&D players<br>1-Understanding of the partnership framework's benefits and opportunities by MSMEs and R&D players | 1-Partnership and collaboration framework<br>2-Commercialised R&D | | | | State Department | MSEA<br>KIRDI<br>Min of Edu<br>KENIA |

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| | | 1-No of training sessions or workshops conducted on the partnership framework and collaborative strategies<br><br>1-No of partnerships established between MSMEs and R&D players<br><br>1-No of new products, processes, or services developed or improved by MSMEs through collaborations with R&D players | | | | | | |
| Ease the process of registering intellectual property | Increased IP Registration by MSMEs<br><br>Enhanced Utilization of IP by MSMEs<br><br>Improved Competitiveness and Growth of MSMEs | Reduction in the number of steps required for IP registration<br><br>Reduction in the documentation requirements for IP registration applications<br><br>Availability of online application platforms for all types of IP registration<br><br>Reduction in the official fees for IP registration for MSMEs<br><br>Availability of financial assistance or subsidies for MSME IP registration costs | Simplified IP registration | | 50 | | | KIPI |
| **Policy Objective** | **Building MSME Resilience and Adaptability** | | | | | | | |
| **Strategy** | **Expected Outcome** | **Key Performance Indicators** | **Output** | **Timeframe** | **Estimated Cost (Million)** | **Funding Sources** | **Responsibilities**<br><br>**LEAD** | **Responsibilities**<br><br>**SUPPORT** |
| Promote climate change awareness and knowledge building among MSMEs | Greater awareness of climate change risks and opportunities | No of workshops, seminars, and training sessions conducted | Awareness Raising and Outreach program | | 50 | | State Department | |

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| | Increased knowledge of climate change adaptation and mitigation strategies<br><br>Enhanced Capacity of SMEs to Integrate Climate Action into Business Practices<br><br>Increased Engagement of SMEs in Climate Change Initiatives<br><br>Improved Resilience of SMEs to Climate Change Impacts | No of partnerships established with media outlets to disseminate climate change information<br><br>No of SMEs trained on climate change adaptation and mitigation strategies<br><br>No of SMEs developing and implementing climate resilience plans | | | | | | |
| Promote adoption of climate-smart technologies and supporting sustainable practices | Increased Adoption of Climate-Smart Technologies by SMEs<br><br>Increased Implementation of Sustainable Business Practices by SMEs<br><br>Enhanced Access to Finance and Support for Climate-Smart Investments | % of SMEs investing in climate-friendly technologies or equipment<br><br>% of SMEs adopting sustainable technologies<br><br>% of SMEs integrating environmental and social considerations into their business plans<br><br>No of SMEs accessing green financing options<br><br>No of SMEs participating in training programs or workshops on climate-smart technologies and practices | Awareness Raising and Outreach<br><br>Collaboration with sustainability ecosystem | | 50 | | State Department | |
| Promote risk management and mitigation strategies | Increased Awareness and Understanding of Risk Management by SMEs | No of workshops, seminars, and training sessions conducted on risk management | Training and Capacity Building<br><br>Awareness Raising and Outreach | | 50 | | State Department | |

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| | Enhanced Capacity of SMEs to Implement Risk Management Practices<br><br>Increased Resilience and Business Continuity of SMEs | No of SMEs participating in risk management training programs<br><br>No of awareness campaigns or events conducted to promote risk management among SMEs<br><br>No of SMEs reached by awareness campaigns (e.g., through social media, workshops, publications) | Development of Resources and Tools | | | | | |
| Establish and implement MSME disaster economic recovery program | | 1-No of disaster economic recovery plans developed at national, regional, or county levels<br><br>1-No of sector-specific disaster recovery plans developed<br><br>1-No of vulnerability assessments conducted to identify MSMEs most at risk from disasters<br><br>1-No of stakeholder consultations held to gather input on disaster recovery planning<br><br>No of MSMEs receiving emergency grants or cash transfers after a disaster<br><br>Value of grants or cash transfers disbursed to MSMEs for disaster recovery | Distater econonic revovery prorgam Planning and Framework<br><br>Legal framework and regulations developed or amended to support disaster economic recovery | | 100 | | State Department | |

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| | | No of MSMEs accessing subsidized loans or credit lines for disaster recovery<br><br>No of partnerships established with financial institutions to provide disaster recovery loans or insurance products to MSMEs<br><br>No of training workshops or seminars conducted on disaster preparedness and business continuity planning for MSMEs<br><br>No of temporary market spaces or business incubators established to support MSMEs affected by disasters<br><br>No of coordination meetings held with stakeholders involved in disaster economic recovery | | | | | | |
| Promote access to social protection and occupational health and safety for MSMEs | Enhanced Social Protection Coverage<br><br>Improved Occupational Health and Safety Standards<br><br>Enhanced Productivity and Economic Growth | % of MSME workers enrolled in social security schemes<br><br>No of MSMEs contributing to social protection funds<br><br>% of MSME workers with health insurance coverage<br><br>% of MSME workers receiving OHS training<br><br>No of OHS inspections conducted at MSME workplaces | Training and capacity building on occupational health and safety<br><br>Coordinate MSME access to socio protection<br><br>partnerships established with financial institutions to offer tailored social protection products | | 50 | | State Department | |

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| | | % of MSMEs with documented OHS policies and procedures | | | | | | |