Republic of Kenya

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

STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT

STRATEGIC PLAN

(2023-2027)

ZERO DRAFT

JULY, 2024

KENYA VISION 2030

VISION

A technologically advanced, highly productive, diversified and competitive MSMEs sector for a globally competitive economy.

MISSION

To create an integrated enabling environment for a highly productive and diversified MSMEs Sector through financing, incubation and entrepreneurship management and training for wealth and employment creation.

CORE VALUES

Professionalism
Integrity
Transparency and Accountability
Collaboration and Partnership
Equity
Effectiveness
Innovation
Sustainability
Inclusivity

FOREWORD

It is with great anticipation and commitment that we present the Strategic Plan (2023-2027) for the State Department for Micro, Small and Medium Enterprises (MSMEs) Development in Kenya. This Plan outlines our vision, mission, and comprehensive strategies geared towards transforming the MSME sector into a dynamic and pivotal driver of Kenya's socio-economic growth in line with the State Department's mandate of creating an integrated enabling environment for a highly productive and diversified MSME sector.

Kenya's economy relies heavily on the MSME sector, which provides employment to millions, spurs innovation, and contributes significantly to the GDP. However, the sector is often faced with challenges including: limited access to finance; inadequate infrastructure, regulatory and compliance constraints; limited market access and stiff competition; skills and capacity gaps; technological challenges; and weak institutional support and networking. Our Strategic Plan aims to address these challenges comprehensively, aligning with the Bottom-Up Economic Transformation Agenda (BETA) under the Medium-Term Plan IV of Kenya's Vision 2030 and the global Sustainable Development Goals (SDGs).

The MSME sector is among the prioritized sectors under the BETA model which aims to bring down the cost of living, eradicate hunger, create jobs, expand the tax base, improve the country's foreign exchange balance as well as inclusive growth. The Government has identified and prioritized key value chains which if successfully implemented will have a huge impact on the MSMEs Sector. These include: Leather and leather products; Textile and textile products; Dairy and dairy products; Edible oils; Coffee; Tea; Building and Construction, and Rice value chains.

The cornerstone of this Strategic Plan is a set of priority interventions, meticulously identified to propel the MSME sector towards sustainable development and competitiveness. Key among these interventions include: Enhancing Access to Finance and Credit; Improving Infrastructure and Technology Adoption; Streamlining Regulatory Frameworks; Expanding Market Access and Integration; Capacity Building and Skills Development; Fostering Innovation and Research; and Sustainability and Inclusive Growth.

As we embark on this transformative journey, we seek to embrace the Whole-of-Government Approach by calling upon all stakeholders, including government agencies, private sector partners, development organizations, and the MSMEs themselves, to join hands in realizing the objectives set forth in this Strategic Plan. Through our collective effort and unwavering dedication, we will create an enabling environment that empowers our MSMEs, ignites innovation, and fosters sustainable economic growth for the benefit of all Kenyans.

Wycliffe Ambesta Oparanya
CABINET SECRETARY
MINISTRY OF CO-OPERATIVES AND MSMEs DEVELOPMENT

PREFACE AND ACKNOWLEDGEMENT

The Micro, Small, and Medium Enterprises (MSME) sector is the backbone of Kenya's economy, serving as a vital engine for job creation, innovation, and inclusive growth. Recognizing the immense potential of this dynamic sector, the State Department for MSMEs Development has meticulously crafted this Strategic Plan to unlock the full potential of MSMEs and propel them towards a future of prosperity and resilience. This Strategic Plan serves as a comprehensive roadmap to address numerous challenges in the MSME sector and to create an enabling environment that empowers MSMEs to thrive, innovate, and contribute to the realization of Bottom-Up Economic Transformation Agenda under the Kenya's Vision 2030 and the Sustainable Development Goals (SDGs).

Through a collaborative and inclusive approach, this Strategic Plan has been developed to align with the aspirations and needs of the MSME ecosystem. By fostering strategic partnerships, leveraging innovative solutions, and promoting sustainable practices, we aim to transform the MSME sector into a key driver of economic diversification, job creation, and social progress. The development of this Strategic Plan for the State Department has been a collective endeavor, made possible by the invaluable contributions and support of a diverse range of stakeholders. We extend our heartfelt gratitude to all those who have played a pivotal role in shaping this transformative initiative.

First and foremost, we acknowledge the unwavering commitment and leadership of the Government of Kenya, particularly the Ministry of Co-operatives and MSMEs Development, for their strategic guidance and unwavering support in championing the MSME agenda alongside other Ministries, Departments and Agencies particularly those in the Finance and Production Sector under Medium-Term Plan IV.

We are deeply grateful to our development partners and donor agencies, primarily the International Labour Organization (ILO), whose technical expertise, financial resources, and global best practices have been instrumental in informing the strategic direction of this plan.

Our heartfelt gratitude goes to the private sector community of industry associations, chamber of commerce, and business networks that have been the voice of MSMEs, advocating for their interests and providing vital feedback to ensure the relevance and effectiveness of this Strategic Plan. We recognize the invaluable contributions of our academic and research institutions, whose rigorous studies, data-driven insights, and innovative ideas have been pivotal in shaping evidence-based interventions for the MSME sector.

To the financial institutions, including commercial banks, microfinance institutions, and SACCOs, we extend our sincere appreciation for your crucial role in expanding access to finance for MSMEs. Your innovative financial solutions and commitment to supporting the growth of small businesses are commendable.

Most importantly, we acknowledge the resilience, creativity, and entrepreneurial spirit of the MSME entrepreneurs themselves. Your unwavering dedication and commitment to driving innovation and growth are the foundation upon which this plan is built.

Lastly, we extend our appreciation to the internal team at the State Department for MSMEs Development and its agencies for their tireless efforts, collaborative spirit, and unwavering commitment to empowering the MSME sector. Special acknowledgement goes to the

Technical Committee that spearheaded this entire process which comprised of stakeholders drawn from various interest groups including: MDAs under the Finance and Production Sector of the MTP IV (2023-2027); Presidential Economic Transformation Secretariat (PETS); Private Sector Entities; Development Partners; and Academia, for their tireless efforts in concretizing and shaping this Plan.

As we embark on the implementation of this Strategic Plan, we call upon all stakeholders to continue their active engagement and support. Together, we can create a thriving and sustainable MSME ecosystem that propels Kenya's economic transformation and ensures shared prosperity for all.

Susan A. Mang'eni
PRINCIPAL SECRETARY
STATE DEPARTMENT FOR MSMEs DEVELOPMENT

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KEY CONCEPTS AND TERMINOLOGIES

S/No.	Concept/Terminology	Definition
1.	Key activities	Actions taken or work performed, through which inputs are mobilized to produce outputs.
2.	Baseline	A description of the initial state of an indicator before the start of a project /programme, against which progress can be assessed or comparisons made.
3.	Commercial State-Owned Enterprises	Legal entities created by Government to engage in commercial activities on its behalf.
4.	Indicator	A means for measuring progress/change that results from an intervention. It measures a change in a situation or condition and confirms progress towards achievement of a specific result. It is used to measure a project impact, outcomes, outputs and inputs that are monitored during project implementation to assess progress.
5.	Key Results Areas	They are broad areas in which you are expected to deliver results. *Example; MSME Access to finance.*
6.	Outcomes	The intermediate results generated relative to the objective of the intervention. It describes the actual change in conditions/situation as a result of an intervention output(s) such as changed practices as a result of a programme or project.
7.	Output	Products, services, or immediate results, tangible or intangible resulting directly from the implementation of activities or applying inputs.
8.	Strategies	Broad abstractions which are descriptive of the means for achieving the strategic objectives.
9.	Strategic Issues	These are problems or opportunities emanating from situational analysis that an organization has to manage in order to be able to fulfil its mandate and mission. *Example; Limited Access to Credit and Exclusion of MSME Sector in the Financial Markets.*
10.	Strategic Goal	General qualitative statements on what an organization is hoping to achieve in the long term. Each strategic goal is linked to a strategic issue. Goals are the foundations of your plan and need to be set at the start

		of the planning process. *Example; Enhance Financial Inclusion and Credit Access.*
11.	Strategic Objectives	These are what the organization commits itself to accomplish in order to achieve strategic goals. Strategic objectives should be SMART; they establish performance levels to be achieved on priority issues and measures of success in fulfilling critical mission statements elements. *Example; To enhance financial inclusion and facilitate flow of credit to MSMEs*
12.	Target	A result to be achieved within a given time frame.
13.	Top leadership	Individuals or groups of people who carry the Vision of the organization and are responsible for achieving its mandate. For Ministries top leadership includes Cabinet Secretary and Principal Secretary, Board of Directors for State Corporations and Chairpersons or Heads of Commissions and Independent Offices, and respective CEOs.
14.	Value Chain	A description of the production-to-market linkages, generating value to the customer through efficient processes and procedures. Value chains are about understanding how creation of value is distributed along the chain.

ACRONYMS AND ABBREVIATIONS

ABC	Activity-Based Costing
AfCFTA	African Continental Free Trade Area
AG	Attorney General
AGOA	African Growth and Opportunity Act
AGPO	Access to Government Procurement Opportunities
AIA	Appropriations In aid
AIDs	Acquired Immunodeficiency Syndrome
AMFI	Association for Micro-Finance Institutions
AU	Africa Union
AWPs	Annual Work Plans
B2B	Business to Business
BDS	Business Development Services
BETA	Bottom-up Economic Transformation Agenda
BKBK	Buy Kenya Build Kenya
BOP	Balance of Payments
CBs	Commercial Banks
CBK	Central Bank of Kenya
CEOs	Chief Executive Officers
CGs	County Governments
CGS	Credit Guarantee Scheme
CIDCs	Constituency Industrial Development Centers
CIDPs	County Integrated Development Plans
COG	Council of Governors
COMESA	Common Market for Eastern and Southern Africa
CPPMD	Central Planning and Project Monitoring Directorate
CRBs	Credit Reference Bureaus
CUFs	Common User Facilities
Dir. IPME	Directorate of Innovation, Product, Market and Enterprise Development
DPs	Development Partners
Dir. P&R	Directorate of Policy and Research
EAC	East African Community
ETC	Evaluation Technical Committee
FDIs	Foreign Direct Investment

FIF	Financial Inclusion Fund
GDP	Gross Domestic Product
GECA	General Economics and Social Affairs
GIZ	German Agency for International Cooperation
GoK	Government of Kenya
HIV	Human Immunodeficiency Virus
ICT	Information and Communications Technology
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
IP	Intellectual Property
ISO /IEC	International Organization for Standardization/ International Electrotechnical Commission
ITC	International Trade Centre
JICA	Japan International Cooperation Agency
KAM	Kenya Association of Manufacturers
KBA	Kenya Bankers Association.
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KENIA	Kenya National Innovation Agency
KEPROBA	Kenya Export Promotion and Branding Agency
KEPSA	Kenya Private Sector Alliance
KIBT	Kenya Institute of Business Training
KIE	Kenya Industrial Estates
KIPI	Kenya Industrial Property Institute
KIRDI	Kenya Industrial Research and Development Institute
KNBS	Kenya National Bureau of Statistics
KNCC	Kenya National Chamber of Commerce
KNCCI	Kenya National Chamber of Commerce & Industry
KNFJKA	Kenya National Federation of Jua Kali Associations
KOMEX	Kenya National Multi-Commodities Exchange
KRAs	Key Results Areas
MDACs	Ministries, Departments, Agencies and Counties
MDAs	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
MFBs	Micro-Finance Banks

MFIs	Micro Finance Institutions
MOE	Ministry of Education
MSEA	Micro and Small Enterprises Authority
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
MTP	Medium-Term Plan
NACOSTI	National Commission for Science, Technology and Innovation
NGOs	Non-Governmental Organizations
NHC	National Housing Corporation
NPCC	National Productivity and Competitiveness Council
NTBs	Non-Tariff Barriers
NTEP	National Treasury and Economic Planning
PESTEL	Political, Economic, Social, Technological, Environmental, and Legal
PETS	Presidential Economic Transformation Secretariat
PPP	Public Private Partnerships
PSC	Public Service Commission
PVCs	Priority Value Chains
PWDs	Persons with Disability
R&D	Research & Development
SACCOs	Savings and Credit Co-operatives
SADC	Southern African Development Community
SAGAs	Semi-Autonomous Government Agencies
SDA	State Department for Agriculture
SDGs	Sustainable Development Goals
SDH&UD	State Department for Housing and Urban Development
SDI	State Department for Industry
SDICTDE	State Department for Information Communication Technology and Digital Economy
SDLD	State Department for Livestock Development
SDL&SD	State Department for Labour and Skills Development
SDM&ETC	State Departments' Monitoring and Evaluation Technical Committee
SDMSMED	State Department for Micro Small and Medium Enterprises Development
SDPW	State Department for Public Works
SDT	State Department for Trade

SOPs	Standard Operating Procedures
SPAS	Staff Performance Appraisal System
SRC	Salaries and Remuneration Commission
STI	Science, Technology and Innovation
SWOT	Strengths Weakness Opportunities and Threats
TNT	The National Treasury
ToRs	Terms of Reference
TVET	Technical and Vocational Education and Training
UN	United Nations
UNDP	United Nations Development Programme.
WEF	Women Enterprise Fund
YEDF	Youth Enterprise Development Fund

EXECUTIVE SUMMARY

The State Department for MSMEs Development Strategic Plan (2023-2027) has been prepared in order to implement the Fourth Medium Term Plan (MTP IV) for the period 2023 to 2027. The MTP IV is the Fourth Phase in the implementation of Kenya Vision 2030, the current Blueprint for National Economic Development Planning. Kenya Vision 2030 seeks to steer Kenya towards becoming "a newly-industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment" by 2030.

The overall mandate of the State Department is to promote and develop the MSME sector through financing, provision of requisite infrastructure, entrepreneurship management & training and access to markets. The MSMEs are critical contributors to socio-economic objectives of the country including: creation of decent jobs; provision of public goods and services; poverty alleviation; and reduced inequality, making them a key priority area for achieving the Sustainable Development Goals (SDGs).

The State Department supports the MSME sector through interventions such as: value addition, innovation & incubation for MSMEs; creation of employment opportunities through construction and equipping of Common User Facilities (CUFs); enhancing market access for MSMEs through exposure to local and EAC markets; advancing industrial credit and provision of business advisory services to MSMEs; capacity building of MSMEs including access to modern management practices; and access to affordable credit in an effort to enhance growth of MSME, through Financial Inclusion Fund popularly "Hustler Fund" to correct market imperfections and cushion MSMEs against high cost of credit. These interventions are geared towards unlocking the potential of the MSME sector which provides opportunities for absorbing low-skill and economically excluded segment of the labour force including women, youth and Persons with Disability (PWDs) and those with low levels of education.

This Strategic Plan is therefore instrumental in enabling the State Department to deliver on its mandate. It has strategies that are aligned to the national development priorities as guided by the Constitution of Kenya, 2010, under the economic pillar of the Kenya Vision 2030, the Fourth Medium Term Plan (2023-2027), the Bottom-Up Economic Transformation Agenda (BETA) as well as other national, regional and international obligations. The plan will inform the development of work plans as well as targets in Medium-Term Expenditure Framework and formulation of the annual budgets during the period.

The preparation process of the Strategic Plan has been undertaken in accordance to the Guidelines provided by the National Treasury and Economic Planning. The State Department adopted a consultative approach involving both Internal and External Stakeholders who are deemed key to its successful implementation. The strategy formulation has been informed by a review of the MSME sector performance over the years, drawing from lessons learned, policy trends and factors in the macro-environment in order to improve performance in the Plan period.

The Strategic Plan has identified Seven (7) Strategic Goals against Seven (7) Key Result Areas. The Strategic Goals include: i) Increase Formalization of the MSME sector; ii) Diversify and

Increase Market Share of MSME Products and Services; iii) Promote Progressive Policy and Regulatory Environment for MSMEs; iv) Enhance Productivity, Innovation and Competitiveness for MSMEs; v) Establish and Improve MSME Infrastructure; vi) Enhance Financial Inclusion and Credit Access; and vii) Enhance Capacity and Skills for MSMEs.

The Key Results Areas for the State Department are:

KRA 1: MSME Formalization and Decent Employment Creation

KRA 2: MSME Market Development

KRA 3: MSME Coordination, Policy Development and Research

KRA 4: MSME Innovation, Product Development and Competitiveness

KRA 5: MSME Decent Infrastructure

KRA 6: MSME Access to Finance

KRA 7: MSME Capacity and Skills Development

The total estimated resource requirements for both the Development and Recurrent Budgets for the Five-Year Plan period amount to about **KShs.129.97 billion.** Over the five-year period of the Strategic Plan, it is projected that the State Department will be allocated a total of **KShs. 40.85 billion**, resulting in a total resource deficit of **KShs. 89.12 billion** over the period.

In order to bridge the financial gaps, a Strategy for Resource Mobilization by the State Department and its Agencies has been incorporated in the Strategic Plan. It specifically targets the promotion of Public Private Partnerships (PPPs), private investors and development partners as well as other innovative ways of resource mobilization.

Finally, a Monitoring and Evaluation Framework has been developed to track the progress in the implementation of the Plan and to provide for continuous monitoring and mid-term & end evaluations of the Strategic Plan.

CHAPTER ONE: INTRODUCTION

This chapter broadly examines the rationale for strategic planning against the backdrop of promoting and developing the MSMEs sector for national, regional and global competitiveness. In this chapter, a brief historical background of the State Department for Micro, Small and Medium Enterprises (MSMEs) Development has been provided. The methodology and approach used in development of the State Department for MSMEs Development Strategic Plan 2023-2027 has also been outlined.

In this respect, the Sustainable Development Goals (SDGs), the African Union Agenda 2063, the East African Community (EAC) Vision 2050 and the Kenya Vision 2030 are the guiding instruments.

1.1 Strategy as an Imperative for Organizational Success

Implementing a well-defined and adaptive strategy is imperative for organizational success. A Strategy plays a critical role in shaping and driving an organization's success and is essential for providing direction, aligning, adapting to change, optimizing resources, fostering innovation, managing risk, engaging employees, measuring performance, and promoting sustainability. It is the roadmap that guides an organization towards its desired future state and is indispensable for achieving long-term success.

The National Government has a clear obligation to deliver development and raise the living standards of citizens. Strategic Planning is important in order to create an enabling environment through the formulation of policy and the development of legal, regulatory and institutional frameworks. The National Government is responsible for the development of public infrastructure and provision of services primarily through designated state agencies. Further, it is responsible for planning and funding the development of human capital as well as promotion of technology including research and development.

The State Department for MSMEs Development was established through the Executive Order No. 1 of 2022 following the re-organization of Government. The mandate of the State Department as per the Executive Order No. 2 of 2023 is promotion and development of the MSME sector through financing, provision of infrastructure, entrepreneurship management and training, and access to markets.

The success of the State Department in attaining its Vision through delivering on its Mission depends on it having a structured approach in identifying Strategic Issues affecting the MSME sector, setting of Goals and Strategic Objectives with accompanying Strategies. The Strategies, which consist of Programmes, Projects and Activities, need to be logically structured in order to produce Outputs which will individually or cumulatively contribute to the achievement of the Strategic Objectives and eventually to the Results/Goals expected along the hierarchy of Objectives.

This Strategic Plan is therefore instrumental in enabling the State Department to deliver on its mandate. It has strategies that are aligned to the national development priorities as guided by the Constitution of Kenya, 2010, under the economic pillar of the Kenya Vision 2030, the Fourth Medium Term Plan (2023-2027), the Bottom-Up Economic Transformation Agenda (BETA) as well as other national, regional and international obligations. The plan will inform the development of work plans as well as setting of targets in Medium-Term Expenditure Framework and formulation of the annual budgets during the period.

1.2 The Context of Strategic Planning

The development of this Plan took into consideration the relevant global, continental, & regional commitments and the national development agenda in order to enhance harmonization at all these levels. In this respect, this Strategic Plan has been developed taking cognisance of the Kenya National Development Priorities (The Constitution of Kenya 2010, Kenya Vision 2030, BETA priorities, Fourth Medium Term plan and sector policies) and mainstreaming the United Nations 2030 Agenda for Sustainable Development (SDG's), the African Union Agenda 2063, and the East African Community Vision 2050.

1.2.1 United Nations 2030 Agenda for Sustainable Development Goals (SDGs)

The Government of Kenya is committed to the attainment of the United Nations' Sustainable Developments Goals (SDGs) as adopted by the international community in the UN General Assembly in September 2015. There are 17 SDG's which aim to enhance the quality of life of the world's citizens. Each goal has a specific target to be achieved over the next 15 years.

The State Department of Micro, Small and Medium Enterprise Development will play 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).

1.2.2 Africa Union Agenda 2063

The Africa Agenda 2063 is a collective vision and roadmap for social economic transformation of the continent over the next fifty years that is committed to achieving seven aspirations. Agenda 2063 builds on, and seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development.

The State Department will contribute directly and indirectly to the realization of this agenda through integrated MSME Development programmes which will facilitate Kenya to be prosperous based on inclusive growth and sustainable development in line with the Africa Agenda 2063 Aspirations. The MSME development policies are aligned to the regional obligations in order to enhance good governance, democracy, respect for human rights, justice and the rule of law. The implementation of the Strategic Plan will be people driven, relying on the potential offered by people, especially its women, youth and caring for children.

1.2.3 East Africa Community Vision 2050

The EAC Vision 2050 articulates the dreams and aspirations of the East African people and makes a commitment to what they will do to achieve these dreams. It follows closely on the development of the African Union Agenda 2063, which articulates the aspiration of all the people of the African continent. The vision is grounded on four pillars; Custom Union, Common Market, Monetary Union and Political Federation.

The State Department's role will mainly be within the pillar of Common Markets, seeking Market access to and for MSMEs. This will involve holding consultative forums with key stakeholders in the East African Community and participating in regional trade fairs and exhibitions in order to unlock the potential of MSMEs.

1.2.4 Constitution of Kenya

The Constitution of Kenya 2010 is the supreme law of the Republic of Kenya which binds all State organs at both levels of Government. The devolved governance structure under the Constitution of Kenya presents development opportunities in terms of decentralization of public services and roles of the county governments in enterprise and trade development.

The MSME sector in Kenya is aligned with the Constitution of Kenya 2010 through various provisions that recognize the importance of promoting and supporting the growth of small businesses and entrepreneurship in the country. Some of the ways in which the MSME sector aligns with the Constitution of Kenya 2010 include: Economic Rights and Fundamental Freedoms; Equality and Elimination of Discrimination; Entrepreneurship and Innovation; Access to Credit and Financial Inclusion; Protection of Property Rights; and Consumer Protection.

By upholding these constitutional principles and aligning policies and programs with the values enshrined in the Constitution of Kenya 2010, the State Department for MSMEs Development together with other relevant stakeholders can create an enabling environment for the MSME sector to thrive, contribute to economic growth, and promote inclusive and sustainable development across the country.

1.2.5 Kenya Vision 2030

Kenya Vision 2030 is the long-term development blueprint for the country and is motivated by a collective aspiration for a better society by the year 2030. The aim of Kenya Vision 2030 is to create, "a globally competitive and prosperous country with a high quality of life by 2030." It aims to transform Kenya into, "a newly-industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment."

The Kenya Vision 2030 is based on three pillars namely economic, social and political, that are critical in achieving the desired transformation by 2030. The pillars are anchored on the following foundations: macroeconomic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; infrastructure; energy; science, technology and innovation (STI); land reform; human resources development; security; and public sector reforms. The Vision is implemented through successive 5-year plans (Medium-Term Plans).

Currently the State Department is implementing the Fourth Medium Term Plan (MTP IV) 2023-2027. The Fourth Medium Term Plan 2023-2027 runs on the theme: "Bottom-Up Economic Transformation Agenda for Inclusive Growth", which focuses on achieving the Bottom-Up Economic Transformation Agenda (BETA). The MSME Sector is one of the five core pillars that will support the achievements of the objectives of the MTP IV.

1.2.6 Bottom-Up Economic Transformation Agenda

The Fourth Medium Term Plan (MTP IV) 2023-2027 will guide implementation of the Bottom-Up Economic Transformation Agenda (BETA), which is geared towards economic turnaround and inclusive growth through a value chain approach. BETA targets sectors with high impact to drive economic recovery. The BETA objectives are geared towards: bringing down the cost of living, eradicating hunger, creating jobs, expanding the tax base, improving foreign exchange balances and inclusive growth. This will be achieved through targeted investments in five core pillars, namely: Agriculture; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; Digital Superhighway and Creative Economy. BETA will be implemented through five MTP IV sectors, namely: Finance and Production; Infrastructure; Social; Environment and Natural Resources; and Governance and Public Administration.

Overall, the MSME sector in Kenya serves as a vital component of the Bottom-Up Economic Transformation Agenda, contributing to the agenda's objectives of grassroots empowerment, job creation, inclusive growth, entrepreneurship, and poverty alleviation. By addressing the needs and potential of the MSME sector, the agenda seeks to drive sustainable economic transformation from the bottom up, fostering resilience and prosperity among local communities and businesses.

Owing to the significant role played by the MSME sector in the economy, the Government constituted the State Department for MSMEs Development charged with the mandate of creating an integrated enabling environment for a highly productive and diversified MSME sector through financing, infrastructure, entrepreneurship, management training and access to markets.

1.2.7 Fourth Medium-Term Plan (MTP IV) for 2023-2027

The Medium-Term Plan IV (MTP IV) 2023-2027 outlines strategic priorities and interventions aimed at steering Kenya towards achieving its long-term development goals as envisioned in Vision 2030 over the period 2023-2027. The MSME sector in Kenya is aligned with the MTP IV in several key ways including: Economic Diversification and Inclusive Growth; Youth and Women Empowerment; Industrial Transformation and Value Addition; Innovation and Technology Adoption; Private Sector Development; Job Creation and Poverty Alleviation.

By aligning strategic interventions and policy measures with the specific needs and potential of the MSME sector, MTP IV under Vision 2030 seeks to harness the entrepreneurial spirit and innovation of MSMEs to propel Kenya towards achieving its long-term development aspirations, addressing socio-economic challenges, and building a resilient and inclusive economy for the future.

1.2.8 Sector Policies and Laws

The Strategic Plan is guided by the aspirations of the Micro and Small Enterprises Act (No. 55 of 2012); Kenya Micro and Small Enterprises Policy (2020); Kenya Youth Development Policy (2019); Kenya National Trade Policy (2016); Buy Kenya Build Kenya Strategy; Access to Government Procurement Opportunities (AGPO) Program; Kenya National Industrialization Policy (2012); Financial Inclusion Fund Regulations, 2022, among others sector specific policies and strategies, Acts, international treaties and conventions.

1.3 History of the State Department

The State Department for Micro, Small and Medium Enterprises Development was established through the Executive Order No. 1 of 2022, under the newly constituted Ministry of Co-operatives and MSMEs Development. The State Department is charged with the responsibility of promoting and development of the MSME sector through financing, provision of requisite infrastructure, entrepreneurship management & training and facilitating access to markets.

The State Department for MSMEs Development as established vide Executive Order No. 2 of 2023 has four (4) Semi- Autonomous Government Agencies namely:

i. Kenya Industrial Estates (KIE);
ii. Micro and Small Enterprises Authority (MSEA);
iii. Uwezo Fund; and
iv. Financial Inclusion Fund (Hustler Fund).

The State Department comprises of six (6) Directorates which are:

i. Innovation, Product, Market and Enterprise Development Directorate;
ii. MSME Policy and Research Directorate;
iii. MSME Digital Delivery and Communication Directorate;
iv. MSMEs Financing, Partnership and Co-ordination Directorate;
v. Capacity Building and Entrepreneurship Directorate; and
vi. Kenya Institute of Business Training.

The MSME Sector plays a key role in socio-economic development of the country through the following: creation of decent jobs; provision of public goods and services; poverty alleviation; and reduced inequality, making them a key priority area for achieving the Sustainable Development Goals (SDGs). Despite the MSME Sector receiving policy attention since 1965, the sector has not achieved its full potential. As a commitment to address the challenges faced by the sector, the Government's BETA has prioritized MSME Economy among the five (5) sectors that form the core pillars of the President's Administration.

To address the challenges facing the sector, the Kenya Kwanza Administration mandated the State Department to facilitate the MSME Sector through the following: Access to Finance; Capacity Building and Skills Development; Technology and Innovation; Provision of requisite Infrastructure; Market Access & Linkages; Supportive Business Regulatory Environment; Formalization of MSMEs; and Research and Data Collection.

It is expected that the interventions will unlock the potential of the MSME sector and provide opportunities for absorbing low-skill and economically excluded segment of the labour force including women, youth and Persons with Disability (PWDs) and those with low levels of education.

1.4 Methodology of Developing the Strategic Plan

The preparation of the Strategic Plan was guided by the fifth-generation strategic plans guidelines issued by The National Treasury and Economic Planning. A technical committee was appointed with Terms of Reference (ToRs) to develop the State Department's Strategic Plan for the period 2023-2027. The approach adopted was both consultative and inclusive involving all the relevant stakeholders during the various stages of the development of the Strategic Plan and covering issues such as the environmental analysis, stakeholder engagement, goal setting and prioritization and validation of the Strategic Plan.

Being the first Strategic Plan for the MSME sector, a consultative workshop was held to deliberate on an outward looking sector strategic model. Stakeholders were drawn from various interest groups including MDAs under the Finance and Production Sector of the MTP IV (2023-2027), Private Sector, Development Partners and Academia.

Based on the deliberations, the technical committee identified critical priorities that need to be addressed to spur MSME sector growth and competitiveness in Kenya. Further, the Committee considered the MTP IV and Bottom-Up Economic Transformation Agenda (BETA) model that focuses on bringing down the cost of living, eradicating hunger, creating jobs, expanding the tax-base, improving the country's foreign exchange balance as well as inclusive growth.

The technical committee adopted an Action Plan for the development of the Strategic Plan that was endorsed by the Top Management. In addition, the technical committee adopted a Strategic Framework for the development of the Strategic Plan which entailed the following:

i. Establishment of the context of Strategic Planning through a review of the relevant global, regional and national policy, legal and regulatory frameworks; demonstration of the State Department's contribution towards the realization of the aspirations of such frameworks and their linkage with the National Development priorities; and

ii. Articulating the State Departments Strategic Direction which comprises of the Vision, Mission, Goals, Core Values; and Quality Policy Statement. These were preceded by a statement of the organization's mandate.

The technical committee carried out a Situational Analysis comprising the following:

(i) The State Department's external and internal contexts as well as its stakeholders resulting in an understanding of the developments in the Macro Environment, Micro-Environment, and MSME Sector.

(ii) An Internal Analysis involving an appraisal of the internal situation of the State Department with a view to unearthing the strengths and/or weaknesses.

(iii) Analysis of Past Performance entailing a review based on the level or extent of achievement of the objectives in the previous Strategic Planning period by various actors in the MSME Sector. Clarity on Key Result Areas (KRAs), the specific objectives, performance achievements, challenges and lessons learnt.

(iv) Stakeholder Analysis identifying the State Department's key stakeholders; role and expectation of each stakeholder; and vice versa.

(v) Identification of Strategic Issues emerging out of the Situational and Stakeholder Analyses.

(vi) Formulation of Strategic Goals and determination of Key Result Areas (KRAs) to address the strategic issues.

(vii) Determination of the Strategies to achieve the Strategic Objectives.

The Situational Analysis guided the development of the Implementation and Coordination Framework for the Strategic Plan. This was undertaken through reviewing existing and revised institutional frameworks. The Coordination Framework for the implementation and execution of the Strategic Plan was also elaborated and a description of a comprehensive Risk Management Framework provided.

A comprehensive description of the Resource Requirements and Mobilization Strategies for effective implementation of the Strategic Plan was prepared making use of the available resources for both development and recurrent budgets estimates with proposals made for bridging of financing gaps. Further, the development of the Strategic Plan's Monitoring and Evaluation (M&E) and Reporting Framework was undertaken describing the indicators to be monitored, the process and the periodicity.

In line with the Guidelines, the draft Strategic Plan was circulated to both internal and external stakeholders for inputs/feedback and their submissions were incorporated. Finally, the Strategic Plan was presented to the stakeholders for validation and thereafter, submitted to State Department for Economic Planning for review and finalization of the Plan. The finalized Strategic Plan was launched in readiness for implementation over the Plan period.

CHAPTER TWO: STRATEGIC DIRECTION

This chapter outlines the mandate, vision & mission statement which provides the State Department's aspirations over the Medium Term 2023-2027. It further identifies the State Department's strategic goals, core values and the quality policy statement.

2.1 Mandate

The Mandate of the State Department as per Executive Order No. 2 of 2023 is:

i. Micro, Small and Medium Enterprises (MSMEs) Policy;
ii. Develop SME Financing Policy to facilitate adequate flow of credit from financial institutions;
iii. Administration of the "Hustler Fund" for the promotion, development and enhancing competitiveness of MSMES;
iv. Capacity Development for Entrepreneurship including access to modern management practices;
v. Support for technology upgradation and modernization;
vi. Establishment of integrated infrastructural facilities;
vii. Promotion and Development of Micro and Small Enterprise and enhance their competitiveness;
viii. Promote Progressive credit policies and practices targeting MSMEs;
ix. Business Innovation and Incubation;
x. Administer Preference in Government procurements to products and services of the MSMEs;
xi. Champion subcontracting arrangements between SMEs and Large Enterprises;
xii. Market development for MSME products and services (better access to domestic and export markets);
xiii. Support for product development, design intervention and packaging;
xiv. Promotion of establishment of Production clusters; and
xv. Promotion and Development of the Cottage Industry.

The development of the MSME sector should facilitate: Job Creation, Increased Income, Expanded Revenue Base, Inclusivity, Cost of Living, and Improving Balance of Payments (BOP).

2.2 Vision Statement

A technologically advanced, highly productive, diversified and competitive MSMEs sector for a globally competitive economy.

2.3 Mission Statement

To create an integrated enabling environment for a highly productive and diversified MSMEs Sector through financing, incubation and entrepreneurship management and training for wealth and employment creation.

2.4 Strategic Goals

The Strategic Goals of the State Department are to:

i. Increase Formalization of the MSME sector
ii. Diversify and Increase Market Share of MSME Products and Services
iii. Promote Progressive Policy and Regulatory Environment for MSMEs
iv. Enhance Productivity, Innovation and Competitiveness for MSMEs
v. Establish and Improve MSME Infrastructure
vi. Enhance Financial Inclusion and Credit Access
vii. Enhance Capacity and Skills for MSMEs

2.5 Core Values

To deliver on the given mandate and achieve the above vision and mission, the State Department will be guided by the following core values:

i) **Professionalism:** Apply the highest standards of service delivery.
ii) **Integrity:** Uphold honesty, uprightness and reliability at all times.
iii) **Transparency and Accountability:** Be open and answerable to the various stakeholders.
iv) **Equity:** Ensure impartial and equitable representation of all forms of diversity within our processes.
v) **Effectiveness:** To be responsive and exceed customer expectations in provision of services.
vi) **Innovation:** Constantly improve products, services and processes through new ideas and technologies.
vii) **Sustainability:** Balancing economic growth with environmental responsibility and social equity.
viii) **Inclusivity:** Promote diversity and inclusion in the workplace and in provision of services.

2.6 Quality Policy Statement

The State Department for Micro, Small and Medium Enterprises Development is committed to creating an integrated enabling environment for a highly productive and diversified MSMEs Sector through financing, incubation, entrepreneurship management and training for wealth and employment creation. To achieve this, the State Department shall formulate and review progressive policies and practices targeting MSMEs. These policies will be geared towards supporting MSMEs access to markets, finance, technology, innovation and infrastructure. The State Department will also ensure that these policies provide enabling environment for graduating and formalizing informal sector operators. In addition, the State Department will endeavor to strengthen coordination, partnership and networks with stakeholders for enhanced MSMEs development, growth and internationalization.

In pursuit of this commitment, top management shall ensure compliance to regulatory framework and international obligations and continual improvement by monitoring and annually reviewing the policy and quality objectives, and effective implementation of established Quality Management Systems; ISO 9001:2015.

The overarching commitments of the State Department in delivering its mandate include: Customer Satisfaction; Continuous Improvement; Environmental Responsibility; Legal and Regulatory Compliance; and Employee Development.

CHAPTER THREE: SITUATIONAL AND STAKEHOLDER ANALYSIS

Overview

This chapter describes the internal and external environment factors that promote or inhibit the State Department's operations. This includes strengths, weaknesses, opportunities and threats. It further provides a review of the performance of the MSME sector over the previous strategic planning period highlighting key achievements, challenges encountered and lessons learnt. It concludes with the role of various stakeholders in the implementation of this Strategic Plan.

3.1 Situational Analysis

This section focuses on the external and internal environment under which the State Department operates, analysis of the past performance including: Key Achievements; Challenges; and Lessons Learnt, and Stakeholder Analysis.

Details of the analysis are provided below.

3.1.1 External Environment

The External Environment considers the Opportunities and/or Threats that emanate from outside the State Department. These include the Macro-Environment and the Micro-Environment. The Macro-Environment considers factors which have direct and indirect impacts on decision-making and performance while the Micro-Environment considers the immediate operating environment that affects access to resources necessary for the achievement of the Strategic Objectives.

3.1.1.1 Macro-Environment

In order to effectively plan and implement strategic interventions in the State Department, an assessment of the external environment was carried out to understand the operating environment and the factors that are likely to impact positively or negatively on its operations. The process involved analysis of the State Department's opportunities and threats in regard to political, economic, social, technological, environmental and legal factors (PESTEL).

By understanding the PESTEL Factors, the State Department will be better positioned to capitalize on the Opportunities and mitigate potential Threats thus ensuring that the Strategic Plan is robust and adaptable to the dynamic external environment.

Major developments in the Macro-Environment Analysis are highlighted below:

A. Political Factors

i. Geo-politics and alignments in the global economic power bases continue to shape investments and trade flows.
ii. Political goodwill towards MSME sector.
iii. Global, continental and regional agreements that recognize the sector.
iv. Non-compliance with the Non-Tariff Barriers obligations among trading partners.

B. Economic Factors

i. Existence of strong Regional Economic Blocks and Trading Agreements for expanded markets e.g. EAC, COMESA, AfCFTA and AGOA.
ii. Inflation and economic downturns disproportionately impact MSMEs.
iii. Existence of vibrant capital and financial sector.
iv. Volatility of energy prices (oil and gas) causing major disruptions in the world supply chains.
v. Fluctuation of the foreign exchange.

C. Social Factors

i. Rapid population growth and converse high poverty levels and income inequalities.
ii. High levels of youth unemployment.
iii. Social ills such as corruption and integrity issues.
iv. Terrorism and insecurity.
v. Cultural/Religious barriers such as land ownership issues among others.
vi. Global pandemics such as Covid-19.

D. Technological Factors

i. Emerging technologies (energy, solar, biotechnologies, robotics, etc.) continue to shape operations within the sector.
ii. Rapid changes in technology resulting in early retirement of existing equipment especially in ICT.
iii. Continued automation of public service delivery systems to ease cost of doing business.
iv. Cybersecurity threats continues to pose a risk to enterprises due to increased usage of ICT-enabled services.

E. Environmental Factors

i. Existence of Regional and global programmes to enhance sustainable ecology.
ii. Growing environmental concerns which create opportunities for enterprises in green technologies and sustainable practices.
iii. Natural disasters such as floods and locust infestation.
iv. Climate change effects are becoming more evident e.g. heat waves

F. Legal Factors

i. Availability of regional and international legal and regulatory instruments and institutions to support legislation processes.
ii. Burdensome and costly regulatory requirements and processes that increase the cost of doing business.
iii. Low compliance with legal provisions among MSMEs.
iv. Lengthy litigations that derail planned developments.

3.1.1.2 Micro-Environment

At the micro-level, the State Department seeks to understand the immediate operating environment that will affect access to resources which are necessary for the achievement of the Strategic Objectives. Analysis of some of the key variables presents the following Opportunities and Threats:

I. Labour Market

The co-ordination and management of the MSME sector will require the State Department to deploy a multi-disciplinary team experienced in Administration, Policy, Enterprise Development, Planning, Finance & Accounting, Business Development Services (BDS), Human Resource Management & Development, Supply Chain Management and ICT among others.

From the latest functional analysis and organizational restructuring, it is clear that there is a serious shortage of staff, in addition to succession management issues resulting from delayed recruitment. The skills and competencies of the workforce also need to be upgraded to match developments in the sector, especially towards adoption of data and research in creating evidence for policy-making.

II. Customer Profiles

The State Department is charged with the mandate of promoting and developing the MSME Sector which is cross-cutting in nature across various other economic sectors including Agriculture, Manufacturing, Transport, Wholesale and Retail trade etc.

Statistics according to the MSME Baseline Data (2016-2019), Statistical Abstract (2019) and Economic Survey (2023) indicates that: There are 1.9 million MSMEs out of which 90.1% are micro-sized enterprises (employing 1-9 employees), followed by 9.1% small-sized enterprises (employing 10-49 employees) and 0.8% medium-sized enterprises (employing 50-99 employees).

In Kenya, it is estimated that ten (10) million informal MSME operators and workers generate less than Kshs.5,000 income per month on average, which is below the living wage for one person. This reflects the hostile environment that they operate in, criminalization of their enterprises (e.g., hawkers), as well as disguised unemployment.

III. Creditors

The State Department relies on the National Treasury to mobilize resources required from various entities so as to fund interventions in the MSME sector. The resource mobilization efforts are subject to the prevailing Macro-economic environment in the Country as well global financial markets.

IV. Suppliers and Contractors

The Government is prioritizing the participation of MSMEs in Public Procurement through strategies such as Access to Government Procurement Opportunities (AGPO) and the Buy Kenya Build Kenya (BKBK) as illustrated in **Table 3.1.1.2.1** on Tenders Awarded under

AGPO by Public Procuring Entities (Ministries/State Departments, State Corporations, Commissions and Independent Offices, Universities and Colleges, County Assemblies & County Corporations)

Table 3.1.1.2.1: Tenders Awarded under AGPO by Public Procuring Entities

F/Y	2018/19		2019/20		2020/21		2021/22*		2022/23*	
Category	**No. of Tenders**	**Value (KShs. Million)**		**Value (KShs. Million)**	**No. of Tenders**	**Value (KShs. Million)**	**No. of Tenders**	**Value (KShs. Million)**	**No. of Tenders**	**Value (KShs. Million)**
Youth	12,522	12,918.7	10,203	9,908.3	13,831	15,163.4	11,076	15,377.0	12,184	16,914.7
Women	16,965	15,547.2	13,938	10,906.1	18,252	19,178.5	20,877	22,614.5	22,965	24,876.0
PWDS	2,164	1,673.8	1,910	2,003.1	2,591	2,563.7	2,431	3,059.8	2,674	3,365.8
Total	**31,651**	**30,139.7**	**26,051**	**22,817.5**	**34,674**	**36,905.5**	**34,384**	**41,051.3**	**37,822**	**45,156.4**

Source: Economic Survey 2023

Table 3.1.1.2.2 illustrates the number of procuring entities, amount reserved and awarded for contracts under AGPO by 667 registered Public Procuring Entities over the period 2028/19-2022/23.

Table 3.1.1.2.2: Number of Procuring Entities, Amount Reserved and Awarded under AGPO, 2028/19-2022/23

F/Y	2018/19	2019/20	2020/21	2021/22	2022/23
No. of Reporting Procuring Entities	201	306	267	294	348
Amount Reserved (Ksh. Mn)	59,624.8	61,661.1	65,263.0	44,854.8	49,340.3
Amount Awarded (Ksh. Mn)	30,139.7	22,817.5	36,905.5	41,051.3	45,156.4

Source: Economic Survey 2023

3.1.1.3 MSME Sector

The MSME sector in Kenya holds significance across economic, social, and cultural dimensions. Its role in employment generation, economic contribution, entrepreneurship, market diversification, poverty alleviation, trade, adaptability, cultural preservation, and inclusivity makes it a critical component of Kenya's economic landscape and sustainable development aspirations.

An in-depth literature review of the MSME sector was carried out in order to appreciate developments that have both direct and indirect impacts on the growth of the sector as highlighted below.

3.1.1.3.1 Magnitude of the Sector

According to the MSME Baseline Data (2016-2019), Statistical Abstract (2019) and Economic Survey 2023:

a) Size of MSMEs

There are 1.9 million MSMEs out of which 90.1% are micro sized enterprises (employing 1-9 employees) followed by 9.1% small sized enterprises (employing 10-49 employees) and 0.8% medium sized enterprises (employing 50-99 employees).

b) Vertical Growth for MSMEs

Only 0.25% of MSMEs grow vertically from micro to small and small to medium per year as compared to 5% vertical growth per year for newly industrialized countries. The slow vertical growth of MSMEs in Kenya is attributed by absence of concrete policies, strategies and programmes for supporting MSMEs growth and internationalization.

c) Level of Education

Out of the 1.9 million MSME operators, 4.9% are degree holders, 9.5% diploma holders and 32.2% Kenya Certificate of Secondary Education (KCSE) holders while 42.9% hold a Kenya Certificate of Primary Education (KCPE). This implies that 75.1% of the MSMEs are not certified with technical qualifications. Yet they have an average of 7 – 9 years' business experience that can be recognized as prior knowledge.

d) Business to Business (B2B) Linkages

B2B linkages enhances growth and expansion through acquisition appropriate technology, market and equity finance. However, only 5% of the total MSMEs develop vertical B2B linkages per year as compared to 2% for formal MSMEs. This low level of B2B linkage is attributed to inappropriate mechanisms and programmes for supporting vertical B2B linkages.

3.1.1.3.2 Employment in the MSME Sector

A large portion of MSMEs operate informally. According to the MSME Baseline Survey of 2016, there were 1.56 Million formal MSMEs and 5 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.

3.1.1.3.3 Sectoral Activities

Analysis of MSME sectoral activities is illustrated as shown in Table 3.1.1.3.3.

Table 3.1.1.3.3: Distribution of Formal MSMEs by Economic Activity and Employment

Economic Activity	Number of Enterprises (000)	Percentage	Employment (000)
Agriculture, forestry and fishing	2.1	0.13%	396.2
Mining and quarrying	2.1	0.13%	54.4
Manufacturing	174.5	11.18%	1,760.4
Electricity, gas, steam and air conditioning supply	0.5	0.03%	9.5
Water supply; sewerage, waste management and remediation activities	1.7	0.11%	30.6
Construction	7.8	0.50%	97.7
Wholesale and retail trade; repair of motor vehicles and motor cycles	891.2	57.11%	8,013.7
Transportation and storage	15.2	0.97%	412.9

Economic Activity	Number of Enterprises (000)	Percentage	Employment (000)
Accommodation and food service activities	137.7	8.82%	1,649
Information and communication	12.4	0.79%	88.9
Financial and insurance activities	65.5	4.20%	255.3
Real estate activities	7.0	0.45%	116.6
Professional, scientific and technical activities	17.4	1.12%	157.7
Administrative and support service activities	25.3	1.62%	120.2
Education	37.8	2.42%	714.4
Human health and social work activities	13.0	0.83%	122.3
Other service activities	135.1	8.66%	94.3
Arts, entertainment and recreation	13.9	0.89%	803.6
TOTAL	**1,560.5**	**100%**	**14,898.3**

Source: MSME Baseline Data (2016-2019), Statistical Abstract (2019) and Economic Survey 2023

3.1.1.3.4 Access to Finance

According to the Central Bank of Kenya, 2021 Survey Report on MSME Access to Bank Credit, MSMEs accessed credit through various avenues as indicated:

a) **Lending from Commercial Banks-** 869,000 beneficiaries out of 1.6 Million MSMEs accessed finance from Commercial Banks amounting to Ksh.605 Billion (Micro- Ksh.42B, Small- Ksh.221B & Medium- Ksh.342.4 B). Commercial lending increased by 10.34 per cent from Ksh.2.9Trillion in 2017 to Kshs.3.2Trillion in 2022.

b) **Credit Guarantee Scheme (CGS)-** The CGS was established in 2020 with Ksh.3 Billion and has grown to Ksh.6.26Billion by April 2024 reaching 4,108 MSMEs across 46 counties creating over 25,703 jobs and intermediating with 7 Commercial Banks.

c) **Micro-Finance Institutions (MFIs) (Regulated)-** 46,115 out of 1.6 Million MSMEs accessed finance from Regulated MFIs amounting to Kshs.33.3Billion.

d) **Association for Micro-Finance Institutions (AMFI) MFIs Members-** 1,712,468 MSMEs accessed finance from AMFI MFIs Members amounting to Kshs.62Billion (Micro- Ksh49.6B, Small- Ksh.9.3B, & Medium- Ksh.3.1B).

e) **Government Affirmative Action Funds-** 3,734,984 beneficiaries (individual, groups, SACCOs) accessed loans amounting to Kshs.35.1Billion from Government Affirmative Action Funds i.e. Kenya Industrial Estates (KIE), Women Enterprise Fund (WEF), Uwezo Fund, and Youth Enterprise Development Fund (YEDF).

3.1.1.3.5 Contribution to GDP, Economic and Social Development

According to the KNBS MSME Survey of 2016, it was established that there were 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.

3.1.2 Summary of Opportunities and Threats

The emergent opportunities and threats that are inherent in implementation of this strategic plan were identified, analyzed and summarized in Table 3.1.

Table 3.1: Summary of Opportunities and Threats

Environmental factor	Opportunities	Threats
Political	• Prioritization of the MSME sector under the BETA Plan. • Global, continental and regional agreements that recognize the sector. • Cordial Inter-governmental relationships between National and County Governments. • Active programmes and donor funds at both National and County governments supporting MSMEs.	• Lack of a co-ordination framework for aligning actors in the MSME ecosystem. • Frequent re-organization within government leading to inconsistencies and disruptions. • Geo-politics and alignments in the global economic power bases continue to shape investments and trade flows.
Economic	• Regional trading blocks and trading agreements, for expanded markets eg EAC, COMESA, AGOA and AfCFTA. • Promotion of MSMEs sector along the socio-economic sectoral value chains in collaboration with MDAs.	• Inflation and economic downturns disproportionately impact MSMEs. • Non-compliance with the Non-Tariff Barriers obligations among trading partners.
Social	• Institutionalization and recognition of prior learning for MSMEs and their employees. • Institutionalization of entrepreneurship and business start-up programmes within TVET institutions and Universities. • Changing demographics, consumer preferences and increasing population can	• Emerging risks attributed to climate change, diseases and global trade wars. • High skills mismatch leading to unemployment. • Rural-urban migration leading to loss of skilled labour in rural areas. • Cultural/Religious barriers such as land ownership issues among others.

Environmental factor	Opportunities	Threats
	create new market opportunities for MSMEs.	
Technological	• Digital technologies can improve efficiency, access to markets, and marketing capabilities for MSMEs. • Continued automation of public service delivery systems to ease cost of doing business.	• Cybersecurity threats pose a risk to MSMEs due to increased usage of ICT-enabled services. • Limited digital literacy and access to technology which hinders MSME growth. • Low uptake of technology by MSMEs.
Ecological	• Growing environmental concerns create opportunities for MSMEs in green technologies and sustainable practices.	• Climate change can disrupt supply chains and impact resource availability for MSMEs.
Legal	• Well established national institutions to support legislation processes. • Existence of legal and regulatory frameworks for supporting the MSME sector.	• Burdensome and costly regulatory requirements and processes that increase the cost of doing business. • Access to legal advice can be expensive for MSMEs.
MSME Sector	• Affirmative action policies targeting vulnerable and marginalized MSMEs such as AGPO. • Existence of Public, Private and Donor-driven BDS programmes for MSMEs. • Formally established MSME associations that can be used as financial intermediaries by MFIs and commercial banks. • Financial institutions downscaling and upscaling for enhancing MSMEs access to finance.	• Majority of the MSMEs are informal. • Majority of the MSMEs are at micro-level. • Access to finance remains a major challenge for MSMEs. • Uncoordinated BDS programmes among ecosystem players. • Weak linkages among industry players. • Poor waste management practices in MSME work areas contributing to environmental pollution, health risks for workers and communities.

Environmental factor	Opportunities	Threats
	• Promotion of linkages between MSMEs and large enterprises by umbrella business organizations. • Attracting FDIs through internationalization of MSMEs. • Business start-up programmes for MSMEs for MSME employees and professional retirees from formal sector. • Promoting the growth and internationalization of MSMEs in collaboration ecosystem players. • Potential areas of collaboration between the State Department and existing IP and Standards institutions to support MSMEs. • Rich data base for expired and unexploited patents.	• Lack of synergy among MSME ecosystem players causing inefficient use of resources and reduced effectiveness of support programs. • Limited capacity among MSMEs to meet market requirements (Standards, Quality, Packing etc.). • Limited access to intellectual property management services leading to loss of innovation and counterfeiting. • Illicit trade and counterfeits that narrow opportunities for local and export markets. • Weak resource base among MSMEs which hampers their productivity. • Complex legal frameworks create challenges for MSMEs in terms of compliance and disincentivize informal businesses from formalizing. • Low R & D and innovation levels that limit advancing technology used in the sector.

3.1.3 Internal Environment

To understand developments in the internal environment, the State Department conducted a comprehensive analysis of micro-environment to identify strengths and weaknesses that have implications on the implementation of this plan. This section discusses elements within the State Department that ensure efficient and effective service delivery. These include governance and administrative structures, internal business process and resources, and capabilities.

3.1.3.1 Governance and Administrative Structures

The State Department for MSMEs Development as established vide Executive Order No. 2 of 2023 has four (4) Semi- Autonomous Government Agencies namely: (i) Kenya Industrial Estates (KIE); (ii) Micro and Small Enterprises Authority (MSEA); (iii) Uwezo Fund; and (iv) Financial Inclusion Fund (Hustler Fund).

The State Department comprises of six (6) Technical Directorates which are: (i) Innovation, Product, Market and Enterprise Development Directorate; (ii) MSME Policy and Research Directorate; (iii) MSME Digital Delivery and Communication Directorate; (iv) MSMEs Financing, Partnership and Co-ordination Directorate; (v) Capacity Building and Entrepreneurship Directorate; and (vi) (Kenya Institute of Business Training) alongside General Administration, Support Services and Planning.

The State Department has been operating on a sub-optimal organizational structure, which just underwent intensive analysis and established the new structures fit to serve the intended agenda in the Strategic Plan. Adequate office space shall be sought together with improvements in operations such as digitalization to create a conducive working environment for effective service delivery.

3.1.3.2 Internal Business Processes

The business processes at the State Department are still largely manual with little to no digitalization. This includes handling of registration and other oversight procedures that delay completion of tasks and prevents tracking of progress in task execution. The knowledge management processes are also still largely under-developed, including management of data.

To effectively deliver on its mandate, the State Department is in the process of automating its processes to improve on its effectiveness and efficiency, in line with the digital super highway in the BETA plan.

3.1.3.3 Resources and Capabilities

The State Department has competent and experienced human resource, infrastructure countrywide and has put in place resources mobilization strategies to facilitate execution of its mandate. However, financial and human resources are insufficient constraining its operations. To deliver on its mandate, the State Department will restructure institutions to make them more effective and efficient in-service delivery. Human resource capacity in terms of numbers, skills and knowledge will be enhanced. The State Department will also enhance coordination of stakeholders to ensure formation of strategic linkages and partnerships for improved service delivery.

On resource mobilization, the State Department will continue to embrace Public Private Partnership (PPP's) and strategic partnerships in the sector to ensure that identified priorities are fully implemented. Further, the State Department will ensure prudent utilization of resources during the Plan period.

3.1.4 Summary of Strengths and Weaknesses

Based on analysis on internal environment, a summary of strength and weaknesses of the Ministry is shown in Table 3.2.

Table 3.2: Summary of Strengths and Weaknesses

Factor	Strengths	Weaknesses
Governance and Administrative Structures	• MSE Act of 2012 and MSE Policy of 2020 coordinating the development of the sector. • Formally established MSME Sectoral associations to lobby for policies that create an enabling environment including access to finance and markets. • Stakeholders goodwill eg Development Partners & Private Sector.	• Absence of integrated policies and regulatory framework for supporting MSMEs. • Inadequate policies and programmes for facilitating the flow of funds to MSMEs from financial institutions. • Weak governance of MSME sectoral associations. • Weak enforcement of strategies and programmes for supporting access to local and international markets for MSMEs.
Internal Business Processes	• Existence of policies, procedures and systems manuals to support service delivery. • Continued automation of public service delivery systems to ease cost of doing business. • Robust stakeholder engagement in policy and procedures development.	• High cost of digitalization. • Cyber-security threats.
Resources and Capabilities	• Good will of Development Partners and Private Sector to support MSME development. • Prioritization of the MSME sector in resource allocation by BETA. • Skilled and competent staff.	• Insufficient physical facilities – ICT, transport and office space. • Inadequate financial resources. • Low staffing levels. • Gaps in career progression and succession management. • Lack of continuous capacity building of staff through regular training. • Weak knowledge management systems.

3.1.5 Analysis of Past Performance

During the last strategic planning period (2018-2022), the State Department for MSME was not yet established. This section provides a comprehensive assessment of the performance of the MSME sector across various thematic areas, challenges encountered and lessons learnt.

3.1.5.1 Key Achievements

Key achievements in the MSME sector include:

i. **MSME Policy and Research**: In 2020, the MSE Policy was developed and launched with the aim of creating an integrated and supportive business environment to foster the growth and development of productive MSEs in Kenya. This policy aims to enhance the socio-economic contributions of MSEs by creating decent jobs and producing quality products. Additional sector-level policies relevant to MSME development included the Kenya Investment Policy 2019, the National Trade Policy 2017, the Kenya Youth Development Policy, the Digital Economy Blueprint 2019, and Sessional Paper No. 4 of 2020 on the National Cooperative Policy.

ii. **Market access for MSMEs**: MSMEs participated in 20 international trade fairs and 37 trade weeks/forums, exhibitions, and regional forums, facilitated by the State Department for Trade in collaboration with county governments. These events provided platforms for benchmarking of new and innovative ideas.

iii. **Capacity Development and Skills for MSMEs and their employees**: Key achievements included training in entrepreneurship and business management for over 27,500 MSMEs. In addition, the Industrial Consulting on Business Management initiative under the HRD-ID JICA project was operationalized, leading to improved business performance in the sector.

iv. **Access to Finance for MSMEs:** It was noted that as of December 2022, there were 1.18 million active MSME loan accounts in the banking industry, totaling Ksh.783.3 billion. This marks a 29% increase from December 2020. Of this amount, commercial banks and mortgage finance companies disbursed Ksh.750.3 billion (96%), while microfinance banks (MFBs) disbursed Ksh.32.98 billion (4%). However, MSMEs remain heavily reliant on traditional funding sources, including commercial banks, SACCOs, microfinance institutions, and informal sources such as chamas, family, and friends. High default rates and poor financial literacy have led to negative listings with Credit Reference Bureaus (CRBs), affecting future loan eligibility.

v. **Technology adoption among MSMEs:** According to the Fin-Access survey 2022, 44.1% of operating businesses used digital transaction devices like card reader machines and till numbers. The survey found that 73.5% of businesses had deployed at least one digital channel for transactions, with the highest digitalization rates among female-owned, urban, and owner-operated businesses, particularly in the 18-25 age group.

vi. **Firm Productivity**: MSEs contributed 24% to Kenya's GDP, with micro-enterprises contributing 12% and small enterprises contributing 11%.

vii. **Infrastructure, Housing, and Trade Spaces for MSMEs:** Key achievements included the establishment of an MSME tool room for incubators. However, the planned partitioning and furnishing of the KIBT Parklands building were only partially done by state agencies such as KOMEX and KEPROBA. In addition, it was noted that the MSME faced challenges in infrastructure in terms of access, affordability and decency, with micro at 17% and small enterprises at 15%. These challenges relate to worksites, workspaces, incubation and storage facilities, ICT facilities, centers of excellence, common user facilities, road networks, sanitation and waste management, and utilities including electricity and water.

viii. **Coordination and Partnerships:** The sector faced issues with weak coordination and implementation of policies, inadequate capacity of MSE support institutions, and limited engagement in the policy process. Despite multiple actors from public, private, and development partners offering support services, these efforts remain largely uncoordinated, leading to role duplication and policy implementation gaps.

ix. **MSME Formalization:** Formalization of MSMEs involves obtaining licenses, registering with the registrar of companies and compliance with statutory requirements such as taxation, social security and Labor laws. It was established that there are over 7.4 million formal MSMEs operating in Kenya, 98% being micro, 1.8% Small, 0.2% Medium. Further, about 21% MSMEs operate without licenses from the County Governments out of which only 27% are registered with the registrar of companies out of which Micro Enterprises registered with the registrar of companies are at 4% compared to 67% of the Small enterprises.

x. **Decent Employment Creation in the MSME Sector:** Key achievements include the MSMEs sector having employed 14.1 Million persons accounting for 93% of the total labor force. However, 3.1 million jobs were lost due to high mortality of MSMEs after 2.2 million MSMEs closed within the first 5 years of operation.

3.1.5.2 Challenges

The information in sections 3.1.1 to 3.1.4 were further re-analyzed in order to determine the emerging issues likely to affect the MSME development including management and co-ordination mechanisms.

i. Absence of integrated policies and regulatory framework for supporting MSME creation, growth and internationalization.
ii. Underdeveloped/Inadequate programmes for promoting domestic and export markets for MSMEs.

iii. Underdeveloped capacity development and skills upgrading for MSMEs support organizations, MSMEs and their employees.
iv. Inappropriate policies and programmes for facilitating the flow of funds for supporting MSMEs from the financial institutions.
v. Inappropriate mechanisms for supporting innovation, technology upgrading and modernization for enhancing MSMEs competitiveness.
vi. Inadequate integrated infrastructural facilities for supporting MSME development, Growth and internationalization.
vii. Underdeveloped mechanisms for strengthening coordination, partnership and networking with stakeholders for enhanced MSMEs development, growth and internationalization.
viii. Underdeveloped mechanisms for graduating and formalizing the informal sector operators.
ix. Poor working conditions for MSMEs and their employees.
x. Weak entrepreneurial culture.
xi. Human resource and capacity constraints.
xii. Low survival rates of start-ups.
xiii. Disruptions in the sector caused by COVID-19 and other natural disasters.

3.1.5.3 Lessons Learnt

The following were the main lessons learnt following the analysis conducted which will be applied in the implementation of this Strategic Plan. The lessons include: -

1. **Access to Finance**: Need to strengthen the financial ecosystem, including partnerships between banks, fintech companies, and MSMEs, in order to bridge the credit gap.

2. **Digitalization and Technology Adoption:** Targeted initiatives to support MSMEs digitalization, such as subsidies for digital tools, training programs, and digital infrastructure development, are crucial for enhancing their competitiveness.

3. **Skills Development and Capacity Building:** Strengthening partnerships between MSMEs, educational institutions, and industry associations to design and deliver customized training programs can significantly impact MSMEs development.

4. **Market Access and Integration:** Facilitating MSMEs participation in global value chains, supporting export promotion initiatives, and streamlining trade procedures can enhance their market access.

5. **Regulatory Environment and Policy Support:** Streamlining regulations, simplifying administrative processes, and providing targeted policy support have emerged as critical issues for enabling the growth and competitiveness of MSMEs.

6. **Importance of Ecosystem Approach:** Successful MSME development requires a holistic, ecosystem-based approach involving various stakeholders, including the government, financial institutions, industry associations, and support organizations.

7. **Promoting Sustainable and Inclusive Growth:** There is an increasing emphasis on integrating sustainability and social responsibility into MSME operations.

8. **Formalization of MSMEs:** Formalization of MSMEs is key in unlocking their potential in terms of human and financial capacity as well as access to markets.

9. **Decent Infrastructure:** There is need for integrated and equipped infrastructural facilities to support MSMEs development as well as boosting their productivity.

10. **Resource Mobilization:** Effective resource mobilization requires a collaborative approach involving various stakeholders, such as the government, financial institutions, development agencies, and the private sector. This will enable the MSMEs to access the necessary financial, technical, and capacity-building support to drive their growth, innovation, and long-term sustainability.

11. **Partnership and Coordination Mechanism:** Effective partnership and coordination among various stakeholders are crucial for addressing the multifaceted challenges faced by MSMEs and unlocking their full potential.

12. **Strengthening of Institutional Capacity:** Strong institutional capacity enables policymakers and government agencies to design, implement, and monitor MSME-focused policies and programs more effectively.

13. **Data:** Reliable and comprehensive data is crucial for informed decision-making, effective policy formulation, and the design of targeted support mechanisms for the MSME sector. There is also need for an efficient communication, data, information, and knowledge management system for effective service delivery.

3.2 Stakeholder Analysis

The State Department has a wide range of stakeholders who play a complementary role which is critical for realization of its objectives and successful implementation of this Strategic Plan. **Table 3.3** maps the key stakeholders and their complementary roles.

Table 3.3: Stakeholder Analysis

S/No.	STAKEHOLDER	ROLE	STAKEHOLDER EXPECTATIONS	STATE DEPARTMENT EXPECTATIONS
1.	Micro, Small and Medium Enterprises	• Provision of goods and services	• Increased linkages within and with other sectors of the economy. • Conducive business operating environment and regulatory framework. • Facilitation of technology transfer. • Market for products. • Linkages to relevant institutions for business support. • Training on skills development and business management. • Provision of affordable financing	• Creation of jobs. • Compliance with legislation and regulations. • Vertical graduation. • Innovation and creativity. • Advocacy for improvement of business environment. • Participation in the formulation and implementation of various sectoral policies. • Joint Public-Private Partnership initiative for sustainable development of MSMEs. • Provision of business information, quality goods and services and self-regulation within the business community.
2.	MSME Sectoral Associations	• Organizing MSMEs and enhancing their participation in policy formulation, implementation, monitoring and evaluation, and institutional capacities	• Financial empowerment. • Provision of advisory services. • Capacity building.	• Formalization and empowerment of MSMEs in all spheres.
3.	Office of the President	• Provide leadership, policy and co-ordination of the government	• Adherence and collaborations. • Implementation of government guidelines and initiatives.	• Appropriate synergies and guidance. • Provide policy guidelines and support.

S/No.	STAKEHOLDER	ROLE	STAKEHOLDER EXPECTATIONS	STATE DEPARTMENT EXPECTATIONS
				• Goodwill.
4.	The National Treasury and Economic Planning	• Public Finance Management. • Provision of leadership and policy direction.	• Prudent financial management.	• Provide guidelines and leadership in the budget making process. • Releases finances as per budget and in time. • Resource mobilization.
5.	Government Ministries, Departments and Agencies	• Collaborative support in implementation	• Provide strategic policy direction on MSME development. • Service delivery. • Expanded employment opportunities. • Increased number of business start-up growing and graduating in an enabling environment. • Overall contribution to: GDP; reduction in poverty; reduction in crime. • Linkages with MSMEs for access to financial products, BDS and other support.	• Policy formulation and generation of national development agenda. • Implementation of government programmes and projects. • Monitoring and evaluation of programmes and projects. • Inter-Governmental relations to harmonize programmes to avoid duplication and increase efficiency. • Provision of public security, enabling dispute resolution and regulatory frameworks (Police service, Judiciary and State Law Office). • Human resource management (PSC, SRC). • Oversight of expenditure (Office of Auditor General). • Policy and legislative support. • Provision of basic infrastructure and utilities for MSMEs

S/No.	STAKEHOLDER	ROLE	STAKEHOLDER EXPECTATIONS	STATE DEPARTMENT EXPECTATIONS
				roads, electricity, water and security. • Facilitate access to international access to international markets by MSMEs. • Provide BDS to growth oriented MSMEs.
6.	Parliament	• Legislation and appropriation of financial resources	• Develop policies and Bills for legislation.	• Legislation of laws. • Review and Approval of the Budget. • Oversight role in implementation of the Budget.
7.	Judiciary	• Interpretation and application of the law	• Compliance with the laws to minimize risks and exposure of government to legal disputes.	• Timely dispensation of justice for disputes in a fair and just manner.
8.	County Governments	• Extension of service delivery and policy implementation	• Expanded employment opportunities. • Increased number of business start-ups growing and graduating in an enabling environment. • Increased access to domestic and foreign markets. • Continuous collaboration. • Information sharing. • Capacity building.	• Conducive regulatory framework for MSMEs. • Financial support to local MSMEs. • Creation of an enabling environment. • Implementation of policies. • Information sharing. • Alignment of policies with the MSME policy and legislation.
9.	Academia and Research Institutions	• Capacity development • Research Technologies	• Collaboration in research on MSME	• Provide information to guide policy formulation for skills

S/No.	STAKEHOLDER	ROLE	STAKEHOLDER EXPECTATIONS	STATE DEPARTMENT EXPECTATIONS
		development and dissemination	development related issues. • Up to date and information on MSME Sector. • Collaboration and partnership on research and training programmes. • Facilitate linkages with MSMEs.	and knowledge development. • Market intelligence information provision and broaden product base. • Develop innovations and technologies for value addition. • Findings of research on MSMEs. • Technology transfer to MSMEs. • Development of skills through internship programmes.
10.	Financial Institutions (Bank, Microfinance)	• Provision of financial services	• Information and data. • Credit access. • Partnership with MSME Association.	• Partnerships in funding programmes for MSMEs. • Provision of suitable financial products for MSMEs. • Provide affordable credit to growth oriented MSMEs for long term investments.
11.	Development Partners	• Support MSME development programmes	• Transparency and accountability. • Adequate capacity for implementation of programmes. • Proper utilization of donor funds.	• Resource mobilization. • Provide technical and financial advisory services. • Capacity building and creation of synergies on MSME programmes.
12.	Business Membership Organizations (e.g. KNFJKA, KEPSA, KAM, KNCCI)	• Business Community mobilization, lobbying and advocacy	• Promoting development for the MSMEs nationally and internationally.	• Advocacy for improvement of business environment. • Supports in the formulation and implementation of

S/No.	STAKEHOLDER	ROLE	STAKEHOLDER EXPECTATIONS	STATE DEPARTMENT EXPECTATIONS
				various sectoral policies on development of MSMEs. • Joint Public-Private Partnership initiative for sustainable development and investments. • Provision of business information, quality goods and services and self-regulation within the business community. • Participates in consultation and validation of programmes/projects. • Ownership and beneficiaries of the programmes and projects. • Inform programme implementers on priority areas.
13.	Regional Blocks (EAC, AU, COMESA, IGAD, SADC etc)	• Unlocking regional economic development through agreements	• Policy alignment and harmonization. • Infrastructure development. • Capacity building and skills development to enhance MSME competitiveness. • Regional integration and cooperation.	• Regional Economic Integration. • Job creation. • Increased intra-regional and inter-regional trade.
14.	Private Sector	• Fostering a conducive environment for MSME growth	• Conducive business operating environment and regulatory framework.	• Compliance with legislation and regulations. • Creation of jobs. • Joint Public-Private Partnership initiative for sustainable

S/No.	STAKEHOLDER	ROLE	STAKEHOLDER EXPECTATIONS	STATE DEPARTMENT EXPECTATIONS
			• Training on skills development and business management. • Increased linkages within and with other sectors of the economy.	development of MSMEs. • Advocacy for improvement of business environment. • Innovation and creativity. • Provision of business information, quality goods and services and self-regulation within the business community.
15.	Civil Society	• Community mobilization, lobbying and advocacy	• Involve them in policy formulation and review. • Joint partnerships in project implementation and policy formulation.	• Creates consumer rights awareness and protection. • Contribute to policy formulation and play oversight role in implementation process. • Supports sensitization and advocacy on various sectoral matters. • Community sensitization and awareness creation.
16.	Media	• Publicity and dissemination of information	• Publicity and dissemination of information.	• Provision of adequate MSME information. • Dissemination of Government policies and information. • Creation of public awareness.

CHAPTER FOUR: STRATEGIC ISSUES, GOALS AND KEY RESULT AREAS

Overview

The chapter outline the key strategic issues identified from the analysis of the internal and external environments, the strategic goals to be achieved and the key result areas the State Department will pursue to fulfil its mandate during the plan period.

4.1 Strategic Issues

The analysis of the State Department past achievements, stakeholders and situational analysis has led to the identification of several strategic issues in the MSME sector. These issues present opportunities for the state department to minimize threats and weaknesses and to capitalize on its strengths and opportunities. These strategic issues are:

i. Low Levels of Formalization
ii. Limited Market Access for MSME Products and Services
iii. Weak Policy and Regulatory Environment
iv. Low Levels of Productivity, Innovation and Competitiveness
v. Inadequate Decent Infrastructure Facilities
vi. Limited Access to Credit and Exclusion of MSME Sector in the Financial Markets
vii. Inadequate Capacity and Skills Development for MSMEs

4.2 Strategic Goals

The Strategic Goals of the State Department are to:

i. Increase Formalization of the MSME sector
ii. Diversify and Increase Market Share of MSME Products and Services
iii. Promote Progressive Policy and Regulatory Environment for MSMEs
iv. Enhance Productivity, Innovation and Competitiveness for MSMEs
v. Establish and Improve MSME Infrastructure
vi. Enhance Financial Inclusion and Credit Access
vii. Enhance Capacity and Skills for MSMEs

4.3 Key Results Areas

The Key Results Areas for the State Department are:

KRA 1: MSME Formalization and Decent Employment Creation

KRA 2: MSME Market Development

KRA 3: MSME Coordination, Policy Development and Research

KRA 4: MSME Innovation, Product Development and Competitiveness

KRA 5: MSME Decent Infrastructure

KRA 6: MSME Access to Finance

KRA 7: MSME Capacity and Skills Development

Table 4.1 summarizes the key strategic issues affecting the MSME sector and provides goals and key result areas to be achieved during the strategic plan period.

Table 4.1: Strategic Issues, Goals, KRAs

Overall Goal: Development of the MSME sector for enhancing: Job Creation, Increased Income, Expanded Revenue Base, Inclusivity, Reduced Cost of Living, and Improving Balance of Payments (BOP).

Strategic Issue	Strategic Goal-	Key Result Areas
Low Levels of Formalization	Increase Formalization of the MSME sector	KRA 1: MSME Formalization and Decent Employment Creation
Limited Market Access for MSME Products and Services	Diversify and Increase Market Share of MSME Products and Services	KRA 2: MSME Market Development
Weak Policy and Regulatory Environment	Promote Progressive Policy and Regulatory Environment for MSMEs	KRA 3: MSME Coordination, Policy Development and Research
Low Levels of Productivity, Innovation and Competitiveness	Enhance productivity, Innovation and Competitiveness for MSMEs	KRA 4: MSME Innovation, Product Development and Competitiveness
Inadequate Decent Infrastructure Facilities	Establish and Improve MSME Infrastructure	KRA 5: MSME Decent Infrastructure
Limited Access to Credit and Exclusion of MSME Sector in the Financial Markets	Enhance Financial Inclusion and Credit Access	KRA 6: MSME Access to Finance
Inadequate Capacity and Skills Development for MSMEs	Enhance Capacity and Skills for MSMEs	KRA 7: MSME Capacity and Skills Development

CHAPTER FIVE: STRATEGIC OBJECTIVES AND STRATEGIES

Overview

This chapter outlines the strategic objectives and strategies derived from identified strategic goals and key result areas. The chapter also summarizes outcomes and annual projections in respect to the strategic objectives.

5.1 Strategic Objectives of the State Department

The Strategic Objectives are:

i. To promote and facilitate formalization of MSMEs;
ii. To promote access to decent employment and a safe and secure work environment for MSMEs;
iii. To promote market development for MSMEs products and services;
iv. To promote progressive policies and regulatory environment for MSMEs;
v. To strengthen coordination and partnership for MSMEs development;
vi. To enhance business innovation and competitiveness for MSMEs;
vii. To Enhance Productivity at Enterprise, Sector and National level;
viii. To develop and improve infrastructure for MSMEs;
ix. To enhance financial inclusion and facilitate flow of credit to MSMEs; and
x. To promote entrepreneurial culture and enterprise development.

Table 5.1 provides a five-year projection for the strategic objectives highlighting outcome, outcome indicators and annual targets.

Table 5.1: Outcomes Annual Projections

KRA 1: MSME FORMALIZATION AND DECENT EMPLOYMENT CREATION							
Strategic Objective	**Outcome**	**Outcome Indicator**	**Projections**				
			Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
SO1: To promote and facilitate formalization of MSMEs	Increased MSMEs Formalization	% increase in MSMEs formalized	10	10	10	10	10
SO2: To promote access to decent employment and a safe and	Increased access to Decent employment and social security	% increase in MSMEs accessing Decent employment and social	10	10	10	10	10

secure work environment for MSMEs	Services for MSMEs	security Services					
KRA 2: MSME MARKET DEVELOPMENT							
			PROJECTIONS				
Strategic Objective	**Outcomes**	**Outcome Indictor**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
To promote market development for MSME product and services	Increased Market share for MSME products and services	% Increase value of market share of MSME products in priority value chain	Edible oils 8.9%	Edible oils 8.9 %	Edible oils 8.9%	Edible oils 8.9%	Edible oils 8.9%
			Dairy 5%	Dairy 5%	Dairy 5%	Dairy 5%	Dairy 5%
			Rice 5%	Rice 5%	Rice 5%	Rice 5%	Rice 5%
			Textile and apparel 5%	Textile and apparel 5%	Textile and apparel 5%	Textile and apparel5 %	Textile and apparel5 %
			Leather 5%	Leather5 %	Leather 5%	Leather 5%	Leather 5%
			Building and Construction 5%	Building and Construction 5%	Building and Construction 5%	Building and Construction 5%	Building and Construction 5%
KRA 3: MSME COORDINATION, POLICY DEVELOPMENT AND RESEARCH							
SO1: To Promote Progressive Policies and Regulatory Environment for MSMEs	Conducive Business Environment	Improved ease of doing business index					
	Value of MSME sector Increased	Increased value of MSME sector from Ksh.3 Trillion to Ksh.4 Trillion	3	3.25	3.5	3.75	4
SO2: To strengthen coordination and partnership for MSMEs	Enhanced stakeholder engagements	Increased participation of key stakeholders	20	30	40	50	60

development							
KRA 4: MSME INNOVATION, PRODUCT DEVELOPMENT AND COMPETITIVENESS							
Strategic objective	**Outcome**	**Outcome Indicator**	**Projections**				
			Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
SO1: To enhance business innovation and competitiveness for MSMEs	Enhanced innovation culture and competitiveness	% increase in new innovations by MSMEs					
		% increase in annual turnover of MSMEs					
	Enhanced MSME standardization, patenting and commercialization of Products and Services	% increase in MSMEs patenting and commercializing	-	-	5	6	7
	Enhanced MSME business environment for technology acquisition and transfer	% increase in technology acquisition and transfer among MSMEs					
SO 2: To Enhance Productivity at Enterprise, Sector and National level	Increased business growth and MSME sector contribution to GDP	% increase in MSME sector contribution to GDP	-	34%	36%	38%	40%
KRA 5: MSME DECENT INFRASTRUCTURE							
Strategic objective	**Outcome**	**Outcome Indicator**	**Projections**				
			Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**

SO1: To develop and improve infrastructure for MSMEs	Improved working environment	% increase in productivity and efficiency	30	50	65	75	80
KRA 6: MSME ACCESS TO FINANCE							
			PROJECTIONS				
Strategic Objective	**Outcome**	**Outcome Indicator**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
SO1: To enhance financial inclusion and facilitate flow of credit to MSMEs	Increased access to finance	% increase of MSMEs accessing finance (baseline year-2023-6Million)	20	20	20	20	20
	Increased savings	% increase in savings	10	10	10	10	10
KRA 7: MSME CAPACITY AND SKILLS DEVELOPMENT							
SO1: To promote entrepreneurial culture and enterprise development;	Thriving MSME Ecosystem	% increase in employment opportunities					
	MSMEs graduating from Micro to Small and Medium	% increase of Entrepreneurs graduating from Micro, Small to Medium enterprises					

5.2 Strategic Choices

The State Department made choices that will be pursued to achieve the strategic objectives. In making the choices, it came up with a number of feasible alternatives, evaluated the alternatives and chose specific strategies as depicted in Table 5.2

Table 5.2: Strategic Objectives and Strategies

KRA	Strategic Objectives	Strategies
KRA 1: MSME Formalization and Decent Employment Creation	To promote and facilitate formalization of MSMEs	i. Develop a Formalization policy
		ii. Harmonization of Business Registration and compliance procedures and processes
	To promote access to decent employment and a safe and secure work environment for MSMEs	i. Decriminalization of MSMEs in the Informal sector
		ii. Promote uptake of Social protection services and occupational safety and health
KRA 2: MSME Market Development	To promote market development for MSME product and services	i. Regular market research and analysis and dissemination of market opportunities
		ii. Strengthening linkages between MSMEs and markets
		iii. Preferential treatment to locally manufactured MSME products by Governments (Buy Kenya Build Kenya)
		iv. Promote Aggregation/ consolidation of MSME products
KRA 3: MSME Coordination, Policy Development and Research	Promote Progressive Policies and Regulatory Environment for MSMEs	i. Promote progressive policies and practices targeting MSMEs
		ii. Mainstream MSME Agenda into sectoral plans for MSME development, growth and internationalization in all MDAs
	To strengthen coordination and partnership for MSMEs development	i. Establish a coordination and linkages framework between MSMEs and ecosystem players
		ii. Strengthen Institutional coordination and partnerships

KRA	Strategic Objectives	Strategies
KRA 4: MSME Innovation, Product Development and Competitiveness	To enhance business innovation and competitiveness for MSMEs	i. Promote innovation culture nationwide
		ii. Promote Intellectual Property (IP) acquisition by MSMEs
		iii. Digitalization of MSME sector
	To Enhance Productivity at Enterprise, Sector and National level	i. Promote productivity improvement culture at firm, sector and national level
KRA 5: MSME Decent Infrastructure	To develop and improve infrastructure for MSMEs	i. Promotion of cottage industries
		ii. Establish decent infrastructure facilities
KRA 6: MSME Access to finance	To enhance financial inclusion and facilitate flow of credit to MSMEs	i. Re-engineering of government affirmative funds to enhance the flow of credit to MSMEs
		ii. Promote use of alternative collateral for credit underwriting
		iii. Enhance the existing credit guarantee scheme to ease credit to unserved and underserved MSMEs and sectors
		iv. Facilitate business startup with Seed capital
KRA 7: MSME Capacity and skills development	To promote entrepreneurial culture and enterprise development	i. Provision of demand-driven and research-based capacity building programs in collaboration with Universities and TVET institutions
		ii. Provide continuous Business development support programmes for MSMEs

CHAPTER SIX: IMPLEMENTATION AND COORDINATION FRAMEWORK

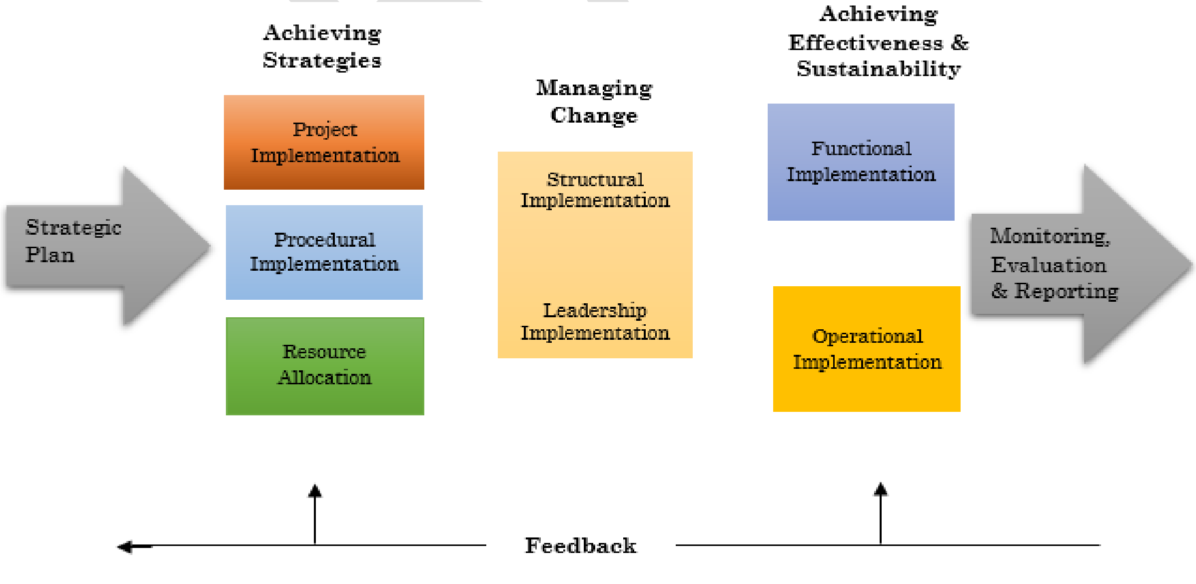
This chapter outlines the implementation and coordination framework of the Strategic Plan. It captures: The Implementation Plan, Action Plan, Annual Workplan and Budget, Performance Contracting, Coordination Framework, Institutional Framework and Risk Management Framework. A budget for physical resource requirements is also provided to ensure the required infrastructural resources have been provided.

6.1 Implementation Plan

This implementation plan describes a comprehensive action plan for implementation of the strategic plan. It further provides an insight on annual work plan and budgeting, performance contracting for the State Department in the next five years. The implementation of the plan will be financed through the Government of Kenya (GOK) annual budgets. In addition, funding will be supported by external resources from Development Partners in form of loans and grants.

The framework for operationalization of the State Department Strategic Plan will entail detailed action plan represented by Implementation Matrix (Table 6.1), translation of the Action Plan to Annual Work Plans (AWPs) and budgets and undertaking performance contracting based on the Annual Work Plans from top management, cascaded down to all levels. **Figure 6.1** below illustrates the framework adopted by the State Department in implementation of the Strategic Plan.

Figure 6.1: Strategic Plan Implementation Framework



6.1.1 Action Plan

The action plan has been prepared for each of the KRAs as depicted in Table 6.1. The scope for each KRA includes strategic issues, strategic goals, KRA, outcomes, strategic objectives, strategies, key activities, expected outputs, output indicators, annual targets, annual budgets and responsibility for execution of the activities. The budget estimates for each output, output indicators and annual targets has also been provided. In addition, the lead actor(s) and support actors have also been identified for each key activity.

Annex I: Table 6.1 Implementation Matrix

6.1.2 Annual Workplan and Budget

The strategic plan has a projected budget for the five (5) years for each of the KRAs with an annual budget estimate for each activity. The budget for the Strategic Plan is aligned to the Medium -Term Expenditure Framework (MTEF). The State Department has adopted Activity-Based Costing (ABC) in developing annual budget which are in turn informed by the annual work plan. A costed annual work plan, indicating activities and respective quarterly for the first year of implementation will be prepared covering: strategies, key activities, expected output, output indicators, target for 5 years, budgetary requirements and responsibility.

6.1.3 Performance Contracting

Under the Legal Notice No. 93 of 2004, the State Department will institutionalize the Strategic Plan in line with the performance contract which is meant to:

a. Improve efficiency in service delivery to the public by ensuring that holders of public office are held accountable for results

b. Improve performance and efficiency in resource utilization and ensuring that public resources are focused on attainment of the key national policy priorities

c. Institutionalize performance-oriented culture in the public service

d. Measure and evaluating performance

e. Link reward for work to measurable performance

f. Instill accountability for results at all levels in the government

g. Ensure that the culture of accountability pervades all levels of government

h. Reduce or eliminating reliance on exchequer funding by public agencies

i. Strategize the management of public resources

j. Recreate a culture of results-oriented management in the public service

The State Department shall comply with the Public Service Commission Performance Management Regulations, 2021, by undertaking performance contracting based on the AWP for each respective year. The State Department plans to implement AWP across all its functions and different levels to ensure all staff execute performance contract at the beginning of each and every year. The Head of CPPMD shall issue guidelines and timelines for performance contracting, and ensure there is quality and consistency across the organization for all the performance contracts.

The State Department intends to undertake quarterly and mid-year individual performance reviews with a final end year objective performance appraisal.

6.2 Co-ordination Framework

The MSME sector is cross-cutting and thus efforts are needed to co-ordinate the sector. Before the establishment of the State Department, there was no single, stand-alone coordination framework specifically for the MSME sector. The function of MSME had been scattered in several Government Institutions and Ministries. This necessitated the creation of a Ministry to coordinate the sector which creates employment to a majority of Kenyans.

A. Collaborative Co-ordination with Stakeholders

Coordinating with MSME sector stakeholders in Kenya is crucial for creating a supportive ecosystem that fosters their growth.

The Sector stakeholders include the following:

a) Government Agencies: Partner with relevant ministries implementing the MSME Agenda.
b) Non-Governmental Organizations (NGOs): Collaborate with NGOs that provide training, financial access, and business development services to MSMEs. This can expand your reach and offer a wider range of support.
c) Development Partners: International organizations will be valuable partners in provision of financial resources and technical knowledge.
d) Business Membership Organizations: Chambers of commerce and industry bodies connect with MSMEs through networking events and advocacy efforts. Partnering with them will allow us to understand their needs and concerns directly.
e) Financial Institutions: Banks, microfinance institutions, and other financial service providers are crucial for MSME growth. Collaboration can improve access to financing for entrepreneurs.
f) Academia and Research Institutions: Partner with universities and research centers to access data and expertise on MSME challenges and best practices.

B. Co-ordination Framework within the State Department

In order to facilitate effective implementation of the KRAs, the State Department has established the Directorate of Financing, Partnership and Coordination to coordinate and partner with MDACs, umbrella business associations, financial and MSMEs associations and key stakeholders (Internal and External). Financial inclusion will be enhanced through Financial Inclusion Fund (Hustler Fund), KIE, Uwezo Fund and MSEA which are SAGAs within the State Department.

The Strategic Plan will be implemented through cascading of responsibilities to technical directorates which include:

1. MSMEs Policy and Research
2. Innovation, Product, Market and Enterprise Development
3. MSMEs Financing, Partnership and Coordination
4. MSMEs Digital Delivery and Communication
5. Capacity building and Entrepreneurship development

The Directorates and SAGAs will be charged with responsibility of planning and implementing projects and programs specific to them. An implementation matrix (Table 6.1) has been prepared to facilitate allocation of tasks and responsibilities across the SAGAs and Directorates. As indicated in section 6.1.2, the SAGAs will be expected to develop their respective strategic plans in line with State Department Strategic Plan.

6.2.1 Institutional Framework

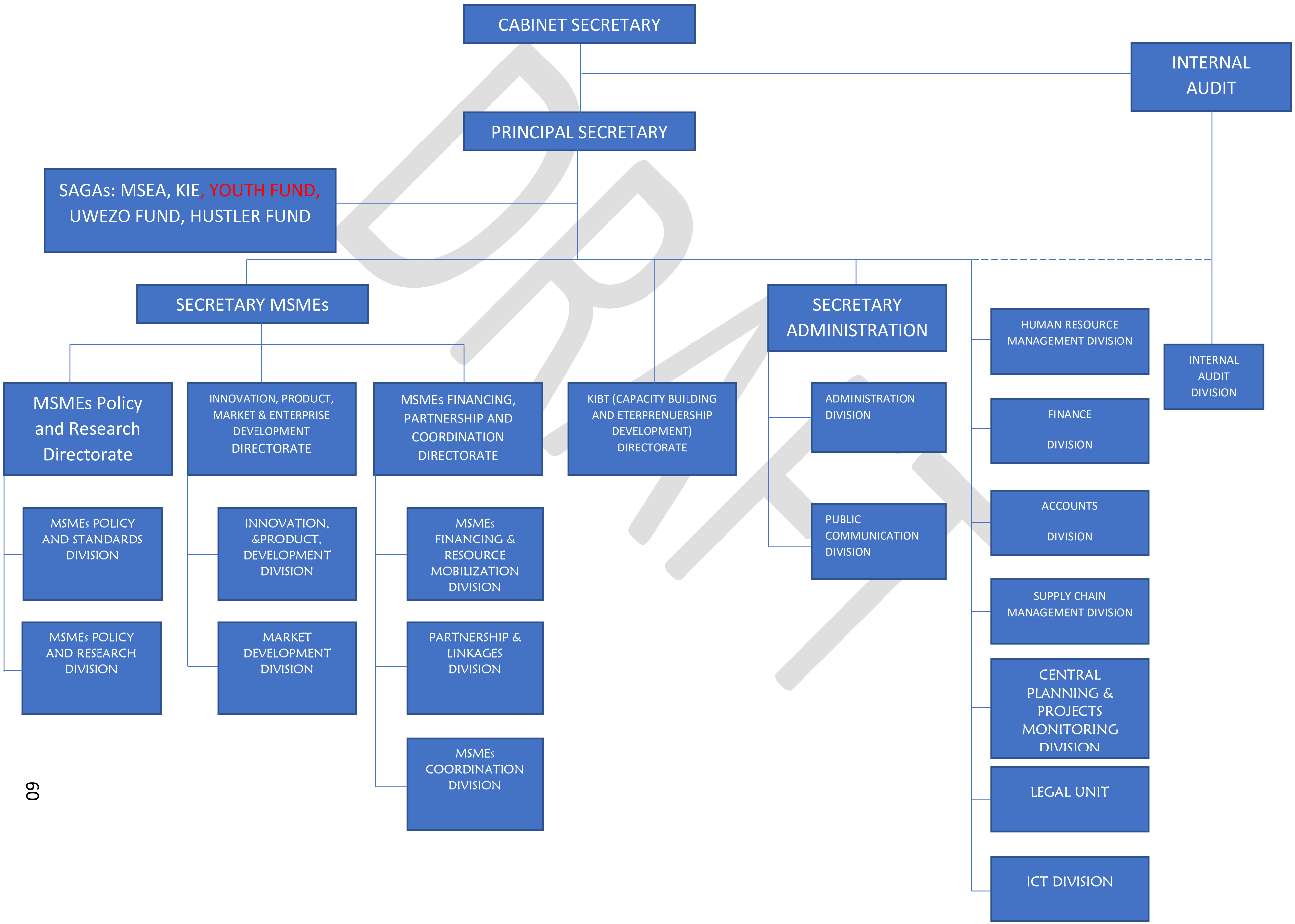
The State Department is headed by the Principal Secretary who is assisted by Heads of technical Directorates and Support Services. Each directorate has divisions which will be responsible for implementation of the strategic plan in line with the annual work plan and budgets.

The State Department shall ensure availability of various internal policies, frameworks, rules and regulations to support successful implementation of the Strategic Plan. The required framework shall consist of the following:

a) Human Resource and Administration Policy;
b) Risk Management Framework;
c) Knowledge Management Framework; and
d) ICT Policy;

Further internal evaluation of the adequacy and appropriateness of the existing policies will be undertaken to ensure they are aligned with the Strategic Plan.

(see Figure 6.2: Organogram)



CABINET SECRETARY
INTERNAL AUDIT
PRINCIPAL SECRETARY
SAGAs: MSEA, KIE, YOUTH FUND, UWEZO FUND, HUSTLER FUND
SECRETARY MSMEs
SECRETARY ADMINISTRATION
MSMEs Policy and Research Directorate
INNOVATION, PRODUCT, MARKET & ENTERPRISE DEVELOPMENT DIRECTORATE
MSMEs FINANCING, PARTNERSHIP AND COORDINATION DIRECTORATE
KIBT (CAPACITY BUILDING AND ETERPRENUERSHIP DEVELOPMENT) DIRECTORATE
MSMEs POLICY AND STANDARDS DIVISION
MSMEs POLICY AND RESEARCH DIVISION
INNOVATION, &PRODUCT, DEVELOPMENT DIVISION
MARKET DEVELOPMENT DIVISION
MSMEs FINANCING & RESOURCE MOBILIZATION DIVISION
PARTNERSHIP & LINKAGES DIVISION
MSMEs COORDINATION DIVISION
ADMINISTRATION DIVISION
PUBLIC COMMUNICATION DIVISION
HUMAN RESOURCE MANAGEMENT DIVISION
FINANCE DIVISION
ACCOUNTS DIVISION
SUPPLY CHAIN MANAGEMENT DIVISION
CENTRAL PLANNING & PROJECTS MONITORING DIVISION
LEGAL UNIT
ICT DIVISION
INTERNAL AUDIT DIVISION

6.2.2 Staff Establishment, Skills Set and Competency Development

Human resources form the most important factor of production in an organization. Getting the right staff is critical for organizational growth and the ability of the State Department to meet its desired goals.

6.2.2.1 Staff Establishment

Staff establishment is a framework that outlines approved jobs and number of posts created for the normal and regular requirements of an organization. It is usually illustrated using an organizational structure.

The details of the current staff establishment are provided in Table 6.2.

Table 6.2: Staff Establishment

Cadre	Approved Establishment (A)	Optimal Staffing Level (B)	In post (C)	Variance D= (B-C)
Technical	354	354	0	354
Support Services	89	89	73	16
Total	**443**	**443**	**73**	**370**

6.2.2.2 Skill Sets and Competence Development

The competency framework 2017 communicates the kind of behaviors required, valued, recognized and rewarded in an organization in respect to specific occupational roles. It ensures that staff, in general, have a common understanding of the organization's values and expected excellent performance behaviors.

6.2.2.2.1 Generic skill sets and competencies

The Kenya School of Government has identified the following as the generic skill sets and competencies for civil servants:

- Attitude and behavior
- Public service values and principles
- Attentiveness to client interests
- Planning and organizing
- Time management
- Communication
- Teamwork
- Willingness to learn
- Technical skills required for each cadre

6.2.2.2.2 Strategic technical skill sets and competencies

In line with the draft framework for development of career progression guidelines for the public service 2022, the State Department has identified the following technical skills and competencies. The Competency Framework 2017 provides details of competencies required and how they will be administered at each level. Progression in the grading structure forms part of career progression guidelines as it is based on increased competencies and changes in job content. From time to time the skills needs in a particular cadre change or require revision to incorporate new aspects as provided for in the education sector or as required, this aspect necessitates for inclusion of the skill into the career guideline.

The skills gap and competence development both for technical and support staff are well elaborated in Table 6.3.

Table 6.3: Skill Set and Competency Development

Job level	Grade	Skill set	Skill gap	Competence
Top management	2 - 5	i) Leadership skills ii) Strategic and innovative thinking skills iii) Policy formulation iv) Research skills v) Resource Mobilization skills vi) Planning skills vii) Budgeting Skills viii) Networking skills ix) Project Planning, Management and coordination x) Managerial skills xi) Conceptual skills xii) Communication skills xiii) Negotiation skills xiv) Problem solving and conflict resolution xv) Interpersonal Skills	i) Strategic and innovative thinking skills ii) Resource Mobilization skills iii) Project Planning, Management and coordination iv) Performance Contracting v) Project Monitoring, Evaluation & Reporting	Leadership Competencies
Senior management and high-level specialists	6 - 7	i) Leadership skills ii) Strategic and innovative thinking skills iii) Policy formulation iv) Resource Mobilization skills v) Planning skills vi) Budgeting Skills	i) Strategic and innovative thinking skills ii) Resource Mobilization skills	Managerial Competencies Technical Competencies

Job level	Grade	Skill set	Skill gap	Competence
		vii) Networking skills viii) Project Planning, Management and coordination ix) Research skills x) Managerial skills xi) Conceptual skills xii) Communication skills xiii) Negotiation skills xiv) Problem solving and conflict resolution xv) Interpersonal Skills	iii) Project Planning, Management and coordination iv) Performance Contracting v) Project Monitoring, Evaluation & Reporting vi) Innovation and Creativity	
Middle management and middle level specialists	8	i) Planning skills ii) Budgeting Skills iii) Networking skills iv) Project Planning, Management and coordination v) Managerial skills vi) Communication skills vii) Problem solving viii) Interpersonal Skills	i) Budgeting Skills ii) Project Planning, Management and coordination iii) Performance Contracting iv) Project Monitoring, Evaluation & Reporting v) Innovation and Creativity	Technical Competencies Managerial Competencies
Junior management and high-level skilled officers	9 -11	i) Planning skills ii) Budgeting Skills iii) Networking skills iv) Project Planning, Management and coordination v) Managerial skills vi) Communication skills vii) Problem solving viii) Interpersonal Skills	ix) Budgeting Skills x) Project Planning, Management and coordination xi) Project Monitoring, Evaluation & Reporting	Technical Competencies Managerial Competencies

Job level	Grade	Skill set	Skill gap	Competence
Skilled/ Advanced operational Staff	12 - 14	i) Managerial skills ii) Communication skills iii) Problem solving iv) Report writing skills v) Interpersonal Skills vi) Record management skills	i) Supervisory skills	Technical Competencies
Semi-skilled Operational Staff	15	i) Supervisory skills ii) Communication skills iii) Problem solving iv) Interpersonal Skills v) Record management skills	i) Supervisory skills ii) Record management skills	Technical Competencies
Basic Skills	16 - 17	i) Communication skills ii) Problem solving iii) Interpersonal Skills iv) Record management skills	i) Record management skills	Core Competencies

The State Department will ensure that training needs assessment will be undertaken to identify skill gap and to support capacity building for all cadres of staff. This will be undertaken to ensure that:

(i) Requisite technical competencies are based on respective cadres;

(ii) The Competencies are developed in line with the Competency Framework for the public service 2017;

(iii) Job Families identify and apply suitable competencies as appropriate.

6.2.3 Leadership

The strategic plan is spearheaded by the Principal Secretary in the State Department. This is cascaded to various Directorates, Departments, Divisions and Units. The Principal Secretary will offer leadership in coordinating the execution of the strategic activities relevant to the Key Result Areas. The leadership competencies for top management will be implemented as depicted in Table 6.2.

6.2.4 Systems and Procedures

The State Department has systems and procedures for supporting administration, human resource, accounts, finance, procurement, ICT and planning. In addition, systems and procedures will be developed for supporting MSMEs Policy and Research, Innovation, Product, Market and Enterprise Development, MSMEs Financing, Partnership and

Coordination, MSMEs Digital Delivery and Communication and Capacity building and Entrepreneurship development in line with best practices. The State department will review its internal systems, processes and Standard Operating Procedures (SOPs) in line with best practice to ensure effective and efficient implementation of this plan.

6.3 Risk Management Framework

Risk management is the systematic process of managing the State Department's risk exposures to achieve its objectives in a manner consistent with public interest, human safety, environmental factors, and the law. It consists of planning, organizing, leading, coordinating, and controlling activities undertaken with the intent of providing an efficient pre-loss plan that minimizes the adverse impact of risk on the State Department's resources, funds and cash flows. The broad areas or category of risks identified by the State Department is summarized in Table 6.4.

Table 6.4: Risk Management Framework

S/No.	Risks	Risk Likelihood (L/M/H)	Severity (L/M/H)	Overall Risk Level (L/M/H)	Mitigation Measure(s)
1.	**Strategy Risks** (Risks arising from strategic decisions and actions taken by top management). Inadequate risk assessment; Ineffective risk mitigation strategies; Risk management efforts are not integrated across different departments; Organizational culture that resists changes necessary for effective risk management;	Medium	Medium	Medium	Comprehensive risk assessment through SWOT analysis and PESTLE analysis to identify all potential risks.

S/No.	Risks	Risk Likelihood (L/M/H)	Severity (L/M/H)	Overall Risk Level (L/M/H)	Mitigation Measure(s)
2.	**Governance Risks** (Risks due to ineffective oversight and weak risk culture within the organization). Ineffective oversight mechanisms to monitor risk management activities; Weak risk culture.	Medium	Medium	Medium	Enact and communicate clearly defined roles and responsibilities for risk management; Regularly review risk management guidelines to ensure they remain relevant and effective. Foster a strong risk culture; Establish clear accountability mechanisms to ensure every officer is responsible for managing risks
3.	**Legal risks** (Risks associated with legal non-compliance and contractual issues). Failure to comply with regulations; Inability to keep up with changes in regulations; Failure to fulfill contractual obligations leading to legal disputes; Unclear contract terms leading to litigation;	High	High	High	Develop a legal risk management framework; Regular training and education of staff on legal issues; Data protection and security; Effective contract management;
4.	**Financial Risks**	High	High	High	Strict adherence to Public Financial

S/No.	Risks	Risk Likelihood (L/M/H)	Severity (L/M/H)	Overall Risk Level (L/M/H)	Mitigation Measure(s)
	(Risks related to financial instability such as budget shortfalls and uncontrolled spending). Budget shortfalls; Funding cuts; Budget overruns; Uncontrolled spending;				Management principles.
5.	**Technological risks** (Risks from technology failures and cyber threats) – Cyber security risks; Data breaches Malware and ransom ware; Phishing attacks Denial - of-Service Attacks; System failures and downtime; Data loss, data integrity, data privacy.	Low	Low	Low	Cyber security risk mitigation; System failure and downtime mitigation; Data backup solutions; Technology upgrades and replacements.
6.	**Operational Risks** (Risks due to failures in day to day operations) Supply chain disruptions; Equipment failure; Human errors	Medium	Medium	Medium	Implement regular training programmes for employees; Conduct periodic maintenance of equipment; Establish contingency plans for supply chain disruptions.
7.	**Environmental Risks** (Risks	Low	High	Medium	develop and implement an

S/No.	Risks	Risk Likelihood (L/M/H)	Severity (L/M/H)	Overall Risk Level (L/M/H)	Mitigation Measure(s)
	from environmental factors) Natural disasters; Climate change				environmental management plan; Conduct regular environmental impact assessments; Establish emergency response plans for natural disasters; Invest in sustainable practices and technologies.
8.	**Reputational Risks** (Risks affecting the organization's reputation) Negative publicity and ethical breaches.	Medium	High	High	Foster a culture of ethical behavior and corporate social responsibility; Implement transparent communication practices; Develop a robust public relation and crisis management strategy; Monitor social media and public perception
9.	**Human Resource Risks** (Risks related to employee management) Labour disputes; Employee retention.	Medium	Medium	Medium	Develop comprehensive HR policies and practices; Conduct regular training and development sessions; Establish clear communication channels to addressing employee concerns.

CHAPTER SEVEN: RESOURCE REQUIREMENT AND MOBILIZATION STRATEGIES

Overview

This chapter highlights the financial resource requirements for implementing the Strategic Plan, the resources allocated, the funding gaps, resource mobilization strategies as well as financial management at the State Department over the next five years.

7.1 Financial Requirements

The resource requirements are estimated from the indicative costs of the programs, projects and activities from the implementation matrix across the plan period. The resource requirements have been disaggregated per Key Result Area per year for five years. In addition, administrative costs have been taken into consideration to take care of the Human resource and other operating costs over the plan period.

It is projected that the State Department will require a total of **KShs.129.97 billion**, with the bulk of resources coming from the Exchequer. The State Department will also receive support from development partners and will raise revenue internally as appropriations in aid (AIA).

The overall resource requirements per year are shown in table 7.1 below

Table 7.1: Financial Requirements for Implementing the Strategic Plan

	Projected Resource Requirement (KShs. Mn)					
Cost Item	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
KRA 1: MSME Formalization and Decent Employment Creation	-	138	145	115	112	510
KRA 2: MSME Market Development	-	109	381	231	231	952
KRA 3: MSME Coordination, Policy Development and Research	4	29	141	80	84	338
KRA 4: MSME Innovation, Product Development and Competitiveness	-	20	54	31	25	130
KRA 5: MSME Decent Infrastructure	306	1,451	1,477	1,536	1,834	6,604
KRA 6: MSME Access to Finance	15,450	20,910	24,102	24,740	27,390	112,592
KRA 7: MSME Capacity and Skills development	1,076	1,119	1,114	1,109	1,107	5,525
Administrative Cost	383	735	683	746	770	3,317
Total	**17,219**	**24,511**	**28,097**	**28,588**	**31,553**	**129,968**

Over the five-year period of the Strategic Plan, it is projected that the State Department will be allocated a total of **KShs. 40.85 billion**, resulting in a total resource deficit of **KShs. 89.12 billion** over the period. The deficit per year is summarised in table 7.2 below.

Table 7.2: Resource Gaps

Financial Year	Estimated Financial Requirements (KShs. Mn)	Estimated Allocations (KShs. Mn)	Variance (KShs. Mn)
Year 1	17,219	8,033	-9,186
Year 2	24,511	9,369	-15,142
Year 3	28,097	9,861	-18,236
Year 4	28,588	6,628	-21,960
Year 5	31,553	6,960	-24,593
Total	**129,968**	**40,851**	**-89,117**

The projected allocations for the first three years are guided by the sub sector MTEF budget estimates while the outer years are extrapolated from the previous allocations trends.

7.2 Resource Mobilization Strategies

The State Department will develop a resource mobilization strategy which will guide the mapping of partners, mobilizing resources and strengthening partnerships and collaborations among the partners and other stakeholders.

The Department will employ a variety of strategies to bridge the resource requirement gaps and ensure financial resource adequacy for implementation of the Strategic Plan. Financial resources will be sourced from:

i. The National Government through exchequer
ii. Internally generated revenue i.e. Appropriation in Aid
iii. Development Partners
iv. Public Private Partnerships (PPP)

7.2.1 The National Government

The State Department will effectively bid for allocation of more resources through the Sectors during the Medium-Term Expenditure Framework budget preparation as well as lobby for additional resources through regular engagements with The National Treasury and the National Assembly Departmental Committees.

7.2.2 Internally Generated Revenue

The State Department will explore avenues to enhance internally generated revenue that is Appropriation in Aid (AIA). This will be achieved through rental income from leasing office spaces in KIBT Building, interest earned on Financial Inclusion Fund (FIF) loan repayments, fees and charges for use of common user facilities and MSMEs business registration fees.

7.2.3 Development Partners

Policies, legislative frameworks, projects and programmes will be developed and supported by various development partners including; World Bank, KfW, International Labour Organization (ILO), GIZ among others. Potential development partners will be engaged to provide additional monetary and non-monetary support during the implementation period.

7.2.4 Public Private Partnership (PPP)

The State Department will seek Public Private Partnerships to undertake the implementation of the various Programmes and projects.

7.3 Resource Management

The State Department will put in place measures to facilitate prudent utilization of the available resources in line with the Public Finance Management Act 2012 by ensuring: proper financial accounting, reporting and auditing of allocated funds to realize value for money; maintenance of Department's facilities, equipment and vehicles; leveraging on shared ICT resources; and periodic monitoring and evaluation of programs and projects.

CHAPTER EIGHT: MONITORING, EVALUATION AND REPORTING FRAMEWORK

This chapter provides a comprehensive Monitoring, Evaluation, and Reporting Framework, complementing the performance standards and feedback mechanisms outlined for implementing the strategic priorities. The data gathered will play a vital role in informing management's evidence-based decision-making processes.

8.1 Monitoring Framework

Monitoring serves as a crucial management tool facilitating timely and targeted decision-making to drive the successful implementation of the Strategic Plan and enhance the State Department's performance. Within the framework of this plan, monitoring will concentrate on outputs and outcomes across project/program, institutional, and administrative levels. This necessitates that:

i. All stakeholders align their monitoring functions and procedures with this plan according to their mandates.
ii. The implementing departments execute this plan for each program and project undertaken.
iii. Other involved parties establish structures to ensure program success and progress reporting.

The strategic plan's key targets and indicators are detailed in the implementation matrix and structured into annual targets. These targets will underpin Annual Work Plans (AWPs), Performance Contracts, and the Staff Performance Appraisal System (SPAS). Directorates, Divisions, Sections, and Units will prepare and submit quarterly and annual Monitoring and Evaluation (M&E) reports to the head of CPPMD for consolidation and discussion by the State Departments' Monitoring and Evaluation Technical Committee (SDM&ETC).

8.2 Performance Standards

The State Department commits to follow internationally recognized norms and standards for monitoring and evaluating this strategic plan, focusing on aspects such as relevance, efficiency, effectiveness, impact, and sustainability. Adequate data will be required for the key result areas performance measurement and this will be coordinated by CPPMD.

8.3 Evaluation Framework

The Strategic Plan will prioritize several types of evaluation, including Process evaluations, Mid-term and End-term evaluations, Reviews, Self-evaluations, and Risk evaluations. To ensure successful evaluation of projects, programs, and service delivery, the following provisions are recommended:

i. All evaluations will be conducted within the prescribed framework and according to the principles specified by this strategic plan, ensuring objectivity, reliability, and credibility.
ii. The State Department will establish a Committee to oversee and manage evaluations.
iii. The State Department will undertake all evaluations either independently or in collaboration with stakeholders.

Table 8.1 describes the key result areas, outcomes and outcome indicators to be evaluated during mid-term and end-term period of this Strategic Plan.

Table 8.1: Outcome Performance Matrix

KEY RESULT AREA	Strategic Objective	Outcome	Outcome Indicator	Baseline		Target	
				Value	Year	Mid - Term Period Target 2025/2026	End - Term Plan Target 2027/2028
KRA 1: MSME FORMALIZATION AND DECENT EMPLOYMENT CREATION	SO1: To promote and facilitate formalization of MSMEs	Increased MSMEs Formalization	% increase in MSMEs formalized			10	10
	SO2: To promote access to decent employment and a safe and secure work environment for MSMEs	Increased access to Decent employment and social security Services for MSMEs	% increase in MSMEs accessing Decent employment and social security Services			10	10
KRA 2: MSME MARKET DEVELOPMENT	SO1: To promote market development for MSME product and services	Increased Market share for MSME products and services	% Increase value of market share of MSME products in priority value chain			Edible oils 8.9%	Edible oils 8.9%
						Dairy 5%	Dairy 5%
						Rice 5%	Rice 5%
						Textile and apparel 5%	Textile and apparel 5%
						Leather 5%	Leather 5%
						Building and Construction 5%	Building and Construction 5%

KEY RESULT AREA	Strategic Objective	Outcome	Outcome Indicator	Baseline		Target	
				Value	Year	Mid - Term Period Target 2025/2026	End - Term Plan Target 2027/2028
KRA 3: MSME COORDINATION, POLICY DEVELOPMENT AND RESEARCH	SO1: To Promote Progressive Policies and Regulatory Environment for MSMEs	Conducive Business Environment	Improved ease of doing business index				
		Value of MSME sector Increased	Increased value of MSME sector from Ksh.3 Trillion to Ksh.4 Trillion			3.5	4
	SO2: To strengthen coordination and partnership for MSMEs development	Enhanced stakeholder engagements	Increased participation of key stakeholders			40	60
KRA 4: MSME INNOVATION, PRODUCT DEVELOPMENT AND COMPETITIVENESS	SO1: To enhance business innovation and competitiveness for MSMEs	Enhanced innovation culture and competitiveness	% increase in new innovations by MSMEs				
			% increase in annual turnover of MSMEs				
		Enhanced MSME standardization, patenting and commercialization of Products and Services	% increase in MSMEs patenting and commercializing				
		Enhanced MSME business environment for technology	% increase in technology acquisition and			5	7

KEY RESULT AREA	Strategic Objective	Outcome	Outcome Indicator	Baseline		Target	
				Value	Year	Mid - Term Period Target 2025/2026	End - Term Plan Target 2027/2028
		acquisition and transfer	transfer among MSMEs				
	SO2: To Enhance Productivity at Enterprise, Sector and National level	Increased business growth and MSME sector contribution to GDP	% increase in MSME sector contribution to GDP			36%	40%
KRA 5: MSME DECENT INFRASTRUCTURE	SO1: To develop and improve infrastructure for MSMEs	Improved working environment	% increase in productivity and efficiency			65	80
KRA 6: MSME ACCESS TO FINANCE	SO1: To enhance financial inclusion and facilitate flow of credit to MSMEs	Increased access to finance	% increase of MSMEs accessing finance (baseline year-2023-6Million)			20	20
		Increased savings	% increase in savings			10	10
KRA 7: MSME CAPACITY AND SKILLS DEVELOPMENT	SO1: To promote entrepreneurial culture and enterprise development;	Thriving MSME Ecosystem	% increase in employment opportunities				
		MSMEs graduating from Micro to Small and Medium	% increase of Entrepreneurs graduating from Micro, Small to Medium enterprises				

8.3.1 Mid-Term Evaluation

The State Department for MSME is dedicated to conducting a mid-term evaluation of this strategic plan. The Department will gather data and evaluate the implementation of planned goals, objectives, targets, and strategic activities against pre-selected indicators to assess the extent of achievement compared to set standards or targets and prepare reports. Additionally, the mid-term evaluation will furnish a scorecard reflecting the degree of commitment achievement and will pinpoint bottlenecks and emerging issues that could impede the realization of goals and objectives.

8.3.2 End-Term Evaluation

This process will entail collecting and analyzing data at the conclusion of the Strategic Plan period to evaluate the implementation status of policies, projects, and programs, among other activities. The aim is to ascertain the extent to which they have met their objectives and to assess their overall performance. This end-term evaluation will gauge the effectiveness of implementation, highlight encountered challenges, and derive lessons to inform the preparation of the subsequent five-year Strategic Plan for 2028-2032.

8.4 Reporting Framework and Feedback Mechanism

The implementation of the Strategic Plan will be facilitated through annual work plans. Reporting will encompass quarterly and annual performance reports. Each implementing Directorate/Division/units within the State Department will compile quarterly and annual reports in the designated format. These reports will then be submitted to the Director of the Central Planning and Project Monitoring Department for consolidation and discussion with the State Department's senior management, including the Principal Secretary. Monitoring will occur continuously, with reporting scheduled quarterly, at mid-year, annually, and at the conclusion of the plan period, leading to the creation of the following reports:

8.4.1 Quarterly Progress Report

This will involve providing details regarding crucial indicators compared to predetermined targets for the quarter, based on insights from annual work plans. The quarterly progress report will serve the purpose of assessing the advancement in executing annual work plans.

Table 8.2: Quarterly Progress Reporting Template

Expected Output	Output Indicator	Annual Target (A)	Quarter for Year…			Cumulative to Date			Remarks	Corrective Intervention
			Target (B)	Actual (C)	Variance (C-B)	Target (E)	Actual (F)	Variance (F-E)		

8.4.2 Annual Progress Report

At the conclusion of each fiscal year, an annual progress report will be compiled, objectively outlining significant accomplishments in comparison to established targets.

Table 8.3: Annual Progress Report Template

Expected Output	Output Indicator	Achievement for Year…			Cumulative to Date (Years)			Remarks	Corrective Intervention
		Target (A)	Actual (B)	Variance (B-C)	Target (D)	Actual (E)	Variance (E-D)		

8.4.3 Evaluation Reports

Mid-term evaluation report: Due to the dynamic nature of the MSME sector, implementing the plan necessitates a thorough assessment to address emerging issues during the strategic plan execution. The mid-term review report will guide any necessary adjustments needed in programs and projects for the remainder of the plan duration.

Table 8.4: Evaluation Reporting Template

Key Result Area	Outcome	Outcome Indicator	Baseline		Mid-Term Evaluation		End of Plan Period Evaluation		Remarks	Corrective Intervention
			Value	Year	Target	Achievement	Target	Achievement		

Conclusion of plan period report: Upon the conclusion of the Strategic Plan period, there will be a comprehensive review to evaluate achievements in relation to the established targets, providing an overall performance assessment. This review will also highlight encountered challenges and offer recommendations to guide subsequent review and planning processes.

REFERENCES

S/NO.	DOCUMENT
1.	Kenya Vision 2030 Document
2.	Bottom-Up Transformation Agenda Plan
3.	MTP IV 2023-2027/ Indicator Handbook
4.	MTEF General Economic and Commercial Affairs (GECA) Sector Report 2022
5.	MTEF MSME Subsector Plan Report 2023-2027
6.	Executive Order No.2 2023
7.	Relevant Acts of Parliament, Policies and Gazette Notices for SAGAs
8.	Kenya Economic Survey, 2023 & 2024
9.	KNBS MSME Baseline Survey 2016
10.	The Constitution of Kenya, 2010
11.	The National Treasury Circulars
12.	Central Bank of Kenya Survey report on MSME Access to Bank Credit
13.	MSME Development Sessional Paper of 2012
14.	Africa Agenda 2063
15.	EAC Vision 2050
16.	Sustainable Development Goals (SDGs)
17.	KBA/JICA (2021) Report, MSME Survey Report-2,949 MSMEs under KRA's Inuka Enterprise Programme
18.	CBK 2022 Survey Report on MSME Access to Bank Credit follow-up of 2017 Survey 915,000 MSMEs (38CRs, one mortgage finance Co. and 14 regulated MFI
19.	FINACCESS (2023)- MSME Tracker Survey (Follow-up of 2019 and 2021)

S/NO.	DOCUMENT
20.	FINACCESS Household Survey- 603,442 MSMEs sample of 2019 (1199 respondents)-2012 (2926 respondents)
21.	KEPSA Report (2023) on how SMEs can reap from AfCFTA Opportunities
22.	ITC 2019 Promoting SME Competitiveness in Kenya Report (Targeted Solution for Inclusive Growth (893 MSMEs)
23.	Research studies on MSME development, growth and internationalization by MDAs, Development partners and Academia

LIST OF TECHNICAL TEAM MEMBERS WHO DEVELOPED THE SDMSMED STRATEGIC PLAN (2023-2027)

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1.	Anthony Njeru	SD MSME Development- CPPMD
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43.	Robert Muriithi	Presidential Economic Transformation Secretariat
44.	Moses Banda	Presidential Economic Transformation Secretariat
45.	John Cheruiyot	Presidential Economic Transformation Secretariat
46.	Charles Kemboi	Presidential Economic Transformation Secretariat
47.	Ayako Ochiel	Central Organization of Trade Unions

ANNEX I- TABLE 6.1: IMPLEMENTATION MATRIX

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Strategic Issue: Low levels of Formalization																
Strategic Goal: Increase Formalization of the MSME sector																
KRA 1: MSME Formalization and Decent Employment Creation																
Outcome: Increased MSME formalization																
Strategic Objective 1: To promote and facilitate formalization of MSMEs																
Develop a Formalization policy/strategy	Undertake an assessment of Key barriers to Formalization	Assessment report	Assessment report approved	1		1					10				SDMSME	MSEA DPs
	Develop an Integrated policy/strategy Response	Formalization Policy/strategy	Approved Formalization Policy /strategy	1			1					20			SDMSME	MSEA, CGs, DPs
Harmonization of Business Registration and compliance procedures and processes	Analyze and review existing regulations and frameworks on existing registration and licensing requirements	Regulations and Framework analysis Report	No of Reports	1		1					15				SDMSME	MSEA DPs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
	Develop Registration and licensing requirement guidelines	Registration and licensing requirement guidelines	Registration and licensing requirement guidelines harmonized	1			1					10			SDMSME	MSEA DPs
	Create awareness to MSMEs on Formalization	MSMEs sensitized on formalization	No. of MSMEs sensitized on formalization	3,000,000		750,000	750,000	750,000	750,000		50	50	50	50	MSEA	SDMSME KIE UWEZO DPs
	MSMEs formalization Drives	MSMEs formalization	No of MSMEs formalized	1,000,000		250,000	250,000	250,000	250,000		50	50	50	50	MSEA	SDMSME KIE UWEZO DPs
Strategic Objective 2: To promote access to decent employment and a safe and secure work environment for MSMEs																
Decriminalization of MSMEs in the Informal sector	Partner with CGs to Secure working spaces in Counties for MSMEs	Counties with working spaces secured	No. counties with work spaces set aside for MSMEs	47		10	15	15	7		8	10	10	7	SDMSME	CGs, MSEA DPs
Promote uptake of Social protection services and occupati	MSMEs association-based membership mobilization	MSME associations mobilized on social security services	No. of MSME associations mobilized on social security services	3000		750	750	750	750		5	5	5	5	MSEA	SDMSME SDLS DPs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
onal safety and health		and occupational safety and health	occupational safety and health													
Strategic Issue: Limited Market Access for MSME Products and Services																
Strategic Goal: Diversify and Increase the market share of MSME products and services																
KRA 2: MSME MARKET DEVELOPMENT																
Outcome: Increased Market share for MSME products and services																
Strategic Objective: To promote market development for MSME product and services																
Regular market research and analysis and dissemination of market opportunities.	Undertake research on market opportunities	Market reports	No of reports	4	-	1	1	1	1	-	5	5	5	5	Dir P&R	MSEA, UWEZO, KIE
	Capacity build identified MSMEs on available Market opportunities and standardization	MSMEs capacity build on market opportunities and standardization	No. of MSMEs on market opportunities and standardization	117,500	-	23, 500	23, 500	23, 500	23,500	-	100	100	100	100	Dir. IPME	MSEA, UWEZO, KIE KIBT
Strengthening linkages between MSMEs and markets	Establish a Market Information System to facilitate access to information on market opportunities, requirements	Market Information System developed	Report on MIS operationalization	1	-	-	1	-	-	-	-	150	-	-	SDMSME	MSEA, DPs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
	and standards.															
	Facilitate seller to buyer match making/networking forums (Business to Business and Business to Consumer models)	Seller to buyer match making/networking forums facilitated	No. of forums facilitated	8	-	2	2	2	2	-	4	4	4	4	SDMSME	MSEA KIE UWEZO SDT DPs KEPROBA
	Develop linkages between MSMEs in priority value chains with processers through subcontracting and franchising	MSMEs linked through sub-contracting and franchising	No of MSMEs linked through sub-contracting and franchising	10000	-	-	2500	2500	2500	-	-	5	5	5	SDMSME	MSEA, KIE, UWEZO, KAM
	Facilitate MSMEs to access to local and international markets	MSMEs facilitated to Access markets	No MSMEs facilitated to access markets	10,000	2000	2000	2000	2000	2000	-	-	100	100	100	SDMSME	MSEA, UWEZO, KIE
Preferential treatment to locally manufactured MSME	Link priority value chain clusters to large enterprise and MDAs	Priority value chain clusters awarded contracts by large	No. of supply contracts awarded	7	-	-	3	2	2	-	-	5	5	5	SDMSME	MSEA, KIE, UWEZO

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
products by Governments (Buy Kenya Build Kenya)		enterprises and MDAs														
	Low cost housing components ring fenced to MSMEs	MSMEs Groups/ Associations linked to national and county projects	No. of MSME groups/Associations linked with national and county projects	500	-	-	100	100	100	-	-	5	5	5	SDMSME	SDH, MSEA, KIE, UWEZO
	Linking MSME groups with Government Projects	MSME Groups linked with Government Projects	No. of MSME Groups linked with Government Projects		-	-	50	50	50	-	-	7	7	7	SDMSME	NHC SDPW
Strategy	Key Activities	Expected Output	Output indicator	Target for 5 years	Target					Budget (Ksh. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Strategic Issue: Weak policy and regulatory framework																
Strategic Goal: Promote Progressive Policies and Regulatory Environment for MSMEs																
KRA 3: MSME COORDINATION, POLICY DEVELOPMENT AND RESEARCH																
Outcome: Conducive Operating Environment for MSMEs																
Strategic Objective: To Promote Progressive Policies and Regulatory Environment for MSMEs																
Promote progressive policies and	Undertake regular review and analysis of existing	Status Report of existing policies and	Status Report of existing policies	6	-	-	2	2	2	-	-	10	10	10	SDMSME	KIPPRA, MSEA, UWEZO, KIE

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
practices targeting MSMEs	policies and regulatory framework	regulatory framework														
		Amended MSE Act	MSME Act	1	-	-	1	-	-	-	-	20	-	-	SDMSME	MSEA AG Private Sector
	Undertake stakeholder Engagements	Status report of existing gaps	No. of reports on existing gaps	4	-	1	1	1	1	-	10	10	10	10	SDMSME	MSEA, UWEZO, KIE
	Develop favorable policies and regulatory framework	Favorable polices and regulatory framework developed	No of policies developed	1	-	-	1	-	-	-	-	15	-	-	SDMSME	MSEA, UWEZO, KIE FIF SDT DPs
	Finalize the MSME Registration Regulations	Approved MSME Registration Regulations	MSME Registration Regulations	1	-	-	1	-	-	-	-	15	-	-	MSEA	SDMSME AG
Mainstream MSME Agenda into sectoral plans for	Capacity building for sector agencies	MSME Agenda mainstreamed into sector plans	No. of capacity building engagements undertaken	15	-	-	5	5	5	-	-	25	25	25	SDMSME	MSEA, KIE, UWEZO

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
MSME development, growth and internationalization in all MDAs	Develop sector specific MSME Strategies	Sector specific MSME Strategies developed	No. of sector specific MSME Strategies developed	4	-	1	1	1	1	-	10	10	10	10	SDMSME	MDAs Private Sector DPs
	Develop sector specific support programs	Sector specific support programs developed	No. of programs developed	8	-	2	2	2	2	-	5	5	5	5	SDMSME	MSEA, KIE, UWEZO
Lobbying for provision of incentives by government for CBs regulated MFIs to scale down to accommodate more micro enterprises in priority BETA value chains	Stakeholder engagement for provision of favourable tax regimes	Favourable tax regimes stakeholders engagements conducted	No. tax regimes Stakeholder engagements forums	10	2	2	2	2	2	4	4	4	4	4	SDMSME	COG Private Sector
Strategic Objective: To strengthen coordination and partnership for MSMEs development																

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Establish a coordination and linkages framework between MSMEs and ecosystem players	Develop coordination framework for MDAs, Development Partners and external stakeholders	Coordination framework for MDAs developed	Coordination framework for MDAs developed	1	-	1	-	-	-	-	-	5	-	-	SDMSME	MSEA, KIE, UWEZO
		Coordination framework for Development Partners and external stakeholders	Coordination framework for Development Partners and external stakeholders developed	2	-	2	-	-	-	-	-	10	-	-	SDMSME	MSEA, KIE, UWEZO
	Establish a business linkage program to promote partnerships among the MSMEs and ecosystem players	MSMEs business linkage program developed implemented	No. of MSMEs linked to ecosystem players	12,000	-	-	3,000	4,000	5,000	-	-	12	16	20	SDMSME	TVETS, Universities, research institutions, innovation hubs, Private Sector

Strategic Issue: Low Levels of Productivity, Innovation and Competiveness

Strategic Goal: To enhance productivity, innovation and competiveness for MSMEs

KRA 4: MSME Innovation, Product Development and Competitiveness

Outcome: Enhanced innovation culture and Competitiveness

Strategic Objective: To enhance business innovation and competitiveness for MSMEs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Promote innovation culture	Establish an integrated framework for awareness, identification and profiling of innovations	MSME innovations Framework	Approved Framework	1	-	-	1	-	-	-	-	6	-	-	SDMSME	MOE, KENIA, NACOSTI, SDICTDE, SDI, KIRDI, KIPI, Private Sector
		Robust data base of MSME innovations	MSME innovations data base developed	1	-	-	-	1	-	-	-	-	7	-		
	Develop an MSME innovations, information sharing platform.	MSME Innovations Platform developed	Interactive platform developed	1	-	-	1	-	-	-	-	15	-	-	SDMSME	SDICTDE, KIPI, KENIA
Promote Intellectual Property (IP) acquisition by MSMEs	Creating awareness on IPR among MSMEs in collaboration with other players	Increased IP acquisition among MSMEs	Number of MSMEs acquiring IPR	1,800	-	-	500	600	700	-	-	3	4	5	SDMSME, MSEA, KIE UWEZO FUND, FIF	SDI, KIPI, KIRDI, MOE, KENIA, NACOSTI, SDICTDE, Private Sector
	Establish a framework to facilitate commercialization of innovation and research outputs	Commercialization framework developed and	Approved framework	1	-	-	1	-	-	-	-	5	-	-	SDMSME	SDI, KIPI, KIRDI, MOE, KENIA, NACOSTI, SDICTDE, Private Sector

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
		implemented														
Digitalization of MSME sector	Capacity building of MSMEs on utilization of technology	MSMEs Capacity Built	No. of MSMEs capacity built on utilization of technology	1,000,000	-	250,000	250,000	250,000	250,000	-	20	20	20	20		
Strategic Objective: To Enhance Productivity at Enterprise, Sector and National level																
Promote productivity improvement culture at enterprise, sector and national level	Develop a productivity improvement framework for MSMEs	Productivity improvement framework developed and implemented	Approved framework	1	-	-	1	-	-	-	-	5	-	-	SDMSME, MSEA, KIE, UWEZO, FIF	SDL&SD, NPCC, Private Sector
Strategic Issues: Operationalization of the common user facilities and cold storage facilities, Inadequate enabling infrastructure (roads, electricity, ICT, water, drainage, space etc.)																
Strategic Goals: To establish integrated infrastructural facilities																
KRA 5: MSME Decent Infrastructure																
Outcome: Improved working environment, Enhanced business survival rate																
Strategic Objective: To develop and improve infrastructure for MSMEs																

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Establish decent infrastructure facilities	Equipping CIDCs	200 CIDCs equipped with common user facilities	No. of CIDCs equipped with common user facilities and operationalized	200	20	30	40	50	60	250	300	350	400	450	SDMSME	MSEA CGs
	Modernizing CIDCs and linking them to TVET	CIDCs modernized and linked to TVET	No. of modernized CIDCs linked to TVET	60	10	20	10	10	10	4	8	4	4	4	SDMSME	SDH SDTVET
	Securing decent working spaces in counties	Decent working spaces secured in Counties	No. of Counties With streets / spaces set aside for MSMEs	47	10	15	15	7	-	2	3	3	2	-	SDMSME	CGs MSEA
	Operationalization of cold storage facilities	Cold storage facilities operationalized	No. of cold storage facilities operationalized	3	-	3	-	-	-	-	150	-	-	-	SDMSME	SDA

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
	Establishing Aggregation centres within the CIDCs	Aggregation centres in Constituency Industrial Development Centres (CIDCs) established	No. of aggregation centres	9	3	3	3	-	-	50	80	70	-	-	SDMSME	MSEA CGs SDT
	Establishing MSMEs industrial park and incubation centres	MSMEs industrial parks and business incubation centres established in every TVET	No. of MSMEs industrial parks and business incubation centres established in every TVET	6	-	2	2	1	1	-	200	200	100	100	SDMSME	SDH
	Establishing MSMEs Business Support Centres	Biashara Centres established and operationalized	No. of Biashara Centres established and operationalized	8	-	2	2	2	2	-	100	100	100	100	MSEA	SDMSME CGs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
		MSMEs business development centres established in all wards	No. of MSMEs business development centres established	50	-	5	10	15	20	-	250	500	750	1000	SDMSME	CGs
		Center for Entrepreneurship established, equipped and operationalized	No. of centres for entrepreneurship established, equipped and operationalized	1	-	1	-	-	-	-	150	-	-	-	SDMSME	KIE
	Establish, equip and operationalize satellite centers	Satellite centers established and equipped	No. of satellite centers established and equipped	5	-	3	2	-	-	-	30	20	-	-	SDMSME	KIE
Promotion of cottage industries	Establish cottage industries in priority value chains	Leather cottage industries promoted and established	No. of leather cottage industries promoted and established	45	-	10	15	10	10	-	100	150	100	100	SDL MSEA	KIRDI KIPI

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
		Dairy Cottage industries for animal feeds established	No. of dairy cottage industries established	200	-	50	50	50	50	-	80	80	80	80	SDMSME	SDL
Strategies	***Key Activities***	***Expected Output***	***Output Indicators***	***Target for 5 years***	***Target***					***Estimated Budget (Kshs. Millions)***					***Responsibility***	
					Y1	***Y2***	***Y3***	***Y4***	***Y5***	***Y1***	***Y2***	***Y3***	***Y4***	***Y5***	***Lead***	***Support***
Strategic Issue: Access to financial services by MSMEs and duplication of loan products and weak regulation framework for recovery of the Affirmative Action Funds																
Strategic Goal: Enhanced financial inclusion for MSMEs																
Key Result Area 6: MSME Access to finance																
Outcome: Increased access to finance: Improved contribution to GDP through MSMEs																
Strategic objective: To enhance financial inclusion and facilitate flow of credit to MSMEs																
Re-engineering of government affirmative funds to enhance the flow of credit to MSMEs	Establishment and operationalization of MSMEs affirmative Action Funds	Affirmative Action funds (FIF, UWEZO, KIE) for MSME operationalized	Amount of FIF credit/ loans Disbursed	50000	10000	10000	10000	10000	10000	10000	10000	10000	10000	10000	FIF	SDMSMEs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target Y1	Target Y2	Target Y3	Target Y4	Target Y5	Budget (Kshs. Mn) Y1	Budget (Kshs. Mn) Y2	Budget (Kshs. Mn) Y3	Budget (Kshs. Mn) Y4	Budget (Kshs. Mn) Y5	Responsibility Lead	Responsibility Support
			Amounts youth, women, and PWDs Group loans disbursed	1750	250	300	350	400	450	250	300	350	400	450	UWEZO	SDMSMEs
			Amount of industrial credit issued	185	600	1000	800	800	800	600	1000	800	800	800	KIE	SDMSMEs
	Provision of innovative/digital financial services and products	Innovative digital products and services	No. of innovative digital financial products and services provided	5	1	1	1	1	1	5	5	5	5	5	SDMSMEs	KIE, UWEZO, FIF
	Operationalization of MSME Savings	MSME Savings operationalized	Amount of GOK counterpart savings for borrowers (Ksh Billion	22750	2500	3750	5000	5500	6000	2500	3750	5000	5500	6000	FIF	SDMSMEs
			Amount of money saved by MSMEs	11.325	1.25	1.875	2.5	2.7	3.0	-	-	-	-	-	FIF	SDMSMEs

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
	Development of demand driven financial products and services	Demand driven financial products and services	No. demand driven financial products and services developed	4	-	1	1	1	1	-	30	30	30	30	SDMSME	UWEZO KIE FIF
Promote use of alternative collateral for credit underwriting	Develop a national credit rating service	Credit rating service	National credit rating service established	1	-	1	-	-	-	-	20	-	-	-	SDMSME	FIF
	Development of a credit scoring framework	Credit scoring framework developed	No. of frameworks developed	1	0	0	1	0	0	0	0	7	0	0	SDMSME	FIF UWEZO KIE TNT
Enhance the existing credit guarantee scheme to ease credit to unserved and underserved MSMEs and sectors	Review existing credit guarantee scheme	Reviewed CGS	No. of reviews	1	-	-	1	-	-	-	-	5	-	-	SDMSMEs	TNT

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
	Stakeholder engagement for provision of adequate funds to SME Credit Guarantee Scheme	SME Credit Guarantee Scheme stakeholder engagement forums conducted	No. of SME Credit Guarantee Scheme Stakeholder engagements forums	5	1	1	1	1	1	5	5	5	5	5	SDMSME	TNT CBs MFIs AMFIs
Facilitate business startup with Seed capital	Disburse startup grants to youth entrepreneurs (NYOTA)	Amount disbursed			90	800	900	1000	1100	90	800	900	1000	1100	MSEA	SDMSMEs
		No. of youth entrepreneurs benefiting													MSEA	SDMSMEs
Strengthen the financial capacity of MSMEs affirmative Funds	Mobilize adequate resources for MSMEs affirmative action	Financially strong Affirmative funds for MSMEs	Amount in Ksh Mobilized for lending to MSMEs	30000	2000	5000	7000	7000	9000	2000	5000	7000	7000	9000	SDMSME	FIF, KIE, UWEZO
Strategic issue: Inadequate BDS and Weak BDS linkages																
Strategic Goal: Enhanced Business Capacity for MSMEs																
Key Result Area 7: MSME Capacity and Skills development																

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Outcome: Increased Profitability and Competitiveness of MSMEs																
Strategic Objective: To promote entrepreneurial culture and enterprise development																
Provision of demand driven and research-based capacity building programs	Conduct Capacity Building Needs Assessment	A needs assessment report	No. of Reports Developed	1	-	1	-	-	-	-	5	-	-	-	SDMSME	KIBT KIE UWEZO MSEA ACADEMIA
	Reviewing and development of BDS curriculum Modules	Revised BDS curriculum Modules	No. of BDS modules developed	15	8	2	2	2	1	16	4	4	4	2	SDMSME	KIBT KIE UWEZO MSEA ACADEMIA
	Sensitization of MSMEs on BETA value chains	MSMEs sensitized on BETA value chains	No. of MSMEs sensitized annually	2,000	-	500	500	500	500	0	50	50	50	50		
	Mobilization and Capacity building of MSMSEs in Priority value chains	MSMEs within cotton catchment areas mobilized and capacity built	No. of farmer MSME Capacity built	10,000	2,000	2,000	2,000	2,000	2,000	40	40	40	40	40		
		Farmers mobilized and Capacity built in the	No. of farmers mobilized and capacity built	5000	1000	1000	1000	1000	1000	20	20	20	20	20		

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
		Edible oils value chain														
		MSMEs mapped and capacity built on leather value chains	No. of MSMEs capacity built	12,400	1,400	2,000	2,500	3,000	3,500	40	30	30	25	25		
		MSMEs mapped out and capacity built on opportunities in animal feeds	No. of MSMEs mapped out and capacity built	35	7	7	7	7	7	40	40	40	40	40		

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
		MSMEs mobilized and capacity built on opportunities (labour & material supplies)	No. of MSMEs mobilized and capacity built	250	50	50	50	50	50	200	200	200	200	200		
		MSMEs capacity strengthened to venture into economic activities in building and construction	No. of MSMEs capacity build	10000	2,000	2,000	2,000	2,000	2,000	20	20	20	20	20		
	Training of MSMEs on entrepreneurship and value addition	MSMEs trained on entrepreneurship and value addition	No. of MSMEs trained on entrepreneurship and value addition	2,000	200	300	400	500	600	600	600	600	600	600		

Strategy	Key Activities	Expected Output	Output Indicators	Target For 5 years	Target					Budget (Kshs. Mn)					Responsibility	
					Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Lead	Support
Provide continuous Business development support programmes for MSMEs	Provision of Demand driven BDS for MSMEs	MSMEs Trained and	No. of enterprises trained on BDS and mentored	500,000	100,000	100,000	100,000	100,000	100,000	100	100	100	100	100		
		MSMEs advised / mentored	No. of enterprise Advised/ Mentored	50,000	-	12,500	12,500	12,500	12,500	-	10	10	10	10		