STRENGTHENING THE RESILIENCE OF WOMEN AND YOUTH-LED MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES (MSMEs)

EXPERIENCES FROM KENYA

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OVERVIEW OF MSMEs IN KENYA

Micro Enterprise

• Business activity with annual turnover of less than USD 8,620 (Kes.1 Million) and employ between 1-10 employees

Small Enterprise

• Business activity with annual turnover of more than USD 8,620 (Kes.1 Million) and less than USD 43,103 (Kes. 5 Million) and employ between 10-50 employees

Source: Sessional paper 5 of 2020
Micro, Small and Medium Enterprises (MSMEs) play a major role in most economies, particularly in developing countries. They account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide.

Formal MSMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included.

A large share of African firms tend to be small scale, informal, necessity-driven (survivalist) with a stunted life cycle, low productivity in labour-intensive sectors and low incidence of innovation.
SIGNIFICANCE OF MSMEs SECTOR IN KENYA

MORE THAN 80% OF BUSINESSES IN KENYA ARE MSME.

92.2% OF THE LICENSED ESTABLISHMENTS IN THE MSME SECTOR ARE MICRO ESTABLISHMENTS EMPLOYING BETWEEN 1 TO 9 EMPLOYEES.

THERE ARE ABOUT 7.41 MILLION MSMES IN KENYA

- 1.56 million are licensed
- 5.85 million are unlicensed

FORMALITY OF BUSINESSES INCREASES WITH SIZE OF ESTABLISHMENTS SINCE 21.8, 66.8 AND 72.5 PER CENT OF MICRO, SMALL AND MEDIUM BUSINESSES WERE REGISTERED, RESPECTIVELY.

The value of the MSME’s output is estimated at KSH 3,371.7 BILLION against a national output of KSh 9,971.4 representing a contribution of 33.8%.

MEDIUM ESTABLISHMENTS EMPLOYING BETWEEN 50 TO 99 EMPLOYEES ONLY ACCOUNT FOR 0.7% OF THE TOTAL NUMBER OF LICENSED MSMES IN THE COUNTRY.

MSMES EMPLOY ABOUT 14.9 MILLION KENYANS
### SIGNIFICANCE OF MSMEs SECTOR IN KENYA

<table>
<thead>
<tr>
<th>Job Creation</th>
<th>Economic Growth</th>
<th>Balanced development</th>
<th>Innovation and Competition</th>
<th>Gender Mainstreaming</th>
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<tbody>
<tr>
<td>Given the low start up and operational costs, informal sector absorbs labor more easily than the formal sector.</td>
<td>18.4% of Kenya’s GDP is from the informal sector.</td>
<td>Limiting rural-urban migration by absorbing labor from rural workforce.</td>
<td>Provides competition to the formal sector with cheaper prices and innovative goods.</td>
<td>Informal employment is a large source of employment for women and excluded youth.</td>
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KEY CHALLENGES FACED BY MSEs

Access to decent & safe worksites
Access to affordable credit
Market access & Linkages
Highly informal sector
Inadequate Entrepreneurial skills
Limited Digital Skills
Liquidity Constraints
EFFECTS OF COVID-19 ON MSMEs IN KENYA

• According to the National Survey on the Effects of Covid-19 on Women and Youth-Led MSMEs in Kenya, (UNDESA, 2022), Covid had varying effects on the operations of MSMEs.

- Closure of businesses
- Reduction of employees - Layoffs
- Disrupted Market Linkages
- Uptake of loans as well as Default on loans
- Use of Marketing and payments platforms
- Reduction in Sales
- Challenges in logistics and shipping of products
According to the survey 46% of the businesses closed for more than one year during the Covid period.

Close to two thirds (63%) of the women led MSEs closed while 44% of the youth led and 40% of the male led businesses closed business temporarily.
CLOSURE OF BUSINESSES

Close to half of the MSMEs closed business and took more than one year to resume business

Proportion of businesses that closed temporarily
Proportion of businesses that closed temporarily during Covid period (2022)

Period of businesses closure
Period businesses temporarily closed during Covid period (2022)

Did not close
54%

Closed
46%

A few weeks
5%
1 month
4%
2-3 months
19%
6 months
27%
1 year
26%
More than one year
20%

Business temporary closed
Period of closure
On access to finance, a third of the MSMEs took loans to boost businesses; more youth led MSMEs as compared to women or men led MSEs took the loans.

**Businesses that procured loans during COVID period**

Proportion of MSMEs that took loans by type of business leadership

- Did not get loan: 67%
- Got loan: 34%
  - Men led: 35%
  - Youth led: 42%
  - Women led: 23%

**Reasons for taking loans during COVID period**

Proportion of businesses by loan utility

- To boost business operations: 66.1%
- To recover/revive business: 23.8%
- To expand business operations: 10%
- Personal use: 6.1%
- To pay employees wages/salaries: 3.8%
- Start another business: 1.5%

Youth led MSMEs had a greater appetite for loans contrary to the women led implying youths as risk takers and women as risk.
On repayment of the loans, more youth and male led businesses defaulted on loan instalments as compared to women led MSMEs.

**MSMEs that defaulted loans by type of business leadership**

- **Men led**: 35%
- **Youth led**: 39%
- **Women led**: 26%

**Business loan instalments default during COVID period**

- **Defaulted**: 72%
- **Did not default**: 28%
USE OF DIGITAL PLATFORMS

To keep MSMEs on the digital space, Mpesa services and social media dominated payment and marketing space across all types of businesses.

**Marketing platforms**

Proportion of MSMEs using digital marketing by the type of business leadership

**Payment platforms**

Proportion of MSMEs using digital payment by the type of business leadership
• According to the survey a third of the businesses indicated that they had taken loans to support their businesses out of which youth led and male led businesses formed more than two thirds of the population.

<table>
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<tr>
<th>Got a loan during Covid period</th>
<th>Business leader</th>
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<tbody>
<tr>
<td></td>
<td>Male led</td>
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<tr>
<td>Yes</td>
<td>35.4</td>
</tr>
<tr>
<td>No</td>
<td>44.8</td>
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<tr>
<td>Total</td>
<td>41.8</td>
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GOVERNMENT SUPPORT TO MSMES DURING THE PANDEMIC

• Reduction in turnover taxes for all Micro, Small and Medium Enterprises (MSMEs) from 3% to 1%. The reduction in tax rate was expected to benefit the MSMEs whose turnover does not exceed USD 43,478.
• Fast-tracking the clearance of pending bills and acceleration of VAT refunds.
• Temporary suspension of the listing with Credit Reference Bureaus (CRBs) of MSMEs to provide liquidity, stabilize financial markets and maintain investor confidence in the country.
• Fast tracking payment of outstanding verified VAT refund claims and pending bills owed to businesses – USD 85.7M was allocated.
• Allocation of USD 6.1M to provide credit targeted to Micro, Small and Medium Enterprises in the manufacturing sector.
GOVERNMENT SUPPORT TO MSMEs DURING THE PANDEMIC

• Credit Guarantee Scheme (CGS) was established by the Kenyan Government to unlock access to credit by MSMEs. A seed capital of USD 25.6 Million was allocated in the FY 2020/21.

• Provision of grants and business development training to youth entrepreneurs under Kenya Youth Employment and Opportunities Project (KYEOP).

• Distribution of hand washing tanks and facemasks to MSE worksites around the country to enable them continue with their operations while protecting themselves from the disease.

• Moratorium on banks not to increase interest rates. Additionally CBK provided flexibility for loan classification and provisioning for loans that were performing on 2nd March 2020 but need to be restructured because of COVID-19.
## LESSONS LEARNT

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<tr>
<th>Going Forward</th>
<th>Need to prepare MSMEs to cope with business disruptions</th>
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<td>Need to embrace technological innovations - Digitization</td>
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<td>There is need to increase information flow especially on available support availed by Government</td>
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<td>Capacity building of MSMEs on various areas such as disaster preparedness</td>
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<td>Building domestic demand for locally manufactured goods and services</td>
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<td>There is need to have realtime data on MSMEs for fast decision making and evidence based policy formulation</td>
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<td>It is more effective to offer support to formalized MSMEs</td>
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THANK YOU