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TRACKER SURVEY

MARCH 2023

TRACKER SURVEY: Follow-up on 2019
and 2021 FinAccess Household Surveys

About the Micro and Small Enterprises (MSEs) Tracker Survey

The *MSEs Tracker Surveys* are produced by the Central Bank of Kenya in collaboration with the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya after Financial Access (FinAccess) Surveys. FinAccess Surveys have been conducted in Kenya every 2 to 3 years since 2006 through Public-Private Partnership.

The *MSEs Tracker Surveys* use a sample from the *FinAccess Surveys* and target households who derive their income from businesses. Data is collected on business profile, access to finance, technology and innovation, climate change, business environment and nexus between business performance and household welfare. The *Tracker Surveys* provide data used to assess the resilience of MSEs and identify challenges and opportunities the enterprises face

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TRACKER SURVEY

Follow-up on 2019 and 2021 FinAccess Household Surveys

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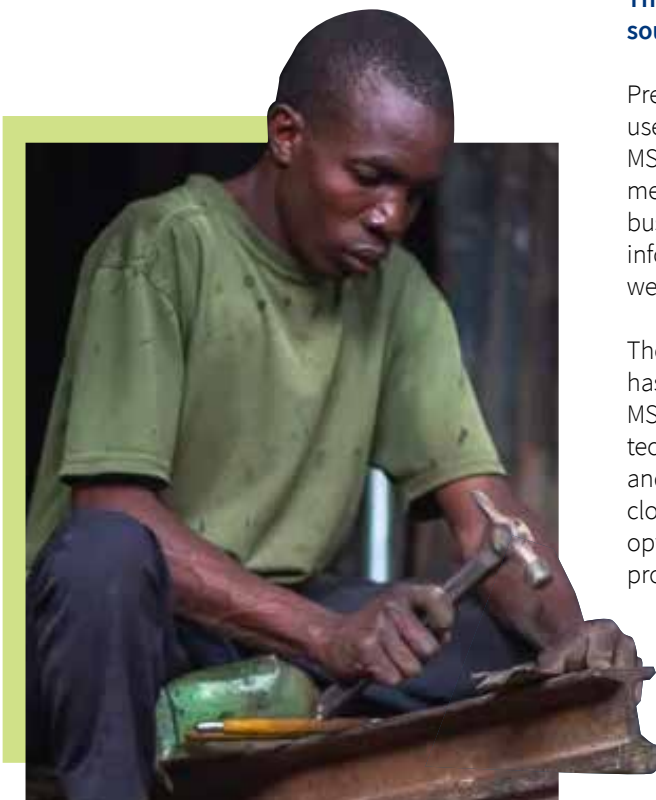


Foreword

This report presents findings on Micro and Small Enterprises (MSEs) Tracker Survey that was conducted between October to November 2022. The survey was carried out as a follow up telephone interviews based on the 2019 and 2021 FinAccess Household Surveys. The target respondents are individuals whose main source of income was business/ self-employment.

Previous MSEs tracker surveys conducted in 2021 provided very useful lessons on how the COVID-19 pandemic affected the MSEs. We were also able to assess the effectiveness of intervention measures by both the private and public sector to support business recovery in the post-pandemic period. Detailed information of these surveys can be accessed on Central Bank's website, <https://www.centralbank.go.ke/finaccess/>.

The MSE Tracker Survey is the first in a series of three cycles that has been undertaken to provide datasets and information on MSEs in Kenya. It identifies key characteristics of MSEs, role of technology in driving MSEs, financing and supply chain challenges and opportunities, marketplace dynamics, household dynamics, closed businesses, capacity building needs for MSEs, businesses' optimism and possible areas of interventions. The survey findings provide information on access to financial services, challenges in access to markets, access to supplies, access to credit, customer demand, and business environment for MSEs. The team involved will conduct similar surveys in future on the same respondents to assess the survival rate, growth and coping mechanisms of MSEs in Kenya. This information is useful in assessing the impact of various





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Governor, Central Bank of Kenya



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policies, innovations, and other intervention measures to MSEs.

The issues of focus in these surveys are well captured in the Kenya MSME policy 2020 that identifies expansion of access to formal financial services, financial education and credit sharing as critical to growth of the MSMEs sector. In addition, The Medium Term Plan (MTP) IV for 2023/24-2025/26 has extensively covered the proposed measures to develop the Micro Small and Medium Enterprise (MSME) Economy as a priority area. Among the supportive areas of focus are the implementation of favourable tax regime, support to business start-ups, training/skills development, establishment of industrial parks, enhancing access to markets and increased access and credit through The Financial Inclusion Fund (Hustler fund). These MSE Tracker survey topline findings have identified these issues among the challenges facing MSEs.

The data was collected from October 25, 2022 to November 15, 2022 through Computer Assisted Telephone Interviews (CATI). The survey sample for MSEs was drawn from FinAccess 2019 and 2021 household Surveys, targeting 4,125 respondents who indicated that they owned business or were self-employed. A total of 2,394 respondents were able to answer calls from research assistants. Of these, 1,715 indicated that their businesses were still operating, while 679 had closed.

The survey provides important results for government, policy makers, innovators, and the private sector with interest in supporting inclusive finance and inclusive growth. Just to mention a few of these findings, of the 71.6 percent MSEs were operational at the time of the survey; 43.1 percent were female owned, while 28.5 percent were male owned. Of the 28.4 percent of the businesses that closed, 18.4 percent were male-owned, while 9.9 percent were female-owned. The survey indicates that more businesses in operation were in rural areas at 50.6 percent, compared to 49.4 percent located in urban areas during the survey period. Thus, women owned MSEs and those operating in rural areas have a higher survival rate. Businesses owned by respondents aged above 36 years were operational compared to those owned by youths (35 years and below) and most of the operational businesses, 93.3 percent are sole ownership.

We wish to thank the analytical team drawn from CBK, KNBS and FSD Kenya for spending long hours during the planning, questionnaire preparation, field work, data analysis and report writing. They have done a splendid job in rolling out yet another important piece of work. We look forward to the information that will come from the next cycles of Tracker Surveys to track the MSEs dynamics.

We invite the public and private sector to access this report as well as previous Tracker Surveys Reports, on the websites of CBK, KNBS and FSD Kenya for detailed information. They can also access respective datasets and use them to conduct analysis that suit their needs. We hope readers and other stakeholders will find information coming out of these reports useful for their needs. We look forward to receiving feedback for any future improvement.

Abbreviations and Definitions

CATI	Computer Assisted Telephone Interview
CBK	Central Bank of Kenya
Chama	Kiswahili word for Informal Savings Group
COVID-19	Novel Corona Virus Detected in 2019
FSD Kenya	Financial Sector Deepening Trust Kenya
GOK	Government of Kenya
Jua Kali	Kiswahili word for 'Hot Sun' - Collection of traders and artisans mostly operating in open air /temporary structures
KNBS	Kenya National Bureau of Statistics
KSh	Kenya Shilling
MPESA	Mobile-based money transfer service offered by Safaricom Kenya Limited
MSEA	Micro and Small Enterprises Authority
MSME	Medium, Small and Micro Enterprises
MTP	Medium Term Plan
NHIF	National Hospital Insurance Fund
POS	Point of Sale device



Acknowledgments

The report presents findings of the Micro and Small Enterprises' Tracker Survey based on 2019 and 2021 FinAccess Household Surveys samples. The Tracker Survey was conducted to follow-up on respondents who indicated they owned business in the two Surveys. The report has been prepared through the partnership of Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya.

We take this opportunity to thank the leadership of CBK, KNBS and FSD Kenya for the direction, guidance, funding and unwavering support to undertake the survey and to produce this report. The stewardship was ably provided by: Dr. Patrick Njoroge, Governor of the CBK, Mr. Macdonald Obudho, MBS, Director General, KNBS, and Ms. Tamara Cook, CEO, FSD Kenya.

We also wish to thank Prof. Robert Mudida, Director of Research at the CBK; Mr. Collins Omondi, Director of Macroeconomic Statistics, KNBS; and Dr. Amrik Heyer, Senior Research

Advisor at the FSD Kenya for providing technical advice and leadership during implementation of the survey and preparation of the report.

Special recognition goes to the team, that worked around the clock to implement the survey and spent long hours sifting through the datasets to prepare this report. These include; Mr. Cappitus Chironga, Dr. Samuel Kiemo, Ms. Irene W. Rugiri, Dr. Peter Wamalwa and Mr. Julius Bett, from the CBK; Mr. Simon Gaitho, Ms. Tabitha W. Mwangi, Mr. William Etwasi, Mr. Silvester Maingi, Mr. Cruyff Matunde, Mr. Lucas Sagire, Ms. Candy Ading and Mr. Peter Kamau from KNBS; and Ms. Lukania Makunda and Mr. Peter Gakure from FSD Kenya.

Special thanks go to Ms. Sylvia Anam of CBK and Mr. Conrad Karume of FSD Kenya, who not only designed this report, but also continuously improved on its aesthetics. We also express our gratitude to other people who supported this team behind the scenes to ensure the report and its publication was a success.

Executive Summary

Financial Access (FinAccess) Surveys have been conducted in Kenya every 2 to 3 years since 2006 through a Public-Private Partnership. The surveys provide data that enhance understanding of the financial inclusion landscape from the customer side by measuring access to financial services and products.

The Surveys provide data on the changing financial landscape as a result of technological innovations, change in products and consumer behaviour, demographic dynamics, impact of policy changes, entry of different players and other external factors. The surveys also provide insights into actual use of these services and products, *quality* derived by using them, and how they have *impacted* on the livelihoods of consumers.

Since 2019, the Central Bank of Kenya in collaboration with the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya have conducted Tracker Surveys targeting specific thematic areas or modules after release of FinAccess Household Surveys top line findings. The team conducted three rounds (also known as waves) of tracker surveys based on the 2019 FinAccess sample and results published in November 2020, March 2021, and July 2021, can be found at: (<https://www.centralbank.go.ke/finaccess/>).

The tracker surveys sought to assess how micro and small enterprises (MSEs) responded to and coped during the COVID-19 pandemic, hence referred to as FinAccess COVID-19 MSE Tracker Surveys. Data collection was phone-based, administered through a Computer Assisted Telephone Interview (CATI). This provided useful data needed then by policy makers to respond to the needs of MSEs in mitigating the impact of COVID-19 pandemic. The MSE Tracker Survey sample was drawn from the 2019 FinAccess household survey sample, which included data of 1,610 respondents across the 47 counties who had indicated that their main source of income in 2019 was self-employment.

Those who accepted to be interviewed and their businesses were operating during the three waves were **603, 442** and **433** respondents, respectively. The results in the three surveys indicated that COVID-19 pandemic impacted on MSEs significantly, in terms of low customer demand, decline in revenues, and reduced business resilience. However, government and private sector intervention measures such as; Bank loan restructuring, waivers on VAT and turnover tax and suspension of credit bureau reporting and establishment Credit Guarantee Scheme provided support for business recovery or opening of new businesses. Most of the micro firms that are largely informal and small in size, did not benefit from these measures.

The MSE Tracker Survey March 2023 is the first cycle (wave) conducted on a sample drawn from the 2019 and 2021 FinAccess Household Survey datasets. It seeks to fill knowledge gaps by providing data on micro and small firm's characteristics by tracking their evolution over time. The Survey sample was drawn from the FinAccess Survey 2019 and 2021 datasets for respondents who indicated they operated business. It involves MSEs that do not have employees (owner-operated), and those with 1 - 9 employees. The 2019 survey had 1,199 respondents while the 2021 survey had 2,926 respondents who indicated that their

Micro firms comprise:



Main activity of business

- 57% Wholesale/retail
- 8% Manufacturing
- 8% Personal services
- 6% Food & acc
- 7% Transport
- 14% Other

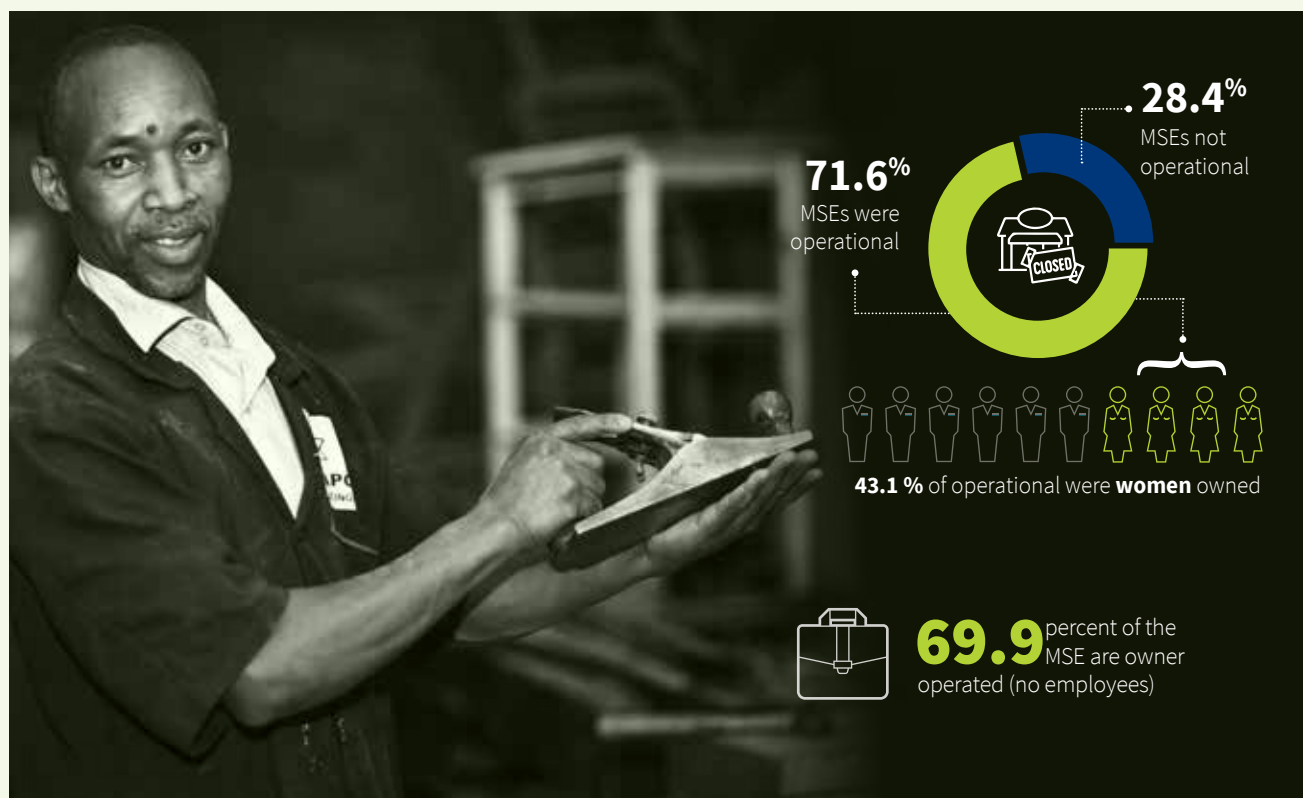
main source of income was from their own business or self-employment. The survey sample is therefore a non-probability and is based on respondents' availability and willingness to answer questions. The data collection through a Computer Assisted Telephone Interview (CATI), was done from October 25, 2022 to November 15, 2022.

Therefore, a total of **4,125** respondents with their own businesses or self-employment agreed to participate in the follow-up surveys and provided their contact phone numbers. Of the total sample, **2,394** respondents picked the telephone calls and agreed to answer the survey questions. Of the **2,394** respondents, **1,715** indicated that their businesses were still operating, while **679** had closed shop.

The survey provides important results for government, policy makers, innovators, and the private sector with interest in supporting inclusive finance and inclusive growth. At the time of the survey, 71.6 percent of MSEs were in operation; the proportion

of operational businesses was higher in the rural areas at 50.6 percent compared to urban areas at 49.4 percent. The result indicates a higher proportion of businesses for respondents with over 36 years compared to enterprises owned by respondents aged 18-35 years (youths). Of the operational businesses, 93.3 percent were sole proprietors, while 5.9 percent and 0.8 percent, were jointly owned by another person and owned by more than two people, respectively.

The results also indicate that 46.6 percent of MSEs were owned by respondents who had primary school as their highest level of education completed compared to secondary school and college/university graduates. This might indicate that the latter group has more options to livelihood including formal employment than just starting a business. A higher proportion of those operating businesses, owned more than one type of business, thus using diversification to manage risks rather than owning just one business. This was more so where the original business grew in size.



The [MSE] sector accounts for 24% of GDP, over 90% of private sector enterprises and 93% of total labour force in the economy. Development of this sector is therefore central to realization of national development goals anchored in the Kenya Vision 2030.

– State Department of Industrialization Sessional Paper No. 05 of 2020, Kenya Micro and Small Enterprises Policy for Promoting Micro and Small Enterprises (MSEs) for Wealth and Employment Creation

In terms of performance most MSEs surveyed, make a monthly average turnover of between KSh 20,000 and KSh 100,000. This was affected by location, business premises, size, ownership structure, region where they operate and marketing channels. In terms of location, 29.7 percent operated in commercial premises, 42 percent operated from *Jua Kali* sheds, open market, kiosk or and hawking. These groups were more vulnerable to fire, evictions, theft, and natural disasters.

Most MSEs had deployed technology to their operations. Of the total operating businesses, 44.1 percent used digital transaction devices (card reader machines & till numbers) and 14.7 percent had a bank account in the business name. In addition, 13.0 percent, 7.5 percent and 10.6 percent of businesses had membership associations, were registered with the registrar of companies, and had insurance cover, respectively. A higher percentage of businesses located in the urban areas and those with 1-9 employees were digitalized compared to those in rural areas and owner-operated businesses. Youth-owned businesses were more digitalized than those owned by people aged 36 and above. Despite digitalization, cash remains the dominant mode of payment among the MSEs, for both customers and suppliers. Cost, convenience, and ease of acceptance were cited as the main reasons for use of cash.

The survey results indicate that 68.5 percent of MSEs offered goods and services on credit to their customers. Most of the outstanding value of consumer credit ranged from KSh 1,000 to KSh 10,000. Most of the MSEs that offered consumer credit were female-owned, operated in rural areas and were owner-operated. From the supply side, 36.7 percent of MSEs received supplier trade credit (goods or services on credit). More female-owned MSEs and those owned by youths, relied on supplier trade credit. This had implications on liquidity and stocking by MSEs, hence their viability.

MSEs mostly got credit in cash from mobile banking loans, with 58.5 percent of respondents indicating their reliance

“ Youth-owned businesses were more digitalized than those owned by people aged 36 and above. Despite digitalization, cash remained the dominant mode of payment among the MSEs, for both customers and suppliers. Cost, convenience, and ease of acceptance were cited as the main reasons for use of cash. ”



on mobile banking loans, up from 45 percent in 2020. More male owned MSEs relied on mobile banking loans while more female-owned MSEs relied on *Chama*/group loans. This latter outcome could be due to the strong social capital among women than men, and flexible repayment periods. Regardless of the source, most credit was taken to buy stocks/supplies while a good proportion also used it to repay existing credit lines. MSEs in the wholesale and retail trade sector were the largest users of credit market.

The main challenge reported by most MSEs was lack of supplies in quantity and quality required as well as high cost of supplies. This could be attributed to high inflation and prevailing energy prices. Supply chain constraints, cash flow problems, high cost of doing business, and limited access to markets also came out as key.

In terms of closed businesses, 42 percent cited lack of working capital to cover operating expenses 21 percent reported lack of customer demand or a drop in sales 9 percent reported illness, 6 percent reported indebtedness and 5 percent reported household responsibilities. About 39.7 percent of the closed businesses tried to source for any capital but failed. The ratio was higher for male-owned businesses and those operating in urban areas. A large proportion (54.2 percent) of respondents with closed businesses wish to re-open the same business in the next 12 months, 25.6 percent indicated that they would start a different business while 20.2

percent reported that they do not intend to re-open or start a new business in the next twelve months. Female business owners (56.7 percent) indicated intention to re-open the business compared to 49.6 percent male respondents. Government support in form of a grant ranked highest, at 58.9 percent of the preferred source funding, especially among the female respondents. Most capital required to reopen or start a new business was reported to range between KSh 20,000 and KSh 50,000.

In terms of businesses optimism, most respondents indicated better business performance in the next 12 months if the Government provided non-financial assistance including good infrastructure (25.4 percent), marketing (20.3 percent) and necessary business training (16.9 percent). The latter result is important, since only 31.7 percent of owners of small businesses indicated having training in their respective area of business. Indeed, 90.1 percent of those trained, indicate that this has helped them in running their businesses.

This tracker survey report therefore has lessons for all stakeholders. It offers policy makers room to create a better operating environment while the private sector and innovators have room to come up with suitable products that suite their needs. This is beneficial to both MSEs and the entire economy in wealth creation, poverty eradication and employment creation.



1.0 Introduction

MSEs, with 1-9 employees, account for 98 percent of all businesses in Kenya (MSME Survey, 2016). The majority (65 percent) of these MSEs operate without a business license (FinAccess, 2019) even fewer are registered with the national Registrar of Companies (92 percent not registered).

Unlike the broader MSME sector, which includes small and medium-sized enterprises, many of MSEs tend not to exist in Government administrative data, such as business licenses lists. This has created a dearth of recent and reliable data on micro firms.

MSEs are catalysts for inclusive growth, straddling households and larger businesses, playing a pivotal role in economic development at county and national levels. In addition, MSEs are also of particular importance for women, with a high prevalence of women owners.

A key development priority envisioned in the forth-coming fourth Medium Term Plan (MTP-IV) for 2023/24-2025/26 is the Micro Small and Medium Enterprise (MSME) Economy.

Key areas of focus as per the medium-term plan include: Implementation of favourable tax regime for manufacturing MSMEs/firms; support business start-ups, and MSMEs on industrial property rights protection and training/skills development; establishment of MSMEs industrial parks; establishment of a Financial Inclusion Fund (Hustler Fund) for MSMEs to provide access to affordable medium to long-term finance; and enhancing market access of MSMEs goods and services.

The FinAccess MSE Tracker Survey provides indepth information on MSEs. The analysis of these MSEs were categorised into two: owner-operated businesses (without employees), and those with at least one employee (small firms) (Table 1.1).

Table 1.1: Scope of the Tracker Survey

Definition of MSEs	FinAccess Tracker Survey
Micro enterprise: annual turnover is below KSh 1 million and meets any of the following criteria: <ul style="list-style-type: none">Employs less than 10 people; orHas total assets as determined from time to time by the Cabinet Secretary (Responsible for matters relating to MSEs).	<ul style="list-style-type: none">87.4 percent had turnover below KSh 1 million69.9 percent had no employees29.5 percent had 1 to 9 employees
Small enterprise: annual turnover ranges between KSh 1 million and KSh 5 million and meets any of the following criteria: <ul style="list-style-type: none">Employs between 10-50 people;Has total assets as shall be determined from time to time by the Cabinet Secretary (Responsible for matters relating to MSEs)	<ul style="list-style-type: none">12.6 percent have turnover above KSh 1,000,000Less than 1 percent had 10 or more employees

NB: In the 2023 MSE Tracker Survey, the number of businesses with between 10-49 employees were 11 businesses which were merged with businesses with 1-9 employees.
Source: Sessional Paper No. 05 of 2020 on Kenya Micro and Small Enterprises Policy¹

The FinAccess MSE Tracker Survey (MSE Tracker Survey) attempts to fill some of these knowledge gaps, specifically by providing data on micro firm's characteristics. The survey aims to track the evolution of these micro firms over time. The survey was conducted by the Central Bank of Kenya (CBK) in collaboration with the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya. The Survey sample was drawn from the FinAccess

Survey 2019 and 2021 datasets for respondents who indicated they operated businesses as their main source or secondary source of livelihood.

1.2 Survey Objectives

The main objective of the MSE survey was to monitor the resilience of these enterprises and to identify opportunities to strengthen them. The survey provides

1. <https://msea.go.ke/wp-content/uploads/2021/07/MSEs-Policy.pdf>

statistical indicators to enable policy makers and industry players to gain a better understanding of the MSME segments of the economy.

The survey outputs generate information for:

- Monitoring status, and drivers of MSEs growth and performance;
- Tracking progress, resilience, and emergent issues in micro-enterprises landscape;
- Support evidence-based decision making, strategies and policies; and
- Provide data to stakeholders including policy makers, public and private sector actors; and researchers;

1.3 Survey Methodology

The 2023 MSE Tracker Survey targeted mainly micro enterprises comprising of businesses that do not have employees (owner operated), and those with

1 - 9 employees, based on the 2019 and the 2021 FinAccess household surveys. The 2019 survey had 1,199 respondents whereas the 2021 survey had 2,926 respondents who indicated that their main source of income was from their own business or self-employment. This resulted in a total of 4,125 respondents with own business or self-employment who agreed to participate in the follow-up surveys and provided their contact phone numbers. Therefore, this formed the target sample for the MSE Wave 1 Tracker Survey out of which 2,394 calls successfully went through.

The survey sample was therefore non-probability based on respondents' availability and willingness to participate. The survey provides valuable information: on the current situation of, and challenges faced by businesses across the country; and the experiences on micro and small enterprises in the recent past. Hence, this will enhance understanding of the impacts on micro firms.

Table 1.2: Analysis of Survey Sample Size and Response Status

	Description	Number
1.	Households with Business (2019 FinAccess Survey), sample size 11,000 households	1,199
2.	Households with Business (2021 FinAccess Survey), sample size 30,600 households*	2,926
3.	Total Number of Households with Business	4,125
4.	Business owners who agreed to be interviewed:	2,394
	▪ Number of households with active businesses who consented to and completed the interview	1,715
	▪ Number of households with closed businesses	679

NB. Number of business with more than 10-49 employees – 11 business, * The 2021, sample was expanded to cover regional administrative units (County governments and national government)

The survey was a phone-based data collection exercise which was administered through a Computer Assisted Telephone Interview (CATI) instrument from October 25, 2022 to November 15, 2022. In Wave 1, out of the 2,394 who successfully participated in the MSE tracker follow-up survey, 1,715 (71.6 percent) were still operating active businesses while 679 had ceased business operations (**Table 1.2**).

The survey provided indicators to enable policy makers and industry players to gain a better understanding of the MSME segments of the economy.



Survey March 2023



2.0 Business Characteristics

2.1 Business Operational Status

The survey sought to assess the operational status of business respondents who indicated they were operating businesses during the FinAccess Household survey of 2019 and 2021. The findings from the survey indicate that 71.6 percent of these businesses were still operational during the time of survey while 28.4 percent were no longer in operation (Figure 2.1a);

The proportion of operational businesses was higher in the rural areas at 50.6 percent compared to urban areas at 49.4 percent.

Figure 2.1a: MSE Operational Status
(% adults 18+ business owners, MSE tracker 2023)

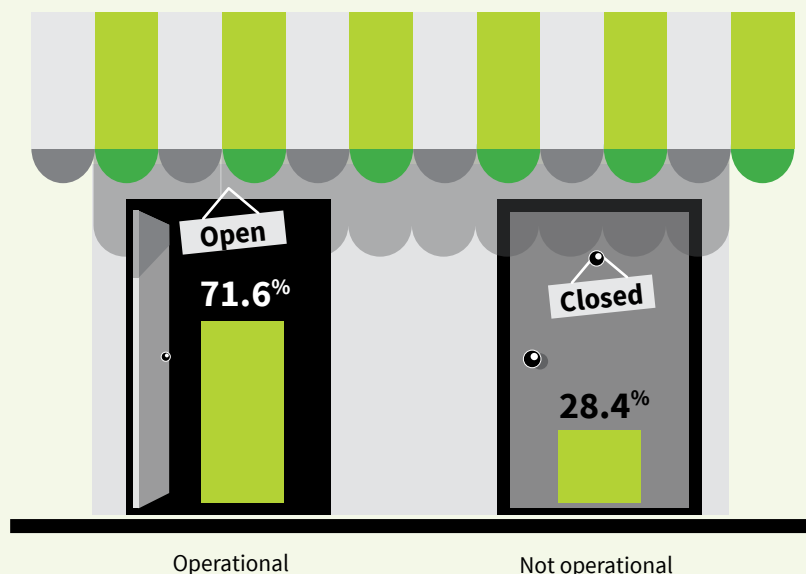
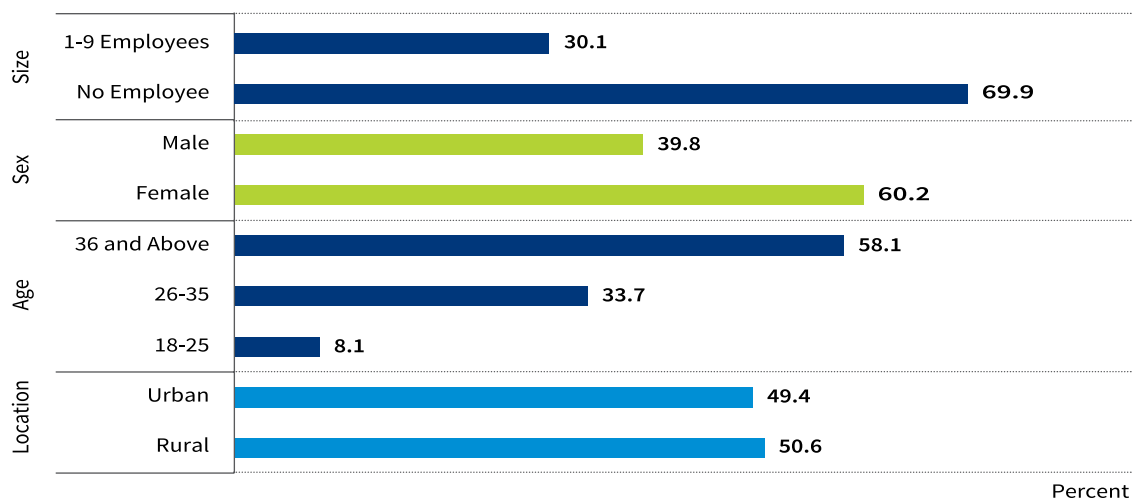


Figure 2.1b: Profile of Operational Businesses (% adults 18+ active businesses, MSE tracker 2023)



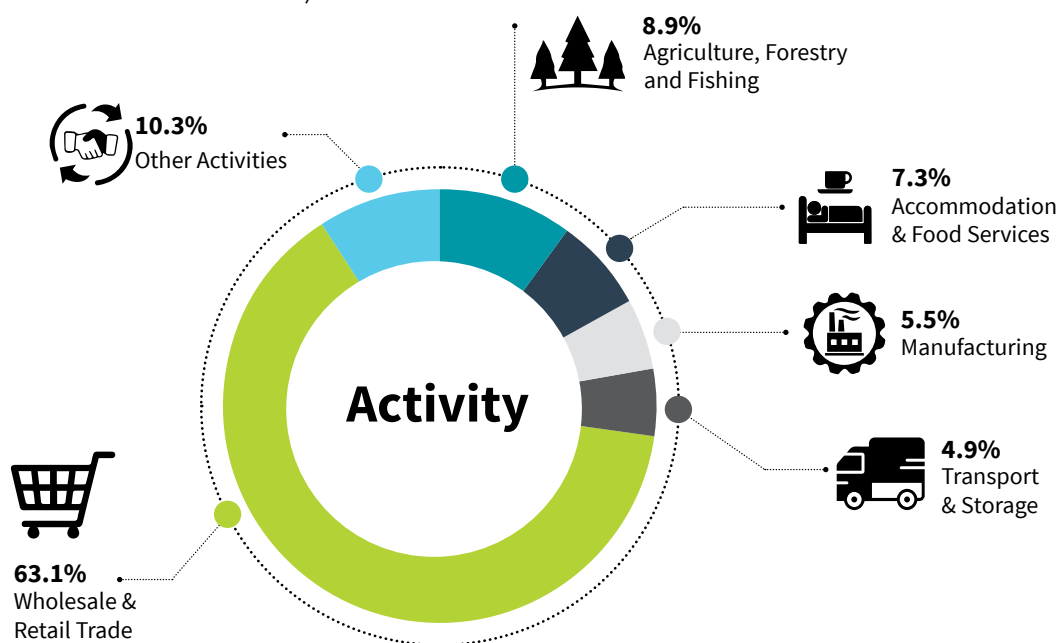
Source: FinAccess 2019 & 2021

A higher proportion of businesses for respondents aged 36 years and above were operational compared to enterprises owned by respondents aged 18 -35 years (youths). Of the operational businesses, 93.3 percent were sole proprietors, while 5.9 percent and 0.8 percent, were jointly owned by another person or owned by more than two people, respectively (**Figure 2.1b**).

2.2 Economic Sectors

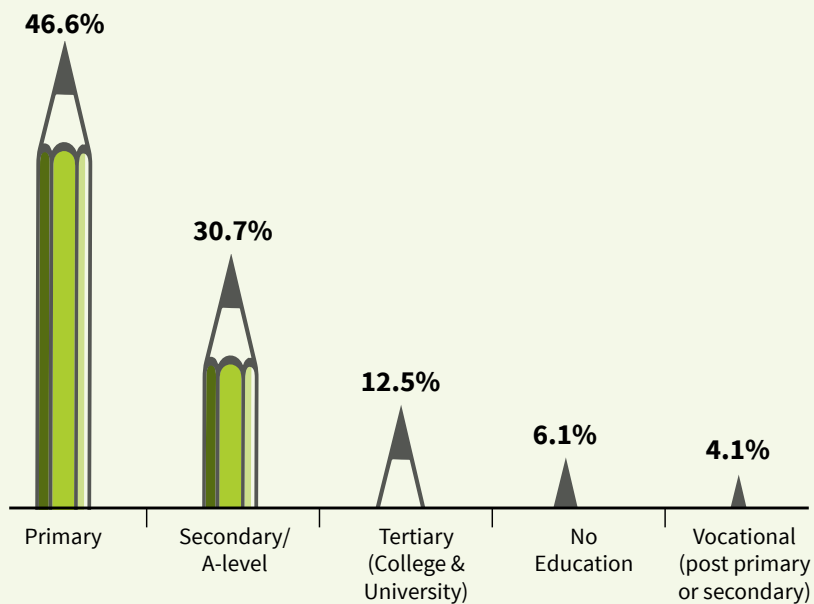
Majority of the operational small businesses were in the wholesale and retail trade sector (63.1 percent). On the other hand, only 8.9; 7.3 and 5.5 percent were engaged in Agriculture, Forestry and Fishing; Accommodation and Food Service Activities and Manufacturing sectors, respectively (**Figure 2.2**)

Figure 2.2:
Distribution of MSEs by Sectors of Main Business
(% adults 18+ active businesses)

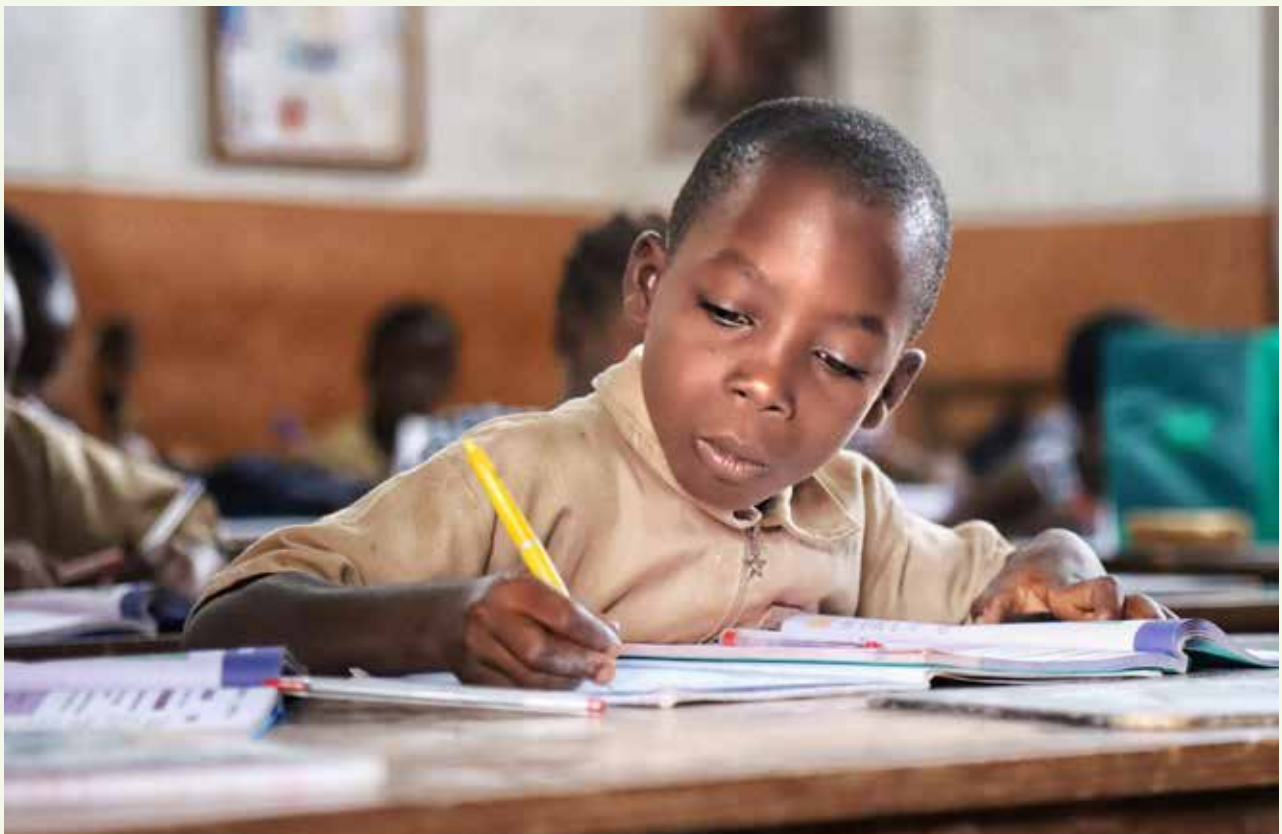


2.3 Highest Education Level Completed by the Business Owners

Figure 2.3: Business Owner Highest Level of Education
(% adults 18+ active businesses, MSE tracker 2023)



The survey result indicated that majority of business owners were primary school graduates (46.6 percent) followed by secondary school (30.7 percent). Owners of businesses with tertiary (middle level college and university) were 12.5 percent (**Figure 2.3**).

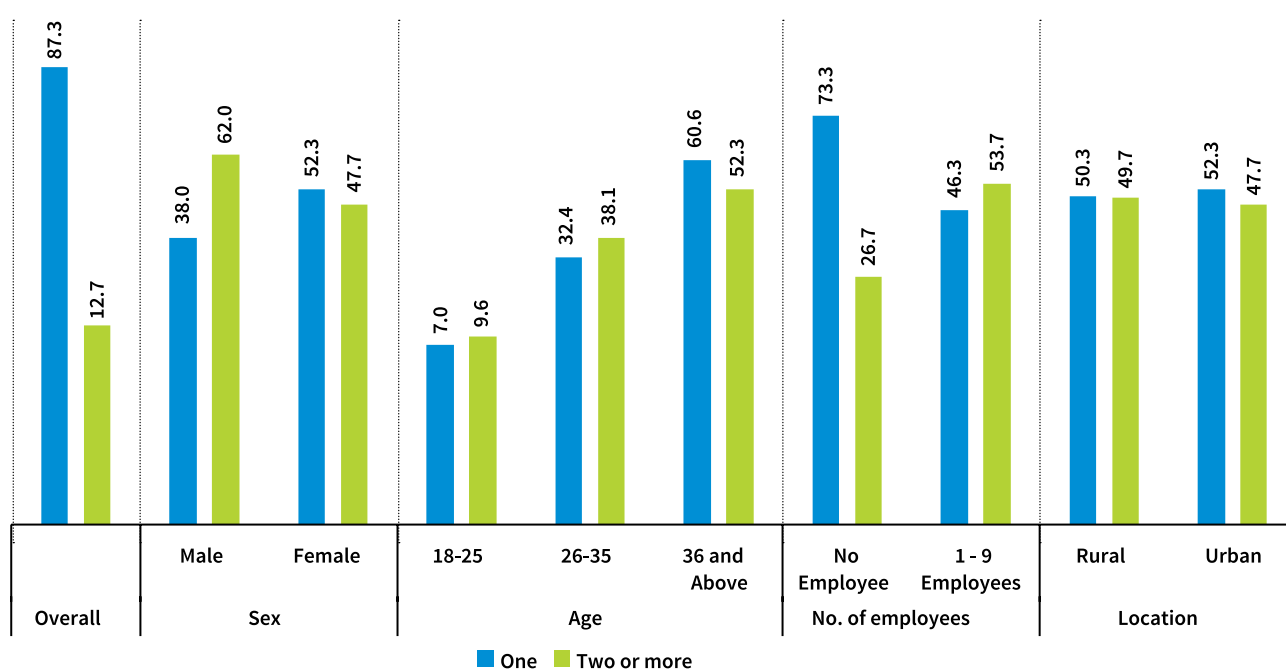


2.4 Number of Businesses Operated by the Respondent

Running several enterprises was common among MSEs. This was seen as a key to diversify livelihoods to manage risks associated with one business, which aims to increase income and wealth. The survey results indicated that 87.3 percent of respondents operated one business while 12.7 percent operated more than

one businesses. Further, 62 percent of males had more than two businesses compared to 38 percent with one business. Over 70 percent of respondents with owner-operated businesses had one business, while 53.7 percent of respondents with 1-9 employees had more than two businesses. (**Figure 2.4**).

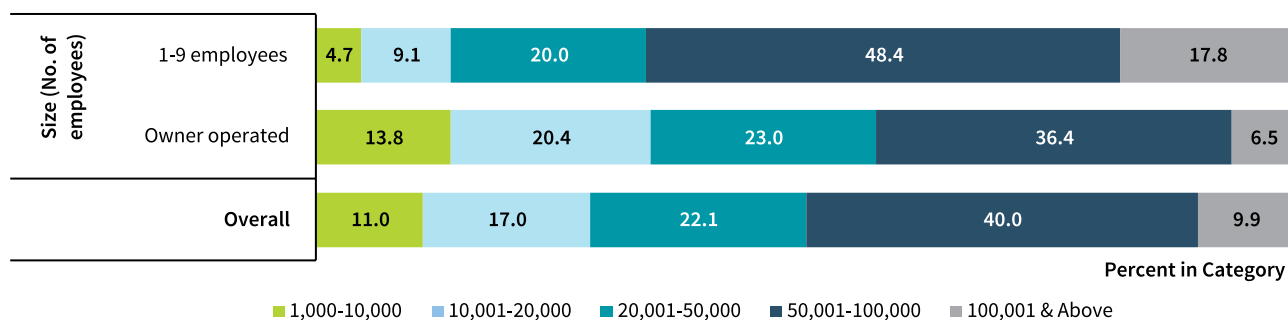
Figure 2.4: Number of Business Operated by the Respondent
(% adults 18+ active businesses, MSE tracker 2023)



2.5 Business Turnover

Turnover, an essential indicator of the performance of MSEs in Kenya. Variations in turnover were often due to factors such as location/type of business premise, size, region they operate in and marketing channels. The survey findings indicated that a majority of MSEs made a monthly turnover ranging between KSh. 20,000 to KSh. 100,000 (**Figure 2.5a**).

Figure 2.5a: Distribution of Monthly Turnover of MSEs (% adults 18+ active businesses, MSE tracker 2023)



Businesses with one to nine employees recorded more revenue than owner-operated firms (**Figure 2.5c**). Of the businesses with one to nine employees, 66.2 percent reported an average revenue over KSh. 50,000 per month compared to 42.9 percent of owner operated firms. Having more employees could enable enterprises to expand their operations and reach a wider customer base. In addition, having more employees enables MSEs to leverage on their skills and expertise to provide a wider range of products, improve efficiency, and enhance marketing and customer engagement (**Figure 2.5a**).



Figure 2.5b: Distribution of Monthly Turnover of MSEs by area of operation
(% adults 18+ business owners, MSE tracker 2023)

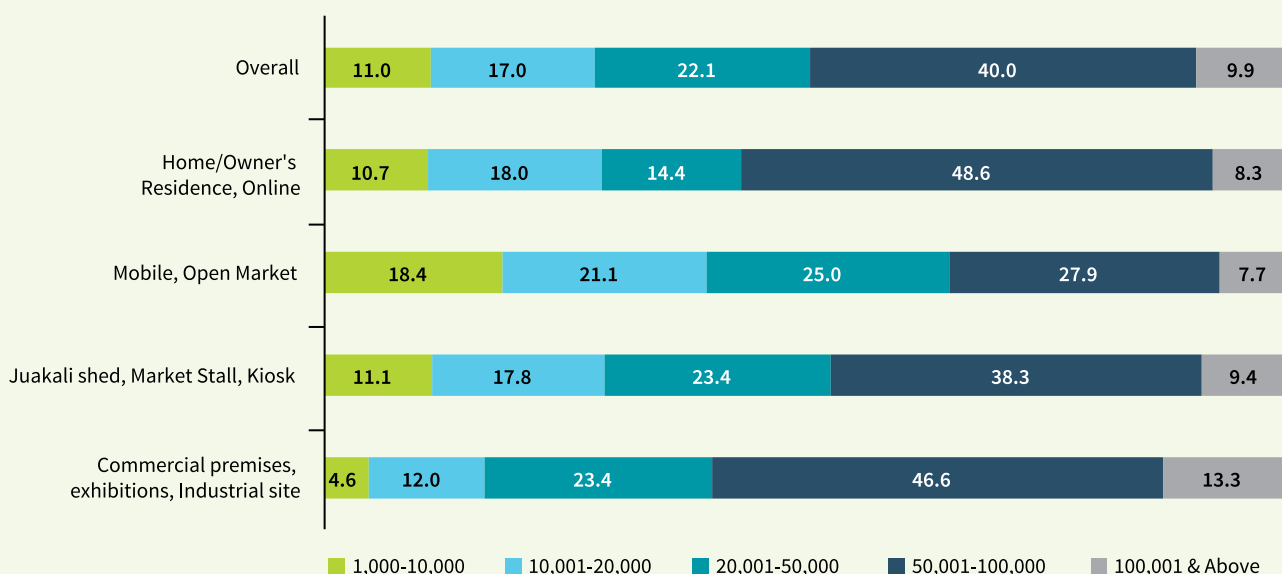
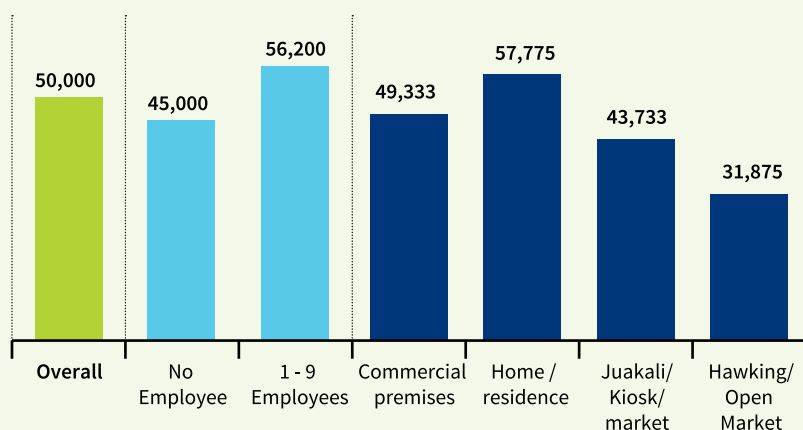


Figure 2.5c: Median Monthly Turnover
(% adults 18+ business owners, MSE tracker 2023)



Enterprises operating in commercial premises had more revenue compared to those operating in other premises. Of the enterprises operating in commercial premises, 60.0 percent made an average revenue exceeding fifty thousand shillings per month. This could be associated with the ability of these firms to access established supply chain networks such as key distributors, manufacturers compared to hawkers and those operating in kiosks (**Figure 2.5b**).

2.6 Business Operating Premises

The location where the business operates influences growth of the business. The survey findings showed that 30.1 percent of the businesses operated in commercial premises, while 24.2 percent operated from *jua kali* sheds, and 26.6 percent operated from no fixed location (hawking) **Figure 2.6**.

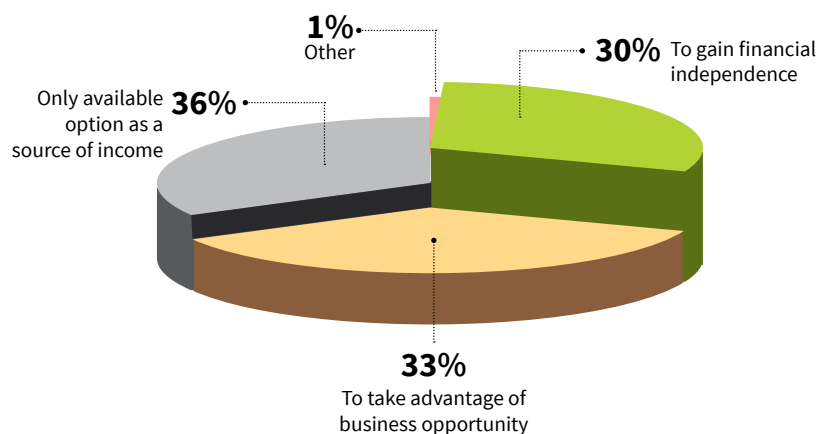
Figure. 2.6: Areas of Business Operation (% adults 18+ business owners, MSE tracker 2023)

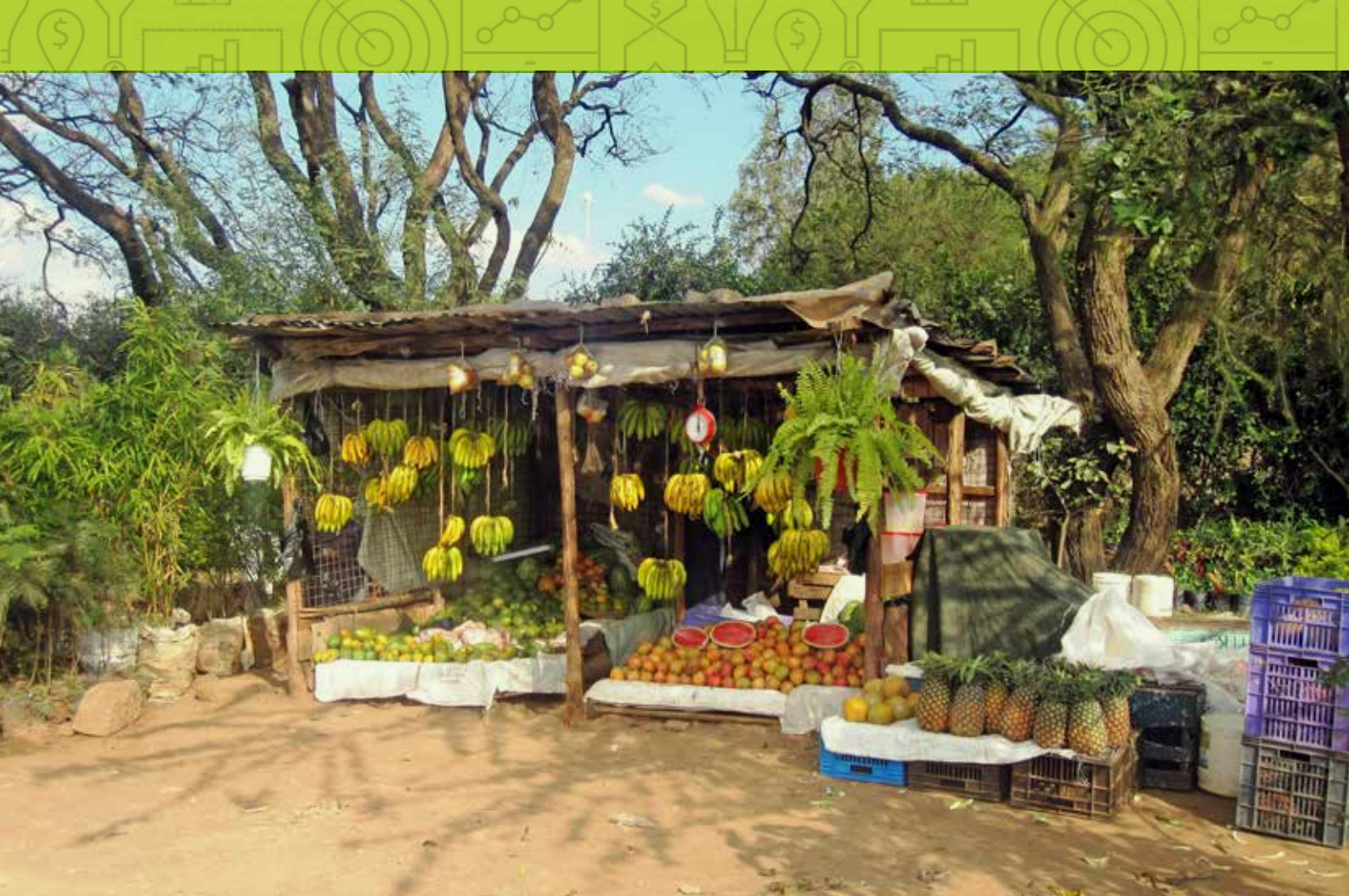


2.7 Reasons for Starting a Business

The survey sought to understand the reasons for starting a business. The findings of the survey revealed that 36 percent of the respondents started a business because it was the only available option to generate income, while 33 percent saw a business opportunity and 30 percent of them wanted independence and did not want to work for someone else (**Figure 2.7a**).

Figure. 2.7a: Reasons for Starting a Business (% adults 18+ business owners, MSE tracker 2023)

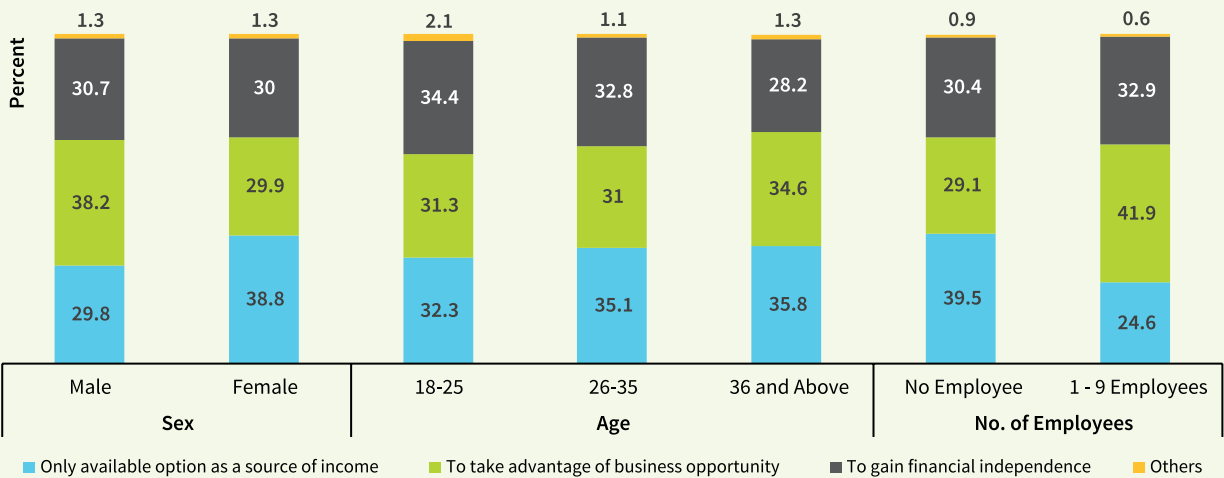




Among the female-owned businesses, 39 percent started the business due to lack of another option as a source of income, while 38 percent of male-owned businesses started upon seeing an existing business opportunity in the market.

Thirty four percent of the youth aged 18-25 years started the business to gain financial independence while another 32 percent started their businesses because it was the only available option to earn a livelihood. **(Figure 2.7b).**

Figure 2.7b: Reasons for Starting a Business by Size, Sex and Age
(% adults 18+ business owners, MSE tracker 2023)



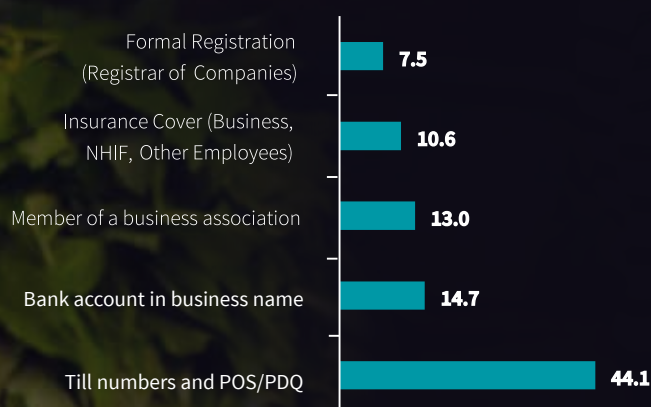


3.0 Business Formalization and Technology Adoption

3.1 Business Formalization

The premises in which most of the activities are undertaken as well as compliance with regulation support growth of MSEs through enhanced participation in business processes such as provision of goods and services to public institutions. Businesses in the survey that use digital transaction channels (card reader machines & till numbers) were 44.1 percent; 14.7 percent had a bank account in the business name while 13.0 percent, 7.5 percent and 10.6 percent were members of business associations, registered with the registrar of companies, and had insurance cover, respectively (Figure 3.1a).

Figure 3.1a: Business Formalization Indicators (% adults 18+ business owners, MSE tracker 2023)



Formalization plays a critical role in helping enterprises gain legal status, establish credibility and access to finance/ credit. Out of the operational enterprises, only 5 percent of female owned businesses were formally registered while 10 percent of male owned businesses were formally registered. 13.0 percent of the businesses belonged to member organizations (Figure 3.1b).

Figure 3.1b: Business Association Memberships and Formal Registration

(% adults 18+ business owners, MSE tracker 2023)

(i) Member of a Business Association



(ii) Formal Registration (Registrar of Companies)





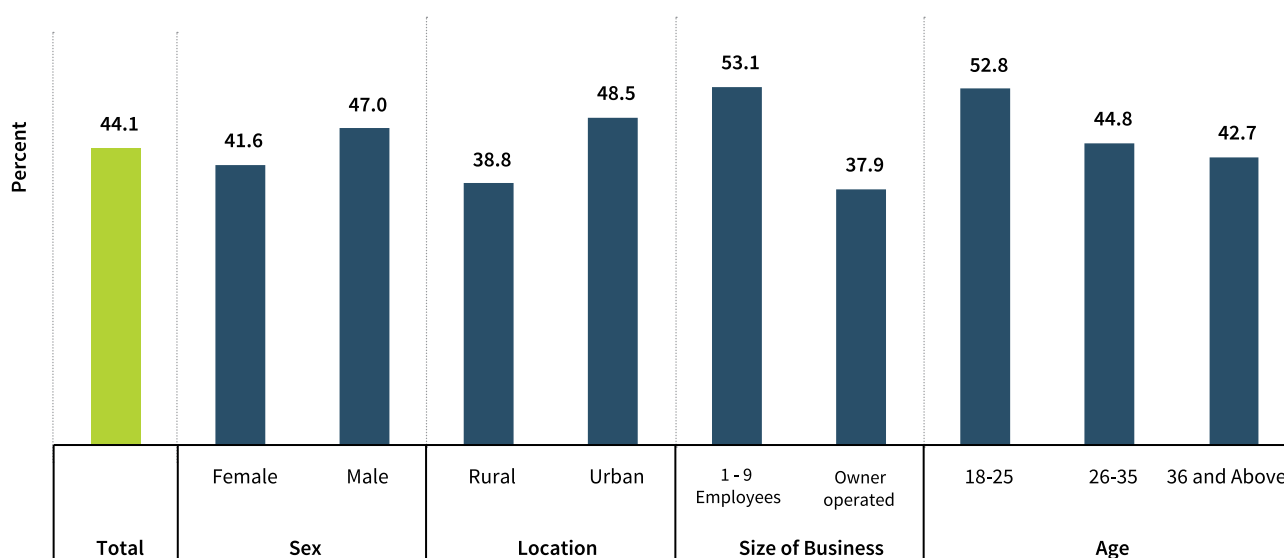
3.2 Value-Producing Opportunities

3.2.1 Digitalization of Payments by MSEs

Digitalization¹ of business enterprises plays a critical role in improving operational efficiency and value-proposition opportunities coupled with quality decisions. Further, digitalization eases of access to business records which facilitates better information exchange for purposes of audit, tax assessment and credit scoring by financial institutions. The survey results indicate that small businesses have made great strides in adopting various digital payment channels. Specifically, 44.1 percent of

enterprises had adopted various digital payment options for payment of goods and services offered to customers. Digitization of payment was higher for male-owned businesses at 47 percent compared to 41.6 percent of women-owned enterprises. A higher percentage of businesses located in the urban areas and those with 1-9 employees used digital payment channels compared to their counterparts in rural areas and owner-operated businesses. Youthful entrepreneurs (aged 18-25) had a higher level of digitization compared to businesses owned by people aged 36 and above (**Figure 3.2a**)

Figure 3.2a. Digitization of Customer Payments by Businesses (% adults 18+ Business Owners, MSE Tracker 2023)



¹ MSEs who accept payments from customers through digital channels, mobile money, till number, POS/PDQ, pesalink, bank transfer

3.2.2 Payment Channels Used by Customers

Survey findings indicate MSEs' customers rely mainly on cash while transacting with these enterprises. The use of cash as a mode of payment by customers was dominant with 98.5 percent of enterprises indicating that they received payments from customers in cash. Customers relying on mobile money to pay for goods and services by MSEs stood at 68.2 percent while mobile till number and paybill platforms were used by 15.2 percent and 6.4 percent of business, respectively (**Figure 3.2b**).

3.2.3 Payment Channels Used for Paying Suppliers

MSEs primarily use cash and mobile payment platforms to transact with their suppliers. The popularity of cash whose usage stood at 95.2 percent, could be attributed to its convenience and acceptability while the prevalent use of mobile platforms at 60.8 percent could be due to their low transaction costs, ease of use and availability (**Figure 3.2c**).

Figure 3.2b: All the Channels Used for Payments by Customers
(% adults 18+ Business Owners, MSE Tracker 2023)

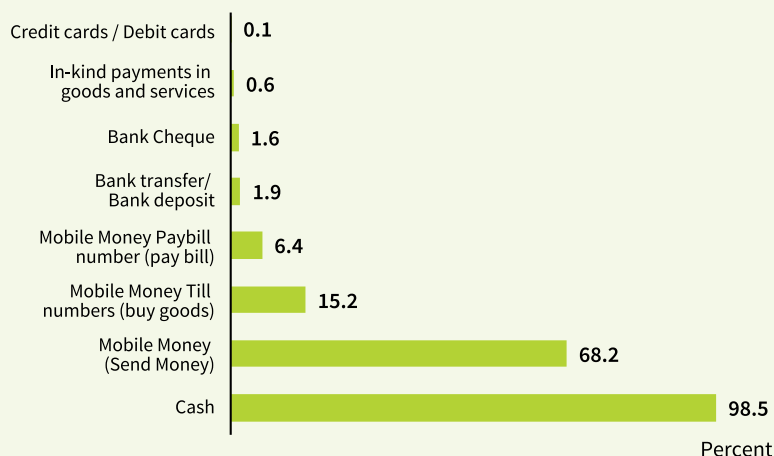
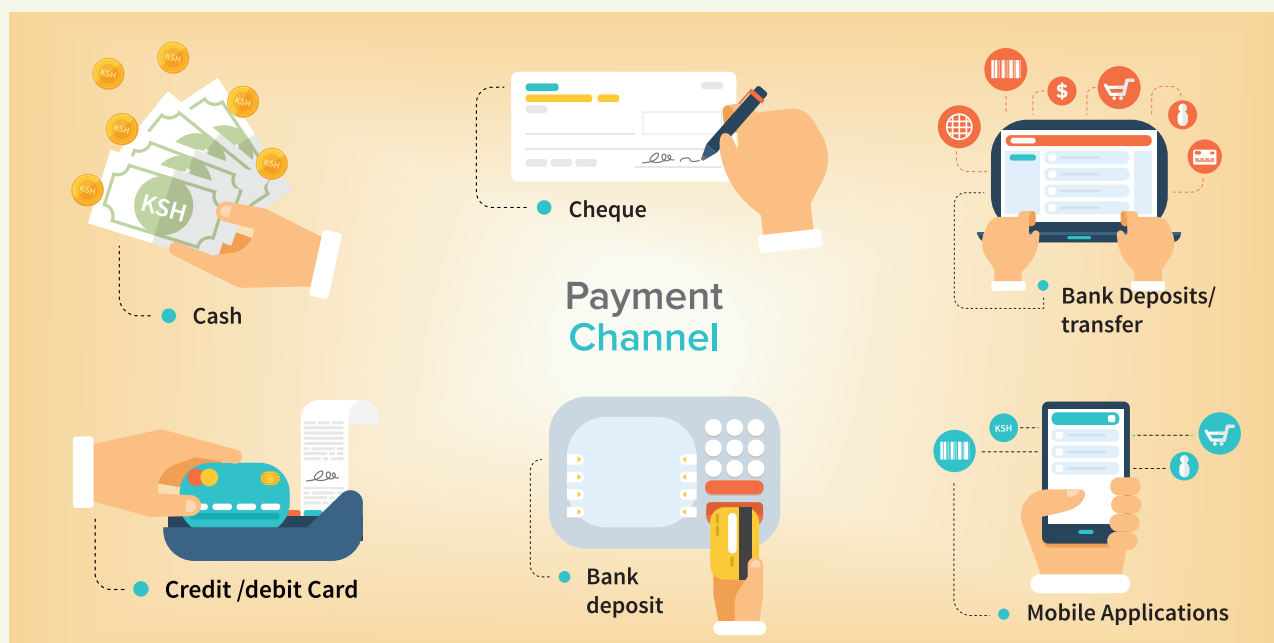
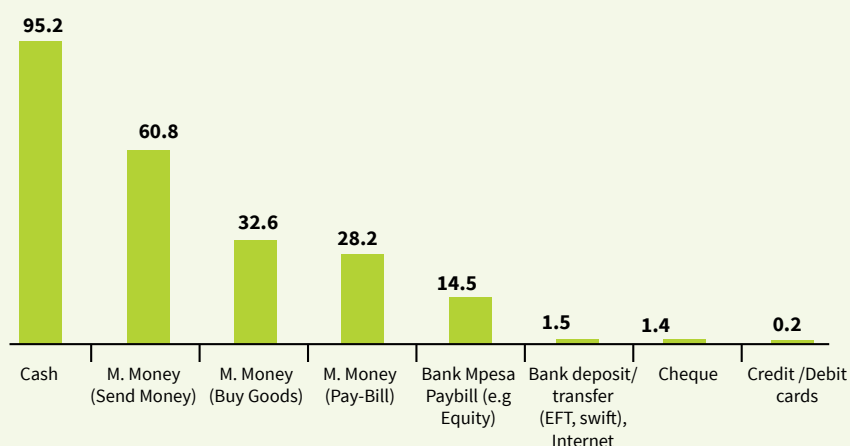
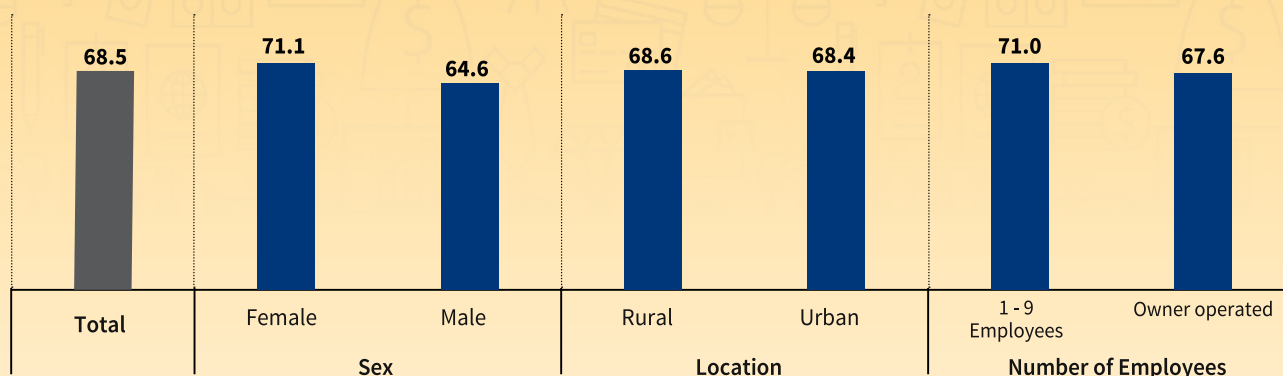


Figure 3.2c: Payment Options Used by MSEs to Transact with Suppliers
(% adults 18+ Business Owners, MSE Tracker 2023)



4.0 Access to Loans, Consumer and Trade Credit

Figure 4.1a: Business Advancing Consumer Credit (% adults 18+ business owners, MSE tracker 2023)



This section presents findings on micro enterprises' performance, financing and supply chains. The section includes business access to credit and other forms of financing, supply chains and business performance.

4.1 Consumer Credit and Trade Credit

The survey sought to assess how MSEs manage their business operations either through access to trade credit from the suppliers or providing consumer credit to customers. The survey categorized consumer credit as the amount (or value) of goods and services advanced by the MSEs to their customers for later payment. Trade credit on the other hand was categorized as amount (or

value) of goods and services received by the MSEs from the enterprise's suppliers for later payment.

4.1.1 Consumer Credit

Consumer credit to customers is a useful tool in promoting growth of businesses. In this regard, businesses offer their products (goods and services) on credit to grow and retain their customers to increase sales. The survey results indicate that 68.5 percent of MSEs offered credit of goods/ services to their customers. Among the businesses that were female owned, 71.1 percent offer credit of goods/services to customers while 64.6 percent of male owned businesses offered credit of goods/services to customers. In terms of size, 71.0 percent of small firms with 1 - 9 employees offered consumer credit while 67.6 percent of owner operated offer credit (Figure 4.1a).



Consumer credit to customers is a useful tool in promoting growth of businesses. In this regard, businesses offer their products (goods and services) on credit to grow and retain their customers to increase sales.



4.1.2 MSE Credit to Consumers

The survey sought to assess the value of the outstanding consumer credit advanced by the MSEs to their customers. The survey results indicated that 38.3 percent of MSEs were owed consumer credit valued at KSh 1,001 - KSh 10,000. A similar trend was observed among the female-owned MSEs (41.7 percent), male owned MSEs

(33.2 percent), MSEs located in urban area (36.6 percent), MSEs located in rural areas (40.0 percent), owner-operated MSEs (37.9 percent) and with 1-9 employees (39.1 percent). The survey results also indicated that 7.2 percent of small micro enterprises were owed goods and services valued at KSh 50,000 and above (**Figure 4.1b**).

Figure 4.1b: Outstanding Consumer Credit

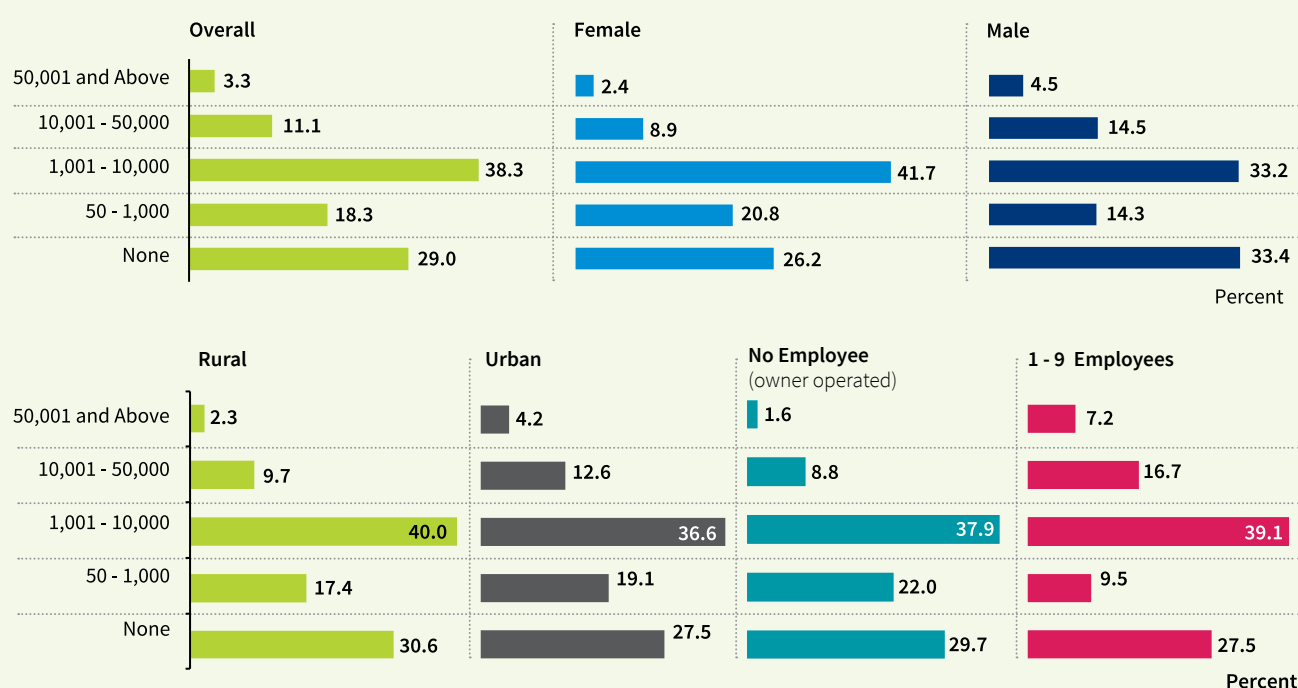
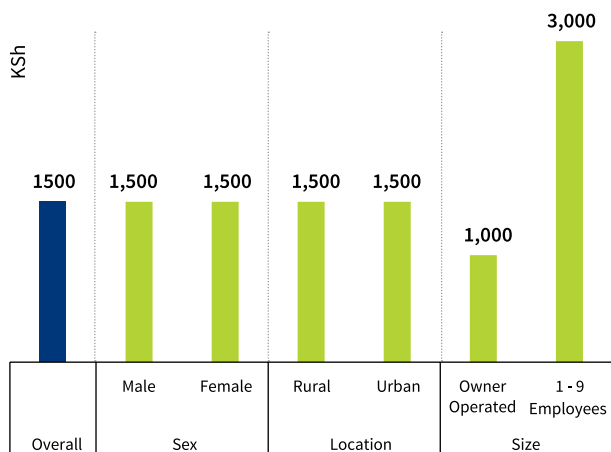


Figure 4.1c: Medium Monthly Outstanding Consumer Credit (KSh)



4.1.3 Supplier Credit to MSEs

Access to trade credit from suppliers is a useful tool for financing business operation for micro enterprises. The survey results indicate that 36.7 percent of micro enterprises receive trade credit (goods or services on credit from suppliers). The proportion of female and male operated businesses that received goods/services on credit from suppliers was 38.4 percent and 34.1 percent, respectively. The proportion of youth (18-25 years) entrepreneurs that received trade credit from suppliers was 38.9 percent. On aggregate, the inclination of MSEs in providing goods and services on credit without corresponding trade credit predisposes them to liquidity and stock shortages (**Figure 4.1c**).

4.2 Business Savings and Loans

The survey sought to assess the level of micro enterprises financing from loans and savings. The results indicate that majority of micro enterprises currently have

Figure 4.2: Business Savings and Loans (%)

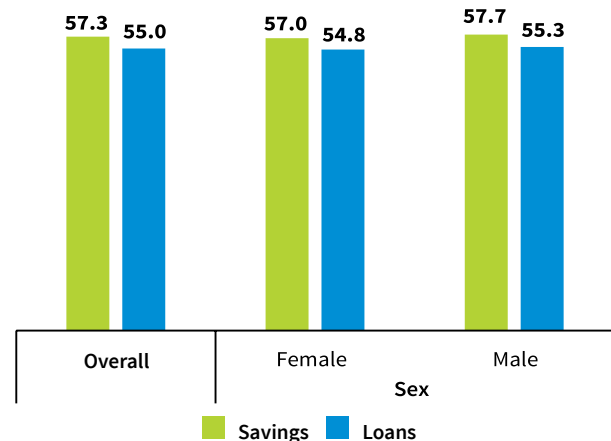
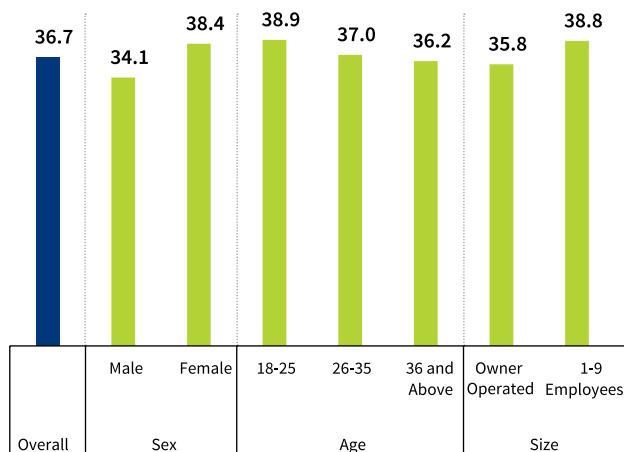


Figure 4.1d: Business Receiving Trade Credit (%)



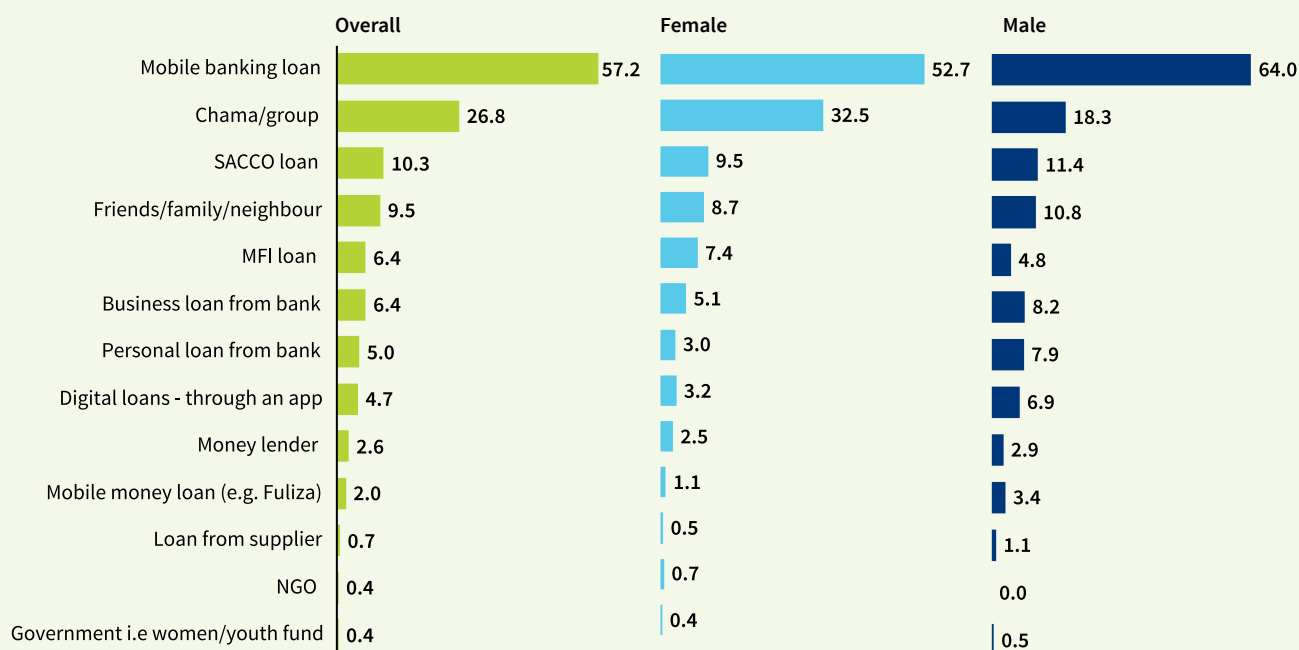
financing from both savings (57.3 percent) and from loans (55.0 percent), irrespective of whether its male or female operated. A high level of savings is key to providing liquidity and funding to the business. However, since these are micro enterprises operated majority as family business, demarcation of personal savings from business savings is not clear. The high financing from loans also is key to these micro enterprises, hence issues such as availability and cost of these loans are key to these segments of business (**Figure 4.2**).

4.3. Sources of Loan for MSEs

The survey findings indicate that micro enterprises sourced their credit from various sources including banks, mobile phone app-based loans, SACCOs, *chama*/groups, and friends and family. Mobile banking loans were a dominant source of credit for MSEs. Despite their high interest rates and short repayment period, 58.5 percent of firms indicated that they relied on mobile banking loans, growing from 45 percent in 2020 (**Figure 4.3**).

This popularity could be on account of their ease of accessibility, speed, and convenience. Mobile banking loan was particularly popular with male owned enterprises, 65.9 percent, compared to female owned enterprises whose reliance on mobile banking loan stood at 53.5 percent. *Chama*/group loans were more popular among women-led enterprises (32.5 percent), compared to male-led enterprises, 18.3 percent. Their popularity is attributable to the strong social capital among women than men, and flexible repayment periods.

Figure 4.3: Sources of Loan for MSEs



4.4 MSEs Loan Defaults

MSEs experience a myriad of challenges including inconsistent cashflows arising from high cost of doing business which depletes their profitability and limited market linkages which limit their ability to grow their businesses. Mobile banking loans experienced delayed repayments among micro (owner operated) firms, 75.5 percent and female operated firms, 56.0 percent. *Chama/group* loans experienced delayed repayment by micro enterprises and female owned firms by 75.0 percent. SACCO loans mainly experienced delayed repayment from female owned enterprises (Figure 4.4).

4.5 Reasons for Credit Uptake by MSEs

MSEs take loans for variety of reasons. The survey indicated that 51.6 percent take credit to buy stock/supplies. Acquisition of stock/supplies enabled these enterprises to meet demand and grow. More male-owned enterprises than female owned took credit to pay wages/salaries. On the other hand, more women-owned enterprises used credit to acquire stock/supplies, payback other loans/credit, pay business rent, expand business and for personal use than male-owned enterprises by 8.3 percentage points. In addition, 23 percent of MSEs took loans to repay existing credit lines. This could be attributed to short duration of the credit borrowed by MSEs as most firms took mobile banking loans (Figure 4.5).

Figure 4.4: Percentage of MSEs who have defaulted on Loans (%)*

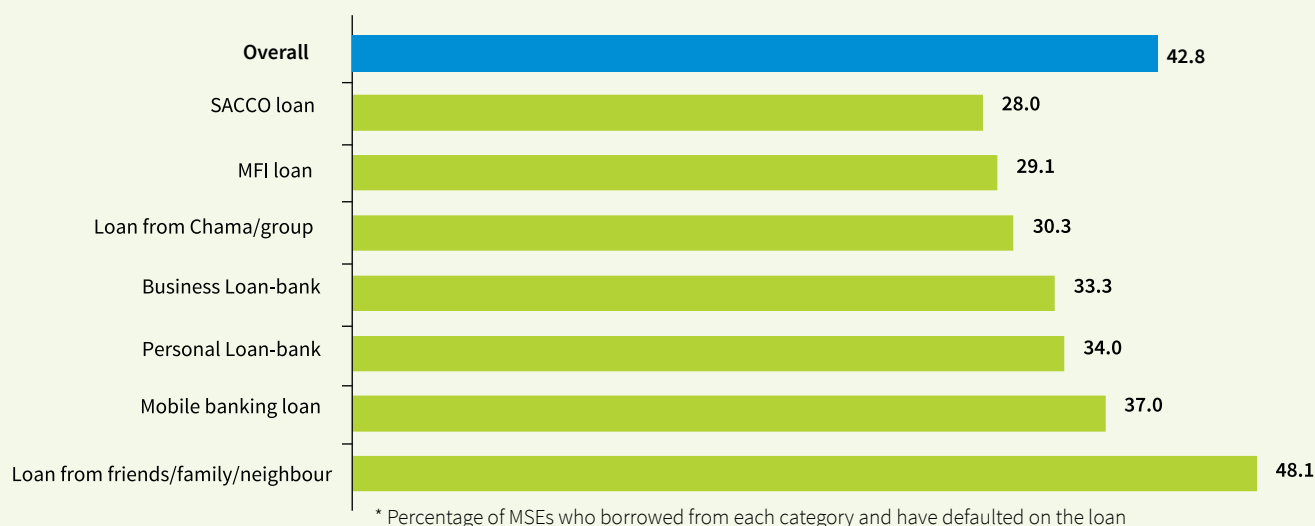
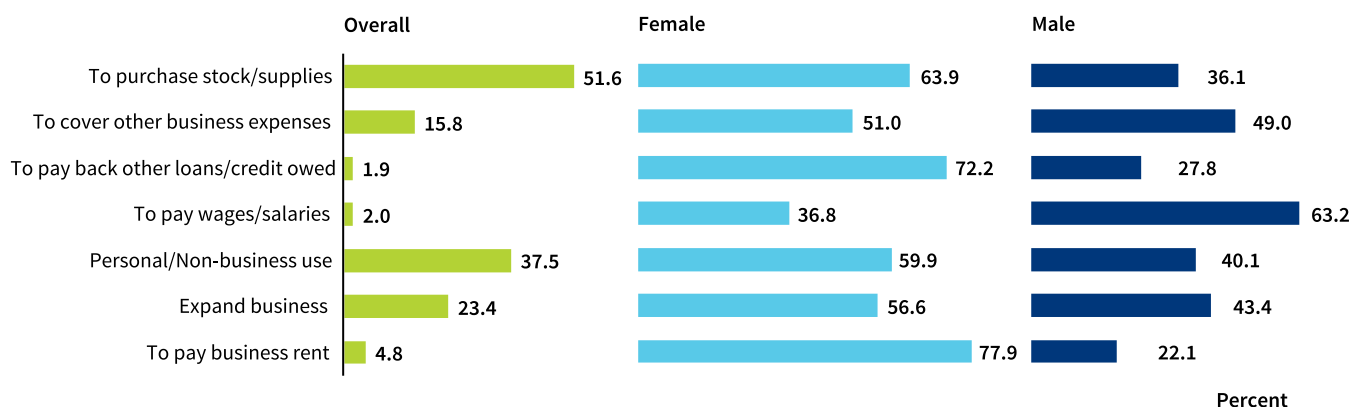


Figure 4.5: Reasons for Taking Credit by Male and Female



4.6 Sources of Money for Loan Repayment

Owners of MSEs rely mainly on their savings to repay loans. Overall, 64.3 percent of MSEs that repaid their loans relied on savings. Of male owned enterprises, 68.2 percent relied on savings to repay their loans compared to 61.6 percent of female owned enterprises. This pattern of overall loan repayment was mirrored across regions and firm size. Out of the sampled enterprises, only 1.6 percent of businesses had their assets repossessed to repay loans (**Figure 4.6**).

4.7 Distribution of MSE Borrowers by Economic Activity

Overall, MSEs in the wholesale and retail trade sector accounted for the highest number of firms that participated in the credit market. Firms operating in this sector accounted for 62.7 percent of all MSEs that had taken a loan. This was reflected across all types of loan products with the sector accounting for 63.0 percent of all MSEs that took mobile banking loans. The sector also accounted for the largest number of MSEs that took loans from SACCOs, *chama*/group and trade credit from

Figure 4.6: Sources of Money for Repayment (Excluding Income from the Main Business) (%)

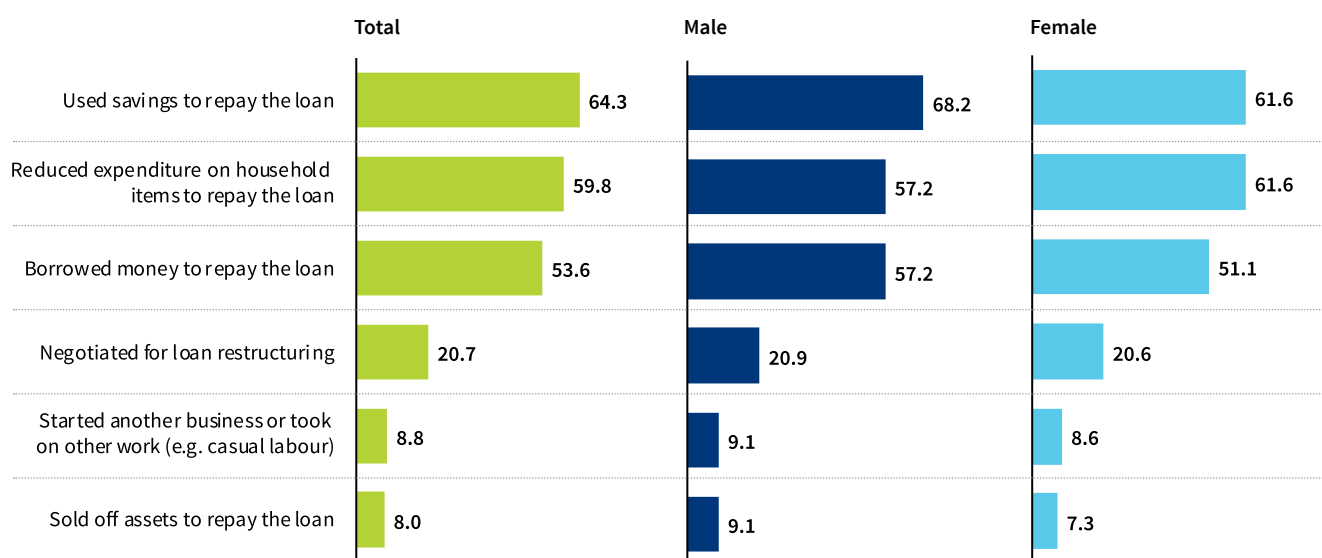
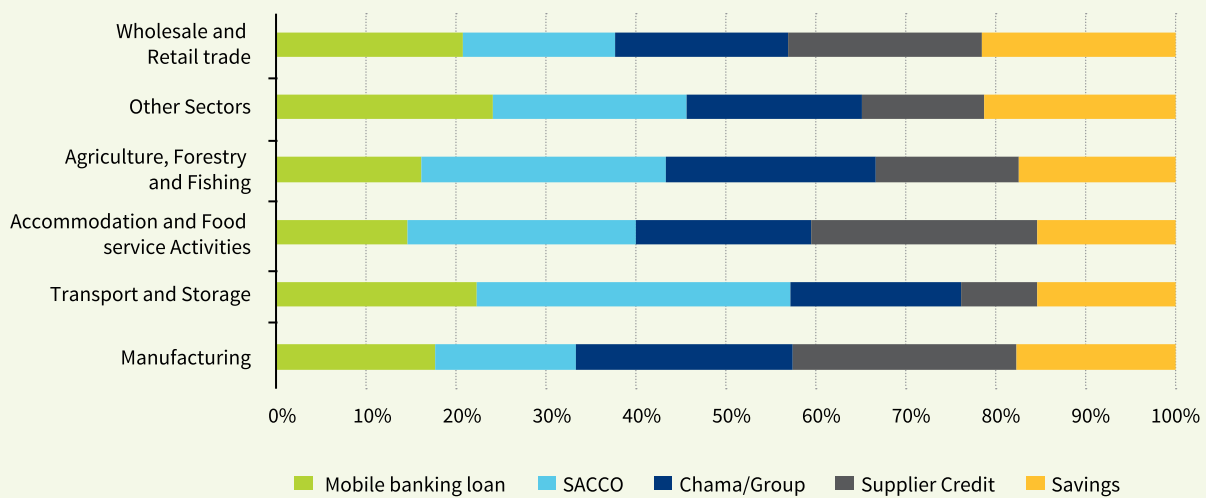


Figure 4.7: Sectoral Distribution of MSE Borrowers (%)



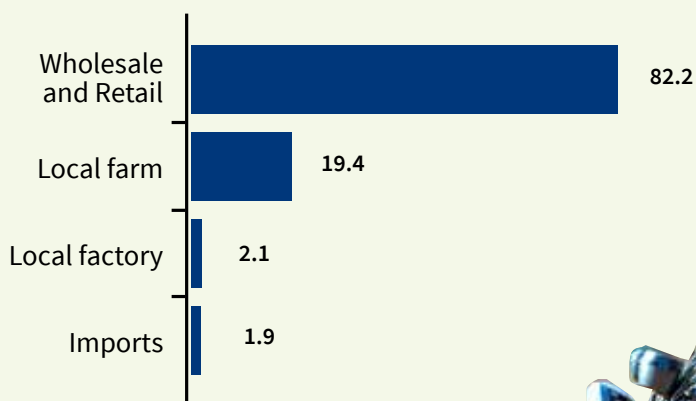
suppliers. MSEs in the Accommodation and Food Services, Agriculture, Manufacturing, and Transport and Storage also participated in the credit market (Figure 4.7).

4.8 Main Sources of Supplies

MSEs depend largely on the wholesale and retail shops, (82.2 percent), to obtain their supplies.

This could be attributed to the widespread distribution of wholesale and retail shops with a wide range of products making them easily accessible and convenient for these enterprises. Other MSEs sourced their supplies from local farms, 19.4 percent, suggesting that a sizable number of these enterprises operate in agribusiness (Figure 4.8).

Figure 4.8: Sources of Supplies (%)

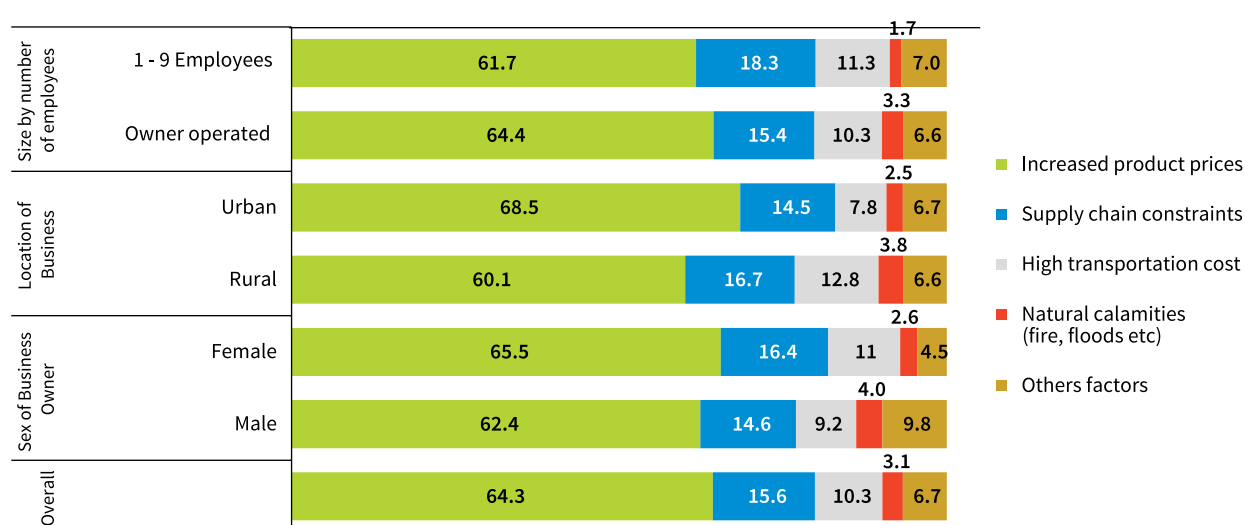


4.9 Challenges Facing MSEs in Accessing Supplies

The dominant challenge experienced by MSEs in accessing essential supplies needed for their operations relates to increased cost of products at 64.3 percent. While marginally different, the challenge disproportionately affected women owned enterprises, at 65.5 percent, compared to male owned enterprises at 62.4 percent. This was the main challenge affecting MSEs in rural (71.4 percent) and urban (75.1 percent) regions. The findings are not surprising as inflation was elevated during the survey period. In addition, high energy prices

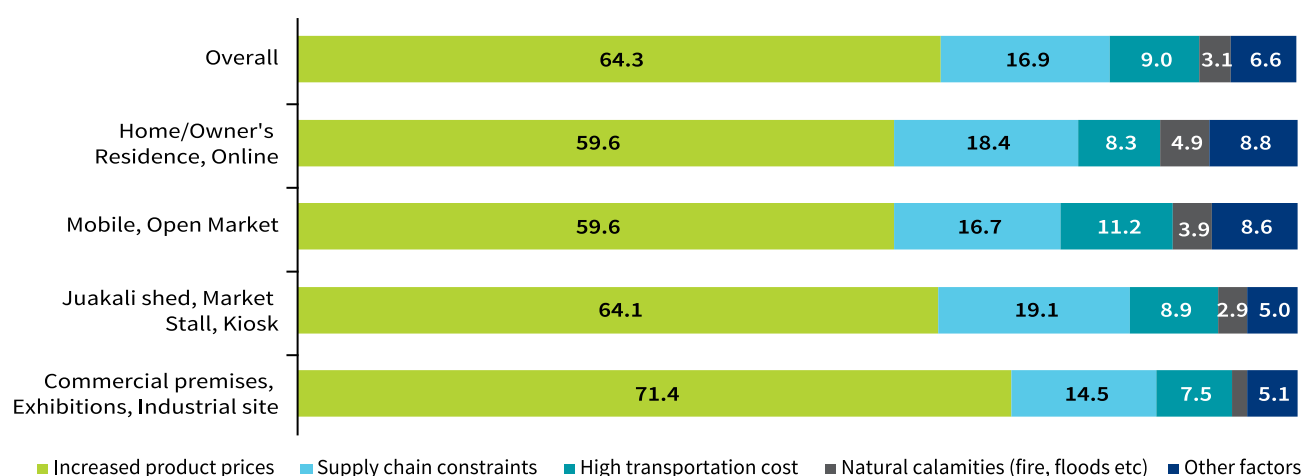
arising from elevated international oil prices affected transport costs. High transport cost was ranked third among the challenges affecting MSEs. The profit margins and competitiveness of these enterprises is affected by increased costs. Supply chain constraints emerged as the second most pressing challenge to MSEs. Overall, 15.6 percent of MSEs indicated that they faced supply chain constraints. This challenge was bigger compared to the other categories of firms (**Figure 4.9a**).

Figure 4.9a: Main Challenges Facing MSEs in Accessing Supplies



MSEs operated in different premises/locations, including *Jua Kali*, exhibitions, open markets, commercial premises, owner's home, and hawking. While the cost of supplies was high for all MSEs, there were variations depending on the type of their premise/location. MSEs operating in commercial premises, *Jua Kali*, stalls, and kiosks faced higher product costs compared to enterprises operating in other premises/locations (**Figure 4.9b**).

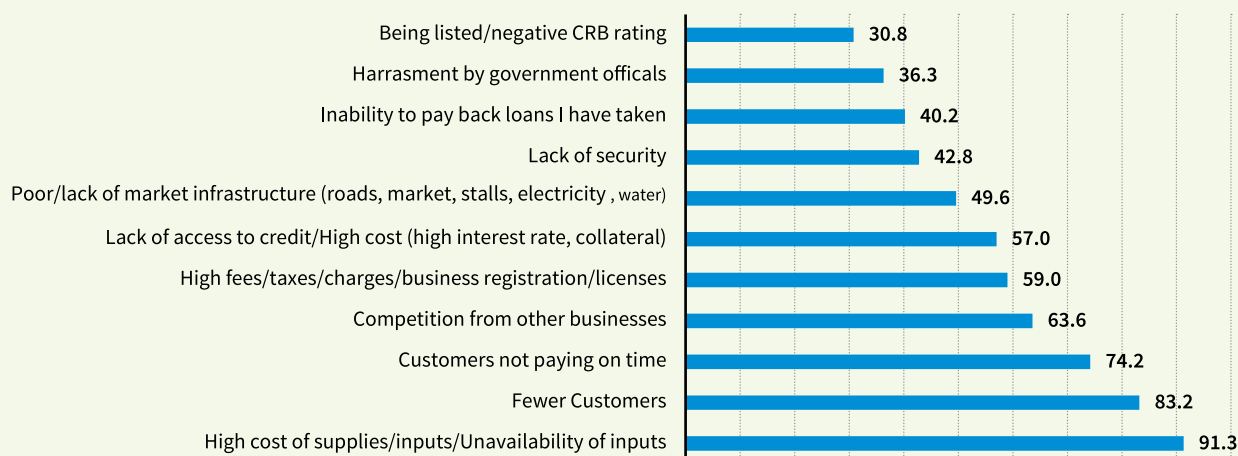
Figure 4.9b: Main Challenges Facing MSEs in Accessing Supplies by Business Location



4.10 Overall Challenges Cited as Posing High Risks to MSEs

MSEs operate in an environment that could limit their survival and growth. The survey indicated that the high cost of supplies/inputs and unavailability of inputs poses the highest risk at 91.3 percent and fewer customers at 83.2 percent of businesses (Figure 4.10).

Figure 4.10: Overall Challenges Cited as Posing High Risks to MSEs



General elections induced uncertainty in the economy especially with respect to change in administration and policies. However, it was worthwhile to note, 39.9 percent were not affected by the elections, while 1.5 percent recorded an increase in business activities during the period of the general elections (Table 4.1).

Table 4.1: Percentage Distribution of 2022 General Election Challenges

	%
Decline in demand	48.5
Insecurity	3.4
Disruptions in supplies	5.9



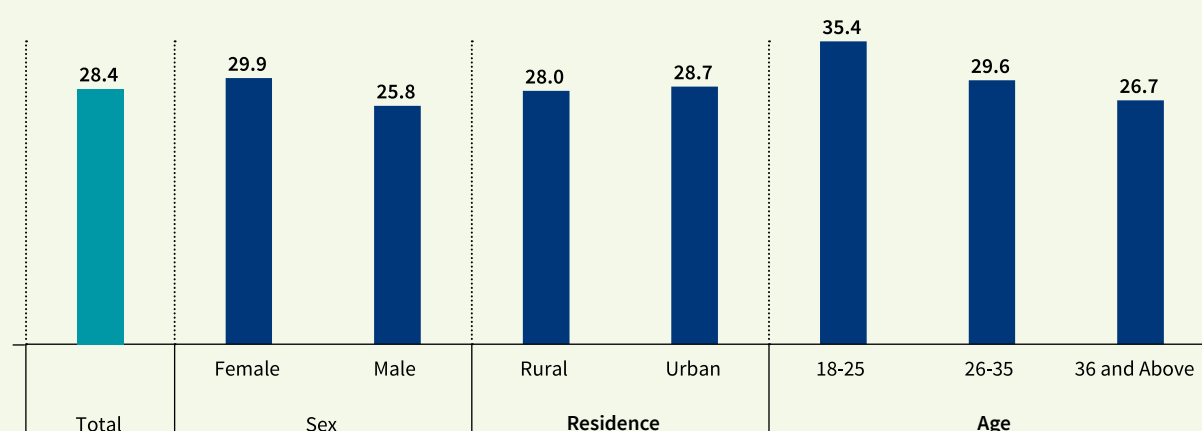


5.0 Closed Businesses

5.1 Business Characteristics

The survey results indicated that 28.4 percent of the MSEs were closed during the survey period (after 2019 or 2021 FinAccess Household Survey). Whereas the proportion of business owned by female was higher than male, 29.9 percent of female-owned businesses were not operational compared to 25.8 percent owned by male. The closure rate for businesses in urban areas was higher than rural areas, while businesses owned by youths (18-25 and 26-35) constituted 65 percent of closed businesses (Figure 5.1).

Figure 5.1: Closed Businesses (between 2018 - 2022)



5.2 Main reasons for Business Closure

The survey findings reveal that the main reasons why businesses closed were due to lack of working capital or money to cover operating expenses (42 percent), lack of customer demand or a drop in sales (21 percent), illness (9 percent), indebtedness (6 percent) and household responsibilities (5 percent). Lack of working capital was the major challenge in both female and male owned enterprises at 42 percent and 43 percent, respectively. Among the female owned businesses, 10.7 percent closed due to the operator falling

ill compared to 5.5 percent of the male owned businesses. On the other hand, 7.1 percent of the male owned businesses closed due to high level of indebtedness compared to 4.8 percent of the female owned businesses. In urban areas, more businesses closed due to lack of working capital (46.9 percent) compared to 37.0 percent in rural areas. The proportion of businesses that closed due to illness of the business owner in rural areas was 11.5 percent compared to 6.2 percent in urban areas (Figure 5.2).



Figure 5.2: Main Reasons why Businesses Closed

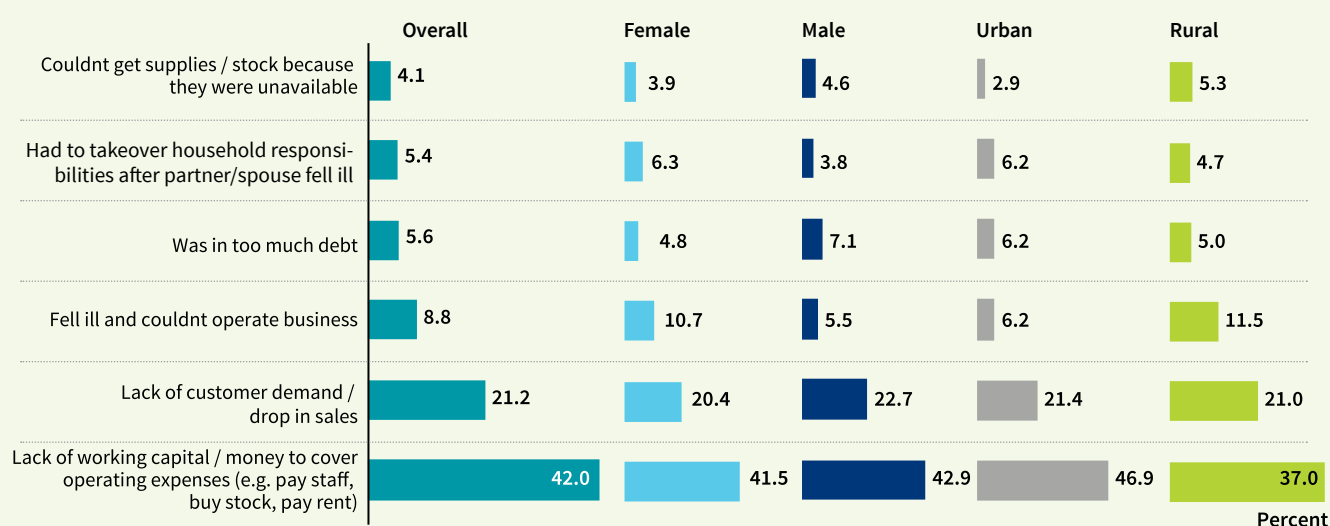
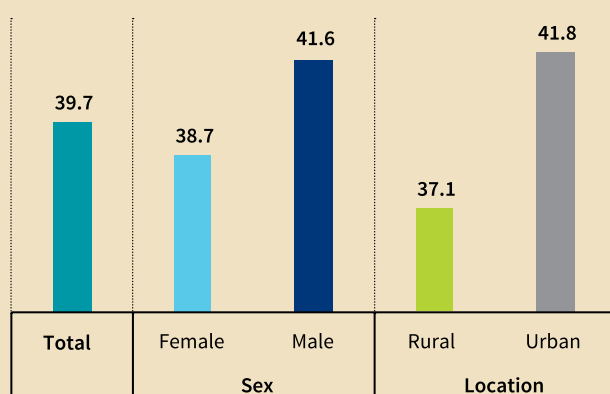


Figure 5.3a: Businesses that Tried to Source Capital/ Money before Closure (%)



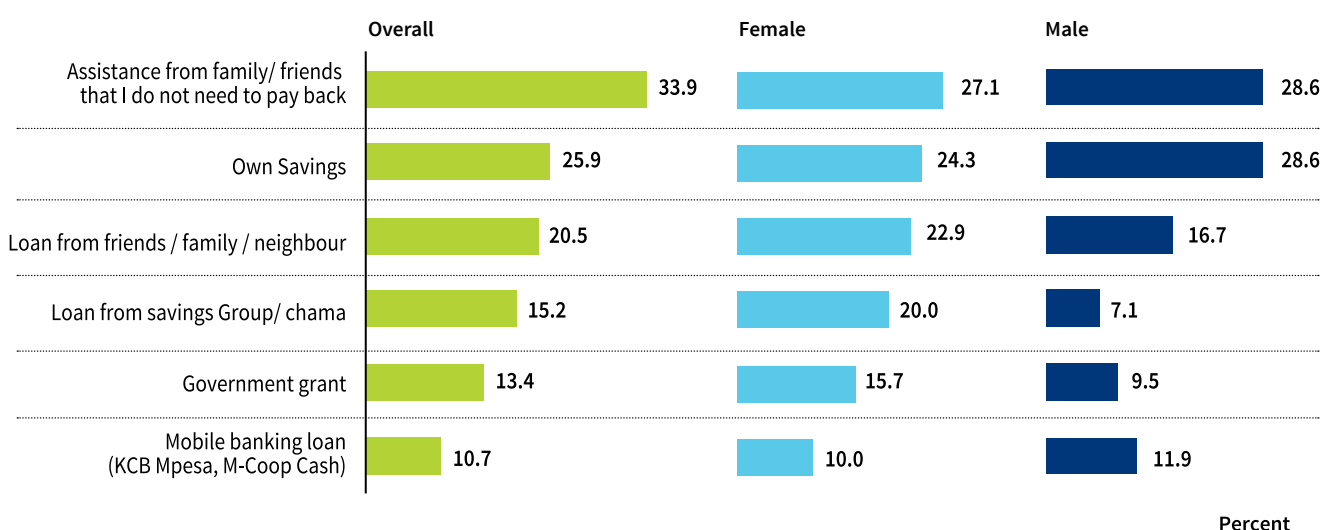
5.3 Sourcing Finance /Capital before Closure

Before closure of the business, 39.7 percent of the closed businesses tried to source for any capital and money to finance their operations. Among the female and male owned businesses, 38.7 percent and 41.6 percent tried to source for capital and money before they closed. In the urban areas, the proportion of businesses that tried to source funds before they closed was 41.8 percent compared to 37.1 percent in rural areas (**Figure 5.3a**).

Among the 39.7 percent of the closed businesses that tried to source capital before closure, 33.9 percent sought assistance from family/friends, 25.9 percent used their own

savings while 20.5 percent tried to take a loan from *chama* (**Figure 5.3b**). Among the female owned businesses, 37.1 percent tried to get non-refundable assistance from family/friends, 24.3 percent used own savings while 22.9 percent tried to get a loan from friends/family/neighbours. On the other hand, 28.6 percent of male owned businesses tried to get non-refundable assistance from family/ friends and own savings, 16.7 percent tried to get a loan from friends/family/neighbours. About 10 percent and 11.9 percent of female and male owned enterprises respectively tried to get mobile banking loan.

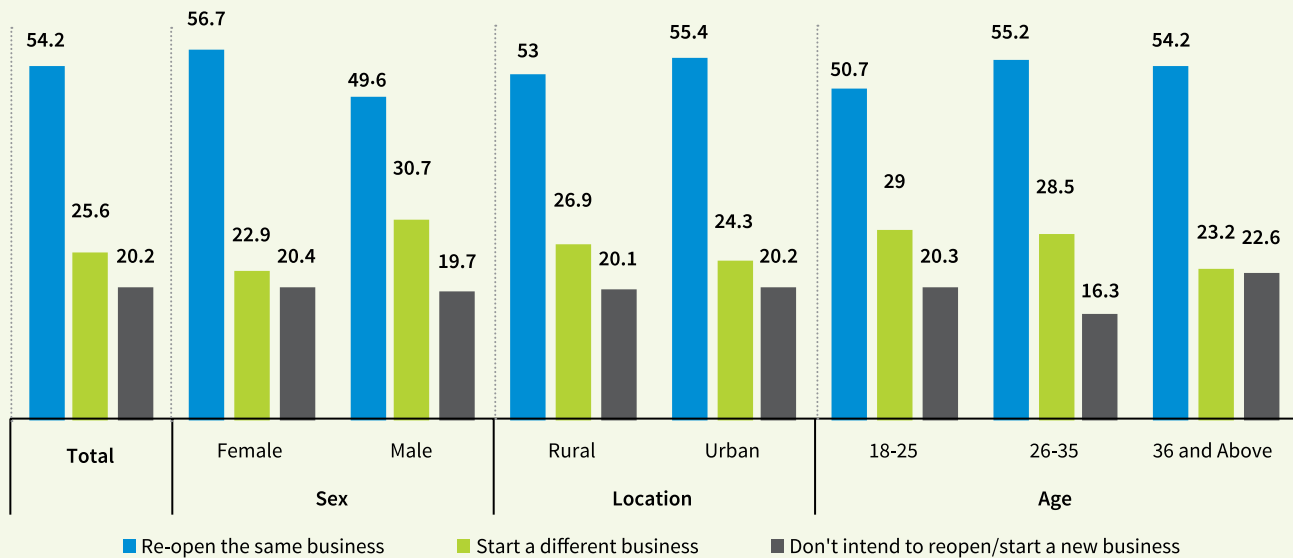
Figure 5.3b: Where Businesses Tried to Source Money before they Closed (%)



5.4 Intention to Re-Open/Re-Start Businesses

Among the closed businesses, 54.2 percent reported that they would re-open the same business in the next 12 months, 25.6 percent would want to start a different business while 20.2 percent reported that they do not intend to re-open or start a new business in the next twelve months. More female business-owners (56.7 percent) indicated intention to re-open the business compared to their male counterparts (49.6 percent) (**Figure 5.4**).

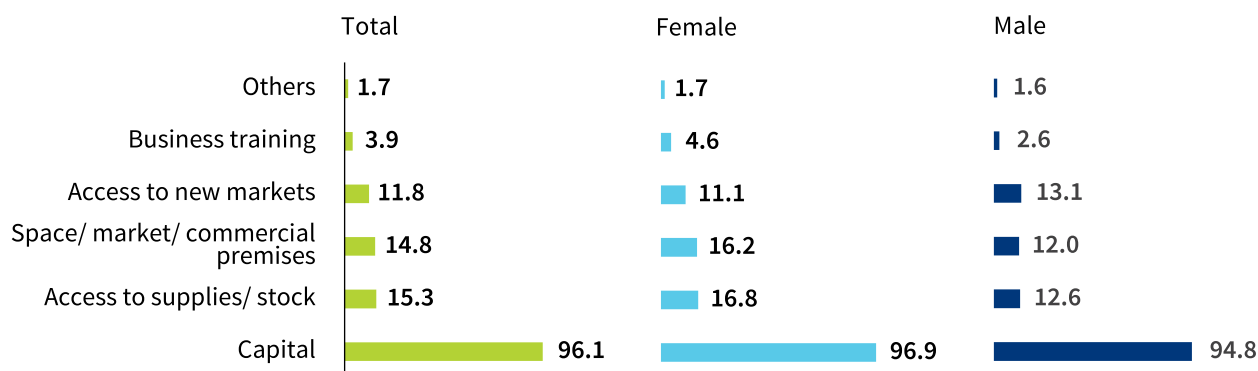
Figure 5.4: Re-opening closed businesses (%)



5.5 Support Required to Re-Open/Start Business Again

A huge proportion (96.1 percent) of the closed businesses would require capital to re-open. Among women and men owned businesses, capital is the major support that would be required to re-open the business (**Figure 5.5**).

Figure 5.5: Support Required to Re-open Businesses (%)



5.6 Amount of Money Businesses Would Need to Start a Business Again

For non-operational businesses to start operating again, 34.2 percent of respondents would need between KSh 20,001 to 50,000; 20.8 percent would need between KSh 10,001 to 20,000 and 17.5 percent would need KSh 50,001 to 100,000. Only about 9 percent of the closed businesses would need above KSh 100,000 to reopen. Majority of female owned businesses (34.9 percent) and male owned

businesses (36.1 percent) would need between KSh 20,001 to 50,000 to reopen. However, more female owned enterprises would need less than KSh 20,000 to start again than male owned businesses. On the other hand, most businesses located in both urban (36 percent) and rural areas (33.7 percent) would require between KSh 20,000 and KSh 50,000 to start operating again (**Figure 5.6**).

Figure 5.6: Amount of Money Closed Businesses Would Need to Start Again

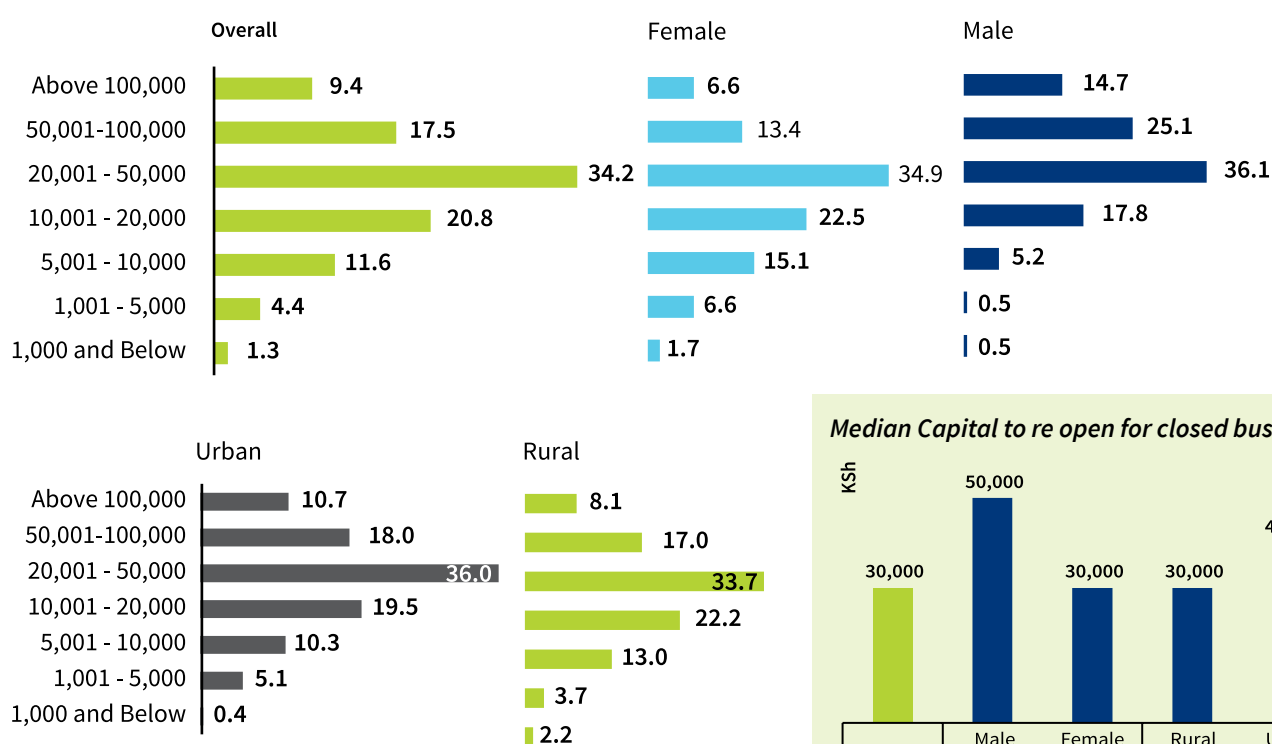
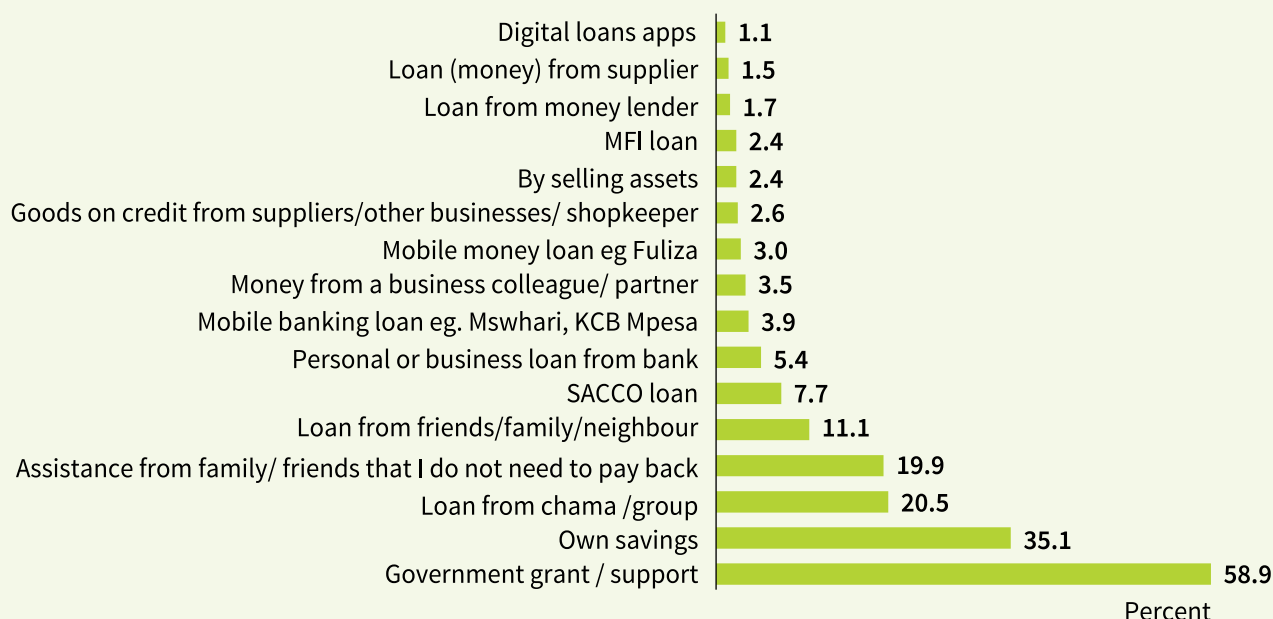


Figure 5.7a: Sources of Funds to Re-open Closed Businesses

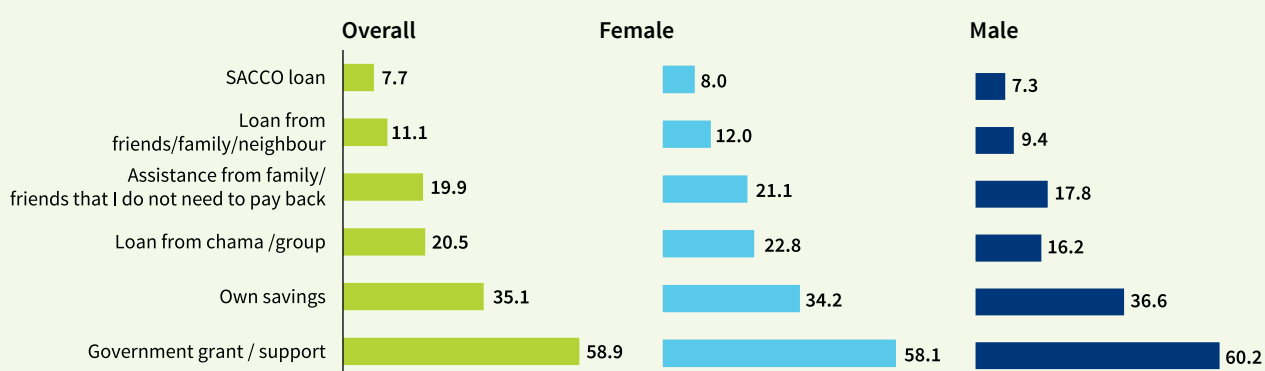


5.7 Sources of Funds to Re-open or Start a Business Again

Majority of closed businesses (58.9 percent) indicated they would source funds from the Government in form of grant followed by using their own savings (35.1 percent) and loan from *chama* or group (20.5 percent) to re-open (**Figure 5.7a**).

Majority of female-owned businesses (58.1 percent) and male-owned businesses (60.2 percent) would source grants/ support from Government to start again. A sizable number of both female-owned (34.2 percent), and male-owned (36.6 percent) businesses would use their savings (**Figure 5.7b**).

Figure 5.7b: Main Sources of Funds to Re-open a Business





6.0 Business Environment and Perception

This section highlights respondents' perceptions of the business environment, and business priority areas.

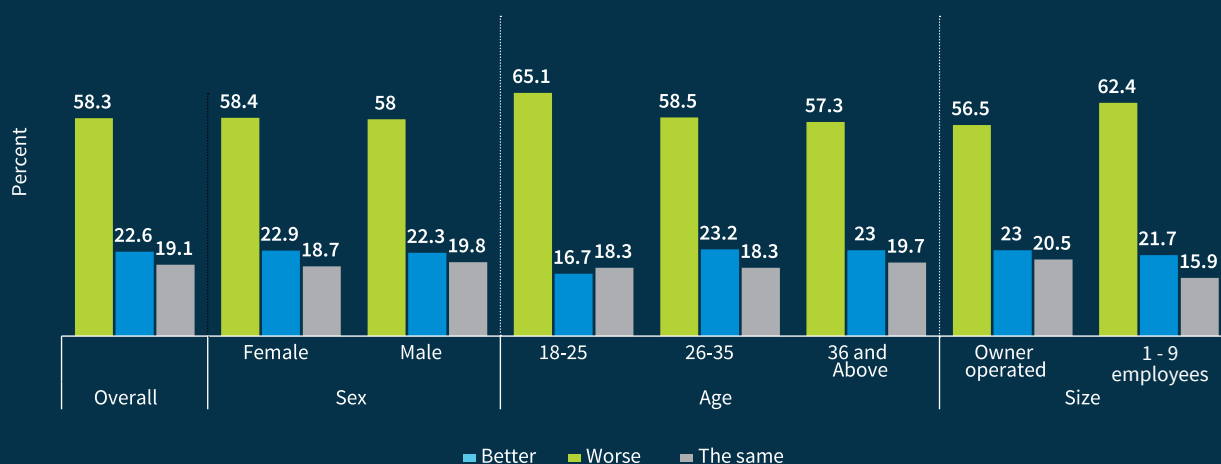
6.1 Perception of Business Performance

A business environment presents both opportunities and threats likely to confront the business in the future. This helps business firms to come up with appropriate strategies to maximize the opportunities and to deal with the threats. In this regard, the survey sought to establish the environment under which micro enterprises currently operate and their perception about future business environments. Overall, 58.3 percent of the respondents perceived better business performance in the next one year

while only 22.6 percent perceived that business will be worse in the next one year. Youth between the age of 18-25 years were more optimistic of the future business environment. In particular, 65.1 percent of the youth aged 18-25 believe that their business would perform better in future compared to 57.3 percent of those aged 36 years and above. Only 18.3 percent of these youth believed business performance would remain the same in the next twelve months.

Micro enterprises with employees were also more optimistic about better business performance in the future. About 62.4 percent of micro enterprises with 1-9 employees believed their businesses would perform better in the next one year compared to 56.5 percent of the owner operated micro enterprises (**Figure 6.1**).

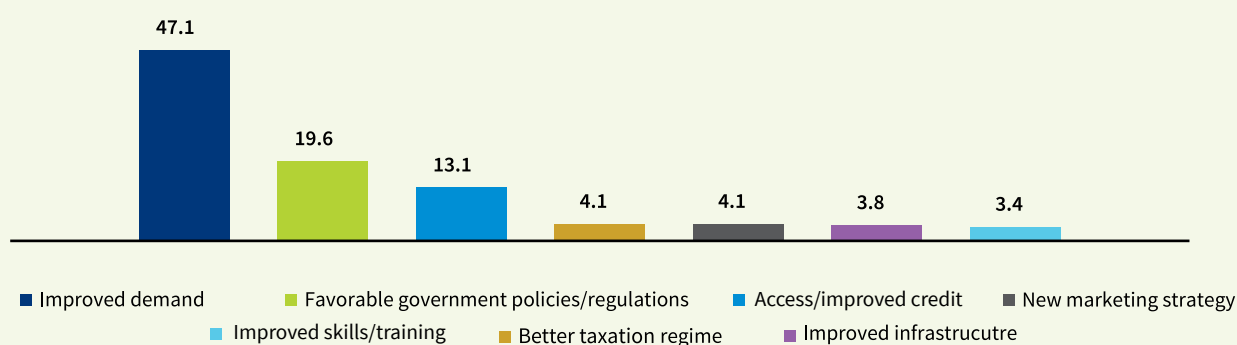
Figure 6.1: Perception of Business Performance (%)



6.2 Business optimism

There are several reasons for a perceived better business performance among MSEs improved demand (47.1 percent), favourable government policies (19.6 percent) and access/improved credit (13.1 percent) are the main reasons why micro enterprises would do better in the next one year (**Figure 6.2a**).

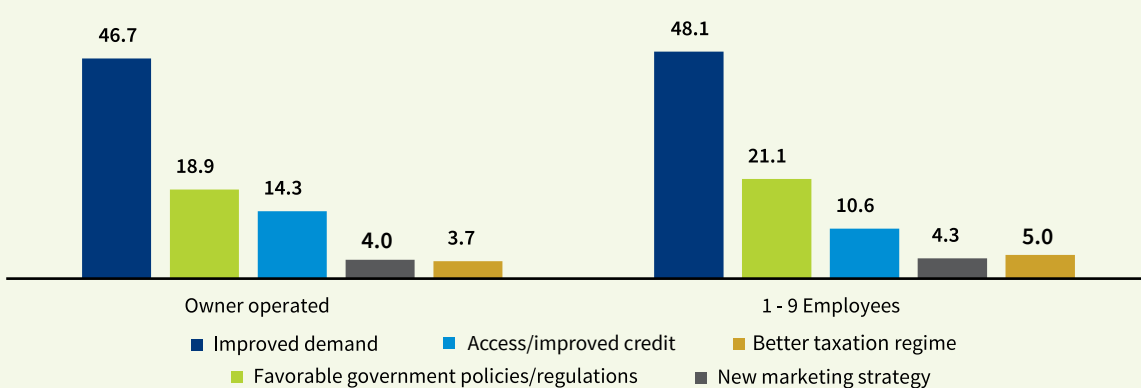
Figure 6.2a: Reasons for Business Optimism



Whereas, improved demand for goods and services; and favourable government policies/ regulations, were cited as the main reasons for businesses to do better in a year's time, the perception levels were different for owner operated businesses and the small business. Among the MSEs, 48.1 percent of the businesses with 1 - 9 employees cited improved demand would improve

business performance compared to 46.7 percent of the owner operated businesses. Further, a higher proportion of the businesses with 1-9 employees (21.1 percent) compared with owner operated businesses (18.9 percent) believe that favourable government policies and regulations will lead to a better business performance in the next one year (**Figure 6.2b**).

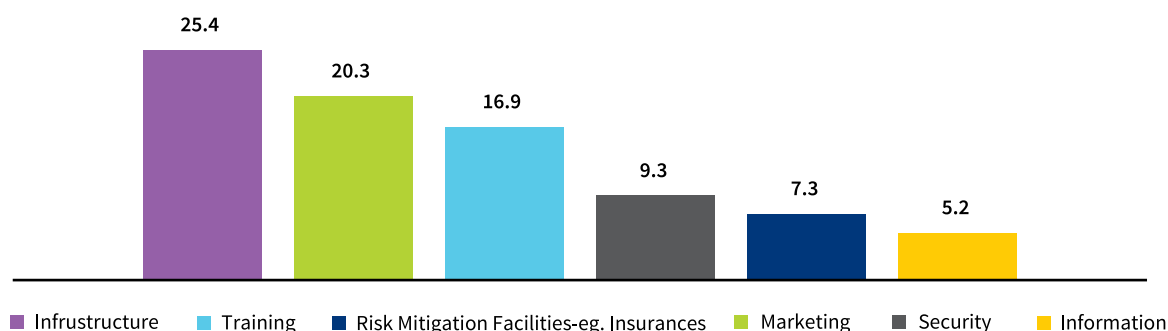
Figure 6.2b: Reasons for Business Optimism by Size



6.3 Non-Financial Assistance from Government

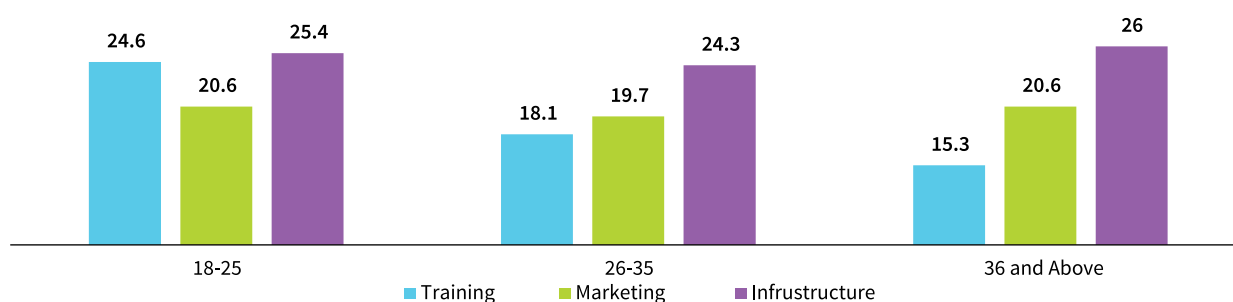
In line with the Government's role in enhancing entrepreneurship by creating an enabling environment, the survey results indicate that micro enterprises would do better if the Government provided good infrastructure (25.4 percent), marketing (20.3 percent) and provision of necessary training to entrepreneurs (16.9 percent) (**Figure 6.3 a**).

Figure 6.3a: Perception on Non-financial Assistance Required by MSEs from Government (%)



The survey indicated perception of the non-financial government support varied across different age group, with younger respondent aged 18-25 years ranking infrastructure development and training as top priority compared to age group 26 years and above who ranked infrastructure development and marketing as top priority (**Figure 6.3b**).

Figure 6.3b: Assistance Required by MSEs from Government by Age (%)

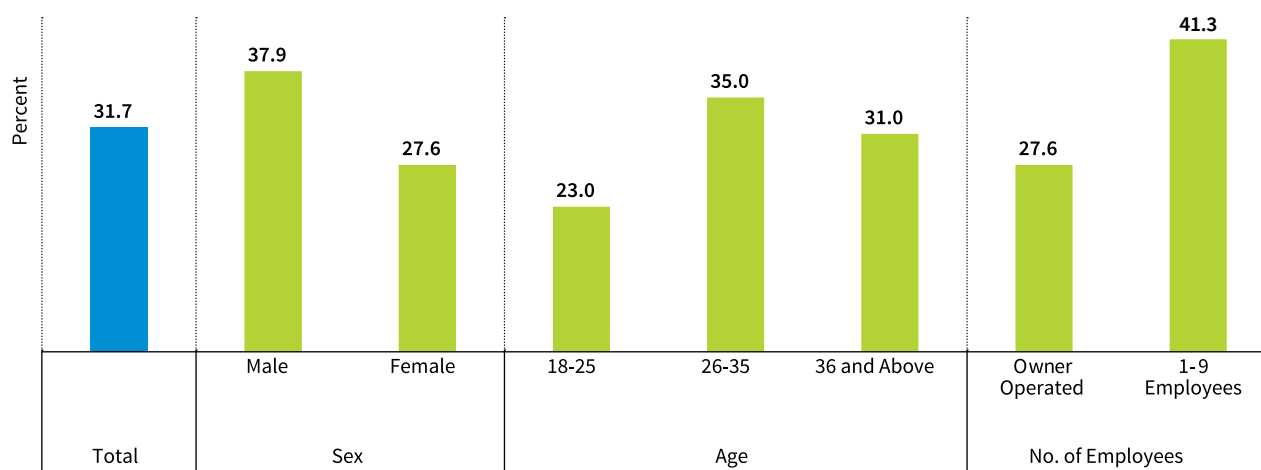


6.4 Training in Area of Business

While training in the area of business leads to better processes and enhances the growth of business, only 31.7 percent of owners of small businesses had training in their respective area of business. More men (37.9 percent) than women (27.6 percent) were trained in their area of

business. The most trained age group of small business owners were those between 26-35 years (35 percent). The owner operated businesses were less trained in their area of business than those with 1-9 employees (**Figure 6.4**).

Figure 6.4: Proportion of Business Owners Trained in their Area of Business (%)





6.5 Perception on Importance of Training in the Area of Business

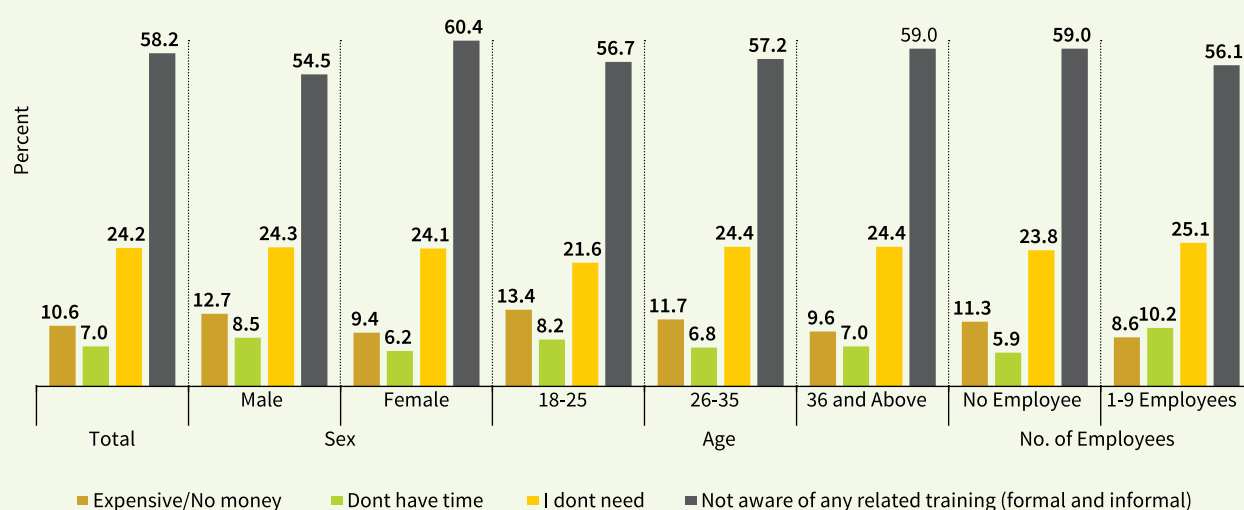
According to the respondents who received training, 90.1 percent them considered training was important for their area of business and only 2.8 percent who considered the training they received was not important.

Of the 7.1 percent who never received training in the area of business, 58.2 percent were not aware of any related training (formal or informal), 24 percent did not require the training, 11 percent regarded the training as expensive, while 7 percent did not have time for the training.

6.6 Reasons for Respondent not Undertaking Relevant Training

Among the micro entrepreneurs who had not received in their area of business, 58.2 percent were not aware of any formal or informal training, 24.2 percent did not want the training, 7.0 percent did not have time for the training while 10.6 percent regarded the training as expensive, and they did not have money for such training. More females (60.4 percent) than males (54.5 percent) were not aware of any related trainings in their area of business. Further, 13.4 percent of the youth aged 18-25 regarded training as expensive compared to 9.6 percent of the micro entrepreneurs aged 36 years and above (**Figure 6.6**).

Figure 6.6: Reasons Why Micro Entrepreneurs Have Not Received Training in Areas of Business(%)

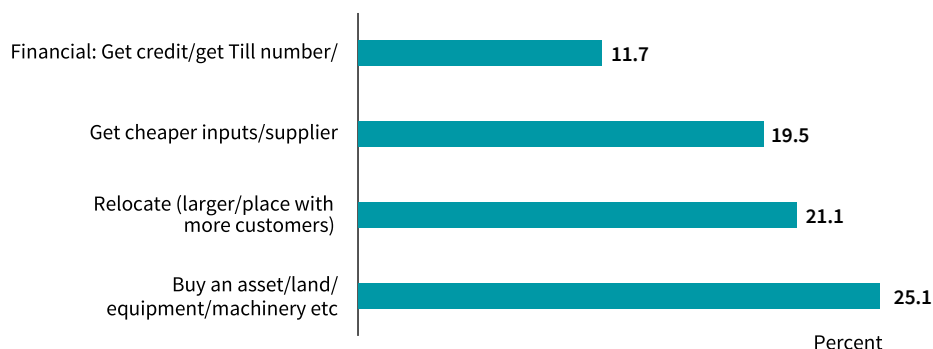


6.7 Main Business Priority Areas

The survey also sought to assess the business main priorities areas given the current business environment and the entrepreneurs' perception about their future performance. About a quarter of the micro enterprises

indicated that their main business priority in the next two years was buying an asset, followed by relocating to a place with more customers (20 percent) and getting cheaper suppliers (18 percent) (**Figure 6.7**).

Figure 6.7: Main Business Priorities for Micro Enterprises in the next Two Years

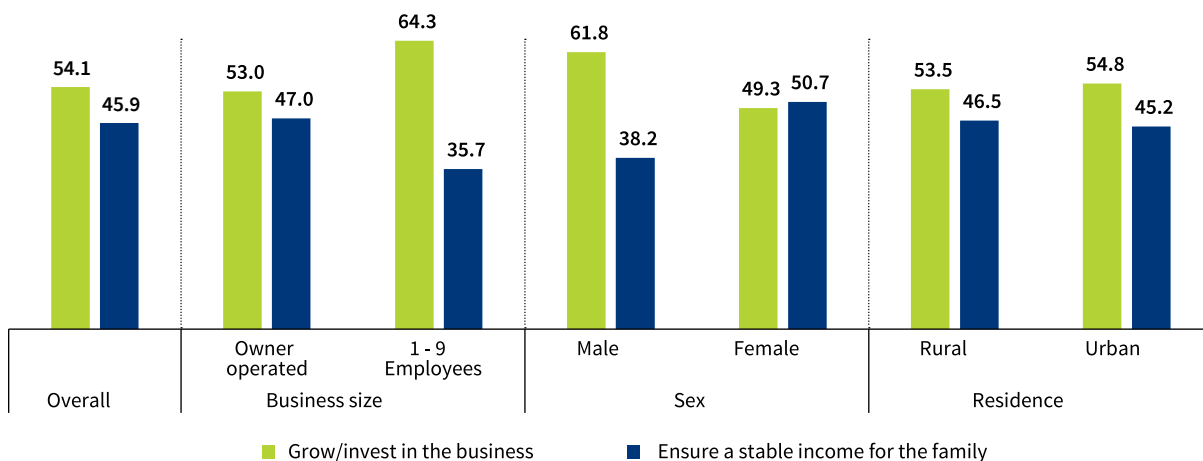


6.8 Balancing Business Growth versus Family Income Stability

The survey results show that 54 percent of small businesses' current priority was investing in business while 46 percent current priority was to ensure a stable income for the family. Similarly, investing in

business was cited as the main current priority across all categories except in the female ran businesses who indicated ensuring a stable income for the family as the main current priority (**Figure 6.8**).

Figure 6.8: MSEs Current Priority: Grow versus Ensuring Stable Income for the Family.



6.9 Main Life Priority of Business Owners

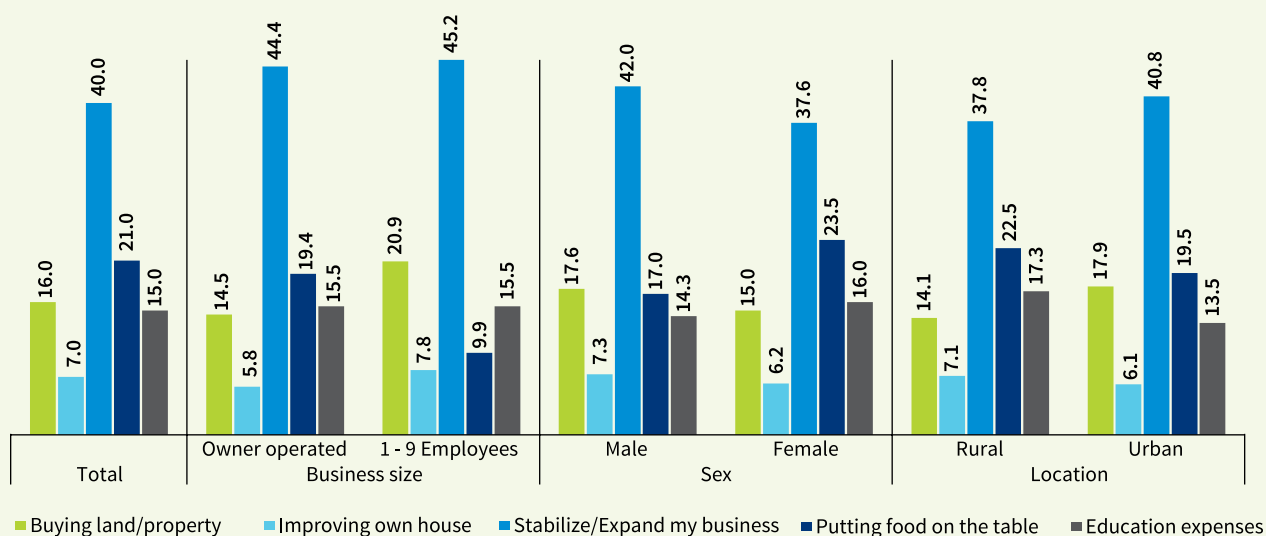
Stabilizing or expanding business was cited by 40 percent of respondents, as the main life priority followed by putting food on the table at 21 percent and buying land at 16 percent in the next two years.

Women who owned businesses indicated putting food on the table as the second main priority

at 23 percent while men cited buying property as the second main priority at 18 per cent.

Notably, owners of businesses with 1-9 employees' second main life priority was buying land or property indicating growth driven trajectory of MSEs (**Figure 6.9**).

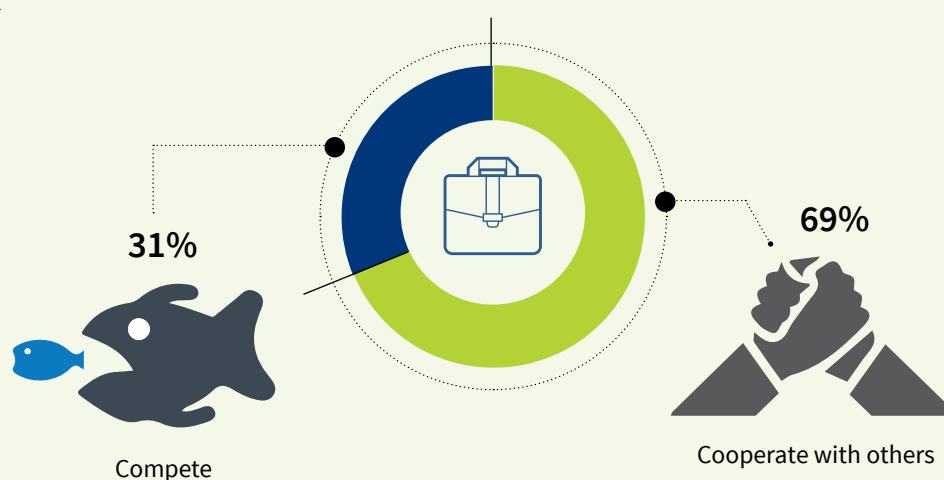
Figure 6.9: Main Life Priority of Business Owners in 2 Years



6.10 Compete or Cooperate in Business

A majority (69 percent) of business-owners indicated cooperating as more important than competing. This was observed across all the categories (Figure 6.10).

Figure 6.10: Compete or cooperate in Business



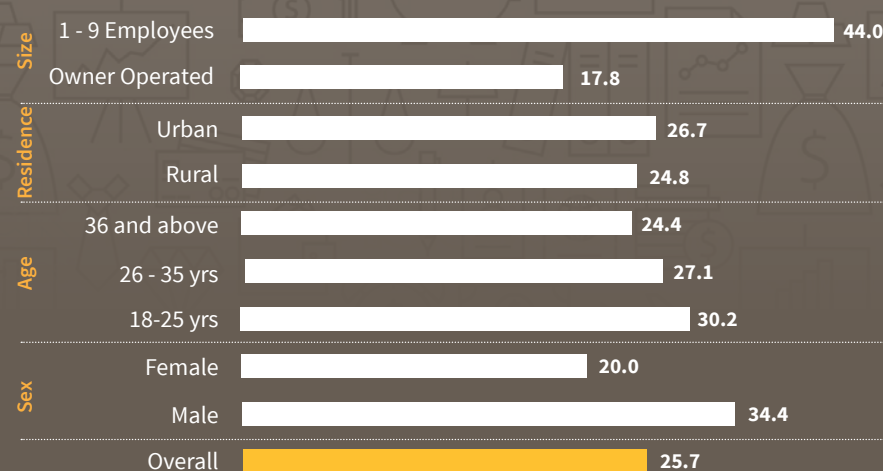
7.0 Household and Business Dynamics

This section presents highlights of household and business dynamics.

7.1 Ability to Raise Cash

The survey results indicated that 25.7 percent of the respondents would get KSh 11,000 in 3 days if they needed. In addition, 34.4 percent of male business owners and 20.0 percent of female business owners could raise KSh 11,000 cash in 3 days. 30.2 percent of the youth aged 18-25 years would get the cash in 3 days compared to other age group counterparts.

Figure 7.1a: Ability to Mobilize Funds in 3 Days



The survey also indicated that 44.0 percent of businesses with 1-9 employees could raise the amount in 3 days compared to 17.8 percent of owner operated businesses. Similarly, 24.8 percent and 26.7 percent of businesses in rural and urban areas, respectively, reported that they could raise KSh 11,000 in 3 days (**Figure 7.1a**).

An increase in the number of days enabled more entrepreneurs to raise the funds. The survey results indicated that 63.3 percent of the entrepreneurs could raise KSh 11,000 in 30 days. More male owned businesses (68.1 percent) could raise the lumpsum in 30 days compared to female owned business (60.8 percent). The proportion of entrepreneurs able to raise KSh 11,000 in 30 days is higher than in 3 days (**Figure 7.1b**).

“ The survey results indicated that **63.3 percent** of the entrepreneurs **could raise** KSh. 11,000 in 30 days while **36.7 percent** would **not**. More male owned businesses could raise the lumpsum in 30 days compared to female owned businesses.



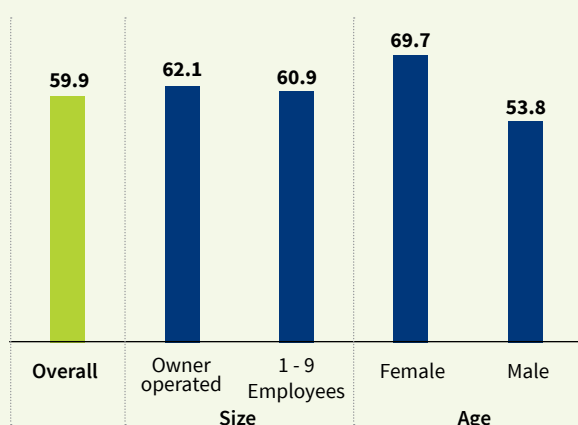
Figure 7.1b: Ability to Mobilize Lumpsum in 30 Days



7.2 Sole Income Earner in the Household

Overall, 59.9 percent of business owners indicated that they were the sole income earners. This is an indicator of over dependence on business income and potential shocks associated with lack of income diversity. 69.7 percent of male business owners reported that they were sole income earners in the household while 53.8 percent of female business owners were sole income earners. On the other hand, 62.1 percent of owner operated businesses reported that they were sole income earners in the household compared to 60.9 percent of the small firms (those with 1-9 employees) (Figure 7.2)

Figure 7.2: Proportion of Sole Income Earner by Sex and Business Size

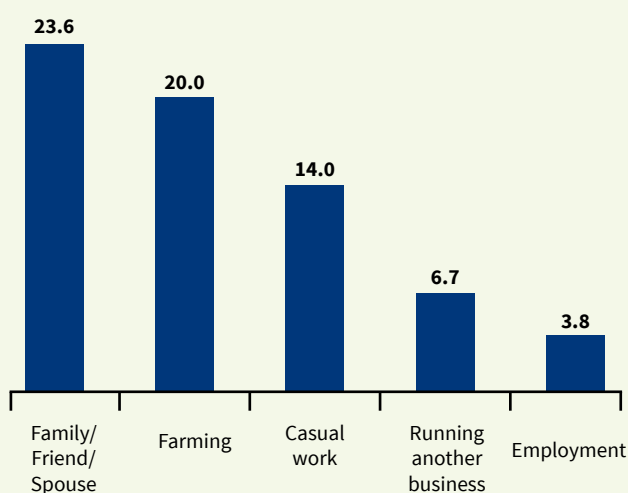


7.3 Other Sources of Income Apart from Business

Among the businesses that had income from other sources, 23.6 percent reported having other income from family and friends, 20 percent from farming and 14 percent

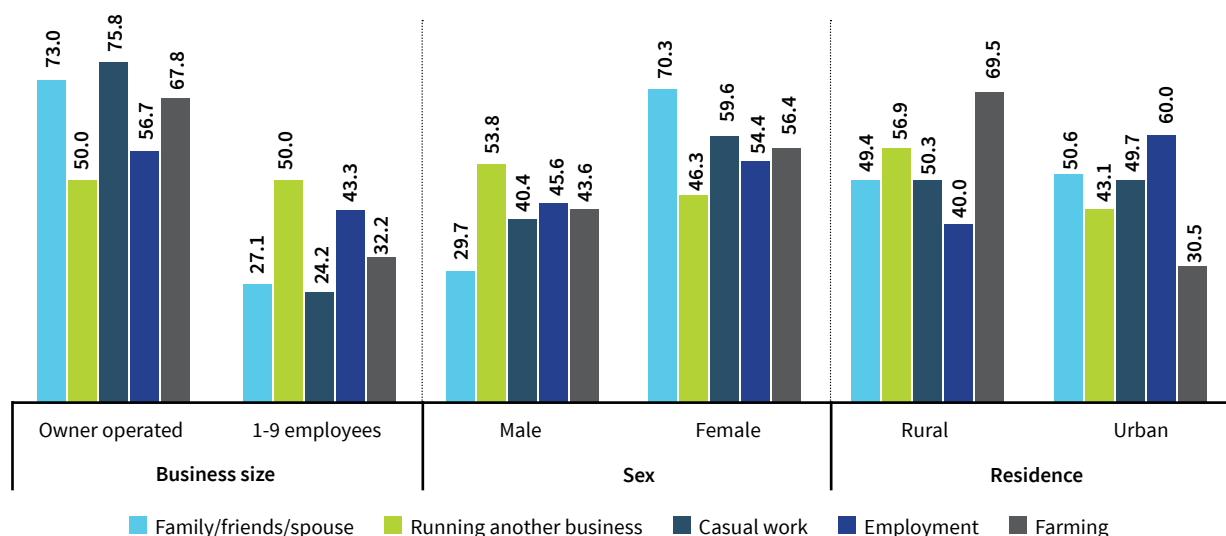
from casual work. Only 6.7 and 3.8 percent of business owners indicated having income from Running another business and employment respectively (Figure 7.3a).

Figure 7.3a: Other Income Sources (%)



Among the businesses that reported running another business as an additional source of income, 53.8 percent were male owned while 46.2 percent were female owned. Of the businesses that had other income from family, friends and spouses, 29.7 percent were male owned while 70.3 percent were female owned. Among the businesses that reported farming as an additional source of income, 67.8 percent were owner operated businesses (with no employees). With respect to size of business, 73.0 percent of the businesses that indicated family/friends/spouse as an additional source of income were owner operated businesses while 27.0 percent had between one and nine employees (Figure 7.3b).

Figure 7.3b: Other Income Sources



7.4 Use of Other Sources of Income to Support Business

Survey findings revealed that out of the businesses that reported family/ friends/spouse as an additional source of income, 63.3 percent had used income from family/ friends/spouse to support their main business. Amongst the businesses that run another business, 63.1 percent had used income from such business to support their main business. Out of the business that reported employment as their additional source of income, 58.8 percent used income from employment to support their main business (Figure 7.4).



Figure 7.4: Main Sources of Other Income Used to Support Main Business by MSEs

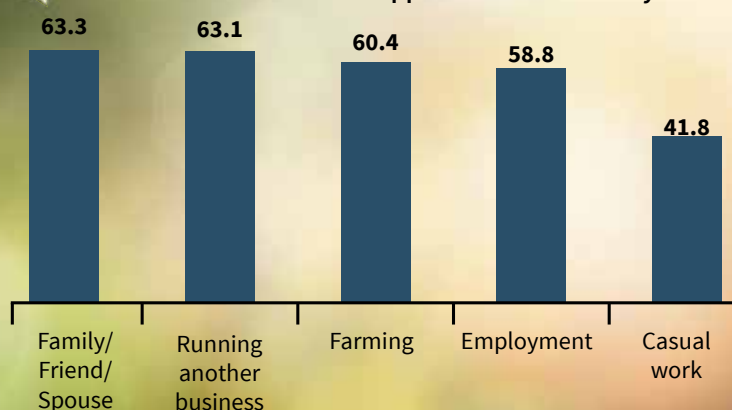
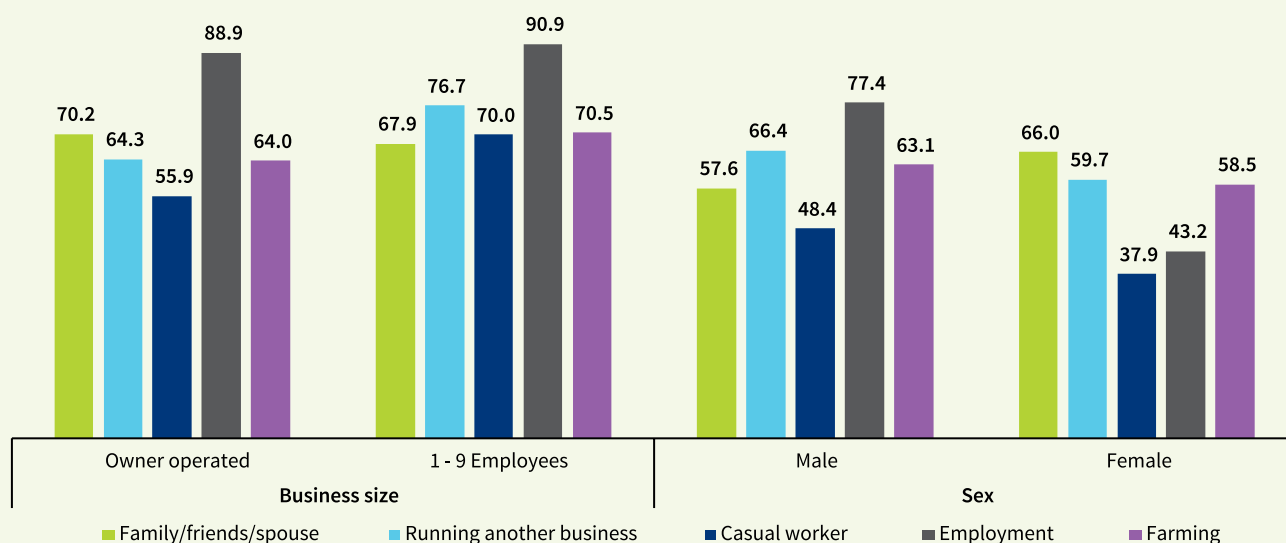


Figure 7.5: Main Sources of Other Income Used to Support Main Businesses by Sex(%)



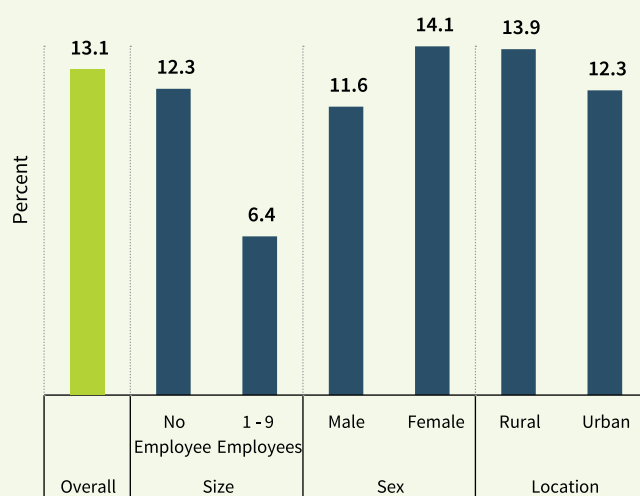
7.5 Main Sources of Other Income Used to Support Main Business

More male business owners, 77.4 percent reported to have used employment as additional source of income to support their main business while 43.2 percent of female business owners reported to have used employment income to support their main business. (Figure 7.5).

7.6 Food Insecurity

This section presented information on the rate at which households went without food in the one month preceding the survey. The findings of the survey indicated that 13.1 percent of the households often go without food. Among the female business owners, 14.1 percent indicated that they often went without food compared to 11.6 percent of the male business owners. Small businesses located in rural areas were more susceptible to food insecurity (13.9 percent) compared to businesses in urban areas (12.3 percent). The level of food insecurity was high among small businesses that did not have employees compared to those that had between 1 and 9 employees. Among the businesses that did not have employees, 12.3 percent reported to have often gone without food compared to 6.4 percent of businesses with 1-9 employees (Figure 7.6).

Figure 7.6: Household Food Insecurity



14.1 %
Women led MSE households often went without food



11.6 %
Men led MSE households often went without food

8.0 Conclusion and Policy Recommendations

The MSE Tracker Survey March 2023 was the first cycle (wave) conducted on a sample drawn from the 2019 and 2021 FinAccess Household Survey datasets. It sought to fill knowledge gaps by providing data on micro and small firm's characteristics by tracking their evolution over time. The Survey sample was drawn from the FinAccess Survey 2019 and 2021 datasets for respondents who indicated they operated business.

A total of 4,125 respondents with own business or self-employment agreed to participate in the follow-up surveys and provided their contact phone numbers. Of these, 2,394 respondents picked calls to participate in the survey. While this sample may not be a true representative of all MSEs in Kenya, it provides valuable information: on the current situation and challenges faced by businesses across the country as well the experiences in the recent past at household level.

This tracker survey presents findings for policy makers and the market side. Most of the businesses that were operational at the time of the survey, were mainly female-operated, located in rural areas and were owned by those aged 36 years and above. In addition, most of the MSEs were owned by primary school leavers. These findings had policy implications as well as opportunities for the market side. The government needs to invest in infrastructure, deal with cost of living concerns and put in place appropriate business skills development programmes to support this sector. Indeed, from the business performance indicators proxied by average monthly turnover, this is a growth sector that require suitable operating environment.

The private sector on the other hand has immense opportunities in supporting this sector in terms of innovating a secure, safe, and reliable technology, credit facilities for seed and operating capital, insurance products, capacity building and creating conducive environment. Businesses located in the rural areas, those owned by youths and women require more resources to uplift their growth potential and increase their survival rate. The supplier and consumer credit markets require formalization to ensure that they do not cause liquidity problems for MSEs and increased household indebtedness.

Targeted measures to address lack of supplies, high cost of supplies, supply chain constraints, cashflow problems, high cost of doing business, and limited access are needed. This can come from both from the private sector and the government. In particular, Government



support in form of grants, provision of reliable infrastructure, marketing platforms, reliable businesses oriented policies and training is of priority to MSEs.

This tracker survey therefore provides very useful data and information for both policy makers and private sector and innovators to support growth of sustainable businesses that would support employment creation, economic growth, and wealth creation for the benefit of everybody. The rounds of MSE Tracker survey that follow the same respondents would provide more insights on the dynamics of MSEs and how policy makers and private sector can respond to their needs.



finaccess **MSE** TRACKER SURVEY

Based on Findings of FinAccess 2019 & 2021

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