



MSE

TRACKER SURVEY

WAVE II: Follow-up on
2019 and 2021 FinAccess
Household Surveys



AUGUST 2023

About the Micro and Small Enterprises (MSEs) Tracker Survey

The MSEs Tracker Surveys are conducted by the Central Bank of Kenya in collaboration with the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya. They are undertaken after completion of Financial Access (FinAccess) Surveys, conducted every 2 to 3 years since 2006. .

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

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TRACKER SURVEY

WAVE II: Follow-up on 2019 and
2021 FinAccess Household Surveys

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Foreword

This report presents topline findings from the second phase (Wave II) of the Micro and Small Enterprises (MSEs) Tracker Survey that was conducted in June 2023. The first phase of MSE Tracker Survey (Wave I) was conducted in October 2022 and report of the topline findings released in March 2023. The tracker surveys were undertaken by a technical team from the Central Bank of Kenya (CBK) in collaboration with the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya.

Data collection was carried out through follow up telephone interviews involving respondents drawn from the 2019 and 2021 FinAccess Household Survey that provided telephone numbers and also consented to be interviewed. Data collection was undertaken for twenty (20) days in May/ June 2023. In both waves, target respondents were individuals whose main source of income was business or self-employment.

The Survey collected data on key characteristics of MSEs including operational status; number of workers; customer credit; business services and digital platforms; supply chains; revenue; financing; business perception; operational challenges; training and skills development; family and household dynamics as well as

recent policy initiatives on credit access. Households with both active (operational) and closed businesses were interviewed.

The survey findings provide useful insights on the critical role of monitoring and evaluation of key policies such as Kenya MSME policy 2020 that seeks to expand access to formal financial services, financial education and credit sharing to enhance growth of MSMEs. The survey also provides useful indicators for monitoring and evaluation of the fourth Medium Term Plan (MTP IV) under Vision 2030, which prioritizes development of the Micro, Small and Medium Enterprise (MSME). Performance measurement of the recently launched Financial Inclusion (Hustler) Fund, a key initiative of



Central Bank of Kenya





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the Government that aims to improve access to credit among Kenyan MSE entrepreneurs can also benefit from this survey.

Data collection was implemented through Computer Assisted Telephone Interviews (CATI). A sample size of 4,125 respondents was drawn from the 2019 and 2021 FinAccess Household Survey datasets. The target respondents are those who indicated that they owned a business or were self-employed, provided mobile phone number and consented to being interviewed again in follow-up surveys.

A total of 1,961 respondents accepted to be interviewed by research assistants in this survey compared with 2,394 respondents in the October 2022 Survey. Of the total, 1,422 (72.6 percent) respondents reported that their businesses were still operational while 539 (27.4 percent) had closed. About 57.6 percent of the operational businesses at the time of conducting the survey were female-owned and the remainder, male-owned. Wholesale and retail trade activities accounted for the largest share at 64.7 percent. It was followed by; agriculture, forestry, and fishing at 9.0 percent and; accommodation and food services at 6.9 percent. The proportion of businesses engaged in manufacturing related activities increased from 5.5 percent in October 2022 to 6.7 percent in June 2023.

The report also provides a glimpse of the utilization of the Financial Inclusion (Hustler Fund) by MSEs. It shows high level of awareness of this major policy initiative at 95.1 percent of the respondents, with 51.3 percent reporting to have borrowed from the fund. A majority of the youths, female and those dwelling in urban areas have accessed the Fund, more than the rest of the demographics. The top two reasons for those who accessed the Fund were to meet personal/household expenses and to finance their businesses.

The report therefore provides useful insights and data for policymakers in reviewing policies and designing appropriate intervention measures to support and grow the MSME sector in the country. Other stakeholders will also find value in the report to support their various programmes and initiatives. Reading this report together with the findings from the Wave I report available on the CBK website provides a comprehensive picture on demand side dynamics driving MSMEs sector in Kenya. Datasets underpinning these reports can be accessed from the websites of CBK, KNBS and FSD Kenya for customized analytics by various users.

Abbreviations and Definitions

BETA	Bottom-up Economic Transformation Agenda
CATI	Computer Assisted Telephone Interview
CBK	Central Bank of Kenya
CBS	Chief of the Order of the Burning Spear
Chama	Kiswahili word for Informal Savings Group
COVID-19	Novel Corona Virus Disease in 2019
DCP	Digital Credit Provider
EFT	Electronic Funds Transfer
Fintech	Financial technology or fintech is used to describe new technology that seeks to improve and automate the delivery and use of financial services
FSD Kenya	Financial Sector Deepening Trust Kenya
Fuliza	An M-Pesa service that allows you to overdraw on your M-Pesa account when you have insufficient funds to complete a transaction.
GOK	Government of Kenya
Hustler Fund	Also known as Financial Inclusion Fund, is a digital financial solution that can be accessed through a USSD or mobile phone App
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
MBS	Moran of the Order of the Burning Spear
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
Pochi la Biashara	M-Pesa product that allows MSE to receive and separate business funds from personal funds on their M-PESA line.
SDG	Sustainable Development Goals
SIM	Or subscriber identity module, is a smart card that stores identification information that pinpoints a smartphone to a specific mobile network.
SWIFT	Society for World-wide Inter bank Financial Telecommunication



Acknowledgements

We take this opportunity to thank the management of CBK, KNBS and FSD Kenya for effective leadership, financial and human capacity approvals that made this survey exercise a great success. Specifically, we acknowledge the stewardship of Dr. Kamau Thugge, Governor of the CBK supported by Dr. Susan Koech, Deputy Governor of CBK, Mr. Macdonald Obudho, MBS, Director General, KNBS, and Ms. Tamara Cook, CEO, FSD Kenya. The overall quality of the report was under the guidance and coordination of 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.

The technical team that oversaw data collection and was involved in the analysis and production of this report include Mr. Cappitus Chironga, Dr. Samuel Kiemo, Ms. Irene W. Rugiri, Dr. Peter Wamalwa and Dr. Isaac W. Mwangi from CBK, Mr. Simon Gaitho, Ms. Tabitha W. Mwangi, Mr. Silvester Maingi, Mr. Cruyff Matunde and Mr. Lucas Sagire from KNBS; and Ms. Lukania Makunda and Mr. Peter Gakure from FSD Kenya. The team worked tirelessly to implement the survey in a timely and efficient manner that has led to timely release of the report. The report was designed by Mr. Conrad Karume of FSD Kenya supported by Mr. Christopher Mwangi and Sylvia Anam of CBK.

A special mention goes to the supervisors who ensured that research assistants conducted the interviews with high sense of professionalism that led high quality data. These include Mr. Julius Bett, Ms. Faustinah Karuri, Mr. Edwin Maza, Mr. Paul Kamondo and Moses Ong'aro from CBK and, Mr. Milton Tunoi, Mr. Lucas Sagire and Mr. Joseph Thoya from KNBS. Other people who contributed to the production of the report include the research assistants for being such a dedicated team to the data collection and members of households who participated in the survey by providing information that is analyzed herein.



The 2019 survey had 1,199 respondents whereas the 2021 survey had 2,926 respondents who indicated that their main source of income was own business or self-employment.

Micro firms comprise:



4.4 million business owners*

*MUSE Tracker Survey August 2023



Main activity of business June 2023

- | | | | |
|---------|----------------------|--------|----------------------|
| ● 64.7% | Wholesale/retail | ● 6.9% | Food & accommodation |
| ● 9.0% | Agriculture/Forestry | ● 6.7% | Manufacturing |
| ● 8.2% | Other Services | ● 4.6% | Transport & Storage |

Executive Summary

The Financial Access (FinAccess) Surveys, which measure the demand side status of financial inclusion, have been conducted in Kenya every 2 to 3 years since 2006. This has been through the joint partnership of the Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS), the Financial Sector Deepening Trust (FSD Kenya), among other public and private sector stakeholders, locally and abroad.

The surveys are undertaken to enhance understanding of financial inclusion from the customer perspective. Data collected and analyzed to provide topline findings along the access, usage, quality and impact dimensions of financial inclusion provide useful information 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. Arising from the main surveys, the three institutions jointly conduct follow up surveys, also known as Tracker Surveys, to distil certain thematic areas. The baseline tracker survey was conducted in 2020/2021 using the 2019 FinAccess Household Survey data. It focused on the impact of COVID-19 pandemic on MSMEs and coping mechanism adopted by businesses to survive the pandemic. Topline findings and datasets of these Tracker Surveys are available on the websites of these three institutions.

Following the successful conclusion of the 2021 FinAccess Household Survey, whose report of topline findings was launched in December 2021, the technical team at CBK, KNBS and FSD Kenya conducted tracker surveys on MSEs in two phases (waves). The team utilized both the 2019 and 2021 FinAccess datasets for data samples. The first wave (Wave I) was conducted in October/November 2022 and its report released in March 2023. Among the key findings of this report was the resilience of MSEs to COVID-19 pandemic, recovery journey and supportive environment that was key to businesses recovery. The second phase (wave II) was conducted in June 2023 and whose results are presented in this report.

The target respondents for MSE Tracker Survey are those who indicated to have a business as the main source of income during the 2019 and the 2021 FinAccess household surveys. It comprised mainly MSEs categorized as owner operated (with no paid employees) and those with 1 - 9 employees. In total, the 2019 and 2021 FinAccess surveys had 1,199 and 2,926 respondents who reported their main source

of income to be own business or self-employment. This resulted in a total of 4,125 respondents eligible to participate in the follow-up surveys by providing their phone numbers. This formed the target sample for the MSE data collection in October 2022 and June 2023. This sample was non-probability since it was based on respondents' availability, reachability (active telephone number) and willingness to participate in the survey.

Of the total eligible respondents in the sample size, 1,961 successful interviews were conducted. Of these, 1,422 (72.6 percent) respondents had their businesses still running while 539 (27.4 percent) had closed. A majority of operational businesses or 57.6 percent were female-owned while 42.4 percent were male-owned at the time of conducting the survey. The top three sectors were; wholesale and retail trade at 64.7 percent of respondents; agriculture, forestry and fishing at 9.0 percent; and accommodation and food services at 6.9 percent. In addition, 19.1 percent of respondents reported to be running more than one business in the June 2023 survey compared with 12.7 percent respondents in the October 2022 survey, citing risk diversification as main reason.

The survey findings indicate that small businesses are increasingly leveraging technology to run their operations. The proportion of respondents who reported to have deployed at least one digital channel in business transactions has increased from 73.5 percent in the October 2022 survey to 85.6 percent in the June 2023 survey. Digitalization was highest for female-owned, urban and owner operated businesses. In terms of age groups, the use of digital channels was highest among the businesses owned by respondents in the 18–25-year old age group. Interestingly, use of cash in payments from customers remains very high at 98.5 percent followed by mobile money (send money) at 76.4 percent.

To stay competitive, more than half of businesses compare suppliers to get the best prices and quality supplies. In addition, 36.0 percent of businesses visit their competitors to compare prices and products. In order to maintain their existing market, small businesses continued to offer credit of goods and services to their customers. However, the proportion of businesses that offered consumer credit to customers declined from 68.5 percent in October 2022 to 61.1 percent in June 2023. The value of outstanding consumer credit mainly ranged between KSh 1,001 and 10,000. On the other hand, only 30.6 percent of respondents indicated to have received supplier credit at the time of the survey.

Besides the traditional sources of financing such as savings and loans from friends and family, businesses have embraced emerging alternative sources such as hustler fund and digital credit providers. In particular, among those who reported to have active loans at the time of the survey, about 45.0 percent of them had borrowed from hustler fund, 28.0 percent from mobile banking platforms such as *Mshwari* and KCB M-Pesa and 23.7 percent had borrowed from *chamas* or groups.

The awareness about hustler fund among respondents (both those running active and closed businesses) was very high, at 95.1 percent. The overall borrowing from hustler fund among respondents was reported at 51.3 percent. More male than female business people borrowed from hustler fund. The main reason given for borrowing from the fund were for personal or household purposes such as meeting daily expenses. About 18.1 percent of respondents borrowed purely to fund business operations, particularly as working capital. The main advantage cited for using hustler fund was ease of access compared to other credit providers. However, 71.0 percent indicated that the fund need to increase its loan size to ensure it meets the needs of borrowers.

In terms of other digital credit providers, more than half of respondents cited high interest rates and short repayment period as the main challenges they face while borrowing from the digital credit providers.

More female than male-owned businesses were not operational at the time of the survey. A majority were located in rural areas and were owned by the respondents below 36 years. Lack of working capital was cited as the main reason from business closure at 46.1 percent, and 58.8 percent of

respondents of closed businesses had tried to acquire capital from various sources without success.

The respondents were divided in the middle on the perception about business prospects. About 50.6 percent of respondents expect their businesses to perform better in the twelve months succeeding the survey, a decline from 58.3 percent reported in October 2022. On the other hand, the proportion of businesses that expect their performance to worsen increased from 22.6 percent in October 2022 to 27.3 percent in June 2023. More business owners continue to embrace training in their area of business. This proportion increased from 31.7 percent in October 2022 to 34.7 percent in June 2023. This is very critical for building sustainable and viable businesses, which is key to economic growth and employment creation. The role of government and other stakeholders in designing and delivering targeting training for MSMEs is crucial.

Micro and Small Enterprise (MSE) economy constitutes key development priorities as envisioned in the fourth Medium Term Plan (MTP-IV) of Vision 2030. Furthermore, the Bottom-up Economic Transformation Agenda (BETA) envisages the Micro Small and Medium Enterprises (MSMEs) sector to be a catalyst in creation of employment and source of livelihood opportunities, particularly for the poor and the marginalized groups. Moreover, the 8th Sustainable Development Goal recognizes MSEs as critical in job creation and attainment of other related goals. The understanding of this critical role of MSEs underpins the FinAccess Household surveys and the subsequent tracker surveys. All array of stakeholders will find very invaluable information in these datasets and report to shape their work and initiatives.



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There is need to pursue possibilities to increase the Hustler fund loan amount as well as to address high interest rates and short repayment periods associated with other digital credit providers.





SDG 8

Decent Work and Economic Growth

Creating jobs for all to improve living standards, providing sustainable economic growth. It recognizes MSEs as critical in job creation and attainment of other related goals.



1.0 Introduction

MSEs 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. Furthermore, the Bottom-up Economic Transformation Agenda (BETA) envisages the Micro Small and Medium Enterprises (MSMEs) sector to be a catalyst in creation of employment and livelihood opportunities, particularly for the poor and the marginalized groups.

At a global level, Sustainable Development Goal (SDG) 8 on “Decent Work and Economic Growth: Creating jobs for all to improve living standards, providing sustainable economic growth” recognizes MSEs as critical in job creation and attainment of other related goals. The understanding of this critical role of MSEs is what underpins the tracker surveys.

1.1 Survey Objectives

The FinAccess MSE Tracker Survey provides in-depth information on MSEs. The analysis in this report categorizes MSEs 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; or▪ Has 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 million▪ 69.9 percent had no employees▪ 29.5 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, 000▪ Less than 1 percent had 10 or more employees

Source: FinAccess MSE Tracker Survey Wave I (March, 2023)

1.2 Survey Methodology

The MSE Tracker Survey targets respondents that reported operating a business as the main source of income from the 2019 and the 2021 FinAccess household surveys. The respondents in the survey comprise mainly micro enterprises comprising of businesses that do not have employees (owner operated), and those with 1 - 9 employees.

The 2019 FinAccess survey had 1,199 respondents whereas the 2021 survey had 2,926 respondents who indicated that their

main source of income was own business or self-employment. This resulted in a total of 4,125 respondents with their own business or self-employment who agreed to participate in the follow-up surveys and provided their contact details. Therefore, this formed the sample for the MSE Wave I of data collection in October 2022 and Wave II in June 2023. The sample was therefore non-probability based on respondents' availability, reachability (active telephone numbers) and willingness to participate in the survey.

Table 1.2: Analysis of Survey Sample Size and Response Status

	Description	Number
1	Respondents who indicated that their main source of income was own business or self-employment (2019 FinAccess Survey target sample size 11,000 households)	1,199
2	Respondents who indicated that their main source of income was own business or self-employment (2021 FinAccess Survey target sample size 30,600 households)	2,926
	Total	4,125
	Survey respondents	
Wave I	October 2022: 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 who consented to and completed the interview	679
Wave II	June 2023: Business owners who agreed to be interviewed:	1,961
	▪ Number of households with active businesses who consented to and completed the interview	1,418
	▪ Number of households with closed businesses who consented to and completed the interview	539

The survey was conducted through telephone interviews. In Wave I, out of the 4,125 target respondents, 2,394 successfully participated in the MSE tracker follow-up survey. In the second phase of data collection, 1,961 successfully participated in the survey (Table 1.2).

2.0 Business Characteristics



This section highlights economic sectors, in which businesses operate, their operational status and business premises.

2.1 Business operational status

The proportion of operational businesses increased marginally from 71.6 percent in October 2022 to 72.6 percent in June 2023, while the proportion of businesses that were not operational declined from 28.4 percent in October 2022 to 27.4 percent in June 2023.

Figure 2.1a: MSE operational status (%)

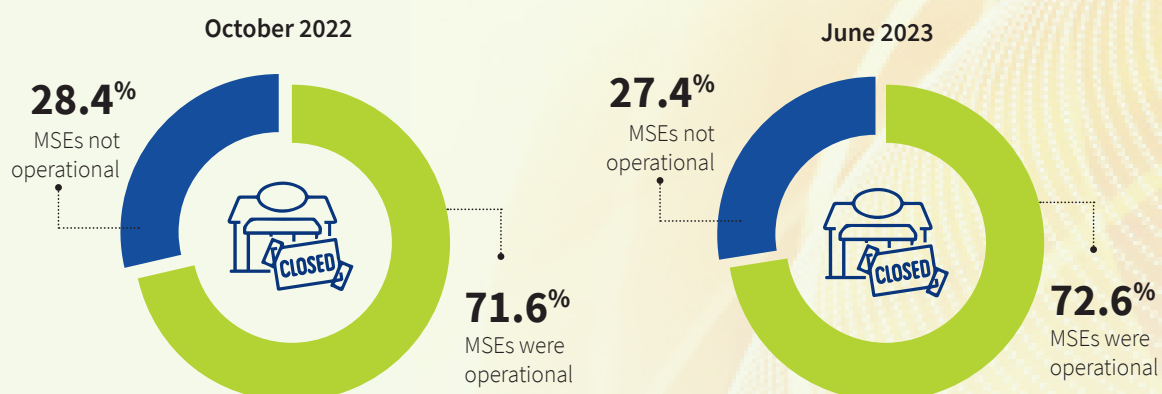
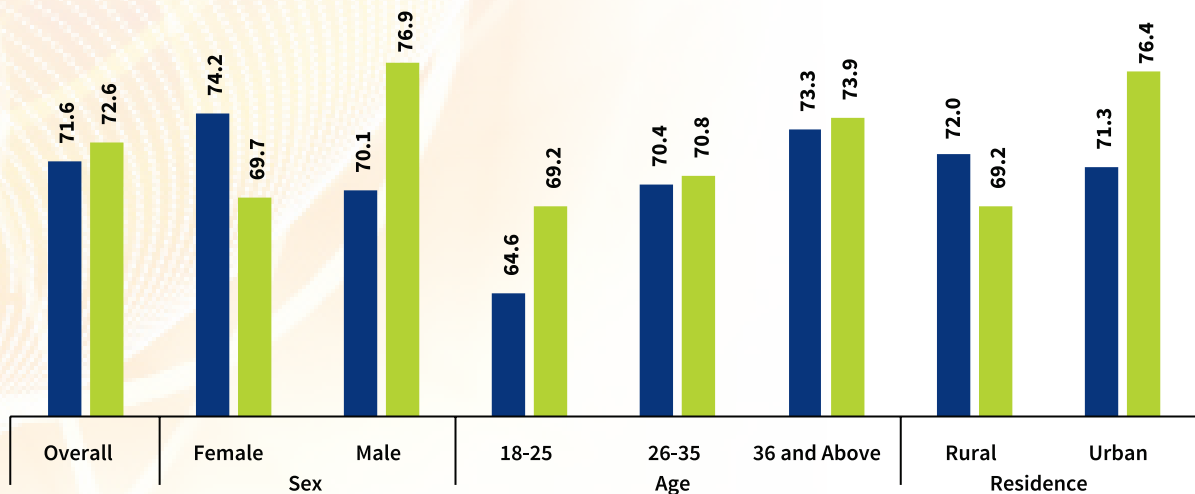


Figure 2.1b: Profile of operational businesses (%)



NB: The June 2023 and the October 2022 proportions were computed as a ratio of total in each category.

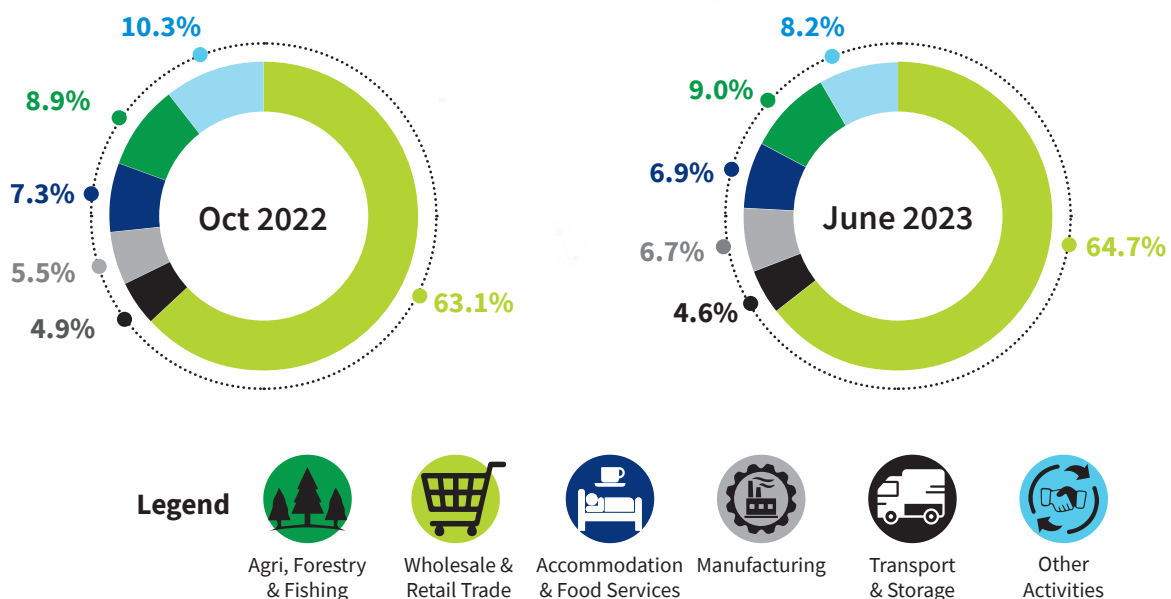
■ Oct-22 ■ Jun-23

The survey findings indicate, more male owned businesses were operational in June 2023 at 76.9 percent compared to female owned businesses at 69.7 percent. The proportion of operational businesses increased among the three age group categories in June 2023 compared to October 2022. Similarly, the proportion of operational urban based MSEs increased from 71.3 percent in October 2022 to 76.4 percent in June 2023. However, the proportion of operational rural based MSEs declined from 72.0 percent to 69.2 percent in the referenced period (Figure 2.1b).

2.2 Economic sectors

Majority of MSEs were in wholesale and retail trade sector. Most of the businesses have operated in the same sector with marginal increase in agriculture, manufacturing, wholesale and retail trade between October 2022 and June 2023. On the other hand, MSEs engaged in transport and storage, accommodation & food service activities, and other activities declined (Figure 2.2).

Figure 2.2: Distribution of MSEs by sectors of main business (%)

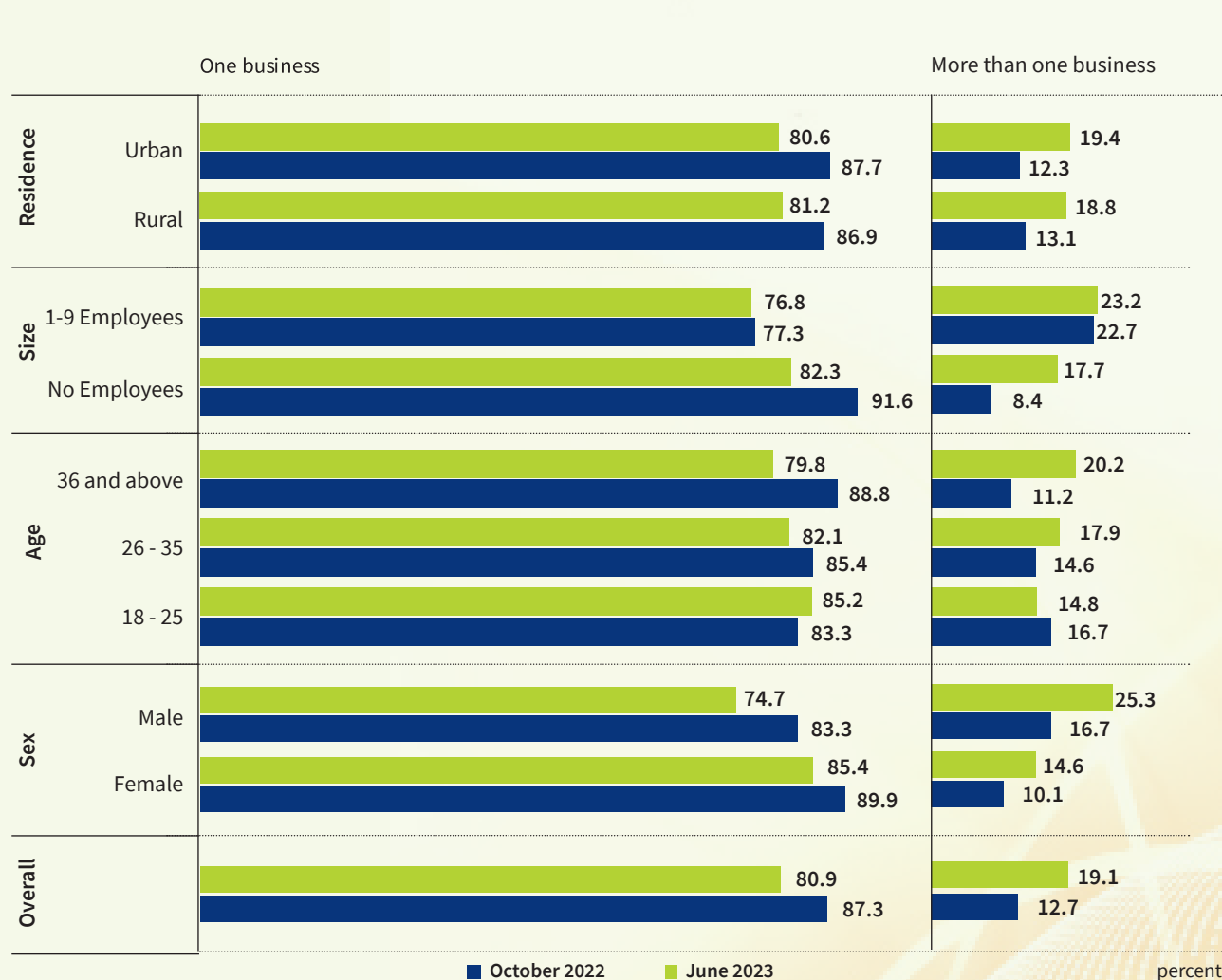


2.3 Number of businesses operated by respondents

Running several enterprises is key to diversifying livelihoods to manage risks associated with one business. The survey results indicated that respondents operating one business declined from 87.3 percent in October 2022 to 80.9 percent in June 2023. On the other hand, the proportion of respondents

running more than one business increased from 12.7 percent in October 2022 to 19.1 percent in June 2023. The increase in the proportion of respondents running more than one business is notable among respondents in urban areas, owner operated businesses and male owned businesses (**Figure 2.3**).

Figure 2.3: Number of businesses operated by the respondents (%)

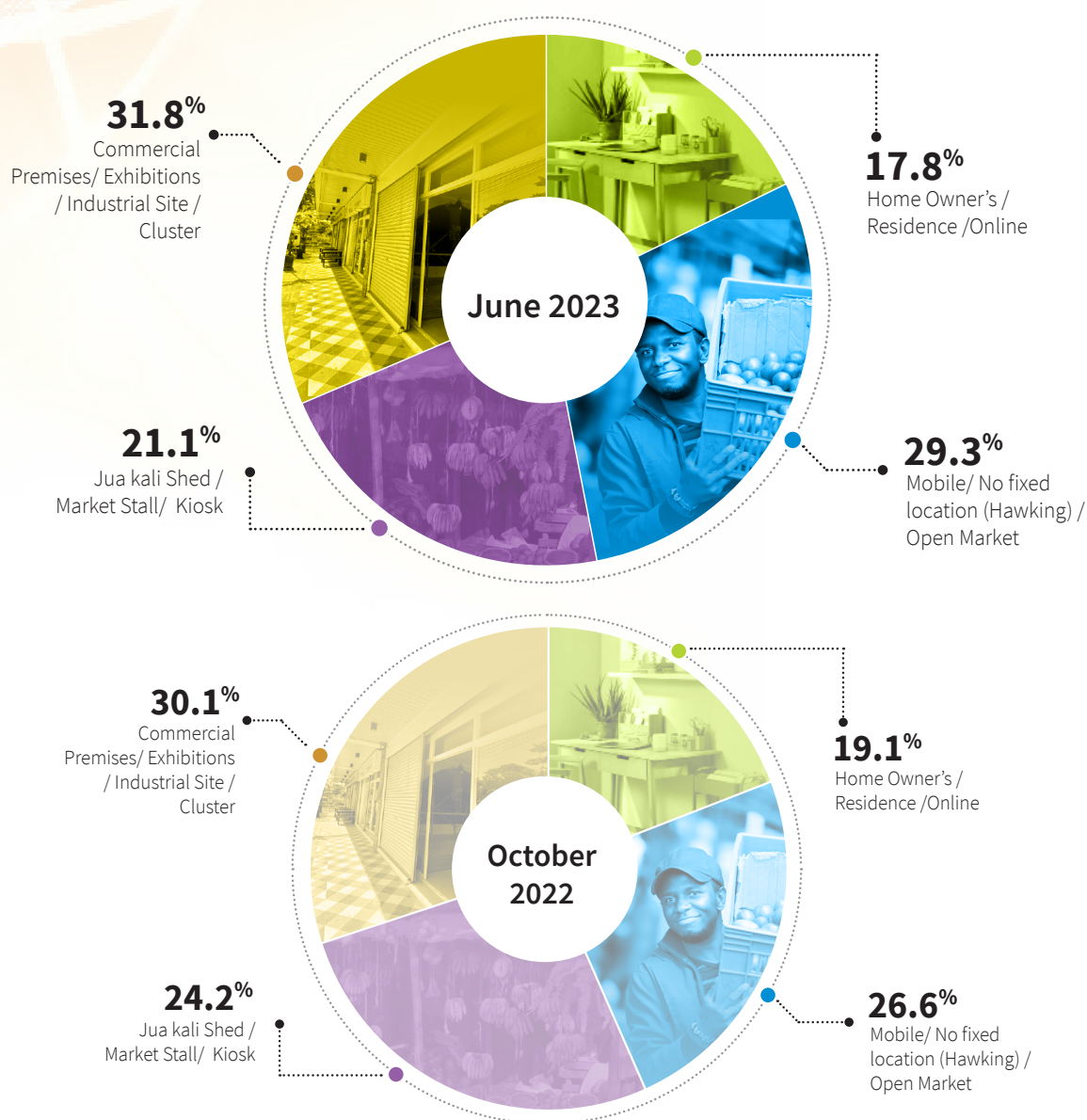


2.4 Business operating premises

The location where a business operates influences its growth. Commercial premises and hawking are the main premises from which the businesses operated from. The location of the business in October 2022 did not change much in June 2023. The survey findings showed a minor increase to 31.8 percent from 30.1 percent for respondents operating businesses in

commercial premises. Businesses operating at home / owners residence / online declined from 19.1 percent in October 2022 to 17.8 percent In June 2023. On other hand, respondents operating businesses at no fixed location increased from 26.6 percent to 29.3 percent in the same period (**Figure 2.4**).

Figure 2 4: Areas of business operation (%)





3.0 Digitalization and Business Practices

This section highlights the level of digitalization and practices undertaken by MSEs.

3.1 Digitalization of MSEs

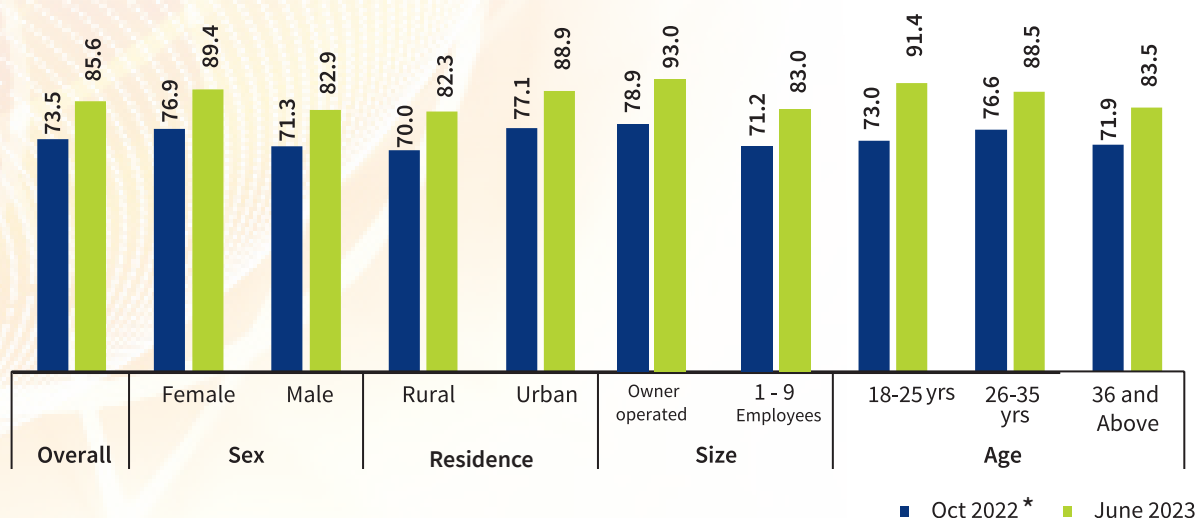
Digitalization of business enterprises plays a critical role in improving operational efficiency, safety of stock and sales and eases decision making. Further, it eases access to business records which facilitate better information exchange for purposes of audit, tax assessment and credit scoring by financial institutions. The survey findings indicate that the proportion of MSEs that use digital channels increased. In this survey digitalization included the use of mobile money (Send money, till numbers, paybill numbers, and *pochi la biashara*), use of

digital bank transfers (EFT, SWIFT, Pesalink), Credit and Debit cards.

In particular, MSEs using at least one digital channel in business transaction increased from 73.5 percent in October 2022 to 85.6 percent in June 2023. Digitalization was higher for female-owned, urban and owner operated compared to male owned, rural businesses and businesses with 1-9 employees.

Among the age groups, the use of digital channels was higher among 18–25-year-old more than other age groups (**Figure 3.1**).

Figure 3.1: Digitization of Customer Payments by Businesses (%)



* Revised numbers (Wave I figures is reported in March 2023 report only included till numbers and card reader machines).

3.2 Payment channels

3.2.1 Payment channels used by MSE customers

The Survey findings indicate that most customers mainly use cash while transacting with MSEs. The use of cash as a mode of payment by customers was dominant at 98.5 percent. The proportion of businesses which accepts payments from customers through mobile money increased from 68.2 percent in October 2022 to 76.4 percent in June 2023.

The proportion of businesses that accept payment using mobile money till numbers increased from 15.2 percent to 18.4 percent over the same period. However, the use of paybill among MSEs declined slightly from 6.4 percent in October 2022 to 5.9 percent in June 2023, partly due to reinstatement of pay bill charges in January 2023 (**Figure 3.2a**).

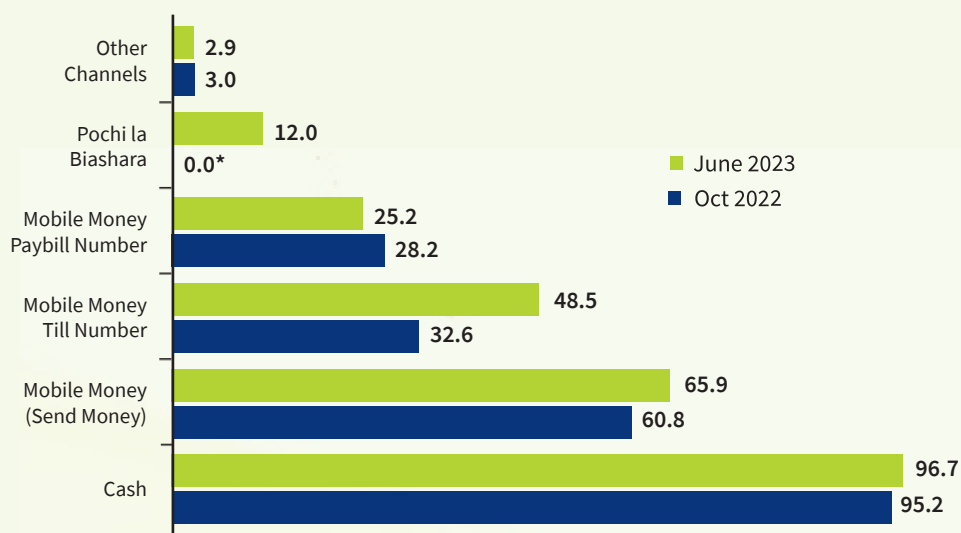
Figure 3.2a: Channels used for payments by MSE customers



3.2.2 Payment channels used for paying suppliers

MSEs primarily use cash and mobile payment platforms to transact with their suppliers. The use of cash increased from 95.2 percent in October 2022 to 96.7 percent in June 2023 due to convenience and increase in pay bill charges. Over the same period, the use of mobile money (send money) and mobile till number increased from 60.8 percent and 32.6 percent to 65.9 percent and 48.5 percent, respectively. The increase in the use of till numbers and mobile money could be attributed to low transaction costs, ease of use, availability and increased interoperability (**Figure 3.2b**).

Figure 3.2b: Channels for paying suppliers (%)



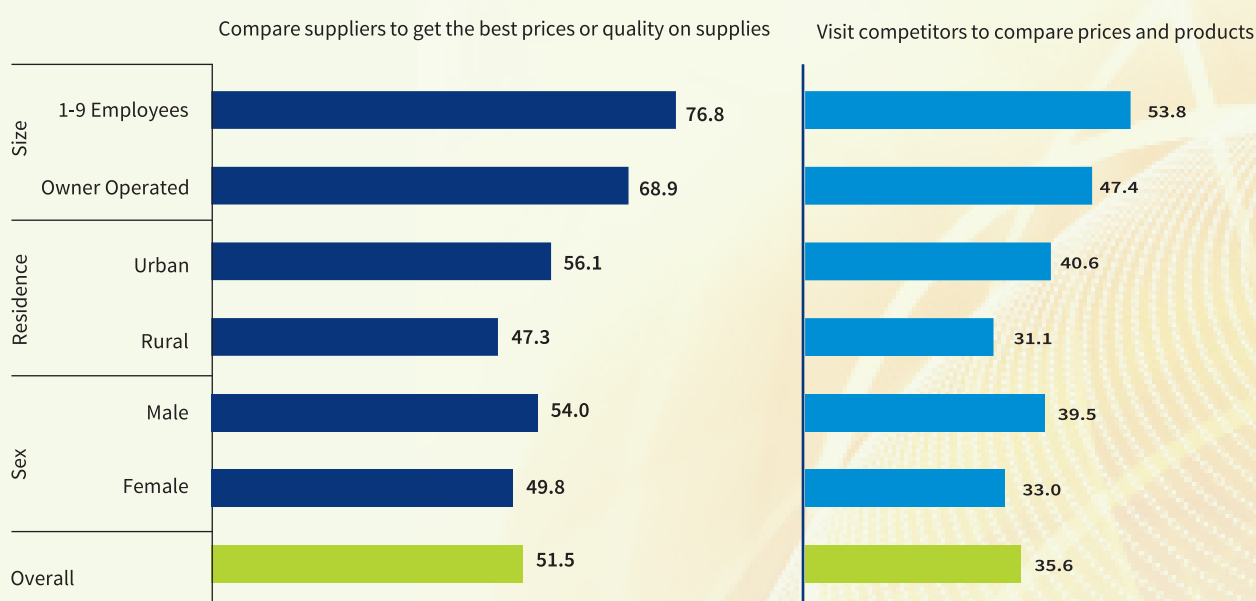
* Pochi la Biashara data was not collected in October 2022

3.3 Business Practices

The survey sought to establish the practises MSEs engaged to remain competitive. Findings revealed that 51.5 percent of MSEs compare suppliers to get the best prices and quality supplies while 35.6 percent of businesses visit their competitors to compare prices and products. In terms of sex, 54.0 percent of male owned businesses and 49.8 percent of female owned businesses

compare suppliers to get the best prices or quality supplies. More than half of the businesses in urban areas compare suppliers to get the best prices or quality supplies. More than half (53.8%) of businesses with 1-9 employees reported that they visit their competitors to compare prices and products (**Figure 3.3**).

Figure 3.3: Proportion of businesses engaged in practices to remain competitive (%)





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The survey defined consumer credit as the amount (or value) of goods and services advanced by 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 MSEs from their enterprise's suppliers for later payment.



4.0 Financing and Operational Challenges

This section presents findings on micro and small enterprises' financing and operational challenges. In particular, the section presents information on access to credit, other forms of financing, savings, operational challenges.

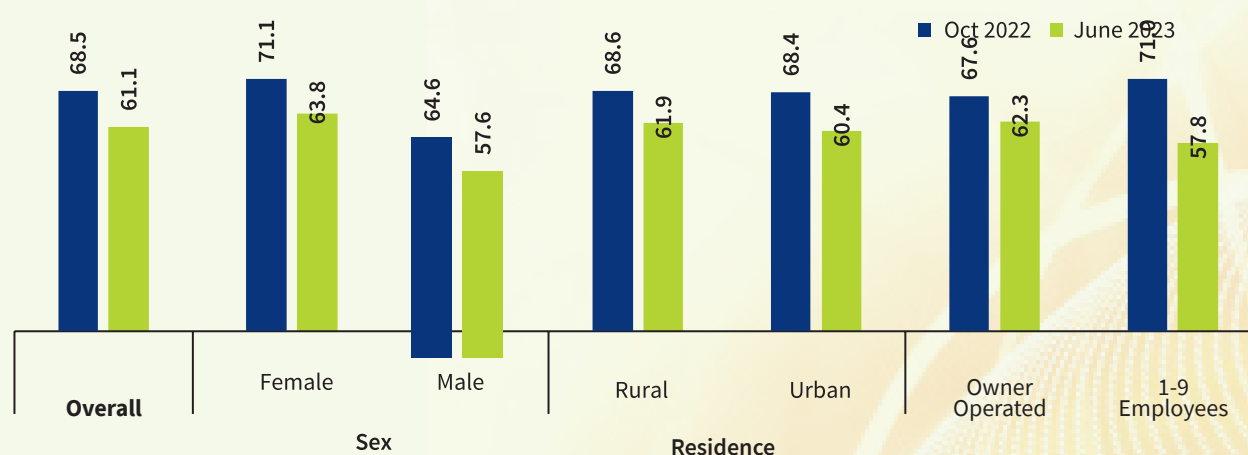
4.1 Consumer and Trade Credit

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

4.1.1 Consumer Credit

Consumer credit to customers is a useful tool in promoting business growth. In this regard, businesses offer their products (goods and services) on credit to grow and retain their customers to increase sales. The survey findings indicate that the proportion of businesses offering consumer credit declined from 68.5 percent in October 2022 to 61.1 percent in June 2023. More female owned businesses offered consumer credit at 63.8 percent compared to male owned businesses at 57.6 percent in June 2023 (**Figure 4.1a**).

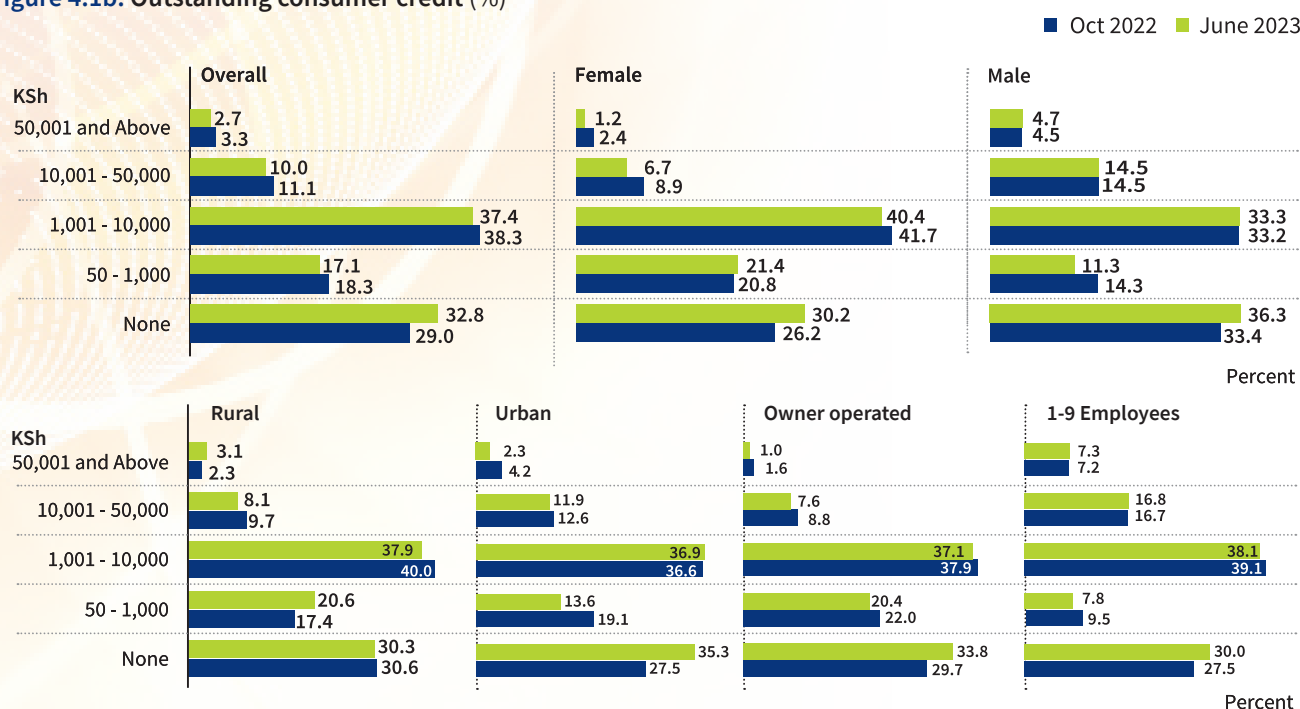
Figure 4.1a: Proportion of Businesses Advancing Consumer Credit (%)



4.1.2 Outstanding Consumer Credit

The survey sought to assess the value of the outstanding consumer credit advanced by the MSEs to their customers. The survey findings indicate the outstanding credit declined in June 2023 compared to October 2022 as indicated by the different segments. The June 2023 survey results indicated that the proportion of MSEs with outstanding consumer credit valued at KSh1,001 - KSh10,000 remained the highest at 37.4 percent overall. Similar trends were observed among the female owned enterprises at 40.4 percent male owned enterprises at 33.3 percent, rural based enterprises at 37.9 percent, urban based enterprises at 36.9 percent (**Figure 4.1b**). Access to trade credit from suppliers is a useful tool for financing business operation for micro enterprises. The overall median monthly outstanding credit declined to KSh 1,200 in June 2023 from KSh1,500 in October 2022 (**Figure 4.1c**).

Figure 4.1b: Outstanding consumer credit (%)



4.1.3 Supplier credit to MSEs (credit from suppliers)

Compared to October 2022, trade credit to businesses reduced by 6.1 percent in June 2023 from 36.7 percent. Results indicates that female owned businesses attract more trade credit within the two study periods; 33.0 percent in June 2023 & 38.4 percent in October 2022 (Figure 4.1d).

Figure 4.1c: Median monthly outstanding consumer credit (Ksh)

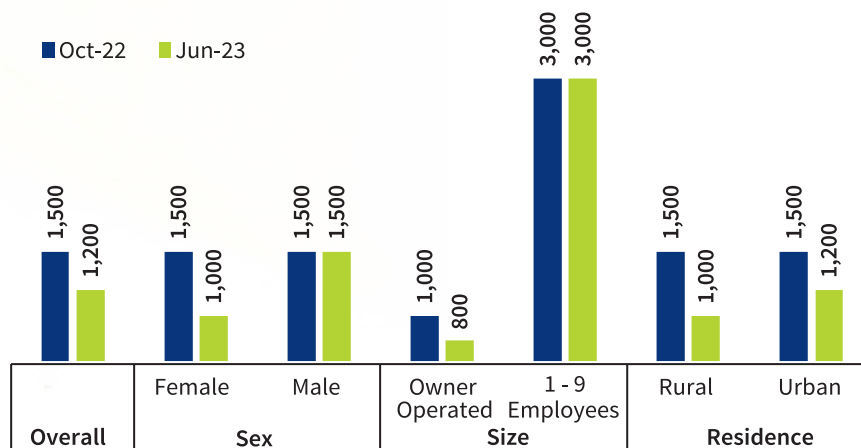
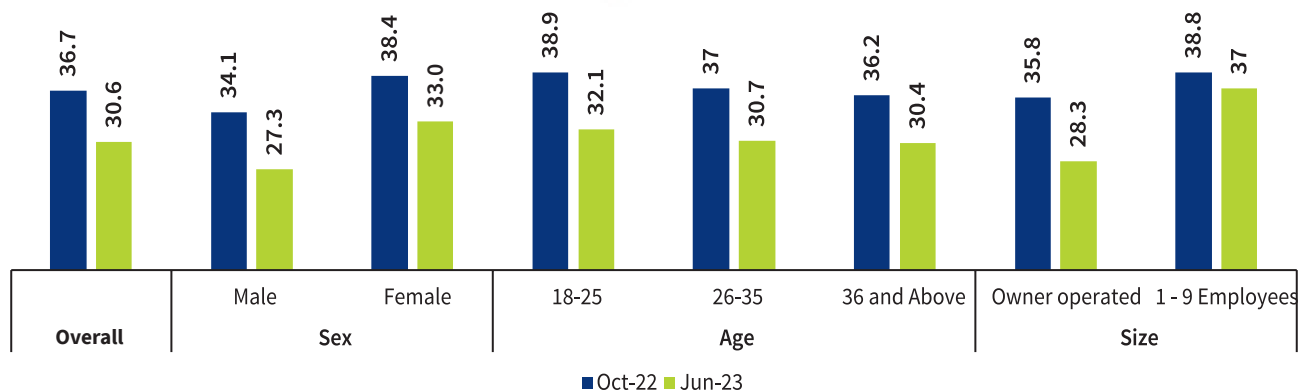


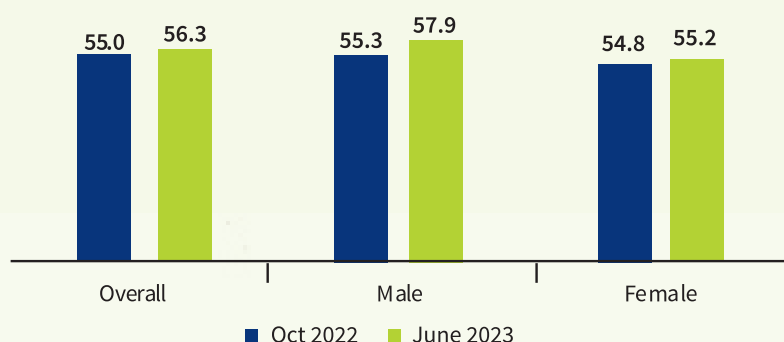
Figure 4.1d: Proportion of businesses receiving trade credit (%)



4.2 Access to loans

The survey sought to assess the proportion of MSEs financing their operation through business loans from various providers. The survey findings indicated 56.3 percent of MSEs had existing business loans as at June 2023 up from 55.0 percent in October 2022. More male owned business reported having business loans at 57.9 percent in June 2023 compared to female owned business at 55.2 percent.

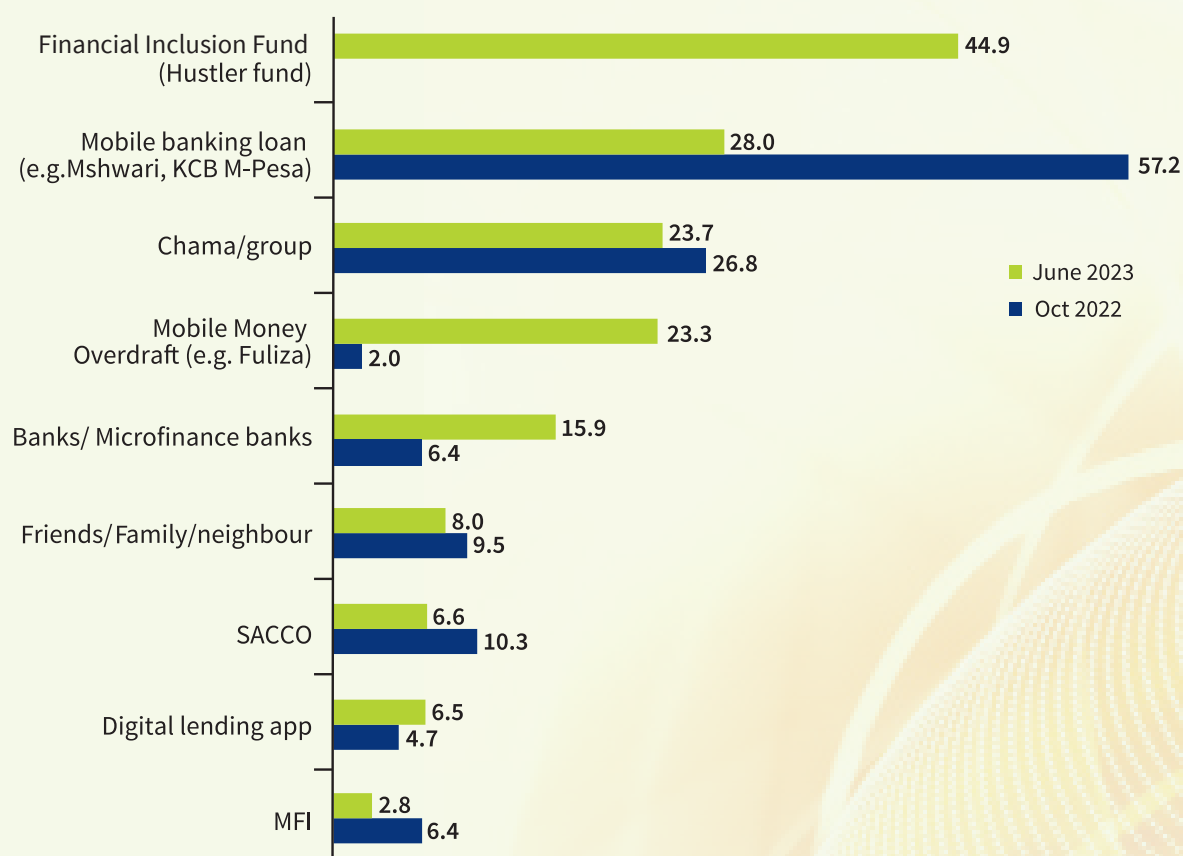
Figure 4.4: MSEs currently have business loans (%)



4.2.1 Sources of loans

About 45 percent of MSEs indicated they had borrowed from the Hustler fund. Uptake of mobile banking loans by MSEs reduced to 28.0 percent in June 2023 from 57.2 percent in October 2022 while the uptake of Mobile money overdrafts (E.g. *Fuliza*) and Loans from banks/ microfinance banks increased significantly over the same period. Further, uptake of loans from banks/ microfinance banks increased from 6.4 percent in October 2022 to 15.9 percent in June 2023 (Figure 4.2a).

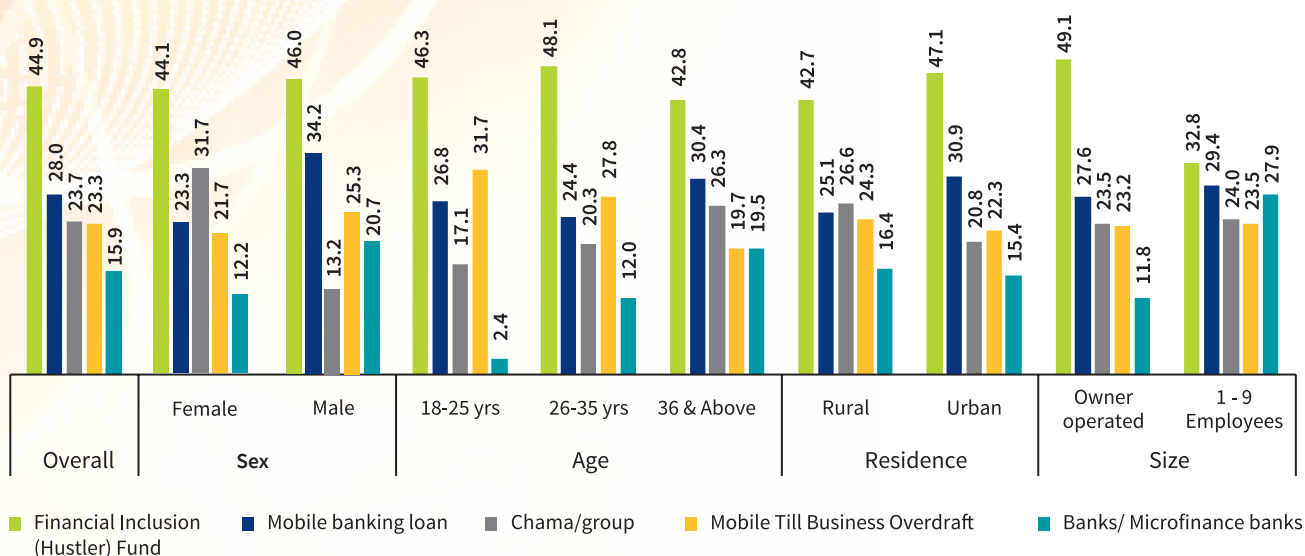
Figure 4.2a: Proportion of MSEs with active loans (%)



Across categories based on gender, residence, location and business size, results show highest proportion of MSEs borrowed from hustler fund across all categorization. More male owned businesses reported having borrowed from hustler fund at 46.0 percent

compared to the female owned businesses at 44.1 percent. *Chamas* emerged as the second source of loans for female owned business at 31.7 percent, while mobile banking emerged as the second source of loans for male owned business at 34.2 percent (**Figure 4.2b**).

Figure 4.2b: Top MSE Loan Sources (%)



4.2.3 Reasons for credit uptake by MSEs

MSEs take loans for variety of reasons. Survey findings indicate in June 2023, 59.0 percent of MSEs borrowed to purchase stock/supplies compared to 51.6 percent in October 2022. Similarly the proportion of MSEs that borrowed to cover general household expenses increased from 37.5 percent in October 2022 to 44.8 percent in June 2023 (**Figure 4.2c & d**).

Figure 4.2c: Top 5 Reasons for borrowing (%)

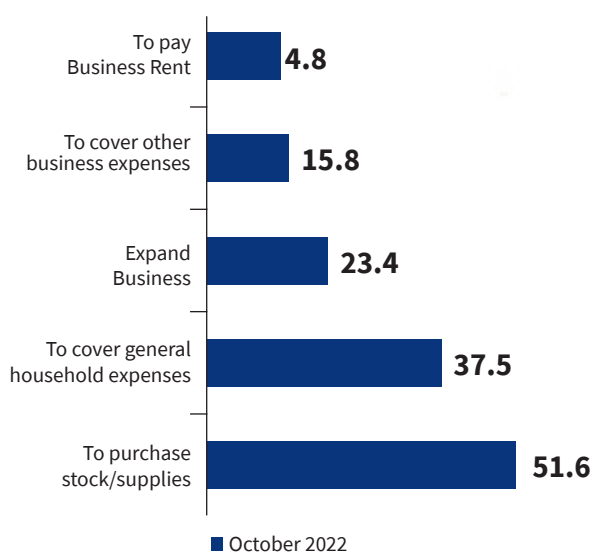
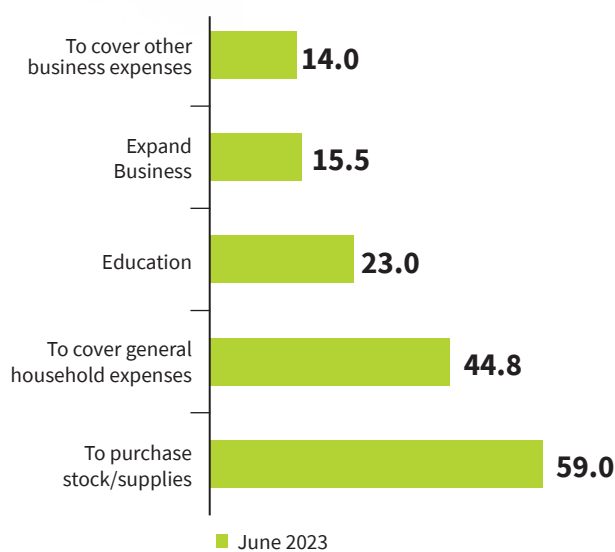
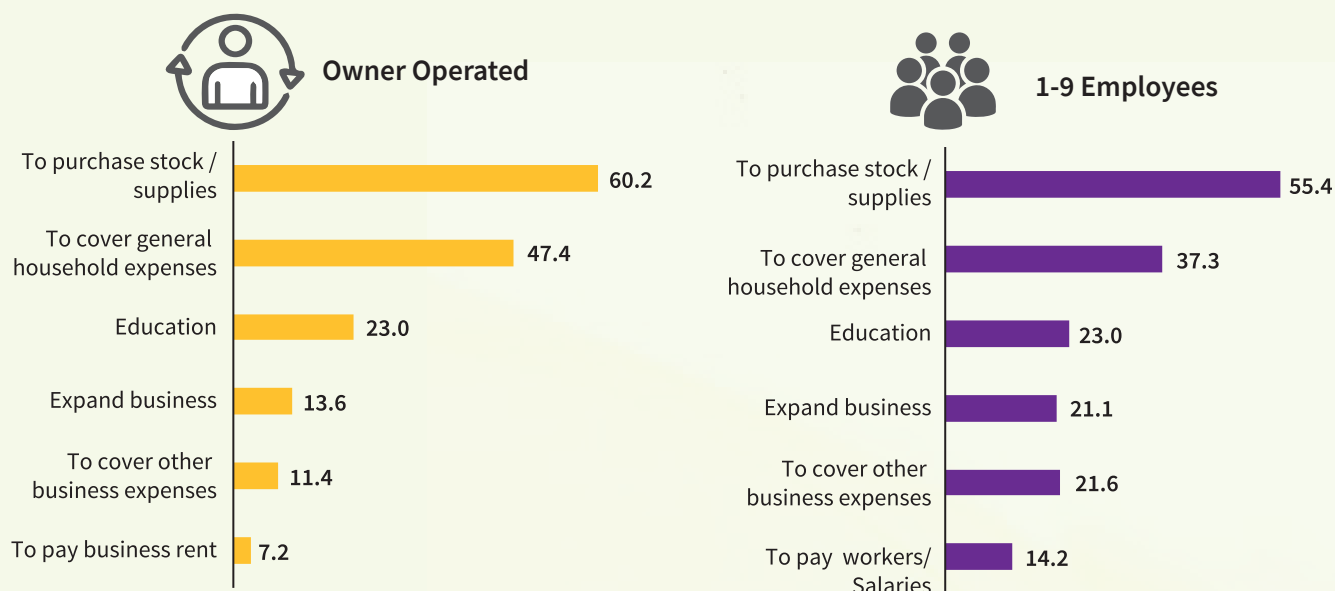


Figure 4.2d: Top 5 Reasons for borrowing (%)



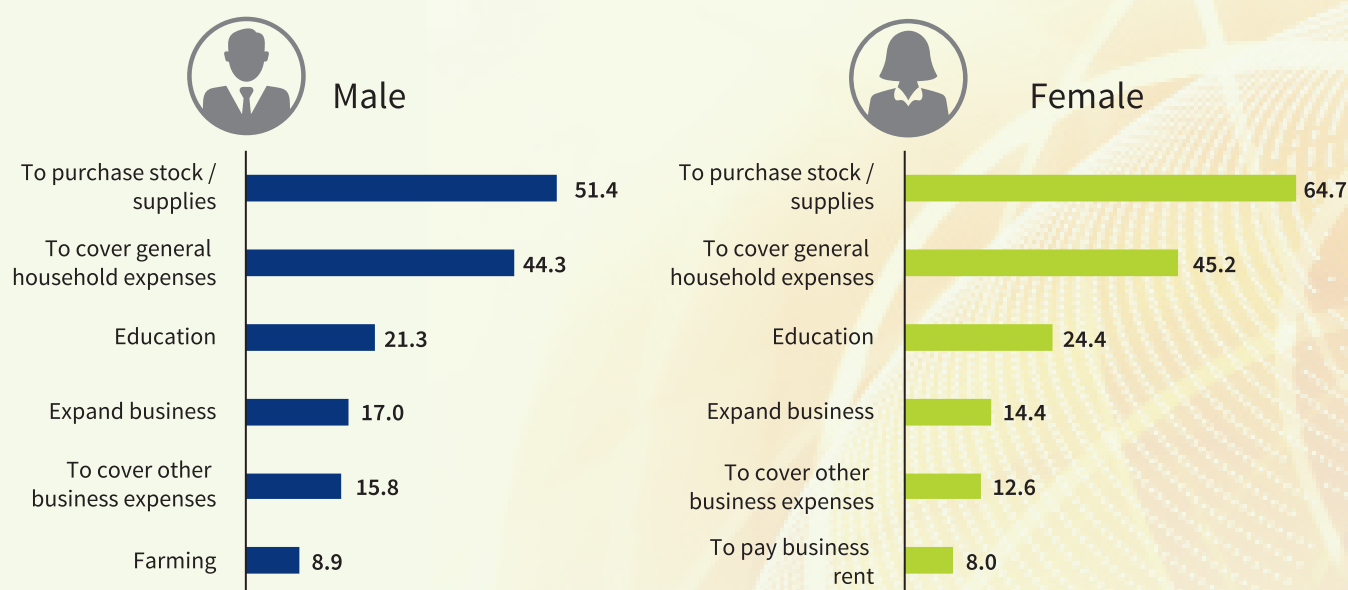
In June 2023, owner operated MSEs indicated they borrowed largely for purchase stock/supplies at 60.2 percent, 47.4 percent borrowed to cover households' expenses and 23.0 percent borrowed for education. On other hand, for MSEs with 1-9 employees, 55.4 percent borrowed for purchase stock/supplies, 37.3 percent borrowed to cover households' expenses and 23.0 percent borrowed for education (**Figure 4.2e**).

Figure 4.2e: Top Reasons for borrowing by business size (%)



In June 2023, more female owned businesses borrowed to purchase stock/supplies at 64.7 percent compared to male owned business at 51.4 percent. Female owned business indicated they borrowed for 45.2 percent borrowed to cover households' expenses and 24.4 percent borrowed for education. On other hand, male owned businesses indicated, 44.3 percent borrowed to cover households' expenses and 21.3 percent borrowed for education compared to male owed businesses (**Figure 4.2f**).

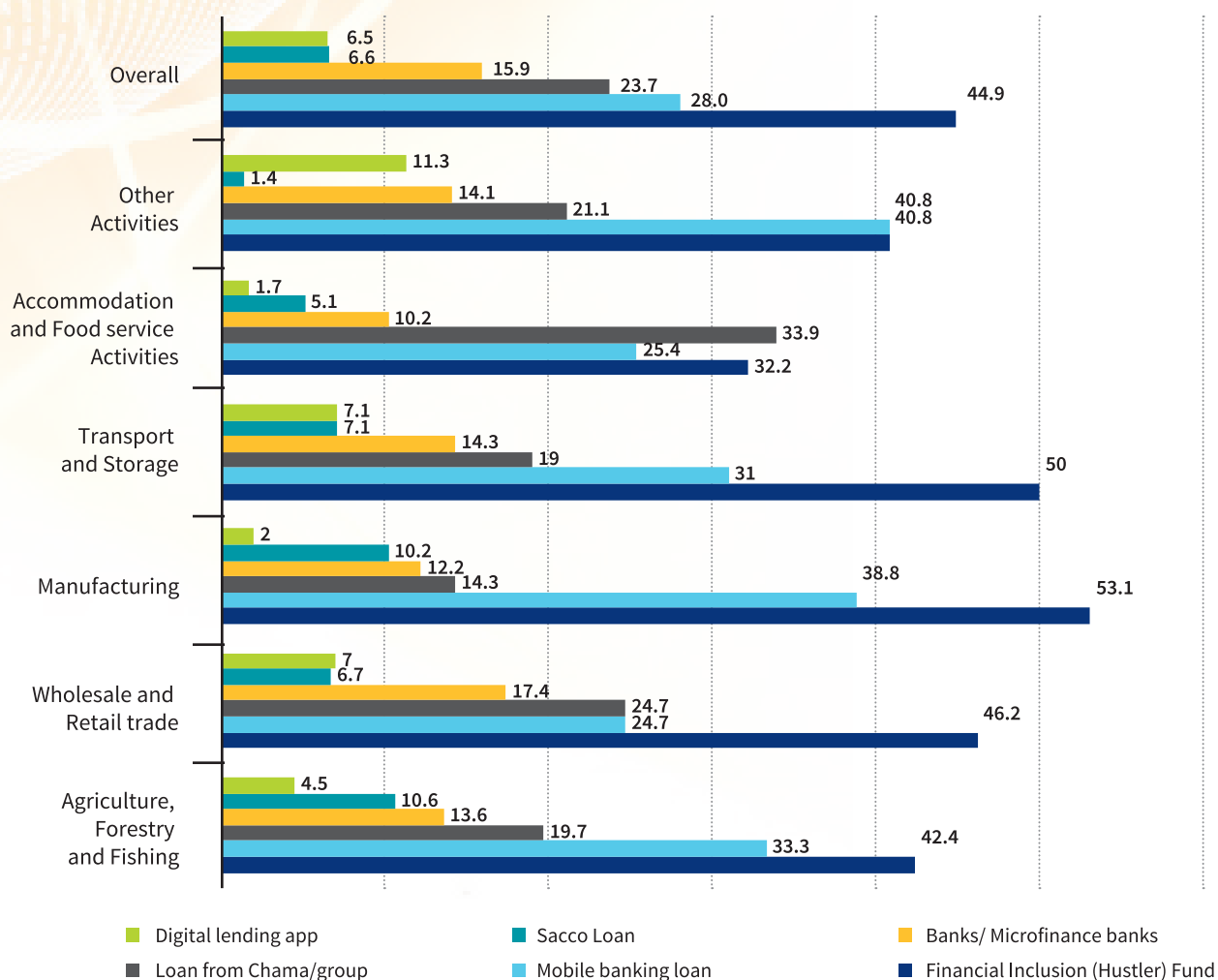
Figure 4.2f: Top Reasons for borrowing by sex of business owner (%)



4.2.4 Sectoral distribution on MSEs borrowers

Among the MSEs engaged in wholesale and retail trade activities, 46.2 percent borrowed from hustler fund, 24.7 percent borrowed from mobile banking and *chamas*/groups. Similarly, 53.1 percent and 38.8 percent of MSEs engaged in manufacturing activities borrowed from hustler fund and mobile banking respectively. Across all sectors, MSEs borrowed least from the digital credit providers (**Figure 4.2g**).

Figure 4.2g: Sectoral distribution of MSE borrowers (%)

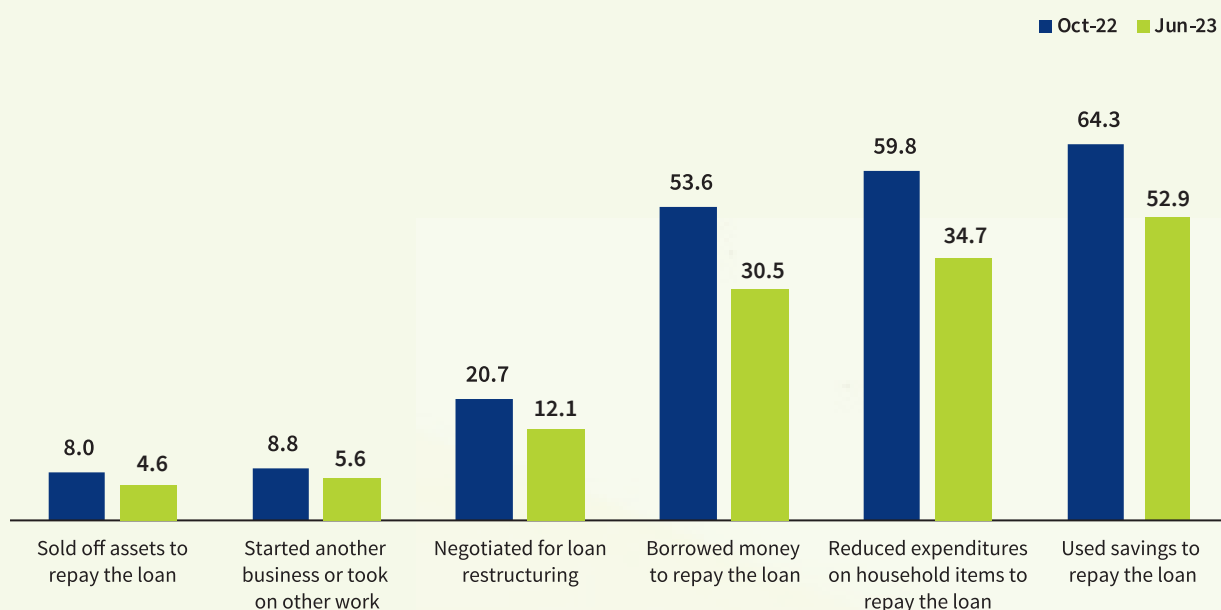


4.2.5 Loan Servicing by MSEs

Timely loan repayment plays a critical role in maintaining a good credit score and enhancing borrowing credibility. When MSEs repay loans without default, they can apply for more loans to support their businesses. Based on this, the survey sought to establish how and where MSEs get funds to repay their loans. The findings reveal that proportion of MSEs that used savings to repay their loans decreased

from 64.3 percent in October 2022 to 52.9 percent in June 2023, the proportion of MSEs that reduced expenditures on household items to repay loans and those that took other loans to repay existing loans declined from 59.8 percent and 53.6 percent in October 2022 to 34.7 percent and 30.5 percent in June 2023, respectively (**Figure 4.2h**).

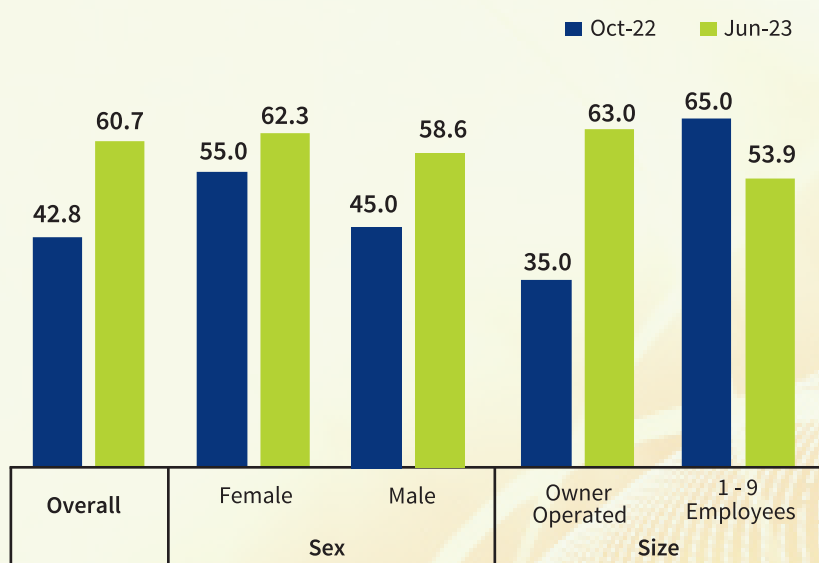
Figure 4.2h: Strategies used for loans repayment (%)



4.2.5 Loan defaults

MSEs experience a myriad of challenges including inconsistent cashflows arising from high cost of doing business which may negatively impact on their profitability and market linkages, which in turn limit their ability to grow. To counter this, MSEs take loans to remain afloat. However, with persistent harsh economic conditions, these businesses tend to default their loans by either paying late, miss a payment or pay less amount than expected. The survey results indicate that 60.7 percent of MSEs defaulted on their loans in June 2023 compared to 42.8 percent in October 2022. The rate of default is high among female owned businesses. The rate of default increased among businesses with no employees but declined among the businesses with 1-9 employees (Figure 4.2i).

Figure 4.2i: Proportion of MSEs who defaulted on loans (%)





4.3 Savings

Savings play an integral part in the performance of a business. When business is not afloat, they can use their savings to quickly pay expenses and service their existing loans. The survey sought to establish whether small businesses save and the motive for savings.

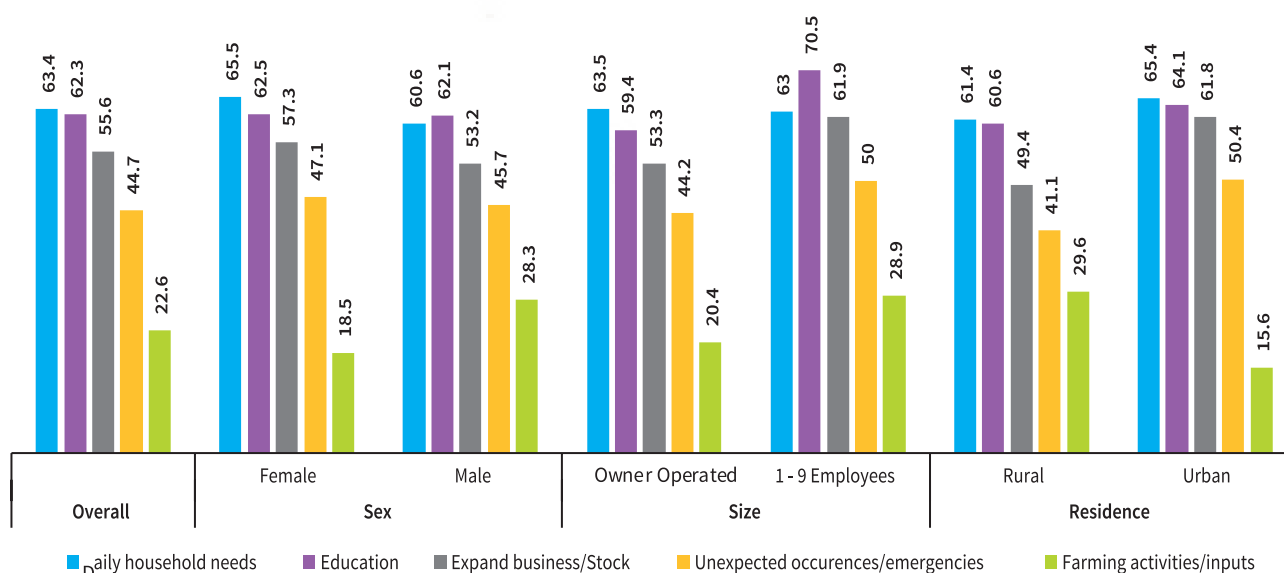
4.3.1 Reasons for savings

The results indicate that 63.4 percent of MSEs save for daily household needs, 62.3 percent save for educational needs and 55.6 percent for business expansion

and 44.7 percent save for unexpected occurrences/emergencies. More female owned businesses saves for daily household needs at 65.5 percent compared to male owned businesses at 60.6 percent.

Coincidentally, survey findings indicate there is no variation on MSEs saving for education across both male and female. MSEs with 1-9 employees saved more for education at 70.5 percent compared owner operated business at 59.4 percent. Rural based MSEs saved more for farming activities at 29.6 percent compared to urban based MSEs at 15.6 percent (**Figure 4.3a**).

Figure 4.3a: Reasons for saving (%)



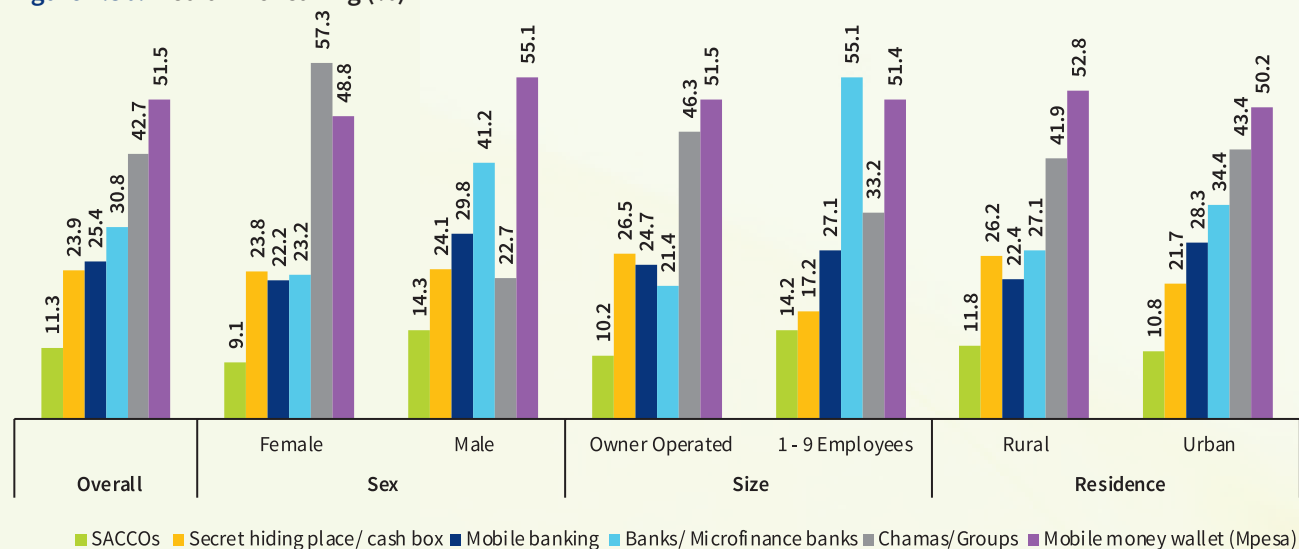
4.3.2 Medium for saving

The findings revealed that more than (51.5 percent) of MSEs save in mobile money wallets such as M-Pesa, Airtel Money and T-Kash while 42.7 percent save in *chamas* or groups. Moreover, the proportion of MSEs that save in banks (including microfinance banks), mobile banking (M-Shwari and KCB M-Pesa) and SACCOs stood at 30.8, 25.4 and 11.3 percent respectively. The proportion of MSEs that save in secret hiding places including cash boxes was 23.9 percent. Among the

female owned businesses, 57.3 percent save in *chamas*/Groups while 55.1 percent of the male owned businesses save in mobile money wallets such as M-pesa.

Owner operated businesses and those with 1-9 employees as well as those located in rural and urban areas save in mobile money wallets at 51.5 percent, 51.4 percent, 52.8 percent and 50.2 percent, respectively. Saving in SACCOs is lowest across all categories (**Figure 4.3b**).

Figure 4.3b: Medium for saving (%)



4.4 Operational challenges

The survey sought to assess the challenges that MSEs face. The respondents were asked to rank whether a particular challenge was a major challenge, moderate challenge or minor/no challenge facing the main business. Increased cost/high cost of supplies/input was ranked as major challenge by 92.2 percent of the respondents, followed by customers not paying on time at 51.6 percent, increased competition at 43.2 percent, natural disasters at 41.7 percent and high fees/taxes/licenses 40.2 percent (**Figure 4.4a**).

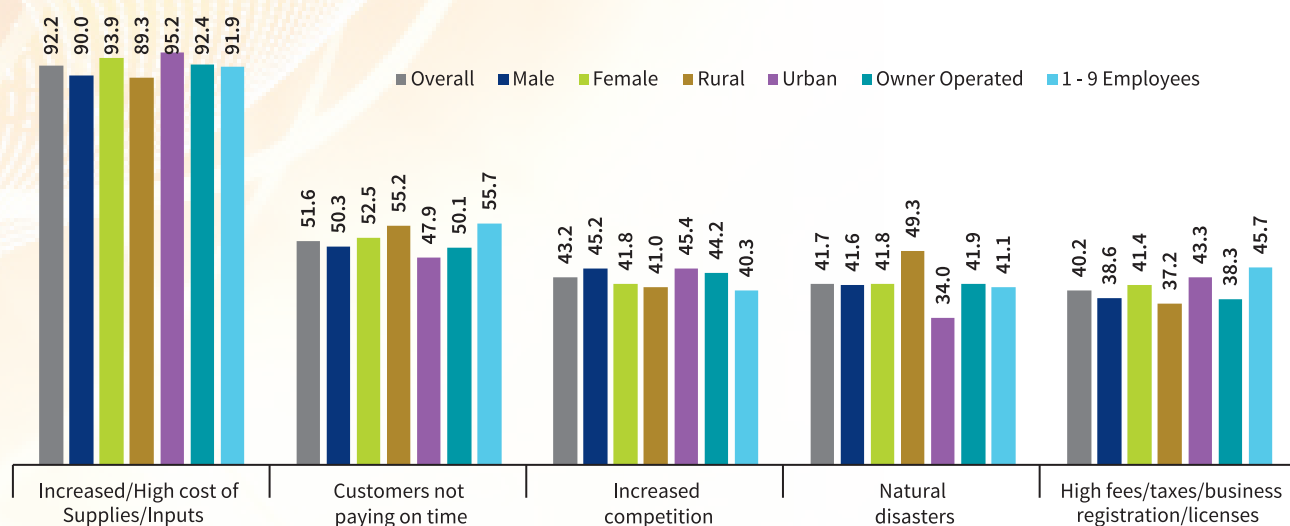
Figure 4.4a: Major challenges faced by MSEs (%)



The survey finding also indicated that more female owned businesses face higher/increased cost of suppliers, delayed payments by customers and higher fees or taxes compared to men owned businesses.

Rural based businesses are more predisposed to natural disasters compared to businesses in urban areas, which face high cost of supplies, increased competition and high taxes/fees (**Figure 4.4b**).

Figure 4.4b: Major challenges faced by MSEs (%)





5.0 Recent Policy Initiatives on Credit Access

This section highlights recent policy initiatives to support efficiency in the access to financing for MSEs including financial inclusion (Hustler) fund and licensing of digital credit providers.

5.1 Financial Inclusion (Hustler) Fund

5.1.1 Introduction

The Hustler Fund which is governed by the Public Finance Management (Financial Inclusion Fund) Regulations, 2022 is aimed at providing a cheaper source of credit to individuals and businesses at the bottom of the pyramid that have struggled to access credit from commercial banks. Currently, the Fund disburses personal loans ranging from KSh 500 and KSh 50,000 at a low interest rate of eight per cent per annum. The Hustler Fund comprises four products: personal, micro business, SME and start-up loans and for groups to promote financial inclusion.

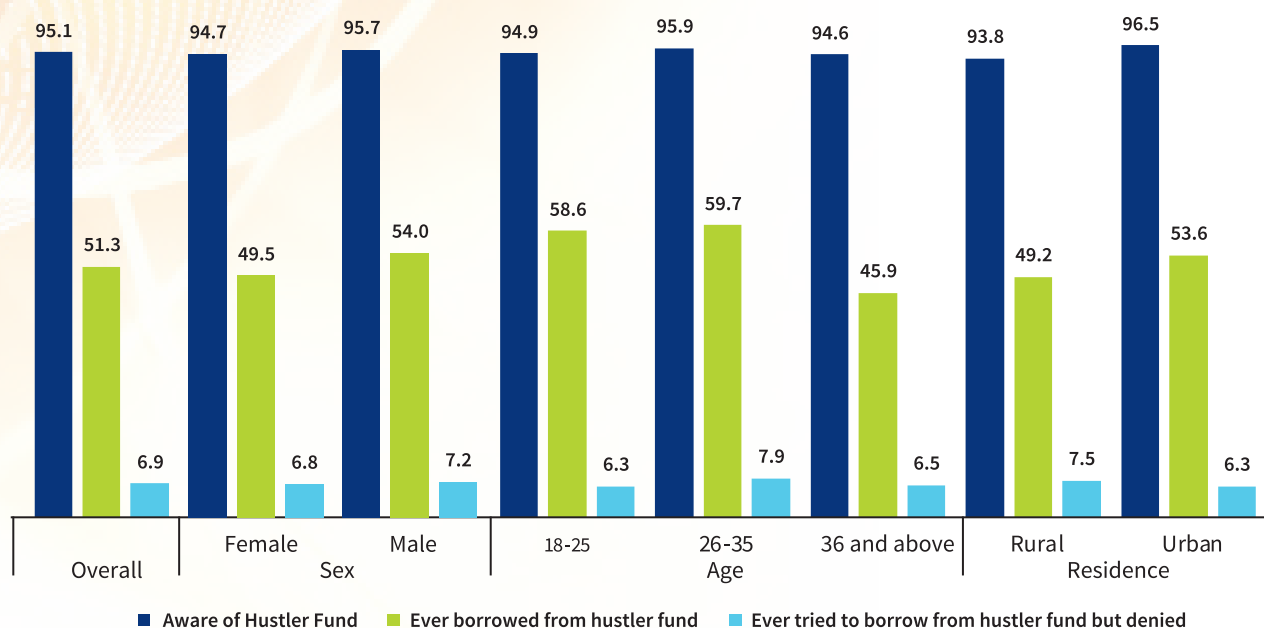
5.1.2 Awareness of Hustler Fund and Level of Borrowing from the Fund

A majority (95.1%) of owners of MSEs are aware of the Hustler Fund. Whereas the level of awareness of the fund is high among owners of MSEs, only about half (51.3%) had ever borrowed from the fund. A higher proportion of male owners of MSEs (54.0%) had ever borrowed from the fund compared to women owners of MSEs (49.5%).

In terms of age, a small proportion of those aged 36 and above had borrowed from the fund compared to those aged below 36 years. A higher proportion of owners of small businesses located in urban areas have borrowed from the fund than those located in rural areas. The survey also revealed

that approximately 6.9 percent of respondents who reported that they were aware of Hustler Fund had tried to borrow from the Fund but were denied. This could be explained by several reasons ranging from lack of proper identification or someone else already borrowed using their SIM cards (**Figure 5.1a**).

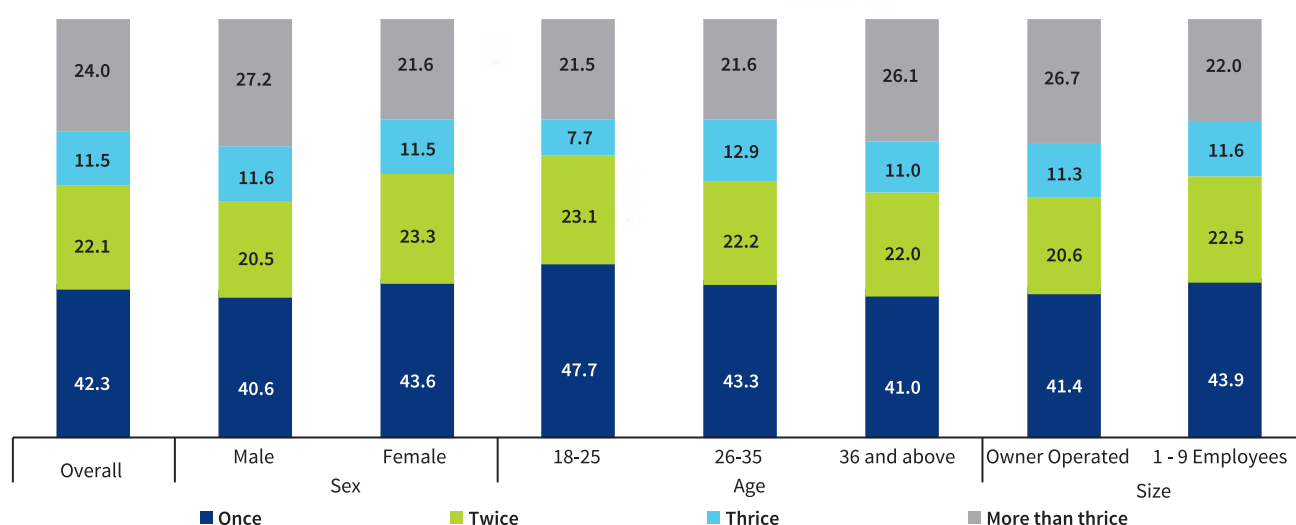
Figure 5.1a: Awareness of Hustler Fund and Level of Borrowing from the Fund (%)



5.1.3 Frequency of Borrowing from Hustler Fund

To gauge popularity of the hustler fund, the Survey collected information on the frequency of borrowing. More than half (57.7 percent) of MSEs are repeat borrower from the fund (**Figure 5.1b**).

Figure 5.1b: Frequency of Borrowing from Hustler Fund (%)

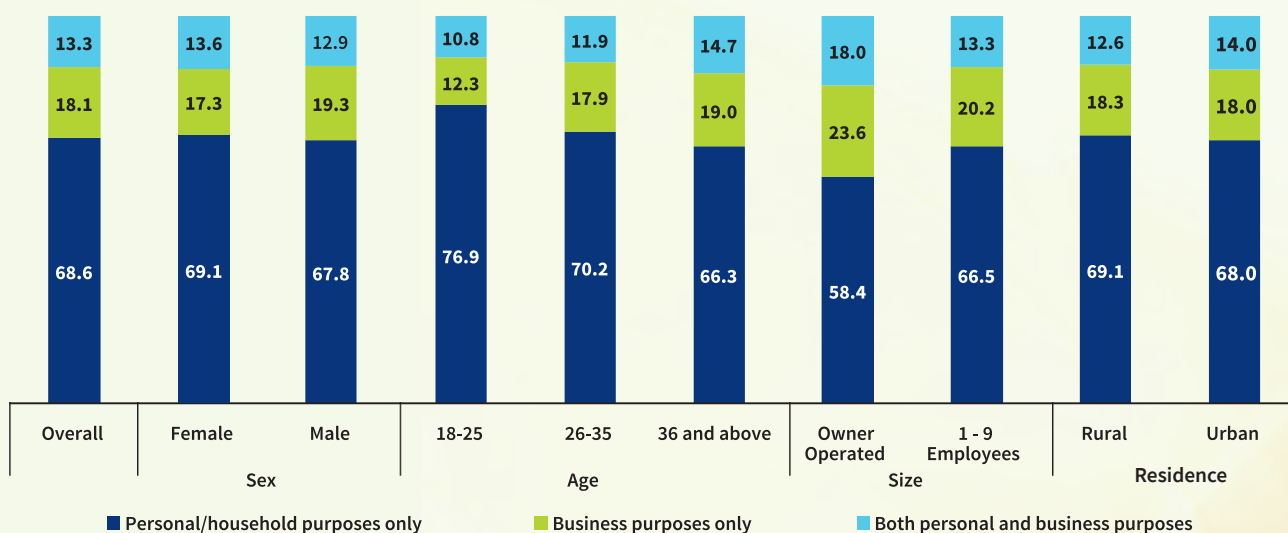


5.1.4 Use of Hustler Fund Loans

The findings reveal that 68.6 percent borrowers use monies borrowed from Hustler Fund for personal and household purposes, 18.1 percent for business purposes only, while 13.3 percent borrowed monies for both business and personal purposes (Figure 5.1c)



Figure 5.1c. Uses of Loans Borrowed from Hustler Fund (%)



Among those who borrowed for business purposes only, 74.3 percent used the funds to boost their working capital while 22.0 percent used the funds to expand their business (Figure 5.1d).

Figure 5.1d: Main Business Purpose for Borrowing from Hustler Fund (%)

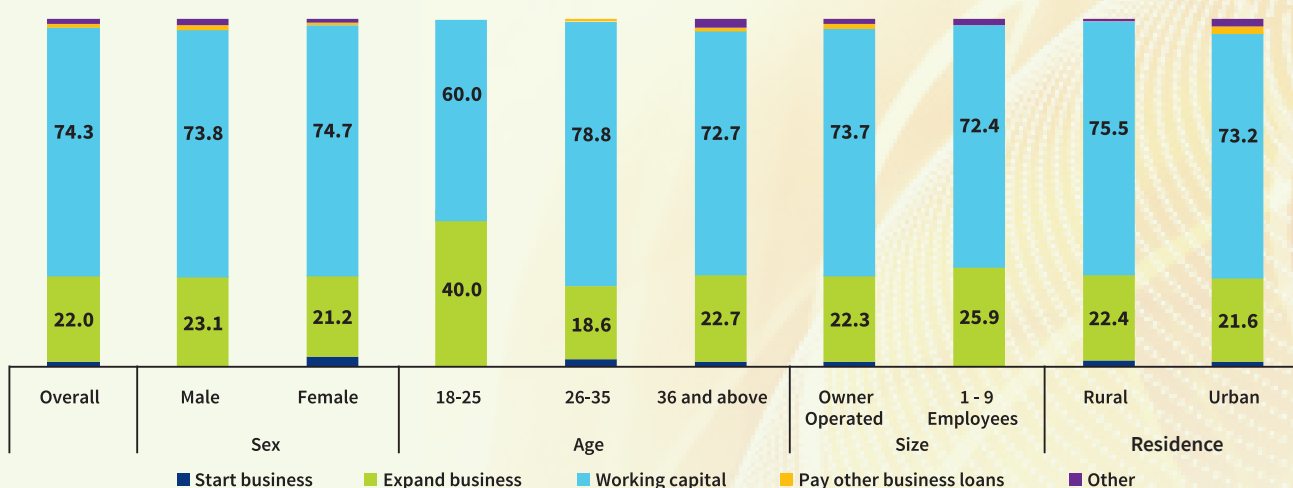


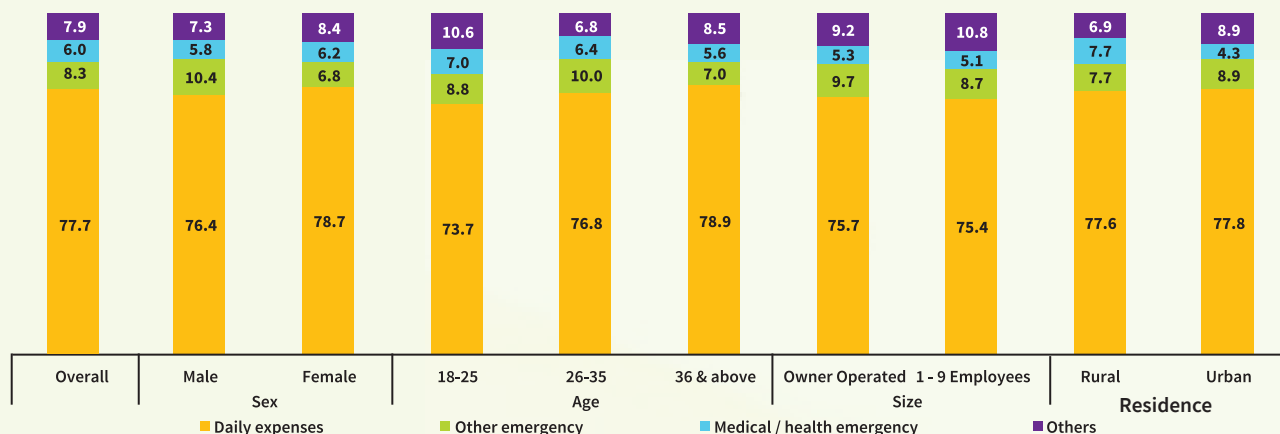
Figure 5.1e The survey results indicates 69.8 percent of MSEs in transport and storage borrowed from hustler fund while 53.3 percent in manufacturing, 52.6 percent in wholesale also borrowed from the fund for business. MSEs from Agriculture, Forestry and Fishing Sector and from Accommodation and food services borrowed from hustler fund at 47.1 percent and 44.7 percent respectively.

Figure 5.1e: Categorization of businesses supported by Hustler Fund (%)



Among those who used the loans for personal or household purposes only, 77.7 percent used it to finance daily expenses. Those who borrowed to cater for emergencies including medical/health accounted for 14.3 percent while those who used the loan to finance other activities including education, personal investments and paying other loans were 7.9 percent (Figure 5.1f).

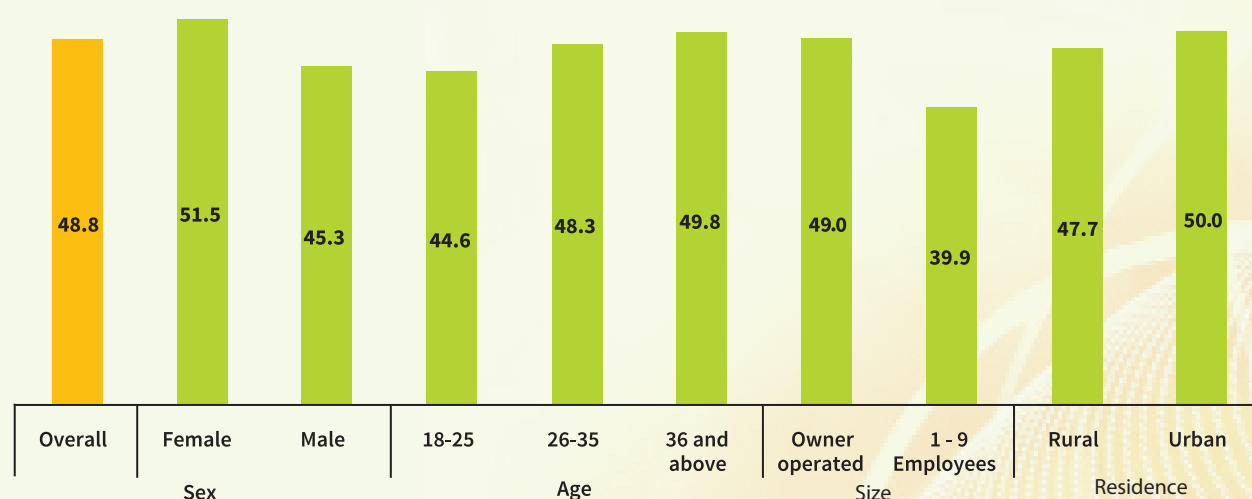
Figure 5.1f: Main reason for Borrowing from Hustler Fund for Personal/Household purposes (%)



The Survey collected information on defaults on borrowing from the Hustler Fund in the 3 months preceding the Survey. Respondents were asked whether they were late paying, missed a payment, or paid less than required on any Hustler fund loan. The findings indicate that 48.8 percent of the borrowers

have defaulted. Female respondents, 36-year-olds and above and businesses with zero paid workers reported the highest incidence of those with late payment, missed payment, or less payment than required on any Hustler fund loan (Figure 5.1g).

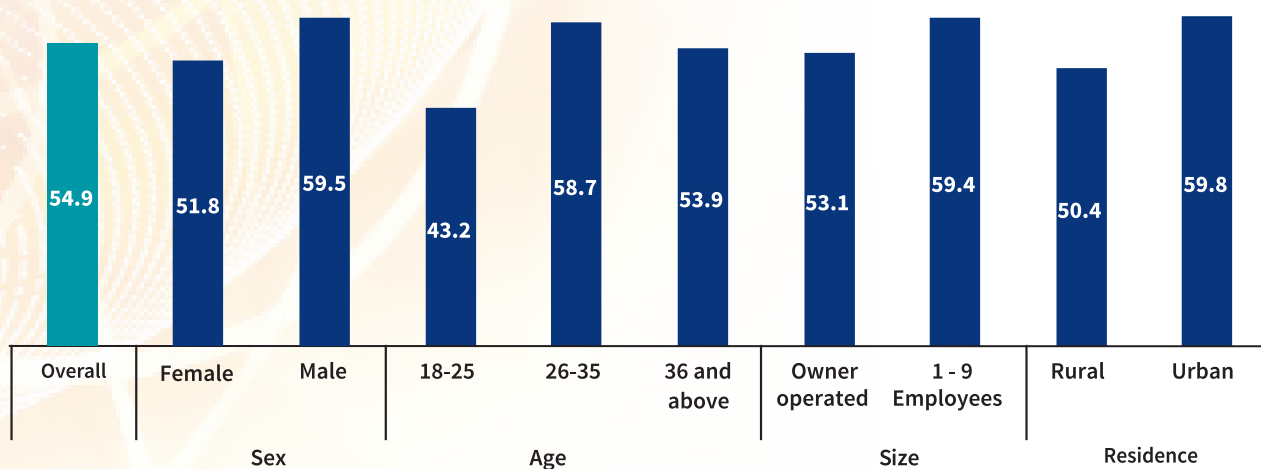
Figure 5.1g: Proportion of Borrowers who Defaulted (%)



The survey also assessed the level of awareness regarding the consequences of failed or delayed payment of the Hustler Fund loans. The findings indicate that

54.9 percent of borrowers are aware of consequences of default. More Male borrowers and 26–35-year-olds reported knowledge of the consequences (Figure 5.1h).

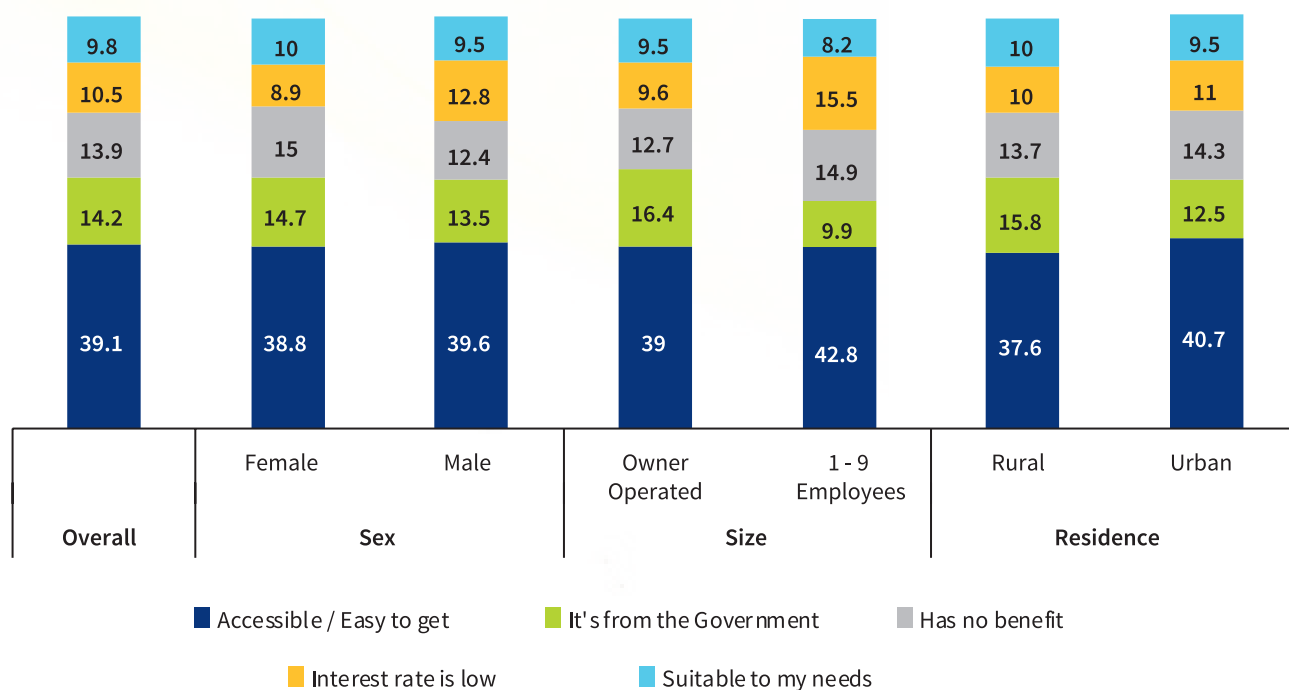
Figure 5.1h: Awareness of Consequences of Defaults on Hustler Fund Loan (%)



5.1.5 Perceptions on the Hustler Fund

To understand what characterizes the Hustler Fund, the respondents were asked to present their perception of what they like most about the Hustler Fund. This is summarized in **Figure 5.1i**.

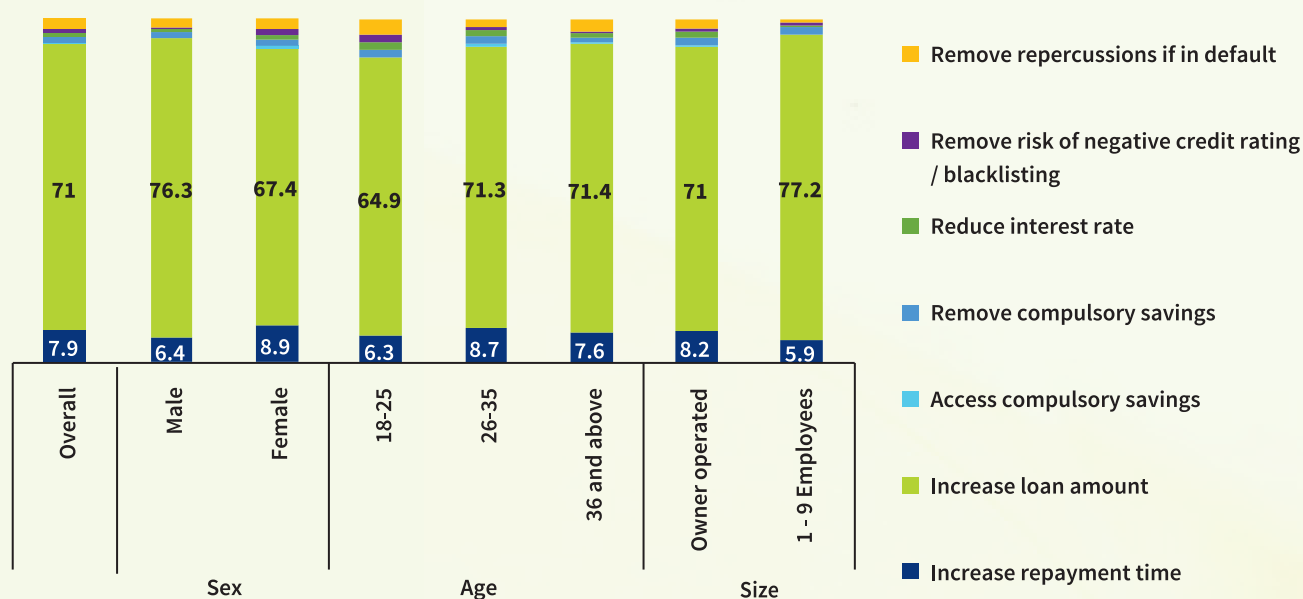
Figure 5.1i: Perception on Hustler Fund (%)



Ease of access was cited by 39.1 percent of those who borrowed as the main attractive feature in the Hustler Fund. The fact that the Hustler Fund was from Government gave it credence with a 14.2 percent approval rating. Another 13.9 percent cited that they don't see any benefits, while 10.5 percent of the borrowers cited the low interest rate charged on it.

In terms of recommendations on the main thing that should be improved in the Hustler Fund, respondents from both the male and female gender, all age groups and both owner operated and businesses with 1-9 employees recommended an increase in the advanced loan amount. A few more recommended a reduction in the interest rate (**Figure 5.1j**).

Figure 5.1j: Areas of improvement in the Hustler Fund (%)

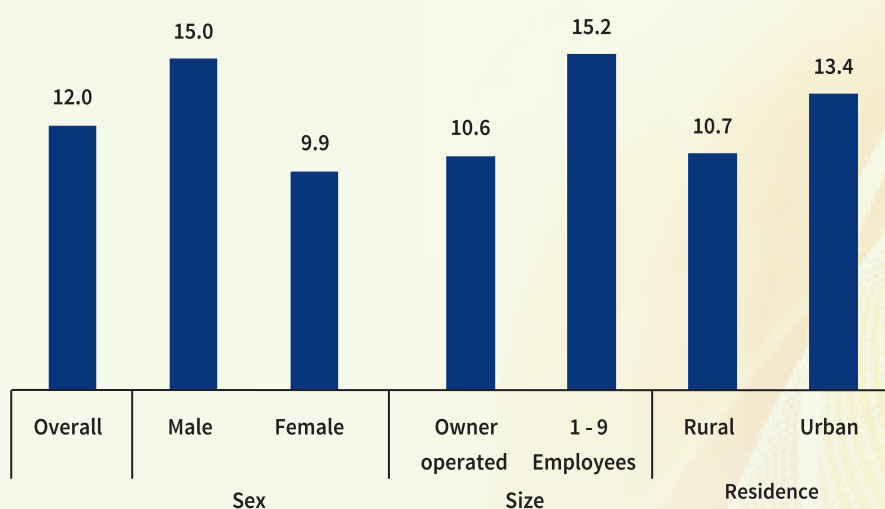


5.2 Digital credit providers

Digital Credit Providers are licensed and regulated by the Central Bank of Kenya (CBK) under Section 59(2) of the CBK Act. As at March 2023, there were 32 licensed DCPs in Kenya while over 300 applications for DCP licensing were at various stages of approval. The

licensed DCPs were allowed to offer loans to customers through online platforms or mobile apps. Digital credit providers exclude mobile money loan providers and unlicensed digital lending app (**Figure 5.2a**).

Figure 5.2a: Borrowed from a digital credit provider since September 2022 (%)



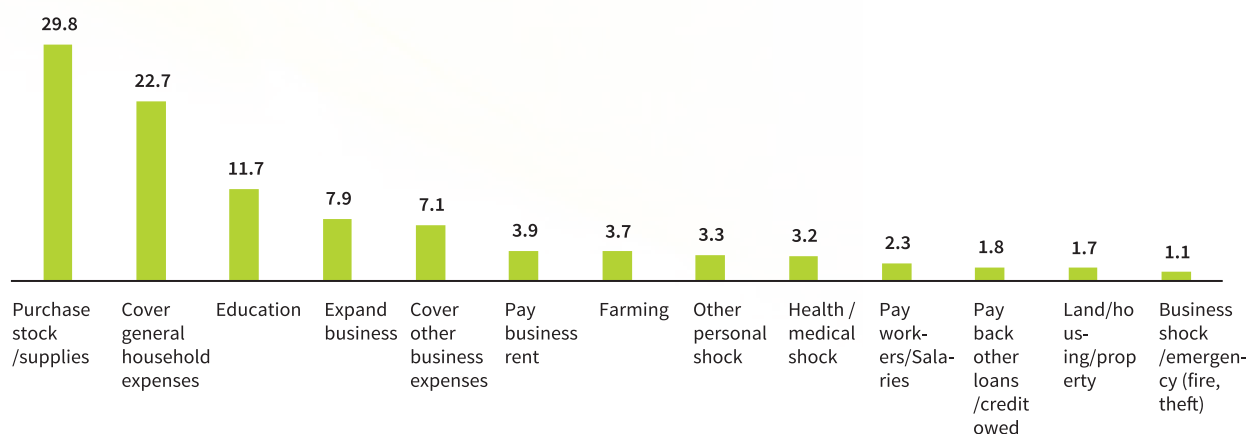
Approximately 12 percent of the sampled population had borrowed from digital credit providers since September 2022 when the new DCP regulations were introduced. Majority of DCP borrowers were males, employed between 1 and 9 workers and reside in the urban clusters. This could be on account of the lack of identification cards.

Use of Digital Credit

To understand the main use case of digital credit facilities, the respondent was asked to mention all the use cases for the borrowed digital funds. This is summarized in **Figure 5.2b**.



Figure 5.2b: Use of Digital Credit (%)



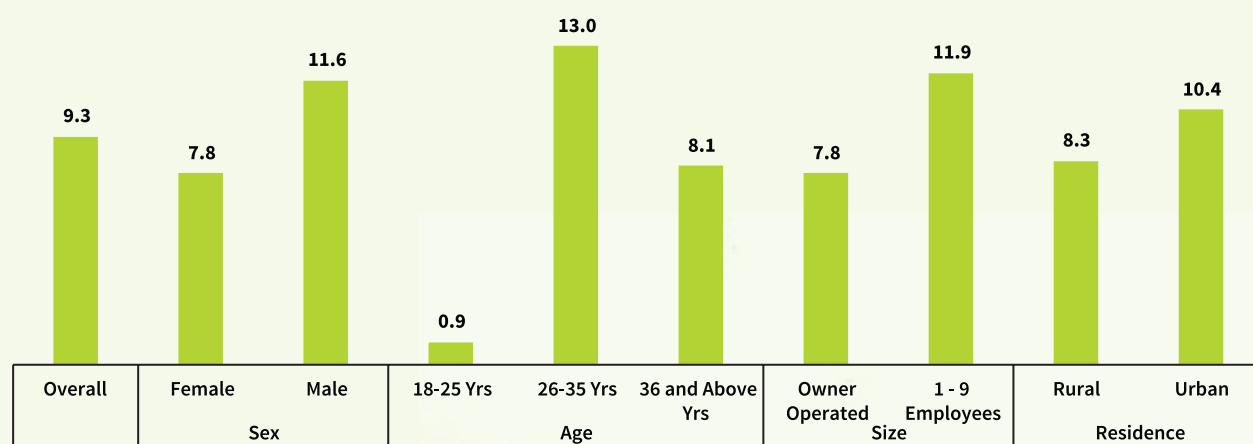
The MSE Tracker survey established that much of the borrowed digital credit was used to purchase stock/supplies (29.8 percent), followed by covering of general household expenses (22.7 percent) and education (11.7 percent).

5.3 Defaults in Digital Credit Loans

Among the MSEs that borrowed from digital credit providers, on overall only 9.3 percent defaulted on

their loan obligation either in missing payment, paid late or paid less than the required amount. In terms of sex, more male owned business reported a higher default proportion at 11.6 percent compared with female owned business. The proportion of Urban based MSE's reported high defaults levels at 10.4 percent compared rural based MSEs at 8.3 percent. Among the different age groups, 26-35 years age group reported highest default rate at 13 percent. (**Figure 5.3**).

Figure 5.13: Default of Digital Credit Providers Loan (%)



The Tracker also investigated the action taken by the service provider on the persons who either missed payment, paid late or paid less (**Table 1.3**).

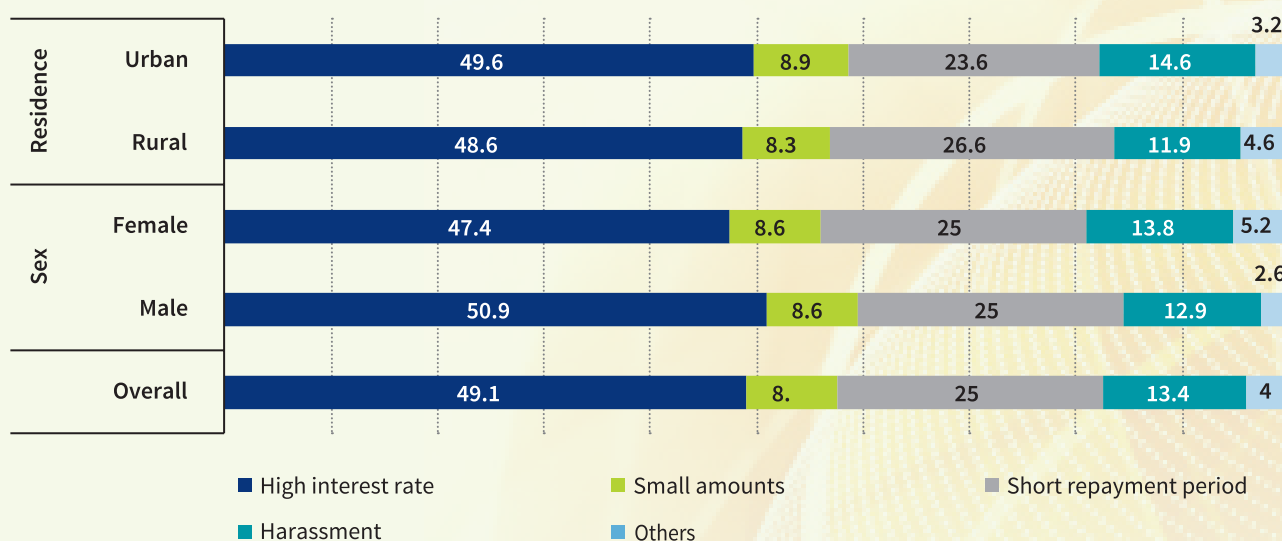
Table 1.3: Action taken on defaulters (%)

	Was called or sent a message	Was posted on social media
Missed a payment	32.6	2.8
Paid less	33.6	3.4
Paid late	30.2	2.5

The study established that most service providers resort to calling or messaging digital borrowers who fail to honor their financial obligations. A few of them were also posted on social media.

The MSE Tracker also sought to establish the main challenge associated with the use of DCPs. Close to 50 percent of the DCP borrowers cited high interest rate as the main challenge followed by short repayment period (25 percent) and harassment by the digital credit providers (13.4 percent) (**Figure 5.3c**).

Figure 5.3c: Main challenge in using digital loans (%)





“

The main reasons why businesses closed were: lack of working capital or money to cover operating expenses, lack of customer demand or a drop in sales, illness, household responsibilities and, got a job/went back to school.

6.0 Closed businesses

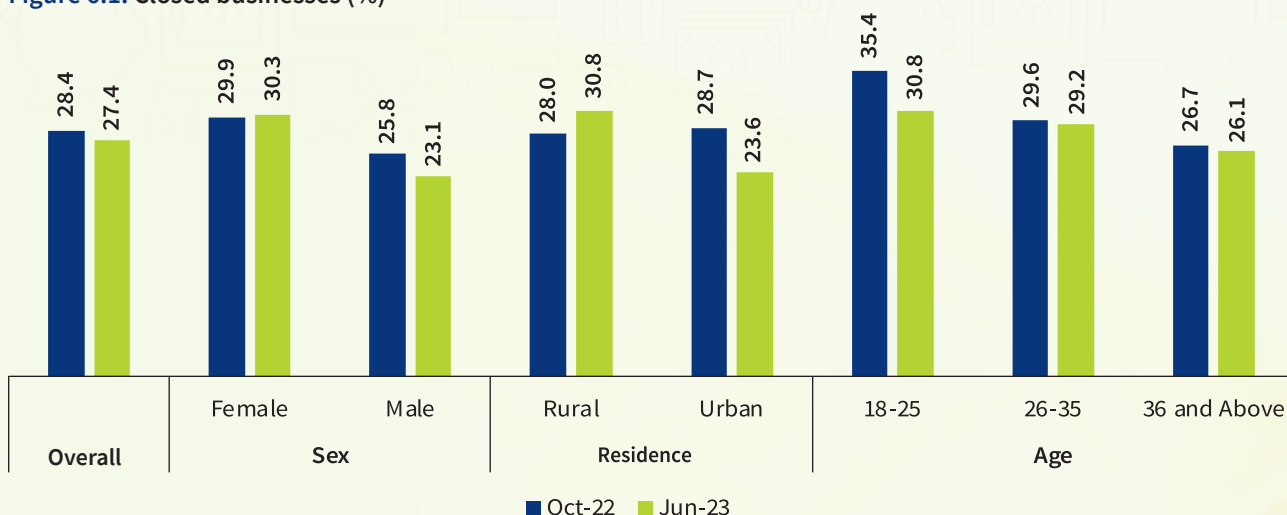
This section highlights findings on closed businesses at the time of the survey. It highlights characteristics of closed business, reasons for closure and intention for re-opening.

6.1 Closed businesses

The proportion of closed businesses declined from 28.4 percent in October 2022 to 27.4 percent in June 2023, in part, due to recovery in economic activities. The decline in the proportion of closed businesses

was high among male owned and urban based businesses. On the other hand the proportion of closed female owned and rural based businesses marginally increased in June 2023 (**Figure 6.1**).

Figure 6.1: Closed businesses (%)



6.2 Main reasons for business closure

The survey findings reveal that businesses mainly closed due to: lack of working capital or money to cover operating expenses (46.1 percent) and lack of customer demand or drop in sales (24 percent). Lack of working capital was the major challenge in both female and male owned enterprises at 47.6 percent and 43.1 percent, respectively.

Further, among the female owned businesses, 23.9 percent closed due to lack of customer demand compared to 25.4 percent of the male owned businesses. In urban areas, more businesses closed due to lack of working capital (47.7 percent) compared to 45.0 percent in rural areas. The proportion of businesses that closed due to the business owner falling ill in rural areas was 7.5 percent compared to 6.0 percent in urban areas (**Figure 6.2a**).



Figure 6.2a: Main reasons why businesses closed (%)

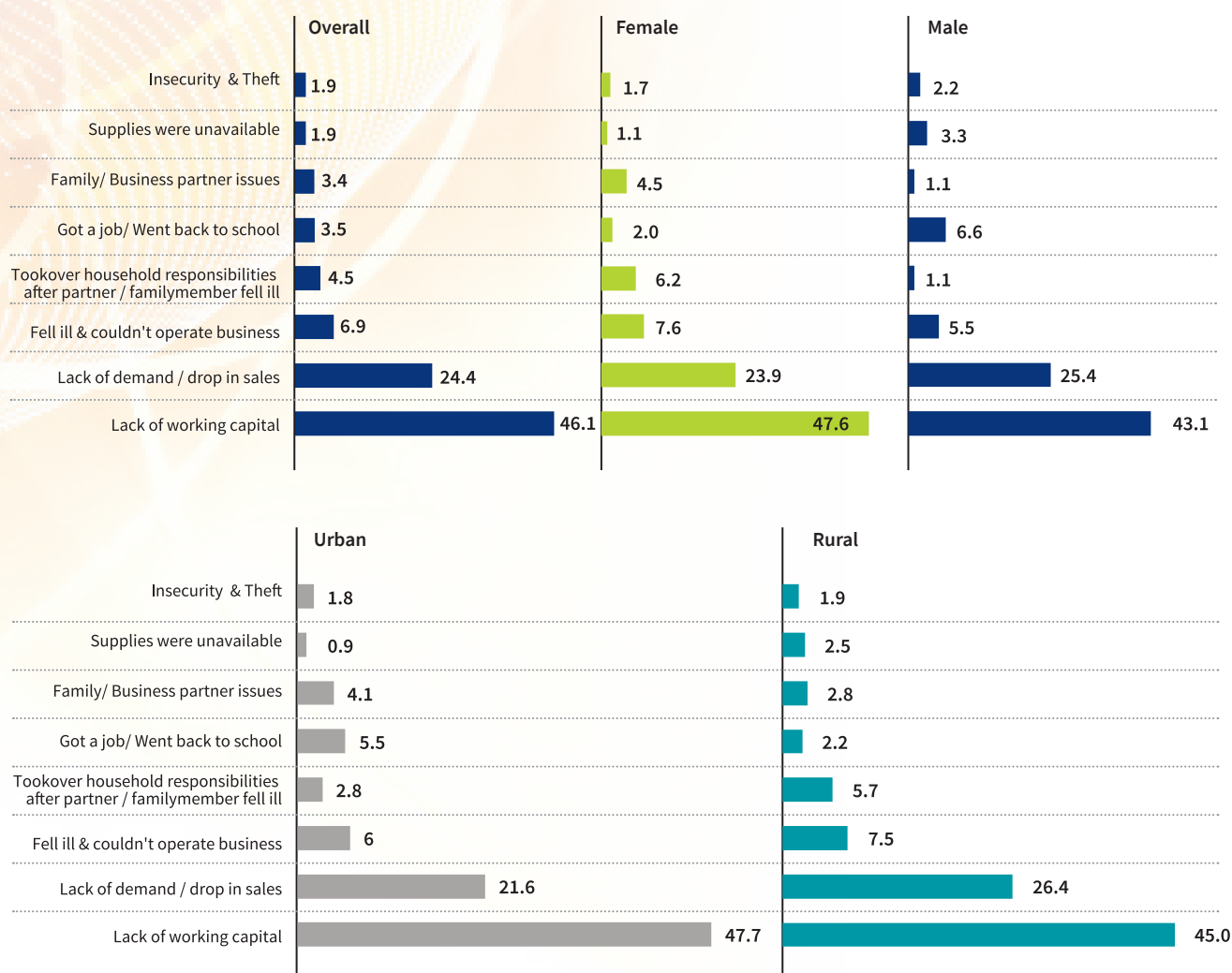
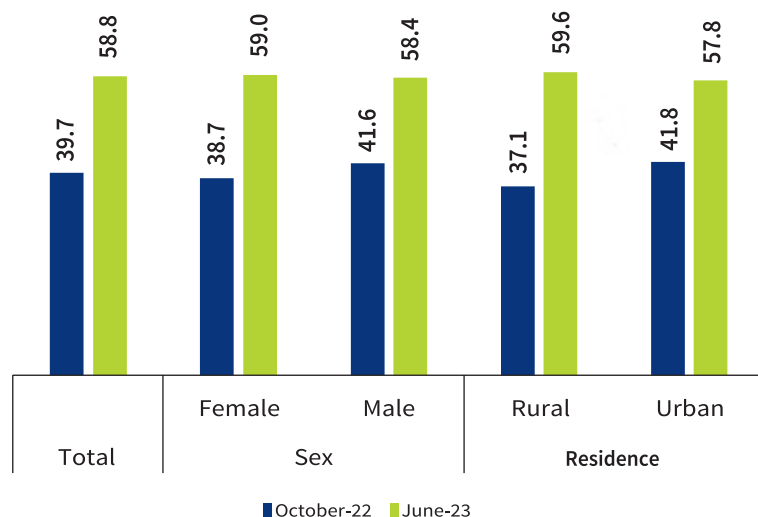
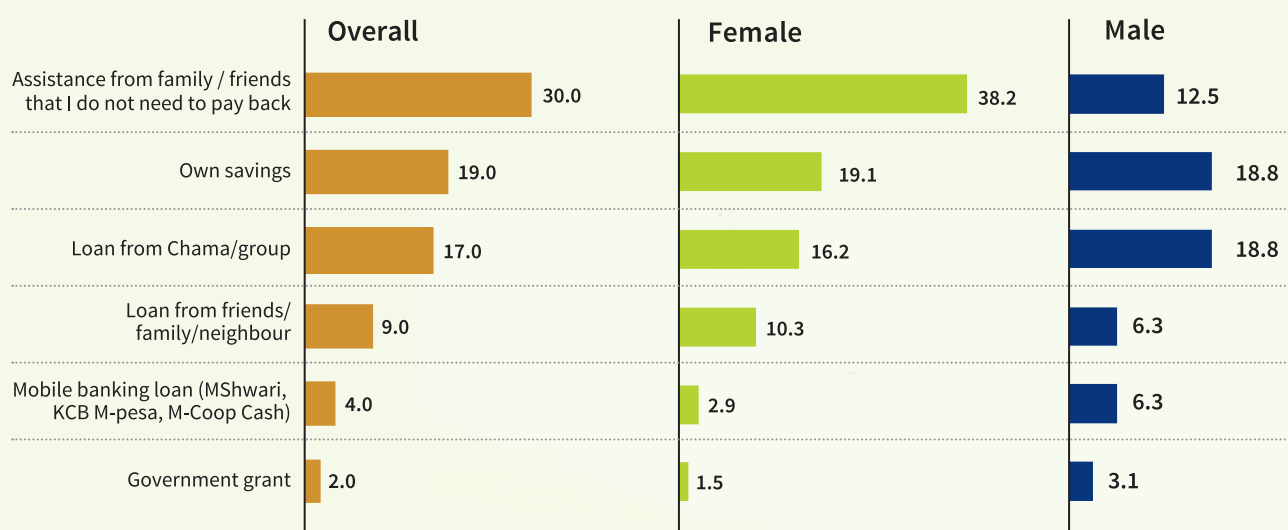


Figure 6.2b: Businesses that tried to source for capital/money before closure (%)



In the June 2023 survey, 58.8 percent of closed businesses tried to source for capital/ money to finance their operations before closing, compared to 39.7 percent in October 2022 (Figure 6.2b).

Figure 6.2c: Where businesses tried to source money from before they closed (%)



Among the businesses that tried to source capital before closing, 30.0 percent sought assistance from family and friends, 19.0 percent used their own savings while 17.0 percent tried to take a loan from *chamas*/groups (Figure 6.2c).

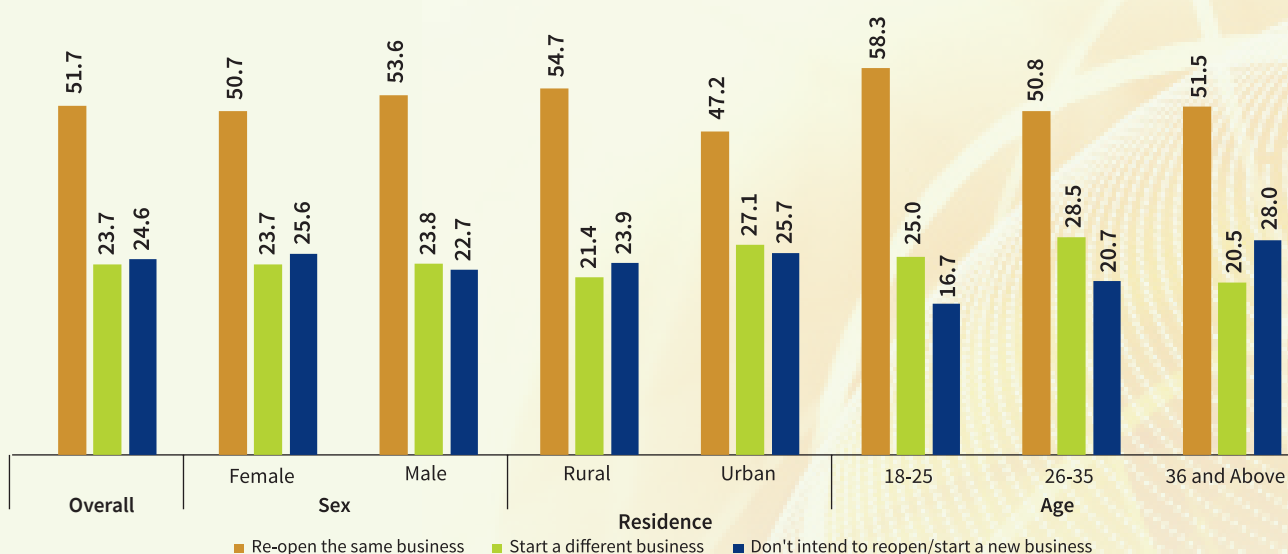
Majority of female owned businesses sought assistance from family and friends before closing, while majority male owned businesses used own savings and loans from *chamas*/groups before closing. About 10.3 percent and 6.3 percent of female and male owned enterprises respectively try to get a loan from friends, family and neighbours.

6.3 Intention to re-open/re-start businesses

Among the closed businesses, 51.7 percent reported that they would re-open the same business in the next 12 months, 23.7 percent would like to start a different business, while 24.6 percent do not intend to re-open or start a new business in the next twelve months.

More male business-owners (53.6 percent) intend to re-open the business compared to their female counterparts (50.7 percent). More youth aged 18-25 years indicated their desire to re-open the same businesses compared to the 36 and above age group (Figure 6.3).

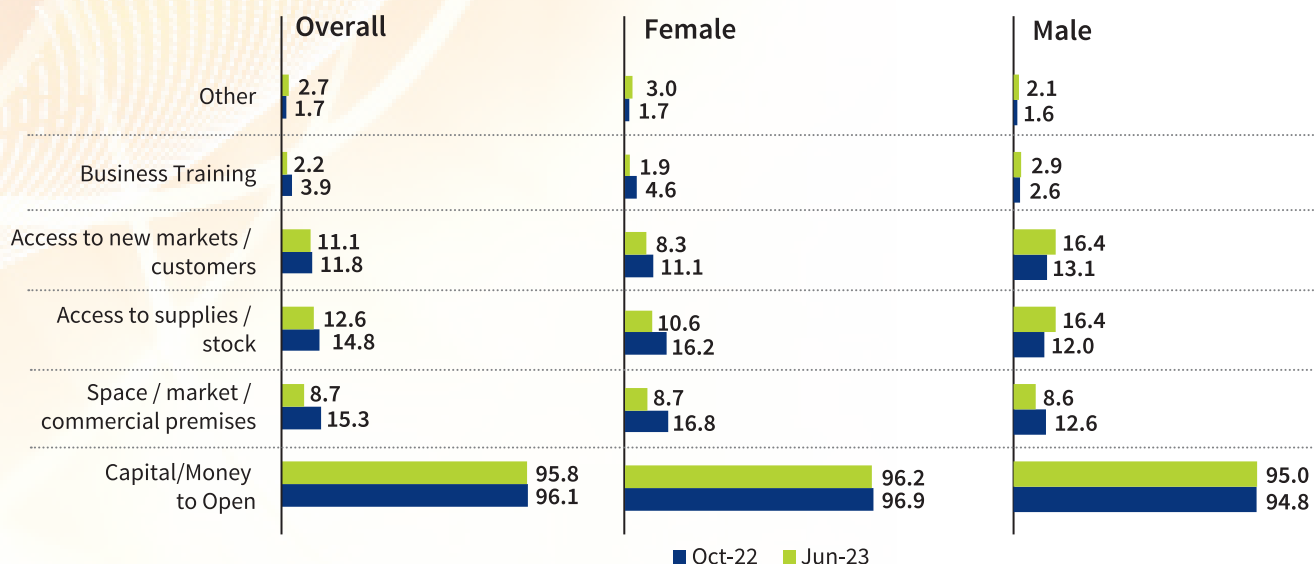
Figure 6.3: Intention to re-open/ re-start closed businesses (%)



6.4 Support required to re-open/start business again

The proportion of closed businesses that require capital to re-open increased from 96.1 percent in October 2022 to 95.8 percent in June 2023. More women owned businesses would require capital/money to re-open than male owned businesses (Figure 6.4).

Figure 6.4: Support required to re-open/start business again (%)

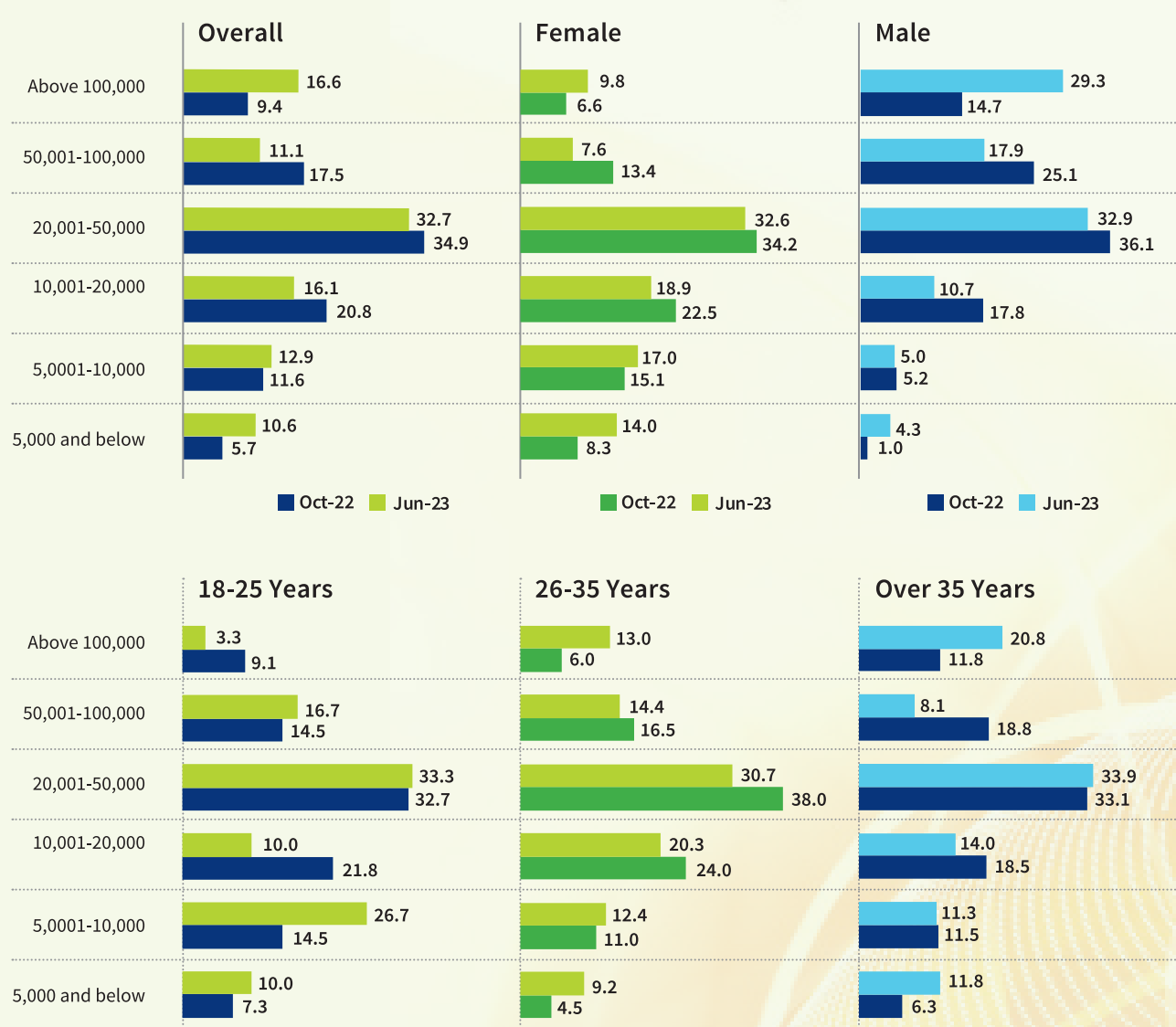


6.5 Amount of money businesses would need to start a business again

For closed businesses to re-open, 32.7 percent of respondents would need between KSh 20,001 to 50,000; 16.1 percent would need between KSh 10,001 to 20,000 and 16.6 percent would need above KSh 100,000. Majority of female owned businesses (32.6 percent) and male owned businesses (32.9 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, 33.3, 30.7 and 33.9 percent of the youth aged 18-25, 26-35 and above 36 years respectively would need between KSh 20,001 to 50,000 to start operating again (Figure 6.5).

Figure 6.5: Amount of money closed businesses would need to start again (%)



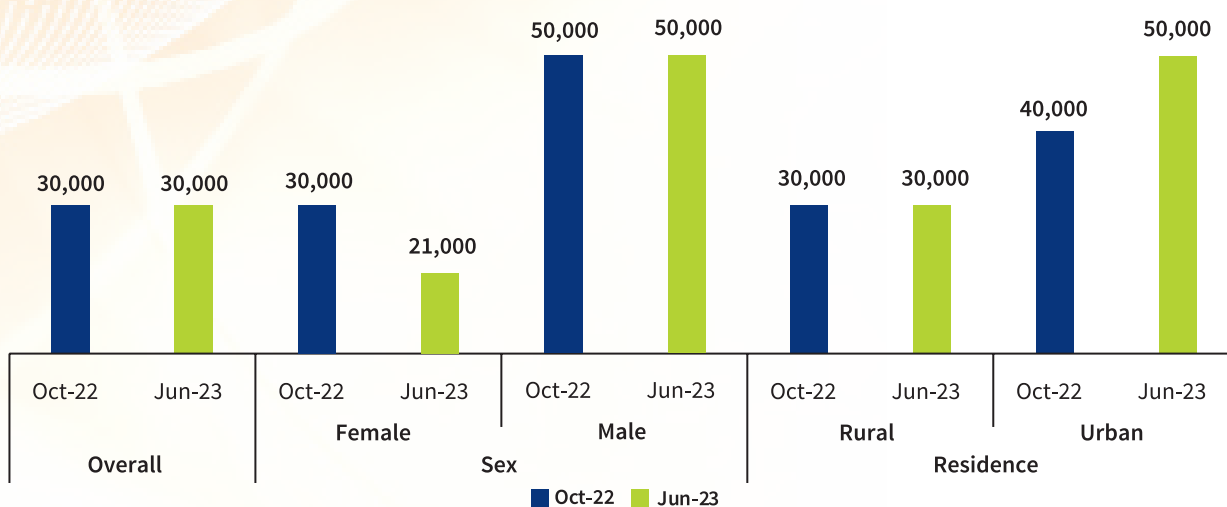
6.6 Median Capital required to re-open/start business again

The median capital required to reopen an MSE remained the same between October 2022 and June 2023 at KSh 30,000. Amongst male business owners, the median amount also remained the same between the two study periods at KSh 50,000 whereas female business owners felt they required

less amount in June 2023 to reopen a business compared to a KSh 30,000 median in October 2022.

Business owners operating in urban areas stated they required more capital compared to a KSh 40,000 median capital in October 2022 (**Figure 6.6**).

Figure 6.6: Median capital required to re-open for closed businesses (Ksh)



6.7 Sources of funds to re-open a business

Majority of closed businesses (27.5 percent) indicated they would utilize their savings, followed by Government grant (24.5 percent) and assistance from family and friends (17.1 percent) to re-open the business (**Figure 6.7a**).

Majority of female-owned businesses (25.0 percent) and male-owned businesses (32.1 percent) would use their savings to start the business again. A sizable number of both female-owned (20.8 percent), and male-owned (31.4 percent) businesses would use source funds from the Government in form of grant (**Figure 6.7b**).

Figure 6.7a: Sources of funds to re-open closed businesses (%)

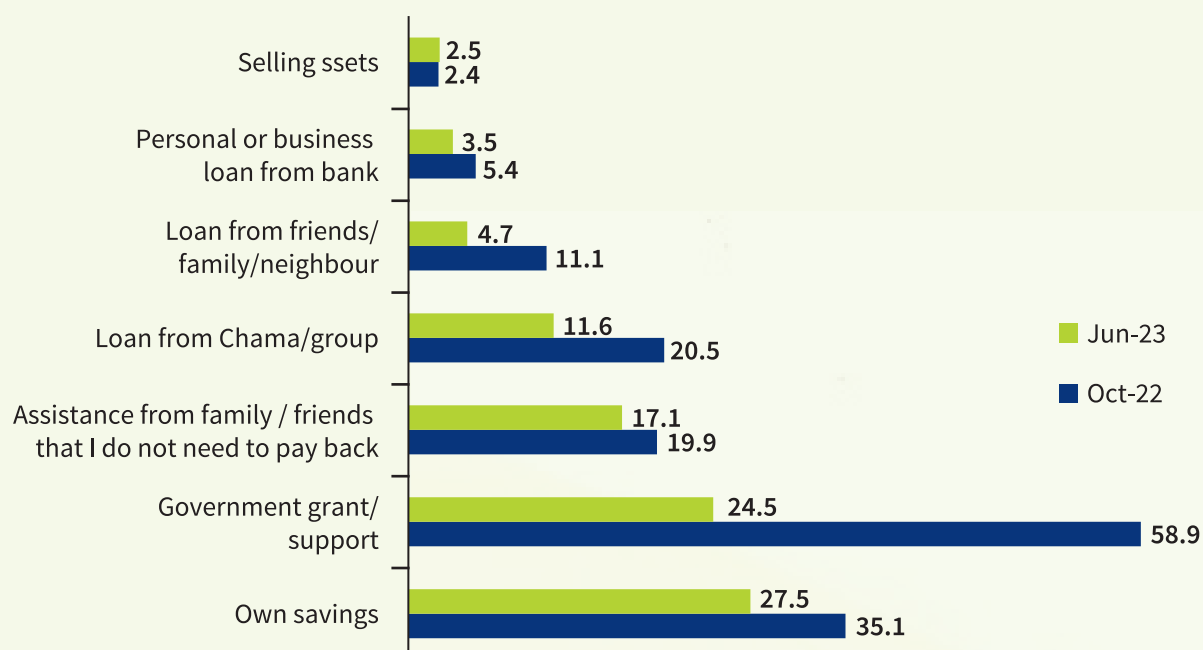
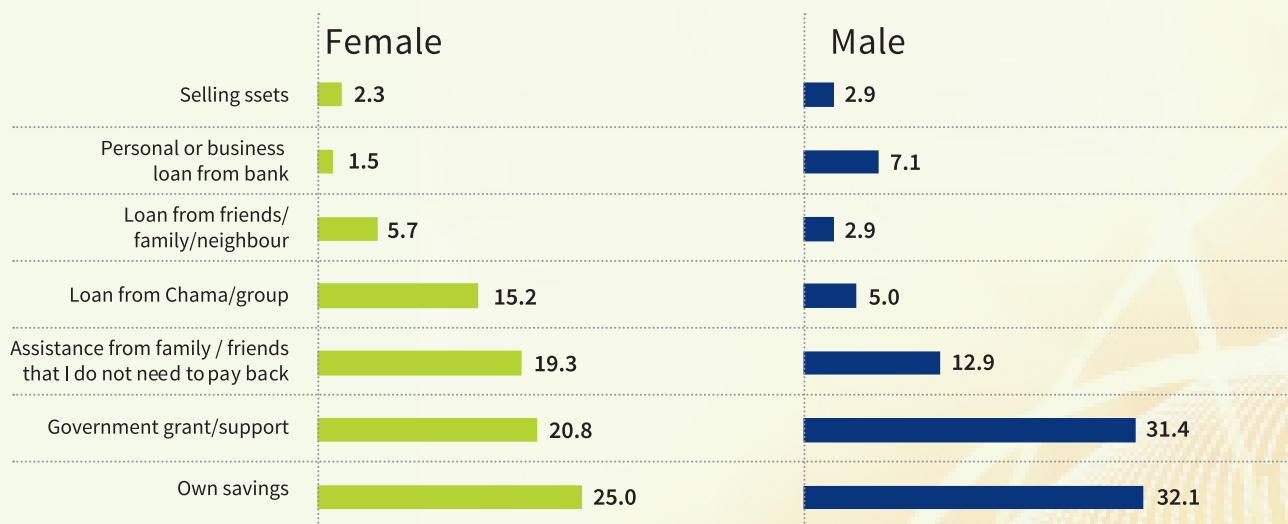


Figure 6.7b: Main sources of funds to re-open a businesses (%)





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Generally, the level of optimism in business performance declined while the level of pessimism in business performance slightly increased in June 2023 compared to October 2022.

7.0 Business environment and perception

7.1 Perception of business performance

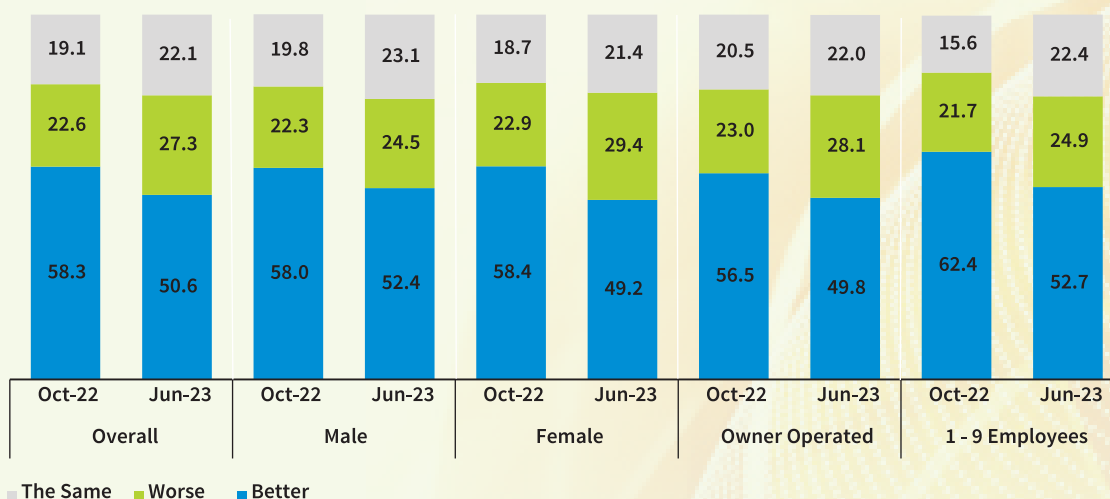
The survey sought to establish whether businesses expect their performance to be better, remain the same or worsen within twelve months from the time when the survey was conducted.

The proportion of respondents that expected their businesses to do better in the next twelve months declined from 58.3 percent in October 2022 to 50.6 percent in June 2023. On the other hand, the proportion of businesses that expected their performance to worsen and those that expected their performance to remain the same increased from 22.6 percent and 19.1 percent in October 2022 to 27.3 percent and 22.1 percent in June 2023, respectively. Generally, the level of optimism in business performance declined while the level of pessimism in business

performance slightly increased in June 2023 compared to October 2022. In June 2023, 49.2 percent of female owned businesses expect their performance to be better in the next twelve months compared to 58.4 percent in October 2022. The proportion of both owner operated businesses and those with 1-9 employees who expect their performance to be better declined from 56.5 percent and 62.4 percent in October 2022 to 49.8 percent and 52.7 percent in June 2023, respectively (**Figure 7.1**).

Figure 7.1: Perception of business performance (%)

Compared to now, do you expect your business to do better, worse or the same in the next 12 months?

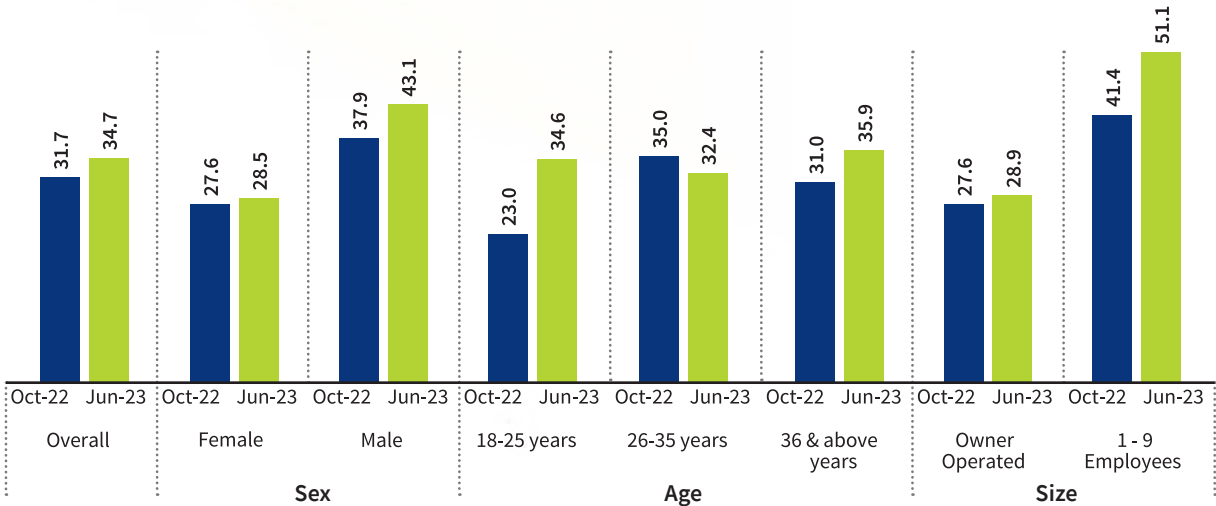




7.2 Training in area of business

The proportion of business owners who received training in their area of business increased from 31.7 percent in October 2022 to 34.7 percent in June 2023. The proportion of male business owners who received training increased from 37.9 percent in October 2022 to 43.1 percent in June 2023. Over the same period, 34.6 percent of business owners aged 18-25 years received training in their areas of business, an increase from 23 percent in October 2022 whereas business owners aged 26-35 years who received training decreased to 32.4 percent in June 2023 from 34.6 percent in October 2022. Moreover, more business owners underscore the importance of receiving training in areas of their business. Over 90 percent of business owners perceived training in business to be important (**Figure 7.2**).

Figure 7.2: Proportion of business owners trained in their area of business (%)

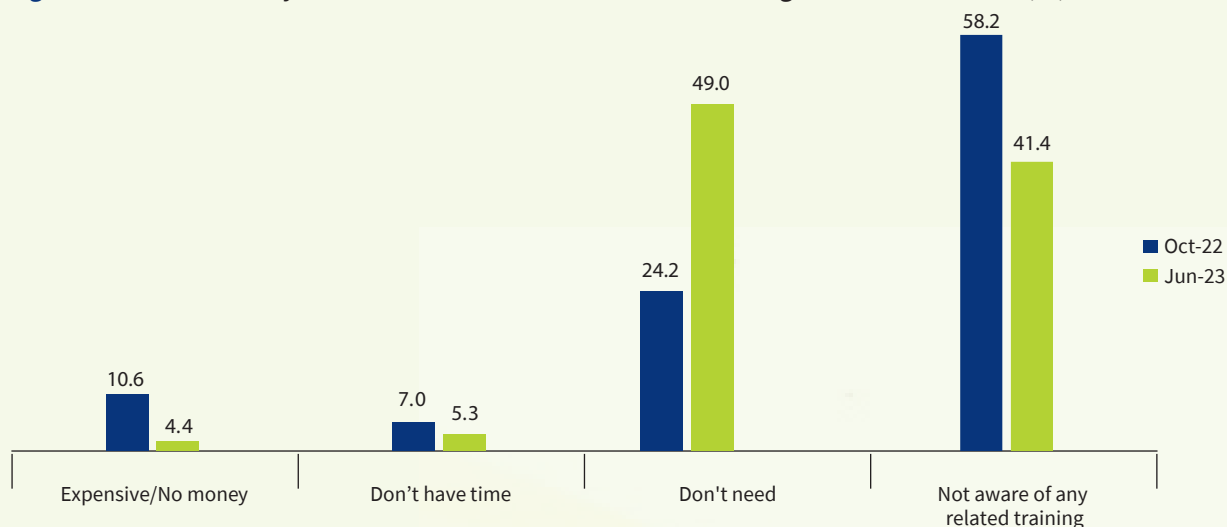


7.3 Reasons for not undertaking relevant training in area of business

Among the small business owners who had not received training in their area of business as at June 2023, 41.4 percent were not aware of any relevant training compared to 58.2 percent in October 2022. This implies that some small business owners who had not received business training in October 2022 had received some business training as of June 2023. Similarly, the

proportion of small business owners who did not receive business training because they lacked money or was expensive declined from 10.6 percent as of October 2022 to 4.4 percent as of June 2023. However, the proportion of small owners who did not see need for business training increased from 24.2 percent as of October 2022 to 49.0 percent as of June 2023 (**Figure 7.3a**).

Figure 7.3a: Reasons why business owners have not received training in areas of business (%)



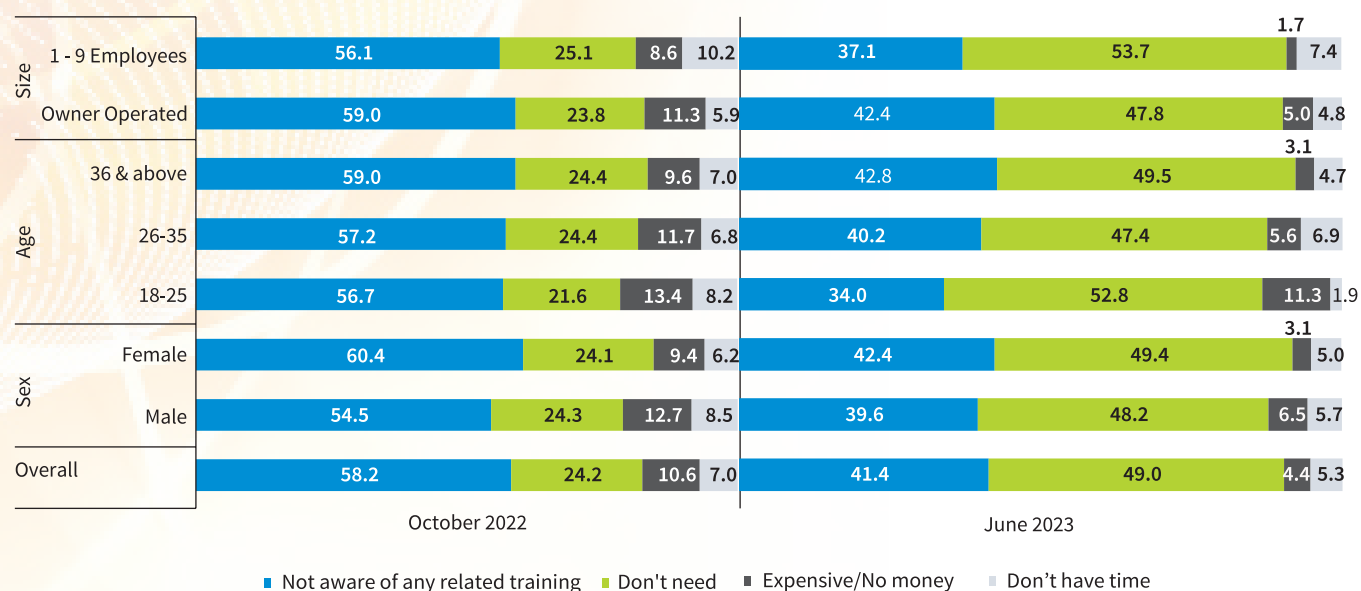
In June 2023, more male business owners (48.2%) and female business owners (49.4%) did not need business training compared to October 2022 (male small business owners at 24.3% and female business owners at 24.1%). Among the businesses with 1- 9 employees (June 2023), 37.9 percent were not aware of any related

training, a decline from 56.1 percent in October 2022.

Similarly, among the businesses owned by youth aged 18-25 years (June 2023), 34.0 percent of them were not aware of any related training, a decline from 56.7 percent in October 2022 (**Figure 7.3b**).



Figure 7.3b: Reasons why business owners have not received training in their areas of business by background characteristics (%)





8.0 Household and Business Dynamics

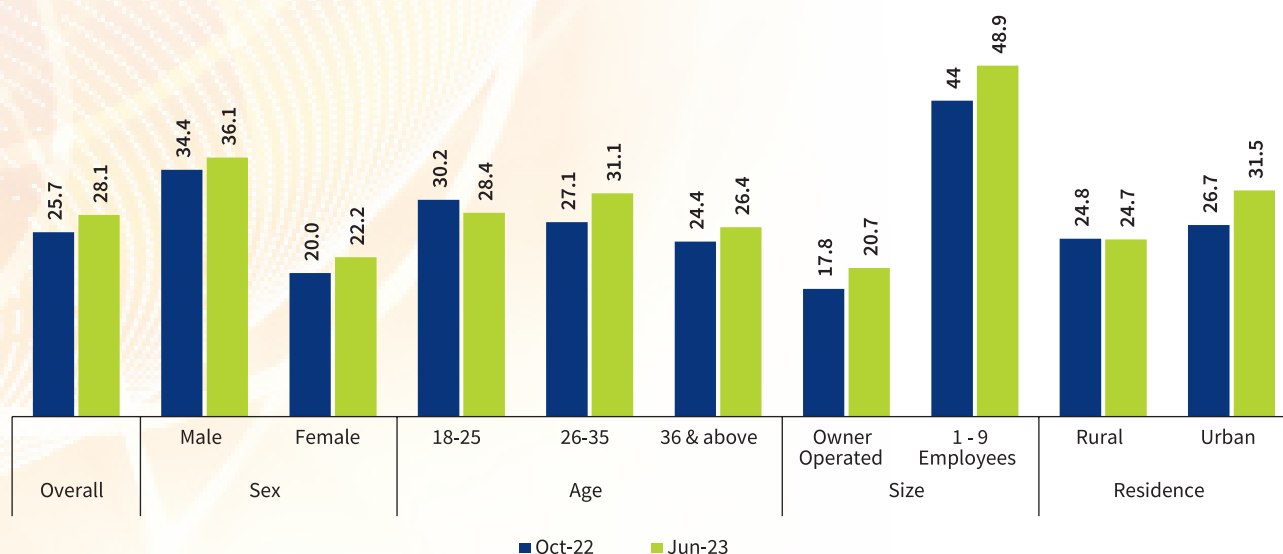
This section presents results on the nexus between resilience and household welfare. On one hand, households support businesses by providing liquidity, capital, smoothening fluctuations in cash flow. On the other hand, households supplement labour income with profits from businesses.

8.1 Ability to raise cash

The survey results indicated that 28.1 percent of businesses in June 2023 would get KSh 11,000 in 3 days if they needed compared to 25.7 percent reported in October 2022. In addition, 36.1 percent of male business owners, 34.4 percent of female business owners, 28.4 percent of the youth aged 18-25 years could raise KSh 11,000 cash in 3 days in June 2023.

The survey findings also indicated that 48.9 percent of businesses with 1-9 employees could raise the amount in 3 days compared to 20.7 percent of owner operated businesses in June 2023. Similarly, 24.7 percent and 31.5 percent of businesses in rural and urban areas, respectively, reported that they could raise KSh 11,000 in 3 days in June 2023 (**Figure 8.1a**).

Figure 8.1a: Ability to Mobilize Funds in 3 Days (%)

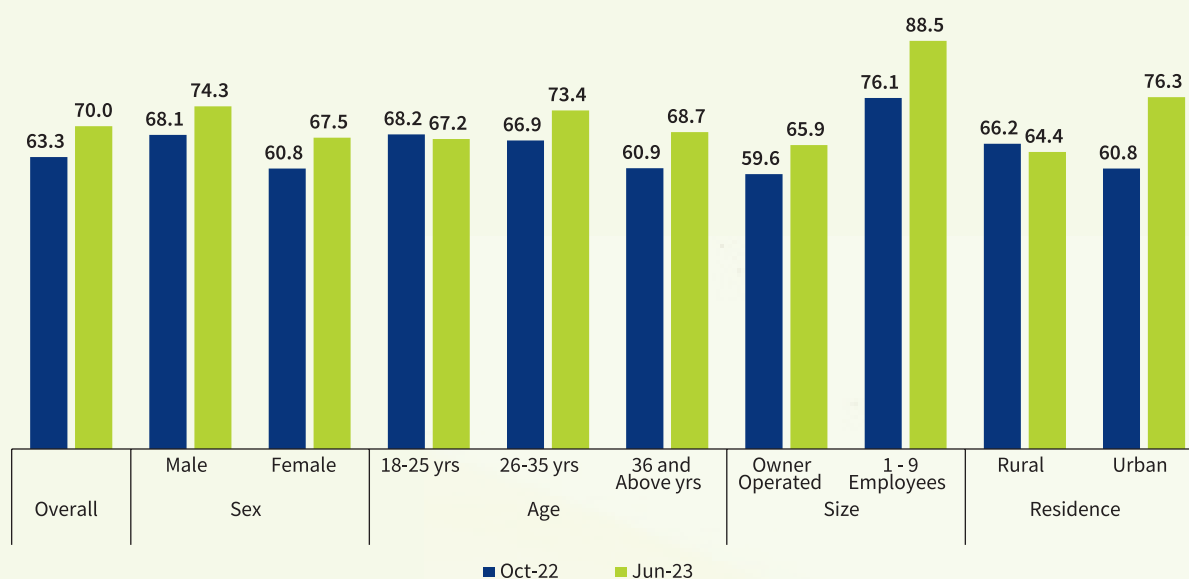


Apart from rural based businesses, an increase in the number of days enabled more businesses to raise the funds. The survey results indicated that 70.0 percent of the businesses could raise KSh 11,000 in 30 days in June 2023 compared to 63.3 percent in October 2022. More male owned businesses (74.3 percent) could raise the lump-sum in 30 days compared to female owned business (67.5 percent) in June 2023, an increase

from 68.1 percent and 60.8 percent in October 2022, respectively. The proportion of businesses able to raise KSh 11,000 in 30 days is higher than in 3 days for both June 2023 and October 2022. Additionally, more male owned businesses could raise the lump-sum in 30 days compared to female owned businesses for both June 2023 and October 2022 (**Figure 8.1b**).



Figure 8.1b: Ability to mobilize lump-sum in 30 days (%)



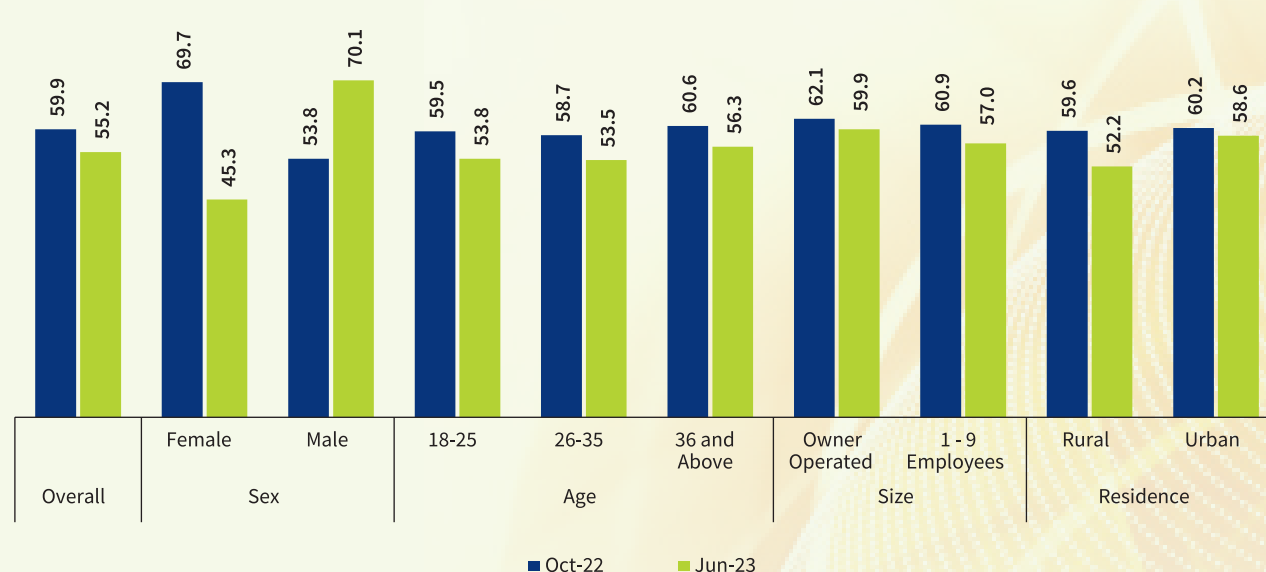
8.2 Sole income earner in the household

The survey sought to establish whether business owners were the sole income earners in their households. Overall, 55.2 percent of business owners were sole income earners in June 2023, which is a decline from 59.9 percent in October 2022. The survey also indicated that 70.1 percent of male business owners were sole income earners in their households, an increase from 53.8 percent in October 2022. The proportion of female business owners

were sole income earners declined to 45.3 percent in June 2023 from 69.7 percent in October 2022.

Moreover, 59.9 percent of owner operated businesses reported that they were sole income earners in the household compared to 57.0 percent of those with 1-9 employees in June 2023, a decline from 62.1 percent and 60.9 percent in October 2022, respectively (**Figure 8.2**).

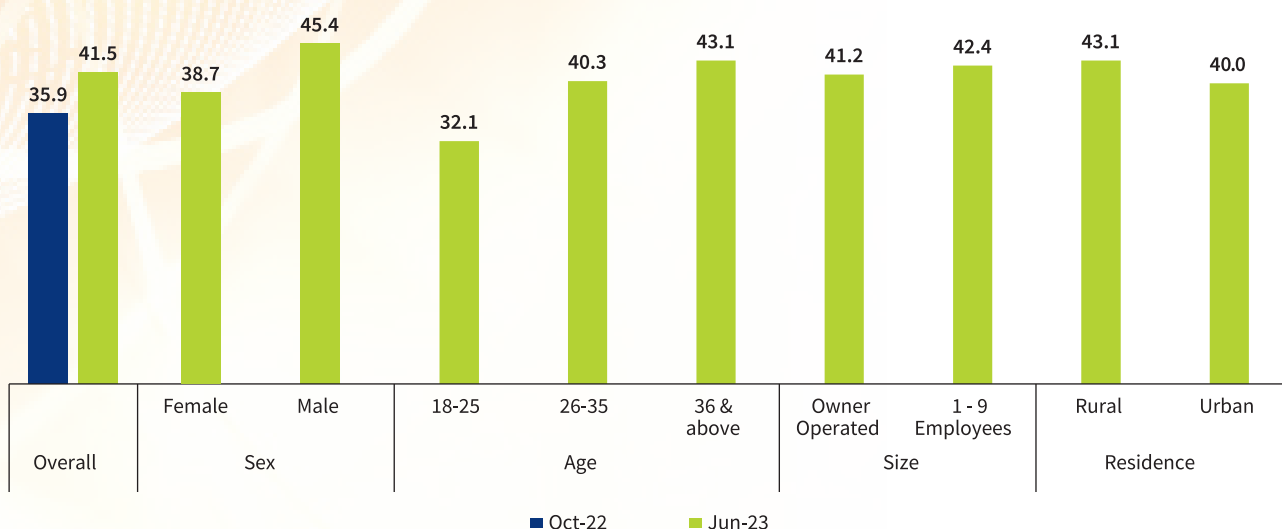
Figure 8.2: Proportion of respondents who are sole income earners (%)



8.3 Other sources of income apart from main business

The survey results revealed that 41.5 percent of the respondents had income from other sources in June 2023, which was an increase from 35.9 percent in October 2022. More male business owners reported to have other income sources compared to female business owners at 45.4 percent and 38.7 percent, respectively in June 2023. Additionally, more rural based businesses reported to have other income compared to urban based businesses at 43.1 percent and 40.0 percent, respectively (**Figure 8.3a**).

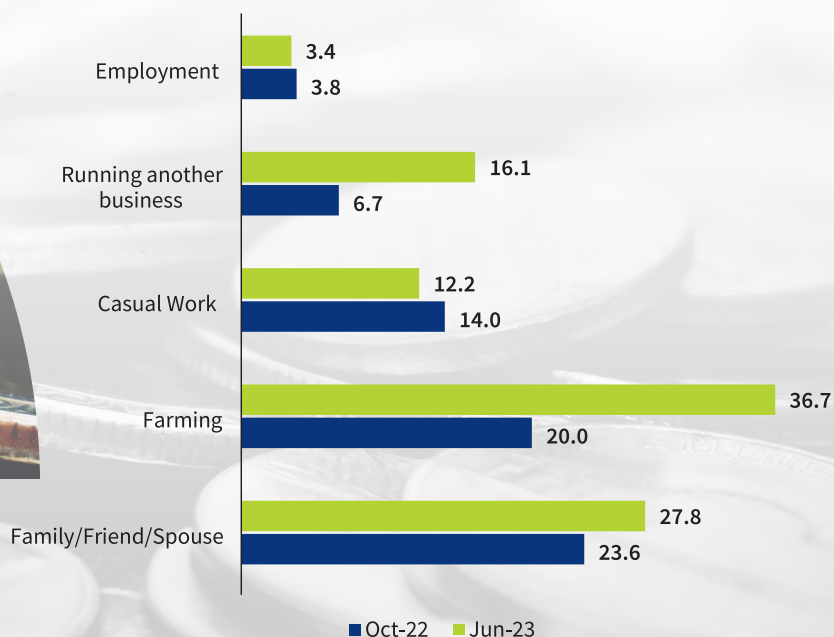
Figure 8.3a: Respondents with Other Income Sources (%)



The results indicated, running another business as an additional source of income was 16.1 percent in June 2023, an increase from 6.7 percent in October 2022. Also, respondents indicated they had other income (including social support) from family and

friends at 27.8 percent, from farming, at 36.7 percent and from casual work at 12.2 in June 2023. This was an increase from 23.6 percent and 20.0 percent and 14.0 percent in October 2022 for family /friends/ spouse and from farming respectively (**Figure 8.3b**).

Figure 8.3b: Proportion of respondents with other sources of income by type (%)





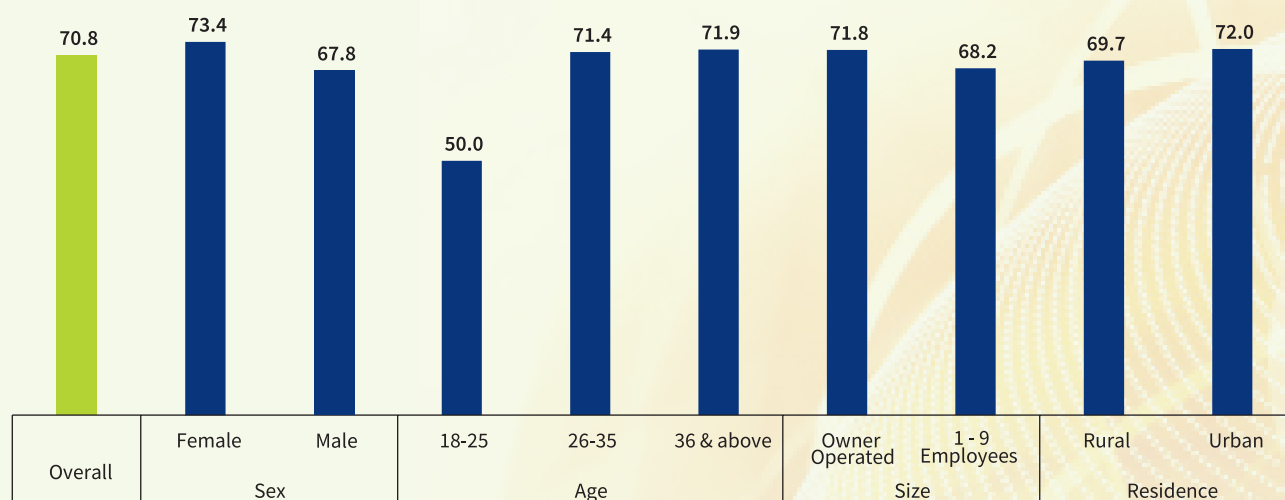
8.4 Use of other sources of income to support main business

Survey findings revealed that out of the respondents that reported that they have other income apart from the main business, 70.8 percent used this other income to support their main business in June 2023. This indicator shows the extent MSE main businesses are supported by various streams of income for survival. More female owned businesses used other income to support their

main business compared to men owned businesses at 73.4 percent and 67.8 percent respectively.

Owner operated businesses and businesses with 1-9 employees indicated 71.8 percent and 68.2 percent, respectively used other income to support the main business (**Figure 8.4**).

Figure 8.4: Use of other sources income to support main business (%)



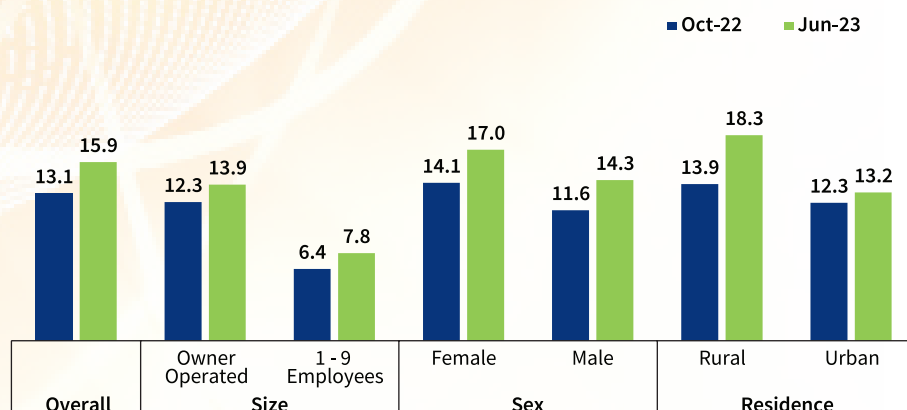
8.5 Food security

This section presents information on households who went without enough food in the one month preceding the survey. The findings indicate that households that often went without enough food increased from 13.1 percent in October 2022 to 15.9 percent in June 2023. Households in rural areas that reported to have

often gone without enough food increased from 13.9 percent in October 2022 to 18.3 percent in June 2023.

More female business owners (17.0 percent) reported to have often gone without enough food compared to male business owners (14.3 percent) (**Figure 8.5**).

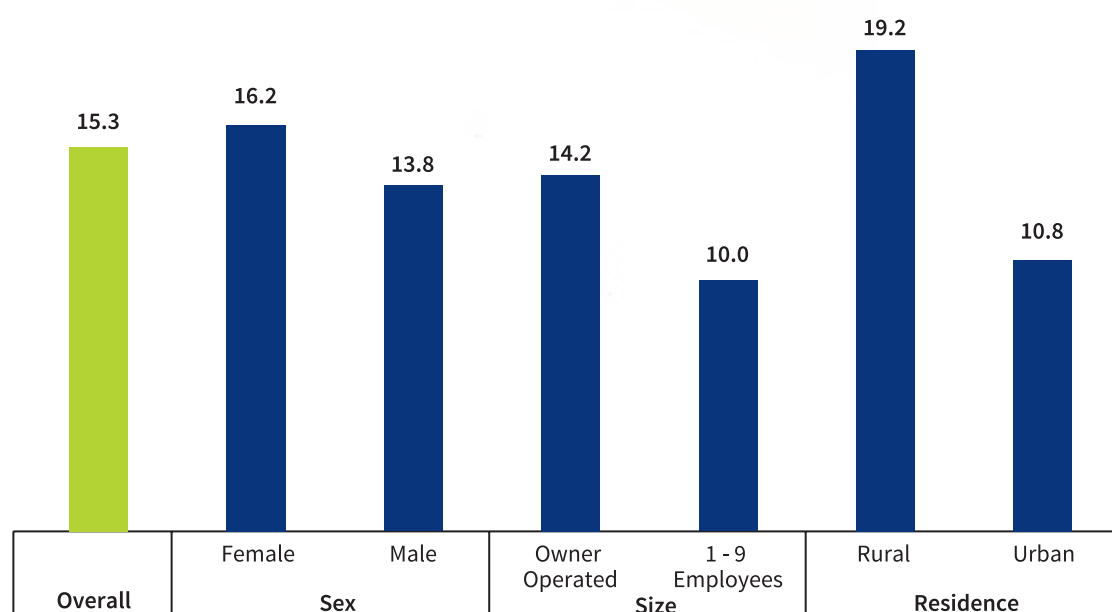
Figure 8.5: Households without enough food within one month preceding the survey (%)



8.6 Limited Access to Medication

In June 2023, 15.3 percent of small business owners reported having to go, in the one month preceding the survey, without enough medication when a family member was feeling unwell. This was more prevalent among the businesses in the rural areas (19.2 percent) and among the female business owners (**Figure 8.6**).

Figure 8.6: Households that lacked enough medication one month preceding the survey (%)



9.0 Conclusions and Policy Recommendations

MSEs play a key role in growth and development in the fourth Medium Term Plan (MTP-IV); the Bottom-up Economic Transformation Agenda (BETA); and the Sustainable Development Goals by providing jobs and goods and services that alleviate poverty and enhance economic growth. However, their contribution to poverty and sustainable growth is stifled by lack of skills and infrastructure, low demand and uncondusive regulatory environment.

The FinAccess and tracker surveys seek to enhance understanding of the financial inclusion of MSEs. Since 2019, Tracker Surveys have been conducted targeting specific thematic areas or modules after the release of FinAccess Household Surveys top line findings. Out of the two most recent tracker surveys conducted as wave I in October 2022 and the current wave II in June 2023, there are important results for government, policy makers, innovators, and the private sector with interest in supporting inclusive finance and inclusive growth of MSEs. Specific conclusions

and recommendations include:

- Considering that wholesale and retail trade remain the largest MSE economic sector, there is need to pay special attention to the issues pertaining to the sector so that MSE wholesalers and retailers can realize accelerated growth, profitability and an upgrade of their social economic status.



- The proportion of businesses closing remains quite significant at almost 30 percent. Those that were found operational remained almost constant with 72.6 percent of businesses being operational in June 2023 compared to 71.6 percent in October 2022. There is therefore a need to investigate and to address the reason why so many businesses start, operate for a while and then close.
- Over the two periods, 36.2 percent of business owners were found to be primary school graduates; followed by secondary school (26.7 percent). Owners of businesses with tertiary (middle level college and university) were 14.2 percent. Further, the proportion of business owners who received training in their area of business increased from 31.7 percent in October 2022 to 34.7 percent in June 2023. There is therefore the need to sustain these training efforts and to offer training that is commensurate with the level of education of the business owners/operators.
- From the study, MSE businesses were found to have reduced credit advances to their consumers; from 68.5 percent in October 2022 to 61.1 percent in June 2023 while the outstanding credit that had been advanced had reduced to 2.7 percent in June 2023 from 3.3 percent in October 2022, outstanding credit value of KSh. 50,000 or more. Likewise, the proportion of MSEs that reported to have received trade credit from their suppliers in June 2023 (30.6 percent) was less than in October 2022 (36.7 percent).
- The survey found the main use of the hustler fund to be personal/household purposes with the majority using it to meet their daily expenses. For those who cited business use, the majority used the hustler fund loan to boost their working capital. Very few people used the fund to either start a new business or pay another loan. As was strongly recommended by the MSE operators interviewed, there is a need to increase the hustler loan amounts so that the fund can support the starting of new enterprises as well as boosting working capital for existing businesses.
- The Survey established that at least 48.8 percent of the Hustler Fund borrowers either paid late, missed a payment or paid less amount in the last three months. Upon being asked whether they are aware of the consequences of failed or delayed payment, only 54.9 percent of the respondents said yes. There is need to educate the public to be responsible borrowers who know the consequences of not repaying, and More so that they can differentiate the fund from political handouts
- The three main challenges cited in the use of digital loans, and which need urgent attention, were found to be high interest rates; followed by short repayment periods and harassment by some of the digital credit providers.
- The proportion of MSEs that expect their businesses to do better in the next twelve months declined from 58.3 percent in October 2022 to 50.6 percent in June 2023. There is however the need to focus on the proportion of MSEs that for certain reasons were pessimistic and expected their business performance to worsen.
- Findings out of this tracker survey clearly show positive impact of government interventions especially on the Hustler fund and the digital loans. However as cited by several respondents there is need to pursue possibilities to increase the Hustler fund loan amounts, for responsible borrowers as well as to address high interest rates and to short repayment periods associated with some digital credit providers.
- Lastly, there is a need for readers of this report and other stakeholders to provide feedback that will be used in improving the MSE tracker surveillance processes.



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