





**KENYA NATIONAL BUREAU OF STATISTICS**

**MICRO, SMALL AND MEDIUM  
ESTABLISHMENT  
(MSME) SURVEY**

**Basic Report**

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## Table of Contents

<b>List of Tables</b> .....	<b>viii</b>
<b>List of Figures</b> .....	<b>x</b>
<b>Acronyms and Abbreviations</b> .....	<b>xii</b>
<b>Preface</b> .....	<b>xiii</b>
<b>Acknowledgements</b> .....	<b>xiv</b>
<b>Executive Summary</b> .....	<b>xv</b>
<b>Chapter 1</b> .....	<b>1</b>
<b>Introduction</b> .....	<b>1</b>
1.1 Background to the 2016 National MSME Survey .....	1
1.2 Objectives of the Survey .....	2
1.3 Overview of MSME Sector in Kenya .....	2
1.4 Policy Environment for MSME Development in Kenya .....	3
1.4.1 Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth .....	4
1.4.2 Sessional Paper No 2 of 1992 on Small Enterprises and Jua Kali Development .....	4
1.4.3 The Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction .....	5
1.4.4 Private Sector Development Strategy (PSDS) Kenya.....	5
1.4.5 Vision 2030 .....	6
1.5 Relevant Laws .....	6
1.5.1 Micro-Finance Act (2006) and SACCO Societies Act (2008) .....	6
1.5.2 Micro and Small Enterprises Act No. 55 of 2012 .....	6
1.6 MSME support programmes and institutions .....	7
1.6.1 Assistance to Micro and Small Enterprises Programme (ASMEP) .....	7
1.6.2 Micro Small and Medium Enterprise (MSME) Competitiveness Project .....	7
1.6.3 Department of Micro and Small Enterprise Development (DMSED) .....	8
1.6 Organisation of the 2016 National MSME Survey Report .....	8
<b>Chapter 2</b> .....	<b>10</b>
<b>Concepts and Definitions</b> .....	<b>10</b>
2.1 Household .....	10
2.2 Micro, Small and Medium Enterprises (MSMEs) .....	10
2.3 Agri-businesses.....	11
2.4 Business/Enterprise/Firm.....	11
2.5 Establishment .....	11
2.6 Work .....	11
2.7 Employment .....	11
2.8 Types of Workers .....	12
2.9 Skill Levels of Workers .....	12
2.9.1 Skilled Workers .....	12
2.9.2 Semi-Skilled Workers .....	12
2.9.3 Unskilled Workers .....	12

2.10 Wages and Salaries .....	12
2.11 Household Incomes .....	13
2.12 Revenue or Receipts .....	13
2.13 Total or Gross Income .....	13
2.14 Expenses (Operating Costs) .....	13
2.15 Security of Tenure .....	13
2.16 Types of MSME Economic Activity Sectors .....	14
2.17 Informal Sector .....	14
2.18 Formal Enterprise .....	14
2.19 Licensing .....	14
2.20 Sole Proprietorship .....	14
2.21 Partnership .....	15
2.22 Private Limited Company .....	15
2.23 Public Limited Company .....	15
2.24 Cooperative .....	15
2.25 Chamas .....	15
2.26 Non-MSME Establishments .....	15
2.27 Goodwill .....	15
2.28 Moneylender .....	15
2.29 Net Worth .....	15
2.30 Concepts of National Accounts .....	15
<b>Chapter 3 .....</b>	<b>17</b>
<b>MSME Survey Design and Methodology .....</b>	<b>17</b>
3.1 Introduction .....	17
3.2 Survey Design .....	17
3.3 Sampling Frames .....	17
3.3.1 Licensed Establishments .....	17
3.3.2 Unlicensed Establishments .....	18
3.4 Sample Size and Allocation .....	18
3.5 Development of Survey Instruments .....	20
3.6 Pilot Survey .....	20
3.7 Training for the Main Data Collection .....	21
3.8 Data Collection .....	21
3.9 Data Capture and Processing .....	21
3.10 Data Weighting .....	21
3.11 Challenges During Implementation of the Survey .....	22
3.12 Limitations of the MSME Survey .....	22
3.13 Response Rates .....	23
<b>Chapter 4 .....</b>	<b>24</b>
<b>Entrepreneur and MSME Business Profiles .....</b>	<b>24</b>

4.0 Introduction .....	24
4.1 Size of the MSME Sector .....	24
4.1.1 MSME Sector Distribution by Size of Employment .....	24
4.1.2 MSME Sector by Turnover .....	25
4.2 Magnitude of the MSME Sector .....	25
4.2.1 Number of MSMEs by Economic Activity .....	25
4.2.2 Number of MSMEs by County .....	30
4.2.3 Number of MSMEs by Establishment Location .....	32
4.2.4 Number of MSMEs by Type of Structure .....	32
4.3 Net Worth of Establishments .....	33
4.4 Ownership and Decision Making in MSMEs .....	34
4.4.1 Ownership Structure .....	34
4.4.2 Distribution of MSMEs by Sex of Owners .....	34
4.4.3 Decision Making in MSMEs .....	35
4.5 Education Profile .....	36
4.5.1 Education Attainment of Owners/Operators .....	36
4.5.2 Education Attainment of Owners by Size of Establishments .....	37
4.5.3 Education Attainment of Business Owners by Economic Activity .....	37
4.6 Training for Business Owners/Operators .....	39
4.6.1 Main Sponsors of Trainings .....	39
4.6.2 Duration of Trainings of Owners/Operators .....	40
4.7 Goodwill .....	40
4.8 Business Capital .....	41
4.8.1 Start-up Capital .....	41
4.8.2 Source of Start-up Capital .....	41
4.8.3 Other Non-Financial Support .....	42
4.8.4 Technological Advice .....	43
4.8.5 Type and Source of Machines Used by MSMEs .....	43
4.9 Use of ICT .....	44
4.9.1 ICT Equipment .....	44
4.9.2 Mobile Money and Paybill Use .....	45
4.10 Inter-Firm Linkages and networks .....	46
4.10.1 Source of Inputs .....	46
4.10.2 Contractual Arrangements for Inputs .....	47
4.10.3 Contractual Arrangements for Products .....	47
4.11 Reasons for Starting a Business .....	48
4.12 Business Records and Bank Accounts .....	48
4.12.1 Management of Business Records .....	48
4.12.2 Type of Reports Generated from Business Records .....	49
4.13 Business Organization and Marketing .....	50
4.13.1 Registration Status .....	50

4.13.3 Nature of Occupancy of Business Site .....	51
4.13.4 Appropriateness of Site with Regard to Getting Customers .....	52
4.13.5 Product Marketing .....	52
4.13.6 Mode of Setting Prices .....	53
4.13.7 Type of Customers .....	54
4.13.8 Risks of Continued Access to Business Site .....	54
<b>Chapter 5 .....</b>	<b>55</b>
<b>Employment Characteristics in the Micro, Small, and Medium Establishments .....</b>	<b>55</b>
5.0 Introduction .....	55
5.1 Number of persons engaged in the MSME Sector .....	55
5.1.1 Employment by County, Establishment Size and Licensing Status .....	55
5.1.3 Employment by County and Licensing status .....	57
5.1.4 Employment by Economic Activity .....	59
5.1.5 Employment distribution by Economic Activity and Establishment Size .....	59
5.1.6 Distribution of paid Employment and average hours per week in licensed establishments by Economic Activity .....	60
5.1.7 Distribution of Persons by Employment and Licensing Status .....	63
5.2 Training and Development in the MSME Sector .....	64
5.2.1 Employees' Educational Qualifications .....	64
5.2.2 Training of Employees .....	67
5.2.3 Training Arrangements for Employees below 18 Years .....	69
5.3.4 Sponsorship for Training of Employees Under 18 Years .....	69
5.3.5 Main Reason for Engaging Employees Under 18 Years .....	70
5.3 Labour Dispute Resolution Mechanisms .....	70
5.4 Number of Employees in Unions by Economic Activity .....	72
<b>Chapter 6 .....</b>	<b>73</b>
<b>Contribution of MSME to GDP .....</b>	<b>73</b>
6.1 Introduction .....	73
6.2 MSMEs Contribution to the Kenyan Economy .....	73
6.3 Terms and Definitions .....	73
6.3.1 Basic Prices .....	73
6.3.2 Purchasers' Prices .....	73
6.3.3 Gross Output .....	74
6.3.4 Intermediate Consumption .....	74
6.4 Compilation of the Production Account .....	75
6.4.1 Assumptions Underlying the Compilation of the Production Account .....	76
6.5 Revenue .....	78
6.6 Net Income .....	79
6.7 Expenditure .....	80
6.8 Business Innovation .....	88
<b>Chapter 7 .....</b>	<b>90</b>

<b>Changes in Micro, Small, Medium Enterprises .....</b>	<b>90</b>
7.0 Introduction .....	90
7.1 Changes in Employment Size .....	90
7.1.1 Changes in Employment Size of Licensed Enterprises by Activity .....	90
7.1.2 Changes in Employment Size of Licensed Establishments by Counties .....	91
7.1.3 Unlicensed Establishments .....	93
7.2 Establishment Mutation .....	94
7.2.1 Business Mutation in Licensed Establishments .....	94
7.2.2 Mutation in Unlicensed Establishments .....	95
7.3 Closed Establishments within the Last Five Years .....	97
7.3.1 Number of Closed Establishments and Age .....	97
7.3.2 Number of Closed Establishments in the last Five years and Average age .....	97
7.3.3 Closed Establishments which had been Started/Acquired within the last Five years .....	98
7.3.4 Employment Dynamics for Closed Establishments .....	99
7.3.5 Ownership of Closed Establishments .....	102
7.3.6 Reasons for Closure of Establishment .....	102
7.3.7 Current Activity after Closure of Establishments .....	103
7.3.8 Location/Worksite of Closed Establishments .....	104
7.4 Disposal of Tools and Stocks after Establishment Closure .....	104
<b>Chapter 8 .....</b>	<b>106</b>
<b>Constraints and Access to Amenities and Support Services .....</b>	<b>106</b>
8.0 Introduction .....	106
8.1 Challenges Faced by MSMEs .....	107
8.2 Reasons for Low Uptake of Loans by MSMEs .....	108
8.3 Demand for Credit by Industry .....	111
<b>Chapter 9 .....</b>	<b>129</b>
<b>Conclusions and Recommendations .....</b>	<b>129</b>
9.1 Introduction .....	129
9.2 MSME Survey Conclusions .....	129
9.2.1 Conclusions on Entrepreneur and Msme Business Profiles .....	129
9.2.2 Conclusions on Employment Characteristics of MSMEs .....	133
9.2.3 Conclusions on Contribution of the MSME Sector to GDP .....	133
9.2.4 Conclusions on changes in MSMEs activities .....	134
9.2.5 Conclusions on MSMEs Constraints, Potential and Access to Support .....	135
<b>References .....</b>	<b>139</b>
<b>List of contributors .....</b>	<b>140</b>
<b>Annexes .....</b>	<b>141</b>
Annex I. Household Questionnaire .....	141
Annex II. Establishment Questionnaire .....	147

## List of Tables

Table 3.1: Distribution Sampled Licensed Establishments, Clusters and Households by County and Residence .....	19
Table 4.1: Distribution of the MSMEs by Monthly Turnover .....	25
Table 4.2: Distribution of Establishments by Economic Activity and Licensing Status .....	26
Table 4.3: Distribution of the Micro, Small and Medium Establishments by ISIC .....	28
Table 4.4: Economic Activities with Highest Concentration of MSMEs at 2 Digit ISIC .....	29
Table 4.5: Distribution of licensed Micro Small and Medium Establishments by County .....	31
Table 4.6: Distribution of MSMEs by Net Worth and Licensing Status .....	33
Table 4.7: Distribution of Establishments by Age and Decision Making Structure .....	35
Table 4.8: Highest Education Qualification of Business Owners by Size of Business .....	37
Table 4.9: Education Level of Business Owners by Economic Activity .....	38
Table 4.10: Main Training received by Licensed Business Owners' and Type of Sponsor .....	40
Table 4.11: Duration of Main Training .....	40
Table 4.12: Goodwill Paid by Size of Businesses .....	41
Table 4.13: Startup Capital by Size of Establishments .....	41
Table 4.14: Other Support Services Received by MSMEs .....	42
Table 4.15: Type of Records kept by Businesses .....	49
Table 4.16: Distribution of Licensed MSME by Type of Account.....	50
Table 4.17: Registration of Licensed MSMEs with the Registrar of Companies .....	50
Table 4.18: Establishments by Location of Business .....	51
Table 4.19: Nature of Occupancy of Business Site.....	52
Table 4.20: Establishments by Appropriateness of Site with Regard to Getting Customers.....	52
Table 4.21: Main method of Advertisement for MSMEs .....	53
Table 4.22: Mode of Setting Prices on Establishments .....	53
Table 4.23: Main Buyers of Products from MSME Establishments .....	54
Table 4.24: Establishments by Biggest Risk of Continued Access to Business Site .....	54
Table 5.1: Employment by Establishment Size, Licensing Status and County .....	56
Table 5.2. Employment by County and Licensing Status .....	58
Table 5.3. Employment by Economic Activity .....	59
Table 5.4 Proportion of Persons Engaged in licensed MSMEs by Economic Activity and Establishment Size.....	60
Table 5.5: Number of Paid Employees in Licensed Establishments .....	61
Table 5.6: Average Hours Worked per Week in Licensed Establishments by Economic Activity..	62
Table 5.7 Distribution of Employees in Licensed Establishments by Highest Educational Qualification Acquired and Economic Activity.....	65
Table 5.8 Distribution of Employees in Unlicensed Establishments by Highest Educational Qualification Acquired and Economic Activity .....	66

Table 5.9: Employees' Training Received by Economic Activity in Licensed Establishments .....	68
Table 6.1: Production Account by Size of Establishment .....	76
Table 6.2: Production Account by Economic Activity .....	77
Table 6.3a: Revenue Earned by MSMEs in the Previous Month .....	78
Table 6.3b: Normal Monthly Revenue Earned by MSMEs .....	79
Table 6.4: Proportion of Income Generated by MSME by Type and Most Important Use .....	80
Table 6.5a: Expenditure by Size of Establishment.....	81
Table 6.5b: Business Expenditure by Economic Activity .....	82
Table 6.6: Ranking of Business Performance .....	83
Table 6.7: Ranking of Business Performance .....	84
Table 6.8: Perceived Best and Worst Months of the Business .....	85
Table 6.9a: Best Month for Business by Industry and Size of the Establishment .....	86
Table 6.9b: Worst Month for Businesses by Industry and Size of the Establishment .....	87
Table 6.10: Proportion of Establishments that Engaged in Innovation .....	89
Table 7.1: Changes in Employment Size by Sex and Sector .....	91
Table 7.2: Change in Number of Employees by Sex and County .....	92
Table 7.3: Number and Proportion of Employees of Unlicensed Establishments at Inception and During the Survey by Sex and Activity .....	93
Table 7.4: Distribution of Licensed Establishment Mutation by Economic Activity .....	94
Table 7.5: Distribution of Unlicensed Establishment Mutation by Economic Activity .....	95
Table 7.6: Distribution of Closed Establishments by Activity and Age at Closure .....	97
Table 7.7: Closed Establishments by Economic Activity 2011-2016 .....	98
Table 7.8: Number of Establishments Started/Acquired and Closed Within the last Five years, by Year of Closure.....	99
Table 7.9: Changes in Employment Size at Inception, Peak and at Closure .....	100
Table 7.10: Change in Employment Size at Inception, Peak and at Closure, by County .....	101
Table 7.11: Distribution of Closed Establishments by, Ownership and Activity .....	102
Table 7.12: Activities Undertaken after Closing Establishments by Activity .....	103
Table 7.13: Percentage Distribution of Disposal of Tools/ Stocks after Establishment Closure ....	105
Table 8.1: Challenges Faced by Licensed and Un-licensed MSMEs by Severity .....	109
Table 8.2: Demand for Credit by size of business, Sex of Owners and Licensing status .....	111
Table 8.3a: Demand for Credit by Industry (Licensed) .....	112
Table 8.3b: Demand for Credit by Industry (Unlicensed) .....	113
Table 8.4a: Financial Institutions that Denied Loans to Establishments by Ownership .....	115
Table 8.4b: Amount of Loans Applied and Received in the Last Three Years .....	117
Table 8.5: Extra Workers Engaged in Licensed and Unlicensed Businesses during High Season .	119
Table 8.6: Proportion of MSMEs with Access to Amenities by Type of Ownership Structure ....	120
Table 8.7: Access to MSMEs in the Counties by Type of Roads .....	121
Table 8.8: Security Providers for Licensed and Unlicensed MSMEs by Type of Structure .....	123
Table 8.9: Non-Financial Support for MSMEs .....	125
Table 8.10: Training Attended by Type of Ownership Structure .....	127
Table 8.11: Unlicensed MSMEs Training by Size of Establishment .....	128

## List of Figures

Figure 4.1: Distribution of Licensed Establishments by Size .....	24
Figure 4.2: Distribution of Establishments by Economic Activity .....	27
Figure 4.3: Percentage Distribution of MSMEs by Establishment Location .....	32
Figure 4.4: Distribution of MSMEs by the Type of Structure .....	33
Figure 4.5: Distribution of MSMEs by Ownership .....	34
Figure 4.6: Ownership of Establishments by Licensing Status .....	35
Figure 4.7: Distribution of Establishments by Decision Making Structure and Licensing Status....	36
Figure 4.8: Highest Education Qualification attained by Business Owners/Operators .....	36
Figure 4.9: Main Sponsor of MSMEs Business Owners' Training .....	39
Figure 4.10: Main Source of Capital for the Business .....	42
Figure 4.11: Percentage Distribution of Licensed MSME's Source of Technological Advice .....	43
Figure 4.12: Percentage Distribution of Machines by Type .....	43
Figure 4.13: Distribution of Main Sources of Machines by Type of Machines .....	44
Figure 4.14: Types of ICT Equipment Used by Licensed Businesses .....	44
Figure 4.15: Main Reason the Business does not Use ICT .....	45
Figure 4.16 Use of Mobile Money Platform by MSMEs .....	45
Figure 4.17: Use of Paybill/Till Number by MSMEs in Business .....	46
Figure 4.18: Main Source of Inputs for MSMEs .....	46
Figure 4.19: Contracting Arrangements for Inputs / Orders .....	47
Figure 4.20: Contracted Arrangements for products and Services .....	47
Figure 4.21: Reasons for Starting a Business .....	48
Figure 4.22: Type of Reports Generated .....	49
Figure 5.1: Percentage Distribution of Employment in Licensed Establishments .....	57
Figure 5.2: Percentage Distribution of Casual Employment in Licensed Establishments by Economic Activity.....	61
Figure 5.3: Distribution of Employees by Age and Terms of Engagement .....	63
Figure 5.4: Percentage distribution of persons by Employment and Licensing Status .....	63
Figure 5.5: Percentage Distribution of Employees by Highest Educational Qualification Acquired and Establishment Licensing Status .....	64
Figure 5.6: Percentage Distribution of Employees by Training Received and Establishment Licensing Status.....	67
Figure 5.7: Proportion of Establishments by Type of Training Arrangement for Employees Under 18 Years .....	69
Figure 5.8: Percentage Distribution of Establishments by Form of Sponsorship for Employees' Training in Licensed Businesses .....	69
Figure 5.9: Percentage Distribution of Establishments by Main Reason for Engaging Employees under 18 Years and Licensing Status .....	70
Figure 5.10. Percentage Distribution of Establishments by Type of Dispute Resolution Mechanism and Establishment Licensing Status .....	71
Figure 5.11: Percentage Distribution of Establishments by Dispute Resolution by Economic	

Activity .....	71
Figure 5.12: Percentage Distribution of Employees in Trade Unions by Economic Activity .....	72
Figure 7.1: Percentage Distribution of Licensed Establishments by Reasons for Change .....	95
Figure 7.2: Percentage Distribution of Unlicensed Establishments by Reasons for Change .....	96
Figure 7.3: Percentage Distribution of Reasons for Closure of Establishment .....	103
Figure 7.4: Percentage Distribution of Location/Worksite of Closed Establishments .....	104
Figure 8.1: Challenges Faced by MSMEs .....	107
Figure 8.2: Reasons for Low Uptake of Loans by MSMEs.....	108
Figure 8.3: Proposed Solutions to Constraints in Establishments. ....	110
Figure 8.4: Reasons why Persons in Licensed and Unlicensed Businesses took Loans.....	114
Figure 8.5: Demand for Credit on Licensed and Unlicensed Businesses by Lenders .....	116
Figure 8.6: Accessibility to MSMEs' Premises by Type of Roads .....	120
Figure 8.7: Security Service Providers for MSMEs .....	122
Figure 8.8: Mode of Waste Disposal .....	123
Figure 8.9: Mode of Effluent Disposal .....	124
Figure 8.10: Access to Toilet Facilities .....	124
Figure 8.11: Support Groups for MSMEs .....	125
Figure 8.12: Support for MSMEs through Sponsorship .....	126
Figure 8.13: Licensed MSMEs Training by Size of Establishment .....	127
Figure 8.14: Methods of Advertisement by Licensed MSMEs .....	128

## Acronyms and Abbreviations

CAPI	Computer Assisted Personal Interview
CPE	Certificate of Primary Education
CSO	County Statistics Officer
CV	Curriculum Vitae
DG	Director General
DICT	Director Information, Communication Technology
DMES	Director Macro Economic Statistics
DPS	Director Production Statistics
DPSS	Director Population and Social Statistics
EACE	East Africa Certificate of Education
FISIM	Financial Intermediation Indirectly Measured
GDP	Gross Domestic Product
GPS	Geographic Position System
ICT	Information Communication Technology
ISIC	International Standards of Industrial Classifications of all economic activities
KCE	Kenya Certificate of Education
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KENGEN	Kenya Electricity Generation Company
KETRACO	Kenya Electricity Transmission Company
KNBS	Kenya National Bureau of Statistics
KNOCS	Kenya National Occupation Classifications
KPLC	Kenya Power and Lighting Company
MSE	Micro and Small Enterprise
MSEA	Micro and Small Enterprises Authority
MSME	Micro, Small and Medium Enterprises
NASSEP	National Sample and Evaluation Programme
NGO	Non-Governmental Organization
PAPI	Paper Assisted Personal Interview
RA	Research Assistant
SACCO	Savings and Credit Cooperative
SACCOS	Savings and Credit Cooperative societies
SML	Senior Manager Labour
SNA	System of National Accounts
UNIDO	United Nation Industrial Development Organization
UON	University of Nairobi
VAT	Value Added Tax

## Preface

The Micro, Small and Medium Enterprises (MSMEs) are considered as sources of employment generation, economic growth, and social transformation. A significant proportion of the MSMEs are formal, while majority fall within the informal economy based on their size, location, ownership, status of formality and economic activity, together, as major job providers, they produce a significant share of total value added, and provide a large segment of the poor and middle-income populations with affordable goods and services. There is however limited or outdated data to inform MSME policy formulation and implementation.

We wish to acknowledge contribution of a number of organizations. The survey and report could not be accomplished without them. We would like to recognise the Institute for Development Studies of the University of Nairobi (IDS-UON), the African Centre for Economic Growth (ACEG), Kenya Institute for Public Policy Research and Analysis (KIPPRA), Micro and Small Enterprises Authority (MSEA), KREP and other stakeholders undertook to carry out the 2016 MSME survey. The aim was to better understand the magnitude, dynamics, and various factors that can promote or hinder enterprises creation, growth and development in Kenya.

This report provides insightful and useful baseline data, for systematic approach to reviewing policies and designing strategic plans for the development of the MSME sector in the country. In addition, it is a great resource to a variety of other stakeholders including development partners, MSME support institutions, financial institutions, consulting firms, education and research institutions.

Prof. Terry Ryan

Chairman of the Board of Directors  
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# Executive Summary

## Introduction

The MSME sector in Kenya has over the years been recognized for its role in provision of goods and services, enhancing competition, fostering innovation, generating employment and in effect, alleviation of poverty. The crucial role of MSMEs is underscored in Kenya's Vision 2030 - the development blueprint which seeks to transform Kenya into an industrialized middle-income country, providing a high quality life to all its citizens by the year 2030. The MSME sector has been identified and prioritized as a key growth driver for achievement of the development blue print.

The measurement of the size of the sector in terms of employment as well as its contribution to Gross Domestic Product [GDP] and the generation of income is of major importance. This is not only because of their usefulness in the design of appropriate policies and programmes but also in understanding their dynamics in terms of income, wages, growth patterns, sector and their evolving nature among others. MSMEs tend to be dynamic: the structure and their operations change considerably within a short time. The last comprehensive study is the 1999 National Micro and Small Enterprise (MSE) Baseline Survey. The 2016 National MSME Survey was therefore, designed to respond to the existing data gap and sought to provide data at national and county levels. The unit of observation was the establishments and the survey targeted those that engaged at most 99 persons. The terms establishment, enterprise and business are however, used interchangeably in this report.

## Survey Objectives

The overall objective of the 2016 National MSME Survey was to provide comprehensive data, at national and county levels, on the characteristics, operations, dynamics and evolving nature of micro, small, and medium-scale enterprises in Kenya.

## Employment

Employment in this report refers to the number of persons engaged in the MSME businesses. This includes working owners, full time paid employees, unpaid family workers, part time workers and apprentices. The findings of the survey show that total number of persons engaged was approximately 14.9 million with the unlicensed enterprises contributing 57.8 per cent. Paid employees in licensed businesses were 4.0 million. Overall, micro sized enterprises accounted for 81.1 per cent of employment reported in the MSMEs. The highest proportion of employment in licensed MSMEs was recorded in Nairobi, which accounted for 27.8 per cent of the persons engaged.

## Size Distribution

The sizes of MSMEs are categorized into micro (1-9 employees), small (10-49 employees) and medium (50-99 employees) sized establishment. The survey established that there were about 1.56 million MSMEs licensed by the county governments while the unlicensed

businesses identified from the households were 5.85 million. Majority of these MSMEs are in the service sector, with most operating in wholesale and retail trade, repair of motor vehicles and motor cycles followed by accommodation and food service activities and other service activities. Wholesale and retail trade; repair of motor vehicles and motorcycles accounted for more than half of licensed (57.1 per cent) and unlicensed (62.9 per cent) businesses.

In all counties with exception of Nairobi, micro sized establishments constituted more than 90.0 per cent of all licensed establishments. Nairobi County had the highest proportion of small sized establishments at 14.8 per cent.

### **Distribution of MSMEs by Sex of Owners**

In terms of distribution of MSMEs by sex of business owners, the survey found out that 47.9 per cent of the licensed establishments were owned by males and 31.4 per cent were owned by females. Further, 60.7 per cent of unlicensed establishments were solely owned by females. Establishments owned by male-female partners accounted for 16.5 per cent and 6.4 per cent of licensed and unlicensed businesses, respectively.

### **Contribution to the GDP**

The value of the MSME's output is estimated at KSh 3,371.7 billion against a national output of KSh 9,971.4 representing a contribution of 33.8 per cent in 2015. In terms of gross value added, the MSME are estimated to have contributed KSh 1,780.0 billion compared to KSh 5,668.2 billion for the whole economy.

Manufacturing ranked the highest by contributing 24.3 per cent of the MSME's gross value added. Wholesale and retail trade, Transport and storage, and Education services also ranked high by contributing 22.8, 15.4 and 7.3 per cent, respectively to the gross value added. Unlicensed establishments contributed 10.4 per cent of the MSME's gross value added.

### **Business Start-up**

The three main reasons cited for starting a business were better income, preference for self employment and having the requisite skills, accounting for 23.4, 20.5 and 17.0 per cent respectively. Overall, 80.6 per cent of establishments reported Family/Own funds as the main source of start-up capital while 4.2 per cent of business owners got loans from family and/or friends to start their business. According to the survey results, banks finance 5.6 per cent of MSMEs, Chamas (1.4 per cent) and cooperatives only 0.4 per cent of MSMEs. The Government funds 0.1 per cent of all MSMEs.

### **MSME Financing**

Business people face challenges in raising finances to support their entrepreneurial pursuits. Over the years, traditional sources of financing for MSMEs have revolved around personal

savings, loans from friends and family, and other informal sources. To encourage greater bank-led financing, the Central Bank of Kenya (CBK) has increased its focus on the MSME sector through several lending and credit facilitation programs. This is mainly to bridge the unmet funding demand and to maintain the flow of banking credit. Total amount of loans applied for by licensed MSMEs in the last three years was KSh 707.3 billion, out of which KSh 644.1 billion was given, translating to 91.1 per cent. Total amount received by unlicensed MSMEs was 42.9 billion representing 92.3 per cent of loans applied.

### **MSMES Expenditures**

Micro establishments reported spending 45.4 per cent of their net income on investments, either as re-investment or investing in new businesses, while expenditure on household and family needs accounted for 44.4 per cent. Medium and small establishments spent significantly high part of their net income on investment at 63.4 and 69.5, per cent, respectively. Monthly expenditure on salaries and wages for licensed businesses was reported at KSh 64.1 billion while unlicensed MSMEs spent KSh 9.0 billion which translates to approximately 25.0 per cent of total outlays.

### **Innovation**

For MSMEs to thrive in a competitive world of business, they need to progressively innovate to ensure that their goods and services reach untapped customer needs. The 2016 MSME survey endeavoured to find out whether businesses had innovated in products, processes and marketing of their products. The survey results showed that product innovation was manifest in small establishments engaged in manufacturing, ICT, financial and health activities at 31.6, 33.3, 44.4, and 42.5 per cent, respectively. Survey results also show that process and marketing innovations were largely not common features among MSMEs.

### **Marketing**

It is imperative for companies to advertise new products and create awareness of the products or services to their consumer and potential buyers. The MSME survey revealed that a large proportion of MSMEs did not market/advertise their goods or services at all and instead depended on the quality of products and clientele satisfaction as their marketing tool. Among the licensed businesses, micro (58.3 per cent), small (35.6 per cent) and medium (33.5 per cent) sized establishments did not market/advertise their products. For unlicensed businesses, 83.6 per cent did not advertise while 10.2 per cent depended on the quality of products and clientele satisfaction. To solve the problems faced by MSMEs the business owners expressed their wish for the Government to assist in market promotion and to provide an enabling environment for fair competition. On average, 18.3 per cent and 11.7 per cent indicated that the problems in the sector could be solved by assisting in market promotions and in providing an enabling environment for fair competition, respectively.

## **Changes in Employment**

It is evident from the survey that employment numbers in MSME sector increased after business inception. The number of persons engaged in licensed MSMEs was 6,280.5 thousand by the time of carrying out the survey. There was a notable increase in the participation of female employees at the time of the survey compared to inception. A significant rise was reported in the wholesale and retail trade, repair of motor vehicles and motorcycle sector from 1401.6 thousand employees at inception to 2,609.1 thousand employees during the time of the survey.

The number of employees in the unlicensed enterprises stood at 8,617.8 thousand by the time of the survey. At inception, the proportion of male employees was 36.4 per cent of the total employees, however, at the time of the survey the proportion of male employees had increased by 42.9 per cent. This indicates that the growth in male employees was higher than those of female employees in unlicensed establishments mostly in the wholesale and retail trade; repair of motor vehicles and motorcycles sector.

Counties with the highest change in number of employees at establishment inception and time of survey were Nairobi, Kiambu and Nakuru.

## ***Change of Business Activities***

A total of 88,750 (29,745 licensed and 59,005 unlicensed) businesses changed their business activities either within the same or to completely new sectors. The main reason behind the change of business activity was search for more profitable activities. Change of business activities is also informed by stiff competition as a result of lack of innovativeness. Relocation, change of government policies and lack of skilled labour also contributed to change of business activities among the MSMEs though in small scale.

## ***MSMEs Constraints***

The survey revealed that the main constraints emanate from regulatory environment characterized by requirement of multiple licenses for the same business. These licenses are also expensive and cumbersome to get. There is also interference from authorities; taxes are high and crippling; multiple procedures in applying for business registration that are hectic and restrictive. Other constraints include lack of capital, expensive loans, and lack of markets, stiff local competition, poor infrastructure (roads, power and water supply) and insecurity.

The survey findings further shows that it was more difficult for MSMEs to access loans from commercial banks than from other small financial institutions. Some entrepreneurs reported of avoiding taking loans due to the high interest rates or lack of collateral to support the loan application. Other business people did not like being in debt while others thought that loans are too much trouble not worth going through.

## **Closure of Businesses**

A total of 2.2 million MSMEs were closed in the last five years, 2016 inclusive. Most of the closed businesses were in wholesale and retail trade; repair of motor vehicle and motorcycles sector which accounted for 73.5 per cent of the total closures. On average, businesses were closed at the age of 3.8 years. Establishments that were started or acquired within the last two years were more vulnerable to closures and they accounted for 61.3 per cent of the total businesses closed.

## ***Reasons for Business Closures***

The main reason why entrepreneurs close their businesses was shortage of operating funds, as reported by 29.6 per cent of the businesses. This was occasioned by increased operating expenses, declining income and losses incurred from the businesses. Diversion of returns and operating capital from the business to other uses also led to business closures. Other businesses were closed due to personal issues which ranged from social and biological obligations especially prenatal and postnatal care of children especially for women.

## ***Disposal of Stock after Business Closure***

Disposal of stock is very important as it alleviates the losses and cushions the business owners against shocks that commonly characterize business closures. The ways through which stock was disposed after closure included; Liquidation of stocks/tools; Giving stocks to family members and friends after closing their business; Selling the stocks together with the business; and Storing them for future use; using it to start new businesses;

## **Recommendations**

The following are the key recommendations made pursuant to the 2016 National MSME survey results:

1. The survey found out that the MSME sector engaged about 14.9 million persons in 2015 and therefore, arguably provides the highest employment opportunities in Kenya. There is high potential for creating more employment with growth and expansion of MSME sector. The government should strengthen its partnership with the private sector, promote higher-value added services, leverage on enhanced skills and expertise (local and global), strengthen coordination among various government entities dealing with MSMEs, promote fast adoption of the emerging technology, set quantifiable targets and monitor progress of the MSME sector
2. MSMEs are complementary to large firms as ancillary units; they are often flexible thus effectively meet the market's needs. The MSME sector contribution to the national economy was found to be 33.8 per cent in 2015. This underscores the fundamental role played by the MSMEs towards economic growth and development. To increase this contribution, the government has a key role to play in the growth and development of the MSME sector, ranging from regulatory to

policy formulation. Specific areas encompassing this include policy development, business incubation, capacity building, access to finance and markets.

3. In Kenya, the common approach of extending credit to MSMEs is based on collateral provided. This approach has its limitation and is not feasible for most of the MSMEs as some start with no tangible assets. Collateral oriented lending should be deemphasized and new creative and innovative strategies adopted. These new strategies should pay attention to the uniqueness and peculiarity of various businesses. Credit guarantee scheme is one of the approaches being adopted in other countries. The new approach can be modelled along Credit Guarantee Trust<sup>1</sup> of India that was set up to support MSMEs without requisite collateral.

4. Some businesses are required to acquire multiple licenses at times from the same or different government agencies. There is need to reduce the number of licenses required per single business. This can be done by integrating the various licenses into one comprehensive license; offering the license in a central place and ensuring that the process is fast and efficient. The cost of acquiring the licenses should also be reasonable. The licenses should only serve regulatory function and not as a source of revenue for the government as is currently the practice.

5. There is need to develop a comprehensive scientific MSME inventory to be updated annually. This inventory should capture business information in terms of actual numbers, business changes, employment, gender and age of owners, sector and subsector, geographical locations within the counties and the country at large. The inventory should be collaboration between the national government and the 47 county governments. The inventory will facilitate access to up-to-date information about the MSME sector, helping in formulating appropriate policies and interventions.

<sup>1</sup>The Associated Chambers of Commerce & Industry of India

# Chapter 1

## Introduction

### 1.1 Background to the 2016 National MSME Survey

**M**icro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of Kenya in a number of ways including; by increasing competition, fostering innovation, generating employment and an important source of goods and services. Despite the critical role played by MSMEs in Kenya creditable comprehensive data on the sector has been limited. Comprehensive information on MSMEs is fundamental for understanding the sector. The last comprehensive study is the 1999 National Micro and Small Enterprise (MSE) Baseline Survey. MSMEs tend to be dynamic: the structure and operations of MSMEs change considerably within a short time. It is therefore important to understand their dynamics in terms of income, wages, growth patterns, employment, sector and their evolving nature among others.

MSMEs sector offers new graduates as well as those exiting formal employment with income generating opportunities. The MSME sector further complements large firms through sub-contract agreements and provision of inputs.

From a policy point of view, the measurement of the size of the sector within the total labour force especially the non-agricultural labour force, as well as its contribution to Gross Domestic Product [GDP] and the generation of income is of major importance. This is not only because of their usefulness in the design of appropriate policies and programmes but also because the dynamics of micro enterprises and the so called intermediary sector (or missing-middle), which is a matter of concern for policy makers.

Due to outdated data, it was almost impossible to rely on existing evidence since the 1999 MSE survey. As such, the decision was made to conduct a comprehensive and expanded baseline survey; one that also takes into consideration medium size enterprises (the missing middle) which was not captured in the 1999 survey.

The 2016 National MSME Survey focused on capturing MSMEs' business particulars; qualification needs and employment; training and skills development for the operators and employees; expenditure and income. The Survey also documented details on seasonal variations and innovations, organization and marketing, access to information and amenities, capital and technology, access to credit, business constraints, and the closures. In total, 50,043 MSMEs were sampled for the survey, targeting licensed businesses. A further 14,000 households were sampled targeted to capture household based enterprises which are largely unlicensed. This survey therefore offers detailed insight on MSMEs in Kenya. It is further the first comprehensive survey on MSMEs in Kenya.

The need for up-to-date, accurate and reliable data is paramount to; fast track development by both national and county governments and to inform the formulation and implementation of national policies, programmes, projects and strategies.

In view of the importance of the sector, the Kenya National Bureau of Statistics (KNBS) in collaboration with the Institute for Development Studies (IDS) of the University of Nairobi, African Centre for Economic Growth (ACEG) and K-Rep designed the 2016 MSME Survey; to better understand the magnitude, dynamics, and various factors that can promote or hinder their creation, growth and development in Kenya.

## **1.2 Objectives of the Survey**

The overall objective of the 2016 National MSME Survey was to provide comprehensive data, at national and county levels, on the characteristics, operations, dynamics and evolving nature of micro, small, and medium-scale enterprises in Kenya.

In order to achieve this overall objective, the study focused on the following specific objectives:

1. To update and expand on the information generated in the 1999 MSE Baseline Survey;
2. To improve the reliability of estimates on the MSME sector's contribution to the Kenyan economy in terms of income, wages, employment, among others;
3. To measure the size and extent of the sector by estimating the total number of MSMEs in the country;
4. To capture the evolving nature and variety of the MSME sector by enterprise activity, geography, rural/urban and gender distribution among others.
5. To assess and analyze enterprise dynamics in terms of business start-ups and closures, changes in business activity, value added, etc. and;
6. To examine the MSMEs constraints, potential and their access to support services.

## **1.3 Overview of MSME Sector in Kenya**

In Kenya, Micro, Small and Medium Enterprises (MSMEs) are businesses that engage between 1 to 99 employees. MSMEs in Kenya play a crucial role in job and wealth creation. Although majority of the micro and small enterprises are informal; they account for the majority of new jobs created. The recent annual publications of the 2016 Economic Survey (Kenya) indicate that the informal sector continues to provide the majority of additional jobs thus making the informal sector critical to the economy. The informal sector is estimated to have created 713,600 new jobs in 2015 accounting for 84.8 per cent of all new jobs (Economic survey 2016 report; KNBS). These numbers, though not limited to establishments (includes labourers engaged by households, farms and transport sectors) provide an indication of the magnitude of the sector.

The importance and potential of the MSME sector are supported by both theoretical and empirical arguments and evidence. MSMEs are important to almost all economies in the world. There are variations among these enterprises according to their size, location, ownership, status of formality and economic activity. MSMEs are source of employment; produce a significant share of total value added; and provide affordable goods and services. Furthermore, given an enabling framework, MSMEs are able to foster the innovation and experimentation that are essential for structural change through the emergence of a group of dynamic, efficient and ambitious entrepreneurs.

In Kenya, MSME operations cut across almost all sectors of the economy and sustain the majority of households. Various full and partial surveys suggest that Kenyan MSMEs are active in trade, services and manufacturing. Furthermore MSMEs play a crucial role in furthering growth and innovation. The MSME sector has given rise to increased output of goods and services; development of a pool of skilled and semi-skilled labour force, which is expected to be a base for future industrial growth. It has also strengthened both forward and backward linkages among socially, economically and geographically diverse sectors of the economy, increased participation of indigenous Kenyans in economic activities of the country, and created opportunities to cultivate and nurture entrepreneurial and managerial skills of the country. MSMEs perform a critical role in the Kenyan economy as they are highly flexible and responsive to market dynamics/changes.

In general, MSMEs face several challenges to growth, ranging from an unfavourable macroeconomic environments to administrative barriers and red tape, to perhaps the biggest obstacle, limited ability to access financial services. A number of constraints on MSE development have been identified by the Sessional Paper on the Development of Micro and Small Enterprises for Employment Creation and Poverty alleviation. These constraints include: access to information, financial services, land and infrastructure, skills and technology, licensing and other trade, labour laws, forward and backward linkages. The Sessional Paper proposed how these constraints could be addressed including a proposal for A Small Business Act which resulted to the Micro and Small Enterprise Act being passed by Parliament in 2012. This set up new rules and institutions to support micro and small enterprise development in Kenya.

#### **1.4 Policy Environment for MSME Development in Kenya**

Emphasis on Kenya owned enterprises has been established since independence including Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya.

The recognition of the MSE sector dates back to 1972, when the International Labour Organisation (ILO) conducted a study on employment and incomes in Kenya. The study pointed out that the sector had potential to employ and generate income to a large percentage of the population. Since, starting with Development plan of 1974-1978, a

number of Development Plans introduced policy prescriptions aimed at addressing the sector. This was followed by the 1986 Sessional Paper No. 1 on *Economic Management for Renewed Growth* and other sessional papers that followed after that. Notable however is that different policy papers used different terminologies including *Jua Kali* sector, informal sector, small enterprise and MSE often interchangeably. The following are some key sessional papers and policy documents developed in support of MSME sector:

#### ***1.4.1 Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth***

The paper recognised and highlighted the importance of MSEs as a means of strengthening Kenya's economic development. The sessional paper noted that 'special attention was to be paid to informal sector entrepreneurs in manufacturing, construction, transport, housing and those firms with potential to acquire experience and capital necessary to make transition to large enterprises'.

The policy provisions in the paper resulted in the commissioning of a Special Task Force charged with reviewing all policies, laws and regulations relating to MSE in 1987. In 1989, the Task Force produced a paper entitled '*Strategy for Small Scale and Jua Kali Enterprise Development in Kenya*'. Towards the year 2000, the legal and regulatory environment for MSMEs came out as the most problematic. The paper was later, translated to a policy framework and, published as Sessional Paper No 2 of 1992 on Small Enterprises and *Jua Kali* Development.

#### ***1.4.2 Sessional Paper No 2 of 1992 on Small Enterprises and Jua Kali Development***

This Sessional paper was the first to exclusively address small enterprises, defining them as enterprises that employ between 1 & 50 employees. In this policy paper, the government acknowledged the negative effects of its tight controls on the sector, and called for support to the sector by all stakeholders. The paper recommended that relevant ministries in consultation with the Attorney General's office address the legal and regulatory framework in order to create an enabling business environment for MSEs. They were to ensure comprehensive review and analysis of the laws and licenses that pertain to MSEs, especially those that negatively impact on their growth and development.

The sessional paper recognized the fact that MSEs had limited control and knowledge in issues pertaining to taxation, licensing and legal requirements. In regard to access to information to enterprises, the sessional paper advocated for formation of associations to facilitate the same.

Since the publication of this paper, there have been a number of studies, task forces and policy responses through programmes and projects geared to the sector. A Division dealing with MSEs was established within the Ministry of Planning and National Development, later transferred to the Ministry of Labour and Human Resource Development.

A Task Force commissioned by the Ministry of Labour and Human Resource Development on Micro and Small Scale Enterprises also recommended the establishment of Jua Kali Council and Jua Kali Authority. The Task Force further contended that the MSEs must

increase their competitiveness through enhanced coordination, technological development, managerial capacities and competencies. This is in addition to productivity mainstreaming if the sector has to effectively respond to the challenges of creating productivity and sustainable employment opportunities to Kenya's growing labour force.

There has also been an on-going review of the Sessional Paper No 2 of 1992 and development of a new Sessional Paper on MSE.

#### ***1.4.3 The Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction***

The paper spelt out measures to address business registration, licensing and tax regime. The paper contends that the contribution of the MSEs be recognised along a continuum of economic activity and within a cohesive view of the Kenyan economy.

The Sessional Paper was developed with six guiding principles, namely:

- i. Stimulation of economic opportunities and growth through the removal of regulations which unduly inhibit private sector development;
- ii. An integrated perspective on micro, small, medium and large enterprises development;
- iii. Linkages between various sizes of businesses;
- iv. Increased efficiency and productivity of the labour force;
- v. Enhanced competition; and,
- vi. Expanded markets for MSE products and services.

The sessional paper also made recommendations on institutional reforms aimed at enhancing coordination and inform implementation of sector activities, which was identified as amongst the challenges facing the sector. The policy paper further calls for a public procurement allocation of 25 per cent of all public procurement for MSEs.

#### ***1.4.4 Private Sector Development Strategy (PSDS) Kenya***

The strategy avers that MSMEs are a crucial link between the private sector and poverty reduction. MSMEs are labour intensive. The micro and small enterprises are mainly owned by poorer entrepreneurs including women. As such, they promote equitable distribution of income thereby serving as central instruments for income distribution and gender participation. The strategy envisaged transition and graduation of MSMEs into large firms if they are effectively facilitated. The PSDS Goal 5 aimed at facilitating competitiveness of MSMEs in Kenya. This was to be achieved through:

- a) Supporting development of new enterprises;
- b) Improving access to capital;
- c) Facilitating development of new enterprises;
- d) Promoting firm-to-firm linkages; and
- e) Promoting broader MSME representation in business associations.

#### **1.4.5 Vision 2030**

Furthermore, the crucial role of MSMEs is underlined in Kenya's Vision 2030 - the development blueprint which seeks to transform Kenya into a, "middle-income country providing a high quality life to all its citizens by the year 2030". Among the key sectors given priority as growth drivers for achievement of Vision 2030 is the MSE sector. Accordingly, the Vision 2030 underscores the need to deal with the informal economy through measures aimed at raising productivity, generation of jobs, owner's incomes and public revenues. Vision 2030 also recognises the need for capacity buildings and appropriate financial services for MSEs and proposals for the establishment of Small and Medium Enterprise (SME) industrial parks. In order for Kenya to realise the above foundations of MSME development, information is required and hence the justification for undertaking a baseline survey.

### **1.5 Relevant Laws**

#### **1.5.1 Micro-Finance Act (2006) and SACCO Societies Act (2008)**

The Micro-Finance Act CAP493D (2006) was established to regulate and licence microfinance institutions while the SACCO Societies Act CAP 490B (Act 14 of 2008) was to regulate, licence and supervision of SACCOs. Micro finance institutions and SACCOs are important players in the financial sector that offer financial services to players in the sector. The two acts were introduced to offer effective regulatory framework to both institutions hence enhancing governance.

#### **1.5.2 Micro and Small Enterprises Act No. 55 of 2012**

This is the first comprehensive law addressing MSEs in Kenya. It provided a definition of micro and small enterprises based on turnover, number of employees and assets (which are to be determined by the Cabinet Secretary). In terms of employment; micro enterprise employs less than 10 employees while small enterprises employ between ten and fifty employees. In terms of turnover, micro enterprises do not exceed five hundred thousand shillings while that for small enterprises is between five hundred thousand and five million. The law establishes the Micro and Small Enterprises Authority (MSEA) with the following mandate;

- a) Formulate and review policies and programs for micro and small enterprises;
- b) Monitor and evaluate the implementation of existing policies and programmes related to, or affecting, micro and small enterprises and advise the government on appropriate policies and course of action to be taken;

- c) Coordinate, harmonize and facilitate the integration of various public and private sector activities, programmes and development plans relating to micro and small enterprises;
- d) Promote and facilitate research, product development and patenting in the micro and small enterprises sector;
- e) Promote the mainstreaming of youth, gender and persons with disabilities in all micro and small enterprises activities and programs;
- f) Mobilize resources for the development of micro and small enterprise sector;
- g) Promote access to markets by micro and small enterprises;
- h) Promote innovation and development of products by micro and small enterprises;
- i) Formulate capacity building programmes for micro and small enterprises;
- j) Facilitate technology development, acquisition and transfer by micro and small enterprises;
- k) Develop mechanisms, tools and programs for collection of comprehensive data disaggregated by sex, region and age among others, in collaboration with key stakeholders, to enable proper planning for the, micro and small enterprises sector.

The Act further establishes an MSE Registrar to register and regulate all MSE Associations and an MSE Tribunal to address MSE disputes. A number of MSE development structures are also introduced in the Act including development of worksites and establishment of a Micro and Small Enterprise Development Fund aimed at offering affordable finance to MSEs whilst also financing the promotion and development of MSEs.

## **1.6 MSME support programmes and institutions**

The following programme and institutions have been instrumental in supporting the MSME sector in Kenya.

### ***1.6.1 Assistance to Micro and Small Enterprises Programme (ASMEP)***

The Assistance to Micro and Small Enterprises Programme [ASMEP] initiative was under Ministry of Industry, Trade and Cooperatives and was in support of the Micro and Small Enterprises in Kenya. The programme was funded by the European Commission [EC]. The programme took effect from the 26th October, 2007 and was to be implemented over a five-year period, with a two-year closure phase. The Ministry of Trade was the principal ASMEP host institution, and acted on behalf of the National Authorizing Officer in providing overall management and supervision for the programme. The Assistance to Micro and Small Enterprises Programme (ASMEP) was designed with the overall objective of Improving Private Sector Development and Growth in Kenya, and ultimately to alleviate Poverty.

### ***1.6.2 Micro Small and Medium Enterprise (MSME) Competitiveness Project***

The MSME Competitiveness Project was a product that arose from the realization that

micro, small and medium sized enterprises if developed, were critical vehicles for raising incomes and creating employment in the country. The Government through the Ministry of Trade and Industry, with the assistance of the World Bank, initiated the project to support the development of the private sector, generate wealth and alleviate poverty in Kenya through public and private sector partnerships.

Through the project, the government intended to strengthen the financial and nonfinancial markets in a bid to meet the demands of MSMEs. It was also the wish of the government that institutional support for employable skills and business management would be strengthened while the critical investment climate constraints on MSMEs were to be reduced drastically through the programme.

The project focused on key value chains and on both formal small and medium enterprises and informal micro-enterprises that have high potential for dynamic growth. It was supported by a sector investment loan from World Bank which appropriately provided direct financing for activities that had been identified by a wide range of stakeholders, to achieve higher levels of competitiveness.

The project aimed at increasing productivity and employment in participating MSMEs by supporting relevant programmes of the Government of Kenya and private sector. The key specific objective of the project was pursued through the project's three critical components. The three mutually reinforcing components included: access to finance, strengthening enterprise skills and market linkages and improving the business environment.

### ***1.6.3 Department of Micro and Small Enterprise Development (DMSED)***

The DMSED was formed in 1992 as Directorate of Applied Technology. The Department was the Government's agency that put MSE activities in one place to improve coordination and implementation of the activities. The Department of Micro and Small Enterprise Development was responsible for the formulation of policies and co-ordination of implementation strategies for the development of the MSE sector in the country. The Department of Micro and Small Enterprise Development (DMSED) resulted from the merger of the Division of Small Scale & Jua Kali Enterprises and the Directorate of Applied Technology in the year 2000. It was responsible for the formulation and implementation of policies and strategies for the development of the MSE sector.

Within the MSE Associations themselves low management and technical skills as well as persistent leadership wrangles have frustrated the department's efforts in promoting the sector. Consequently, and in spite of the many programmes/projects worth billions of shillings that have been availed to the sector over the years, there has been little impact in reducing neither the mortality rates nor improving the structure within the MSE sector.

### ***1.6 Organisation of the 2016 National MSME Survey Report***

This report is organized into nine chapters. The first Chapter outlines the Introduction and background to the study, describing the characteristics of the MSMEs and their contribution to the Kenyan economy. The chapter also describes the evolving policy and regulatory environment under which MSMEs operate. Chapter 2 gives concepts and definitions while Chapter 3 summarizes the methodology adopted in the study, i.e. sample design, and data processing and estimation procedures. Entrepreneur and MSME business profiles, focusing owners' profile, businesses profile, education/training and skills, Inter-Firm Linkages and Networks and operating environment, are summarized in Chapter 4.

Chapter 5 provides a detailed analysis of Employment, Size and scope of the MSME sector. Chapter 6 discusses the contribution of the MSME sector to GDP while Chapter 7 presents Changes in Micro, Small and Medium Enterprises Activities. Chapter 8 focuses on Micro, Small and Medium Enterprises constraints, potential and access to support services while Chapter 9 presents synthesis of the major findings, conclusions and recommendations. Copies of the two questionnaires i.e. Household and Establishment are reproduced in Appendix I and II, respectively.

# Chapter 2

## Concepts and Definitions

In order for the survey to serve its intended purpose and to avoid data misinterpretation, it is important that data collected, analyzed and presented have the same meaning. To achieve this end, this chapter attempts to explain concepts and unfamiliar terms used in the questionnaire and in the report so that they can be understood uniformly and be used consistently. Below are common concepts and definitions used in the survey.

### 2.1 Household

A household is defined as a person or a group of persons residing in the same compound, answerable to the same head and sharing a common source of food. The following are the three important aspects necessary for identifying a household.

- (a) Do these people reside in the same compound?
- (b) Are these people answerable to the same head? ; And
- (c) Do these people pool and share their resources for common provisions (Or In other words, do they have the same cooking arrangements?).

If the answer to each of the above criteria is “Yes”, then the household is adequately identified. Domestic servants and other workers living and eating in the household are included as household members.

### 2.2 Micro, Small and Medium Enterprises (MSMEs)

Micro, Small and Medium Enterprises have been variously defined in different contexts. This report adopts Kenya’s official definition, in which MSMEs are defined according to employment size: MSMEs are enterprises having between 1 and 99 employees (GOK, 2005). Micro-enterprises have less than 10 employees; small enterprises have 10-49 employees while medium sized enterprises have between 50 and 99 employees. Use of the term “employment” here does not necessarily imply partially or fully paid employment; but refers to the total number of people working in the business whether they are partially, fully paid or not. Thus, it includes any working owners/operator, fully paid employees, unpaid family members and apprentices. It should be noted that casual workers are part of the fully paid employees while partially paid family members are considered as part of the group of unpaid family members.

The MSMEs cover a range of establishments in almost all sectors of the economy; they operate formally or informally, seasonally or year round and are located in a number of areas including markets, streets and households or mobile.

The MSMEs referred to in this survey mainly involve non-primary product activities or businesses. Thus, they exclude many of the primary activities such as agricultural production, animal husbandry, fishing, hunting, gathering, forestry.

There are however certain primary activities (agri-businesses) which will were captured in the survey.

### **2.3 Agri-businesses**

Agri-businesses in this survey were defined as those economic activities:

- (a) That are carried out mainly for profit or for the market. This includes cases of value addition where for instance somebody buys thin cattle, fattens and then resells them.
- (b) That are carried out with a business focus but not just as a way of life, for subsistence or to just provide basic necessities for the household. For purposes of the 2016 MSME survey growing of perennial cash crops such as tea, coffee, sugarcane, sisal etc. was taken as a way of life and were therefore excluded.
- (c) where part of the returns are ploughed back as re-investment, and used for diversification and/or expansion of the business.

### **2.4 Business/Enterprise/Firm**

The terms business, enterprise, and firm are used interchangeably to refer to an economic unit producing goods or providing services. They are entities under whose umbrella an establishment operates. Examples include factories, banks, kiosks, taxis, hawkers, etc

### **2.5 Establishment**

This is an Economic unit that produces and/or sells goods or services, and operates from a single physical location. If a business/enterprise/firm has several such locations, each is termed as a separate establishment.

### **2.6 Work**

The concept of work covers all persons undertaking economic activities either for pay, profit or family gain. The concept of economic activity as described from the System of National Accounts (SNA 2008), includes all market production and certain types of nonmarket production, namely; the production of primary products for own consumption; the processing of primary commodities for own consumption by the producers of these items; the production of fixed assets for own use; and the production for own consumption of other commodities.

### **2.7 Employment**

The term employment refers to performance of work as defined in section 2.4 above. This term is used to measure the number of persons employed, including persons at work during a short reference period, and also persons temporarily absent from work but holding a job. There are different types of employment as described below in section 2.7. At the time of the data collection, the nature of MSMEs workers was found to belong to one of the two categories:

- i. Persons at work: those who, during the reference period performed some work (i.e. at least one hour) for wage or salary, in cash or in kind; and
- ii. Persons with a job but not at work: persons who having already worked in their present job, were temporary not at work during the reference period (because of illness, leave or training, or bad weather conditions) and had a formal attachment to their job.

## **2.8 Types of Workers**

The total number of workers in an MSME can be divided into two broad categories: Regular workers and casual workers. Regular workers in turn include working owners or operators, fully paid employees and contributing family workers. Regular workers refer to working owners/operators, fully paid employees, unpaid family members, and apprentices. For paid employees, regular workers are those (unlike casual workers) with stable contracts for whom the employing organization is responsible for payment of relevant taxes and social security contributions and/or where the contractual relationship is subject to prevailing labour regulations. For self-employed persons, regular workers are those who work in their own enterprises on a continuous basis. A casual worker is employed when and if needed, and where there is no particular expectation of continuing employment.

## **2.9 Skill Levels of Workers**

Workers can be classified into the following three skills categories:

- (i) Skilled
- (ii) Semi-Skilled
- (iii) Un-Skilled

### **2.9.1 Skilled Workers**

Those who have served an apprenticeship, practice the trade learned or similar activity, and by reason of their knowledge and vocational capacity are given tasks, which are particularly difficult, involving varied responsibilities or fields.

### **2.9.2 Semi-Skilled Workers**

Workers, who can only perform their job after a period of instructions of several months in general and are given tasks – mostly specific to the industry – which are regularly repeated, are less difficult and involve less responsibility.

### **2.9.3 Unskilled Workers**

These are workers who require no specific vocational training or only brief initiation and work on auxiliary tasks.

## **2.10 Wages and Salaries**

The concept includes gross wages and salaries relating to a given period including remuneration for the time worked, overtime, piece-work and bonuses. It also includes remuneration according to the law for hours not worked (particularly holidays, sick leave and maternity) and extra payments for dirty, dangerous or unpleasant work and

supplements for night work. Wages and salaries also include authors' royalties and payments to workers giving apprenticeship courses or themselves receiving training. On the other hand, wages and salaries do not include exceptional bonuses, travel expenses, the cost of special clothing or footwear, and social insurance payments. Wages and salaries are exclusive of payments to National Social Security Fund (NSSF) as well as to National Health Insurance Fund (NHIF).

### **2.11 Household Incomes**

Household Income consists of all receipts, which accrue to the household from the individual or group efforts of its members. It is the sum of all sources of income whether it is obtained from paid or self-employment. Thus, it includes wage payments for individual household members or incomes from business activities, rents, interest and dividends received, patents, current transfers (such as social security benefits, pensions and life insurance annuity benefits, alimonies), etc.; and any other benefits flowing to the household.

### **2.12 Revenue or Receipts**

Revenue/receipts can be defined as the amount of money that an establishment actually receives during a specific period, including discounts and deductions for returned merchandise. This can also refer to revenue or receipts from sales, fees, commission, interest and other services rendered including excise duty and sales tax but not rebate or discount.

### **2.13 Total or Gross Income**

It is income before taxes and other compulsory deductions such as social security contributions. Gross income from paid employment is value of wages or salaries plus all associated allowances and benefits before regular deductions are made. Gross income from business enterprise consists of total revenue before taxation and depreciation allowance.

### **2.14 Expenses (Operating Costs)**

These include operating costs such as payments to hired labour in cash and/or in kind, and other current expenses incurred by the enterprise. These include purchases of raw materials, fuel, tools and equipment, rent and interest payments, transport costs, marketing expenses, water, electricity, telephone licenses and taxes.

### **2.15 Security of Tenure**

The tenure being investigated in this survey refers to tenure of land on which business premises are built. Respondents who own both the structures for the business and the land of plot on which the structures are built, may own the land on either freehold or leasehold tenure. Freehold land is a parcel of land held in perpetuity through absolute title, where there is no time limit on ownership and no restrictions on the transfer. On the other hand,

leasehold land is a parcel of land held for a fixed term (normally ranging from 20 years to 99 years) given by either a local authority or the Commissioner of lands. Occupancy is the state of staying or carrying out operation in the property whether or not the business operator owns the property. The occupancy may be on the basis of ownership, leasing, renting temporary occupation or unsecured occupation such as squatting.

### **2.16 Types of MSME Economic Activity Sectors**

In order to code MSME activities correctly, it was very important that interviewers correctly identify whether an MSME was involved in manufacturing, commerce or service. Manufacturing entails processing or changing the basic ingredient or characteristics of a good or product; commerce or trade involves just buying at one given price and selling it to another for a profit; and service is the provision of manual or intellectual service. If a business engaged in two or more of these activities at the same time, the International Standards of Industrial Classification (ISIC) of all economic activities code used was the one for the most dominant activity (in terms of income).

### **2.17 Informal Sector**

For statistical purposes, the informal sector is regarded as a group of production units which form a part within the “system of national accounts” (SNA) of the household sector as unincorporated enterprises owned by households. Household-based enterprises are distinguished from corporations’ and quasi-corporations on the basis of their legal status and the type of office accounts they hold. Informally self-owned enterprises employ family workers and workers on an occasional basis. For operational purposes and depending on national circumstances this segment comprises either all self-owned enterprises or only those which are not registered under specific forms of national legislation (factories or companies act, partnership acts, tax or social security laws professional groups regulatory or similar acts, laws or regulations established by national legislative bodies).

### **2.18 Formal Enterprise**

This refers to enterprises which are registered at the Registrar of Companies as provided in Business Names Act, Partnerships Act and Company’s Act.

### **2.19 Licensing**

Licensing in Kenya is established at the county level and national level. The county license (also referred to Single Business Permit) is a requisite for all enterprises, the charges are provided in the respective County Finance Acts. The licenses as provided by State Agencies and National Government are sectoral, based on the economic activity of the enterprise and the respective regulatory framework.

### **2.20 Sole Proprietorship**

Sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts.

### **2.21 Partnership**

Partnership is a legal form of business operation between two or more individuals who share management and profits. The most common partnerships are general and limited partnerships.

### **2.22 Private Limited Company**

Private limited company, or LTD, is a type of privately held small business entity. This type of business entity limits owner liability to their shares, limits the number of shareholders to 50, and restricts shareholders from publicly trading shares.

### **2.23 Public Limited Company**

A public limited company (PLC) is the legal designation of a limited liability company whose shares may be freely sold and traded to the public.

### **2.24 Cooperative**

Cooperative is a jointly owned enterprise engaging in the production or distribution of goods or the supplying of services, operated by its members for their mutual benefit, typically organized by consumers or farmers.

### **2.25 Chamas**

*Chamas* are Investment and savings of a group formed by individual members with common objective

### **2.26 Non-MSME Establishments**

Non-MSME establishments for the purpose of this survey, the term refers to entities whose number of persons engaged is above 99.

### **2.27 Goodwill**

Goodwill is an intangible asset that arises as a result of the acquisition of one business by another for a premium value. The value of a business's brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent goodwill.

### **2.28 Moneylender**

A moneylender is a person or group who typically offers small personal loans at high rates of interest and is distinct from banks and financial institutions that typically provide such loans. The high interest rates charged by them is justified in many cases by the risk involved.

### **2.29 Net Worth**

Net worth is the total assets owned minus total outside liabilities of an establishment.

### 2.30 Concepts of National Accounts

National Accounts can be defined as implementation of complete and consistent accounting techniques for measuring the economic activity of a nation. These include detailed underlying measures that rely on double-entry accounting.

The main concepts to be used are value added and gross available income or gross operating surplus. All of them refer to the individual entrepreneurs that are a subsector of the household institutional sector in the SNA (of 2008).

Gross value added is the balance between the total of sales (minus the variations of stocks) and the intermediate consumption (including raw materials and other operating costs at the exception of financial costs). It comprises of wages and salaries payments to social security funds and production-related taxes. The balance is the gross available income or gross operating surplus.

# Chapter 3

## MSME Survey Design and Methodology

### 3.1 Introduction

This chapter presents the survey methodology adopted in the implementation of the 2016 MSME Survey. The chapter is sub-divided into several sections namely; survey design, sampling frame, pilot survey, training of the survey field personnel, data collection, data processing, data weighting and response rates. The chapter also reports on challenges faced during the implementation of the survey. Limitations of the survey findings is presented in the last part of the chapter.

### 3.2 Survey Design

The previous MSE studies used the household-based approach to identify businesses/establishments. However, the 2016 MSME survey, in addition to the household-based approach, interviewed businesses/establishments identified from business registers maintained by county governments. The 2016 MSME survey was cross-sectional and was designed to provide estimates at national and county levels. The survey used a representative probability sample design aimed at producing estimates at the following domains;

- i) National
- ii) Counties and
- iii) Urban and rural residence (For Unlicensed businesses only. Refer to section 3.11 (i) for details)

The survey adopted a stratified random sampling method for the establishment-based sample in which a systematic random sample of establishments was drawn using equal probability selection method. For the household-based sample, a two-stage stratified cluster sampling design was used where the first stage involved selection of 600 clusters (354 in rural and 246 in urban) with equal probability. In the second stage, a uniform random sample of 24 households in each cluster was selected using systematic random sampling method.

### 3.3 Sampling Frames

As indicated earlier, the survey design focused on both licensed and unlicensed establishments. Two separate sampling frames were therefore used in this survey.

#### 3.3.1 Licensed Establishments

It is a legal requirement that all entities undertaking economic activities in Kenya obtain

operating licences. This is done both at the national, county levels or both. Specifically, one has to obtain an operating license at the county level on annual basis, in spite of any other license issued by other agencies from national government. The county governments maintain databases of all these establishments. KNBS sought and obtained the most current databases of licensed businesses from all the 47 county governments. To create the sampling frame, these registers were first merged and all large firms removed. Secondly, the International Standard Industrial Classification of all economic activities (ISIC), Rev 4 codes were generated for each establishment. This was the variable that was used for the stratification of the generated frame.

### **3.3.2 Unlicensed Establishments**

For the unlicensed establishments, the survey utilized the fifth National Sample Survey and Evaluation Program (NASSEP V) household-based master sampling frame maintained by the Kenya National and Bureau of Statistics (KNBS). The frame was created in 2012 and contains 5,360 clusters split into four equal sub-samples. It is based on the list of Enumeration Areas (EAs) drawn from the 2009 Kenya Population and Housing Census (KPHC). During the design of the frame, each of the 47 counties was stratified into urban and rural strata except Nairobi and Mombasa counties which have only urban areas.

### **3.4 Sample Size and Allocation**

The estimated sample size for the licensed establishments had been estimated to be 50,043 establishments. This sample was allocated to all the 47 counties and to the ISIC section strata within the counties using the square root allocation method as shown in Table 3.1.

The sample size for the household-based module was estimated to be 14,400 households. This sample was first allocated to the counties and then to the rural and urban strata in each county using the square root allocation method. Table 3.1 shows the distribution of the sampled clusters and households by county.

Sampling of both establishments and households was undertaken prior to embarking on data collection. Details of the selected establishments and households were loaded onto the interviewers' tablets. The survey did not allow for replacements of non-responding entities.

**Table 3.1: Distribution Sampled Licensed Establishments, Clusters and Households by County and Residence**

County	Clusters			Households			Sampled Establishments
	Rural	Urban	Total	Rural	Urban	Total	
Baringo	8	4	12	192	96	288	714
Bomet	9	4	13	216	96	312	1,008
Bungoma	9	4	13	216	96	312	1,534
Busia	9	4	13	216	96	312	630
Elgeyo Marakwet	8	4	12	192	96	288	669
Embu	8	4	12	192	96	288	1,287
Garissa	8	5	13	192	120	312	860
Homa Bay	8	5	13	192	120	312	779
Isiolo	6	5	11	144	120	264	688
Kajiado	6	6	12	144	144	288	1,175
Kakamega	9	4	13	216	96	312	872
Kericho	7	6	13	168	144	312	965
Kiambu	6	8	14	144	192	336	1,382
Kilifi	7	6	13	168	144	312	1,191
Kirinyaga	8	5	13	192	120	312	1,181
Kisii	9	5	14	216	120	336	1,084
Kisumu	7	7	14	168	168	336	1,331
Kitui	9	4	13	216	96	312	1,463
Kwale	8	5	13	192	120	312	1,382
Laikipia	8	5	13	192	120	312	952
Lamu	6	5	11	144	120	264	625
Machakos	6	7	13	144	168	312	1,923
Makueni	9	4	13	216	96	312	1,336
Mandera	8	4	12	192	96	288	566
Marsabit	7	4	11	168	96	264	415
Meru	10	4	14	240	96	336	1,038
Migori	7	6	13	168	144	312	716
Mombasa	-	13	13	-	312	312	1,838
Muranga	9	4	13	216	96	312	1,142
Nairobi	-	18	18	-	432	432	2,367
Nakuru	7	7	14	168	168	336	1,560
Nandi	9	4	13	216	96	312	1,050
Narok	9	3	12	216	72	288	774
Nyamira	9	4	13	216	96	312	875
Nyandarua	8	4	12	192	96	288	1,245
Nyeri	8	5	13	192	120	312	1,796
Samburu	7	4	11	168	96	264	834
Siaya	8	5	13	192	120	312	1,041
Taita Taveta	8	4	12	192	96	288	886
Tana River	8	4	12	192	96	288	726
Tharaka	8	4	12	192	96	288	829
Trans-Nzoia	8	5	13	192	120	312	1,300
Turkana	8	4	12	192	96	288	699
Uasin Gishu	7	7	14	168	168	336	1,576
Vihiga	7	5	12	168	120	288	706
Wajir	7	5	12	168	120	288	401
West Pokot	9	3	12	216	72	288	632
<b>Grand Total</b>	<b>354</b>	<b>246</b>	<b>600</b>	<b>8,496</b>	<b>5,904</b>	<b>14,400</b>	<b>50,043</b>

### 3.5 Development of Survey Instruments

The questionnaires and manuals were developed through a consultative process. The stakeholders in the MSME sector were engaged by KNBS through various forums to agree on all the variables on which data was to be collected. Two questionnaires (household and establishment) were developed with establishment questionnaire being administered to both the licensed and unlicensed businesses. The two questionnaires are provided as appendix 1 and 2.

### 3.6 Pilot Survey

A pilot survey was undertaken aimed at testing the data collection instruments, methodology, field logistics and use of Computer Aided Personal Interview (CAPI) for data collection among other things. The survey covered four Counties which are Kajiado, Nairobi, Nakuru and Nyeri. These counties were purposively selected to ensure most of the scenarios expected during the main survey were tested. Kajiado represented ASAL and nomadic counties while Nyeri represented agricultural counties. Nakuru was selected since it is highly urban but with rural clusters while Nairobi was selected for being all urban and having a high concentration of establishments.

Household-based interviews were conducted in two clusters per county in Nyeri, Nakuru and Kajiado. In Nairobi, one of the clusters was selected to represent high income population while the other cluster targeted low income population. In each cluster, 20 households were sampled, out of which, half were used to test CAPI while the remainder were used to test the paper questionnaire.

Training of personnel for pilot survey was carried out in late November and early December 2015. This was followed by a 10 days' field data collection in December 2015. Each county had two teams each comprising a coordinator, supervisor, field editor, data entry personnel, and two interviewers; one to collect data using CAPI equipment and the other using the paper questionnaire. The role of the editors in each county was to edit the paper questionnaires.

Based on the pilot survey findings, the CAPI method was found to be faster and efficient. A questionnaire on CAPI was taking about one hour to complete while a paper questionnaire took between one and half to two hours. Notable also is that data collection using CAPI eliminates the usual subsequent data entry phase. The analysis of the collected data revealed no significant difference in the results collected using the two methods. Therefore, CAPI technology was adopted during the main survey. The pilot also informed on the need to include a business trackers to help in locating the establishments in good time. This was aimed at improving the response rates.

### **3.7 Training for the Main Data Collection**

The training of survey personnel took 19 days from mid-February to early March 2016. A total of 335 data collection personnel who included 103 supervisors and 232 interviewers were trained. The training was on interviewing techniques, objectives of the survey and contents of the questionnaire. The training further focused on the use of tablets as a data collection tool. The roles of interviewers and the supervisors were also expounded during the training.

### **3.8 Data Collection**

Field data collection took 80 days from mid-March to mid-June 2016. A minimum of two teams each comprising of a supervisor and two interviewers were deployed in each county. The teams were deployed based on the understanding of the local language where the survey was to take place. For ease of movement each team was provided with a vehicle. A group of coordinators together with the County Statistics Officers were to oversee the implementation of the survey.

### **3.9 Data Capture and Processing**

The 2016 MSME survey data was collected using tablets/CAPI. The data capture program was developed using SurveyCTO. This software was considered mainly due to its simplified user interface. It also has a random audio audit which records surveys as they are being conducted to ensure collection of high quality data. In addition, SurveyCTO allows export of data directly to spreadsheets and other statistical packages. The designed program also incorporated inbuilt data skips and check procedures to minimize data collection errors. The tablets were internet-enabled for real time data transmission to a central server.

Once all the data was transmitted to the server, it was downloaded and merged into two distinct data files; the establishment-based and household-based data files. In each of the files, data cleaning such as checking for duplicates, missing records and outliers was carried out based on the developed editing specifications.

The final phase of processing was data outputs generation guided by a tabulation plan. This document guided the data processing team to produce outputs which sought to address survey objectives. Both STATA and SPSS softwares were used for data analysis.

### **3.10 Data Weighting**

Weighting of the data was necessary since the selected samples were not self-weighting due to varying probabilities of selection across different strata. Separate weights were, therefore, computed for the various sets of data. The design weights for the licensed establishments incorporated the probabilities of selection of the establishments from the establishments sampling frame. The weights were further adjusted to cater for nonresponses.

Household weights were used for the unlicensed establishments as the latter were operating from the household. These weights incorporated the probabilities of selection of the clusters from the census EAs database into the NASSEP V sampling frame, the probabilities of selection of the MSME clusters from the frame and the probabilities of selection of the households from each of the sampled clusters. These weights were then adjusted to cater for household and individual non-response.

### **3.11 Challenges During Implementation of the Survey**

To compile the sampling frame for the licensed establishments, KNBS relied on lists from business registers generated and maintained by the County Governments which had some shortcomings. During field work, the data collection teams also faced various challenges. The following are the challenges that were experienced during the implementation of the survey.

- i) The registers provided by the counties were in different formats which made merging difficult and time consuming.
- ii) Some of the registers did not have some crucial information such as the business location and telephone numbers. It was, therefore, difficult for the data collection teams to locate some of these businesses.
- iii) Some businesses were registered by individual names. Tracing these individuals proved to be a herculean task.
- iv) Poor infrastructure and vast distances between clusters/towns in the sparsely populated counties resulted into coverage of few interviews per day.
- v) The survey was conducted during the rainy season, which slowed the pace of data collection
- vi) Some businesses had changed location and therefore difficult to trace
- vii) The vehicles sourced from other Government agencies were unreliable as at times they would be withdrawn without notice for other assignments. This affected the smooth implementation of the fieldwork.

### **3.12 Limitations of the MSME Survey**

- i. The sample of the licensed establishments was drawn from the establishments frame compiled from different lists obtained from the 47 county governments. However, some key variables such as residence (rural and urban) were missing in the county registers and therefore stratification was not possible.
- ii. The county registers were submitted in different formats (scanned, printed, PDF soft copies, etc.) and it took time to convert them into a single excel format. In addition some of the counties submitted their registers close to the survey start date.
- iii. The number of businesses per county may differ from what is contained in the county business registers. This is because the unit of observation in the survey was the establishment as opposed to 'business'. For example, a person who might have been issued with a single business permit but is engaged in three different economic

- activities, was recorded as having three establishments as opposed to one. Further, at the household level, it is likely that some of the businesses that are co-owned may independently have been reported more than once. This was not verified.
- iv. It should be noted that the number of persons reported to be engaged by the MSMEs may not be comparable with other published statistics on employment. This is because, employment in other cases is measured based on the main job held. In the 2016 MSME survey, the unit of observation was establishment. Each establishment was independently reporting the workforce that it had engaged and therefore a person may have been counted more than once based on the number of establishments one was engaged in. For example, a person who operated/worked say in 3 different establishments might have been counted three times.
  - v. In a given accounting period, the revenue is not necessarily equal to the value of output/ production for an entity. The reason being, the revenue might include part of sales from a previous period production. Part of what was produced within the accounting period might have been placed in stocks for sale in a subsequent accounting period. Revenue could also sometimes include, sales from disposal of assets. Given the above, revenue was only used as a proxy for production.
  - vi. The output for the wholesale and retail trade ideally should be equal to the trade margin (revenue from the sale of the goods purchased for resale less cost of procurement of the goods). Since this survey did not collect the data in that format, a 15 per cent trade margin was applied to the revenue to estimate the output in the industry. The 15 per cent is based on a survey of trade margins conducted in 2010.
  - vii. The gross output for distribution of electricity is ideally measured as a trade margin but the data collected could not be used to compute an estimate for this activity. For the licensed establishments, output of finance and Insurance equals explicit charges on respective financial services plus Financial Intermediation Indirectly Measured (FISM). Output of finance and Insurance equals explicit charges on respective financial services plus Financial Intermediation Indirectly Measured (FISM). Also in this industry, the collected data could not be used in the analysis. Therefore, the contribution by entities in Electricity and Finance and Insurance industries are excluded in the computation of contribution of MSMEs to the GDP.

### 3.13 Response Rates

Out of the targeted households, 12,073 were found of which 11,071 were successfully interviewed. This translated to a response rate of 91.7 per cent. On the other hand, the response rate for the establishments-based component based on the traced establishments was 92.6 per cent.

# Chapter 4

## Entrepreneur and MSME Business Profiles

### 4.0 Introduction

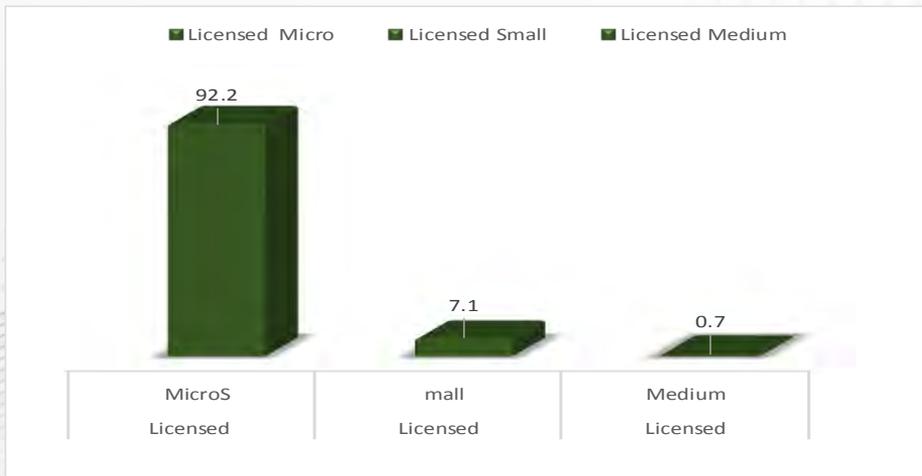
The MSME 2016 survey targeted licensed establishments that were sampled from the county governments' business licensing registers as well as unlicensed businesses identified and interviewed from the households. One key objective of the survey was to find out the size and magnitude of these establishments in the country. The sizes of MSMEs are categorized into micro (1-9 employees), small (10-49 employees) and medium (50-99 employees) sized establishments. MSMEs are heterogeneous in their economic activity, location, ownership structure, capital, registration and licensing status. The characteristics of the business owner/operator also vary based on gender, education and training.

### 4.1 Size of the MSME Sector

#### 4.1.1 MSME Sector Distribution by Size of Employment

From the findings of the study, 92.2 per cent of the licensed establishments in the MSME sector are Micro establishments employing between 1 to 9 employees. This asserts that most MSMEs are operated by own account workers with few or no employees engaged. These are often the in the retail trade. All unlicensed businesses in the MSME sector are micro establishments. Medium establishments employing between 50 to 99 employees only account for 0.7 per cent of the total number of licensed MSMEs in the country.

Figure 4.1: Distribution of Licensed Establishments by Size



### 4.1.2 MSME Sector by Turnover

Turnover was one of the criteria used to assess the size and performance of businesses. As presented in Table 4.1, 93.8 per cent of the unlicensed businesses reported a monthly turnover of less than KSh 50,000 and none had a turnover above KSh 1,000,000.

Distribution of licensed businesses by turnover indicated that almost a half of these establishments had monthly turnover of less than KSh 50,000. Licensed establishment with a monthly turnover between KSh 50,000 to KSh 200,000 constituted 31.3 per cent. More than half of the licensed medium establishments recorded a turnover of more than KSh 1,000,000.

**Table 4.1: Distribution of the MSMEs by Monthly Turnover**

Ksh	Licensed				Unlicensed				Percent
	Less than 50,000	50,001 to 200,000	200,001 to 1,000,000	Greater than 1,000,000	Less than 50,000	50,001 to 200,000	200,001 to 1,000,000	Greater than 1,000,000	
All MSMEs	49.2	31.31	4.35	.2	93.8	5.50	.8	0.0	
Micro	52.0	32.31	2.92	.9	93.8	5.50	.8	0.0	
Small	12.3	19.03	5.43	3.2-	--	--	--	-	
Medium	25.78	.9	11.7	53.6	--	--	--	--	

## 4.2 Magnitude of the MSME Sector

### 4.2.1 Number of MSMEs by Economic Activity

The survey established that there were about 1.6 million MSMEs licensed by the county governments while the unlicensed businesses identified from the households were 5.9 million. As presented in Table 4.2, 78.9 per cent of the businesses were not in the registers maintained by the counties. The industries of electricity, gas, steam and air conditioning supply; information and communication; financial and insurance activities; and administrative and support service activities were all licensed. The other industries had most of the businesses fall in the unlicensed category except professional scientific and technical activities, construction, education and human health and social work activities.

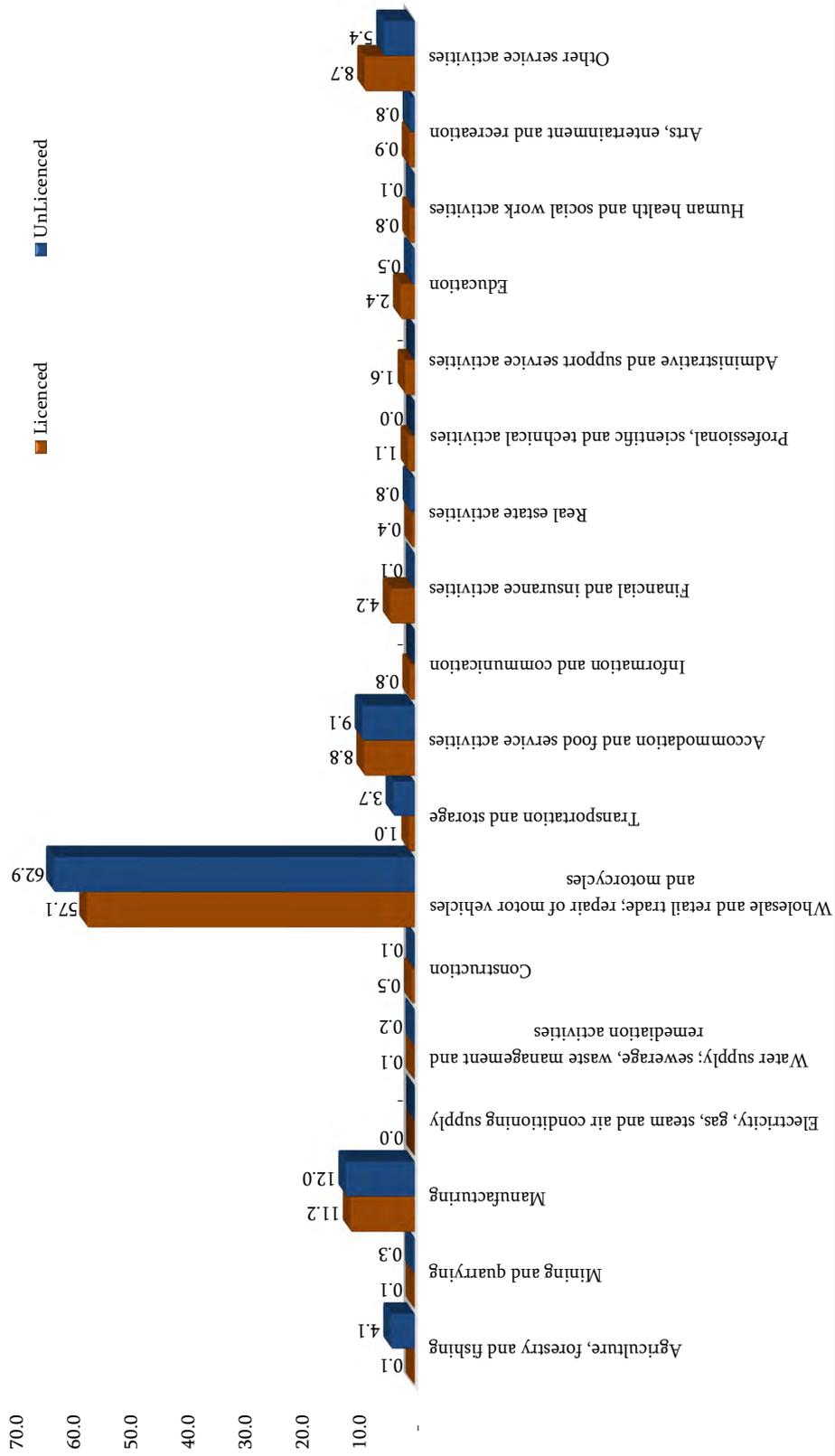
**Table 4.2: Distribution of Establishments by Economic Activity and Licensing Status**

<b>Economic Activity</b>	<b>Licensed</b>		<b>Unlicensed</b>		<b>Total ('000)</b>
	<b>Total ('000)</b>	<b>%</b>	<b>Total ('000)</b>	<b>%</b>	
Agriculture, forestry and fishing.	2.1	0.9	241.9	99.1	244.0
Mining and quarrying.	2.1	10.5	18.2	89.5	20.4
Manufacturing.	174.5	20.0	699.7	80.0	874.2
Electricity, gas, steam and air conditioning supply.	0.5	100.0	-	-	0.5
Water supply; sewerage, waste management and remediation activities.	1.7	12.9	11.6	87.1	13.3
Construction.	7.8	62.6	4.7	37.4	12.5
Wholesale and retail trade; repair of motor vehicles and motorcycles.	891.2	19.5	3,679.9	80.5	4,571.1
Transportation and storage.	15.2	6.5	218.8	93.5	234.0
Accommodation and food service activities.	137.7	20.5	532.8	79.5	670.5
Information and communication.	12.4	100.0	-	-	12.4
Financial and insurance activities.	65.5	100.0	-	-	65.5
Real estate activities.	7.0	13.7	44.1	86.3	51.1
Professional, scientific and technical activities.	17.4	90.0	1.9	10.0	19.3
Administrative and support service activities.	25.3	100.0	-	-	25.3
Education.	37.8	55.7	30.1	44.3	68.0
Human health and social work activities.	13.0	66.7	6.5	33.3	19.6
Other service activities.	135.1	30.0	315.1	70.0	450.2
Arts, entertainment and recreation.	13.9	23.6	45.0	76.4	58.9
<b>Total</b>	<b>1,560.5</b>	<b>21.1</b>	<b>5,850.3</b>	<b>78.9</b>	<b>7,410.8</b>

Figure 4.2 depicts the distribution of establishments by economic activity. Majority of MSMEs are in the service sector, with most operating in wholesale and retail trade, repair of motor vehicles and motor cycles followed by accommodation and food service activities and other service activities. Wholesale and retail trade; repair of motor vehicles and motorcycles accounted for more than half of licensed (57.1 per cent) and unlicensed (62.9 per cent) businesses. Most MSME establishments are operated/owned by individuals who run retail businesses of buying and selling of goods independently. Further, these establishments have low barriers to entry.

The manufacturing sector contributed the second highest concentration of MSMEs followed by accommodation and food service activities sector. Many businesses in the accommodation and food service were small restaurants commonly referred to as food kiosks serving hotels, beverage serving activities e.g. bars, and restaurants, which puts this sector to be third in magnitude at 8.8 and 9.1 per cent for the licensed and unlicensed, respectively. In the manufacturing sector, the establishments comprised of mainly manufacture of food products and milling operations and manufacture of wearing apparel.

Figure 4.2: Distribution of Establishments by Economic Activity



**Table 4.3: Distribution of the Micro, Small and Medium Establishments by ISIC**

<b>Economic Activity</b>	<b>Licensed</b>				<b>Unlicensed</b>
	<b>Total Count ('000)</b>	<b>Micro (%)</b>	<b>Small (%)</b>	<b>Medium (%)</b>	<b>Micro ('000)</b>
Agriculture, forestry and fishing	2.1	85.0	14.6	.3	241.9
Mining and quarrying	2.1	62.4	37.6	0.0	18.2
Manufacturing	174.5	95.0	3.8	1.2	699.7
Electricity, gas, steam and air conditioning supply	0.5	61.6	37.6	.8	-
Water supply; sewerage, waste management and remediation activities	1.7	49.3	50.7	0.0	11.6
Construction	7.8	69.5	26.8	3.7	4.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	891.2	96.0	3.6	.4	3,679.9
Transportation and storage	15.2	69.4	24.0	6.5	218.8
Accommodation and food service activities	137.7	84.9	14.2	1.0	532.8
Information and communication	12.4	77.9	21.1	1.0	-
Financial and insurance activities	65.5	92.0	7.1	.9	-
Real estate activities	7.0	87.0	9.6	3.4	44.1
Professional, scientific and technical activities	17.4	78.2	19.0	2.8	1.9
Administrative and support service activities	25.3	89.0	10.3	.7	-
Education	37.8	31.7	65.3	3.0	30.1
Human health and social work activities	13.0	80.2	15.3	4.5	6.5
Arts, entertainment and recreation	13.9	93.3	6.7	0.0	45.0
Other service activities	135.1	97.4	2.4	.1	315.1

A further breakdown of selected top economic activities at 2 digit ISIC (division) further reveals the key business activities undertaken by MSMEs. Manufacture of wearing apparel and food production form the majority of manufacturing activities undertaken in the country. These are however economic activities with low technological intensity but are labour intensive. Retail trade, except of motor vehicles and motorcycles account for 90.6 per cent of establishment in the wholesale and retail trade; repair of motor vehicles and motor cycles sector. Food and beverage service activities accounted for 88.6 per cent of the establishments in the accommodation and food service activities sector. These service sector activities represent those with relatively low barriers to entry.

**Table 4.4: Economic Activities with Highest Concentration of MSMEs at 2 Digit ISIC**

Sector	Division	Total		Micro	Small	Medium
		Count	%	%	%	%
Manufacturing	Manufacture of food products	38,120	21.8	96.6	2.1	1.3
	Manufacture of beverages	1,112	0.6	63.3	16.9	19.7
	Manufacture of textiles	2,734	1.6	90.9	9.1	0.0
	Manufacture of wearing apparel	72,602	41.6	97.1	2.4	.5
	Manufacture of leather and related products	1,786	1.0	89.4	0.0	10.6
	Manufacture of wood and of products of wood and cork, except furniture;	7,342	4.2	89.7	8.2	2.1
	Manufacture of paper and paper products	188	0.1	0.0	100.0	0.0
	Printing and reproduction of recorded media	4,193	2.4	95.5	4.5	0.0
	Manufacture of chemicals and chemical products	911	0.5	46.3	21.5	32.2
	Manufacture of rubber and plastics products	95	0.1	100.0	0.0	0.0
	Manufacture of other non-metallic mineral products	267	0.2	60.9	0.0	39.1
	Manufacture of basic metals	152	0.1	27.3	72.7	0.0
	Manufacture of fabricated metal products, except machinery and equipment	21,276	12.2	93.1	6.6	.4
	Manufacture of electrical equipment	95	0.1	0.0	0.0	100.0
	Manufacture of machinery and equipment n.e.c.	448	0.3	100.0	0.0	0.0
	Manufacture of motor vehicles, trailers and semi-trailers	96	0.1	0.0	100.0	0.0
	Manufacture of furniture	19,520	11.2	97.4	2.4	.1
	Other manufacturing	1,315	0.8	64.0	36.0	0.0
	Repair and installation of machinery and equipment	2,275	1.3	100.0	0.0	0.0
		<b>Subtotal</b>	<b>174,526</b>			
Wholesale and retail trade; repair of motor vehicles and motorcycles	Wholesale and retail trade and repair of motor vehicles and motorcycles	48,505	5.4	90.9	8.4	.8
	Wholesale trade, except of motor vehicles and motorcycles	35,661	4.0	79.8	19.3	.9
	Retail trade, except of motor vehicles and motorcycles	807,026	90.6	97.1	2.6	.3
	<b>Subtotal</b>	<b>891,192</b>				
Accommodation and food service activities	Accommodation	15,633	11.4	69.5	28.2	2.3
	Food and beverage service activities	122,092	88.6	86.8	12.4	.8
	<b>Subtotal</b>	<b>137,725</b>				
Financial and insurance activities	Financial service activities, except insurance and pension funding	60,922	93.0	92.6	6.5	.9
	Insurance, reinsurance and pension funding, except compulsory social security	871	1.3	98.6	1.4	0.0
	Activities auxiliary to financial service and insurance activities	3,725	5.7	80.0	19.1	.9
	<b>Subtotal</b>	<b>65,518</b>				
Administrative and support service activities	Security and investigation activities	1,394	6.6	34.1	61.7	4.2
	Services to buildings and landscape activities	483	2.3	0.0	100.0	0.0
	Office administrative, office support and other business support activities	19,190	91.1	95.4	4.4	.2
	<b>Subtotal</b>	<b>21,066</b>				
Other service activities	Creative, arts and entertainment activities	5,411	3.6	95.5	4.5	0.0
	Libraries, archives, museums and other cultural activities	286	0.2	15.7	84.3	0.0
	Gambling and betting activities	986	0.7	88.8	11.2	0.0
	Sports activities and amusement and recreation activities	7,231	4.9	95.3	4.7	0.0
	Activities of membership organizations	28	0.0	0.0	100.0	0.0
	Repair of computers and personal and household goods	14,941	10.0	98.1	1.9	0.0
	Other personal service activities	120,146	80.6	97.4	2.4	.2
		<b>Subtotal</b>	<b>149,029</b>			

#### **4.2.2 Number of MSMEs by County**

Table 4.2 presents, the distribution of establishments by size and by county. In all counties with exception of Nairobi, micro sized establishments constituted more than 90.0 per cent of all licensed establishments. Nairobi County had the highest proportion of small sized establishments at 14.8 per cent. The counties of Bomet, Elgeyo Marakwet, Vihiga, Baringo, West Pokot, Mandera, Kitui and Tharaka-Nithi did not report any medium sized establishments.

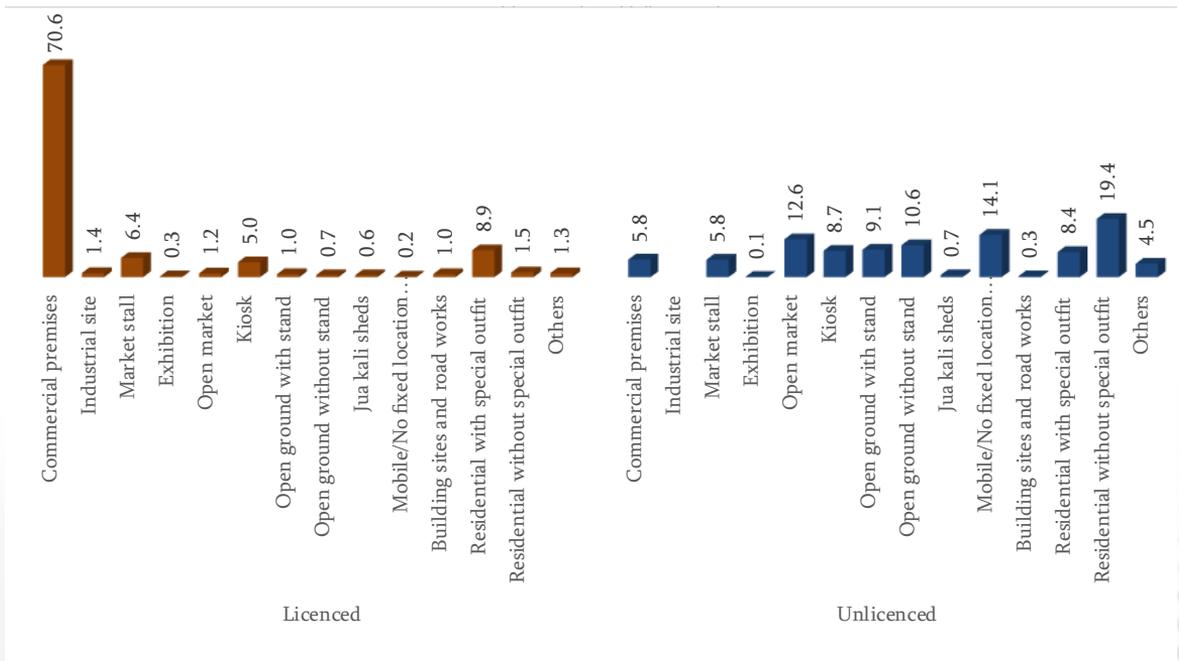
**Table 4.5: Distribution of licensed Micro Small and Medium Establishments by County**

County	Licenced				Unlicensed ('000)
	Total ('000)	Micro (%)	Small (%)	Medium (%)	
<b>Total</b>	<b>1,560.5</b>	<b>92.2</b>	<b>7.1</b>	<b>0.7</b>	<b>5,850.3</b>
Nairobi	268.1	83.8	14.8	1.4	782.5
Nyandarua	17.6	96.1	3.2	0.7	83.6
Nyeri	30.5	97.5	1.9	0.6	85.9
Kirinyaga	30.3	96.9	2.8	0.3	125.4
Muranga	14.2	97.1	2.6	0.4	99.4
Kiambu	92.4	91.4	7.9	0.7	170.8
Mombasa	41.9	90.6	8.7	0.6	163.9
Kwale	14.2	93.5	5.4	1.1	89.9
Kilifi	29.9	96.6	2.8	0.7	271.5
Tana River	1.8	95.9	2.9	1.2	33.4
Lamu	9.2	97.0	2.9	0.2	29.5
Taita Taveta	22.5	94.2	4.4	1.4	60.5
Marsabit	2.2	94.5	5.1	0.3	37.9
Isiolo	2.6	94.0	5.3	0.8	15.0
Meru	95.1	97.5	2.3	0.2	143.4
Tharaka	8.4	96.3	3.7	-	72.2
Embu	21.0	95.1	4.6	0.3	84.8
Kitui	16.7	97.5	2.5	-	71.5
Machakos	39.1	91.8	7.8	0.4	234.4
Makueni	27.4	97.7	2.2	0.1	106.3
Garissa	3.9	96.8	2.8	0.4	47.3
Wajir	1.8	98.3	0.8	0.8	3.7
Mandera	23.7	96.7	3.3	-	55.8
Siaya	14.2	97.2	2.2	0.6	190.5
Kisumu	40.2	84.6	13.2	2.2	197.0
Migori	39.7	91.6	8.1	0.3	133.5
Homa Bay	48.5	93.6	5.9	0.5	134.4
Kisii	27.3	91.2	8.0	0.7	170.0
Nyamira	35.7	96.2	3.7	0.2	62.7
Turkana	7.3	93.1	6.4	0.4	108.8
West Pokot	3.1	97.5	2.5	-	64.4
Samburu	6.6	94.7	5.1	0.2	28.1
Trans-Nzoia	16.3	95.6	3.8	0.6	83.3
Baringo	16.9	96.3	3.7	-	84.1
Uasin Gishu	57.6	94.2	5.6	0.2	151.2
Elgeyo Marakwet	5.6	96.8	3.2	-	21.8
Nandi	12.9	95.0	4.7	0.3	84.6
Laikipia	13.6	95.9	3.6	0.5	52.4
Nakuru	118.2	92.6	6.6	0.8	257.9
Narok	21.6	92.1	7.0	0.9	100.5
Kajiado	46.1	92.4	6.7	0.9	101.9
Kericho	19.8	85.9	12.7	1.4	73.3
Bomet	14.0	95.9	4.1	-	156.0
Kakamega	53.0	92.6	6.4	1.0	300.4
Vihiga	11.3	96.0	3.9	0.1	78.5
Bungoma	17.2	92.8	6.9	0.3	269.7
Busia	28.0	97.6	1.5	0.9	76.6

### 4.2.3 Number of MSMEs by Establishment Location

Figure 4.3 depicts the distribution of establishments by their location. As shown in the figure, 70.6 per cent of licensed businesses are located in commercial premises, probably due to availability of customers in the precincts of the commercial premises and could also imply that a large proportion of licensed establishments in the MSME sector are located in either rented or owner occupied commercial premises. About 9 per cent of the establishments are within the residential areas with the businesses being found in special outfits. However, the location of unlicensed MSMEs seems to be uniformly spread across various locations.

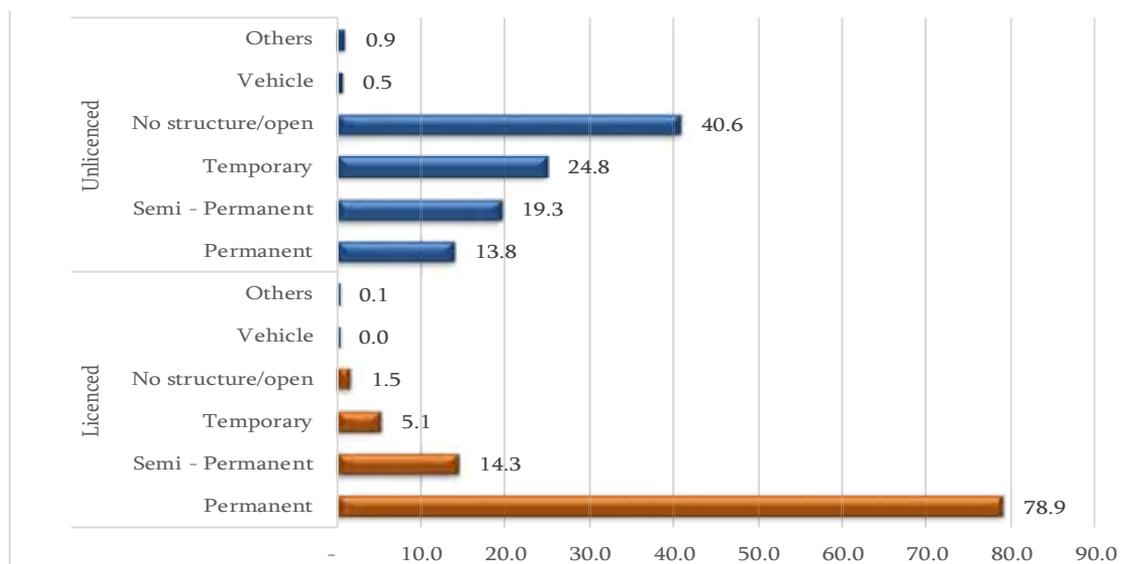
Figure 4.3: Percentage Distribution of MSMEs by Establishment Location



### 4.2.4 Number of MSMEs by Type of Structure

As shown in Figure 4.4, more than 78 per cent of licensed MSMEs are located in permanent structures. These are mostly in rented buildings in either commercial centres or within residential buildings. The largest proportion of unlicensed businesses (40.6 per cent) was located in open places or where there were no structures while 44.1 operated their businesses in either temporary or semi-permanent structures. Only about 13.8 per cent of unlicensed businesses were operated in permanent structures.

**Figure 4.4: Distribution of MSMEs by the Type of Structure**



### 4.3 Net Worth of Establishments

Respondents were asked the approximate net worth of their businesses. Survey results revealed that only 16.3 per cent of licensed establishments had a net worth above KSh 1,000,000. Among the medium and small establishments 71.9 and 69.9 per cent, respectively, had a net worth above KSh 1,000,000. As shown in Table 4.6, 83.6 per cent of the unlicensed establishments reported a net worth of KSh 50,000 or less. None of the unlicensed businesses reported a net worth of more than KSh 1,000,000.

**Table 4.6: Distribution of MSMEs by Net Worth and Licensing Status**

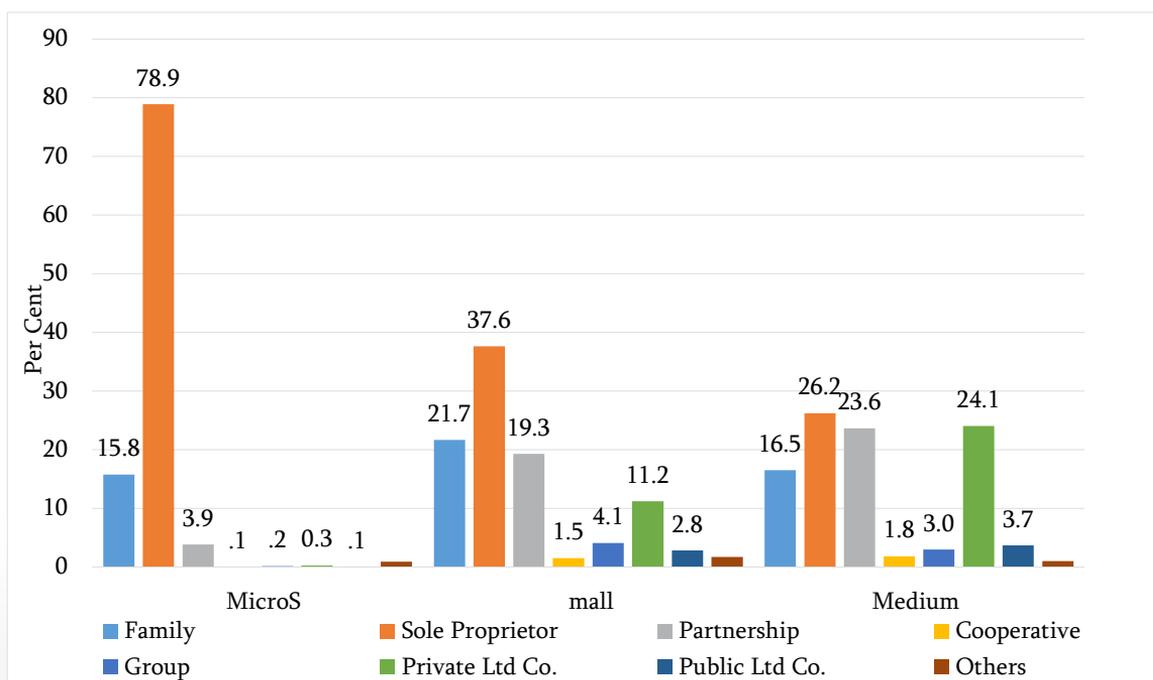
		Per cent			
		All MSMEs	Micro	Small	Medium
Licensed (KSh)	50,000 or less	17.7	18.7	3.1	3.8
	50,001 to 200,000	34.4	36.3	5.6	14.6
	200,001 to 1,000,000	31.7	32.5	21.4	9.6
	Above 1,000,000	16.3	12.4	69.9	71.9
Unlicensed (KSh)	50,000 or less	83.6	83.6	-	-
	50,001 to 200,000	13.9	13.9	-	-
	200,001 to 1,000,000	2.5	2.5	-	-
	Above 1,000,000	0.0	0.0	-	-

## 4.4 Ownership and Decision Making in MSMEs

### 4.4.1 Ownership Structure

Overall, sole proprietors owned most of the establishments across all the categories of MSMEs. As shown in Figure 4.5, sole proprietors owned 78.9, 37.6 and 26.2 per cent of micro, small and medium sized establishments, respectively. Among the medium establishments, there was a fair distribution of ownership between sole proprietor, partnership and private limited company.

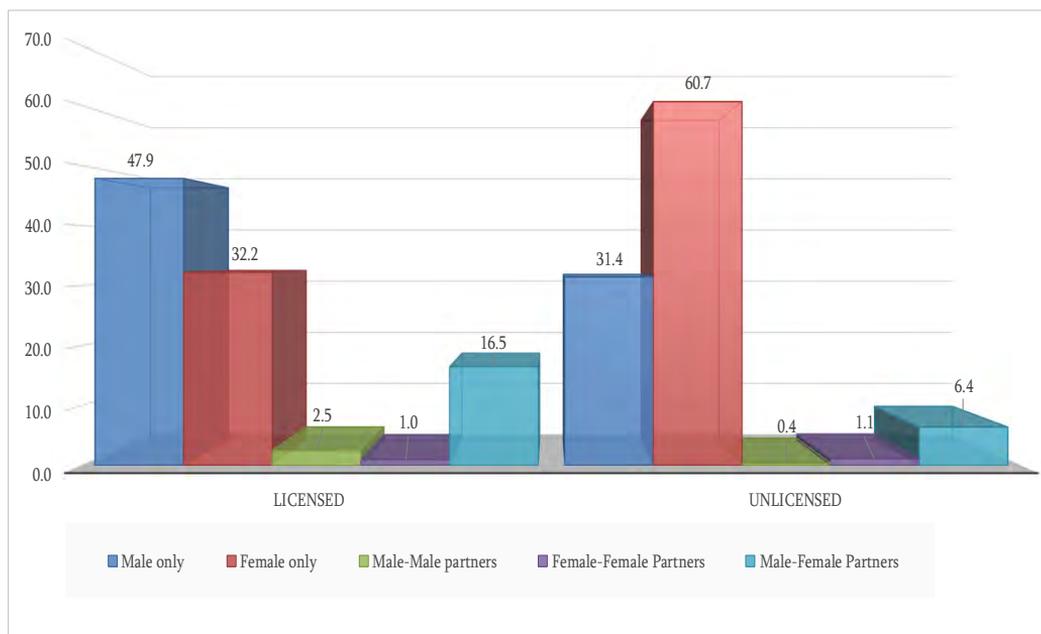
**Figure 4.5: Distribution of MSMEs by Ownership**



### 4.4.2 Distribution of MSMEs by Sex of Owners

Figure 4.6 shows the distribution of MSMEs by sex of business owners. As shown in the figure, 47.9 per cent of the licensed establishments were owned by males and 32.2 per cent were owned by females. In addition, 60.7 per cent of unlicensed establishments were solely owned by females. Establishments owned by male-female partners accounted for 16.5 and 6.4 per cent of licensed and unlicensed businesses, respectively.

**Figure 4.6: Ownership of Establishments by Licensing Status**



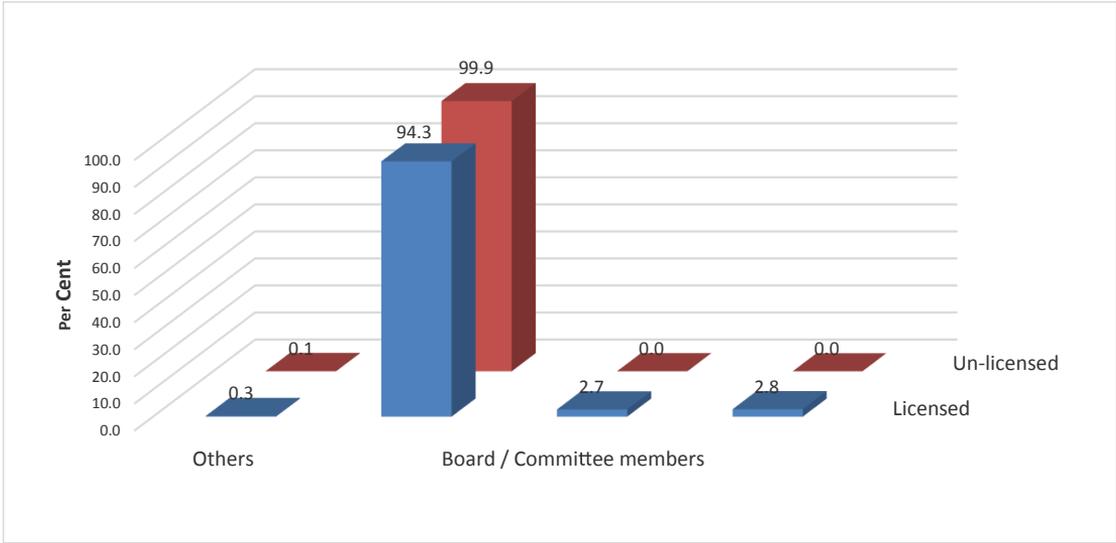
#### 4.4.3 Decision Making in MSMEs

Table 4.7 shows the distribution of both licensed and unlicensed establishments by age of business and decision making structure. The survey established that owner/co-owners made decisions in 94.3 per cent of licensed and nearly all (99.9 per cent) of the unlicensed businesses. As shown in the table, businesses that had been in existence for a longer period had higher proportions of decisions making by board/committee members. Unlicensed businesses did not report any decision making by managers.

**Table 4.7: Distribution of Establishments by Age and Decision Making Structure**

Age of Business		Percent						Total
		Less than 1 year	1 - 3 years	4 - 5 years	6 - 10 years	11 - 15 years	More than 15 years	
Decision maker	Licensed	94.4	95.7	95.4	94.6	93.1	91.6	94.3
	Owner/ Co-Owner	1.8	1.8	1.7	2.5	3.7	4.8	2.7
	Board / Committee members	3.7	2.2	2.7	2.6	2.9	3.3	2.8
	Managers	0.1	0.3	0.2	0.2	0.3	0.3	0.3
Others								
Un-licensed	Owner/ Co-owner	99.8	99.8	99.6	100.0	100.0	100.0	99.9
	Board / Committee members	0.2	0.0	0.0	0.0	0.0	0.0	0.0
	Managers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Others	0.0	0.2	0.4	0.0	0.0	0.0	0.1

**Figure 4.7: Distribution of Establishments by Decision Making Structure and Licensing Status**

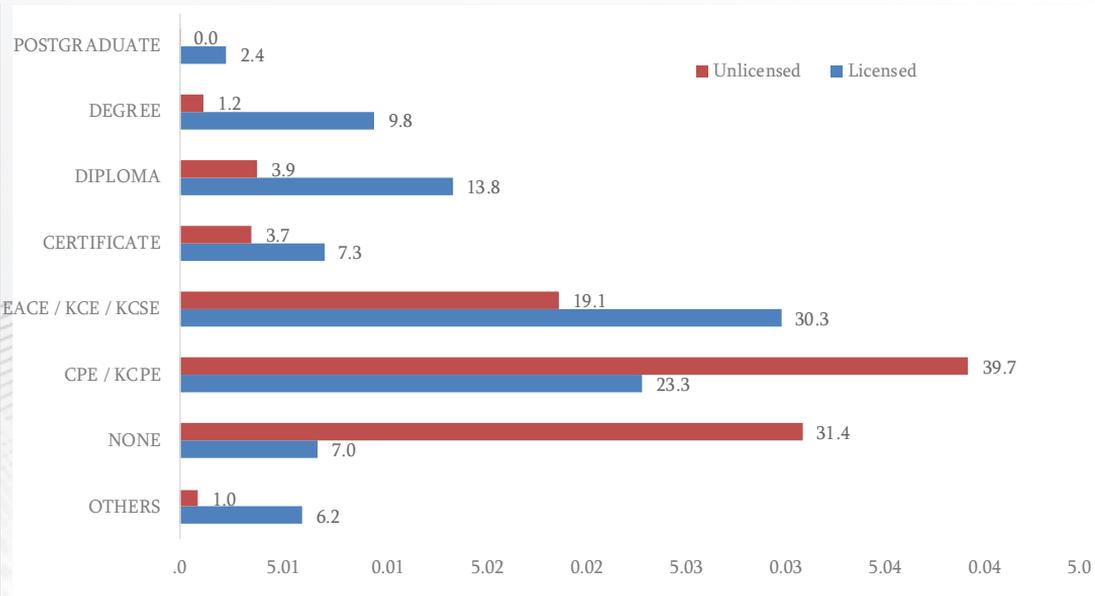


## 4.5 Education Profile

### 4.5.1 Education Attainment of Owners/Operators

The highest education attainment of business owners and operators is presented in Figure 4.8. In Licensed MSMEs, about one third of business owners/operators (30.3 per cent) had attained secondary (O’level) education and 23.3 per cent of business owners had attained CPE/KCPE certificate only. Further, 9.8 per cent of business owners/operators had university degree.

**Figure 4.8: Highest Education Qualification attained by Business Owners/Operators**



#### 4.5.2 Education Attainment of Owners by Size of Establishments

As shown in Table 4.8, 71.1 per cent of owners of unlicensed establishments reported having no education or CPE/KCPE as their highest education attainment. Among operators of licensed businesses, only 7.8, 1.9 and 5.2 per cent did not have any education attainment in micro, small and medium establishments, respectively. In licensed establishments, bigger businesses had higher proportions of university graduate owners/operators.

**Table 4.8: Highest Education Qualification of Business Owners by Size of Business**

Qualification	Licensed			Unlicensed
	Micro	Small	Medium	
None	7.8	1.9	5.2	31.4
CPE / KCPE	26.2	7.0	12.8	39.7
KAPE	0.2	0.1	-	0.1
KJSE	0.2	-	-	0.2
EACE / KCE / KCSE	33.1	19.1	13.0	19.1
KACE / EAACE	0.4	1.3	-	0.2
Certificate	7.8	6.9	3.2	3.7
Diploma	14.0	19.3	14.6	3.9
Degree	8.2	30.7	40.1	1.2
Postgraduate	1.5	12.4	11.2	0.0
Basic / Post Literacy Certificate	0.1	-	-	0.0
Other (Specify)	0.5	1.4	-	0.2

#### 4.5.3 Education Attainment of Business Owners by Economic Activity

Majority of business owners across the various industries had completed secondary school education. As presented in Table 4.9, most business owners in human health and social work activities; electricity, gas, steam and air conditioning supply; professional, scientific and technical activities; and education, had completed university education while most business owners in information and communication; and education had completed postsecondary education. On the other hand, large proportions of owners/ operators of businesses in agriculture, forestry and fishing, mining and quarrying and manufacturing had primary school as the highest level attained.

This data reveals that education attainment of business owners relates to the nature of the business. Those that are more technical like education, ICT, administration and support service activities, financial and insurance activities and human health and social work activities, had business owners who had post-secondary education. Operators/owners of businesses in electricity, gas, steam and air conditioning supply all reported having at least secondary level of education.

**Table 4.9: Education Level of Business Owners by Economic Activity**

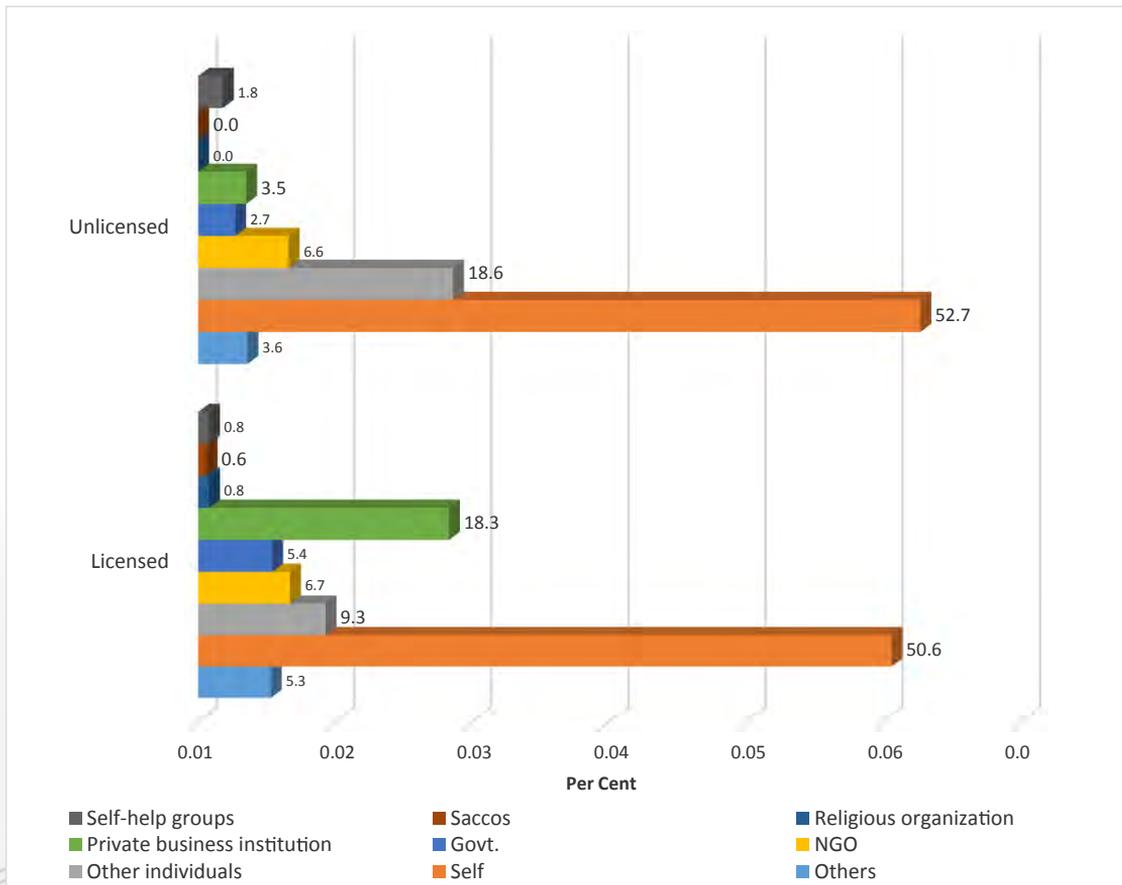
	Per cent						
	None	Primary	Post- primary, vocational	Secondary	College (Middle- level)	Degree	Other
Agriculture, forestry and fishing	32.5	9.0	-	33.9	7.0	17.6	-
Mining and quarrying	48.8	34.5	-	9.2	-	7.5	-
Manufacturing	9.2	42.8	0.1	32.2	9.5	4.9	1.2
Electricity, gas, steam and air conditioning supply	-	-	-	37.3	-	62.7	-
Water supply; sewerage, waste management and remediation activities	1.9	9.9	-	29.2	-	28.8	30.2
Construction	4.0	9.6	-	21.2	12.9	44.0	8.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	9.6	30.1	0.1	42.1	8.4	9.2	0.5
Transportation and storage	7.1	16.0	-	46.8	3.7	25.7	0.8
Accommodation and food service activities	13.2	30.9	0.1	33.6	5.9	15.8	0.5
Information and communication	3.5	19.3	-	25.7	9.9	41.6	-
Financial and insurance activities	1.4	15.3	-	45.3	11.8	25.5	0.8
Real estate activities	9.7	3.9	-	37.0	22.3	27.2	-
Professional, scientific and technical activities	3.8	10.9	-	26.6	5.4	53.1	0.2
Administrative and support service activities	1.3	11.2	-	32.0	12.4	43.1	-
Education	0.3	4.2	0.1	15.6	28.0	50.2	1.7
Human health and social work activities	0.2	3.2	-	7.6	13.8	74.5	0.7
Arts, entertainment and recreation	5.8	17.0	-	30.8	18.1	27.9	0.4
Other service activities	6.8	34.3	0.4	40.7	11.2	6.5	0.1

## 4.6 Training for Business Owners/Operators

### 4.6.1 Main Sponsors of Trainings

Over 50.0 per cent of all business owners trainings were self-sponsored. 18.3 per cent of trainings by licensed business owners' and 3.5 per cent of unlicensed business owners' were sponsored by private business institutions. About 6.7 per cent and 0.8 per cent of the licensed business owners' trainings were offered by Non-Governmental Organizations (NGOs) and Religious Organizations, respectively. The Government only sponsored 5.4 per cent and 2.7 per cent of trainings by licensed and unlicensed businesses, respectively.

**Figure 4.9: Main Sponsor of MSMEs Business Owners' Training**



As shown in Table 4.10, management training was the most common training sponsored by religious organizations (44.5 per cent), NGOs (40.6 per cent) and Government (36.2 per cent). This may be attributed to the importance accorded to management skills in the success of operating businesses. Technical advice was the second highest priority area in terms of sponsorship by organizations that offered training to owners/operators of MSMEs. Self-help groups were more interested in sponsoring ICT related trainings.

**Table 4.10: Main Training received by Licensed Business Owners' and Type of Sponsor**

	Per Cent							
	Self	Other individuals	NGO	Govt.	Private business institution	Religious organization	Saccos	Self-help groups
Don't Know	1.0	0.2	-	-	0.7	-	-	-
Others	22.4	27.9	17.3	20.1	10.4	12.6	26.5	25.8
Management	24.6	24.1	40.6	36.2	31.6	44.5	15.2	13.3
Technical Advice	20.5	17.1	15.9	20.8	20.2	6.1	-	-
Marketing	3.5	7.1	6.3	5.4	11.8	8.0	21.1	7.1
Information Technology (ICT)	10.5	6.5	0.9	2.6	1.6	0.9	-	15.0
Informal Advice/training	6.8	6.9	4.1	5.5	6.2	0.8	10.4	17.7
Consultancy Advice	1.2	0.1	3.1	0.9	1.5	2.0	21.1	0.5
Business Counseling	4.8	3.4	8.9	7.4	9.8	25.3	0.5	17.3
Finance & Accounting	4.8	6.8	2.8	1.1	6.3	-	5.3	3.3

#### 4.6.2 Duration of Trainings of Owners/Operators

Table 4.11 presents the average duration of various trainings pursued by business owners. As shown in the Table, 48.6 and 42.3 per cent of trainings in finance and accounting and information technology lasted more than one year, respectively. Most of the other trainings lasted for less than four weeks.

**Table 4.11: Duration of Main Training**

	Percent					
	Don't Know	Less than a week	1-4 weeks	1-3 months	4-12 months	More than 1 year
Others	0.5	15.4	16.7	8.5	23.1	35.8
Management	0.5	27.0	24.8	11.5	10.6	25.5
Technical/Advice	0.4	24.9	15.9	12.3	17.8	28.7
Marketing	-	37.6	26.9	6.5	14.0	15.0
Information Technology	1.4	4.9	16.0	20.0	15.5	42.3
Informal	2.1	18.9	13.6	12.6	22.9	30.0
Consultancy Advice	-	43.7	16.6	12.8	15.7	11.1
Business Counseling	0.5	43.2	25.4	6.3	7.6	17.0
Finance & Accounting	0.6	27.6	12.4	3.9	6.8	48.6

#### 4.7 Goodwill

Whereas it is expected that businesses particularly in urban areas are required to pay some goodwill at the start of the business, the survey findings show that most MSMEs did not pay any goodwill. As shown in Table 4.12, 90.2 per cent of licensed and 98.5 per cent of unlicensed establishments did not pay any goodwill. All the unlicensed businesses that reported having paid goodwill, paid KSh 50,000 or less. A small proportion of licensed businesses paid amounts above one million shillings.

**Table 4.12: Goodwill Paid by Size of Businesses**

		Per cent			
		Total	Micro	Small	Medium
Licensed	None	90.2	90.3	88.9	92.8
	50,000 or less	5.5	5.8	2.4	1.6
	50,001 to 200,000	2.6	2.5	3.2	0.6
	200,001 to 1,000,000	1.4	1.3	3.5	3.6
	Above 1,000,000	0.3	0.1	2.1	1.5
Unlicensed	None	98.5	98.5	-	-
	50,000 or less	1.5	1.5	-	-
	50,001 to 200,000	-	-	-	-
	200,001 to 1,000,000	-	-	-	-
	Above 1,000,000	-	-	-	-

## 4.8 Business Capital

### 4.8.1 Start-up Capital

Start-up capital for businesses by establishment size is presented in Table 4.13. Overall, 57.2 per cent of licensed and 94.5 per cent of unlicensed establishments businesses required a start-up capital of KSh 50,000 or less. None of the unlicensed establishments required more than a million as start-up capital. Licensed establishments which required above a million were mainly small and medium sized.

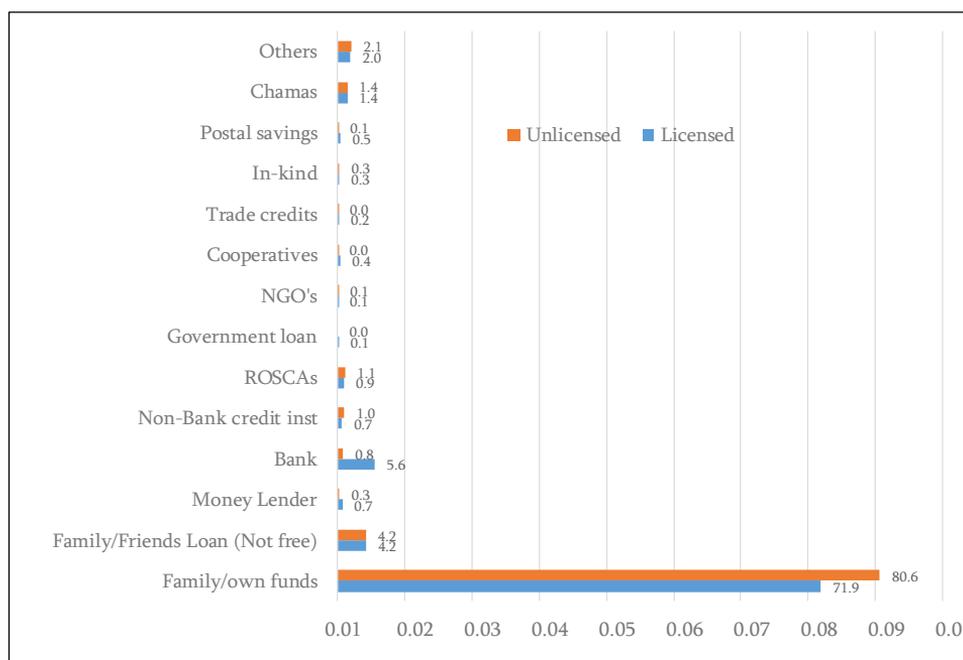
**Table 4.13: Startup Capital by Size of Establishments**

		Per cent			
		Total	Micro	Small	Medium
Licensed	50,000 or less	57.2	59.0	26.4	33.6
	50,001 - 200,000	27.6	28.0	22.0	13.2
	200,001 - 1,000,000	11.5	10.9	21.8	25.4
	Above 1,000,000	3.7	2.1	29.8	27.9
Unlicensed	50,000 or less	94.5	94.5	-	-
	50,001 - 200,000	4.8	4.8	-	-
	200,001 - 1,000,000	0.7	0.7	-	-
	Above 1,000,000	-	-	-	-

### 4.8.2 Source of Start-up Capital

Overall, 71.9 per cent of licensed establishments reported Family/Own funds as the main source of start-up capital while 4.2 per cent of business owners got loans from family and/or friends to start their business. According to the survey results, banks finance 5.6 per cent of licensed MSMEs, Chamas 1.4 per cent and cooperatives only 0.4 per cent of MSMEs. The Government funds only 0.1 per cent of licensed MSMEs while 2.0 per cent of businesses reported other sources of capital apart from the ones listed.

**Figure 4.10: Main Source of Capital for the Business**



### 4.8.3 Other Non-Financial Support

Besides financial support, businesses require other forms of support to improve their performance. The survey sought to establish the extent to which businesses received nonfinancial support. Overall, 90.1 per cent of licensed and 93.0 per cent of unlicensed establishments did not receive any non-financial support as indicated in Table 4.14. Marketing information was the main non-financial support service received by MSMEs.

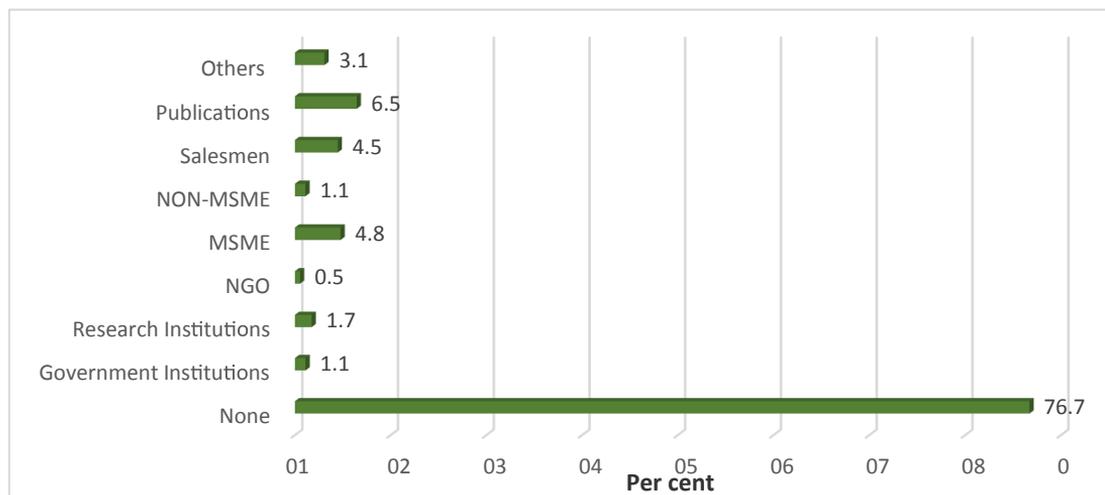
**Table 4.14: Other Support Services Received by MSMEs**

Support Service	Licensed				Unlicensed
	Total	Micro	Small	Medium	
None	90.1	91.0	79.9	76.1	93.0
Marketing information	3.4	3.2	5.9	7.9	2.9
Accounting	0.7	0.6	2.3	-	0.2
Legal	0.3	0.2	1.5	2.3	-
Training	2.6	2.3	6.4	9.1	0.7
Business Planning	1.9	1.8	3.0	2.8	1.3
Stock Layout	0.6	0.6	0.4	1.8	1.6
Other	0.4	0.4	0.6	-	0.3

#### 4.8.4 Technological Advice

Figure 4.11 shows the percentage distribution of the establishments by source of technological advice applied in the businesses. About 76.7 per cent of the businesses did not report receiving any technological advice. For those who received advice, the main sources were publications, other MSMEs and salesmen.

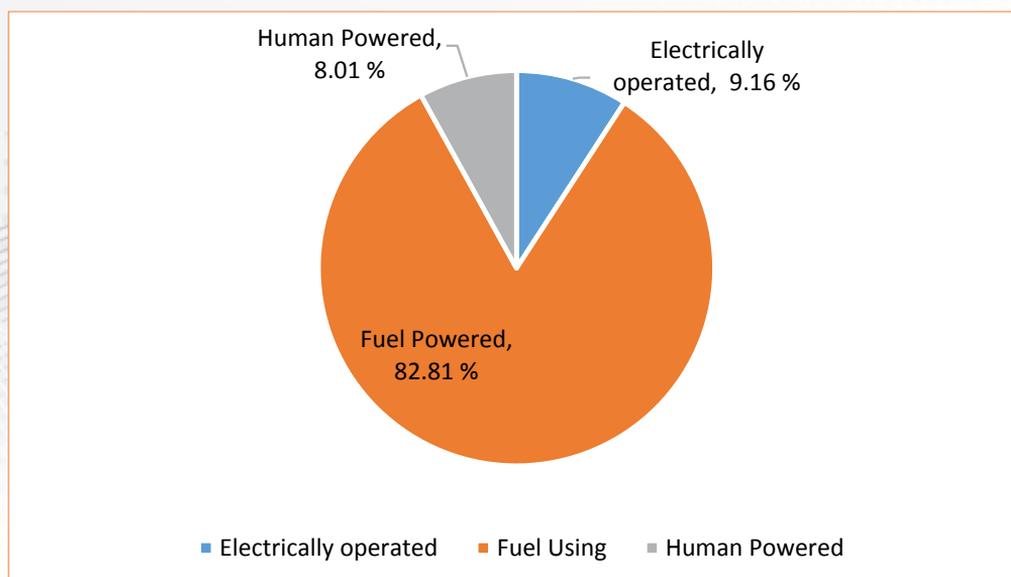
**Figure 4.11: Percentage Distribution of Licensed MSME's Source of Technological Advice**



#### 4.8.5 Type and Source of Machines Used by MSMEs

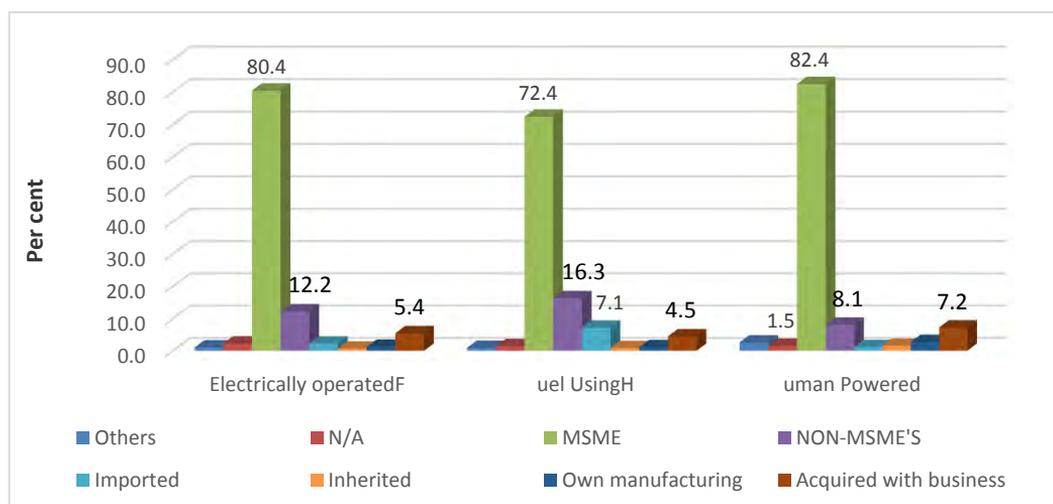
The survey sought to establish the extent of usage of machines, their type and sources. About 82.8 per cent of machines used were fuel powered, 9.16 per cent were human powered and 8.0 per cent were electrically operated.

**Figure 4.12: Percentage Distribution of Machines by Type**



As illustrated in Figure 4.13, most electrically operated machines (80.4 per cent) were sourced from other MSME's, 7.1 per cent of fuel using machines were imported while 8.1 per cent of human powered machines were sourced from non-MSMEs.

**Figure 4.13: Distribution of Main Sources of Machines by Type of Machines**



## 4.9 Use of ICT

### 4.9.1 ICT Equipment

Figure 4.14 shows distribution of licensed establishments by type of ICT equipment available in the business. Most of the MSMEs reported to be having a mobile phone (40.7 per cent), 15.0 per cent reported having a radio while 10.5 per cent of the respondents reported not having any ICT gadget. Availability of the fax machine, tablets/phablets, digital / video cameras was reported by less than 5 per cent of the respondents.

**Figure 4.14: Types of ICT Equipment Used by Licensed Businesses**

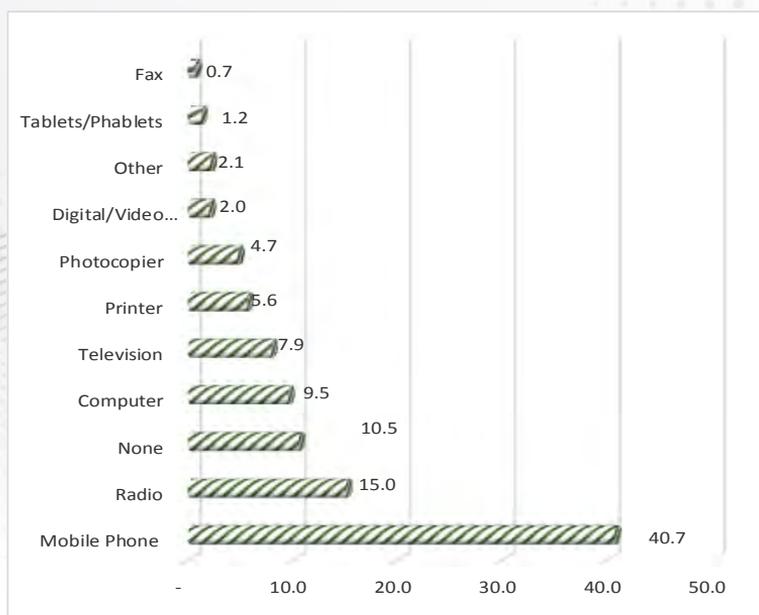
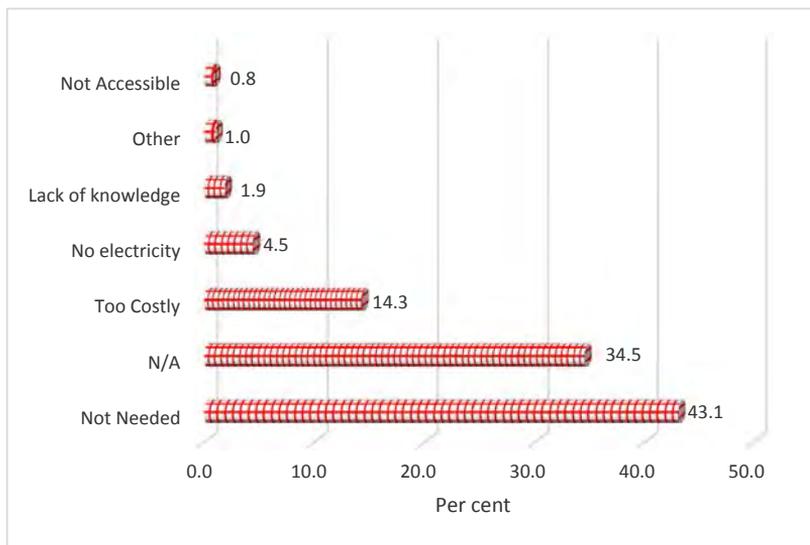


Figure 4.15 shows the percentage distribution of ICT equipment in the licensed businesses. Most of the MSMEs reported that either their businesses did not need to use the ICT equipment (43.1 per cent) or that the equipment was not applicable to their business (34.5 per cent). High cost of ICT gadgets was reported by 14.3 per cent of the establishments and a further 4.5 per cent of the businesses gave lack of electricity as their reason for not using ICT equipment.

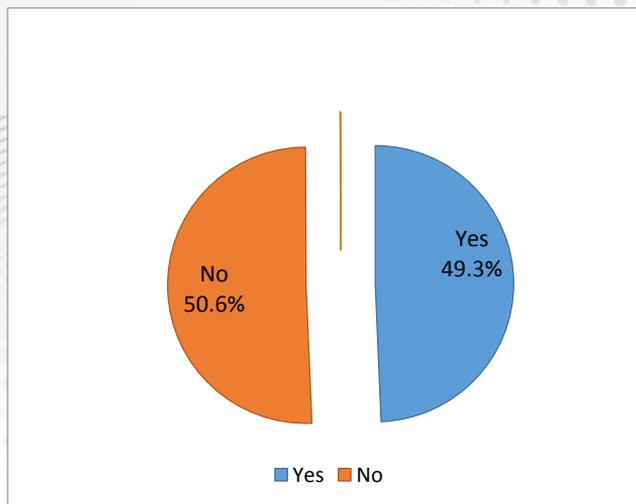
**Figure 4.15: Main Reason the Business does not Use ICT**



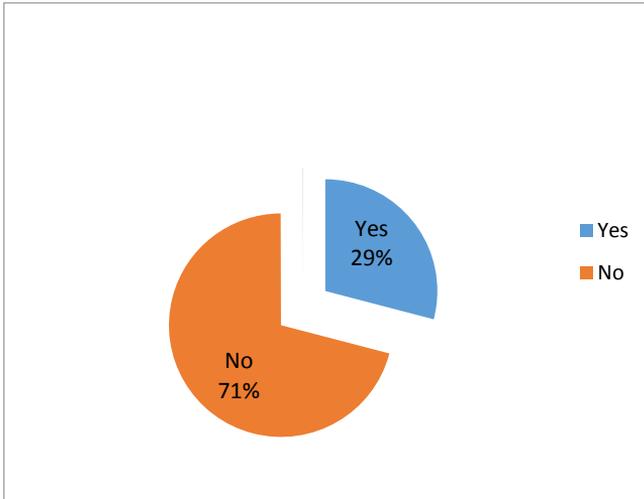
#### 4.9.2 Mobile Money and Paybill Use

Figures 4.16 and 4.17 present the use of mobile money platform for payments and receipts of cash and the use of paybill/till numbers for licensed MSMEs. Whereas almost half of the businesses used mobile money platform for payments and receipts of cash, only 29 per cent of businesses had a paybill/till number for business.

**Figure 4.16 Use of Mobile Money Platform by MSMEs**



**Figure 4.17: Use of Paybill/Till Number by MSMEs in Business**

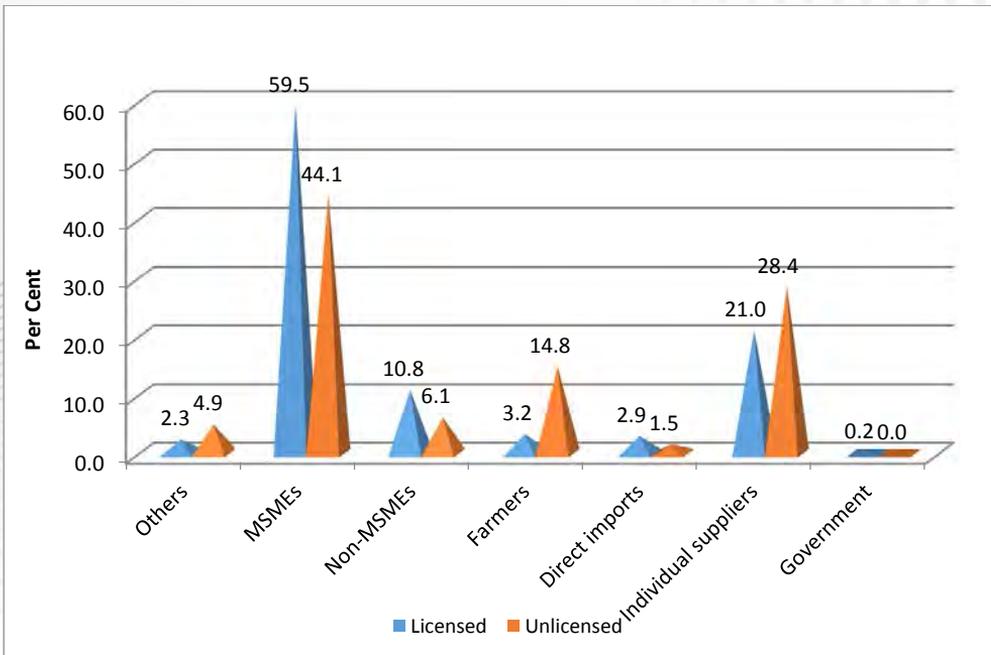


## 4.10 Inter-Firm Linkages and networks

### 4.10.1 Source of Inputs

Figure 4.18 shows the distribution of establishments by main source of inputs. As shown in the figure, other MSMEs were the main source of inputs for both licensed and unlicensed businesses accounting for 59.5 per cent and 44.1 per cent, respectively. Individual suppliers accounted for 21.0 per cent of licensed businesses and 28.4 per cent of unlicensed businesses. Farmers provided inputs to 14.8 per cent of the unlicensed businesses.

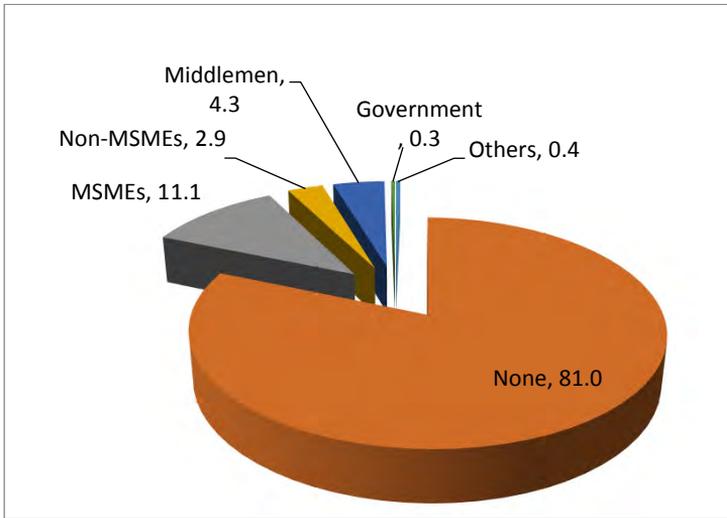
**Figure 4.18: Main Source of Inputs for MSMEs**



#### 4.10.2 Contractual Arrangements for Inputs

Figure 4.19 shows the percentage distribution of establishments by contractual arrangements for inputs or orders received from clients. About 81.0 per cent of the licensed MSMEs had no contractual arrangement for inputs. Eleven per cent of the businesses had contractual arrangement with other MSMEs while government accounted for less than 1.0 per cent.

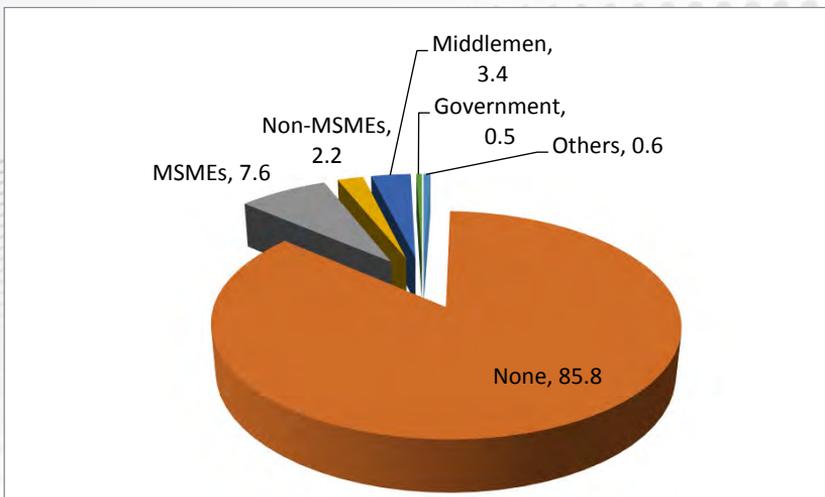
**Figure 4.19: Contracting Arrangements for Inputs / Orders**



#### 4.10.3 Contractual Arrangements for Products

Figure 4.20 presents contractual arrangements for products/services of licensed MSMEs. About 85.8 per cent of MSMEs had no contractual arrangements for products/services. About 7.6 per cent had contractual arrangements with other MSMEs. The survey revealed that less than 1.0 per cent of businesses were contracted by the Government.

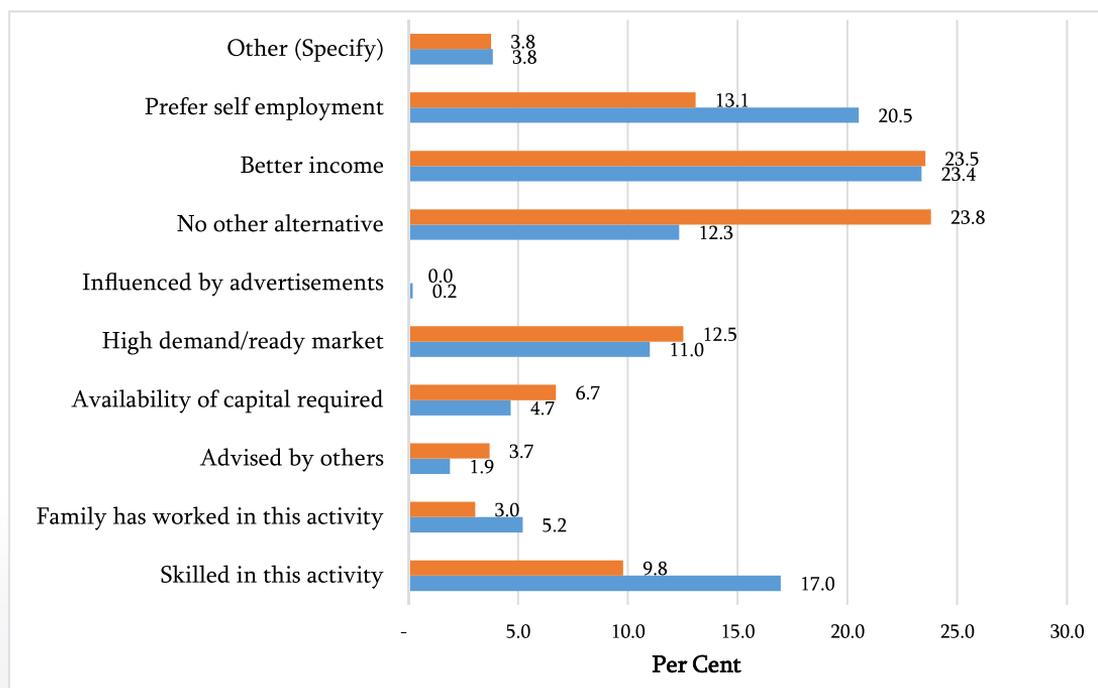
**Figure 4.20: Contracted Arrangements for products and Services**



## 4.11 Reasons for Starting a Business

The main reasons for starting a business as reported by owners/operators of MSMEs are presented in Figure 4.21. The three main reasons cited by licensed MSMEs were better income, preference for self-employment and having the requisite skills, accounting for 23.4, 20.5 and 17.0 per cent respectively. Owners/operators of unlicensed MSMEs cited, lack of another alternative (23.8 per cent), better income (23.5 per cent) and preference for self-employment (13.1 per cent). Less than one per cent of the owners were influenced into starting business through advertisements.

Figure 4.21: Reasons for Starting a Business



## 4.12 Business Records and Bank Accounts

### 4.12.1 Management of Business Records

Owners/operators of businesses were asked to describe what kind of records they keep for their businesses. Table 4.15 shows that majority of the licensed MSMEs maintained some business records. Cash sale and receipts was the most common type of business record reported by micro, small and medium sized businesses each at 42.1, 77.5 and 66.5 per cent, respectively. Majority of small and medium licensed businesses kept monthly sales and purchases ledgers, cash and petty cash book, bank reconciliation statement and a complete set of accounts. Further, medium establishments were noted to engage external accountancy services (17.7 per cent) and personal notes (32.1 per cent). Most of the unlicensed MSMEs establishments (78.9 per cent) did not have records. The most common records for those who maintained were personal notes (12.4 per cent) followed by cash sales and receipts (6.3 per cent).

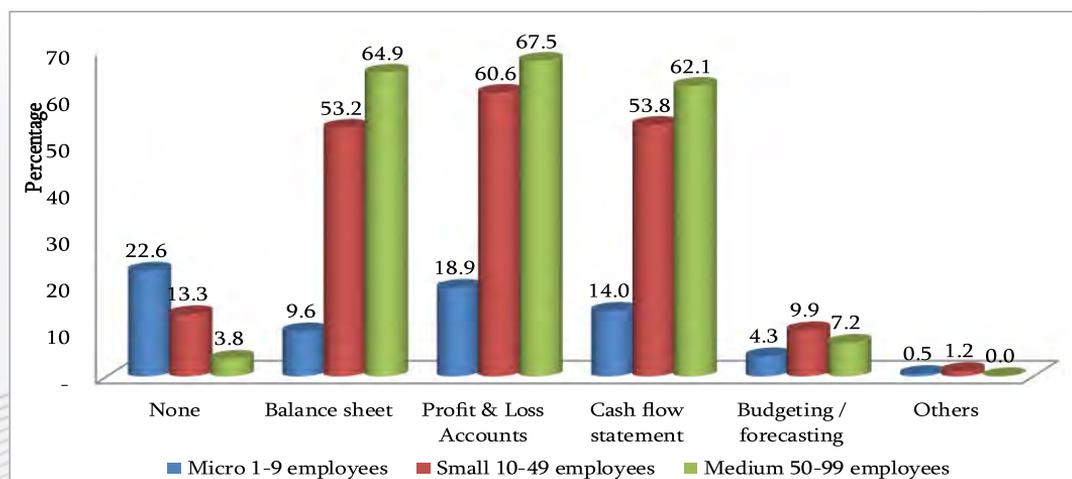
**Table 4.15: Type of Records kept by Businesses**

Type of Record	Licensed			Unlicensed
	Micro	Small	Medium	
Cash sales and receipts	42.1	77.5	66.5	6.3
Sales day book and monthly sales ledger	20.9	53.3	56.9	2.4
Purchases day book & monthly purchases ledger	14.0	48.6	55.2	0.7
Cashbook and petty cashbook	8.4	48.2	57.6	0.9
Bank reconciliation statements	4.5	38.8	52.1	0.0
Complete set of accounts	3.3	32.1	51.4	-
External Accountancy Services	1.6	17.7	32.1	-
Personal notes	26.7	24.8	25.2	12.4
None	32.8	6.0	12.4	78.9
Others	1.3	1.4	0.6	1.4
<b>Number of Establishments</b>	<b>1,438,109</b>	<b>110,938</b>	<b>11,480</b>	<b>5,850,311</b>

#### 4.12.2 Type of Reports Generated from Business Records

Business owners were asked to enumerate the type of business reports that they generated from the records. Most licensed MSMEs were found to generate financial reports from the business records that they keep. As shown in Figure 4.22, the most common type of reports generated were balance sheets, profit and loss accounts and cash flow statements. About 22.6 per cent of micro sized establishments did not generate any business reports.

**Figure 4.22: Type of Reports Generated**



#### 4.12.3 Type of Bank Accounts Operated by Licensed Businesses

Table 4.16 presents the distribution of licensed establishments by whether they ran a bank account for the business or not. For the businesses that reported at least one account, the type of institution where the account was held was provided. As shown in the Table, 49.0 per cent of the establishments reported operating a bank account for their businesses.

Whereas less than half of the micro sized businesses reported running an account for their businesses, at least four out of every five small (87.9 per cent) and medium (80.6 per cent) sized establishments had an account. Most of the business accounts operated were in commercial banks.

**Table 4.16: Distribution of Licensed MSME by Type of Account**

Status	Percent			
	Total	Micro	Small	Medium
Without Account	51.0	54.3	12.1	19.4
With Account	49.0	45.7	87.9	80.6
<b>Type of Account</b>				
Commercial Banks	89.0	87.7	96.8	95.3
Micro-Finance	5.4	6.0	1.7	1.3
Building Soc/Mortgage	0.1	0.1	0.1	-
Insurance Companies	0.0	0.0	0.0	-
SACCOS	4.6	5.1	1.0	2.0
Mobile platforms	0.6	0.7	0.1	-
Table banking / Chamas	0.2	0.2	-	-
Other	0.2	0.2	0.3	1.4

### 4.13 Business Organization and Marketing

This section presents the organization of businesses from the registration, location, marketing and their management. It is important to understand these aspects in order to come up with policies that would enhance growth of MSMEs.

#### 4.13.1 Registration Status

Registration of businesses with the registrar of companies is one of the criteria used to determine the formality of establishments. As shown in Table 4.17, 74.4 per cent of establishments that had permits from county governments (licensed) were not registered with the registrar of companies. This was mainly on account of micro sized establishments that had 78.2 per cent unregistered businesses. From the survey results it was observed that formality of businesses increased with size of establishments since 21.8, 66.8 and 72.5 per cent of micro, small and medium businesses were registered, respectively.

**Table 4.17: Registration of Licensed MSMEs with the Registrar of Companies**

**Table 4.17: Registration of Licensed MSMEs with the Registrar of Companies**

	Micro	Small	Medium	All
Number of establishments	1,438,109	110,938	11,480	1,560,528
Not registered (%)	78.2	33.2	27.5	74.6
Registered (%)	21.8	66.8	72.5	25.4

### 4.13.2 Business location

Table 4.18 presents the distribution of businesses by the location. Location of businesses determines access to markets and inputs, social amenities, cost of running business, competition and nature of infrastructure. Majority of the licensed businesses were located in commercial premises. On the other hand most of the unlicensed businesses operated in residential areas with no special outfits for the business or were mobile (no fixed location).

**Table 4.18: Establishments by Location of Business**

Enterprises location	Licensed			Per cent
	Micro	Small	Medium	Unlicensed
Commercial premises	70.5	71.2	70.6	5.8
Industrial site	1.1	4.8	6.8	-
Market stall	6.8	1.5	0.3	5.8
Exhibition	0.3	0.1	-	0.1
Open market	1.3	0.5	0.2	12.6
Kiosk	5.3	0.8	2.7	8.7
Open ground with stand	1.0	1.5	2.2	9.1
Open ground without stand	0.6	0.9	1.8	10.6
Jua kali sheds	0.6	0.8	0.7	0.7
Mobile/No fixed location (Hawking)	0.2	0.2	-	14.1
Building sites and road works	1.0	1.0	0.8	0.3
Residential with special outfit	8.9	9.3	5.4	8.4
Residential without special outfit	1.5	1.8	0.5	19.4
Others	0.9	5.6	8.0	4.5

### 4.13.3 Nature of Occupancy of Business Site

As shown in Table 4.19, 50.5 per cent of licensed micro sized businesses were operated in rental premises owned by individuals while 38.7 per cent were in their own premises. About 46.1 and 42.0 per cent of small and medium licensed establishments, respectively, were operated in premises owned by the businesses. More than half of unlicensed establishments (57.6 per cent) operated in their own premises while 12.2 per cent were in a free occupation/squatter kind of occupancy, which is not an appropriate kind of tenure for operating a business due to lack of security of tenure.

**Table 4.19: Nature of Occupancy of Business Site**

Nature occupancy of business site	Licensed			Per cent
	Micro	Small	Medium	Unlicensed
Own	38.7	46.1	42.0	57.6
Group Ownership	2.0	12.9	10.5	1.1
Rental private owner	50.5	33.5	39.3	10.9
Rental other	6.6	5.3	5.3	3.9
Temporary Occupation License	1.3	1.0	1.1	4.5
Free Occupation (squatter)	0.4	0.3	0.7	12.2
N/A	0.1	0.4	-	7.9
Others	0.3	0.5	1.1	2.0

#### 4.13.4 Appropriateness of Site with Regard to Getting Customers

The opinion of business owners on appropriateness of the location of their businesses is presented in Table 4.20. For all categories of establishments, a very small fraction reported that the locations were inappropriate with regard to getting customers. This is an indication that operators tend to establish their businesses at locations that are appropriate for getting customers. Responses on the appropriateness of the physical location of the businesses of micro establishments were similar for both licensed and unlicensed MSMEs, with about 45 per cent saying that they were appropriate.

**Table 4.20: Establishments by Appropriateness of Site with Regard to Getting Customers**

Appropriateness of site with regard to getting customers	Licensed			Per cent
	Micro	Small	Medium	Unlicensed
Very Appropriate	16.3	32.4	36.2	15.0
Appropriate	45.6	44.4	49.8	44.9
Fairly Appropriate	33.7	20.9	13.9	34.5
Inappropriate	4.1	2.2	0.1	5.4
Very inappropriate	0.4	-	-	0.2

#### 4.13.5 Product Marketing

As shown in Table 4.21, a large proportion of MSMEs did not market/advertise their goods or services at all and instead depended on the quality of products and clientele satisfaction as their marketing tool. Among the licensed businesses, micro (58.3 per cent), small (35.6 per cent) and medium (33.5 per cent) sized establishments did not market/advertise their products. For unlicensed businesses, 83.6 per cent did not advertise while 10.2 per cent depended on the quality of products and clientele satisfaction.

**Table 4.21: Main method of Advertisement for MSMEs**

Main method of Advertisement	Licensed			Unlicensed
	Micro	Small	Medium	
None	58.3	35.6	33.5	83.6
Electronic Media	1.3	8.9	15.7	0.1
Print Media	1.9	5.5	4.9	-
Trade exhibition	0.7	0.6	4.9	0.4
Posters/fliers/brochures	5.2	15.6	7.6	1.1
Public marketing/promotion bodies	0.2	1.7	0.8	0.3
Private market/promotion bodies	0.3	1.4	1.3	-
Quality of products / Clientele Satisfaction	23.4	15.4	13.4	10.2
Social Media	2.6	5.0	4.0	0.3
Community Media	0.7	1.7	0.1	0.8
Outdoor marketing billboards, roadshows, vehicles	3.4	5.0	4.6	0.2
Others	1.9	3.6	9.2	2.8
<b>All</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

#### 4.13.6 Mode of Setting Prices

Operators/owners of MSMEs were asked to give the method they use to set their prices. Results as reflected in Table 4.22 indicate that majority of the licensed establishments set prices independently as reported by micro (41.9 per cent), small (46.6 per cent) and medium (42.4 per cent) sized establishments. Further, 60.2 per cent of unlicensed businesses set their prices independently, while only 1.9 per cent set their prices according to regulated/official price. Different establishments had varied ways of setting prices for their goods/services based on the sources of inputs and market forces.

**Table 4.22: Mode of Setting Prices on Establishments**

Mode of setting prices	Licensed			Unlicensed
	Micro	Small	Medium	
Independently	41.9	46.6	42.4	60.2
In consultation with others	7.0	10.4	10.5	10.4
After bargaining with customers	11.6	5.5	3.8	8.3
According to price set by producers	18.9	11.5	15.2	11.3
According to regulated / official price	9.7	11.6	16.5	1.9
Depending on the competitors price	8.9	10.6	11.3	6.2
Others	2.0	3.8	0.3	1.8

### 4.13.7 Type of Customers

Table 4.23 presents the main buyers of MSME goods/services. Individual consumers and other MSMEs were the main buyers of goods/services from these businesses. Government, non-MSMEs (large establishments) and direct exports constituted a very small proportion of consumers of MSME products and/or services.

**Table 4.23: Main Buyers of Products from MSME Establishments**

Main buyers of MSME products	Per cent			
	Licensed			Unlicensed
	Micro	Small	Medium	
MSMEs	7.8	12.2	12.5	9.7
Non-MSMEs	1.3	4.5	8.4	2.9
Direct exports	0.1	1.0	3.5	-
Individual consumers	89.9	75.4	68.6	85.6
Government	0.3	2.8	2.8	0.6
Others	0.5	4.1	4.2	1.3

### 4.13.8 Risks of Continued Access to Business Site

As shown in Table 4.24, results from the survey indicate that majority of the MSMEs reported to have no major risk in accessing business site. Among licensed businesses, 45.9 per cent of the micro, 54.4 per cent of the small, and 67.3 per cent medium sized establishments reported that they did not experience any risk. Evictions by owners/landlords for the licensed businesses that rented, was the biggest risk reported. Further, eviction by National Government was the least risk reported by MSMEs of all sizes. Close to one third of unlicensed businesses (27.1 per cent) cited eviction by county government as a risk to continued access the business site.

**Table 4.24: Establishments by Biggest Risk of Continued Access to Business Site**

Risk of continued access to business site	Per cent			
	Licensed			Unlicensed
	Micro	Small	Medium	
None	45.9	54.4	67.3	56.4
Eviction by County Government	7.5	4.9	3.1	27.1
Eviction by National Government	0.8	0.3	0.1	1.3
Eviction by owner/landlord (if rented)	40.9	29.8	22.7	8.8
Expiry of tenancy	3.1	6.6	4.3	1.3
Others	1.7	4.0	2.5	5.2

## Chapter 5

# Employment Characteristics in the Micro, Small, and Medium Establishments

### 5.0 Introduction

The MSME sector in Kenya has over the years been recognized for its role in job creation and in effect, alleviation of poverty. This chapter presents information on employment size, average hours worked, union membership, training and labour dispute resolution mechanisms. Analysis of employment generally targets persons aged 15 to 64 years. However, in this survey, the age category adopted was 5 years and above.

### 5.1 Number of persons engaged in the MSME Sector

Employment in this report refers to the number of persons engaged in the MSME businesses. This includes working owners, full time paid employees, unpaid family workers, part time workers and apprentices. The findings of the survey show that total employment was approximately 14.9 million with the unlicensed establishments contributing 57.8 per cent. Paid employees in licensed businesses were 4.0 million

#### 5.1.1 Employment by County, Establishment Size and Licensing Status

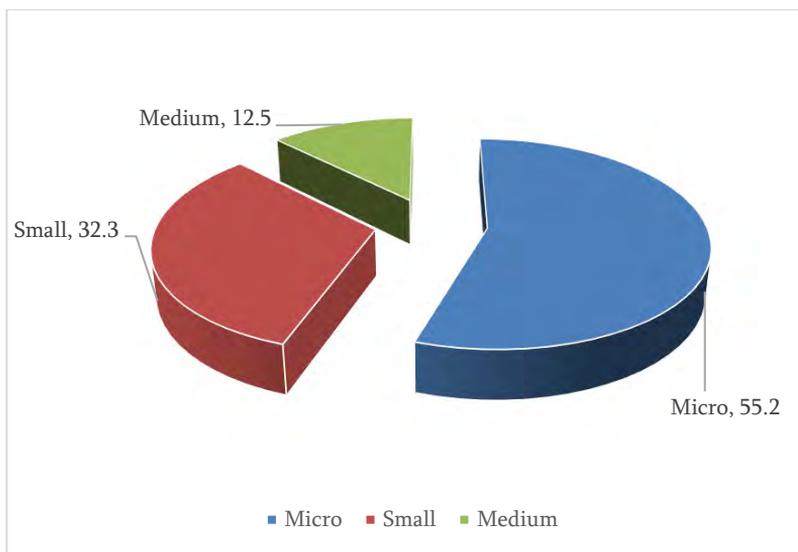
Employment in MSMEs by county, licensing status and size of establishment is presented in Table 5.1. Overall, micro sized establishments accounted for 81.1 per cent of employment reported in the MSMEs. All the unlicensed businesses, were found to be micro in nature.

The micro, small and medium sized establishments accounted for 55.2 per cent, 32.3 per cent and 12.5 per cent of employment in licensed businesses, respectively as depicted in Figure 5.1. The highest proportion of employment in licensed MSMEs was recorded in Nairobi accounting for 27.8 per cent of employment. Other counties with significant proportions of employment in licensed MSMEs were Nakuru (7.9 per cent), Kiambu (5.9 per cent), Meru (4.1 per cent) and Kisumu (4.0 per cent). The counties that reported high proportions of persons engaged in unlicensed Micro establishments included Nairobi (12.8 per cent), Machakos (7.7 per cent), Kakamega (5.9 per cent) and Bungoma (4.8 per cent).

**Table 5.1: Employment by Establishment Size, Licensing Status and County**

County	Number '000					
	Licensed				Unlicensed	Total
	Micro	Small	Medium	Total	Micro	
Nairobi	741.5	750.7	252.3	1,744.5	1,106.9	2,851.4
Nyandarua	30.5	8.5	10.5	49.4	114.3	163.8
Nyeri	85.0	13.9	19.2	118.1	194.9	313.0
Kirinyaga	53.0	11.7	6.3	71.0	154.1	225.1
Muranga	35.6	8.0	3.5	47.1	135.6	182.7
Kiambu	180.8	138.9	48.3	368.0	276.8	644.8
Mombasa	105.7	77.1	18.8	201.5	239.6	441.1
Kwale	37.3	17.8	14.7	69.7	179.8	249.5
Kilifi	66.7	14.3	14.7	95.7	338.5	434.2
Tana River	4.2	1.6	2.2	8.0	42.4	50.4
Lamu	18.4	4.2	1.1	23.7	38.8	62.5
Taita Taveta	40.1	17.9	21.9	79.8	85.4	165.2
Marsabit	4.6	2.3	0.5	7.4	42.7	50.1
Isiolo	5.4	2.2	1.5	9.1	21.4	30.5
Meru	195.4	47.8	16.7	259.9	151.8	411.7
Tharaka	16.7	5.0	-	21.7	97.1	118.8
Embu	46.3	15.7	3.9	66.0	108.5	174.5
Kitui	36.4	9.0	-	45.4	79.3	124.7
Machakos	110.5	81.9	15.8	208.2	667.7	875.9
Makueni	48.3	9.9	1.6	59.8	127.6	187.5
Garissa	9.5	2.9	1.5	13.9	53.9	67.8
Wajir	2.7	0.4	1.1	4.2	3.7	7.9
Mandera	44.8	13.7	-	58.5	56.4	114.9
Siaya	27.7	5.8	6.2	39.7	267.1	306.8
Kisumu	101.2	97.0	50.4	248.5	249.8	498.3
Migori	88.6	57.9	5.4	152.0	138.0	290.0
Homa Bay	126.2	49.0	16.3	191.5	269.6	461.1
Kisii	55.7	35.6	13.3	104.5	238.2	342.7
Nyamira	69.3	20.9	5.6	95.8	81.0	176.8
Turkana	20.3	8.6	2.3	31.2	160.6	191.8
West Pokot	6.3	1.2	-	7.5	89.9	97.5
Samburu	14.3	6.3	1.1	21.8	37.3	59.0
Trans-Nzoia	32.0	11.7	8.2	51.9	116.1	168.0
Baringo	31.8	11.2	-	42.9	124.2	167.1
Uasin Gishu	132.3	50.9	7.2	190.4	230.0	420.4
Elgeyo Marakwet	9.7	3.2	-	12.9	30.7	43.5
Nandi	29.3	9.5	3.3	42.1	153.0	195.1
Laikipia	28.3	13.1	4.4	45.8	87.9	133.7
Nakuru	270.1	143.7	81.2	495.0	261.7	756.7
Narok	46.3	25.4	16.6	88.3	113.0	201.3
Kajiado	111.4	66.9	27.0	205.3	121.4	326.7
Kericho	48.1	45.7	21.4	115.2	132.9	248.1
Bomet	31.1	8.8	-	39.8	272.1	311.9
Kakamega	122.6	59.2	36.8	218.5	507.0	725.5
Vihiga	24.7	6.4	0.5	31.6	102.8	134.4
Bungoma	58.6	28.7	7.1	94.3	410.1	504.5
Busia	60.0	6.2	17.1	83.3	106.0	189.3
<b>Kenya</b>	<b>3,465.1</b>	<b>2,027.8</b>	<b>787.6</b>	<b>6,280.5</b>	<b>8,617.8</b>	<b>14,898.3</b>

**Figure 5.1: Percentage Distribution of Employment in Licensed Establishments**



### **5.1.3 Employment by County and Licensing status**

Table 5.2 presents the number of persons engaged in MSMEs by County and licensing status. Nairobi City County registered the highest number of employees followed by Machakos and Nakuru counties. The counties that recorded high proportions of the persons engaged in the Licensed MSME businesses compared to those in the unlicensed establishments were in Nakuru, Meru and Kajiado at 65.4 per cent, 63.1 and 62.8 per cent, respectively. More than 90.0 per cent of persons employed in MSMEs in West Pokot County were found to be working in unlicensed businesses. Other counties with high proportion of employees in unlicensed businesses include Bomet (87.2 per cent), Siaya (87.0 per cent), Tana River (84.2 per cent) and Marsabit (85.2 per cent).

**Table 5.2. Employment by County and Licensing Status**

County	Total Number in '000	Licensing Status (%)	
		Licensed	Unlicensed
Nairobi	2,851.4	61.2	38.8
Nyandarua	163.8	30.2	69.8
Nyeri	313.0	37.7	62.3
Kirinyaga	225.1	31.5	68.5
Muranga	182.7	25.8	74.2
Kiambu	644.8	57.1	42.9
Mombasa	441.1	45.7	54.3
Kwale	249.5	27.9	72.1
Kilifi	434.2	22.0	78.0
Tana River	50.4	15.8	84.2
Lamu	62.5	37.9	62.1
Taita Taveta	165.2	48.3	51.7
Marsabit	50.1	14.8	85.2
Isiolo	30.5	29.7	70.3
Meru	411.7	63.1	36.9
Tharaka	118.8	18.3	81.7
Embu	174.5	37.8	62.2
Kitui	124.7	36.4	63.6
Machakos	875.9	23.8	76.2
Makueni	187.5	31.9	68.1
Garissa	67.8	20.5	79.5
Wajir	7.9	53.0	47.0
Mandera	114.9	50.9	49.1
Siaya	306.8	13.0	87.0
Kisumu	498.3	49.9	50.1
Migori	290.0	52.4	47.6
Homa Bay	461.1	41.5	58.5
Kisii	342.7	30.5	69.5
Nyamira	176.8	54.2	45.8
Turkana	191.8	16.3	83.7
West Pokot	97.5	7.7	92.3
Samburu	59.0	36.8	63.2
Trans-Nzoia	168.0	30.9	69.1
Baringo	167.1	25.7	74.3
Uasin Gishu	420.4	45.3	54.7
Elgeyo Marakwet	43.5	29.5	70.5
Nandi	195.1	21.6	78.4
Laikipia	133.7	34.3	65.7
Nakuru	756.7	65.4	34.6
Narok	201.3	43.8	56.2
Kajiado	326.7	62.8	37.2
Kericho	248.1	46.4	53.6
Bomet	311.9	12.8	87.2
Kakamega	725.5	30.1	69.9
Vihiga	134.4	23.5	76.5
Bungoma	504.5	18.7	81.3
Busia	189.3	44.0	56.0
<b>Total</b>	<b>14,898.3</b>	<b>42.2</b>	<b>57.8</b>

### 5.1.4 Employment by Economic Activity

Wholesale and retail trade and; repair of motor vehicles and motor cycles accounted for more than half of the total persons working in MSMEs as shown Table 5.3. Manufacturing, Accommodation and food service activities accounted for 11.8 per cent and 11.1 per cent of all persons engaged in MSMEs, respectively.

**Table 5.3. Employment by Economic Activity**

Economic Activity	Number '000		
	Licensed	Unlicensed	Total
Agriculture, forestry and fishing.	13.1	383.0	396.2
Mining and quarrying.	22.4	32.0	54.4
Manufacturing.	666.1	1,094.3	1,760.4
Electricity, gas, steam and air conditioning supply.	9.5	-	9.5
Water supply; sewerage, waste management and remediation activities.	19.0	11.6	30.6
Construction.	81.6	16.0	97.7
Wholesale and retail trade; repair of motor vehicles and motorcycles.	2,609.1	5,404.7	8,013.7
Transportation and storage.	168.1	244.8	412.9
Accommodation and food service activities.	870.0	779.7	1,649.7
Information and communication.	88.9	-	88.9
Financial and insurance activities.	255.3	-	255.3
Real estate activities.	51.9	64.7	116.6
Professional, scientific and technical activities.	154.9	2.8	157.7
Administrative and support service activities.	120.2	-	120.2
Education.	601.5	112.9	714.4
Human health and social work activities.	115.8	6.5	122.3
Arts, entertainment and recreation.	46.0	48.4	94.3
Other service activities.	387.2	416.3	803.6
<b>Total</b>	<b>6,280.5</b>	<b>8,617.8</b>	<b>14,898.3</b>

### 5.1.5 Employment distribution by Economic Activity and Establishment Size

Table 5.4 presents the percentage distribution of persons engaged by economic activity and size of establishment. Across all establishment sizes, wholesale and retail trade accounted for the highest proportion of employment. Within the small sized establishments, high proportions of employment of 22.5 per cent and 18.1 per cent were recorded in Education, Accommodation and food service activities, respectively.

**Table 5.4 Proportion of Persons Engaged in licensed MSMEs by Economic Activity and Establishment Size**

<b>Economic Activity</b>	<b>Percent</b>		
	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
Agriculture, forestry and fishing	0.2	0.3	0.1
Mining and quarrying	0.2	0.8	-
Manufacturing	11.4	6.4	17.7
Electricity, gas, steam and air conditioning supply	0.1	0.4	0.0
Water supply; sewerage, waste management and remediation activities	0.1	0.8	-
Construction	0.6	2.1	2.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	53.0	27.0	28.7
Transportation and storage	1.1	3.4	7.6
Accommodation and food service activities	11.9	18.1	11.7
Information and communication	0.9	2.6	0.8
Financial and insurance activities	3.7	4.1	5.7
Real estate activities	0.7	0.7	1.6
Professional, scientific and technical activities	1.4	3.0	5.5
Administrative and support service activities	1.8	2.3	1.4
Education	1.7	22.5	10.8
Human health and social work activities	1.2	2.1	4.3
Arts, entertainment and recreation	0.9	0.7	-
Other service activities	9.2	2.7	1.7

### ***5.1.6 Distribution of paid Employment and average hours per week in licensed establishments by Economic Activity***

Table 5.5 presents the number of paid employees in licensed establishments by economic activity. Businesses in wholesale and retail trade absorbed the highest proportion of paid employees. Regular full time employees accounted for 79.0 per cent of total paid employment in licensed MSMEs while part time employees accounted for 4.1 per cent. Regular full time employees accounted for over 90.0 per cent of the total paid employment in Financial and Insurance and Real estate activities. Casual employees accounted for 16.9 per cent of total paid employment. Figure 5.2, shows that 57.1 per cent of the paid employees in the construction industry were engaged on casual terms. In Information and Communication; Finance and Insurance; and Real estate activities, less than 5.0 per cent of their paid employees were casuals.

**Table 5.5: Number of Paid Employees in Licensed Establishments**

Economic Activity	Number '000			
	Regular Full-time	Regular part-time	Casual	Total
Agriculture, forestry and fishing.	4.5	0.5	2.8	7.7
Mining and quarrying.	14.0	1.0	3.2	18.2
Manufacturing.	260.7	25.1	118.9	404.6
Electricity, gas, steam and air conditioning supply.	4.6	0.3	4.0	8.9
Water supply; sewerage, waste management and remediation activities.	8.7	0.1	3.4	12.2
Construction.	26.8	1.5	37.7	66.1
Wholesale and retail trade; repair of motor vehicles	1,105.0	40.2	214.2	1,359.4
Transportation and storage.	112.8	1.8	22.6	137.2
Accommodation and food service activities.	528.5	23.6	99.4	651.4
Information and communication.	59.3	10.4	1.9	71.6
Financial and insurance activities.	153.6	6.5	4.8	164.9
Real estate activities.	37.8	1.0	1.9	40.7
Professional, scientific and technical activities.	88.7	9.4	27.5	125.6
Administrative and support service activities.	64.8	2.5	12.8	80.1
Education.	465.0	17.2	36.5	518.7
Human health and social work activities.	79.2	4.9	9.0	93.1
Arts, entertainment and recreation.	25.9	0.3	4.0	30.2
Other service activities.	127.3	18.5	72.9	218.7
<b>Total</b>	<b>3,167.1</b>	<b>164.7</b>	<b>677.4</b>	<b>4,009.2</b>

**Figure 5.2: Percentage Distribution of Casual Employment in Licensed Establishments by Economic Activity**

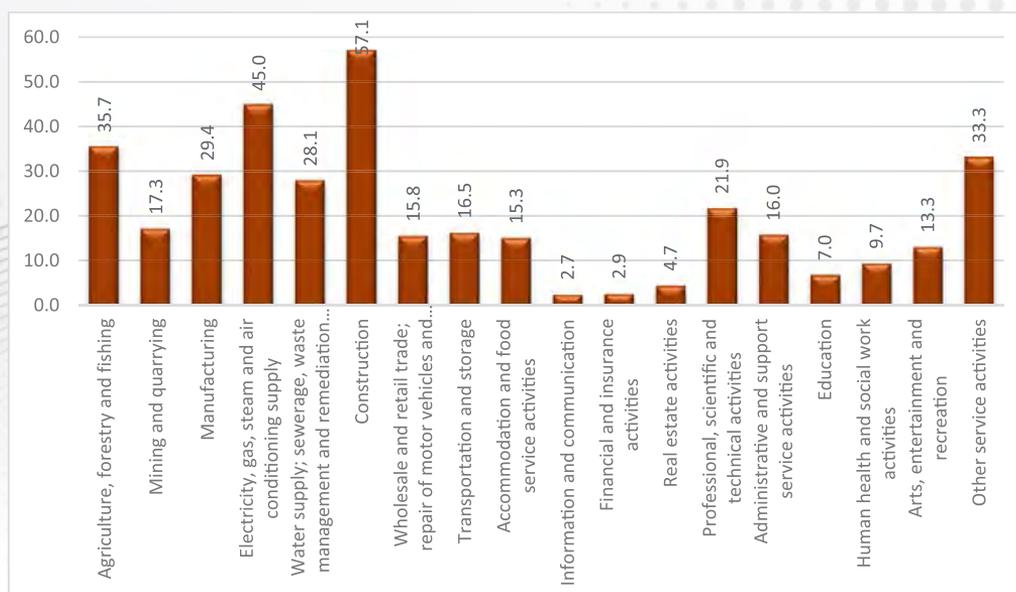


Table 5.6 presents the average hours worked per week for employees in licensed establishments by economic activity. MSME workers in licensed Accommodation and food service activities worked for the longest number of hours at 58 hours per week followed by those who worked in Transport and storage, Water supply, sewerage, waste management and remediation and Wholesale and retail trade activities at 53 hours, 52 hours and 51 hours, respectively. The least number of hours worked were recorded for employees in Agriculture, forestry and fishing at 29 hours.

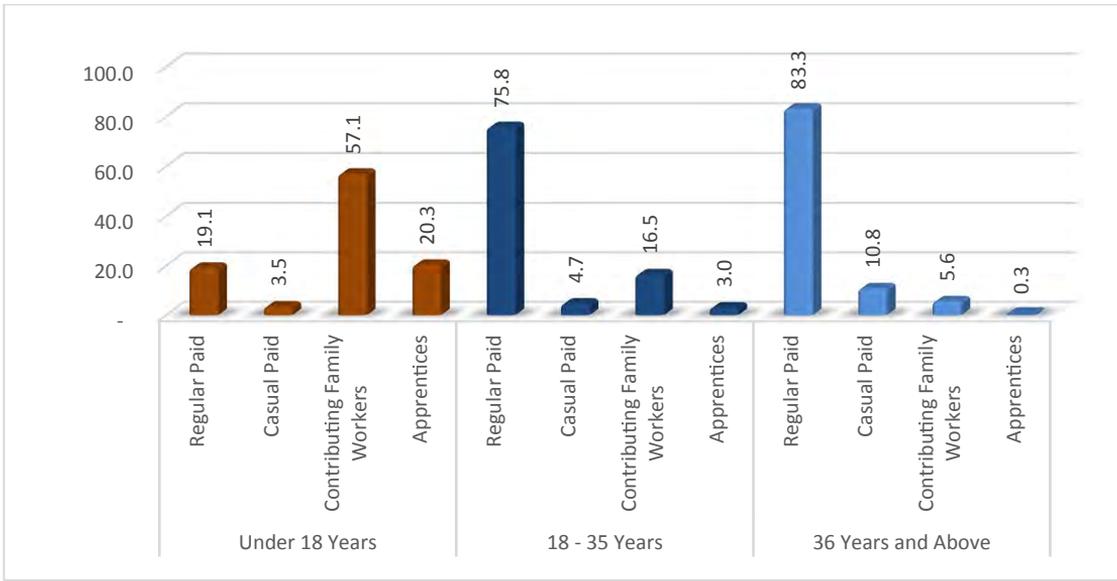
**Table 5.6: Average Hours Worked per Week in Licensed Establishments by Economic Activity**

<b>Economic Activity</b>	<b>Average hours of worked per week</b>
Agriculture, forestry and fishing	29
Mining and quarrying	45
Manufacturing	43
Electricity, gas, steam and air conditioning supply	49
Water supply; sewerage, waste management and remediation activities	52
Construction	46
Wholesale and retail trade; repair of motor vehicles and motorcycles	51
Transportation and storage	53
Accommodation and food service activities	58
Information and communication	45
Financial and insurance activities	45
Real estate activities	43
Professional, scientific and technical activities	42
Administrative and support service activities	41
Education	39
Human health and social work activities	46
Arts, entertainment and recreation	49
Other service activities	47

### 5.1.6 Employment by Age and Terms of Engagement

Information on age and terms of engagement for persons engaged in MSMEs, (excluding owners) is shown in Figure 5.3. Majority of the minors (below 18 years) were found to be contributing family workers. More than three quarters of both the youth and those aged 36 years and above were in regular paid employment.

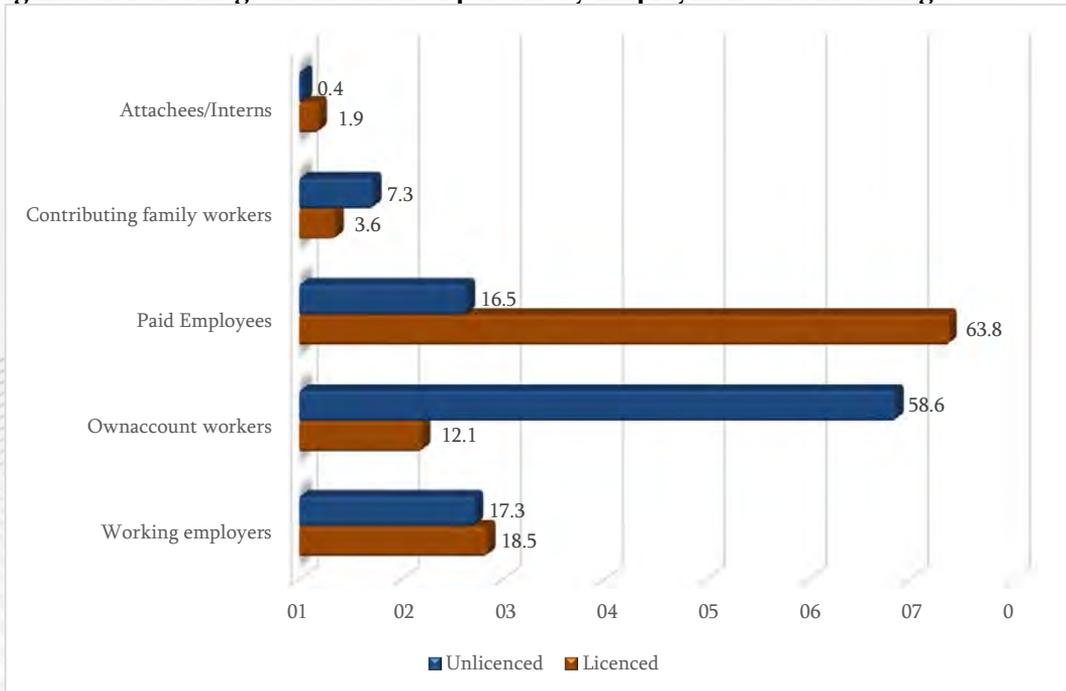
**Figure 5.3: Distribution of Employees by Age and Terms of Engagement**



**5.1.7 Distribution of Persons by Employment and Licensing Status**

For licensed businesses, the proportion of paid employees and working employers was 63.8 per cent and 18.5 per cent, respectively as shown in Figure 5.4. In the unlicensed businesses, 58.6 per cent of those engaged were own account workers while 16.5 per cent were paid employees.

**Figure 5.4: Percentage distribution of persons by Employment and Licensing Status**



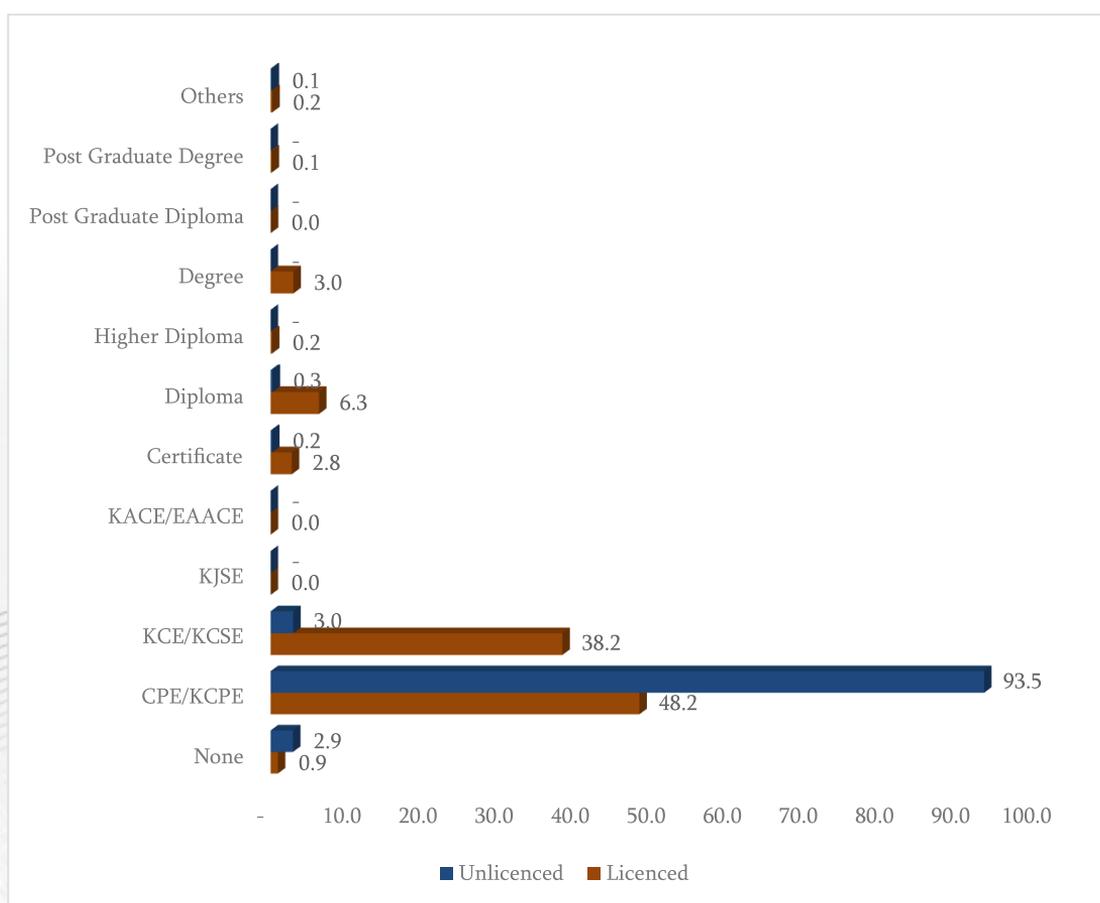
## 5.2 Training and Development in the MSME Sector

This section presents the survey findings on employees' educational qualifications, distribution of employees by type of training, establishment licensing status and sponsorship for training.

### 5.2.1 Employees' Educational Qualifications

The highest proportion of MSME employees in both unlicensed and licensed businesses had primary level of education. Those with KCPE/CPE qualification accounted for 93.5 per cent and 48.2 per cent in unlicensed and licensed establishments, respectively as shown in Figure 5.5. Those with KCSE/KCE qualifications accounted for 38.2 per cent and 3.0 per cent of employees in licensed and unlicensed MSMEs, respectively. Three per cent of employees in licensed MSMEs businesses had a degree as the highest educational qualification. Tables 5.7 and 5.8 present distribution of employees by highest qualification, establishment licensing status and economic activity.

**Figure 5.5: Percentage Distribution of Employees by Highest Educational Qualification Acquired and Establishment Licensing Status**



**Table 5.7 Distribution of Employees in Licensed Establishments by Highest Educational Qualification Acquired and Economic Activity**

Economic Activity	None	CPE/KCPE	KCE/KCSE	KJSE	KACE/EA ACE	Certificate	Diploma	Higher Diploma	Degree	Post Graduate Diploma	Post Graduate Degree	Others
Agriculture, forestry and fishing	2,268	1,648	3,291	-	-	75	488	7	163	-	-	348
Mining and quarrying	2,170	5,494	1,600	-	-	24	724	-	724	-	483	1,173
Manufacturing	26,202	1,229,876	749,783	16	-	119,129	25,637	3,339	15,904	473	382	5,537
Electricity, gas, steam and air conditioning supply	-	34	286	-	-	5,763	1,546	-	1,154	-	3	-
Water supply; sewerage, waste management and remediation activities	-	578	5,404	-	-	-	739	-	550	111	-	-
Construction	462	3,138	15,555	-	-	5,885	7,554	1,300	2,895	-	65	294
Wholesale and retail trade; repair of motor vehicles and motorcycles	80,075	7,779,471	5,122,169	168	364	90,434	154,469	6,301	180,798	1,164	5,570	9,720
Transportation and storage	15,361	8,616	57,314	-	45	7,125	74,546	3,987	8,010	120	265	2,415
Accommodation and food service activities	33,455	184,489	570,336	528	184	69,112	70,358	693	12,046	158	50	7,628
Information and communication	1,077	1,272	1,880	-	125	4,057	19,060	1,101	32,378	483	1,153	-
Financial and insurance activities	2,178	3,384	128,336	-	7	11,487	77,451	268	218,730	1,536	5,189	59
Real estate activities	385	-	6,937	-	-	5,683	4,525	726	4,947	-	483	-
Professional, scientific and technical activities	9,838	1,023	10,487	-	301	7,457	628,555	9,551	35,009	483	3,622	-
Administrative and support service activities	498	6,556	76,524	-	-	14,045	43,322	1,488	9,524	-	-	701
Education	4,409	12,371	57,075	-	266	160,072	100,557	3,526	45,530	1,336	5,910	9,352
Human health and social work activities	1,302	902	10,690	-	5	11,877	23,456	1,354	18,140	116	2,048	2,250
Arts, entertainment and recreation	972	3,877	27,032	-	-	3,658	1,628	104	3,351	-	483	169
Other service activities	5,726	297,204	703,512	45	841	31,823	15,745	318	626	-	170	3,520
<b>Total</b>	<b>186,379</b>	<b>9,539,932</b>	<b>7,548,212</b>	<b>757</b>	<b>2,140</b>	<b>547,703</b>	<b>1,250,360</b>	<b>34,063</b>	<b>590,478</b>	<b>5,981</b>	<b>25,876</b>	<b>43,167</b>

**Table 5.8 Distribution of Employees in Unlicensed Establishments by Highest Educational Qualification Acquired and Economic Activity**

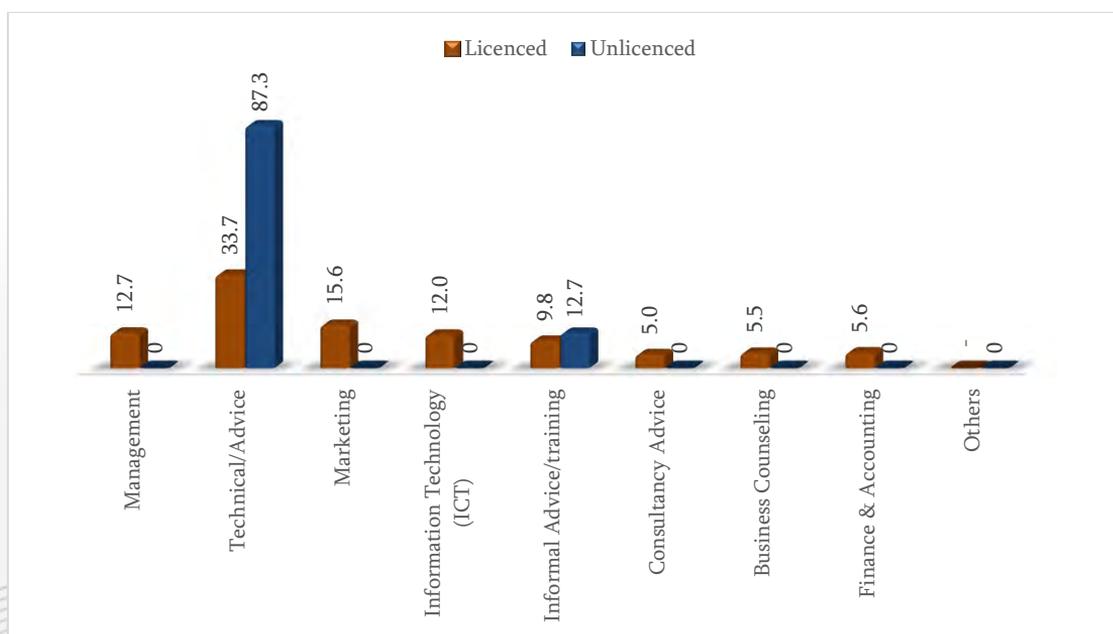
Economic Activity	None	CPE/KCPE	KCE/KCSE	Certificate	Diploma	Others
Agriculture, forestry and fishing	7,763	17,109,003	29,375	-	-	1,797
Mining and quarrying	-	9,482	-	-	-	-
Manufacturing	86,766	72,835	100,350	-	-	22,994
Construction	-	11,323	-	-	-	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	314,266	448,747	302,206	13,573	28,412	611
Transportation and storage	46,955	11,688	2,462	-	-	-
Accommodation and food service activities	41,582	53,889	57,574	-	-	-
Real estate activities	13,736	6,953	-	-	-	-
Professional, scientific and technical activities	-	863	-	-	-	-
Education	7,184	-	30,956	21,824	21,552	-
Arts, entertainment and recreation	8,801	-	-	-	-	-
Other service activities	27,106	21,394	37,172	-	-	-
<b>Total</b>	<b>554,160</b>	<b>17,746,178</b>	<b>560,095</b>	<b>35,397</b>	<b>49,964</b>	<b>25,402</b>

## 5.2.2 Training of Employees

Figure 5.6 depicts the proportion of employees by type of training received in the five years prior to the survey and licensing status. The major types of training received in the licensed businesses was mostly technical advice (33.7 per cent), marketing training (15.6 per cent) and management (12.7 per cent). The unlicensed businesses majorly received training in form of technical and informal advice at 87.3 per cent and 12.7 per cent, respectively.

Table 5.9 presents employees' training received by economic activity in licensed businesses. From the licensed business category, in the manufacturing sector majority of employees received Technical advice form of training at 63.8 per cent in the last 5 years. Generally, the common form of training received in the last five years across almost all the economic activities was Technical advice training. However, majority of employees in the Financial and Insurance activities sector received training in marketing.

**Figure 5.6: Percentage Distribution of Employees by Training Received and Establishment Licensing Status**



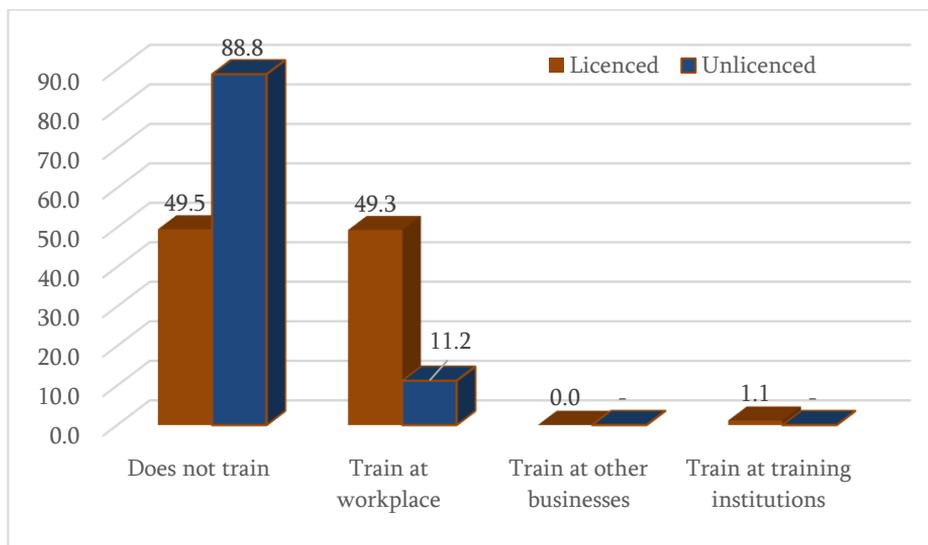
**Table 5.9: Employees' Training Received by Economic Activity in Licensed Establishments**

Economic Activity	Management	Technical Advice	Marketing	Information Technology	Informal Advice/training	Consultancy Advice	Business Counseling	Finance & Accounting
Agriculture, forestry and fishing	37	45	-	-	30	-	-	-
Mining and quarrying	-	15	-	-	-	-	-	-
Manufacturing	3,667	33,557	3,785	1,994	5,018	554	648	3,353
Electricity, gas, steam and air conditioning supply	6	518	475	-	-	579	9	6
Water supply; sewerage, waste management and remediation activities	188	431	-	-	-	-	-	105
Construction	3,459	7,316	101	-	878	-	-	331
Wholesale and retail trade; repair of motor vehicles and motorcycles	51,313	87,790	72,549	43,815	31,656	5,874	20,493	27,008
Transportation and storage	2,960	18,867	498	3,549	1,389	2,448	685	505
Accommodation and food service activities	6,685	21,328	9,006	2,943	11,575	781	3,238	2,089
Information and communication	1,039	11,938	1,777	10,593	131	1,449	2,012	301
Financial and insurance activities	23,784	18,163	24,935	17,810	9,291	17,394	15,190	14,494
Real estate activities	674	1,508	3,139	2,415	15	241	-	241
Professional, scientific and technical activities	6,965	44,212	3,477	9,097	3,444	1,553	167	3,380
Administrative and support service activities	2,588	8,069	8,804	9,629	2,170	5,329	3,546	139
Education	14,692	36,017	1,431	10,504	15,311	5,241	5,272	1,991
Human health and social work activities	999	14,420	10,378	1,356	7,123	4,459	997	289
Arts, entertainment and recreation	365	3,499	1,804	-	315	-	-	-
Other service activities	3,203	16,568	7,814	2,171	6,225	2,175	883	86
<b>Total</b>	<b>122,625</b>	<b>324,261</b>	<b>149,974</b>	<b>115,876</b>	<b>94,573</b>	<b>48,078</b>	<b>53,139</b>	<b>54,318</b>

### 5.2.3 Training Arrangements for Employees below 18 Years

The survey findings show that 88.8 per cent of the unlicensed businesses and 49.5 of the licensed businesses did not have training arrangements for their employees aged below 18 years. About half of licensed businesses reported to have made training arrangements for their employees aged below 18 years at the work place while 1.1 per cent of them made arrangements in training institutions as shown in Figure 5.7.

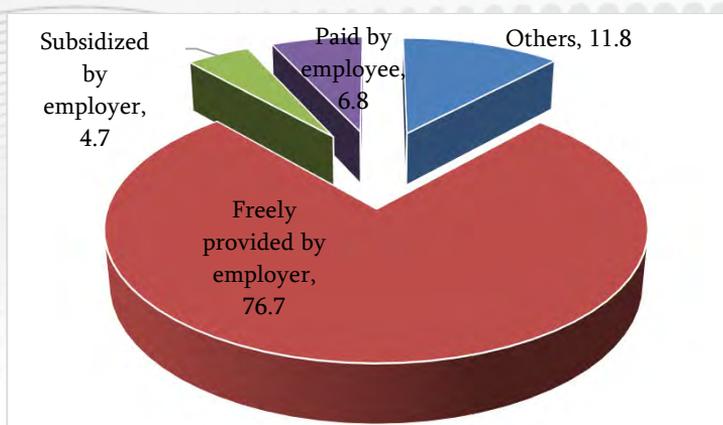
**Figure 5.7: Proportion of Establishments by Type of Training Arrangement for Employees Under 18 Years**



### 5.3.4 Sponsorship for Training of Employees Under 18 Years

Figure 5.8 shows the form of sponsorship for training of employees under 18 years in licensed businesses. About three quarters of the licensed businesses reported to have freely provided funding for training employees of this category. Freely provided funding the employer for training of the under 18 years employees was the only form of sponsorship provided by unlicensed businesses.

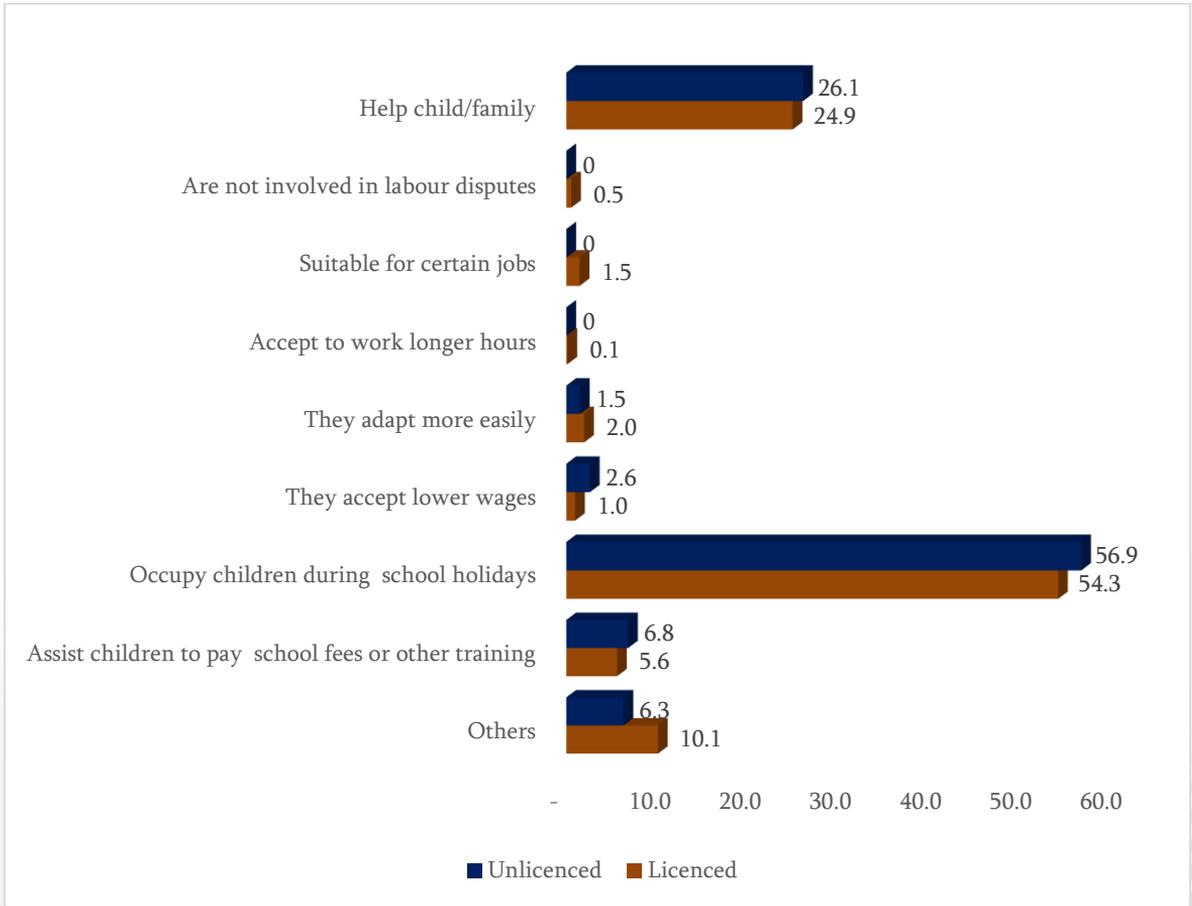
**Figure 5.8: Percentage Distribution of Establishments by Form of Sponsorship for Employees' Training in Licensed Businesses**



### 5.3.5 Main Reason for Engaging Employees Under 18 Years

The main reasons for engaging employees under 18 years in both the licensed and unlicensed businesses were; to occupy children during school holidays and to help the children and their families as shown in Figure 5.9.

Figure 5.9: Percentage Distribution of Establishments by Main Reason for Engaging Employees under 18 Years and Licensing Status



### 5.3 Labour Dispute Resolution Mechanisms

Disputes arise between business owners and employees in the course of doing business. The survey sought to establish the mechanisms used in resolving such disputes. Figure 5.10 shows the distribution of licensed establishments by means of dispute resolution. Solving the dispute without use of a third party was reported by 81.4 per cent and 27.5 per cent of the licensed and unlicensed businesses, respectively. About 70.0 per cent of the unlicensed businesses did not have any dispute to resolve.

**Figure 5.10. Percentage Distribution of Establishments by Type of Dispute Resolution Mechanism and Establishment Licensing Status**

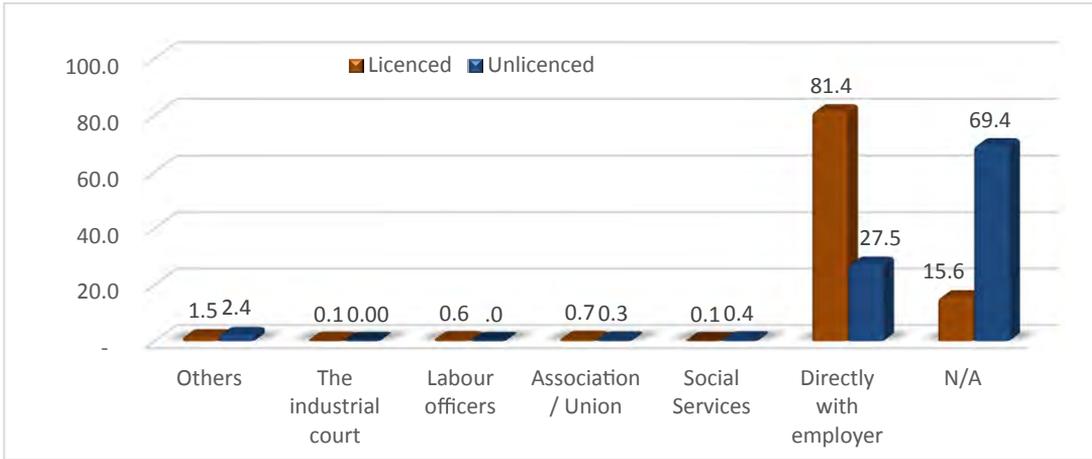
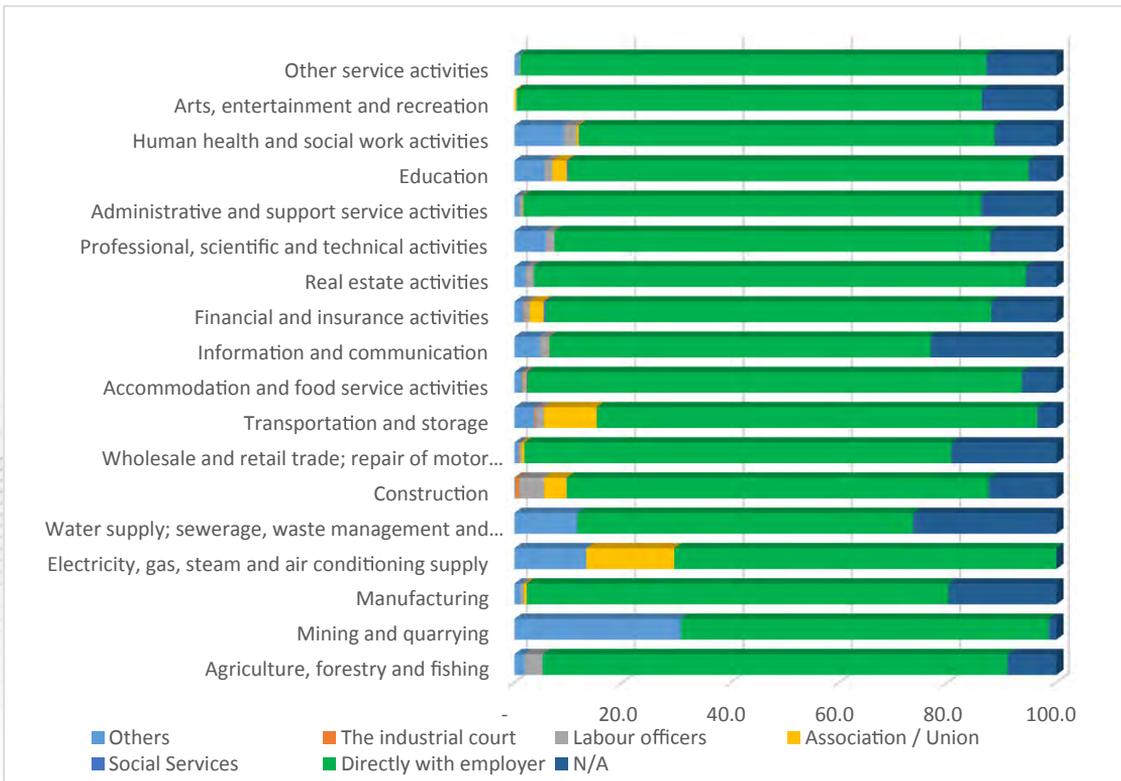


Figure 5.11 shows labour dispute resolution mechanism by economic activity. Solving disputes directly with the employer was the most preferred mechanism across all sectors. Use of associations/unions in resolving labour disputes was mainly used in Electricity, gas, steam and air conditioning; Transport and Storage; and Construction activities.

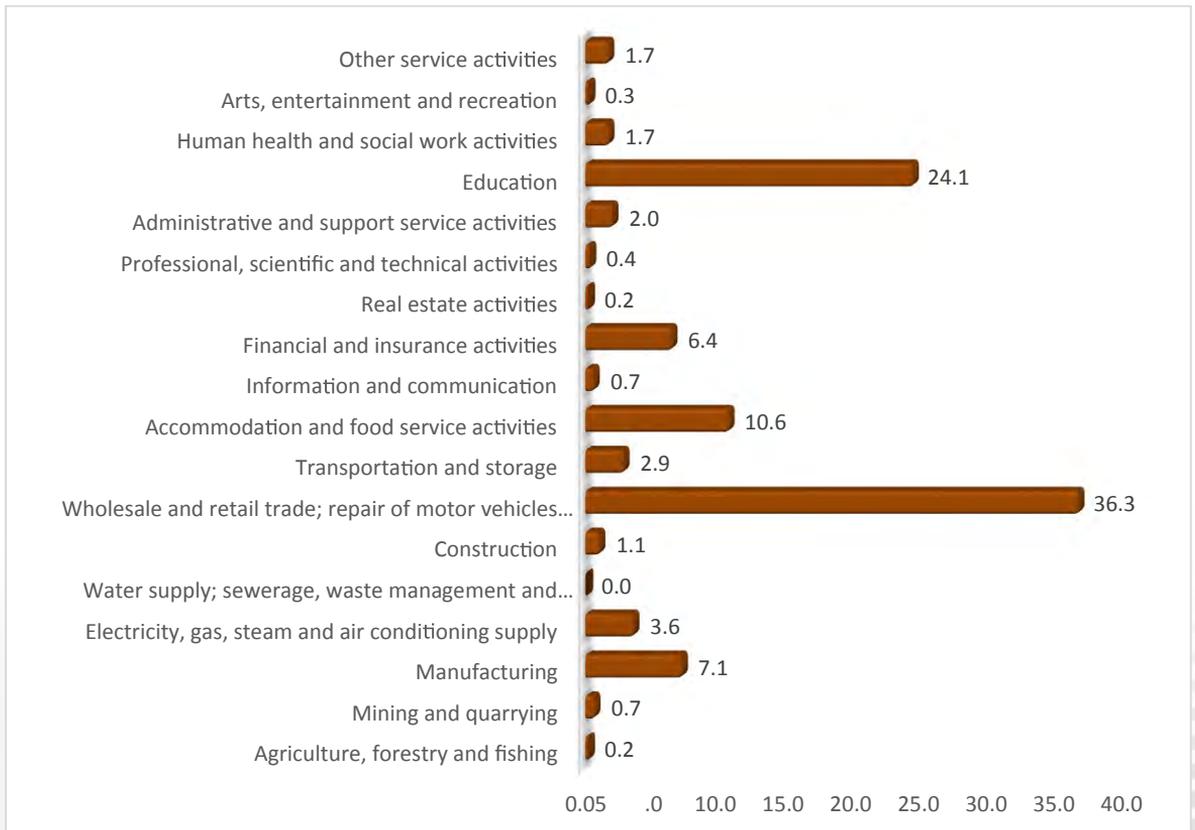
**Figure 5.11: Percentage Distribution of Establishments by Dispute Resolution by Economic Activity**



#### 5.4 Number of Employees in Unions by Economic Activity

The distribution of employees in unions by industry are shown in Figure 5.12. Wholesale and retail trade; repair of motor vehicles and motorcycles had the highest proportion of employees in unions at 36.3 per cent. The Education, Accommodation and food service activities accounted for 24.1 per cent and 10.6 per cent of all MSME employees in labour unions, respectively.

**Figure 5.12: Percentage Distribution of Employees in Trade Unions by Economic Activity**



## Chapter 6

# Contribution of MSME to GDP

### 6.1 Introduction

**M**icro, Small and Medium Establishments (MSMEs) play a key role in economic growth and industrial development of a country. They make vital contributions in improving economic and social sectors of a country through stimulating large scale employment, investment, development of indigenous skills and technology, promoting entrepreneurship and innovativeness, enhancing exports, and also building an industrial base at different scales (UNIDO, 2010<sup>2</sup>). A competitive and innovative MSME sector holds out enormous promise particularly for developing countries like Kenya, in terms of: higher income growth; optimal employment of domestic resources; more gainful integration through regional trade and investment; and greater equity in access, distribution and development.

This chapter highlights the findings from the survey and contributions of the MSME to the Kenyan economy. It also gives a breakdown of the output of the MSMEs by size and type of economic activity. From the findings of the survey, a salient observation is the predominant share of wholesale and retail trade compared to the other industries, signalling that the MSMEs in Kenya are more into the service industry.

### 6.2 MSMEs Contribution to the Kenyan Economy

One of the objectives of the survey was to collect data to be used for estimating the contribution of the MSME to the Gross Domestic Product (GDP). This section provides an account of how the value added generated by MSMEs was estimated, concepts and definitions used and the estimated GDP for these establishments in 2015.

### 6.3 Terms and Definitions

This part is meant to give a brief introduction to readers who may not be familiar with the concepts of compilation of the Gross Domestic Product (GDP).

#### 6.3.1 Basic Prices

The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any tax payable, and plus any subsidy receivable, by the producer as a consequence of its production or sale. It excludes any transport charges invoiced separately by the producer (SNA, 2008).

#### 6.3.2 Purchasers' Prices

Purchasers' Prices are the amounts paid by the purchasers, excluding the deductible part of taxes on products (e.g. deductible VAT). Purchasers' prices are the actual costs to the users.

<sup>2</sup>United Nation International Development Organization Annual Report, 2010

### **6.3.3 Gross Output**

Gross Output is the value of goods and services produced within an accounting period. The preferred method of valuation of gross output is basic prices.

### **6.3.4 Intermediate Consumption**

Intermediate Consumption consists of goods and services used up in the course of production within the accounting period. Intermediate consumption is mainly composed of the nonlabour inputs consumed in the process of production.

#### **The items included under intermediate consumption are:**

1. Cost of all raw materials, semi-finished goods, parts, containers, and supplies put into production or used as operating supplies and for ordinary regular maintenance and repair during the accounting period
2. Cost of electricity and fuel consumed by the individual establishment during the accounting period
3. Cost of contract work. The term “contract work” refers to the fee a company pays to another company to perform a service
4. Operating expenses such as the rentals paid on buildings or equipment under an operating lease, and also fees, commissions, royalties, etc., payable under licensing arrangements

#### **Expenditures Excluded are:**

1. The value of the depreciation of fixed assets
2. Valuables bought by establishments such as works of art, precious metals and stones, ornaments and jewellery
3. Major renovations, reconstructions, or enlargements of existing fixed assets enhancing their efficiency or capacity, or prolonging their expected working lives
4. Expenditures on mineral exploration
5. Expenditures on research and development
6. Items used by employees in their own time and at their own discretion for their own use, are regarded as remuneration in kind, not intermediate consumption.

### **6.3.5 Value Added**

Value Added measures the value created by production process which is derived as the difference between the industry output at basic prices and the intermediate consumption of the industry at purchasers' prices within the accounting period. It is represented as a balancing item in the production account for an institutional unit, sector, establishment or industry.

## 6.4 Compilation of the Production Account

Production account has three components namely; gross output, intermediate consumption and gross value added. Ideally, gross output and intermediate consumption should be derived independently. Gross value added is then derived as gross output at basic prices less intermediate consumption at purchasers' prices.

Generally, the gross output for both licensed and unlicensed establishments was derived by annualising the normal monthly revenue. This was based on the assumption that all the revenue reported by the establishments was from their respective economic activities, and not for instance from sale of assets. Another limitation to the estimation of the gross output is that no adjustment for changes in inventories was done.

For wholesale and retail trade gross output was estimated by applying a trade margin of 15 per cent to the normal monthly revenue. The 15 per cent trade margin was based on a survey of trade margin conducted in 2010. According to System National Accounts (SNA) the gross output of the wholesale and retail trade activities should be equal to the revenue from the sale of goods purchased for resale less the value of procuring these goods. The survey however did not collect the information in this format and therefore necessitated this approach.

Two sections of the ISIC were excluded from the production account; Electricity, gas, steam and air conditioning supply; and Finance and insurance. According to ISIC, electricity supply comprises of generation, transforming, transmission and distribution of electricity. In Kenya, these activities are carried out by KPLC, KenGen, Independent Power Producers and Ketraco which are all non-MSMEs. In addition, gross output for the distribution of electricity should be measured as a trade margin (similar to wholesale and retail trade) but the data collected in the survey was not sufficient to allow meaningful estimates for this activity. In addition, gas distribution through pipeline is not available while activities of steam and air condition supply are insignificant.

The activities of licensed establishments in Finance and Insurance have also not been included in the compilation of the production account as data collected was not sufficient to allow computation of its gross output. According to the System of National Accounts (SNA), output of financial activities equals explicit charges on respective services plus Financial Intermediation Indirectly Measured (FISIM). Gross output for life, nonlife insurance and pension funding, is calculated from the difference between insurance premium income and investment income less incurred claims and actuarial reserves. However, the data from the survey was not sufficient to allow such an analysis. In addition, though MSME survey collected data from SACCOs their revenue included contribution by members which should not be treated as part of output.

Estimation of the intermediate consumption from the relevant expenditure items from the survey resulted in unrealistic estimates. The intermediate consumption for the various activities has therefore been estimated by using the respective ratios of intermediate

consumption/gross output derived from the annual national accounts, which are based on input output matrix of 2009.

Table 6.1 shows the production account for the MSME for 2015. The value of the MSME's output is estimated at KSh 3,371.7 billion against a national output of KSh 9,971.4 representing a contribution of 33.8 per cent in 2015. In terms of gross value added, the MSME are estimated to have contributed KSh 1,780.0 billion compared to KSh 5,668.2 billion for the whole economy.

**Table 6.1: Production Account by Size of Establishment**

	Current Prices - KSh million					Total	Total
	Micro	Small	Medium	Unlicensed	MSME	Economy *	
Output at basic prices	918,702	1,227,533	911,178	314,320	3,371,732	9,971,406	
Intermediate consumption	412,336	579,571	471,162	128,617	1,591,687	4,303,226	
Value added, gross	506,366	647,962	440,016	185,702	1,780,046	5,668,180	

\* Source economic survey 2016

#### **6.4.1 Assumptions Underlying the Compilation of the Production Account**

1. Changes in inventories are not significant –therefore, turnover is a close estimate of production during the accounting period
2. Technology of production is homogeneous within industries
3. Revenue reported by the establishments was a close estimate of production of the respective economic activities
4. Normal monthly revenue reported during the survey period closely approximates the monthly average of 2015

Table 6.2 shows the production account for licensed and unlicensed establishments by type of economic activity for 2015. Manufacturing ranked the highest by contributing 24.3 per cent of the MSME's gross value added. Wholesale and retail trade, Transport and storage, and Education services also ranked high by contributing 22.8, 15.4 and 7.3 per cent, respectively to the gross value added. Unlicensed establishments contributed 10.4 per cent of the MSME's gross value added.

**Table 6.2: Production Account by Economic Activity**

Economic Activity	Current Prices - KSh million									
	Gross Output			Intermediate Consumption			Gross Value Added			
	Licensed	Unlicensed	Total	Licensed	Unlicensed	Total	Licensed	Unlicensed	Total	Total
Agriculture, forestry and fishing. *	2,510	58,077	60,587	408	9,437	9,844	2,102	48,640	50,742	50,742
Mining and quarrying.	54,633	2,506	57,139	22,455	1,030	23,484	32,179	1,476	33,654	33,654
Manufacturing.	895,171	84,109	979,280	499,241	46,908	546,149	395,930	37,201	433,131	433,131
Electricity, gas, steam and air conditioning supply.	61,654	-	61,654	31,586	-	31,586	30,068	-	30,068	30,068
Water supply; sewerage, waste management and remediation activities.	13,551	264	13,815	4,728	92	4,820	8,823	172	8,995	8,995
Construction.	143,206	2,701	145,907	75,633	1,427	77,059	67,573	1,274	68,848	68,848
Wholesale and retail trade; repair of motor vehicles and motorcycles.	586,385	84,110	670,495	230,809	33,107	263,916	355,576	51,003	406,579	406,579
Transportation and storage.	527,279	32,159	559,438	268,465	16,374	284,839	258,813	15,785	274,599	274,599
Accommodation and food service activities.	77,563	7,939	85,502	38,963	3,988	42,952	38,599	3,951	42,550	42,550
Information and communication.	156,137	-	156,137	94,583	-	94,583	61,554	-	61,554	61,554
Financial and insurance activities.	-	-	-	-	-	-	-	-	-	-
Real estate activities.	59,160	9,403	68,563	6,231	990	7,221	52,929	8,413	61,342	61,342
Professional, scientific and technical activities.	43,094	91	43,185	13,851	29	13,880	29,243	61	29,305	29,305
Administrative and support service activities.	57,361	-	57,361	9,113	-	9,113	48,248	-	48,248	48,248
Education.	218,750	4,011	222,761	90,726	1,663	92,390	128,024	2,347	130,371	130,371
Human health and social work activities.	72,830	782	73,612	34,939	375	35,314	37,891	407	38,298	38,298
Arts, entertainment and recreation.	13,312	2,357	15,669	6,335	1,122	7,457	6,977	1,235	8,212	8,212
Other service activities.	74,818	25,811	100,629	35,003	12,076	47,079	39,815	13,736	53,550	53,550
<b>Total</b>	<b>3,057,413</b>	<b>314,320</b>	<b>3,371,732</b>	<b>1,463,069</b>	<b>128,617</b>	<b>1,591,687</b>	<b>1,594,344</b>	<b>185,702</b>	<b>1,780,046</b>	<b>1,780,046</b>

\* Includes only agribusiness. Refer to Section 2.28.

## 6.5 Revenue

Overall, MSMEs reported a gross turnover of KSh 784.2 billion in the month prior to time of the survey out of which licensed businesses generated KSh 706.0 billion while unlicensed businesses sold goods and services worth KSh 78.2 billion as shown in Table 6.3a. The bulk of the revenue was generated by establishments in Wholesale and Retail trade activities which is largely synonymous with majority of small businesses. Under unlicensed businesses, wholesale and retail trade, manufacturing and agribusiness activities were the most prominent in that order. It is worth to note that micro enterprises and unlicensed enterprises reported a relatively higher amount of revenue generated from transportation activities than small and medium enterprises mainly attributable to enterprises involved in matatu and bodaboda business. As expected, medium enterprises recorded the highest amount of revenue from manufacturing activities mainly due to production capacity and level of technology employed in production processes. Survey findings also show a considerable amount of revenue (KSh 3.9 billion) generated unlicensed businesses involved in agribusiness (commercial agriculture such as rearing of livestock majorly for the market). Unlicensed enterprises are significantly engaged in manufacturing activities as evidenced by the amount of revenue (KSh 6.6 billion). Some of these activities include tailoring, metal works and fabrication, manufacture of furniture etc.

**Table 6.3a: Revenue Earned by MSMEs in the Previous Month**

	Licensed				Unlicense	Total
	Micro	Small	Medium	Sub-total	d	
Agriculture, forestry and fishing.	83	142	186	411	3,913	4,325
Mining and quarrying.	120	7,874	-	7,994	135	8,129
Manufacturing.	11,437	16,882	28,749	57,068	6,645	63,713
Electricity, gas, steam and air conditioning supply.	5,914	195	313	6,421		6,421
Water supply; sewerage, waste management and remediation activities.	519	4,252	-	4,771	22	4,793
Construction.	1,011	6,139	3,026	10,176	92	10,268
Wholesale and retail trade; repair of motor vehicles and motorcycles.	165,653	224,911	65,917	456,481	59,606	516,087
Transportation and storage.	19,237	16,792	11,225	47,253	2,826	50,079
Accommodation and food service activities.	3,720	4,156	497	8,373	972	9,344
Information and communication.	1,220	8,447	4	9,671		9,671
Financial and insurance activities.	18,606	24,964	5,715	49,285		49,285
Real estate activities.	3,537	1,173	169	4,879	788	5,667
Professional, scientific and technical activities.	2,130	1,350	-	3,479	4	3,484
Administrative and support service activities.	2,374	4,007	15	6,396		6,396
Education.	1,232	11,595	3,822	16,649	1,000	17,648
Human health and social work activities.	1,946	4,274	2,911	9,131	65	9,196
Arts, entertainment and recreation.	1,018	86	-	1,104	209	1,312
Other service activities.	5,382	1,060	11	6,453	1,970	8,424
<b>Total</b>	<b>245,137</b>	<b>338,298</b>	<b>122,560</b>	<b>705,995</b>	<b>78,247</b>	<b>784,243</b>

Table 6.3b shows the aggregated monthly revenue that establishments typically generated in a normal month. The concept of normal month entails a month that is free of shocks such as festivities and political uncertainties. On average, licensed MSMEs in wholesale and retail trade generated the highest turnover followed by manufacturing activities, Financial and Insurance and, Transportation and Storage in that order. Typically, the bulk of revenue earned by unlicensed businesses' was derived from wholesale and retail trade activities (KSh 46.7 billion) followed by those engaged in manufacturing activities at KSh 7.0 billion. Most of the establishments engaged in agribusiness are unlicensed as evidenced by a relatively high amount of revenue (KSh 4.8 billion) earned by unlicensed businesses in a typical month compared to licensed establishments (KSh 209 million).

**Table 6.3b: Normal Monthly Revenue Earned by MSMEs**

	KSh million					
	Licensed				Unlicensed	Total
	Micro	Small	Medium	Sub-total		
Agriculture, forestry and fishing.	60	74	75	209	4,840	<b>5,049</b>
Mining and quarrying.	122	4,431	-	4,553	209	<b>4,762</b>
Manufacturing.	11,256	14,816	48,526	74,598	7,009	<b>81,607</b>
Electricity, gas, steam and air conditioning supply.	4,722	195	221	5,138		<b>5,138</b>
Water supply; sewerage, waste management and remediation activities.	563	567	-	1,129	22	<b>1,151</b>
Construction.	1,167	8,331	2,436	11,934	225	<b>12,159</b>
Wholesale and retail trade; repair of motor vehicles and motorcycles.	136,369	120,303	60,636	317,308	46,728	<b>364,036</b>
Transportation and storage.	17,319	19,946	6,675	43,940	2,680	<b>46,620</b>
Accommodation and food service activities.	2,944	3,070	450	6,464	662	<b>7,125</b>
Information and communication.	1,209	11,798	5	13,011		<b>13,011</b>
Financial and insurance activities.	16,458	24,059	5,392	45,909		<b>45,909</b>
Real estate activities.	3,093	1,668	169	4,930	784	<b>5,714</b>
Professional, scientific and technical activities.	2,062	1,457	72	3,591	8	<b>3,599</b>
Administrative and support service activities.	1,999	2,587	194	4,780		<b>4,780</b>
Education.	1,274	12,119	4,836	18,229	334	<b>18,563</b>
Human health and social work activities.	1,708	1,434	2,928	6,069	65	<b>6,134</b>
Arts, entertainment and recreation.	970	139	-	1,109	196	<b>1,306</b>
Other service activities.	5,091	1,136	8	6,235	2,151	<b>8,386</b>
<b>Total</b>	<b>208,385</b>	<b>228,129</b>	<b>132,622</b>	<b>569,136</b>	<b>65,912</b>	<b>635,048</b>

## 6.6 Net Income

Net income is the residual amount of earnings after all expenses have been deducted from sales also known as profit/loss. Information presented in Table 6.4 shows that the highest proportion of net income generated across the micro, small and medium size establishments is injected back into the business as re-investment. Licensed micro establishments reported spending 45.3 per cent of their net income on investments, either as re-investment or investing in new businesses and investment in agriculture, while expenditure on household and family needs

accounted for 44.5 per cent. Small and Medium establishments spent significantly high part of their net income on investment at 63.4 and 69.7, per cent, respectively. This result indicate a positive correlation between the proportion of savings and the size of the establishment.

Licensed micro establishments and unlicensed establishments recorded small proportions of saving to net income at 8.4 and 7.0, per cent, respectively. The results further show that as the establishment size increases and transits from micro to medium, a higher proportion of the net income received tends to go into savings rather than used to meet household/family needs.

**Table 6.4: Proportion of Income Generated by MSME by Type and Most Important Use**

Utilisation of net Income	Licensed								Unlicensed	
	Total		Micro		Small		Medium		Number	%
	Number	%	Number	%	Number	%	Number	%		
Re-investment	676,336	43.3	603,282	41.9	65,807	59.3	7,247	63.1	1,386,249	23.7
Investment in new business	29,716	1.9	25,306	1.8	3,860	3.5	550	4.8	27,065	0.5
Investment in Agriculture	23,470	1.5	22,546	1.6	720	0.6	204	1.8	47,784	0.8
Household/family needs	662,802	42.5	640,018	44.5	20,689	18.6	2,095	18.2	3,896,504	66.6
Savings	136,514	8.7	120,551	8.4	15,035	13.6	928	8.1	406,626	7.0
Transfers *	5,725	0.4	4,942	0.3	678	0.6	105	0.9	12,266	0.2
Other	25,964	1.7	21,464	1.5	4,149	3.7	351	3.1	73,817	1.3
<b>Total</b>	<b>1,560,528</b>	<b>100</b>	<b>1,438,109</b>	<b>100</b>	<b>110,938</b>	<b>100</b>	<b>11,480</b>	<b>100</b>	<b>5,850,311</b>	<b>100</b>

\* A transfer is a one-way payment to a person or to an organisation for which no money, good, or service is given or exchanged. Examples include money remitted to households, religious organisations, non-governmental organisations etc.

## 6.7 Expenditure

Monthly expenditure on salaries and wages for licensed businesses was reported at KSh 64.1 billion while unlicensed MSMEs spent KSh 9.0 billion which translates to approximately 25.0 per cent of total outlays a piece. As expected, licensed medium establishments spent more on wages than licensed micro and small establishments mainly on account of better remuneration of workers in these businesses.

A look at the expenditure components revealed that unlicensed businesses are poor in remitting social security payments for their employees as evidenced by a significantly low amount (KSh 80 million) of money spent on NSSF and other health insurance products. Survey findings also show that the level of uptake of insurance for businesses for licensed micro establishments was quite low (KSh 291 million) compared to that of small establishments that was reported at KSh 982.0million.

Results of the survey further indicate that licensed MSMEs spent about KSh 1.0 billion on all forms of innovation which is significantly low compared to that of other business overheads. In the same breadth, unlicensed businesses' reported a monthly spending on innovation at KSh 28.0 million. Licensed MSMEs pay a monthly average of KSh 33.8 billion in taxes compared to KSh 294.0 million paid by unlicensed businesses. This is an indication that a considerable

portion of income earned by unlicensed establishments is not taxed given the wealth generated by these enterprises.

Licensed medium establishments spend more money on fixed capital formation mainly owing to the level of automation in their production processes compared to micro and small establishments whose operations are largely manual. Survey results show that medium establishments spent almost an equal amount on additional equipment and other fixed assets with micro enterprises despite their number being relatively low compared to that of micro enterprises. Unlicensed businesses incurred a monthly expenditure of KSh 2.2 billion in purchasing additional equipment compared to KSh 4.0 billion spent by licensed enterprises.

**Table 6.5a: Expenditure by Size of Establishment**

Expenditure Item	Licensed			Sub-total	Unlicensed	Total
	Micro	Small	Medium			
Rent	8,939	5,176	2,436	16,551	3,122	19,673
NSSF/Health Insurance	291	982	693	1,966	80	2,046
Electricity	1,640	1,279	1,030	3,949	454	4,403
Water	524	398	238	1,159	511	1,670
Telephone	1,243	456	486	2,186	1,076	3,262
Internet Costs	377	547	366	1,290	21	1,311
Insurance ( Business)	409	1,648	1,614	3,671	34	3,705
Cost of credit (interest and other charges)	4,372	7,083	3,443	14,899	1,774	16,673
Salaries and Wages	21,754	21,711	20,597	64,062	9,023	73,085
Purchases of inputs and other raw materials	17,357	22,806	18,581	58,744	10,543	69,287
Transport/ storage and warehousing	3,425	4,945	15,582	23,952	3,835	27,787
Repairs/ maintenance	1,783	3,308	1,999	7,090	496	7,586
Cost of Licenses issued	2,474	4,680	489	7,643	408	8,051
Fines	35	67	17	119	214	333
Taxes	2,639	25,127	6,056	33,822	294	34,116
Advertising cost	567	1,542	829	2,937	16	2,953
Product innovation	202	119	87	409	28	437
Process innovation	275	85	393	753	0	753
Social Responsibility	550	932	699	2,181	317	2,498
Office Supplies	944	810	824	2,578	216	2,794
Additional equipment and assets	1,562	794	1,599	3,955	2,231	6,186
Other operating costs	1,887	1,211	1,153	4,251	1,662	5,913
<b>Total</b>	<b>73,247</b>	<b>105,707</b>	<b>79,213</b>	<b>258,167</b>	<b>36,355</b>	<b>294,522</b>

Table 6.5b presents details on business expenditure by economic activity for licensed and unlicensed establishments. Survey findings indicate that MSMEs were mainly involved in activities of Wholesale and Retail trade; repair of motor vehicles (KSh 104.6 billion), manufacturing (KSh 44.2 billion) and Financial activities (KSh 20.8 billion) as evidenced by the levels of expenditure in these sectors.

**Table 6.5b: Business Expenditure by Economic Activity**

KSh million

Economic Activity	Licensed				Unlicensed	Total
	Micro	Small	Medium	Sub-total		
Agriculture, forestry and fishing	71	80	33	184	1,640	1,823
Mining and quarrying	97	2,363	-	2,461	69	2,529
Manufacturing	8,190	6,401	29,635	44,226	7,063	51,289
Electricity, gas, steam and air conditioning supply	79	254	14	347	-	347
Water supply; sewerage, waste management and remediation activities	184	262	-	446	78	524
Construction	980	4,497	1,026	6,503	10	6,513
Wholesale and retail trade; repair of motor vehicles and motorcycles	33,923	35,015	35,680	104,618	22,826	127,444
Transportation and storage	4,078	23,432	6,932	34,443	922	35,365
Accommodation and food service activities	2,320	2,774	523	5,617	568	6,185
Information and communication	1,570	5,441	5	7,016	-	7,016
Financial and insurance activities	9,688	9,890	1,253	20,831	-	20,831
Real estate activities	1,881	1,497	56	3,434	1,003	4,437
Professional, scientific and technical activities	1,761	1,172	14	2,948	-	2,948
Administrative and support service activities	1,701	1,517	194	3,412	-	3,412
Education	981	7,639	2,824	11,444	556	12,000
Human health and social work activities	1,238	2,580	1,011	4,830	52	4,882
Arts, entertainment and recreation	291	80	-	370	140	510
Other service activities	4,213	812	11	5,037	1,429	6,466
<b>Total</b>	<b>73,247</b>	<b>105,707</b>	<b>79,213</b>	<b>258,167</b>	<b>36,355</b>	<b>294,521</b>

Table 6.6 shows the ranking of business performance in the month prior to the time of the survey. Survey findings show some notable levels of optimism for both licensed and unlicensed establishments with higher proportion of businesses reporting that their performance was at least normal. However, micro establishments engaged in electricity supply; agriculture; construction; professional, scientific and technical; and administrative and support services activities were of the view that their business performances were below average. Most small establishments reported some desirable levels of confidence in businesses environment with at least a third in most of economic activities indicating that their performance was at least normal. In contrast with performance in a number of micro and small establishments in the construction industry, medium establishments in this activities reported that their businesses did well in the reference month. Performance of unlicensed establishments was mixed across the various activities. Above average performance was reported by a sizeable proportion of unlicensed establishments in construction (85.7 per cent) and professional activities (44.6 per cent).

**Table 6.6: Ranking of Business Performance**

Percent

Economic Activity	Licensed									Unlicensed		
	Micro			Small			Medium					
	Good	Normal	Bad	Good	Normal	Bad	Good	Normal	Bad	Good	Normal	Bad
Agriculture, forestry and fishing.	7.5	22.4	70.1	29.1	36.9	34.0	-	100.0	-	29.7	34.2	29.7
Mining and quarrying.	28.0	58.0	14.0	12.6	67.0	20.4	-	-	-	6.6	80.9	12.6
Manufacturing.	10.4	46.2	43.1	21.3	40.0	38.7	15.2	21.8	63.0	15.7	43.0	36.9
Electricity, gas, steam and air conditioning supply.	23.3	19.8	56.9	-	67.5	-	-	100.0	-	-	-	-
Water supply; sewerage, waste management & remediation activities.	12.4	73.3	14.3	6.8	30.8	62.4	-	-	-	-	-	100.0
Construction.	4.3	42.1	51.5	16.9	44.8	33.0	73.6	2.6	23.8	85.7	14.3	-
Wholesale and retail trade; repair of motor vehicles & motorcycles.	11.8	49.0	38.8	19.7	51.7	28.6	5.7	58.0	36.2	18.3	51.0	29.0
Transportation and storage.	17.5	51.7	28.4	1.4	49.6	48.0	44.6	30.8	21.6	22.6	39.1	38.3
Accommodation and food service activities.	10.2	50.8	38.1	15.2	55.7	28.3	12.6	60.0	27.4	19.4	53.9	24.2
Information and communication.	16.6	52.1	31.4	29.2	34.9	35.9	100.0	-	-	-	-	-
Financial and insurance activities.	18.5	53.0	27.4	47.7	35.6	16.7	18.4	5.1	76.4	-	100.0	-
Real estate activities.	13.2	48.9	37.9	1.1	98.9	-	-	100.0	-	31.2	40.2	28.6
Professional, scientific and technical activities.	14.1	33.1	52.0	29.4	40.1	30.6	-	50.0	50.0	44.6	-	55.5
Administrative and support service activities.	8.6	44.3	47.1	11.7	31.9	56.5	21.0	-	79.0	-	-	-
Education.	12.9	51.8	33.3	12.2	61.8	23.8	53.5	35.4	11.2	-	76.2	23.8
Human health and social work activities.	17.8	49.0	31.5	10.5	57.4	32.1	19.8	72.8	4.9	-	-	100.0
Arts, entertainment and recreation.	16.7	45.2	37.9	16.8	18.5	38.9	-	-	-	8.2	61.1	30.7
Other service activities.	12.0	47.1	40.6	7.9	42.1	50.0	32.0	41.6	26.3	21.1	56.8	22.0

Information regarding the perceived number of months that proprietors of MSMEs believe their businesses perform above average (good) or Normal or below average (bad) is provided in Table 6.7. Micro establishments in most of the sectors of the economy reported that performance of their business is above average in 3 months of the year, 5 months normal and 3 months of poor performance. Performance of small establishments is almost similar to that of micro establishments except for the number of months in which the performance is normal which was reported at 6 months. Medium establishments largely reported 3 months of good and bad performances a piece, but the number of months in which the business was perceived normal varied significantly across economic activities. Medium businesses engaged in activities of Information and Communication, and Professional, Scientific and Technical activities reported notably high number of months in which they thought their businesses performs normally at 9 and 8 months, respectively. Similarly, small establishments engaged in activities of human health and social work reported 9 months of normal business performance.

**Table 6.7: Ranking of Business Performance**

	Median Number of Months								
	Micro			Small			Medium		
	Good	Normal	Bad	Good	Normal	Bad	Good	Normal	Bad
Agriculture, forestry and fishing.	4	5	3	3	7	3	3	6	3
Mining and quarrying.	2	6	2	6	-	2			
Manufacturing.	3	4	3	4	3	3	2	6	3
Electricity, gas, steam and air conditioning supply.	3	2	7	9	3	1	3	7	2
Water supply; sewerage, waste management and remediation activities.	3	4	-	2	6	4			
Construction.	4	6	3	4	4	4	5	3	4
Wholesale and retail trade; repair of motor vehicles and motorcycles.	3	6	3	3	6	3	3	8	3
Transportation and storage.	3	5	3	4	6	2	4	4	4
Accommodation and food service activities.	3	6	3	3	5	3	2	6	3
Information and communication.	3	5	3	3	4	4	3	9	-
Financial and insurance activities.	3	4	3	4	6	3	5	3	2
Real estate activities.	4	4	4	3	6	3	4	6	2
Professional, scientific and technical activities.	3	6	3	3	3	4	1	5	-
Administrative and support service activities.	3	5	3	3	2	3	4	3	-
Education.	3	6	3	3	6	3	3	6	3
Human health and social work activities.	4	6	3	-	12	-	5	5	2
Arts, entertainment and recreation.	4	6	2	2	6	3			
Other service activities.	3	6	3	3	5	4	4	5	2

Table 6.8 and Table 6.9 present the perceptions of business owners and operators concerning their perceived best and worst months of the year for their businesses. Most MSME proprietors believe that December is the best month for their business mainly because of the festivities associated with the month. Evaluation of performance of businesses in January was most widely varied with the highest number of businesses citing the month as the worst while at the same time the month was ranked as the second best overall. Sizeable proportions of the establishments were of the opinion that November, April and August were good months for the business. Besides January, February and March were cited by a considerable proportion of MSME owners as bad months for their businesses. Relatively high proportions of small and medium establishments felt that December was a bad month for the business at 9.6 and 11.2 per cent, respectively. A very small proportion of the micro establishments believe that May, June, July and October are the best months for their business.

**Table 6.8: Perceived Best and Worst Months of the Business**

Month	Percent					
	Best Month of the Business			Worst Month of the Business		
	Micro	Small	Medium	Micro	Small	Medium
January	7.1	16.8	11.1	41.9	39.2	37.6
February	2.4	2.3	1.4	16.1	11.6	8.7
March	2.4	3.2	2.7	7.8	3.7	4.6
April	3.9	3.1	4.0	6.2	4.2	8.9
May	1.9	2.6	5.4	4.8	3.2	6.0
June	2.0	3.6	2.5	3.7	2.4	2.4
July	2.0	3.1	3.0	3.5	3.8	3.1
August	4.9	4.4	5.7	2.2	2.2	2.5
September	2.3	2.0	2.4	1.9	3.0	1.4
October	1.9	3.0	3.4	1.3	1.9	1.1
November	5.7	5.6	4.7	1.3	3.7	0.0
December	58.6	38.1	38.4	4.4	9.5	11.2

- Excludes Don't Know, refused to Respond and N/A that is why the column total does not add up to 10

**Table 6.9a: Best Month for Business by Industry and Size of the Establishment**

Economic Activity	Size	Percentage											
		Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec
Agriculture, forestry and fishing	Micro	2.9	2.1	0.9	26.6	1.6	3.7	0.6	1.2	18.7	0.0	.0	27.8
	Small	6.4	13.7	0.0	14.4	0.0	17.5	0.0	3.6	0.0	13.9	0.0	30.6
	Medium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Mining and quarrying	Micro	2.3	9.4	10.5	10.5	2.3	0.0	1.3	34.2	0.0	1.3	0.0	21.6
	Small	11.6	0.0	0.0	10.7	0.0	0.0	0.0	10.7	4.3	10.7	29.9	5.3
Manufacturing	Micro	8.5	2.8	2.5	3.8	2.0	1.1	1.4	8.6	3.6	2.2	7.1	53.0
	Small	12.9	1.7	6.6	2.2	.9	1.2	3.7	4.5	1.1	5.9	17.3	36.6
	Medium	21.4	7.5	0.0	7.0	0.0	0.0	0.0	1.3	0.2	9.3	4.5	32.7
Electricity, gas, steam and air conditioning supply	Micro	0.0	0.0	0.0	0.0	0.0	5.8	0.0	43.1	0.0	51.1	0.0	0.0
	Small	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Medium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Water supply; sewerage, waste management and remediation activities	Micro	18.1	0.0	16.5	12.4	0.0	12.4	0.0	2.0	0.0	0.0	0.0	37.8
	Small	27.8	0.0	6.8	0.0	0.0	0.0	0.0	.0	0.0	0.0	0.0	65.4
Construction	Micro	9.9	6.5	3.1	2.1	9.4	1.4	2.8	7.5	4.3	2.6	9.7	19.1
	Small	0.3	0.0	15.2	6.4	0.0	21.4	11.1	6.3	5.9	3.0	0.0	4.5
	Medium	2.6	0.0	22.6	2.6	0.0	48.5	0.0	0.0	0.0	0.0	0.0	0.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	Micro	6.2	2.1	2.5	3.8	1.9	2.2	1.9	4.5	2.2	2.2	5.8	59.9
	Small	9.6	1.2	3.8	3.2	2.3	2.7	3.0	5.6	2.1	3.4	3.1	53.7
	Medium	11.7	0.0	0.0	6.2	8.2	3.8	2.2	5.6	5.0	1.9	0.0	48.6
Transportation and storage	Micro	10.9	4.5	0.2	5.0	0.3	0.0	3.0	3.8	0.4	0.5	11.5	56.4
	Small	2.2	0.2	0.0	1.4	0.1	0.0	0.0	0.0	0.0	9.6	6.8	64.7
	Medium	0.0	0.0	0.0	0.0	20.9	0.0	0.0	0.0	0.0	0.0	0.0	58.2
Accommodation and food service activities	Micro	3.9	1.6	2.3	4.8	1.9	1.6	3.1	5.6	1.8	1.2	5.8	62.2
	Small	3.2	1.5	1.5	3.6	2.2	5.1	5.5	8.1	0.7	.8	6.5	55.7
	Medium	0.0	0.4	0.0	6.0	0.0	0.0	13.1	6.6	0.0	0.0	11.3	62.6
Information and communication	Micro	7.8	10.2	8.0	7.6	1.4	3.1	2.8	3.6	7.4	0.6	6.8	35.8
	Small	0.0	0.0	1.1	12.3	0.0	0.0	0.0	0.0	0.0	18.4	7.2	23.1
	Medium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Financial and insurance activities	Micro	8.3	1.2	2.5	2.2	2.2	1.3	0.9	3.8	2.2	1.8	4.4	60.2
	Small	13.4	6.5	8.9	1.5	.2	4.9	5.9	6.3	1.1	4.7	2.7	35.6
	Medium	39.3	0.0	0.0	0.0	1.3	0.0	0.0	5.1	0.0	0.0	19.1	32.2
Real estate activities	Micro	6.9	0.0	7.9	2.6	1.7	1.0	11.9	8.6	5.4	0.3	3.1	22.0
	Small	0.0	0.0	0.0	0.0	37.0	5.3	35.9	0.0	0.0	10.2	11.7	0.0
	Medium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional, scientific and technical activities	Micro	5.6	6.6	1.5	10.7	3.7	12.3	.0	3.0	1.9	0.5	5.1	35.4
	Small	0.0	0.0	7.3	10.5	0.0	14.6	0.0	7.3	2.0	0.0	13.6	21.0
	Medium	0.0	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative and support service activities	Micro	23.1	5.2	3.5	4.0	4.4	4.1	3.4	6.9	4.8	2.1	6.0	24.2
	Small	1.3	0.8	2.5	0.0	.0	7.2	7.2	0.7	.0	0.0	15.1	53.1
	Medium	0.0	0.0	0.0	0.0	43.8	0.0	0.0	0.0	0.0	21.0	0.0	0.0
Education	Micro	38.1	5.6	4.3	1.7	5.0	0.6	1.2	5.4	8.0	1.6	3.1	8.9
	Small	52.3	5.4	1.4	1.6	5.5	1.2	0.6	1.1	4.3	1.4	2.2	3.4
	Medium	13.4	0.0	0.0	0.0	3.5	0.0	7.5	26.4	7.5	8.7	.0	0.0
Human health and social work activities	Micro	6.0	8.8	2.9	5.5	2.9	5.6	7.6	8.7	2.1	3.2	5.1	25.8
	Small	3.2	0.0	5.7	4.1	0.5	16.4	1.6	4.8	2.3	1.3	1.3	7.7
	Medium	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	67.9	27.1
Arts, entertainment and recreation	Micro	1.8	3.9	0.0	2.9	1.6	0.6	2.7	8.0	.6	0.0	3.3	69.4
	Small	0.0	0.0	0.0	0.0	0.0	0.0	1.6	11.3	0.0	0.0	0.0	59.8
Other service activities	Micro	7.7	1.8	1.0	3.1	0.8	0.7	1.1	2.0	0.7	0.5	3.7	73.8
	Small	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	15.3	76.8
	Medium	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	99.2

**Table 6.9b: Worst Month for Businesses by Industry and Size of the Establishment**

Economic Activity	Size	Percentage											
		Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec
Agriculture, forestry and fishing	Micro	58.3	0.0	3.0	14.5	3.5	1.0	0.0	0.8	4.8	0.0	.2	0.0
	Small	34.2	0.0	0.0	15.3	1.2	0.0	13.7	0.0	29.1	6.4	0.0	0.0
	Medium	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining and quarrying	Micro	2.7	12.3	10.5	2.8	8.1	10.5	4.7	2.3	10.5	21.0	0.0	2.3
	Small	20.0	53.6	0.0	17.2	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	Micro	35.3	15.9	9.1	9.1	6.5	5.0	4.5	2.9	1.6	1.6	1.5	3.5
	Small	41.4	16.8	0.0	5.2	1.3	3.1	7.4	.5	4.4	0.0	4.6	5.5
	Medium	35.6	4.5	10.8	7.6	19.6	0.0	0.0	1.4	0.0	0.0	0.0	7.4
Electricity, gas, steam and air conditioning supply	Micro	70.9	0.0	23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.8
	Small	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Medium	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water supply; sewerage, waste management and remediation activities	Micro	12.4	0.0	2.0	0.8	8.4	0.0	13.1	0.0	0.0	17.8	2.1	12.4
	Small	40.7	21.7	0.0	27.8	0.0	3.0	0.0	6.8	0.0	0.0	0.0	0.0
Construction	Micro	31.2	3.7	9.7	7.6	6.3	.1	5.9	9.1	.3	0.0	.4	12.4
	Small	40.5	18.9	0.6	0.0	1.6	0.0	1.2	0.0	0.0	.4	0.0	22.1
	Medium	51.0	0.0	0.0	0.0	0.0	0.0	0.0	22.6	0.0	0.0	0.0	2.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	Micro	44.3	16.3	7.7	5.9	4.5	3.5	2.9	2.1	1.8	1.3	1.3	4.0
	Small	47.7	15.2	4.9	3.5	3.5	3.7	2.8	2.4	1.8	1.8	1.7	5.1
	Medium	47.0	12.1	0.0	0.9	1.8	2.5	7.4	0.0	4.5	3.3	0.0	15.5
Transportation and storage	Micro	30.5	13.9	10.6	5.9	9.0	8.6	3.6	2.1	2.4	1.3	.4	8.3
	Small	22.9	16.1	3.5	10.1	2.1	3.4	11.1	1.8	0.0	5.5	0.0	8.5
	Medium	1.4	0.0	24.4	0.0	8.9	20.9	2.6	20.9	0.0	0.0	0.0	0.0
Accommodation and food service activities	Micro	51.7	14.6	6.3	5.4	4.3	2.9	2.9	2.0	1.4	.6	.4	3.4
	Small	52.0	11.7	6.5	2.5	2.5	1.5	4.6	.5	2.8	.1	1.9	7.9
	Medium	71.7	11.3	0.0	15.5	0.0	0.0	1.1	0.0	0.0	0.0	0.0	.4
Information and communication	Micro	40.6	6.9	3.5	9.6	3.9	5.5	4.4	6.3	1.2	4.7	.7	7.6
	Small	39.4	12.3	.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.2
	Medium	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial and insurance activities	Micro	35.6	16.0	7.8	6.7	6.0	4.5	4.3	2.7	1.6	.4	.7	4.2
	Small	40.8	12.0	3.5	6.4	.8	.6	6.2	0.0	0.0	2.2	0.5	13.5
	Medium	45.8	0.0	0.0	40.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6
Real estate activities	Micro	42.0	1.1	0.0	.5	1.1	1.4	2.8	2.6	.1	0.0	4.9	16.6
	Small	64.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Medium	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional, scientific and technical activities	Micro	37.3	3.9	9.6	1.6	8.1	1.9	1.9	3.1	1.9	4.8	0.0	12.9
	Small	34.2	6.6	0.0	7.3	13.6	0.0	0.0	0.0	0.0	7.3	7.3	0.0
	Medium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0
Administrative and support service activities	Micro	23.4	11.4	7.1	9.0	2.6	3.1	2.4	4.4	2.0	2.5	3.8	19.3
	Small	54.8	15.9	1.0	8.2	.9	6.2	9.3	0.0	.3	0.0	0.0	2.5
	Medium	43.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.0
Education	Micro	21.2	4.2	3.9	2.6	6.1	4.1	6.5	2.5	4.3	2.9	5.9	23.2
	Small	13.4	1.5	3.1	4.7	4.8	2.3	3.4	5.8	7.3	3.6	10.7	20.7
	Medium	0.0	0.0	7.8	33.9	1.0	0.0	3.5	.4	0.0	0.0	.1	20.4
Human health and social work activities	Micro	42.6	4.8	4.8	3.8	2.1	.6	3.5	.3	7.7	.9	3.7	10.4
	Small	51.8	0.9	0.0	0.0	0.0	0.0	3.2	0.0	1.3	0.0	0.0	15.1
	Medium	6.8	88.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0
Arts, entertainment and recreation	Micro	43.1	18.0	6.3	7.3	3.0	2.6	5.0	.8	1.5	2.4	.1	3.2
	Small	12.5	46.2	2.5	0.0	6.2	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Other service activities	Micro	35.4	22.7	9.9	5.4	5.0	4.0	6.3	1.4	2.1	0.8	1.0	1.9
	Small	72.3	21.5	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Medium	68.0	31.3	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0

## 6.8 Business Innovation

Business innovation refers to an organization's process for introducing new ideas, workflows, methodologies, services or products. For MSMEs to thrive in a competitive world of business, they need to progressively innovate to ensure that their goods and services reach untapped customer needs. The MSME survey 2016 sought to establish whether businesses had introduced significantly improved ways of conducting their business. Specifically, the survey endeavoured to find out whether businesses had innovated in products, processes and marketing of their products. Generally, significantly fewer micro establishments were observed to have embraced innovation compared to small and medium establishments as shown in Table 6.10. Product innovation was manifest in small establishments engaged in manufacturing, ICT, financial and health activities at 31.6, 33.3, 44.4, and 42.5 per cent, respectively. Survey results also show that process and marketing innovations were largely not common features among MSMEs.

**Table 6.10: Proportion of Establishments that Engaged in Innovation**

	Size	N	Innovation		
			Licensed Establishments		
			Product	Process	Marketing
Agriculture, forestry and fishing	Micro	1,821	0.5	0.5	0.2
	Small	313	14.4	14.4	14.4
	Medium	7	-	-	-
Mining and quarrying	Micro	1,336	-	-	-
	Small	806	1.8	5.0	-
	Medium				
Manufacturing	Micro	165,371	8.5	6.3	4.0
	Small	6,689	31.6	31.2	28.8
	Medium	2,036	23.5	18.2	13.5
Electricity, gas, steam and air conditioning supply	Micro	296	-	19.8	19.8
	Small	122	-	2.4	2.4
	Medium	4	100.0	100.0	100.0
Water supply; sewerage, waste management and remediation activities	Micro	847	12.4	-	-
	Small	870	-	-	-
	Medium				
Construction	Micro	5,334	7.0	8.6	5.8
	Small	1,991	20.6	18.9	19.6
	Medium	289	22.6	22.6	22.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	Micro	851,637	8.9	1.7	4.9
	Small	32,127	17.4	6.1	12.8
	Medium	3,663	22.4	6.0	22.4
Transportation and storage	Micro	10,250	12.8	6.5	7.4
	Small	3,623	11.4	6.1	10.8
	Medium	901	1.4	-	20.9
Accommodation and food service activities	Micro	115,886	9.5	4.3	6.4
	Small	19,311	22.8	10.1	15.5
	Medium	1,316	13.0	6.7	12.7
Information and communication	Micro	9,695	20.7	13.0	9.4
	Small	2,618	33.3	26.7	33.3
	Medium	125	-	-	100.0
Financial and insurance activities	Micro	59,599	6.5	1.3	3.1
	Small	4,656	44.4	12.8	18.2
	Medium	586	41.1	8.2	44.2
Real estate activities	Micro	6,106	6.6	1.0	7.2
	Small	673	35.9	35.9	35.9
	Medium	241	-	-	-
Professional, scientific and technical activities	Micro	13,497	12.5	11.7	8.4
	Small	3,308	23.9	7.3	7.3
	Medium	483	-	-	-
Administrative and support service activities	Micro	22,453	10.5	6.4	5.6
	Small	2,608	10.1	-	12.9
	Medium	168	-	-	-
Education	Micro	11,763	15.5	6.2	4.8
	Small	24,149	11.8	5.4	6.0
	Medium	1,146	48.7	11.0	18.4
Human health and social work activities	Micro	10,294	19.8	5.8	11.4
	Small	1,993	42.5	15.3	8.2
	Medium	278	74.7	-	67.9
Arts, entertainment and recreation	Micro	12,964	10.2	5.4	8.5
	Small	692	22.4	5.2	9.8
	Medium				
Other service activities	Micro	131,153	10.3	6.8	5.1
	Small	3,227	28.8	32.9	18.6
	Medium	201	31.3	31.3	31.3

# Chapter 7

## Changes in Micro, Small, Medium Enterprises

### 7.0 Introduction

This chapter examines changes that have occurred in MSME activities with regard to employment size, age, business mutations, startups, closures and their distribution by counties. Change in employment relative to inception provides critical information on establishment growth. Establishment mutations has been associated with activity changes in either the same sector or to different sectors.

Ownership of closed establishments and reasons for closure has been disaggregated by sex of owners. This will provide information on why most of the establishments close and challenges encountered by the entrepreneurs when running businesses. This will also give the rate of business survival and operating environment before closure. Further, the chapter aims at reviewing the role of location or worksite with respect to factors such as profitability, access to customers, closures and nature of business.

### 7.1 Changes in Employment Size

#### 7.1.1 Changes in Employment Size of Licensed Enterprises by Activity

Table 7.1 summarizes the changes of employment size of licensed enterprises from inception to time of the survey. Employment in licensed MSMEs was 6,280.5 thousand persons by the time of carrying out the survey compared to 3,063.5 thousand persons at inception. Overall, male and female participation remained almost the same at the time of the survey compared to inception. A significant rise was reported in the wholesale and retail trade, repair of motor vehicles and motorcycle sector from 1,401.6 thousand employees at inception to 2,609.1 thousand employees during the time of the survey. The ratio of males in this sector increased marginally from 59.1 per cent at inception to 60.5 per cent at the time of the survey. Although the growth in employment in the education sector was high from inception to time of the survey, the ratio of male to female remained almost the same. There was a significant increase in number of employees in the accommodation and food service activities to reach 870.0 thousand during survey period.

**Table 7.1: Changes in Employment Size by Sex and Sector**

Sector	At inception			During the survey		
	Male (%)	Female (%)	Number ('000)	Male (%)	Female (%)	Number ('000)
Agriculture, forestry and fishing.	57.8	42.2	9.0	49.9	50.1	13.1
Mining and quarrying.	88.3	11.7	11.0	81.8	18.2	22.4
Manufacturing.	70.0	30.0	307.2	68.8	31.2	666.1
Electricity, gas, steam and air conditioning supply.	85.6	14.4	17.5	79.3	20.7	9.5
Water supply; sewerage, waste management and remediation activities.	77.7	22.3	10.3	72.3	27.7	19.0
Construction.	77.9	22.1	27.3	70.0	30.0	81.6
Wholesale and retail trade; repair of motor vehicles and motorcycles.	59.1	40.9	1,401.6	60.5	39.5	2,609.1
Transportation and storage.	87.4	12.6	58.4	86.6	13.4	168.1
Accommodation and food service activities.	52.7	47.3	470.8	50.3	49.7	870.0
Information and communication.	63.3	36.7	33.3	70.8	29.2	88.9
Financial and insurance activities.	49.5	50.5	125.5	48.9	51.1	255.3
Real estate activities.	50.3	49.7	14.7	65.6	34.4	51.9
Professional, scientific and technical activities.	69.3	30.7	51.5	60.9	39.1	154.9
Administrative and support service activities.	69.9	30.1	82.7	60.1	39.9	120.2
Education.	44.7	55.3	188.6	44.9	55.1	601.5
Human health and social work activities.	52.7	47.3	35.1	60.2	39.8	115.8
Arts, entertainment and recreation.	77.0	23.0	25.1	75.8	24.2	46.0
Other service activities.	35.1	64.9	193.9	33.2	66.8	387.2
<b>Total</b>	<b>58.0</b>	<b>42.0</b>	<b>3,063.5</b>	<b>57.5</b>	<b>42.5</b>	<b>6,280.5</b>

### 7.1.2 Changes in Employment Size of Licensed Establishments by Counties

Changes in employment size of licensed establishment by counties is shown in Table 7.2. Counties with the highest change in number of employees at establishment inception and time of survey were Nairobi, Nakuru and Kiambu. Counties with the lowest change in number of employees when comparing the two time periods were Wajir, West Pokot and Marsabit. The proportion of female employees from inception to time of survey increased significantly in Kwale and Uasin Gishu counties and reduced highly in Turkana and Tana River.

**Table 7.2: Change in Number of Employees by Sex and County**

County	At inception			During the survey		
	Male (%)	Female (%)	Number ('000)	Male (%)	Female (%)	Number ('000)
Nairobi	55.4	44.6	697.6	56.0	44.0	1,744.5
Nyandarua	53.6	46.4	21.4	58.2	41.8	49.4
Nyeri	51.3	48.7	60.7	54.6	45.4	118.1
Kirinyaga	52.2	47.8	36.8	56.7	43.3	71.0
Muranga	48.6	51.4	28.1	48.6	51.4	47.1
Kiambu	57.6	42.4	191.6	52.9	47.1	368.0
Mombasa	69.5	30.5	117.2	64.6	35.4	201.5
Kwale	66.7	33.3	31.0	49.7	50.3	69.7
Kilifi	65.0	35.0	62.4	61.4	38.6	95.7
Tana River	54.8	45.2	2.9	70.3	29.7	8.0
Lamu	62.8	37.2	12.6	67.2	32.8	23.7
Taita Taveta	49.3	50.7	34.3	55.8	44.2	79.8
Marsabit	65.2	34.8	3.6	71.1	28.9	7.4
Isiolo	59.8	40.2	4.7	64.0	36.0	9.1
Meru	55.3	44.7	165.3	50.6	49.4	259.9
Tharaka	47.9	52.1	12.1	50.8	49.2	21.7
Embu	55.7	44.3	35.1	59.5	40.5	66.0
Kitui	47.3	52.7	29.2	49.2	50.8	45.4
Machakos	54.9	45.1	97.2	59.4	40.6	208.2
Makueni	50.2	49.8	36.9	55.7	44.3	59.8
Garissa	75.0	25.0	7.9	76.9	23.1	13.9
Wajir	72.0	28.0	2.8	79.4	20.6	4.2
Mandera	77.2	22.8	35.5	77.6	22.4	58.5
Siaya	54.7	45.3	21.3	62.9	37.1	39.7
Kisumu	61.4	38.6	118.6	63.4	36.6	248.5
Migori	57.6	42.4	72.3	56.7	43.3	152.0
Homa Bay	59.7	40.3	85.5	56.2	43.8	191.5
Kisii	62.9	37.1	65.6	63.1	36.9	104.5
Nyamira	63.4	36.6	67.6	60.1	39.9	95.8
Turkana	61.9	38.1	13.5	71.1	28.9	31.2
West Pokot	64.8	35.2	4.2	67.3	32.7	7.5
Samburu	57.6	42.4	11.1	57.6	42.4	21.8
Trans-Nzoia	62.9	37.1	21.3	66.9	33.1	51.9
Baringo	50.7	49.3	24.1	49.2	50.8	42.9
Uasin Gishu	61.5	38.5	108.2	56.0	44.0	190.4
Elgeyo Marakwet	53.5	46.5	8.5	53.9	46.1	12.9
Nandi	58.4	41.6	20.9	58.8	41.2	42.1
Laikipia	53.4	46.6	27.2	54.6	45.4	45.8
Nakuru	53.4	46.6	216.6	55.8	44.2	495.0
Narok	62.3	37.7	48.7	63.7	36.3	88.3
Kajiado	53.4	46.6	86.7	53.3	46.7	205.3
Kericho	67.5	32.5	49.1	65.6	34.4	115.2
Bomet	66.6	33.4	24.9	64.2	35.8	39.8
Kakamega	63.5	36.5	125.1	61.7	38.3	218.5
Vihiga	47.9	52.1	16.0	52.5	47.5	31.6
Bungoma	61.4	38.6	58.9	59.3	40.7	94.3
Busia	59.3	40.7	40.8	66.3	33.7	83.3
<b>Total</b>	<b>58.0</b>	<b>42.0</b>	<b>3,063.5</b>	<b>57.5</b>	<b>42.5</b>	<b>6,280.5</b>

### 7.1.3 Unlicensed Establishments

The number of employees in the unlicensed enterprises stood at 8,617.8 thousand by the time of the survey. As shown in Table 7.3, most employees in unlicensed establishments are female. At inception, the proportion of male employees was 36.4 per cent of the total employees and rose to 42.9 per cent at the time of the survey. This indicates that the growth in male employees was higher than those of female employees in unlicensed establishments. Similarly, the proportion of male employees in the manufacturing sector increased from 44.9 per cent at inception to 50.7 per cent during survey period to reach a total of 555.3 thousand persons.

**Table 7.3: Number and Proportion of Employees of Unlicensed Establishments at Inception and During the Survey by Sex and Activity**

Sector	At inception			During the survey		
	Male (%)	Female (%)	Number ('000)	Male (%)	Female (%)	Number ('000)
Agriculture, forestry and fishing	62.2	37.8	277.8	65.7	34.3	383.0
Mining and quarrying	100.0	-	25.6	100.0	-	32.0
Manufacturing	44.9	55.1	832.8	50.7	49.3	1,094.3
Water supply; sewerage, waste management and remediation activities	-	100.0	11.6	-	100.0	11.6
Construction	-	100.0	4.7	70.7	29.3	16.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	29.6	70.4	4,069.0	38.0	62.0	5,404.7
Transportation and storage	100.0	-	218.8	100.0	-	244.8
Accommodation and food service activities	24.8	75.2	577.9	28.2	71.8	779.7
Real estate activities	69.5	30.5	52.3	88.1	11.9	64.7
Professional, scientific and technical activities	100.0	-	1.9	100.0	-	2.8
Education	19.5	80.5	73.5	31.8	68.2	112.9
Human health and social work activities	100.0	-	6.5	100.0	-	6.5
Arts, entertainment and recreation	76.5	23.5	45.0	69.0	31.0	48.4
Other service activities	44.1	55.9	331.1	47.6	52.4	416.3
<b>Total</b>	<b>36.4</b>	<b>63.6</b>	<b>6,528.6</b>	<b>42.9</b>	<b>57.1</b>	<b>8,617.8</b>

## 7.2 Establishment Mutation

### 7.2.1 Business Mutation in Licensed Establishments

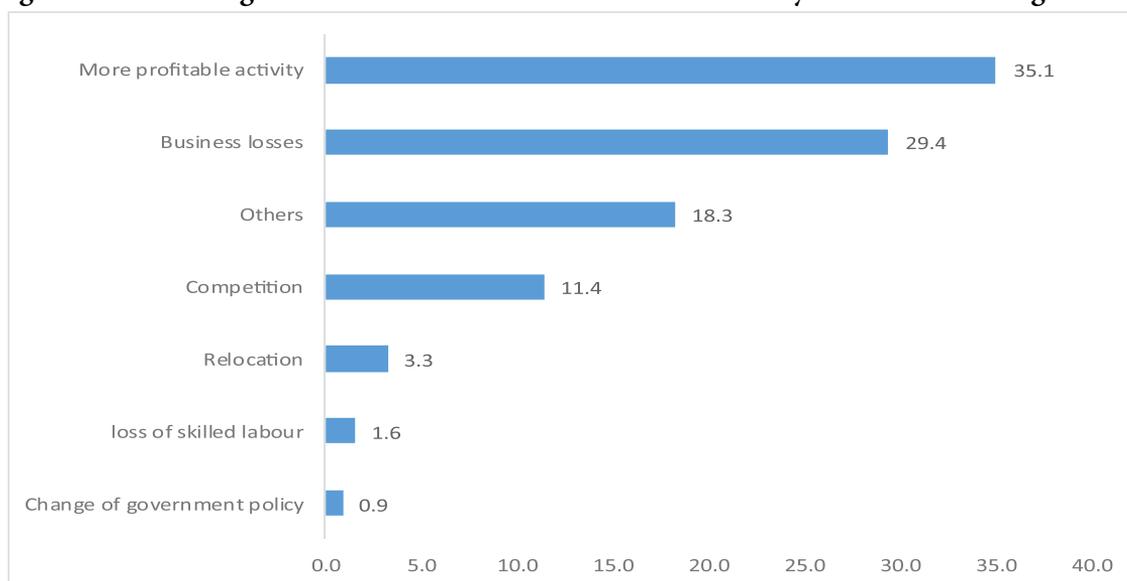
Table 7.4 shows the distribution of licensed establishment mutation by economic activity. Overall, only 1.9 per cent of the licensed establishments changed from their previous economic activities. The highest change in businesses activities affected Agriculture, forestry and fishing and the Transport and Storage sector. Establishments in construction, mining and quarrying; electricity, gas, steam and air conditioning supply and water supply; sewerage, waste management and remediation activities reported no change of their activities.

**Table 7.4: Distribution of Licensed Establishment Mutation by Economic Activity**

Agriculture, forestry and fishing	89.6	10.4	2.1
Mining and quarrying	100.0	-	2.1
Manufacturing	98.8	1.2	174.5
Electricity, gas, steam and air conditioning supply	100.0	-	0.5
Water supply; sewerage, waste management and remediation activities	100.0	-	1.7
Construction	100.0	-	7.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	97.9	2.1	891.2
Transportation and storage	94.9	5.1	15.2
Accommodation and food service activities	97.7	2.3	137.7
Information and communication	99.3	0.7	12.4
Financial and insurance activities	98.1	1.9	65.5
Real estate activities	99.8	0.2	7.0
Professional, scientific and technical activities	99.7	0.3	17.4
Administrative and support service activities	98.7	1.3	25.3
Education	99.8	0.2	37.8
Human health and social work activities	99.2	0.8	13.0
Arts, entertainment and recreation	99.4	0.6	13.9
Other service activities	98.2	1.8	135.1
<b>Total</b>	<b>98.1</b>	<b>1.9</b>	<b>1,560.5</b>

Figure 7.1 shows distribution of licensed establishments by reason of change from previous business activity. The major reasons why establishment owners changed from one business to another was due to profits (35.1 per cent) and business losses (29.4 per cent). Those who changed business as a result of competition were 11.4 per cent. However, it is observed that change of government policy did not necessarily lead to change of activity.

**Figure 7.1: Percentage Distribution of Licensed Establishments by Reasons for Change**



### 7.2.2 Mutation in Unlicensed Establishments

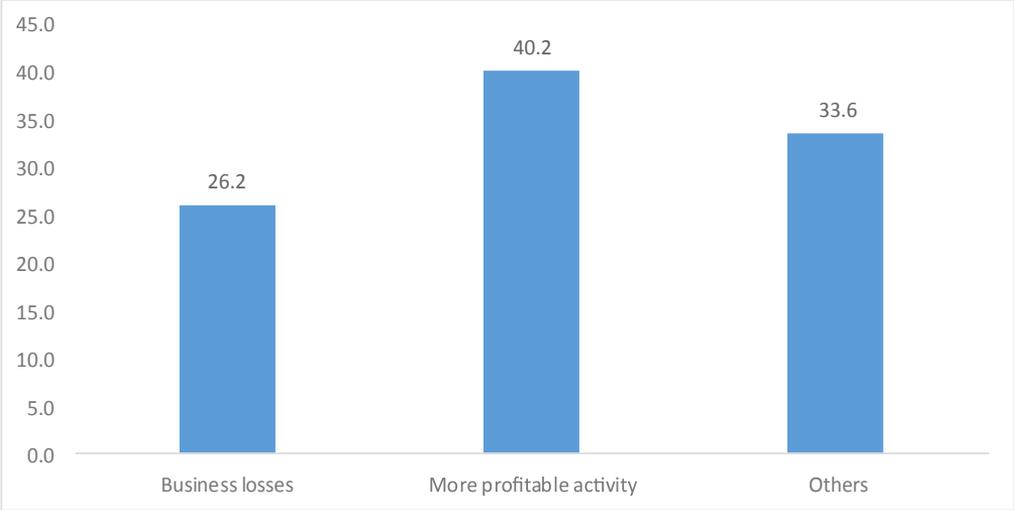
Table 7.5 shows the distribution of changes in unlicensed establishments by economic activity. The proportion of unlicensed establishments that underwent mutation was only 1.1 per cent. The unlicensed businesses that mutated were in agriculture, forestry and fishing; wholesale and retail trade; repair of motor vehicles, accommodation and food service activities and other service activities.

**Table 7.5: Distribution of Unlicensed Establishment Mutation by Economic Activity**

Economic Activity	Unchanged (%)	Changed (Mutated) %	Total Number in thousand
Agriculture, forestry and fishing	98.0	2.0	233.9
Mining and quarrying	100.0	-	18.2
Manufacturing	100.0	-	648.4
Water supply; sewerage, waste management and remediation activities	100.0	-	11.6
Construction	100.0	-	4.7
Wholesale and retail trade; repair of motor vehicles	98.9	1.1	3,492.4
Transportation and storage	100.0	-	218.8
Accommodation and food service activities	98.5	1.5	527.2
Real estate activities	100.0	-	35.8
Professional, scientific and technical activities	100.0	-	1.9
Education	100.0	-	30.0
Human health and social work activities	100.0	-	6.5
Arts, entertainment and recreation	100.0	-	36.5
Other service activities	97.8	2.2	304.3
<b>Total</b>	<b>98.9</b>	<b>1.1</b>	<b>5,570.3</b>

Figure 7.2 presents the distribution of unlicensed establishments by reasons for change. Among the unlicensed establishments which changed activities, 40.2 per cent said profit was the main drive. Business losses as a reason for moving to another activity was accounted for by 26.2 per cent of businesses. Other reasons cited for moving to other businesses cumulatively accounted for 33.6 per cent.

**Figure 7.2: Percentage Distribution of Unlicensed Establishments by Reasons for Change**



## 7.3 Closed Establishments within the Last Five Years

### 7.3.1 Number of Closed Establishments and Age

Table 7.6 shows sectoral distribution of businesses by age at closure. On average, it was observed that the age of establishments at closure was 3.8 years. Further, the survey results revealed that 46.3 per cent of the establishments were closed within the first year of operation. The trend in closing rate slows down with the age of the business which is an indication of business stabilizing with time.

**Table 7.6: Distribution of Closed Establishments by Activity and Age at Closure**

Sector										Percent
	1 year	2 years	3 years	4 years	5 years	6-10 years	11-15 years	Over 15 years	Total Number (000)	Average age (Yrs)
Agriculture, forestry and fishing.	37.9	9.4	1.0	16.3	10.5	16.1	3.4	5.3	54.7	5.0
Manufacturing.	27.9	11.3	12.1	10.1	8.7	19.0	6.9	4.1	108.6	5.5
Wholesale and retail trade; repair of motor vehicles and motorcycles.	45.8	14.9	10.0	4.7	3.9	11.4	4.1	5.1	1,623.7	3.9
Transportation and storage.	41.7	15.7	10.0	12.5	3.9	14.3	-	1.8	42.0	2.8
Accommodation and food service activities.	58.5	14.1	7.3	4.3	1.7	7.5	3.7	2.8	250.2	2.8
Information and communication.	49.0	-	-	-	-	51.0	-	-	2.6	4.4
Financial and insurance activities.	75.4	12.7	-	3.7	-	8.1	-	-	27.5	1.7
Professional, scientific and technical activities.	100.0	-	-	-	-	-	-	-	1.0	-
Education.	-	39.4	60.6	-	-	-	-	-	3.1	2.6
Human health and social work activities.	-	100.0	-	-	-	-	-	-	3.1	2.0
Arts, entertainment and recreation.	-	56.8	19.1	17.4	-	6.7	-	-	6.2	2.9
Other service activities.	46.7	22.8	10.2	1.4	1.4	5.7	1.7	10.1	87.7	3.9
<b>All Sectors</b>	<b>46.3</b>	<b>15.0</b>	<b>9.5</b>	<b>5.3</b>	<b>3.9</b>	<b>11.2</b>	<b>3.9</b>	<b>4.9</b>	<b>2,210.5</b>	<b>3.8</b>

### 7.3.2 Number of Closed Establishments in the last Five years and Average age

Table 7.7 shows the number of establishments that closed by economic activity and by year. The total number of businesses which closed over the last five years (including establishments closed in 2016) were 2,210.5 thousand. The highest number of establishment closed was in 2015 accounting for 35.4 per cent of the total number of closed establishments in the last five years. A total of 1,177.8 thousand establishments were closed in rural areas compared to 1,032.7 thousand establishments that closed in urban areas.

**Table 7.7: Closed Establishments by Economic Activity 2011-2016**

	000						
<b>Sector</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>+</sup></b>	<b>Total</b>
Agriculture, forestry and fishing.	2.8	7.1	6.4	8.1	30.3	-	54.7
Manufacturing.	17.6	8.0	16.7	17.8	43.5	5.0	108.6
Wholesale and retail trade; repair of motor vehicles and motorcycles.	119.9	180.3	245.1	383.1	548.6	146.8	1,623.7
Transportation and storage.	3.2	8.0	6.4	9.9	9.7	4.8	42.0
Accommodation and food service activities.	24.1	29.9	46.0	41.0	92.1	17.1	250.2
Information and communication.	-	-	0.3	1.7	0.5	-	2.6
Financial and insurance activities.	-	3.2	0.3	9.5	13.4	1.1	27.5
Professional, scientific and technical activities.	-	-	-	-	1.0	-	1.0
Education.	-	-	-	1.2	1.9	-	3.1
Human health and social work activities.	-	-	-	3.1	-	-	3.1
Arts, entertainment and recreation.	-	1.5	3.5	-	1.2	-	6.2
Other service activities.	2.7	5.4	20.8	15.2	41.3	2.4	87.7
<b>Type of Residence</b>							
Rural	98.4	140.4	195.0	228.2	420.3	95.6	1,177.8
Urban	72.0	103.1	150.6	262.4	363.1	81.5	1,032.7
<b>Total</b>	<b>170.3</b>	<b>243.4</b>	<b>345.6</b>	<b>490.6</b>	<b>783.4</b>	<b>177.1</b>	<b>2,210.5</b>

<sup>+</sup> 2016 was the survey year and only few closures were captured

### **7.3.3 Closed Establishments which had been Started/Acquired within the last Five years**

Table 7.8 shows the number of establishments started or acquired in the last five years and closed within the same period. In total, 1,438.2 thousand establishments closed in the last five years had been started or acquired within the same period. The highest number of establishments started/acquired and closed was 326.5 thousand which happened in 2014. Establishments started/acquired and closed in the last five years were mainly in the Wholesale and retail trade; Repairs of motor vehicle and motorcycles and Accommodation and Food service activities which jointly accounted 85.9 per cent of the total establishments. The number of establishments started/acquired and closed in the last five years in rural areas was 690.9 thousand compared to 747.3 thousand in urban areas.

**Table 7.8: Number of Establishments Started/Acquired and Closed Within the last Five years, by Year of Closure**

	'000						
<b>Sector</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>+</sup></b>	<b>Total</b>
Agriculture, forestry and fishing.	-	3.6	-	7.9	15.1	-	26.6
Manufacturing.	1.0	0.5	6.5	4.2	27.6	5.0	44.7
Wholesale and retail trade; repair of motor vehicles and motorcycles.	17.4	53.3	139.6	279.3	439.0	115.6	1,044.1
Transportation and storage.	1.8	5.8	4.3	3.1	9.4	4.8	29.2
Accommodation and food service activities.	7.5	24.6	27.1	37.2	78.1	17.1	191.8
Information and communication.	-	-	0.3	0.4	0.5	-	1.3
Financial and insurance activities.	-	3.2	0.3	8.5	11.1	1.1	24.2
Professional, scientific and technical activities.	-	-	-	-	1.0	-	1.0
Education.	-	-	-	1.2	1.9	-	3.1
Human health and social work activities.	-	-	-	3.1	-	-	3.1
Arts, entertainment and recreation.	-	-	3.5	-	1.2	-	4.7
Other service activities.	-	-	14.2	9.4	38.5	2.4	64.5
<b>Type of residence</b>							
Rural	107.0	144.1	148.5	131.5	143.3	16.5	690.9
Urban	96.6	134.4	162.9	194.9	148.0	10.5	747.3
<b>Total</b>	<b>203.6</b>	<b>278.5</b>	<b>311.3</b>	<b>326.5</b>	<b>291.3</b>	<b>27.0</b>	<b>1,438.2</b>

<sup>+</sup> 2016 was the survey year and only few startups were captured

### **7.3.4 Employment Dynamics for Closed Establishments**

Table 7.9 indicates changes in employment size at inception, peak and at closure. Analysis of employees for closed establishments revealed that there were no significant changes in the number of employees engaged at inception and at closure. On average, each establishment engaged 1.4 persons at inception and at closure but at peak times the average number rose to 1.6 employees. At closure, the number employees had increased by 3.5 per cent compared to the time of inception. Similarly, at the peak season the number of employees had increased by 17.1 per cent compared to inception time. This growth was mainly in Agriculture, fishing and forestry; Wholesale and retail trade; Repair of motor vehicles and Accommodation and Food services activities.

**Table 7.9: Changes in Employment Size at Inception, Peak and at Closure**

Sector	Workers at start		Highest Number of		Workers at close	
	Number ('000)	Average per establishment	Number ('000)	Average per establishment	Number ('000)	Average per establishment
Agriculture, forestry and fishing.	77.1	1.4	214.6	3.9	128	2.3
Manufacturing.	134.5	1.2	175.0	1.6	144	1.3
Wholesale and retail trade; repair of motor vehicles and motorcycles.	2,078.7	1.3	2,255.8	1.4	2,069	1.3
Transportation and storage.	69.7	1.7	97.1	2.3	74	1.8
Accommodation and food service activities.	428.4	1.7	530.7	2.1	469	1.9
Information and communication.	3.0	1.2	8.2	3.2	3	1.2
Financial and insurance activities.	42.3	1.5	43.2	1.6	43	1.6
Professional, scientific and technical activities.	1.0	1.0	1.0	1.0	1	1.0
Education.	12.6	4.0	14.3	4.6	14	4.6
Human health and social work activities.	3.1	1.0	3.1	1.0	3	1.0
Arts, entertainment and recreation.	7.4	1.2	8.3	1.3	7	1.1
Other service activities.	126.5	1.4	143.2	1.6	134	1.5
<b>Total</b>	<b>2,984.2</b>	<b>1.4</b>	<b>3,494.5</b>	<b>1.6</b>	<b>3,089.8</b>	<b>1.4</b>

Table 7.10 shows changes in employment size at inception, peak and at closure by county. Nairobi County accounted for 14.4 per cent of the total employees at time of closure. The counties which recorded the highest percentage increase in number of employees at closure compared to inception were Uasin Gishu, Nakuru and Narok. On the other hand, counties which recorded highest declines at closure compared to inception were Kwale, West Pokot and Kilifi.

There was no major difference between rural and urban areas at establishment closure in the average number of employees per establishment. However, in rural areas, the average number of employees were 1.4 persons at inception compared to an average of 1.3 persons in urban areas. During peak seasons, establishments in urban areas had a higher average number of employees than rural areas.

**Table 7.10: Change in Employment Size at Inception, Peak and at Closure, by County**

County	Number of workers at start		Highest Number of workers ever engaged		Number of workers at close	
	Number ('000)	Average per establishment	Number ('000)	Average per establishment	Number ('000)	Average per establishment
Nairobi	442.9	1.2	522.7	1.4	446.4	1.2
Nyandarua	10.8	1.1	13.8	1.4	12.2	1.2
Nyeri	51.8	1.2	67.3	1.6	51.5	1.2
Kirinyaga	54.8	1.2	64.6	1.4	56.0	1.2
Muranga	47.2	1.4	57.0	1.6	49.9	1.4
Kiambu	186.8	1.2	194.7	1.3	192.4	1.2
Mombasa	48.6	1.0	47.9	1.0	47.9	1.0
Kwale	15.0	2.1	12.2	1.7	8.4	1.2
Kilifi	239.9	1.7	249.3	1.8	214.8	1.5
Tana River	4.4	1.6	5.3	2.0	5.1	1.9
Lamu	1.1	1.1	1.5	1.4	1.5	1.5
Taita Taveta	13.0	1.3	14.3	1.4	11.9	1.2
Marsabit	1.8	1.0	1.8	1.0	1.8	1.0
Isiolo	2.3	1.1	2.4	1.1	2.3	1.1
Meru	110.9	1.1	133.4	1.4	123.5	1.3
Tharaka	19.7	1.1	22.4	1.2	20.1	1.1
Embu	19.2	1.0	21.2	1.1	19.2	1.0
Kitui	24.0	0.9	21.7	0.9	23.7	0.9
Machakos	33.2	1.1	34.5	1.1	34.5	1.1
Makueni	16.2	1.1	16.6	1.2	15.5	1.1
Garissa	3.4	1.3	3.7	1.5	3.7	1.5
Wajir	0.1	1.0	0.1	1.0	0.1	1.0
Mandera	0.8	1.0	0.8	1.0	0.8	1.0
Siaya	118.0	1.4	127.9	1.5	109.2	1.3
Kisumu	100.8	1.3	118.5	1.5	111.8	1.4
Homa Bay	114.4	1.4	132.3	1.6	108.3	1.3
Migori	103.4	1.3	105.6	1.4	104.0	1.3
Kisii	61.7	1.2	63.5	1.3	60.9	1.2
Nyamira	40.2	1.4	59.1	2.1	53.5	1.9
Turkana	11.1	1.9	11.1	1.9	11.1	1.9
West Pokot	9.0	1.4	9.7	1.5	7.5	1.1
Samburu	1.6	0.8	3.9	2.1	1.9	1.0
Trans-Nzoia	33.0	1.1	37.5	1.3	37.7	1.3
Baringo	20.5	1.3	25.1	1.5	23.2	1.4
Uasin Gishu	68.1	1.4	106.7	2.2	104.1	2.2
Elgeyo Marakwet	8.7	1.2	9.9	1.4	9.2	1.3
Nandi	48.6	1.3	52.8	1.4	51.0	1.3
Laikipia	19.6	1.9	22.9	2.2	19.6	1.9
Nakuru	149.9	1.1	332.7	2.4	212.2	1.5
Narok	18.9	1.0	29.7	1.5	26.6	1.3
Kajiado	68.2	1.4	78.4	1.6	75.5	1.6
Kericho	30.9	1.3	37.3	1.5	27.8	1.1
Bomet	50.1	1.3	61.1	1.6	51.2	1.4
Kakamega	244.9	1.6	231.6	1.5	220.7	1.4
Vihiga	25.4	0.9	25.8	0.9	25.8	0.9
Bungoma	105.4	1.5	108.2	1.6	108.2	1.6
Busia	184.2	3.6	194.2	3.8	185.5	3.6
<b>Type Of Residence</b>						
Rural	1,604.9	1.4	1,779.8	1.5	1,607.4	1.4
Urban	1,379.2	1.3	1,714.7	1.7	1,482.4	1.4
<b>Total</b>	<b>2,984.2</b>	<b>1.4</b>	<b>3,494.5</b>	<b>1.6</b>	<b>3,089.8</b>	<b>1.4</b>

### 7.3.5 Ownership of Closed Establishments

Table 7.11 presents details of closed establishments by activity. The ownership of the closed establishments showed that 54.9 per cent were owned by female sole proprietors while 33.6 per cent were owned by male proprietors. The ownership of partnered establishments that had closed accounted for 11.5 per cent of the total establishments. In the transport and education sectors, the percentage of establishments owned by male only closed more than those owned by females.

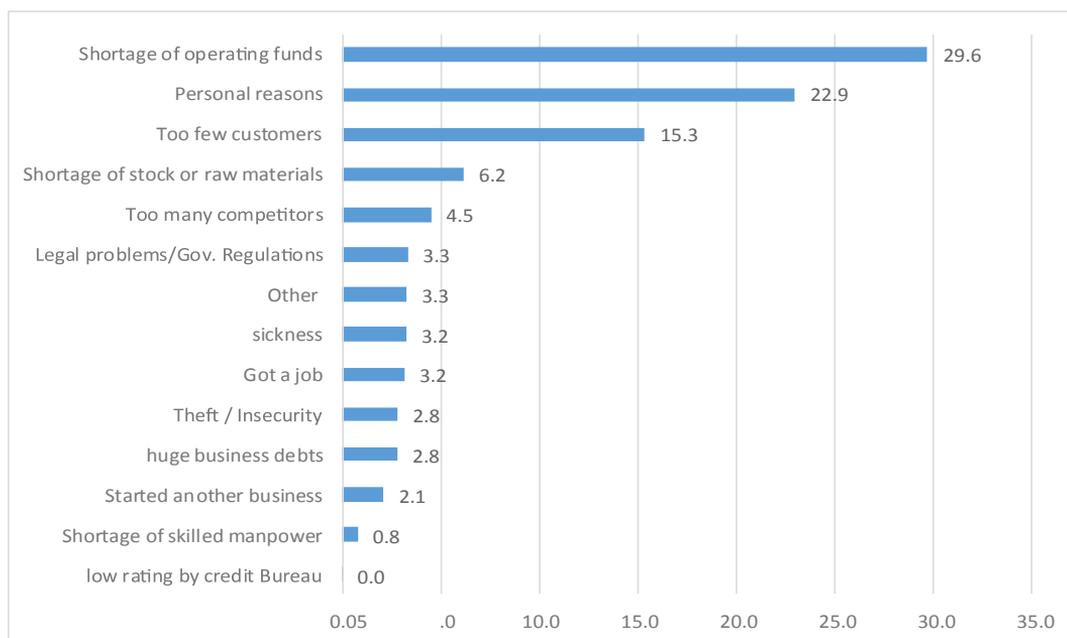
**Table 7.11: Distribution of Closed Establishments by, Ownership and Activity**

Sector	Per cent					
	Male only	Female only	Male-Male partners	Female-Female Partners	Male-Female Partners	Number ('000)
Agriculture, forestry and fishing.	51.6	36.3	-	-	12.1	54.7
Manufacturing.	54.5	39.8	1.3	0.7	3.7	108.6
Wholesale and retail trade; repair of motor vehicles and motorcycles.	28.8	59.9	1.0	1.5	8.7	1,623.7
Transportation and storage.	93.8	3.3	-	-	2.9	42.0
Accommodation and food service activities.	41.7	41.3	2.4	3.8	10.9	250.2
Information and communication.	80.0	20.0	-	-	-	2.6
Financial and insurance activities.	25.0	49.6	-	-	25.4	27.5
Professional, scientific and technical activities.	-	100.0	-	-	-	1.0
Education.	60.6	-	-	-	39.4	3.1
Human health and social work activities.	-	100.0	-	-	-	3.1
Arts, entertainment and recreation.	43.2	56.8	-	-	-	6.2
Other service activities.	33.5	58.4	5.7	-	2.4	87.7
<b>Total</b>	<b>33.6</b>	<b>54.9</b>	<b>1.3</b>	<b>1.6</b>	<b>8.6</b>	<b>2,210.5</b>

### 7.3.6 Reasons for Closure of Establishment

Figure 7.3 depicts percentage distribution of reasons for closure of establishments. The main reasons reported why establishments closed were shortage of operating funds, personal reasons and few customers at 29.6, 22.9 and 15.3 per cent, respectively. All other reasons for closure of establishments accounted for 32.2 per as shown in the figure.

**Figure 7.3: Percentage Distribution of Reasons for Closure of Establishment**



### 7.3.7 Current Activity after Closure of Establishments

Table 7.12 indicates activities undertaken after closing establishments. A significant proportion of business owners, 33.5 per cent, reported that they were not engaged in any economic activity after closing their establishments. After closure of establishments, those who started other businesses were 22.8 per cent while 28.5 per cent went to work for someone else. The remainder 15.2 per cent occupied themselves with farming activities.

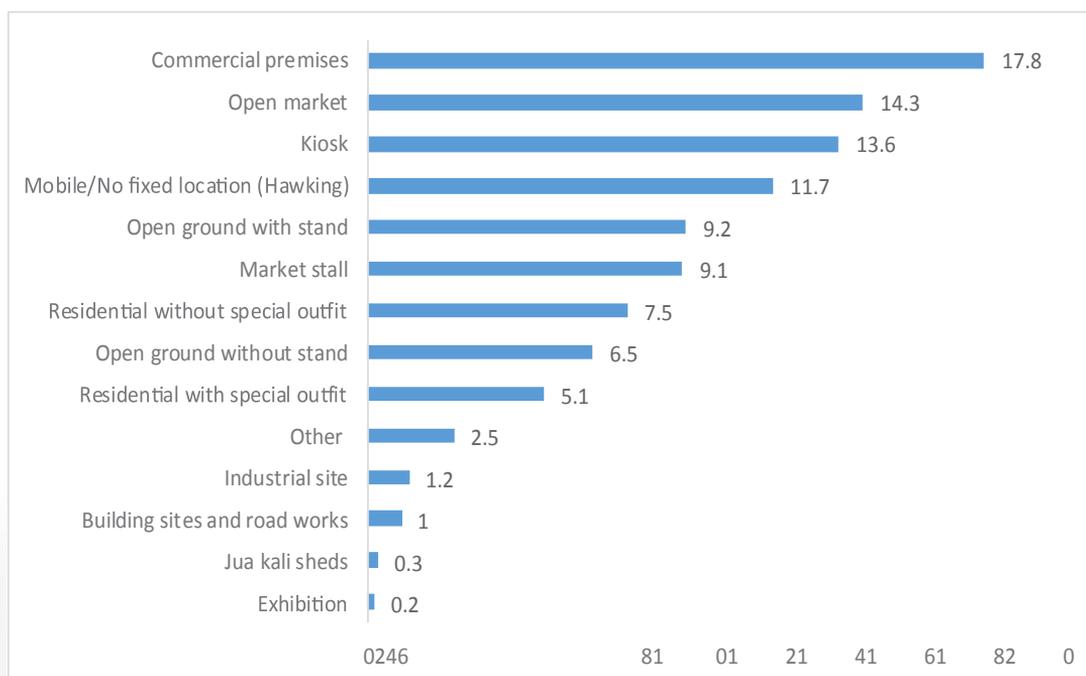
**Table 7.12: Activities Undertaken after Closing Establishments by Activity**

Sector	Percent					Number ('000)
	Runs another business	Works for someone else / Company	Nothing	Farming		
Agriculture, forestry and fishing.	20.7	22.8	27.1	29.3		54.7
Manufacturing.	16.3	42.8	23.0	18.0		108.6
Wholesale and retail trade; repair of motor vehicles and motorcycles.	23.0	25.3	35.9	15.9		1,623.7
Transportation and storage.	32.9	34.5	30.8	1.8		42.0
Accommodation and food service	20.5	44.0	21.9	13.6		250.2
Information and communication.	17.5	0.0	82.5	0.0		2.6
Financial and insurance activities.	37.1	36.7	26.2	0.0		27.5
Professional, scientific and technical	0.0	100.0	0.0	0.0		1.0
Education.	100.0	0.0	0.0	0.0		3.1
Human health and social work activities.	0.0	100.0	0.0	0.0		3.1
Arts, entertainment and recreation.	43.2	0.0	56.8	0.0		6.2
Other service activities.	24.1	26.1	42.5	7.3		87.7
<b>Total</b>	<b>22.8</b>	<b>28.5</b>	<b>33.5</b>	<b>15.2</b>		<b>2,210.5</b>

### 7.3.8 Location/Worksite of Closed Establishments

Figure 7.4 depicts percentage distribution of location/worksite of closed establishments. Most of the closed enterprises, 17.8 per cent, were located in commercial premises. High closure of establishments was also observed in open markets, kiosks and mobile/no fixed location (hawking) worksites. These localities are usually characterized by presence of high establishments that pose high competition. This was cited as one of the reason for establishment closures. Those establishments located in exhibitions, Jua Kali sheds and industrial sites had few closures.

**Figure 7.4: Percentage Distribution of Location/Worksite of Closed Establishments**



### 7.4 Disposal of Tools and Stocks after Establishment Closure

Table 7.13 presents percentage distribution of disposal of tools/stocks after establishment closure. Disposal of stock is very important as it helps to recoup part of losses invested by business owners after closing their establishments. The survey results show that after closing their establishments, 30.5 per cent liquidated their stocks/tools while 30.4 per cent gave the stocks to family members and friends. A small proportion of 2.4 per cent used their stocks to start new businesses. Those who sold the stocks together with the business were 12.4 per cent while 7.9 per cent stored their wares.

**Table 7.13: Percentage Distribution of Disposal of Tools/ Stocks after Establishment Closure**

Sector	percent							
	Sold with business	Gave to family / friends	Used to start new business	Liquidated	Stored	N/A	Other	Number ('000)
Agriculture, forestry and fishing.	8.2	13.1	9.2	14.6	2.0	38.3	14.6	54.7
Manufacturing.	1.8	8.1	4.4	24.4	3.0	33.9	24.5	108.6
Wholesale and retail trade; repair of motor vehicles and motorcycles.	1.6	15.7	11.3	32.7	2.3	31.7	4.7	1,623.7
Transportation and storage.	-	13.8	33.9	5.1	4.7	27.1	15.3	42.0
Accommodation and food service activities.	0.6	13.5	12.5	34.3	1.5	25.3	12.3	250.2
Information and communication.	-	51.0	-	17.5	-	31.5	-	2.6
Financial and insurance activities.	-	8.9	3.7	16.0	18.5	32.0	20.9	27.5
Professional, scientific and technical activities.	100.0	-	-	-	-	-	-	1.0
Education.	-	-	-	-	60.6	39.4	-	3.1
Human health and social work activities.	-	-	-	-	-	-	100.0	3.1
Arts, entertainment and recreation.	-	-	82.6	17.4	-	-	-	6.2
Other service activities.	0.9	12.3	33.2	16.0	-	17.1	20.5	87.7
<b>Total</b>	<b>12.4</b>	<b>30.4</b>	<b>2.4</b>	<b>30.5</b>	<b>7.9</b>	<b>14.7</b>	<b>1.6</b>	<b>2,210.5</b>

## Chapter 8

### Constraints and Access to Amenities and Support Services

#### 8.0 Introduction

This chapter focuses on the constraints experienced by MSMEs at different stages of growth and development. It also covers awareness of the support services available to them from various agencies as well as access to credit and infrastructure.

Factors such as business training, capital; availability of credit; competition; antientrepreneurial culture; bureaucratic procedures in business registration; high taxes; technological barriers/backwardness and poor infrastructure that affect potential for growth of MSMEs were measured. The findings show that lack of capital, expensive loans, lack of markets and many licenses are some of the significant constraints faced by MSMEs.

The survey findings shows that it was more difficult for MSMEs to access loans from commercial banks than from other small financial institutions. To solve the problems faced by MSMEs the business owners expressed their wish for the Government to assist in market promotion and to provide an enabling environment for fair competition. Despite credit constraints experienced by MSMEs, business owners were able to borrow KSh 644.1 billion in the last three years which was 68.7 per cent of the domestic credit portfolio to the private sector. Most of the loans borrowed was for working capital at 37.2 per cent.

On average, 18.3 per cent and 11.7 per cent indicated that the problems in the sector could be solved by assisting in market promotions and in providing an enabling environment for fair competition, respectively. In licensed businesses, 52.2 per cent of those who sought loans were denied the same by commercial banks while in the unlicensed businesses, 39.2 per cent were denied by Micro Finance Institutions (MFIs).

Access to electricity, water, telephone and computer services can be a proxy for assessment of the quality of infrastructure available to the entrepreneur. The ease of access to these utilities is important in all business-related activities especially in the manufacturing and service sectors. In addition, quality of available infrastructure has a significant influence on MSMEs competitiveness. Majority of MSMEs had access to electricity (88.9 per cent) and telephone at (51.5 per cent). However, many MSMEs lacked piped water and computer services.

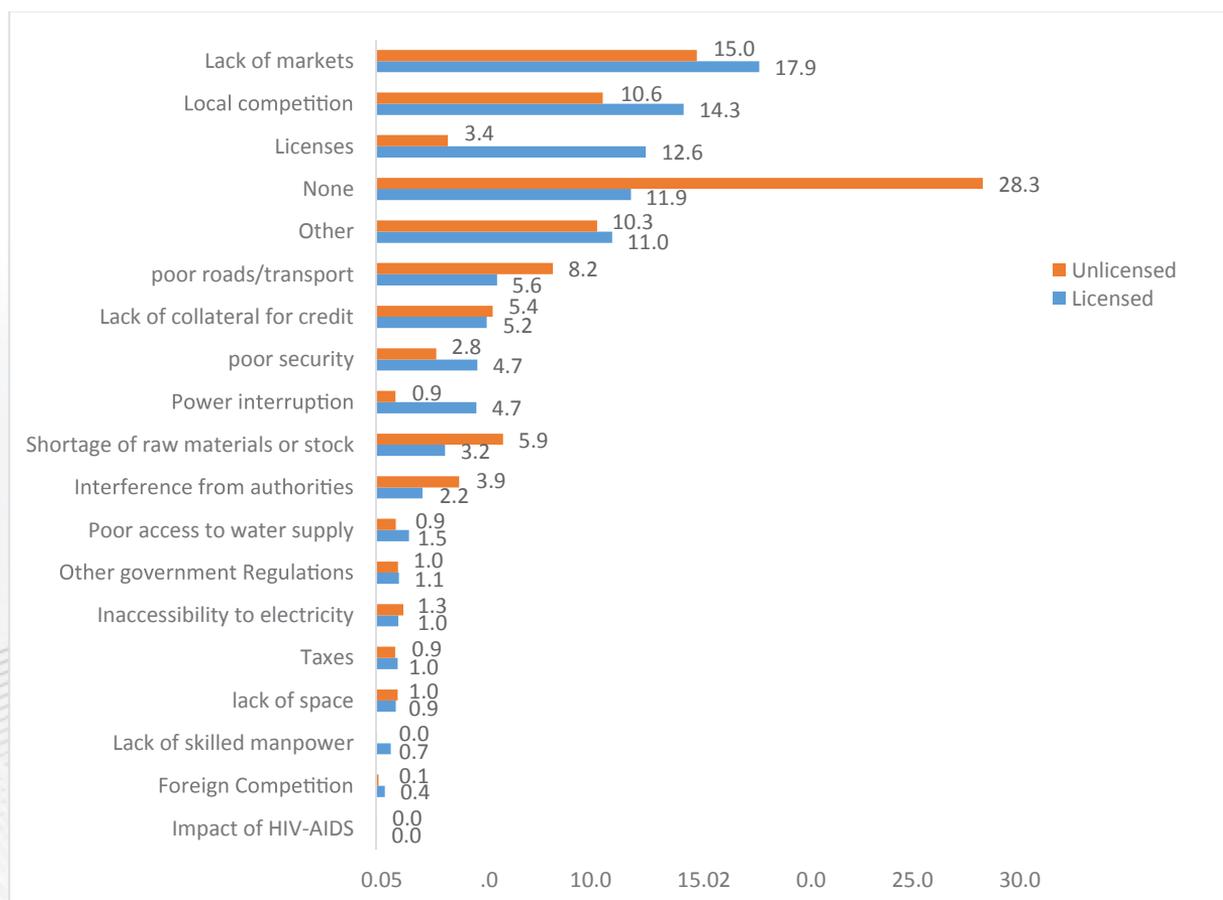
Government policies have stressed increasing roles of industrial associations in setting up of common facilities and other ventures in the area of technology, marketing and other support services. Development of an effective business support system is also a key condition for the success of both trade and investment capacity building among the micro, small and medium establishments in Kenya.

The data shows that more than half (56.5 per cent) of MSMEs did not advertise their products. Employees in licensed businesses received training especially in management (31.1 per cent), consultancy (43.9 per cent) and; finance and accounting (47.7 per cent) in the survey period.

### 8.1 Challenges Faced by MSMEs

Figure 8.1 depicts problems faced by MSMEs as enumerated by owners/operators. The operators of MSMEs were asked to enumerate the main constraints they faced while running their businesses. The most common challenge cited by licensed business was lack of markets (17.9 per cent) and local competition (14.3 per cent). Impact of HIV-AIDS, foreign competition and lack of skilled manpower were the least common challenges faced by MSMEs. About 1 in 10 businesses did not report having faced problems. As in the case of licensed MSMEs, the unlicensed businesses had challenges like lack of markets (15.0 per cent) and local competition (10.6 per cent). However, for the un-licensed businesses those who said they had no challenge were 28.3 per cent compared to 11.9 per cent for the licensed.

**Figure 8.1: Challenges Faced by MSMEs**



## 8.2 Reasons for Low Uptake of Loans by MSMEs

The survey results show that cost of credit and lack of adequate collateral are hindrances to uptake of loans for majority of businesses that need credit. Figure 8.2 shows the reasons given by MSMEs operators for failure to take up loans. A large proportion of licensed (62.0 per cent) and unlicensed (46.2 per cent) businesses indicated that they did not require a loan. The proportion of MSMEs that reported that loans were too expensive was 12.3 per cent for the licensed and 16.0 per cent for the unlicensed. A small proportion of establishments indicated that they did not know any lender.

**Figure 8.2: Reasons for Low Uptake of Loans by MSMEs**

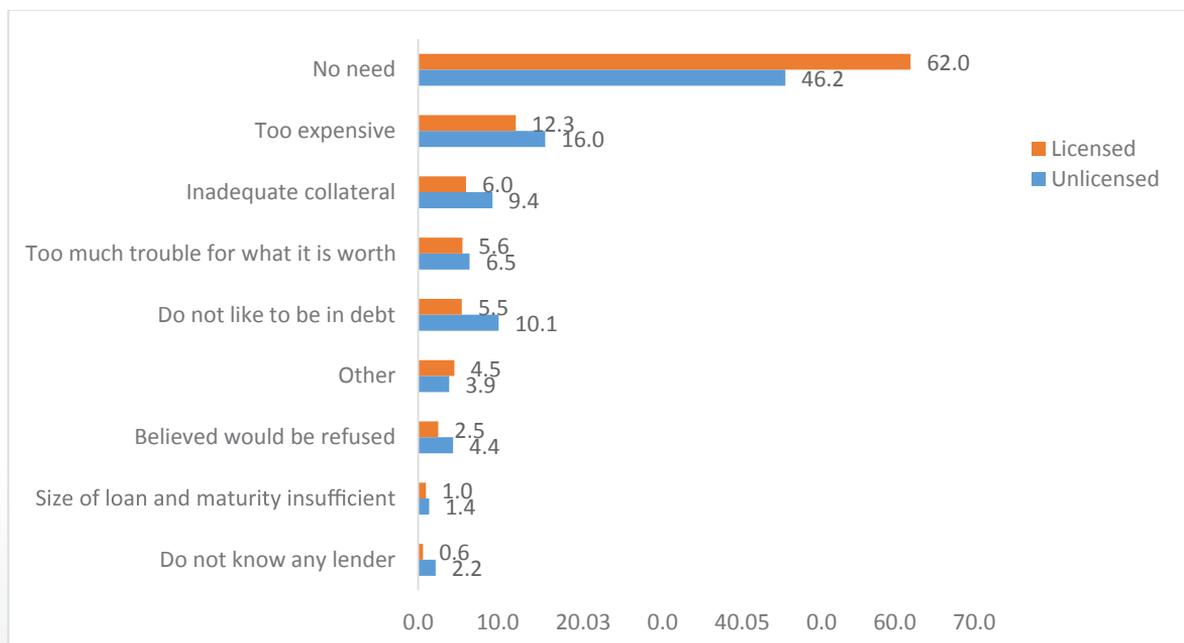


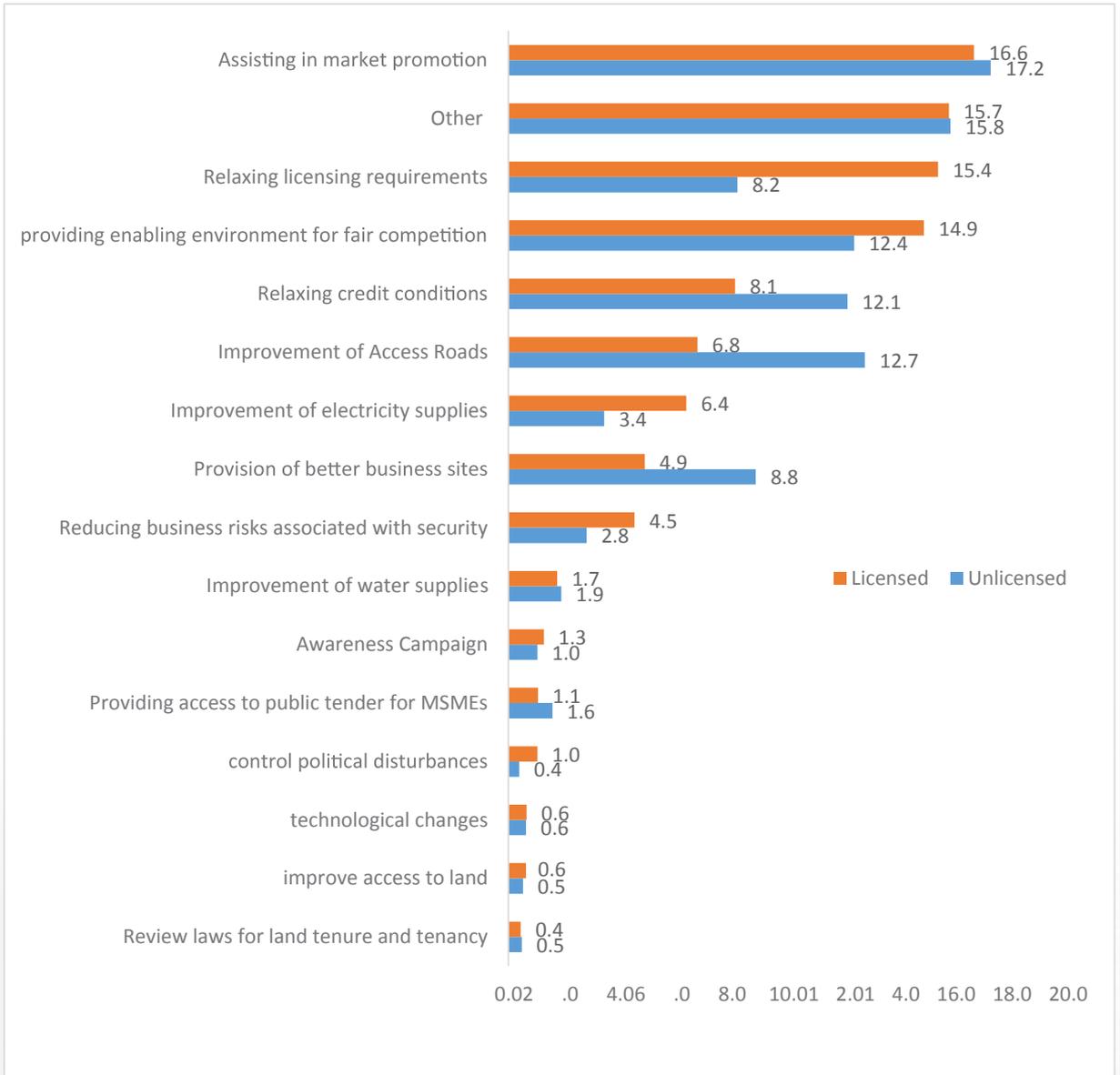
Table 8.1 presents the challenges faced by MSMEs in order of severity. The three most severe challenges faced by licensed MSMEs were payment of licenses (16.4 per cent), lack of markets (15.9 per cent) and local competition at 11.0 per cent. Otherwise the proportion of businesses that reported access to water supply, Government regulations, lack of electricity, taxes, lack of space, foreign competition, lack of skilled manpower and impact of HIV-AIDS were all manageable at below 2.0 per cent. For unlicensed businesses, the most severe challenges were poor roads (16.9 per cent), lack of markets (16.8 per cent) and licenses (9.0 per cent). Power interruptions and licenses were not found to be very severe problems.

**Table 8.1: Challenges Faced by Licensed and Un-licensed MSMEs by Severity**

Challenges	Licensed			Un-licensed		
	Very Severe	Severe	Manageable	Very Severe	Severe	Manageable
Licenses	16.4	16.3	8.0	9.0	3.5	2.5
Lack of markets	15.9	21.5	24.3	16.8	24.6	21.0
Other	14.8	10.7	11.9	15.1	13.5	17.6
Local competition	11.0	15.3	25.6	7.7	15.4	13.9
Poor roads/transport	8.1	6.4	3.9	16.9	8.8	8.3
Power interruption	7.2	4.9	3.6	1.6	1.3	0.8
Lack of collateral for credit	7.1	5.5	4.5	7.4	9.2	7.0
poor security	7.0	5.1	3.8	3.4	6.5	0.9
Interference from authorities	2.3	2.9	2.1	8.2	4.0	5.3
Shortage of raw materials or stock	2.3	3.8	5.3	5.8	6.5	13.2
Poor access to water supply	2.0	1.8	1.3	2.5	0.6	1.5
Inaccessibility to electricity	1.5	1.0	0.9	2.1	1.3	2.5
Other government Regulations	1.3	1.3	0.9	1.8	1.1	1.9
Taxes	1.3	1.3	0.8	0.3	2.0	1.3
lack of space	0.9	1.0	1.3	1.0	1.5	2.0
Lack of skilled manpower	0.6	0.6	1.4	-	0.1	-
Foreign Competition	0.5	0.6	0.4	0.5	0.1	-
Impact of HIV-AIDS	0.0	-	-	-	-	0.1

The proposed solutions to constraints that faced establishments is presented in Figure 8.3. Among licensed establishments, 16.6 per cent indicated that they would overcome some constraints if they were assisted in market promotions. Other proposed solutions of 15.4 per cent and 14.9 per cent were relaxing licensing requirements and providing an enabling environment for fair competition. However, only a small proportion were concerned with water supply, access to land, political disturbances, technological changes, providing access to public tender and reviewing laws of land tenure and tenancy. The point of divergence between differences between licensed and unlicensed businesses was in provision of better business sites, improvement of access roads and relaxing credit conditions.

**Figure 8.3: Proposed Solutions to Constraints in Establishments.**



### 8.3 Demand for Credit by Industry

Demand for credit among MSMEs was found to be generally low with 70.6 per cent of licensed and 85.8 per cent of unlicensed businesses reporting not to have applied for loans in the last three years. As shown in Table 8.2 there wasn't much difference in the demand for loans between the micro, small and medium sized establishments. Analysis by sex of business owners revealed that establishments operated by male only had a relatively lower demand for credit compared to those owned/operated by female.

**Table 8.2: Demand for Credit by size of business, Sex of Owners and Licensing status**

	Licensed		Unlicensed	
	Applied	Did not Apply	Applied	Did not Apply
<b>Size of establishment</b>				
Micro	29.4	70.6	14.2	85.8
Small	34.4	65.6	-	-
Medium	28.9	71.1	-	-
<b>Sex of owners</b>				
Male only	27.0	73.0	12.5	87.5
Female only	31.1	68.9	15.8	84.2
Male-Male partners	20.4	79.6	30.4	69.6
Female-Female Partners	38.8	61.2	-	100.0
Male-Female Partners	35.8	64.2	8.6	91.4
<b>Total</b>	29.8	70.2	14.2	85.8

To encourage greater bank-led financing, the Central Bank of Kenya (CBK) has increased its focus on the MSME sector through several lending and credit facilitation programs. This is mainly to bridge the unmet funding demand and to maintain the flow of banking credit.

Table 8.3 shows the demand for credit by industry. Overall, 78.6 per cent of credit from licensed MSMEs came from commercial banks, MFIs and SACCOs at 56.1, 12.5 and 10.0 per cent, respectively. Very little credit originated from informal co-operatives, religious organizations and insurance companies. MSMEs operating in the Agriculture, forestry and fishing industry tend to receive credit from commercial banks (41.0 per cent) and SACCO's (25.4 per cent). In the mining and quarrying industry, credit was mainly sourced from money lenders while all the credit from Electricity, gas, steam and air conditioning supply Water supply; sewerage, waste management and remediation activities was gotten from commercial banks. In the unlicensed businesses, 74.4 per cent of loans were sourced from commercial banks, Rotating Savings and Credit Associations (ROSCAs) and MFIs.

**Table 8.3a: Demand for Credit by Industry (Licensed)**

Industry	Public Financing Agencies/ Cooperatives	Micro Finance Institutions	Building Societies	Insurance Companies	Self Help groups	Religious organisations	NGOs	Family friends	Money lenders	Non-Bank Finance institution	Rotating Savings & Credit Associations	Trade Credit Suppliers	Commercial Banks	SACCOs	Other Formal / Informal cooperatives	Public Enterprise funds (Youth, women)	Mobile platform	Other
<b>Licensed</b>																		
<b>Total</b>	<b>3.7</b>	<b>12.5</b>	<b>0.4</b>	<b>0.1</b>	<b>3.5</b>	<b>0.1</b>	<b>3.1</b>	<b>0.7</b>	<b>0.6</b>	<b>2.8</b>	<b>2.2</b>	<b>0.3</b>	<b>56.1</b>	<b>10.0</b>	<b>0.2</b>	<b>0.6</b>	<b>0.7</b>	<b>2.4</b>
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	18.3	6.4	-	41.0	25.4	-	4.3	-	4.6
Mining and quarrying	-	44.7	-	-	-	-	55.3	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	6.1	23.2	0.0	-	7.9	0.2	0.4	0.3	1.2	0.5	4.8	0.4	34.2	14.2	0.7	1.5	0.8	3.4
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-
Water supply, sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-
Construction	0.4	-	-	-	-	-	-	3.9	-	7.6	-	-	68.7	19.3	-	-	-	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	5.7	18.3	0.1	0.0	6.4	0.4	0.2	0.5	0.9	2.2	4.8	0.7	44.4	11.4	0.6	1.0	0.7	1.9
Transportation and storage	1.4	2.2	-	-	2.3	-	-	2.7	-	-	5.5	1.9	62.7	16.9	-	-	-	4.3
Accommodation and food service activities	3.3	18.6	-	-	7.7	-	-	0.7	1.6	1.2	3.3	0.3	46.2	13.8	0.0	0.3	1.2	1.6
Information and communication	11.7	3.4	6.8	-	8.8	-	-	-	-	8.8	-	-	48.3	7.5	-	0.5	-	4.1
Financial and insurance activities	7.6	16.7	-	-	2.8	-	-	0.5	1.5	1.2	2.4	0.6	51.0	10.7	-	0.5	1.1	3.6
Real estate activities	-	-	-	-	2.3	-	-	-	-	-	-	-	87.0	10.7	-	-	-	-
Professional, scientific and technical activities	1.4	13.6	-	-	0.4	-	-	-	0.7	1.9	1.2	0.9	65.2	7.4	-	-	4.6	2.8
Administrative and support service activities	1.7	10.8	-	-	5.8	0.1	0.2	0.3	2.2	0.8	1.8	-	66.9	8.6	-	-	-	0.7
Education	7.8	14.0	0.0	0.0	1.3	1.1	-	1.2	0.3	0.6	0.9	-	62.2	8.1	-	-	0.9	1.5
Human health and social work activities	17.2	13.4	-	1.6	1.6	-	-	1.3	-	1.0	0.3	-	40.7	12.0	-	-	-	11.0
Arts, entertainment and recreation	0.1	20.9	-	-	4.9	0.6	0.2	-	2.1	3.7	1.1	-	60.2	3.8	-	1.8	0.7	-
Other service activities	2.9	25.5	-	-	10.9	-	-	0.6	0.3	2.8	7.3	0.9	31.1	9.8	1.7	0.9	2.0	3.3

**Table 8.3b: Demand for Credit by Industry (Unlicensed)**

Industry	Public Financing Agencies/ Cooperatives	Micro Finance Institutions	Building Societies	Insurance Companies	Self Help groups	Religious organisations	NGOs	Family friends	Money lenders	Non-Bank Finance institution	Rotating Savings & Credit Associations	Trade Credit Supplies	Commercial Banks	SACCOs	Other Formal / Informal cooperatives	Public Enterprise funds (Youth, women)	Mobile platform	Other
<b>Unlicensed</b>																		
<b>Total</b>	<b>0.2</b>	<b>15.8</b>	-	-	<b>4.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>23.6</b>	-	<b>35.0</b>	<b>8.6</b>	<b>0.0</b>	<b>1.9</b>	<b>0.5</b>	<b>8.6</b>
Agriculture, forestry and fishing	-	19.5	-	-	19.3	-	-	-	-	-	5.0	-	11.4	44.8	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-
Manufacturing	-	37.2	-	-	5.6	-	-	-	2.5	3.3	22.1	-	10.4	4.9	-	-	1.0	13.0
Construction	-	-	-	-	-	-	-	-	-	-	59.8	-	40.2	-	-	-	-	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.2	36.9	-	-	7.0	1.5	0.3	2.2	3.5	0.8	16.5	-	11.6	10.5	0.2	5.5	0.3	3.1
Transportation and storage	-	55.9	-	-	-	-	-	-	-	-	-	-	17.1	27.0	-	-	-	-
Accommodation and food service activities	2.5	45.4	-	-	24.0	-	-	-	-	-	10.6	-	-	11.2	-	-	6.4	-
Financial and insurance activities	-	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-
Real estate activities	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-	-	-
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100.0
Education	-	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-
Human health and social work activities	-	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-	-	-
Other service activities	-	26.4	-	-	9.9	-	-	-	-	-	16.0	-	-	21.4	-	21.6	-	4.7

8.6. Figure 8.4 depicts purposes for which establishments borrowed money from various sources. Working capital was the main reason given for taking loans, 37.0 per cent and 34.1 per cent of licensed and unlicensed businesses, respectively. A higher number of licensed establishments took loans to refurbish their establishments compared to unlicensed ones. It was noted that a large proportion of the unlicensed establishments took loans for nonbusiness purposes. At the same time a bigger proportion of unlicensed business were repaying their debts compared to licensed ones.

**Figure 8.4: Reasons why Persons in Licensed and Unlicensed Businesses took Loans**

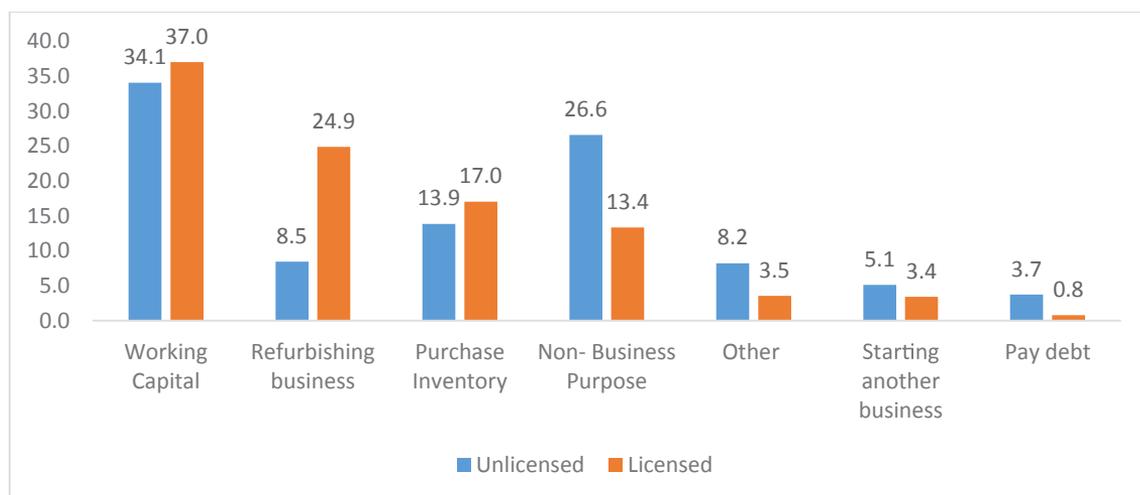


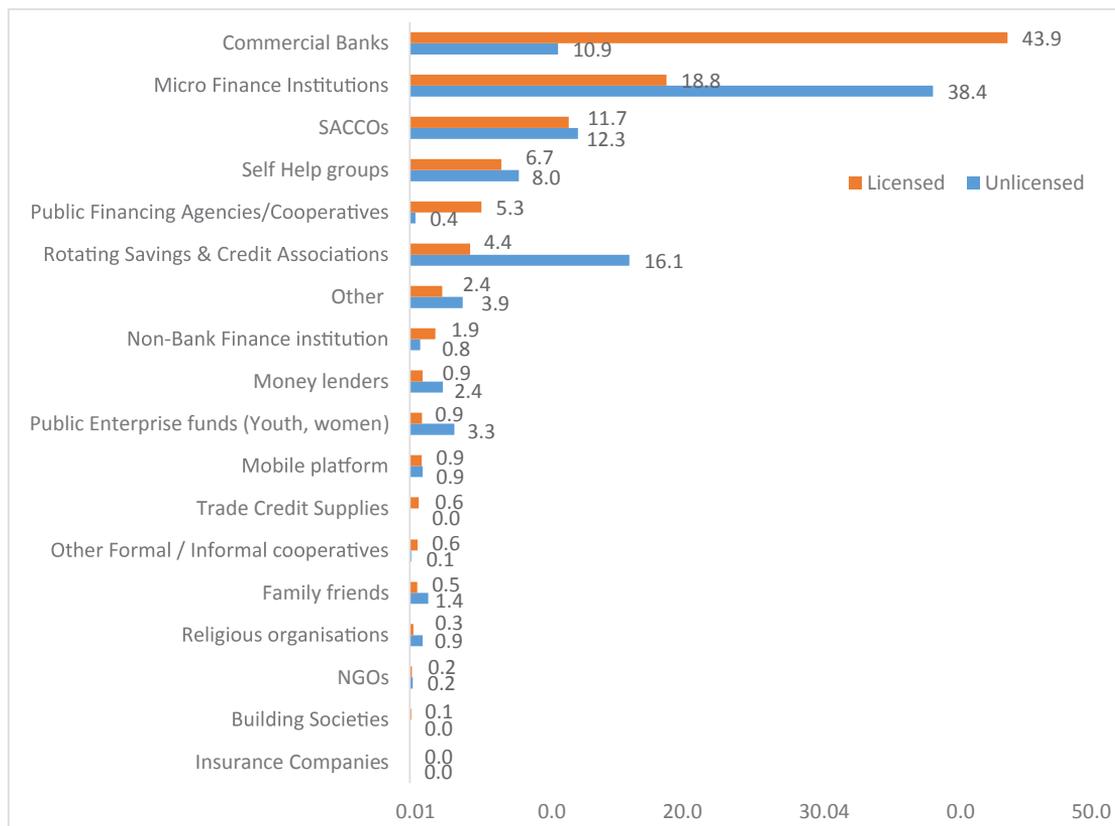
Table 8.4a presents the financial institutions which refused to give out loans to licensed and unlicensed MSMEs by sex. The table shows that 52.2 per cent of licensed businesses were denied loans by commercial banks. About three-quarters (71.6 per cent) of malefemale partners were denied loans by commercial banks while 80.9 per cent of femalefemale partnership were denied loans by MFIs. Establishments that were owned by malemale partnerships reported that they were denied loans by SACCOs (55.5 per cent). Overall 39.2 per cent of the unlicensed businesses were denied loans by MFIs.

**Table 8.4a: Financial Institutions that Denied Loans to Establishments by Ownership**

Source of Loan	Male only	Female only	Male-Male partners	Female-Female Partners	Male-Female Partners	Overall
<b>Licensed</b>						
Commercial banks	55.7	32.3	44.5	19.1	71.6	52.2
Micro - Finance	9.2	29.3	-	80.9	15.0	15.9
Building Soc./Mortgage	0.7	-	-	-	-	0.3
SACCOS	8.1	19.3	55.5	-	8.7	12.9
Other Financial Institution	4.4	8.8	-	-	0.3	4.5
Neighbours/Friends	1.1	0.2	-	-	1.9	1.0
Money lender	5.7	-	-	-	1.0	2.9
Self Help Group	2.0	3.9	-	-	-	2.0
Other	13.0	6.2	-	-	1.5	8.2
<b>Unlicensed</b>						
Commercial banks	56.7	4.6	-	-	-	22.0
Micro - Finance	-	53.9	100.0	-	-	39.2
SACCOS	32.7	12.5	-	-	-	18.4
Other Financial Institution	-	10.7	-	-	-	6.1
Money lender	10.6	-	-	-	-	3.6
Religious Institutions	-	16.9	-	-	-	9.8
Self Help Group	-	1.4	-	-	-	0.8

Generally, there were marked differences between licensed and unlicensed establishments' demands for loans from the various lenders. The most notable differences as shown in Figure 8.5 were in the demand for credit from the Microfinance institutions and commercial banks. In the case of Microfinance institutions, 38.4 per cent of unlicensed businesses reported to have applied for credit while only 18.8 per cent of their licensed counterparts had sought loans from the lenders in this category. On the contrary, 43.9 per cent of licensed establishments reported to have applied for loans from the commercial banks compared to 10.9 per cent of unlicensed establishments.

**Figure 8.5: Demand for Credit on Licensed and Unlicensed Businesses by Lenders**



8.11. Over the years, traditional sources of financing for MSMEs have revolved around personal savings, loans from friends and family, and other informal sources. This scenario presents a conundrum as the impact of these sources of funding altogether represents only a fraction of the available potential when banks and the government become major contributors of MSMEs financing. This report presents finding of MSME survey on major impediments to MSME growth in Kenya; one of which is access to finance and the issues impacting on MSMEs ability to effectively increase their contribution to the economy.

8.12. Table 8.4b presents amount of loans applied and received in the last three years. Total amount of loans applied for by licensed MSMEs in the last three years was KSh 707.3 billion out of which, KSh 644.1 billion was given, translating to 91.1 per cent. Out of total loans given to licensed MSMEs, Nairobi received the lion's share at 70.3 per cent followed by Kiambu at 4.6 per cent.

Total amount received by unlicensed MSMEs was 42.9 billion representing 92.3 per cent of loans applied. MSMEs located in Kiambu County followed by Bomet and Nairobi received the highest shares of loan. Consolidated accounts of the banking system for the period 2013 to 2015 of domestic credit to private sector was KSh 950.7 billion, implying that 72.3 per cent was advanced to MSME's.

**Table 8.4b: Amount of Loans Applied and Received in the Last Three Years**

County Name	Licensed			Unlicensed		
	Amount applied (KSh Million)	Amount received (KSh Million)	Proportion of Loan Received to Applied (%)	Amount applied (KSh Million)	Amount received (KSh Million)	Proportion of Loan Received to Applied (%)
Baringo	1,762.0	1,671.3	94.9	1,101.4	1,082.9	98.3
Bomet	10,087.2	9,361.9	92.8	5,047.8	4,893.5	96.9
Bungoma	1,862.6	1,740.1	93.4	977.5	908.8	93.0
Busia	5,809.8	4,439.0	76.4	118.7	86.5	72.8
Elgeyo Marakwet	693.2	666.9	96.2	479.1	470.0	98.1
Embu	5,455.5	5,335.6	97.8	3,236.1	3,236.1	100.0
Garissa	51.7	27.7	53.6	-	-	-
Homa Bay	10,082.0	6,580.1	65.3	804.1	787.8	98.0
Isiolo	232.4	200.9	86.4	-	-	-
Kajiado	7,195.7	6,828.5	94.9	126.1	126.1	100.0
Kakamega	10,900.6	9,121.9	83.7	634.3	589.6	92.9
Kericho	9,525.0	6,771.9	71.1	355.9	355.9	100.0
Kiambu	30,386.2	29,627.3	97.5	14,569.3	13,310.6	91.4
Kilifi	1,937.5	1,833.0	94.6	2,084.7	1,908.6	91.5
Kirinyaga	2,786.4	2,632.6	94.5	2,459.7	2,459.7	100.0
Kisii	5,076.8	4,138.8	81.5	1,260.2	1,203.1	95.5
Kisumu	20,173.9	17,623.0	87.4	627.8	512.2	81.6
Kitui	962.8	918.2	95.4	258.5	257.5	99.6
Kwale	1,503.3	1,303.6	86.7	-	-	-
Laikipia	1,651.9	1,513.4	91.6	-	-	-
Lamu	715.6	639.8	89.4	6.1	6.1	100.0
Machakos	4,073.6	3,108.9	76.3	851.3	626.6	73.6
Makueni	2,015.7	1,318.4	65.4	658.8	658.8	100.0
Mandera	1.5	1.1	75.0	229.1	91.6	40.0
Marsabit	271.3	264.0	97.3	-	-	-
Meru	8,095.1	5,612.9	69.3	228.6	161.9	70.8
Migori	4,279.2	3,437.0	80.3	136.0	136.0	100.0
Mombasa	11,631.2	11,256.5	96.8	370.4	370.4	100.0
Muranga	634.6	595.3	93.8	-	-	-
Nairobi	488,495.6	452,687.7	92.7	5,091.2	4,542.5	89.2
Nakuru	13,169.5	11,474.3	87.1	597.1	597.1	100.0
Nandi	3,380.5	3,333.9	98.6	137.2	134.2	97.8
Narok	2,710.1	2,565.1	94.6	348.9	348.9	100.0
Nyamira	8,633.8	8,356.6	96.8	954.0	930.0	97.5
Nyandarua	1,069.5	1,016.4	95.0	-	-	-
Nyeri	10,983.3	8,836.6	80.5	688.7	688.7	100.0
Samburu	1,156.6	1,127.5	97.5	39.5	39.5	100.0
Siaya	794.9	711.4	89.5	196.5	196.5	100.0
Taita Taveta	2,269.9	2,114.8	93.2	585.5	563.0	96.2
Tana River	19.7	17.9	90.8	-	-	-
Tharaka Nithi	996.2	893.6	89.7	-	-	-
Trans-Nzoia	2,034.8	1,990.2	97.8	575.3	555.5	96.5
Turkana	2,635.3	2,247.5	85.3	-	-	-
Uasin Gishu	7,162.8	6,423.0	89.7	490.8	-	-
Vihiga	1,528.9	1,388.9	90.8	187.7	81.5	43.5
Wajir	3.6	3.0	82.0	-	-	-
West Pokot	378.4	372.2	98.4	-	-	-
<b>Total</b>	<b>707,277.8</b>	<b>644,130.3</b>	<b>91.1</b>	<b>46,514.0</b>	<b>42,917.7</b>	<b>92.3</b>

8.13. The last few years have seen rapid growth in the inflow of workers into the sector. Given the crucial role of MSMEs in the national economy it is in the common interest to harness and optimize on this potential by putting into place appropriate strategies to mobilize unlocking of this potential and to enable MSME growth and development.

8.14. Over the years, MSMEs have played a crucial role in supporting the country's economic growth. This has mainly been manifested through the high number of jobs the sector has created. Table 8.5 shows the number of extra workers engaged in these businesses during high season to meet the required production. A total of 616.1 thousand workers were engaged in both licensed and unlicensed establishments during the high season, an indication of high employment potential in the MSME's. The employment ratio of male to female partnerships was 64.0 per cent to 36.0 per cent in the licensed businesses and 70.0 per cent to 30.0 per cent in the unlicensed businesses. In both cases the industry with the highest potential was wholesale and retail trade; repair of motor vehicles. Although unlicensed establishments operate in fewer industries, they engaged a bulk of the workers (40.5 per cent) in the sector.

**Table 8.5: Extra Workers Engaged in Licensed and Unlicensed Businesses during High Season**

Industry	Number of Workers			Share of (%)		
	Male	Female	Total	Males	Females	Industry
<b>Licensed</b>						
Agriculture, forestry and fishing	24	24	48.0	50	50	0.0
Mining and quarrying	758	1,769	2,527.3	30	70	1.5
Manufacturing	32,353	12,981	45,334.0	71	29	27.6
Electricity, gas, steam and air conditioning supply	293	-	293.2	100	-	0.2
Construction	3,955	1,208	5,163.2	77	23	3.1
Wholesale and retail trade; repair of motor vehicles and motorcycles	34,087	11,544	45,631.0	75	25	27.8
Transport and storage	159	35	193.1	82	18	0.1
Accommodation and food service	14,901	8,406	23,306.1	64	36	14.2
Information and communication	2,859	3,714	6,572.6	43	57	4.0
Financial and insurance	715	152	866.8	82	18	0.5
Real estate	869	-	868.9	100	-	0.5
Professional, scientific and technical	3,170	2,198	5,367.8	59	41	3.3
Administrative and support service	4,573	956	5,528.1	83	17	3.4
Education	238	1,834	2,071.7	11	89	1.3
Human health and social work	642	285	926.6	69	31	0.6
Arts, entertainment and recreation	981	-	981.2	100	-	0.6
Other service	4,659	13,713	18,372.4	25	75	11.2
<b>Total</b>	<b>105,235</b>	<b>58,817</b>	<b>164,052.4</b>	<b>64</b>	<b>36</b>	<b>100.0</b>
<b>Unlicensed</b>						
Agriculture, forestry and fishing	37,143	47,671	84,814.0	44	56	18.8
Mining and quarrying	-	-	-	-	-	-
Manufacturing	18,434	1,505	19,939.2	92	8	4.4
Construction	18,872	-	18,871.7	100	-	4.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	175,128	7,743	182,870.8	96	4	40.5
Transport and storage	769	-	768.9	100	-	0.2
Accommodation and food service	11,959	16,089	28,048.3	43	57	6.2
Arts, entertainment and recreation	43,711	43,711	87,421.2	50	50	19.3
Other service	10,424	18,868	29,292.0	36	64	6.5
<b>Total</b>	<b>316,440</b>	<b>135,587</b>	<b>452,026.2</b>	<b>70</b>	<b>30</b>	<b>100.0</b>

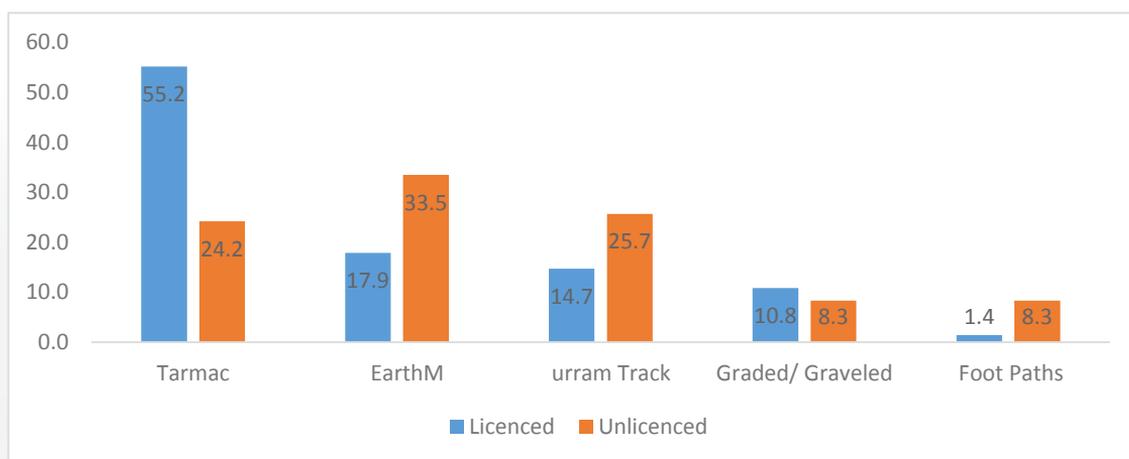
8.17. Growth of MSMEs is dependent on access to key utilities such as water, electricity, communication and technology. Availability of these amenities is necessary in ensuring that businesses run efficiently. Table 8.6 shows the proportion of MSMEs with access to these amenities by type of ownership. The survey revealed that MSMEs owned as public limited and as private companies had more access to these utilities compared to those owned by family, sole proprietors, partnerships, cooperatives and as groups. Only 10.2 per cent of the licensed sole proprietors had access to computer services.

**Table 8.6: Proportion of MSMEs with Access to Amenities by Type of Ownership Structure**

Ownership	Licensed				Unlicensed			
	Telephone	Water	Electricity	Computer services	Telephone	Water	Electricity	Computer services
Family	5.2	24.6	90.6	15.1	3.1	9.3	38.7	1.0
Sole Proprietor	3.6	20.5	87.9	10.2	0.8	13.2	37.5	0.1
Partnership	16.1	25.2	93.1	39.9	-	12.5	47.1	-
Cooperative	32.7	24.8	91.3	61.6	-	-	-	-
Group	22.1	38.3	88.1	49.9	-	-	100.0	-
Private company	43.5	46.5	96.7	80.9	-	-	-	-
Public limited company	50.6	50.3	98.8	83.3	-	-	-	-
Other	40.6	37.5	95.8	64.3	5.5	-	10.7	-

8.18. Businesses require good road networks to enable them access their premises and markets for their goods and services. Figure 8.6 depicts the type of roads used by MSMEs to access their premises. Most of the licensed MSMEs (55.2 per cent) had access to tarmac roads while 33.5 per cent of unlicensed MSME's had access to their businesses by earth road.

**Figure 8.6: Accessibility to MSMEs' Premises by Type of Roads**



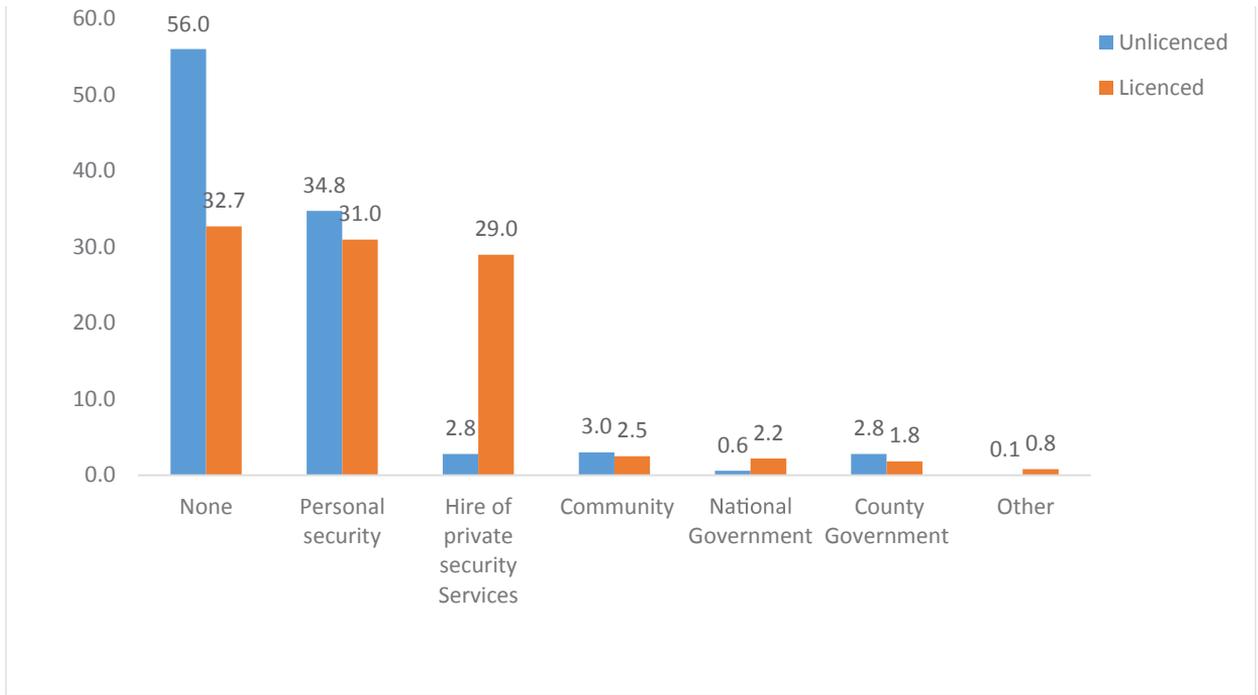
8.19. Table 8.7 shows access to establishments by county and type of roads. Most of the licensed MSMEs in Mombasa, Nairobi, Uasin Gishu and Kisumu counties had tarmac roads. However, counties such as Mandera, Lamu and Marsabit had few tarmac roads. Majority of the roads in Kitui, Marsabit and Wajir were earth. However, more than half of the unlicensed MSMEs in almost all counties were accessible via earth roads.

**Table 8.7: Access to MSMEs in the Counties by Type of Roads**

County	Licenced					Unlicenced				
	Tarmac	Graded/ Graveled	Earth	Murram Track	Foot Paths	Tarmac	Graded/ Graveled	Earth	Murram Track	Foot Paths
Nairobi	80.2	9.6	6.1	3.7	0.4	50.4	6.7	27.4	10.6	5.0
Nyandarua	22.0	26.3	29.1	22.3	0.3	-	36.8	18.4	44.9	-
Nyeri	52.6	10.0	11.1	26.3	-	43.8	36.8	-	-	19.4
Kirinyaga	41.1	5.5	43.3	10.1	-	28.3	-	35.3	36.5	-
Muranga	59.0	2.4	15.7	19.2	3.6	80.8	7.3	2.7	9.2	-
Kiambu	56.5	18.4	15.9	8.7	0.4	15.7	3.1	31.4	49.8	-
Mombasa	86.7	7.4	2.4	2.6	0.9	59.2	-	6.4	28.9	5.6
Kwale	40.9	11.5	12.2	32.7	2.7	-	-	-	-	-
Kilifi	49.2	2.2	34.7	9.5	4.4	26.3	1.3	42.1	8.0	22.3
Tana River	26.8	-	53.4	14.8	5.0	13.1	-	30.7	3.6	52.6
Lamu	1.8	23.0	33.8	30.6	10.8	-	-	66.3	19.8	13.9
Taita Taveta	37.0	0.4	35.4	20.0	7.1	-	-	89.2	10.8	-
Marsabit	4.1	1.1	68.6	18.1	8.2	-	-	56.3	43.7	-
Isiolo	21.3	6.3	31.7	38.2	2.5	3.4	5.7	35.5	10.4	44.9
Meru	52.7	24.7	21.6	0.5	0.5	42.9	18.3	35.2	3.7	-
Tharaka	41.0	11.6	22.2	24.4	0.9	20.3	23.5	34.7	15.5	6.0
Embu	40.4	5.3	30.8	22.4	1.1	17.6	3.5	54.3	21.5	3.1
Kitui	19.5	0.9	79.1	0.5	0.1	8.2	-	89.0	2.7	-
Machakos	37.7	18.8	22.2	18.7	2.6	5.4	10.0	55.5	17.9	11.2
Makueni	24.9	6.3	54.6	13.9	0.3	41.7	-	12.9	45.4	-
Garissa	63.9	9.9	10.6	15.6	-	-	-	84.8	15.2	-
Wajir	29.2	-	66.7	4.1	-	-	-	-	-	-
Mandera	0.4	26.6	32.4	18.8	21.6	-	38.2	46.2	6.6	9.1
Siaya	30.9	0.4	24.7	42.8	1.2	12.9	-	25.5	61.5	-
Kisumu	74.7	2.5	12.9	9.4	0.5	17.0	21.3	18.5	26.4	16.8
Migori	40.6	12.1	2.8	44.5	-	17.2	21.0	2.8	59.1	-
Homa Bay	56.9	9.2	10.9	21.7	1.4	7.2	9.8	31.8	20.4	30.8
Kisii	66.1	6.7	12.7	14.2	0.3	30.5	14.4	27.2	20.7	7.2
Nyamira	33.9	10.8	10.8	43.8	0.7	28.2	17.0	7.0	46.5	1.3
Turkana	73.9	0.1	17.5	4.8	3.7	-	8.0	31.7	-	60.3
West Pokot	21.4	0.4	28.7	49.0	0.5	-	-	57.3	3.1	39.6
Samburu	23.4	13.2	24.8	36.6	2.0	-	-	79.5	8.0	12.4
Trans-Nzoia	38.0	1.3	24.5	35.9	0.2	-	-	36.9	63.1	-
Baringo	52.4	3.0	35.2	8.0	1.3	1.6	-	74.1	24.3	-
Uasin Gishu	79.3	5.4	12.0	3.2	0.1	56.4	-	32.6	11.0	-
Elgeyo Marakwet	43.1	15.1	7.2	34.5	-	-	3.0	69.2	17.9	9.8
Nandi	58.6	10.4	4.6	23.2	3.1	8.2	19.4	25.5	40.1	6.8
Laikipia	54.0	9.0	19.7	17.3	-	-	-	100.0	-	-
Nakuru	61.3	7.7	15.8	14.4	0.8	15.4	-	35.3	49.3	-
Narok	47.5	9.0	34.7	7.8	1.0	2.0	-	50.3	35.4	12.3
Kajiado	44.5	6.1	33.3	15.1	1.0	14.4	-	29.7	40.6	15.3
Kericho	59.2	12.0	4.0	23.7	1.1	24.2	18.6	-	57.2	-
Bomet	48.0	22.0	5.6	23.9	0.4	9.3	3.1	1.5	83.5	2.6
Kakamega	34.9	20.5	13.3	30.6	0.7	27.6	34.9	11.1	18.7	7.7
Vihiga	66.4	3.6	7.1	22.8	0.1	36.8	-	5.9	36.7	20.6
Bungoma	46.5	1.7	29.5	21.7	0.7	33.2	-	44.6	19.2	3.0
Busia	54.4	15.6	10.2	18.2	1.6	41.5	11.2	20.3	23.1	3.9

8.20. Figure 8.7 shows the proportion of MSMEs with access to security service providers. Most MSMEs did not have any security arrangement at their premises.

**Figure 8.7: Security Service Providers for MSMEs**



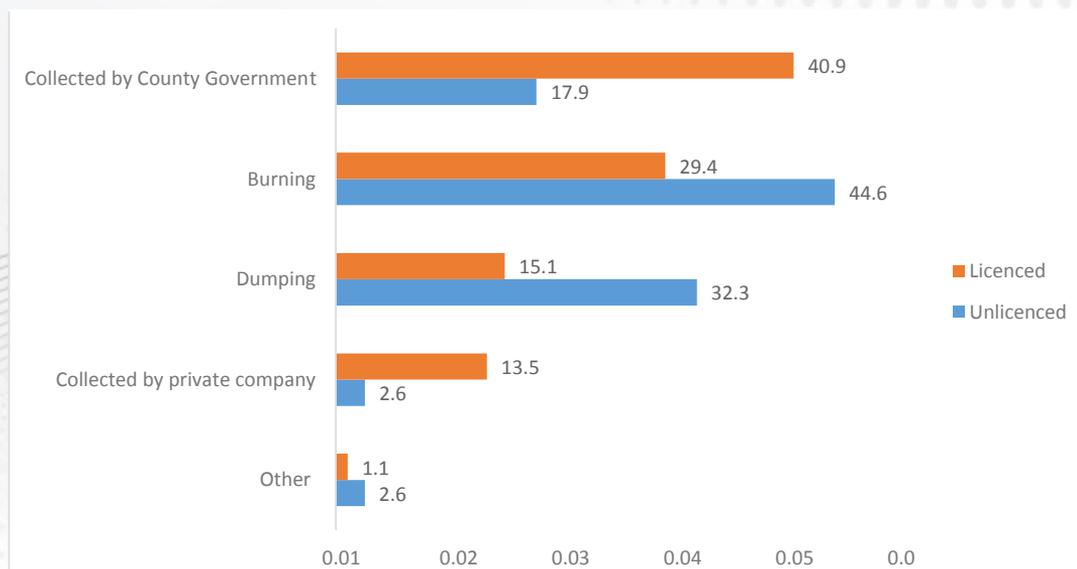
8.21. Table 8.8 shows security providers for MSMEs by type of structure. Licensed establishments with permanent structure hired private security services at 32.6 per cent while unlicensed owners with semi-permanent establishments hired personal security at 48.5 per cent. Few establishments engaged National, County or community services in securing their establishments.

**Table 8.8: Security Providers for Licensed and Unlicensed MSMEs by Type of Structure**

	Permanent	Semi - Permanent	Temporary	No structure /open	Vehicle	Other
<b>Licensed</b>						
Others	0.9	0.5	0.3	0.3	-	-
None	31.1	36.7	39.7	45.6	73.0	60.1
National Government	1.9	2.2	1.7	1.6	-	-
County Government	1.7	1.6	2.8	5.3	-	4.1
Community	2.4	2.9	3.7	1.3	-	-
Hire of private security Services	32.6	18.4	16.6	21.5	19.8	4.5
Personal security	29.4	37.7	35.2	24.4	7.1	31.2
<b>Un Lincensed</b>						
Others	-	-	-	0.2	-	-
None	46.0	40.0	55.5	61.7	16.5	74.6
National Government	3.4	0.1	-	0.5	-	-
County Government	0.9	2.4	1.5	5.2	-	-
Community	0.8	5.6	3.4	2.3	-	-
Hire of private security Services	3.1	3.5	2.8	2.5	-	-
Personal security	45.8	48.5	36.8	27.6	83.5	25.4

8.22. Figure 8.8 illustrates the mode of waste disposal adopted by the micro, small and medium establishments in Kenya. The survey revealed that the solid waste collected by County governments from licensed establishments accounted for 40.9 per cent while the private firm had 13.5 per cent. Burning and dumping were the main modes of solid waste disposal for the unlicensed MSMEs accounting for 44.6 per cent and 32.3 per cent, respectively.

**Figure 8.8: Mode of Waste Disposal**



8.23. Figure 8.9 shows how the MSMEs disposed of the effluent waste from their premises. These comprised of the spent coolants, tramp oils, lubricants and solvents. Licensed MSMEs that disposed by drainage were 30.0 per cent while 23.2 per cent used the open space, whereas 17.8 per cent channeled the effluent waste through sewers.

**Figure 8.9: Mode of Effluent Disposal**

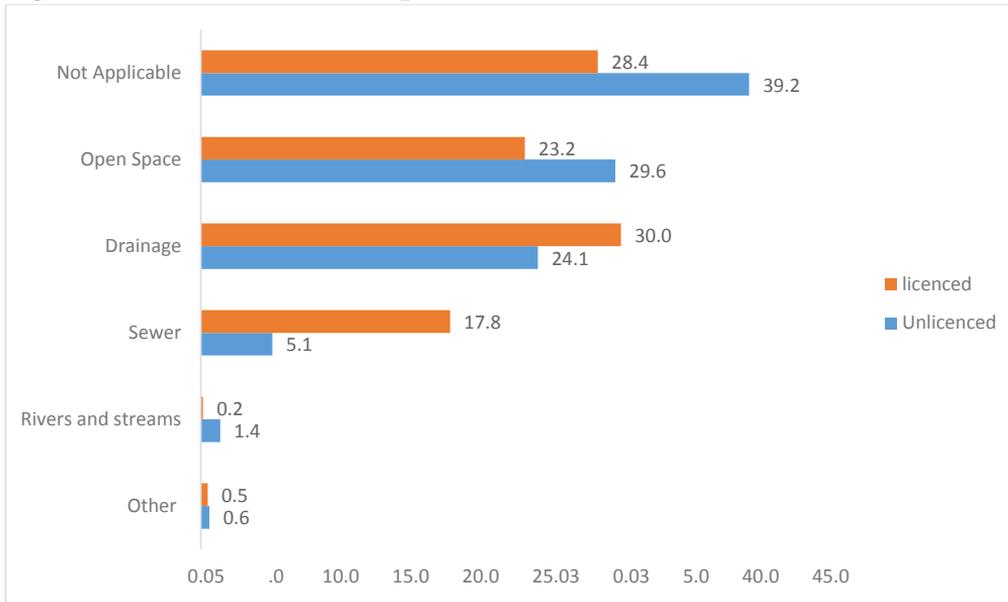


Figure 8.10 presents the proportion of businesses by the type of toilet facilities. The licensed businesses with flush toilets accounted for 40.8 per cent while 34.1 per cent had access to covered pit latrine. Licensed MSMEs using VIP latrine and uncovered pit latrine accounted for 17.0 per cent and 6.9 per cent, respectively. Only a small proportion of establishments used Eco toilets and bush as mode of human waste disposal. Majority (43.7 per cent) of unlicensed MSMEs used covered pit latrines and only 15.6 per cent used flush toilets as mode of human waste disposal.

**Figure 8.10: Access to Toilet Facilities**

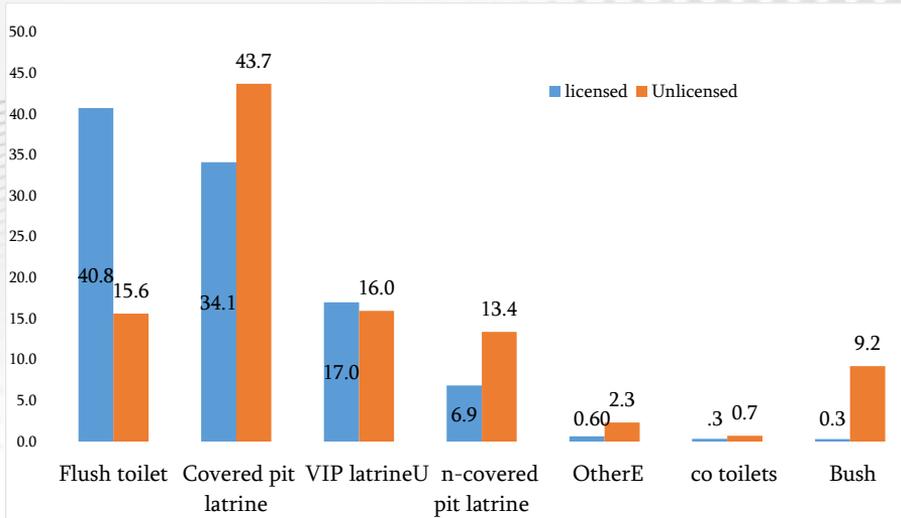
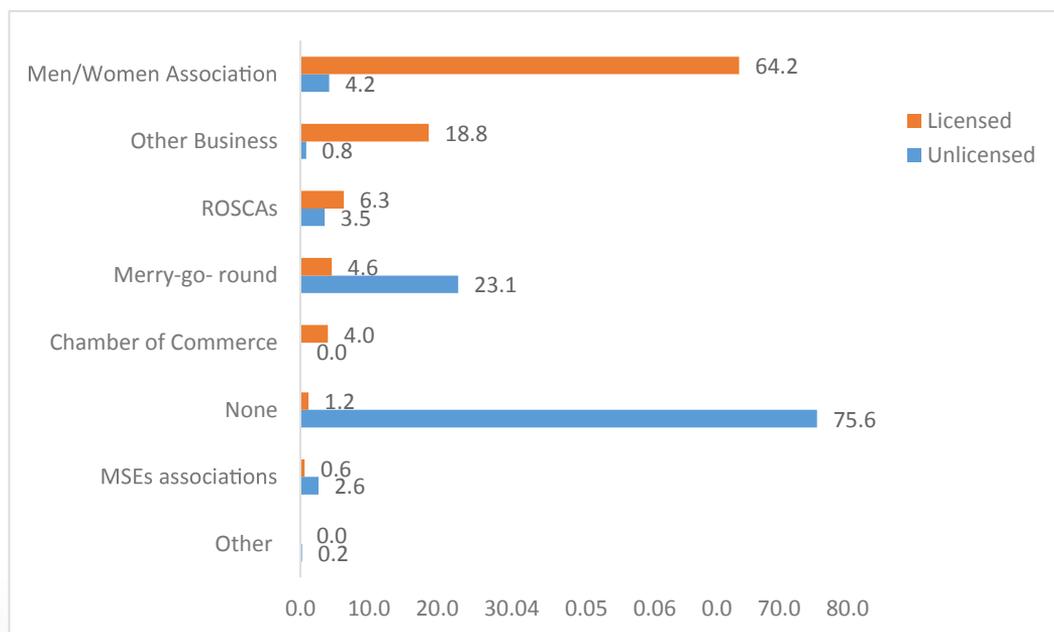


Figure 8.11 shows the proportion of support groups for the MSME's. The survey revealed that 1.2 per cent of the licensed and 75.6 per cent of unlicensed MSMEs did not belong to any support group. The survey also revealed that 64.2 per cent of licensed and 4.2 per cent of unlicensed businesses belonged to Men/Women association and only 0.6 per cent of the licensed MSMEs belonged to MSE association. It was noted that most establishments belonged to more than one support group.

**Figure 8.11: Support Groups for MSMEs**



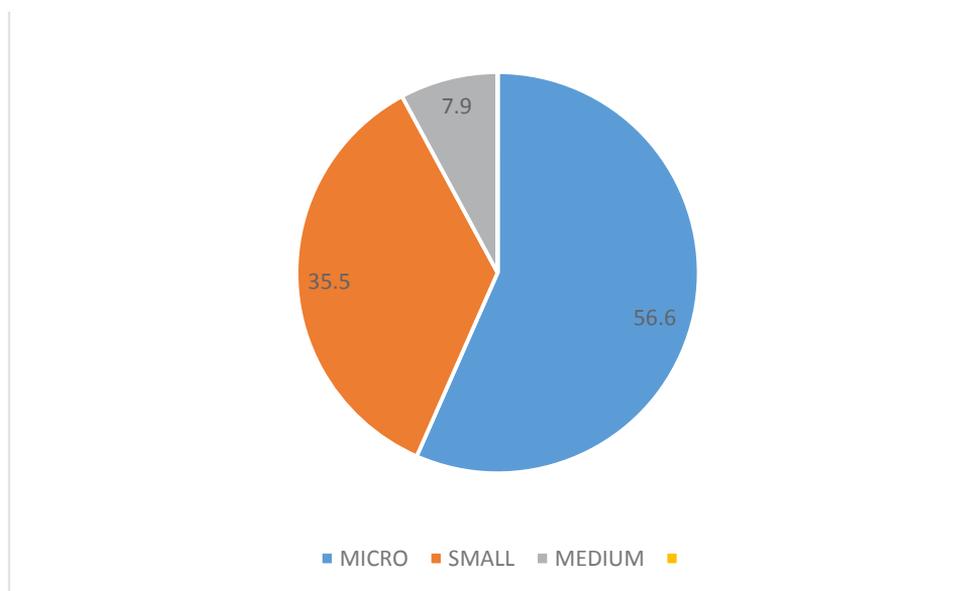
8.9 presents the proportion of MSMEs with access to non-financial support. Majority of MSMEs who received non-financial support were the micro establishments. A big proportion (92.9 per cent) of the licensed micro-sized MSMEs did not receive any nonfinancial support. About a third of licensed small-sized MSMEs received legal support.

**Table 8.9: Non-Financial Support for MSMEs**

Non- Financial Support	Licensed			Unlicensed
	Micro	Small	Medium	
Other	88.7	11.8	-	0.8
None	92.9	6.4	0.6	93.0
Marketing information	87.7	12.6	1.7	2.9
Accounting	76.1	23.9	-	0.2
Legal	61.2	33.2	5.6	-
Training	79.2	18.1	2.7	0.7
Business Planning	87.2	11.6	1.2	1.3
Stock layout	93.2	4.8	2.0	1.6

8.27. Supporting of Micro Small and Medium Establishments facilities especially by giving education and training help in boosting network and innovations. Figure 8.12 depicts the proportion of MSMEs which had received sponsorship. The survey results show that 56.6 per cent of the total MSMEs who received sponsorship for training were micro establishments. Similarly, 7.9 per cent of medium establishments were sponsored.

**Figure 8.12: Support for MSMEs through Sponsorship**



8.28. Table 8.10 represents the proportion of the establishments that received support in form of different form of training by type of ownership. Majority of the licensed business registered as sole proprietor received training in technical advice (50.4 per cent), informal advice (50.3 per cent) and information technology (41.7 per cent) in the survey period. The survey also revealed that businesses registered as private company had received support in terms of finance and accounting (30.5 per cent), consultancy advice (22.9 per cent) and in management (22.6 per cent). Majority of businesses registered as partnership received support in terms of consultancy advice (24.8 per cent).

**Table 8.10: Training Attended by Type of Ownership Structure**

	Sole Proprietor	Public limited company	Private company	Partnership	Other	Group	Family	Cooperative
Management	36.8	3.4	22.6	12.5	3.6	3.0	15.7	2.4
Technical Advice	50.4	4.2	11.6	13.8	2.6	3.4	13.5	0.6
Marketing	33.3	5.3	19.7	21.0	1.4	1.7	15.7	1.8
Information Technology (ICT)	41.7	5.9	19.1	14.9	0.7	2.5	13.5	1.6
Informal Advice/training	50.3	3.5	18.1	7.9	1.4	3.4	14.4	0.9
Consultancy Advice	21.1	5.0	22.9	24.8	1.5	5.6	15.0	4.2
Business Counseling	39.1	6.0	13.3	19.8	5.6	0.6	12.2	3.5
Finance & Accounting	27.5	9.4	30.5	12.4	3.1	2.3	12.0	2.9

8.29. Figure 8.13 shows the proportion of licensed MSMEs that received support through training over the last five years. Majority of the licensed establishments that received business support through various types of training were small and medium-sized establishments accounting for over 60.0 per cent of each type of training. This shows that employees of the small and medium establishments are likely to receive sponsorship compared to those operating in micro establishments.

**Figure 8.13: Licensed MSMEs Training by Size of Establishment**

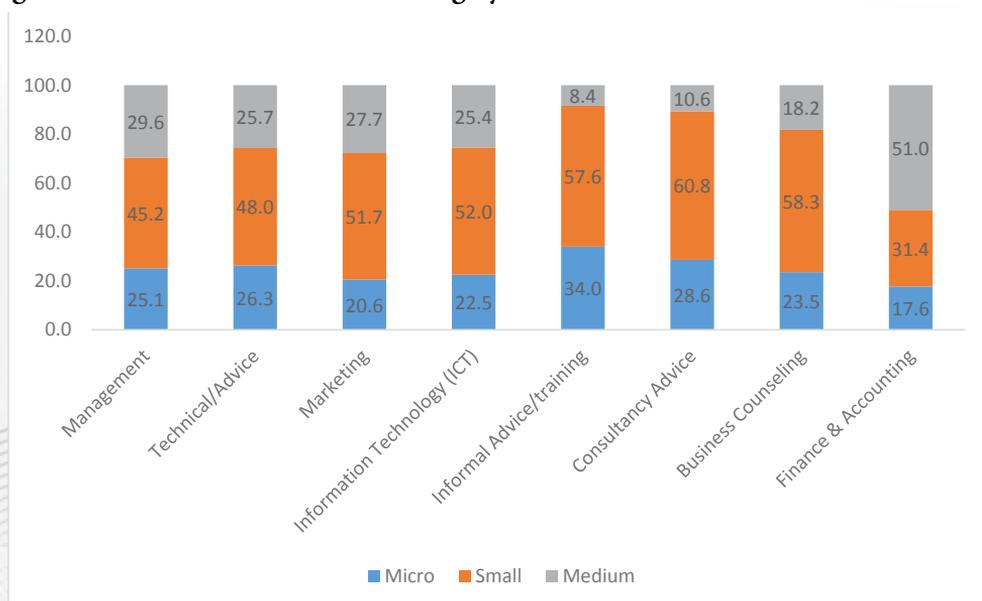


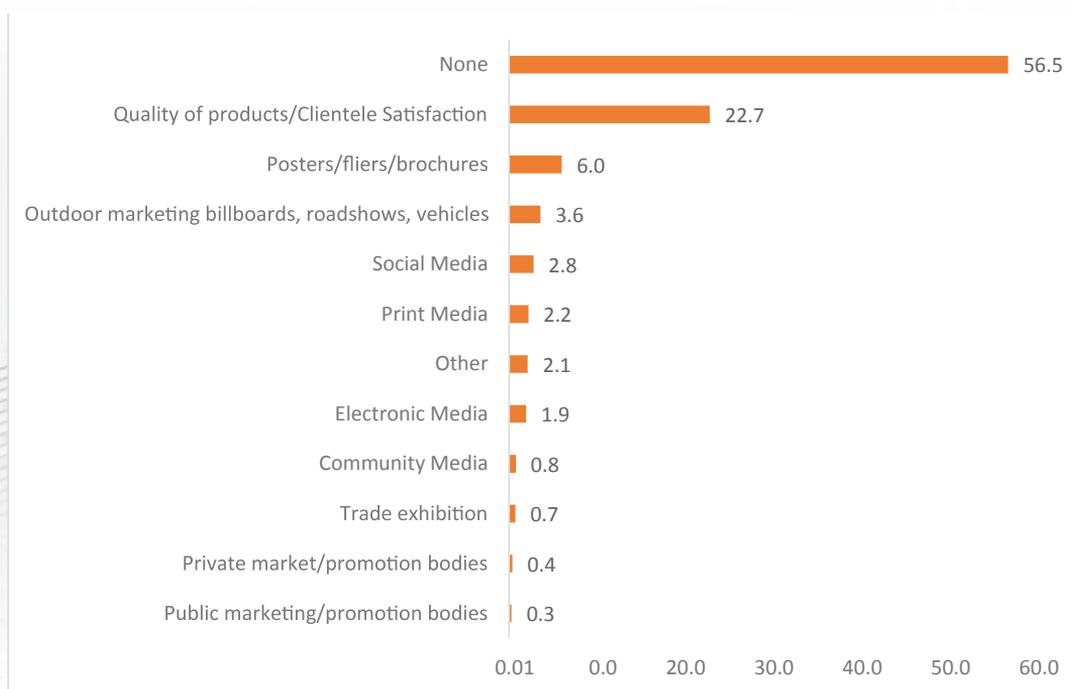
Table 8.11 shows the proportion of unlicensed MSMEs that received support through training over the last five years. Almost all micro establishments that received support through technical advice (90.2 per cent ) and informal advice or training 100 per cent.

**Table 8.11: Unlicensed MSMEs Training by Size of Establishment**

Training Attended	Micro	Small
Management		
Technical Advice	90.2	9.8
Marketing	.	.
Information Technology (IT)	.	.
Informal Advice/Training	100.0	.
Consultancy Advice	.	.
Business Counseling	.	.
Finance & Accounting	.	.

8.31. Figure 8.14 shows the different forms of advertising channels used by the MSMEs to market their products and services. It is imperative for companies to advertise new products and create awareness of the products or services to their consumers and potential buyers. More than half of the licensed MSME's, 56.5 per cent, did not use any form of advertising channel to marketing their establishments. Majority of the MSME's, 22.7 per cent, advertised through the clientele satisfaction as a way of selling themselves. Public marketing or promotion bodies did not play a major role in supporting the MSMEs as only 0.3 per cent advertised through it.

**Figure 8.14: Methods of Advertisement by Licensed MSMEs**



# Chapter 9

## Conclusions and Recommendations

### 9.1 Introduction

The report presents critical data points for MSMEs in Kenya aimed at achieving the overall objective of providing comprehensive data, at national and county levels, on the characteristics, operations, dynamics and evolving nature of micro, small, and medium-scale enterprises in Kenya.

This chapter presents the conclusions and recommendations emerging from the MSME Survey. This synthesis includes the main issues emerging from entrepreneur and MSME business profiles, employment size and scope of the MSME sector, contribution of the MSME sector to GDP, changes in MSMEs activities and MSMEs constraints, and access to support.

### 9.2 MSME Survey Conclusions

MSME sector has evolved to a highly vibrant and dynamic sector of the Kenyan economy over the last few decades. MSMEs play a crucial role in providing significant employment and wealth creation opportunities. MSMEs are complementary to large firms as ancillary units; they are often flexible thus effectively meet the market's needs. The sector has played a catalytic role in entrepreneurial activities across the country cutting across urban and rural settings thereby contributing enormously towards the socio-economic development and transformation of the country.

With over 7.4 million MSMEs, Kenya can be said to be rising in terms of its entrepreneurial culture and orientation. Unfortunately, this entrepreneurial culture is hampered by unfavourable environment curtailing MSMEs from thriving. This has resulted in high mortality rate of MSMEs with about 2.2 million businesses being closed in the last five years. There is also a stunted growth trajectory where businesses hardly formalize their operations (especially micro enterprises) or rarely transition from micro to small, small to medium, or medium to large.

The following conclusions therefore can be derived from the 2016 National MSME survey findings:

#### 9.2.1 Conclusions on Entrepreneur and Msme Business Profiles

- **Number of MSMEs:** There are 7.4 million MSMEs in Kenya; 1.5 million of these businesses are licensed by the 47 county governments and about 5.9 million are unlicensed. This indicates that there is a high number of undocumented businesses operating informally in Kenya.

- **MSME Categories:** Micro establishments constitute the bulk of MSMEs in the country accounting for 92.1 per cent of the licensed establishments in the MSME sector. Micro establishments are mostly operated by own account workers with few or no employees engaged. Micro establishments are often found in retail trade. All the unlicensed businesses in the MSME sector fall under the micro category. Medium establishments only account for 0.7 per cent of the total number of licensed MSMEs. Small establishments, on the other hand, account for 7.2 per cent of the total licensed MSMEs. Despite the high number of micro establishments that mostly operate informally and employ about 12.1 million people; there is limited policy framework and incentives to support these enterprises. Very little has been done to provide an enabling environment for these enterprises. Micro establishments, therefore forms the majority and as such, their contributions as part of MSME sector in the economy should be acknowledged and support towards them reflected in policies and interventions by the various support institutions.
- **Distribution of MSMEs by County:** Majority of both licensed and unlicensed establishments are concentrated in Nairobi City County. This is followed by Nakuru and Kakamega counties at the second and third place respectively. There is, however, a wide gap between the high number of MSMEs in Nairobi and the other counties. This can be explained by the high population in Nairobi as compared to other counties. High population translates to high demand for goods and services and by extension, business opportunities for the MSMEs. As such, counties with higher number of MSMEs have an advantage as more jobs and wealth is created thereby forming an attractive investment hub for investors and a job haven for job seekers. The pull factors for both investors and job seekers serve as a catalyst for entrepreneurial growth and development.
- **Net Worth of Establishments :** Establishments that are licensed register higher net worth than the majority of unlicensed establishments. About 84 per cent and 18 per cent of unlicensed and licensed establishments, respectively, were found to be worth KSh 50,000 and below. The survey established that 31.7 per cent and 2.5 per cent of licensed and unlicensed establishments, respectively, were worth between KSh 200,001 and 1,000,000. About 16.3 per cent of licensed establishments were worth over KSh 1,000,000 whereas no unlicensed businesses registered a net worth of more than KSh 1,000,000.
- **MSMEs Ownership:** Micro-sized establishments had the highest proportion of sole proprietorship at 73.2 per cent while small and medium enterprises had 37.3 per cent and 25.4 per cent of their businesses, respectively, under sole proprietorship.
- **MSME Decision Making:** Most business related decisions in MSME sector are made by the owner(s). This is exemplified by the findings of the survey that indicate that in 99.9 per cent and 94.2 per cent of unlicensed and licensed business decisions were made by owner(s). In 2.7 per cent and 2.8 per cent of licensed enterprises, decisions were made by the board or committee and managers, respectively.

This indicates that entrepreneurial decisions are mainly made by business owners. It is therefore important to focus capacity building efforts on business owners because the failure or success of their business can largely be attributed to their abilities to critically make sound decisions related to their entrepreneurial pursuits.

- **Gender and Business Ownership:** Majority of male owned establishments were licensed while most female owned establishments were unlicensed. In particular, 47.7 per cent of licensed MSMEs and 31.7 per cent of unlicensed MSMEs were male owned compared to 32.1 per cent of licensed establishments and 61.0 per cent of unlicensed establishments which were female owned. Among the partnerships, 16.7 per cent of licensed establishments had both male and female partners compared to only 5.8 per cent of unlicensed establishments. This raises a gender question as to why women are concentrated in unlicensed businesses that are mostly micro and informal in nature compared to men.
- **Education Level:** There is a correlation between the level of education and the size of the establishments. The bigger firms were mostly owned by highly educated individuals. Micro establishments had the highest number of owners with KCPE and O' level certificate compared to owners of small and medium establishments. There is limited representation of people with university degrees in the MSME sector.
- **Training:** MSME owners receive training mainly on management, technical, ICT issues from NGOs, individuals, government agencies, SACCOs, self-help groups among other institutions. Majority of the business owners adopt self-sponsored training. This is an indicator that business owners are aware of their skills' deficits and they seek training to improve their entrepreneurial competencies.
- **Goodwill:** Goodwill is a charge that is paid by business proprietors mostly at the inception of the businesses to cover for existing benefits associated with the location of the business premises. Such benefits include solid customer base, good customer relations, good employee relations and any patents or proprietary technologies. It is a requirement especially in urban areas. The amount of money paid as goodwill varies and the variation is dictated by the location of the establishment. MSMEs in Kenya pay between KSh 100 and 6,000,000 as goodwill.
- **Business Capital:** Licensed businesses require higher start-up capital compared to the unlicensed ones. This may be attributed to the cost of obtaining licenses and compliance with regulations. Start-up capital required for licensed businesses in most sectors was found to range from KSh 50,000 to 1,000,000 while for unlicensed businesses, it was found to be between KSh 5,000 and 25,000; depending on the size of the establishment. Some sectors like mining and quarrying and; electricity, gas, steam and air conditioning supply was found to require substantial capital outlay of more than KSh 10,000,000 due to machinery and technology acquisition.
- **Source of Business Capital:** Family and personal savings are the main sources of startup capital. This is indicative of the crucial role of the family in an entrepreneurs'

life. Other sources of start-up capital come from loans from friends, banks, chamas and co-operatives. Government was found to rarely fund start-up capital.

- **MSME ICT Uptake:** Information, communication and technology is crucial in business performance especially in the current highly dynamic and competitive environment. Businesses currently leverage on the ability to adapt and utilize ICT innovatively to promote their entrepreneurial performance. 78.6 per cent of the MSME owners reported to have a mobile phone. About 20 per cent of the business owners, however, did not own any ICT gadget. Five per cent of the business owners reported that they owned tablets, phablets and digital video cameras. Limited ownership of ICT gadgets indicate that a high proportion of MSMEs were not accessing business information with ease as would be enabled through ICTs.
- **Mobile Money:** Mobile money platforms are very popular with MSMEs in Kenya. About half of all the MSMEs use mobile money platforms for payments and receipts of cash. Being a recent innovation in Kenya, the uptake and usage of mobile money is on an upward trend. This indicates that majority of Kenyan entrepreneurs are fast adopters to innovation.
- **Inter-Firm Linkages and Networks:** From the MSME survey findings, MSMEs are the main source of inputs or services to other firms.
- **Reasons for Starting a Business:** Pursuit for better income and preference for selfemployment was the main reason for starting MSMEs. Possession of requisite skills and competencies and ready market/high demand for certain products also acted as a pull factor towards business. The influence from family that engaged in the same entrepreneurial activities was the other reason for starting MSMEs. Other business owners claim that there was availability of capital that prompted them to start a business.
- **Business Records:** Most MSMEs keep some records though these records vary in form and consistency with which they are kept. The most common records are purchases day book, monthly purchases ledgers, cash books and petty cash books.
- **Bank Accounts:** Most small business owners had a bank account. These accounts are mainly savings and current accounts, and a few fixed deposit accounts.
- **Business Premises and Structures:** Over 70 per cent of licensed businesses are located in commercial premises which are either rented or owner occupied. This can be attributed to proximity to customers and ease of access. About 8 per cent of licensed establishments are located within residential areas. Unlicensed businesses are evenly spread in both commercial premises and residential areas. Majority of the licensed MSMEs are located in permanent structures. These structures are mostly in rented buildings in either commercial centres or within residential buildings. Some unlicensed businesses (36.3 per cent) are located in places where there are no structures at all. About 50 per cent of the enterprises operate in either temporary or semi-permanent structures while 15.0 per cent unlicensed businesses operate in

permanent structures. Space to operate from and the type of structure is therefore a challenge especially for micro and small establishments. There are challenges associated with lack of business structure or where businesses operate in temporary and semi-permanent structures. These include insecurity, hygiene and sanitation issues, quality of business wares affected among others.

- **Business Size and Age:** With increase in the age of business, the majority of the businesses transitioned from micro to small and from small to medium. As the businesses mature, they also tend to employ more people. In order for MSMEs to continue playing their pivotal role of job and wealth creation, they must be supported from their infancy in order to facilitate their successful transition from micro to medium establishments.

### 9.2.2 Conclusions on Employment Characteristics of MSMEs

- **Employment in the MSME sector:** Total employment in the sector is estimated at 14.9 million persons. The un-licensed enterprises contribute a bigger share of the employment at 8.6 million while the licensed enterprises employ 6.3 million persons. As such, the MSME sector therefore, arguably provides the highest employment opportunities in Kenya. Overall, the MSME sector makes key contributions towards improving the economic and social sectors of the country through nurturing large scale employment across the country.
- **Employment per MSME Categories :** There is a skewed concentration of MSMEs in micro and small categories. This underscores the fact that majority of the businesses are only able to support small numbers of employees as majority are only operated by their owners. There is high potential for creating more employment with growth and expansion of MSME sector. All efforts therefore should be put in place to support and build the capacity of MSMEs to be in a position to sustainably absorb more employees. The contribution of micro establishments as part of MSME sector in the economy should be acknowledged and specific support towards them reflected in policies and interventions by the various support institutions.

### 9.2.3 Conclusions on Contribution of the MSME Sector to GDP

- **Value of MSME output:** MSME sector contribution is high to the national economy. In 2015, the value of the MSME's output is estimated at KSh 3,371.7 billion against a national output of KSh 9,971.4. This represents a contribution of 33.8 per cent. In terms of gross value added, the MSME are estimated to have contributed KSh 1,780.0 billion compared to KSh 5,668.2 billion for the whole economy. This underscores the fundamental role played by the MSMEs towards economic growth and development
- **Business Income:** The MSMEs reported a gross turnover of KSh 784.2 billion in the month prior to time of the survey, out of which KSh 706.0 billion was from licensed businesses whereas KSh 78.2 billion was generated from unlicensed businesses. The

proportion of revenue realized by MSMEs across economic activities was more or less similar to that of expenditure.

- **Net Income:** The biggest proportion of net income generated by MSMEs is injected back into the business as re-investment and also spent to meet household and family needs. Both licensed and unlicensed Micro establishments recorded the smallest proportion of net income savings at 8.4 and 7.1 per cent, respectively. As the establishment size increases and transits from micro to medium, a higher proportion of net income received tends to be invested back rather than used to meet household/family needs. In order for the businesses to grow and transition from micro to small and small to medium, there is need for increase savings and reinvestment by ploughing back the income.
- **Business Innovation:** For MSMEs to thrive in the current competitive and dynamic environment, they need to progressively innovate to ensure that their goods and services reach untapped customer needs. They need to introduce new ideas, workflows, methodologies, services or products. Few micro establishments embraced innovation compared to small and medium establishments. Product innovation was manifest in small establishments engaged in manufacturing, ICT, financial and health activities.

#### 9.2.4 Conclusions on changes in MSMEs activities

- **Change in MSME Employment Numbers:** From the survey, it is evident that employment numbers in MSME sector increased after business inception. All sectors recorded positive growth in employment since inception except in the electricity, gas, steam and air conditioning supply sector. This indicates that with age, businesses grow and expand accommodating more employees. To ensure that MSMEs continue to provide employment opportunities, it is necessary to ensure that their survival is guaranteed through the necessary support mechanisms aimed at growth and expansion.
- **Change of Business Activities:** A total of 90,923 (29,650 licensed and 61,273 unlicensed) businesses changed their business activities either within the same or to completely new sectors. The main reason behind the change of business activity was search for more profitable activities. Others changed from activities where they were making losses which necessitated the move to current businesses. Change of business activities is also informed by stiff competition as a result of lack of innovativeness. Relocation, change of government policies and lack of skilled labour also contributed to change of business activities among the MSMEs though in small scale.
- **Business Closures:** A total of 2,210,472 MSMEs were closed in the last five years including the survey year 2016. Most of the closed businesses were in wholesale and retail trade; repair of motor vehicle and motor cycles sector which accounted for 68.5 per cent of the total closures. On average, businesses were closed at the age of 3.8 years. Establishments that were started or acquired within the last two years

were more vulnerable to closures and they accounted for 61.3 per cent of the total businesses closed. Only 8.8 per cent of the total establishments closed were aged 11 years and above. Businesses in the arts, entertainment and recreation sector had the highest average life of 10.1 years.

- **Reasons for Business Closures:** The main reason why entrepreneurs close their businesses was shortage of operating funds, as reported by 29.6 per cent of the businesses. This was occasioned by increased operating expenses, declining income and losses incurred from the businesses. Diversion of returns and operating capital from the business to other uses also led to business closures. Other businesses were closed due to personal reasons. The personal reasons range from social and biological obligations especially prenatal and postnatal care of children for women. Other reasons for business closure are pursuit of education/furtherance of education; old age and religious reasons; declining number of customers was one of the reasons for business closure which resulted in lack of markets for their goods and services.
- **Disposal of Stock after Business Closure:** Disposal of stock is very important as it alleviates the losses and cushions the business owners against shocks that commonly characterize business closures. The following are ways through which stock was disposed after closure:
  - a) Liquidation of stocks/tools;
  - b) Giving stocks to family members and friends after closing their business;
  - c) Selling the stocks together with the business;
  - d) Storing them for future use; using it to start new businesses;
- **Gender and Business Closures:** Majority of the closed businesses (54.9 per cent) were owned by women. This may be explained by challenges of running businesses that are unique to women especially because of their social obligations in the society.

### **9.2.5 Conclusions on MSMEs Constraints, Potential and Access to Support**

**MSMEs Constraints:** The MSME sector is an important engine for economic growth, employment generation and social transformation. However, their creation, survival and growth are often hampered by various challenges. These constraints have stifled the growth of MSME sector and limited its contribution to the economy. MSMEs face a myriad of constraints in their various stages of growth and development. MSMEs growth and survival is dependent on mechanisms put in place to ease these constraints. The constraints are either internal or external to the business. The survey revealed that the main constraints emanate from regulatory environment characterized by requirement of multiple licenses for the same business. These licenses are also expensive and cumbersome to get. There is also interference from authorities; taxes are high and crippling; multiple procedures in applying for business registration that are hectic and restrictive. Other constraints include lack of capital, expensive loans, and lack of markets, stiff local competition, poor infrastructure (roads, power and water supply) and insecurity. Minor constraints include inadequate business training; anti-entrepreneurial culture and technological

barrier/backwardness that negatively affect potential growth of MSMEs. These constraints if not addressed can lead to high business mortality. To address these challenges, there is need for concerted efforts from all the stakeholders. Business people should focus on solving challenges that are internal to their firms whereas the government and other stakeholders should address the challenges related to the business environmental context to enhance ease of doing business.

**MSME Financing:** Business people face challenges in raising finances to support their entrepreneurial pursuits. The commercial banks are rejecting loan applications by MSMEs at a rate higher than the other financial institutions. High number of entrepreneurs reported being denied loans by commercial banks and micro finance institutions. MSME financing framework is weak and may work against acceleration and support for business growth. Interest rates for business loans are high. Micro enterprises which are mainly informal experience challenge in accessing loans. This is mainly due to lack of collateral demanded by financial institutions.

**Loans as a Double-Edged Sword:** Access to credit is a proven strategy to business development and growth and has worked for some business owners. However, a high proportion of MSME owners avoid taking loans because of the negative repercussions associated with loans. Some entrepreneurs avoid taking loans due to the perception that they are too expensive or lack collateral to support the loan application. Other business people did not like being in debt while others thought that loans are too much trouble not worth going through. It is therefore clear that a number of people have developed attitudes against loans as source of business capital.

**MSME Infrastructural Requirement:** Lack of adequate infrastructure has been cited as a major constraint faced by MSMEs in Kenya. Access to amenities such as transport systems, electricity, and water, telephone and internet connectivity enhance the competitive advantage amongst entrepreneurs. The ease of access to these utilities is important in all business activities especially in the manufacturing and service sectors. In addition, quality of available infrastructure has a significant influence on MSME's survival and competitiveness. Majority of MSME's had access to electricity (88.9 per cent) and telephone at (51.5 per cent). However, many MSME's lacked piped water and computer services. To solve the infrastructure related problems faced by MSME's, the Government should assist in providing an enabling environment to support growth and development of this sector.

#### 9.4 Recommendations

The following are the main recommendations made pursuant to the 2016 National MSME survey results:

- Given the important role played by MSMEs, there is need for the public sector to provide the necessary infrastructural support services. This will greatly promote MSME competitiveness by lowering the cost of doing business. MSME survey

revealed that an enabling and conducive environment is a more critical constraint impeding growth of MSMEs in Kenya. An enabling environment includes a combination of quality of infrastructure, access to modern technology and low investment in research and development to spur business innovation. MSME sector in Kenya operates in an environment characterized by poor infrastructure and slow uptake of technological innovations. Physical infrastructure including roads and utilities are of poor quality, there is limited adoption of modern technology, unaffordable technology, there is lack of reliable power and water supply, and there is also inadequate access to information technology by MSMEs. The role of government in the growth and development of the MSME sector is key and range from regulatory to policy formulation. Specific areas encompassing this include policy development, business incubation, capacity building, access to finance and markets. In this regard, the government facilitation for MSME development should therefore include:

- a) Provision of adequate infrastructure. The government should endeavour to provide steady and reliable services. Efforts to upgrade transport systems, providing affordable electricity, water, sewerage, security and telecommunications should be stepped up.
- b) Articulating favourable policies and championing initiatives that support the growth of MSMEs. These initiatives can include tax incentives, direct government interventions through financial institutions, credit guarantee schemes and other forms of subsidized financing.
- c) Facilitate establishment of more business incubators for nurturance of MSMEs;
- d) Provide conducive environment with proper facilitation towards development of more suitable and appropriate technology for MSMEs;
- e) Support research aimed at advancing current innovative solutions to address the main constraints facing the MSMEs.

For the Government to realize vision 2030 especially with regard to creation of more jobs and boosting the economy, it must design policies that are more inclusive and sensitive to the needs of MSMEs. The government should strengthen its partnership with the private sector, promote higher-value added services, leverage on enhanced skills and expertise (local and global), strengthen coordination among various government entities dealing with MSMEs, promote fast adoption of the emerging technology, set quantifiable targets and monitor progress of the MSME sector.

- Access to financial services is a major challenge to MSMEs in Kenya. Main concerns for access to credit are high cost of credit. Banks should be given incentives to enhance their operations and to continue providing credit to MSMEs. The government through the Central Bank of Kenya should come up with appropriate measures for better lending terms for MSMEs. These measures may include extension of loan repayment periods, appropriate collateral requirements and risk sharing arrangements. The government should also facilitate formation of financial

institutions and financial products that address the unique financial needs of various diverse groups in MSMEs including women, youth, rural populations, and people with disabilities among others.

- In Kenya, the common approach of extending credit to MSMEs is based on collateral provided. This approach has its limitation and is not feasible for most of the MSMEs as some start with no tangible assets. Collateral oriented lending should be deemphasized and new creative and innovative strategies adopted. These new strategies should pay attention to the uniqueness and peculiarity of each business. Credit guarantee scheme is one of the approaches being adopted in other countries.
- The new approach can be modelled along Credit Guarantee Trust<sup>3</sup> of India that was set up to support MSMEs without requisite collateral.
- Government should come up with appropriate incentives to the institutions that provide support to the MSMEs. These institutions include commercial banks, micro finance institutions, SACCOs, business development service providers, insurance firms among others.
- The survey established that women business owners were mostly in micro enterprises. Most of the businesses closures also affected women. In this regard, there is need for women-specific solutions in supporting women in business. Many Kenyan MSMEs are micro and small. They lack the capacity, competence and maturity to compete at regional and global level. It is important to enhance their capacity building strategies, in order to strengthen their management and technical capabilities. This will equip them to compete more effectively in the regional and international markets. Global integration is also a reality and it is important for the local MSMEs to learn how to take advantage of the global opportunities.
- Some businesses are required to acquire multiple licenses at times from the same or different government agencies. There is need to reduce the number of licenses required per single business. This can be done by integrating the various licenses into one comprehensive license; offering the license in a central place and ensuring that the process is fast and efficient. The cost of acquiring the licenses should also be reasonable. The licenses should only serve regulatory function and not as a source of revenue for the government as is currently the practice.
- County and national government assemblies should endeavour to pass laws and regulations which specifically benefit MSMEs. They should be given priority in order to spur MSME growth by providing conducive regulatory environment and establishing necessary support framework.
- There is need to develop a comprehensive MSME inventory to be updated annually. This inventory should capture business information in terms of actual numbers, business changes, employment, gender and age of owners, sector and subsector, geographical locations within the counties and the country at large. The inventory should be collaboration between the national government and the 47 county governments. The inventory will facilitate access to up-to-date information about the MSME sector, helping in formulating appropriate policies and interventions.

<sup>3</sup> The Associated Chambers of Commerce & Industry of India

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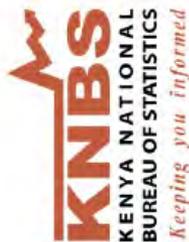
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# Annexes

## Annex I. Household Questionnaire

STRICTLY CONFIDENTIAL

Serial No:.....



County Name:.....

Cluster Name:.....

HH No:.....

### MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY – 2015 /16

#### HOUSEHOLD QUESTIONNAIRE

**KENYA NATIONAL BUREAU OF STATISTICS  
MICRO, SMALL AND MEDIUM ENTREPRISES SURVEY  
HOUSEHOLD QUESTIONNAIRE**

**IDENTIFICATION PARTICULARS**

HA01. COUNTY:	CODE
HA02. DISTRICT / SUB-COUNTY:	_ _
HA03. DIVISION:	_ _
HA04. CONSTITUENCY:	_ _
HA05. WARD:	_ _
HA06. LOCATION:	_ _
HA07. SUB LOCATION:	_ _
HA08. CLUSTER NAME:	_ _
HA08a. CLUSTER TYPE:	_ _
HA09a. HOUSEHOLD NUMBER:	_ _
HA09b. NAME OF HOUSEHOLD HEAD:	_ _

**INTERVIEWER VISITS**

	1	2	3	FINAL VISIT
HA10. DATE	_ / _ / _	_ / _ / _	_ / _ / _	_ / _ / _
HA11. INTERVIEW STATUS	_ _	_ _	_ _	_ _
HA12. TOTAL PERSONS IN HOUSEHOLD	HA13. TOTAL BUSINESSES IN HOUSEHOLD	HA14. TOTAL BUSINESSES WITHOUT FIXED LOCATION	HA15. TOTAL BUSINESSES WITH FIXED LOCATION	HA16. LINE NO. OF RESPONDENT TO HOUSEHOLD QUESTIONNAIRE
HA17. RESEARCH ASSISTANT NAME	CODE		HA18. SUPERVISOR NAME	
HA17. RESEARCH ASSISTANT NAME	CODE		HA18. SUPERVISOR NAME	

**INTERVIEW STATUS CODES (HA11):**

- 1 COMPLETED
- 2 NO HOUSEHOLD MEMBER AT HOME OR NO COMPETENT RESPONDENT AT HOME AT TIME OF VISIT
- 3 ENTIRE HOUSEHOLD ABSENT FOR EXTENDED PERIOD OF TIME
- 4 POSTPONED
- 5 REFUSED
- 6 DWELLING VACANT OR ADDRESS NOT A DWELLING
- 7 DWELLING DESTROYED
- 8 DWELLING NOT FOUND
- 9 INCOMPLETE
- 10 OTHER

## Introduction

*Interviewer: The statement should be read to the most responsible/respected member who will respond to the household questionnaire.*

Hello, my name is \_\_\_\_\_ and I work for the Kenya National Bureau of Statistics (KNBS). We are currently undertaking a survey on businesses in Kenya with the objective of assessing their nature, size and magnitude. The survey will also analyze enterprise dynamics in terms of business start-ups and closures, changes in business activity, value added etc. We would very much appreciate if you could take part in this survey. Approximately 30,000 households will be taking part.

As part of this survey, we would like to ask some questions about your household. All the information you give will be confidential. If you have any additional questions about the study you can contact.

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### Education Grades

Pre-primary	Grade
Year 1	1
Year 2	2
Year 3	3

Primary	Grade
STD 1	1
STD 2	2
STD 3	3
STD 4	4
STD 5	5
STD 6	6
STD 7	7
STD 8	8

Secondary	Grade
Form 1	1
Form 2	2
Form 3	3
Form 4	4
Form 5	5
Form 6	6

Post-primary vocational	Grade
Year 1	1
Year 2	2
Year 3	3

College (Middle Level)	Grade
Year 1	1
Year 2	2
Year 3	3

University Undergraduate	Grade
Year 1	1
Year 2	2
Year 3	3
Year 4	4
Year 5	5
Year 6	6

University Postgraduate	Grade
Postgraduate Diploma	1
Masters Year 1	2
Masters Year 2	3
PHD Year 1	4
PHD Year 2	5
PHD Year 3	6

*Annex II. Establishment Questionnaire*

Serial No:.....

Confidential



County Name .....

Town:.....

Ward Name .....

Sub- County Name.....

Constituency.....

Zone Name .....

KENYA NATIONAL BUREAU OF STATISTICS

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)  
SURVEY – 2016

ESTABLISHMENT QUESTIONNAIRE

**FROM BUSINESS REGISTER**

Name	Code
EB1. Country	____
EB2. Sub-County	____
EB3. Business Number	____
EB4. Constituency	____
EB5. Ward	____

**FROM CLUSTERS :**

WITHOUT FIXED LOCATION OR WITHOUT LICENCES	
Name	Number
EW1. County	____
EW2. Cluster	____
EW3. Cluster Type	____
EW4. Household Number	____
EW5. Business Line Number	____
EW6. Constituency	____
EW7. Ward	____

EID1. Enterprise /Business Name

EID2. Enterprise /Business Physical Address

Estate/ Village/ Town:  
 Road/ Street:  
 Building:

EID3. Contact: Telephone Number  
 Postal Address

Email:

Town:

Postal Code:

EID4. Is this business part of an enterprise/firm? 1=Yes 2=No

EID5. If YES, what is the name of the firm?

Interviewer Visits	Date
Visit:	____/____/____
EID6a. Visit 1	____/____/____
EID6b. Visit 2	____/____/____
EID6c. Visit 3	____/____/____

EID7. Interview Status

- 1=Completed
- 2=Partially Completed
- 3= Refused
- 4= Others (Specify)

Name	Code	Date
EID8a. Research Assistant		____/____/____
EID8b. Supervisor		____/____/____
EID8c. Data Entry Clerk		____/____/____

KMBSIADACGK-REP  
MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
BUSINESS PARTICULARS

Enterprise type (see Activity codes)	Date started or acquired		Business location		Tenancy		Business patterns				Who is the main decision maker for this business?	Has your business changed its main activity in the last 12 months? 1=Yes 2=No If No, skip to the next section	What activity were you engaged in?	Why did you change from your previous business?					
	Month	Year	EB03 Where is the business located? If location (EB03) = 10_OR_13 => EB10 regard to getting customers?	EB04 How appropriate is the site with regard to getting customers?	EB05 What is the biggest risk of tenancy to this business site?	EB06 Who provides security for your business?	EB07 What is the type of structure	EB08 What is the nature of Land Tenure of the business?	EB09 What is the nature of Occupancy of this business?	EB10 How many Months per Year does the business operate?					EB11 How many Days per Week does the business operate?	EB12 How many Hours per Day does the business operate?	EB13 About how many businesses are located near your business? Urban Non-stored building: 20m radius Rural: 100m radius	EB14 What is the main activity that takes place in the location where you undertake your business? (See activity Code) If no other business code 9999	EB15 How many businesses in this location are engaged in the main activity recorded in EB14?
EB01			EB03	EB04	EB05	EB06	EB07	EB08	EB09	EB10	EB11	EB12	EB13	EB14	EB15	EB16	EB17	EB18	EB19

- EB03**  
1=Commercial Premises  
2=Industrial site  
3=Market Stall  
4=Exhibition  
5=Open market  
6=Kiosk  
7=Open ground with stand  
8=Open ground without stand  
9=Iua Kall sheds  
10=Mobile/No fixed location (hawking)  
11=Building sites and Road works  
12=Residential with special outfit  
13=Residential without special outfit  
14=Other (specify)

- EB04**  
1 = Very Good  
2 = Good  
3 = Fair  
4 = Poor  
5 =Very poor
- EB05**  
1=Eviction by County Government  
2=Eviction by National Government  
3=If rented, eviction by owner/landlord  
4=Expiry of tenancy  
5=None  
6=Others (Specify)

- EB06**  
1 = National Government  
2 = County Government  
3= Community  
4 = Hire of private security Services  
5 = Personal security  
6 =None  
7= Others Specify \_\_\_\_\_
- EB07**  
1=Permanent  
2= Semi - Permanent  
3= Temporary  
4=No structures/open  
5=Vehicle  
6= Other (Specify)

- EB08**  
1= Owned by individual  
2=Owned by community  
3= Owned by Government  
4=Other (Specify) .....
- EB09**  
1= Own  
2= Group Ownership  
3= Rental private owner  
4= Rental other  
5= Temporary Occupation License  
6= Free Occupation (squatter)  
7= N/A  
8= Other (Specify)

- EB16**  
1=Owner/Co-Owner  
2=Board / Committee  
3=Managers  
4=Other (Specify) .....

- EB19**  
1 - Change of government policy  
2 - Business losses  
3 - Relocation  
4 - loss of skilled labour  
5 - More profitable activity  
6 - Competition  
7 - other specify



KNBS/IDS/ACEG/K-REP  
MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
EMPLOYMENT PARTICULARS

No. of unionisable employees	How do you resolve labour disputes?	Type of safety measures at the work place (Multiple response)	Method of recruiting persons under 18 years (Record at most 2)	No. of workers attending school by Age (Years) and Sex												When did you start engaging persons in age group (Only applicable to businesses that reported to have engaged persons in the respective age groups in EC03 to EC62)											
				Hair day						Full day							18+	16-17	13-15	5-12							
				5-12	13-15	16-17	18+	5-12	13-15	16-17	18+	M	F	M	F						M	F	M	F			
EC63	EC64	EC65	EC66	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	EC87	EC88	EC89	EC90

EC64

- 1 = The industrial court
- 2 = Labour officers
- 3 = Association / Union
- 4 = Social Services
- 5 = Directly with employer
- 6 = None
- 7 = Other (specify)

EC65

- A = Fire Mitigation Equipment
- B = Protective gear
- C = First aid kit
- D = None
- E = Other (specify)

EC66

- A = Advertisement by mass media
- B = Noticeboard
- C = Through employment bureau
- D = By the gate
- E = Through workers
- F = Accompanied by parents
- G = N/A
- H = Other (specify)



MICRO SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
EMPLOYER / ESTABLISHMENT USING PERSONS AGED 5 TO 17

Provision for training working persons under 18 years of age	How many extra workers do you engage during high season or to meet extra production?				Main reason for using persons aged 5 - 17 yrs					
	5 - 12	13 - 15	16 - 17	18+						
Training arrangements 0 = does not train >>EC93 1 = at workplace 2 = At other institutions 3 = other (specify)	Payment of Training 1 = freely provided by employer 2 = subsidized by employer 3 = paid by workers 4 = Other specify .....	Male EC93	Female EC94	Male EC95	Female EC96	Male EC97	Female EC98	Male EC99	Female EC100	EC101
EC91	EC92									

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
EMPLOYMENT PARTICULARS (CONTINUED)

CONFIDENTIAL

MSME/3/2016

Number of employees as at the inception of the enterprise		Number of current employees by level of skills (only for regular and casual employees)						Total amount of salary paid to regular employees for last month					
		Skilled		Semi-Skilled		Un-Skilled		Skilled		Semi-Skilled		Un-Skilled	
Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
ED01	ED02	ED03	ED04	ED05	ED06	ED07	ED08	ED09	ED10	ED11	ED12	ED13	ED14

Total amount of wages paid to casual employees for last month					
Skilled		Semi-Skilled		Un-Skilled	
		Male	Female	Male	Female
ED15	ED16	ED17	ED18	ED19	ED20



KNBS/IDS/ACE/K-REP  
MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
TRAINING AND SKILLS DEVELOPMENT - EMPLOYEES

How many employees have ... as their highest level completed?		How many employees have ... as their highest vocational / professional qualification completed?		Training Details of Employees in relation to their jobs (Last five years)			Type of training required by the employees by order of importance				
Level	No. of Employees	Vocational /professional certificate.	No. of Employees	How many employees have received training?	What was the average duration of the Training	Who was the Main Sponsor	1st	2nd	3rd		
EF01		EF02		EF03			EF04	EF05	EF06	EF07	EF08
1 = None	<input type="text"/>	1 = None	<input type="text"/>	1 = Don't know	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
2 = CPE/KCPE	<input type="text"/>	2 = Artisan grade 1	<input type="text"/>	2 = Management	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
3 = KCE/KCSE	<input type="text"/>	3 = Artisan grade 2	<input type="text"/>	3 = Technical/Advice	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
4 = KJSE	<input type="text"/>	4 = Artisan grade 3	<input type="text"/>	4 = Marketing	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
5 = KACE/EAAACE	<input type="text"/>	5 = KATC	<input type="text"/>	5 = Information Technology (ICT)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
6 = Certificate	<input type="text"/>	6 = CPA / CPS	<input type="text"/>	6 = Informal Advice/training	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
7 = Diploma	<input type="text"/>	7 = P1	<input type="text"/>	7 = Consultancy Advice	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
8 = Higher Diploma	<input type="text"/>	8 = Nursing	<input type="text"/>	8 = Business Counselling	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
9 = Degree	<input type="text"/>	9 = Computer packages	<input type="text"/>	9 = Finance & Accounting	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
10 = Post Graduate Diploma	<input type="text"/>	10 = Diploma	<input type="text"/>	10 = N/A	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
11 = Post Graduate Degree	<input type="text"/>	11 = Degree/Diploma	<input type="text"/>	11 = None	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
12 = Other (Specify)	<input type="text"/>	12 = Post Graduate Diploma	<input type="text"/>	12 = Other (specify)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
		13 = Post Graduate Degree	<input type="text"/>		<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
		14 = Other (Specify)	<input type="text"/>		<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

- EF05**  
 1=Self  
 2=Other individuals  
 3=NGO  
 4=Govt.  
 5=Private business institution  
 6=Religious organization  
 7=Saccos  
 8=Self-help groups  
 9=N/A  
 10=Other (specify)
- EF06, EF07, EF08**  
 1= Don't know  
 2=Management  
 3=Technical/Advice  
 4=Marketing  
 5 = Information Techni  
 6=Informal Advice/trai  
 7=Consultancy Advice  
 8=Business Counsellor  
 9 = Finance & Account  
 10 = N/A  
 11 = None  
 12 = Other (specify)

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MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
BUSINESS EXPENDITURE

IF EB03 = 10 OR 13 >> EG06

		Actual or Estimated Monthly Expenditure												
Goodwill														
Amount	Year Paid	Rent	NSSF/Health Insurance	Electricity	Water	Telephone	Internet Costs	Insurance (Business)	Cost of credit (interest and other charges)	Salaries and Wages	Purchases of business wares and goods for resale	Purchases of inputs and other raw materials		
EG01	EG02	EG03	EG04	EG05	EG06	EG07	EG08	EG09	EG10	G11	EG12	EG13		

Actual or Estimated Monthly Expenditure (Continued)

		Actual or Estimated Monthly Expenditure (Continued)											
Transport/ storage and warehousing	Repairs/ maintenance	Cost of Licenses issued	Fines	Taxes	Advertising cost	Product Innovation	Process Innovation	Social Responsibility	Office Supplies	Additional equipment and assets	Other operating costs		
EG14	EG15	EG16	EG17	EG18	EG19	EG20	EG21	EG22	EG23	EG24	EG25		

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MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
BUSINESS INCOME AND SEASONAL VARIATION

Revenue	Stocks (KShs) (For non-service enterprises)	Income			Seasonal variations				
		At the beginning of last month.	In your opinion what is the net income from the business per month (KShs)?	Share of household income from the business. (%)	Main uses of net income from the business.	How do you rank your business performance in the last one month?	Number of months per year when the performance of your business is as follows.		
EH01 Total sales of goods and services last month (KShs) (include sales on credit)	EH02 EH03	EH04	EH05	USE <sup>1</sup>	USE <sup>2</sup>	USE <sup>3</sup>	Good	Normal	Bad
				EH06	EH07	EH08	EH09	EH10	EH11

Product, Process and Marketing Innovation

Seasonal variations		Product, Process and Marketing Innovation	
EH13 Compared to normal what is a good performance (1/2,3/4 etc. times normal income).	EH14 Compared to normal what is a bad performance (1/4,1/2,3/4 etc. times normal income).	EH15 How much is normal monthly revenue from the business. (KShs.)	EH16 Which is the best month of the business?
EH17 Which is the worst month of the business?	EH18 Was the last 3 months Period best or worst? 1 = Best 2 = Worst 3 = Normal	EH19 During the period 2013 to 2015, did you introduce new or significantly improved goods or services 1 = Yes 2 = No	EH20 During the period 2013 to 2015, did you introduce new or significantly improved methods of manufacturing or producing goods or services 1 = Yes 2 = No
EH21 During the period 2013 to 2015, did you implement a new marketing method involving significant changes in product design or packaging, product placement, promotion or pricing? 1 = Yes 2 = No	EH22 Please estimate the total turnover of goods and services in (KSh) in 2015 after these innovations		

- EH06, EH07, EH08 1 = Re-investment.  
2 = Investment in new business.  
3 = Investment in Agriculture.  
4 = Household/family needs.  
5 = Savings.  
6 = Transfers.  
7 = other (Specify).  
8 = Not used
- EH16, EH17  
Jan=1  
Feb=2  
Mar=3  
Apr=4  
May=5  
Jun=6  
Jul=7  
Aug=8  
Sep=9  
Oct=10  
Nov=11  
Dec=12

- EH09  
1 = Good (Above average)  
2 = Normal  
3 = Bad (Below Average)

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MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) SURVEY 2016  
BUSINESS ORGANIZATION AND MARKETING**

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E101	E102	E103	E104	E105	E106	E107	E108		E109	E110	E111	E112	E113								
							Wh	Mo													
What was the main reason for starting the business?	What is the main reason for closing the business?	What is the main reason for closing the business?	What support groups do you belong to in relation to this business?	Do you keep any kind of business record or do you keep?	What reports do you generate from your business record?	What type of bank account(s) do you have for the business?	Do you use Mobile Money Pattern in your enterprise? Yes = 1, No = 2	Do your business have a pay bill/invoice? Yes = 1, No = 2	In which way do you use mobile money transfer in your business?	Ownership Structure	Business Status		What is your main source of funds and the corresponding value in 2015?	What is your main source of funds and the corresponding value in 2015?	Do you have any contract arrangement for regular orders received from clients?	Do you have any contract arrangement for your products or services?	What is your main method of advertisement of products and services?	What is your main customer feedback mechanism?			
<p><b>MSME</b></p> <p>1 = None</p> <p>2 = Family has worked in this activity</p> <p>3 = Advised by others</p> <p>4 = Availability of capital required</p> <p>5 = High demand/saturated market</p> <p>6 = Advised by professional</p> <p>7 = Multiple assistance</p> <p>8 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = Management training</p> <p>3 = Technical Training</p> <p>4 = Marketing assistance</p> <p>5 = Material/service assistance</p> <p>6 = Multiple assistance</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>		<p><b>MSME</b></p> <p>1 = None</p> <p>2 = MSME associations</p> <p>3 = Chamber of Commerce</p> <p>4 = Other Business Associations</p> <p>5 = Many go-round</p> <p>6 = Multi-lender Association</p> <p>7 = Other (Specify)</p>	

- E103**
- 1 = Solely
- 2 = Family
- 3 = Partnership
- 4 = Cooperative
- 5 = Group
- 6 = Corporate
- 7 = Other (Specify)
- E104**
- 1 = Solely
- 2 = Family
- 3 = Partnership
- 4 = Cooperative
- 5 = Group
- 6 = Corporate
- 7 = Other (Specify)
- E105**
- 1 = None
- 2 = MSME associations
- 3 = Chamber of Commerce
- 4 = Other Business Associations
- 5 = Many go-round
- 6 = Multi-lender Association
- 7 = Other (Specify)
- E106**
- 1 = None
- 2 = Sales day book and monthly sales ledger
- 3 = Purchases day book & monthly purchases ledger
- 4 = Cashbook and petty cashbook
- 5 = Bank reconciliation statements
- 6 = Complete set of accounts
- 7 = Partial set of accounts
- 8 = Financial statements/services
- 9 = None --> E109
- 10 = Other (Specify)
- E107**
- 1 = None
- 2 = Profit & Loss statement
- 3 = Cash flow statement
- 4 = Budgeting/forecasting
- 5 = Other (Specify)
- E108**
- Wh: 1 = Yes
- Mo: 1 = Yes
- E109**
- 1 = Cash sales and receipts
- 2 = Sales day book and monthly sales ledger
- 3 = Purchases day book & monthly purchases ledger
- 4 = Cashbook and petty cashbook
- 5 = Bank reconciliation statements
- 6 = Complete set of accounts
- 7 = Partial set of accounts
- 8 = Financial statements/services
- 9 = None --> E109
- 10 = Other (Specify)
- E110**
- 1 = None
- 2 = Profit & Loss statement
- 3 = Cash flow statement
- 4 = Budgeting/forecasting
- 5 = Other (Specify)
- E111**
- 1 = None
- 2 = Current
- 3 = Savings
- 4 = Other (Specify)
- 5 = Other (Specify)
- E112**
- 1 = Pay for goods & services
- 2 = Receive payments
- 3 = Banking
- 4 = Nil (Do not use)
- 5 = Other (Specify)
- E113**
- 1 = Sole only
- 2 = Male-Male partners
- 3 = Male-Female partners
- 4 = Female-Female partners
- 5 = Sole-Female partners
- 6 = Sole-male partners
- 7 = Other (Specify)
- E114**
- 1 = Solely from County Government
- 2 = Solely from National Government
- 3 = License from National Government
- 4 = Operates without a License
- 5 = Others (Specify)
- E115**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E116**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual suppliers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E117**
- 1 = Independently
- 2 = Jointly with others
- 3 = After bargaining with customers
- 4 = According to price set by producers
- 5 = According to official price
- 6 = Depending on the competing prices
- 7 = Other (Specify)
- E118**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E119**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E120**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E121**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E122**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)
- E123**
- 1 = None
- 2 = MSME
- 3 = Non-MSME
- 4 = Individual Consumers
- 5 = Government
- 6 = Government
- 7 = Other (Specify)

- E124**
- 1 = Solely
- 2 = Family
- 3 = Partnership
- 4 = Cooperative
- 5 = Group
- 6 = Corporate
- 7 = Other (Specify)
- E125**
- 1 = None
- 2 = Electronic Media
- 3 = Print Media
- 4 = Trade exhibition
- 5 = Trade fair/conferences
- 6 = Public meeting/promotion booths
- 7 = Other (Specify)
- E126**
- 1 = None
- 2 = Suspension Box
- 3 = Administering Questionnaire
- 4 = Verbal
- 5 = Internal research Department
- 6 = External research Department
- 7 = Telephone
- 8 = Internet

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ACCESS TO INFORMATION & AMENITIES

Access to utilities		Electricity					Telephone					Computer Services					Internet Services					Whether are the access roads to your business																											
Water		Electricity					Telephone					Computer Services					Internet Services					Whether are the access roads to your business																											
EK01	What is your Main source of water? 1= AT 2= ER08	EK02	Do you have access to a piped water?	EK03	What is the distance to the nearest water pipeline?	EK04	Are you connected to piped water?	EK05	If not connected and water pipeline is close proximity, have you applied for connection? 1= Yes 2= No	EK06	If not applied for connection, what are the reasons for not connecting?	EK07	Do you have access to Electricity? 1= Yes 2= No	EK08	YES/are you connected? 1= Yes 2= No	EK09	If NO, have you applied for connection? 1= Yes 2= No	EK10	Flagged, reasons for non-connection	EK11	If not applied give reasons for not applying	EK12	Do your enterprises have a dedicated fixed/landline telephone for business during the year 2015? 1= Yes 2= No	EK13	Do your enterprises have a dedicated mobile telephone for business during the year 2015? 1= Yes 2= No	EK14	YES/In EK14 do you have a internet network/smart? 1= Yes 2= No	EK15	Do your enterprises use a computer for official purposes during the year 2015? 1= Yes 2= No	EK16	Do your enterprises use a computer for official purposes during the year 2015? 1= Yes 2= No	EK17	YES/In EK16 what was the computer used for? (Select all that apply)	EK18	Do your enterprises have internet in EK17, for what purpose is it used? (Multiple response)	EK19	Do your business seek the following government services via internet in 2015? (Multiple response)	EK20	Do your business have an active website in 2015? 1= Yes 2= No	EK21	Type	EK22	State	EK23	What type of toilet facilities do you access at your business?	EK24	What is the mode of solid waste (Garbage) deposit at your business?	EK25	What is the mode of effluent disposal at your business?

- EK01**  
 1= Pond/Can  
 2= Lake  
 3= Stream  
 4= Spring /Well/ Borehole  
 5= Piped into dwelling  
 6= Piped into yard  
 7= Open to outside tap  
 8= From the street  
 9= Well /hand-dug  
 10= Other (Specify)

- EK03**  
 1= In Premises  
 2= Within compound  
 3= Less than 100 Meters  
 4= Less or equal to 500 meters  
 5= More than 500 meters

- EK06, EK12**  
 1= Lack of funds/High cost  
 2= Not a priority  
 3= Not interested  
 4= No services/Inefficient Services  
 5= Complicated process  
 6= Use of alternative service Provider  
 7= Use of unofficial connection.  
 8= Other (Specify)

- EK07, EK11**  
 1= Don't know  
 2= Inefficient services  
 3= Waiting for connection  
 4= Unwilling to pay price for connection.  
 5= N/A  
 6= Other (Specify)

- EK15**  
 1= Software  
 2= Email  
 3= Texting  
 4= Change  
 5= ITU  
 6= Other (Specify)

- EK17**  
 A= Internet  
 B= Printing  
 C= Scanning  
 D= Data Storage  
 E= Data Processing  
 F= Others (Specify)
- EK18**  
 1. To do tax returns via online i.e. using tax  
 2. Registering business or attached business name online  
 3. Use of e- procurement to apply for government tenders  
 4. Applied for Visa, passport or work permit for your employee through online  
 5. Applied for driving license or renewing it for business vehicles via online  
 6. Apply for a single business permit  
 7. Obtaining information from government website  
 8. None  
 9. Other (Specify)

- EK21**  
 1= Tarmac  
 2= Gravel  
 3= Earth  
 4= Murrum Track  
 5= Foot Paths  
 6= Other (Specify)
- EK23**  
 1= Flush toilet  
 2= VIP Latrine  
 3= Covered Pit Latrine  
 4= Un-Covered Pit Latrine  
 5= Bush  
 6= Eco toilet  
 7= Other (Specify)

- EK24**  
 1= Dumping  
 2= Open Space  
 3= Collected by local Authority  
 4= Collected by private company.  
 5= N/A  
 6= Other (Specify)

- EK25**  
 1= Drainage  
 2= Open Space  
 3= Rivers and streams  
 4= Sewer  
 5= N/A  
 6= Other (Specify)



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CAPITAL AND TECHNOLOGY

Initial Capital	Additional capital after start of enterprise		Approximate current worth of the business		What other type of support did you receive? (Record at most three (3) in the order of importance)	Indicate source of technological advice if any received.	Does the business have any of the following types of ICT equipment? (Multiple response)	What is the main reason why the business does not have ICT?	List the Number of Machines and Equipment in your operation according to main source of energy.				Check: If EL11, EL12, EL13, EL14=0	Where were the machines and equipment in the different categories acquired from (see codes below)				Are these machines and equipment adequate for your operations				If NO in EL21- EL24, give the MAIN reason for the inadequacy in each category (see codes below)			
	Amount (K\$)	Amount (K\$)	Amount (K\$)	Amount (K\$)					Electrically operated	Fuel Using	Human Powered	Animal Powered		1 = Yes 2 = No	Electrically operated	Fuel Using	Human Powered	Animal Powered	1 = Yes => EM01 2 = No	Electrically operated	Fuel Using		Human Powered	Animal Powered	
EL01	EL02	EL03	EL04	EL05	EL06	EL07	EL08	EL09	EL10	EL11	EL12	EL13	EL14	EL15	EL16	EL17	EL18	EL19	EL20	EL21	EL22	EL23	EL24	EL25	EL26

EL02, EL04

- 1 = Family/own funds
- 2 = Family/Friends loan (Not free)
- 3 = Money Lender
- 4 = Bank
- 5 = Non- Bank credit institutions/MFI
- 6 = Rotating Savings & Credit Association
- 7 = Government loan
- 8 = NGO's
- 9 = Formal/informal cooperatives
- 10 = Trade credits
- 11 = In-kind
- 12 = Postal savings
- 13 = Chamas
- 14 = Other (Specify)
- 15 = N/A

EL06

- A = Marketing information
- B = Accounting
- C = Legal
- D = Training
- E = Business Planning
- F = Stock Layout
- G = None
- H = Other (Specify)

EL07

- 1 = Government Institutions
- 2 = Research Institutions
- 3 = NGO
- 4 = MSME
- 5 = Non-MSME
- 6 = Salesmen
- 7 = Publications
- 8 = Other (SPECIFY)
- 9 = None

EL08

- A = Mobile Phone
- B = Computer
- C = Tablets / Phablets
- D = Digital / Video Cameras
- E = Radio
- F = Television set
- G = Fax
- H = Photocopier
- I = Printer
- J = None
- K = Other (Specify)

EL09

- 1 = Too Costly
- 2 = Not Needed
- 3 = No electricity
- 4 = Not Accessible
- 5 = Lack of knowledge
- 6 = N/A
- 6 = Other (Specify)

EL15-EL18

- 1 = MSME
- 2 = NON-MSMES
- 3 = Imported
- 4 = Inherited
- 5 = Own manufacturing
- 6 = Acquired with business
- 7 = Other (Specify)

EL23 -EL26

- 1 = Low level of technology
- 2 = Lack of spare parts
- 3 = High running costs
- 4 = Low output
- 5 = High maintenance costs
- 6 = Insufficient number of machines
- 6= N/A
- 7 = Other (Specify)

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CREDIT AND CONSTRAINTS

Access to credit in the last three years				Access to credit in the last one year				List 3 main constraints experienced in the last 1 year				Respective degree of the severity of constraint				Perceived solutions to constraints experienced				
EM01	EM02	EM03	EM04	EM05	EM06	EM07	EM08	EM09	EM10	EM11	EM12	EM13	EM14	EM15	EM16	EM17	EM18	EM19	EM20	EM21
Did you apply for credit in the last three years? 1=Yes 2=No If 2 => EM10	If yes in M10, How much did you apply in (KSh)	How much did you receive in (KSh)	What was the main credit source	What was the main Purpose of Credit?	Was the credit adequate, if credit was inadequate, what was main reason	What was main source of information on credit	During the last 12 months, did you try to borrow and you were turned down? 1= Yes 2= No => EM10	Who turned you down?	Why did you not attempt to borrow in the last 12 months? (If you record more than one answer rank them in order of importance)	Does the business run a business account? 1= Yes 2= No	If yes in EM20, in what type of institution?	Constraint 1 If 1 => Skip to MSME/11/2016	Constraint 2 If 1 => Skip to MSME/11/2016	Constraint 3	Constraint 1 If M03 = 1 => EM10	Constraint 2	Constraint 3	Solution to Constraint 1	Solution to Constraint 2	Solution to Constraint 3

**EM04**

- Public Financing Agencies/Cooperatives
- Micro Finance Institutions
- Building Societies
- Insurance Companies
- Self Help groups
- Religious organisations
- NGOs
- Family friends
- Money lenders
- Non-Bank Finance institution
- Rotating Savings & Credit Associations
- Trade Credit Suppliers
- Commercial Banks
- Saccos
- Other Formal / Informal cooperatives
- Public Enterprise funds (youth, women)
- Mobile platform
- N/A
- Other (Specify)

**EM05**

- Purchase Inventory
- Working Capital
- Relaunching business
- Pay debt
- Non-Business Purpose
- Starting another business
- N/A
- Other (specify)

**EM07**

- Print & Electronic Media
- Advertisements
- Brochures
- Billboards
- Others (Specify)

**EM09**

- Commercial banks
- Micro - Finance
- Building Soc./Mortgage
- Insurance Companies
- SACCOS
- Other Financial Inst.
- Neighbours/Friends
- Cooperative/Local Merchant
- Money lender
- Employer
- Religious Inst.
- NGO
- Self Help Group
- Other (Specify)

**EM10**

- No need
- Believed would be refused
- Too expensive
- Too much trouble for what it is worth
- Inadequate collateral
- Do not like to be in debt
- Do not know any lender
- Size of loan and maturity insufficient
- Other (Specify)

**EM13-EM15**

- None
- Lack of collateral for credit
- Inference from authorities
- Loans
- Taxes
- Other government Regulations
- Lack of markets
- Poor mode/transport
- Local competition
- Foreign Competition
- Lack of skilled manpower
- Storage of raw materials or stock
- Power interruption
- Inaccessibility to electricity
- Poor access to water supply
- Poor security
- Lack of space
- Impact of HIV/AIDS
- Other (Specify)

**EM16 - EM18**

- Very Severe
- Severe
- Not severe

**EM19 - EM21**

- Relaxing credit conditions
- Improvement of Access Roads
- Improvement of water supplies
- Improvement of electricity supplies
- Provision of better business sites
- Providing enabling environment for fair competition
- Relaxing licensing requirements
- Assisting in market promotion
- Providing access to public tender for MSMEs
- Reducing business risks associated with security
- Review laws for land tenure and tenancy
- Awareness Campaign
- Control political disturbances
- Technological changes
- Improve access to land
- Other (Specify)



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