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

State Department for Micro, Small and Medium Enterprises(MSMEs) Development

REPUBLIC OF KENYA

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REVISED MICRO, SMALL, AND MEDIUM ENTERPRISES (MSME) POLICY 2026

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ACRONYMS AND ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AGPO	Access to Government Procurement Opportunities
AU	African Union
BETA	Bottom-up Economic Transformation Agenda
BRS	Business Registration Services
CAIPS	County Aggregation and Industrial Parks
CBK	Central Bank of Kenya
CGS	Credit Guarantee Scheme
CIDC	Constituency Industrial Development Centres
CIMES	County Integrated Monitoring and Evaluation System
CoG	Council of Governors
COMESA	Common Market for Eastern and Southern Africa
CUF	Common User Facility
CRA	Commission on Revenue Allocation
CRB	Credit Reference Bureau
EAC	East Africa Community
EPA	Economic Partnership Agreement
EPZA	Export Processing Zone Authority
FIF	Financial Inclusion Fund
GDP	Gross Domestic Product
ICTA	ICT Authority
IGRA	Intergovernmental Relations Act of 2012
ILO	International Labour Organization
IP	Intellectual Property
IPR	Intellectual Property Rights
KDC	Kenya Development Corporation
KEBS	Kenya Bureau of Standards
KEPROBA	Kenya Export and Promotion Board Authority
KIE	Kenya Industrial Estates
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
LE	Large Enterprise
MDA	Ministries, Departments, and Agencies
MDAC	Ministries, Departments, Agencies and Counties
MFI	Micro Financial Institution
MSEA	Micro Small Enterprise Authority
MSME	Micro Small Medium Enterprises
MTP	Medium Term Plan
NIMES	National Integrated Monitoring and Evaluation System
PFI	Participating Financial Institutions
PFM	Public Finance Management
RoO	Rules of Origin
SDGs	Sustainable Development Goals
SEZ	Special Economic Zones
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICTRAL	United Nations Commission on International Trade Law
WTO	World Trade Organization

DEFINITION OF TERMS

Enterprise: Any undertaking or business concern, whether formal or informal, engaged in the production of goods or the provision of services, carried on in trade, industry, handicraft, or the provision of professional or personal services.

Evaluation: The process of examining the performance of an organisation, project, program, policy, or any other intervention to determine its relevance, adequacy, effectiveness, efficiency, and progress for the purpose of identifying areas for improvement.

Medium Enterprise: A business with an annual turnover of between KSh 5 million and KSh 100 million and employing between 51 and 250 persons.

Micro Enterprise: A business with an annual turnover not exceeding KSh 500,000 and employing not more than 10 persons, as defined in the MSE Act, 2012.

Policy Agenda: A set of issues, topics, or problems that are considered important and are currently under active consideration by policymakers, government officials, or decision makers.

Policy Impact: Effects, changes, or consequences that result from the implementation of a particular policy or set of policies

Policy Implementation Matrix: A tool used in project management and policy planning to outline the key elements and steps involved in the successful execution of a policy project

Policy Outcomes: Intended or unintended results, effects, or consequences that occur as a result of the implementation of a particular policy.

Policy Output: Tangible results or actions that are generated as a result of a particular policy or set of policies implemented by a government or organisation.

Sessional paper: A policy document approved by parliament, not in the form of an Act of parliament

Small Enterprise: A business with an annual turnover of between KSh 500,000 and KSh 5 million and employing between 11 and 50 persons.

State Department: The State Department responsible for MSME development

Tariffs: The scale of fees that may be imposed in respect of services provided by the county government or any agency delivering services in the county

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CHAPTER ONE

INTRODUCTION

1.1 Background

Micro, Small, and Medium Enterprises (MSMEs) are critical drivers of Kenya's socio-economic growth and contribute substantially towards poverty reduction, employment creation, and income generation. According to the KNBS, MSME Survey of 2016, there are over 7.4 million MSMEs in Kenya, employing over 14.9 million Kenyans across all sectors. These MSMEs contributed approximately 33.8 percent to the national GDP in 2015. Over the years, the MSME Sector contribution to GDP has increased from 33.8 percent to 40 percent, according to a 2021 UNDP and MSEA report on the Impact of COVID-19 on Kenyan MSMEs Strategies for Resilience and Recovery. Despite informality, the sector contributes significantly to employment, creating around 800,000 jobs annually. It thus provides opportunities for absorbing low-skilled and economically excluded individuals of the labour force, mainly the youth, women, persons with disabilities and those with low levels of education. The MSMEs operate in all sectors of the economy, with large concentrations in wholesale and retail trade, manufacturing, and food services. Wholesale and retail trade, and repairs of motor vehicles and motorcycles, accounted for 57.1 percent of licensed businesses and 62.9 percent of unlicensed businesses.

The MSME sector significantly contributes to achieving the aspirations of key national and global goals, as espoused in the Bottom-up Economic Transformation Agenda (BETA), Kenya Vision 2030, EAC Vision 2050, AU Agenda 2063, and the Sustainable Development Goals (SDGs). Under BETA, the MSME Sector has been identified as having real potential to contribute to an expansion of Kenya's economy by approximately 60% if its productivity is incentivised and enhanced. Further, the MSME sector has the capacity to contribute significantly to achieving the country's Vision 2030 goals by stimulating growth across sectors, diversifying the economy, and reducing reliance on traditional sectors. The sector contributes to the achievement of EAC Vision 2050 by diversifying economies through industrialisation and value addition, and by promoting the service sector, as well as the African Union Agenda 2063's three pillars, namely customs union, common market, and monetary union. It is also important to mention that the MSMEs Sector plays a key role in the realization of SDG 1(No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good health and well-being), SDG 5 (Gender equality), SDG 8 (Decent work and economic growth), SDG 9 (Industry, innovation and infrastructure), and SDG 12 (Responsible consumption and production).

The Constitution of Kenya plays a pivotal role in supporting Micro, Small, and Medium Enterprises (MSMEs) by establishing a framework that promotes economic development, devolution, and equitable resource distribution. It provides a foundation for creating an enabling environment for MSMEs, which are critical to Kenya's economy. Additionally, the Constitution delineates distinct roles for the national and county governments in supporting MSMEs, ensuring a collaborative approach to fostering their growth.

Generally the Constitution of Kenya supports MSMEs through : (1) promotion of economic and social rights under Article 43 including the right to education, health, housing, and a decent standard of living indirectly supporting MSMEs by ensuring a healthier, more educated workforce capable of engaging in entrepreneurial activities (2) devolution and decentralized economic development under Article 174 which outlines the objectives of devolution with the decentralized system empowering county governments to address local economic needs, including those of MSMEs, (3) gender equity and inclusivity under article 27, which ensures equality and non-discrimination. This is significant for MSMEs, as women own a substantial portion of these enterprises. The Constitution's focus on gender equity supports initiatives like affirmative action funds such as the Women Enterprise Fund which provide financial access to women-led MSMEs (4) protection of property rights under article 40 which protects the right to own property, which is crucial for MSMEs that rely on assets for collateral to secure loans (5) support for a conducive business environment under article 10 which establishes national values and principles of governance, such as transparency, accountability, and sustainable development. These principles guide the creation of policies and regulations that foster a conducive business environment for MSMEs. For example, the Micro and Small Enterprises Act of 2012, which aligns with constitutional principles, provides a legal framework for the promotion, formalisation, and development of MSMEs.

The Constitution of Kenya 2010 establishes a devolved system of governance, dividing responsibilities between the national and county governments as outlined in the Fourth Schedule. This division ensures that both levels of government play complementary roles in supporting MSMEs. The national government is responsible for overarching policy formulation and coordination, and for creating a macro-level enabling environment for MSMEs, while county governments, through the fourth Schedule of the Constitution, assign counties functions of trade development and regulation, including markets, trade licenses (excluding professions), fair trade practices, local tourism, and cooperative societies.

In recognition of the sector's importance to the economy, the Government of Kenya, in collaboration with key stakeholders, has developed various policies and implemented programs and initiatives to support MSMEs. These include: The Hustler Fund which is providing accessible, low-interest loans to foster financial inclusion and encourage saving; The expanded Credit Guarantee Scheme (CGS) further supports MSMEs by reducing loan risks and increasing accessible funds through partnerships with banks and international organizations; Digital transformation efforts, including e-commerce training and partnerships, equip MSMEs to tap into online markets; Streamlined registration promotes formalization; Programs that train youth for digital and entrepreneurial opportunities, enabling them to capitalize on remote work and freelancing; Refurbishment of Constituency Industrial Development Centres (CIDCs); Development of industrial hubs which offer MSMEs shared resources and infrastructure, reducing costs and enhancing productivity, and position MSMEs as vital drivers of Kenya’s economic inclusivity and growth.

There interventions are in line with global best practice such as: (1) access to finance support through credit guarantees such as India’s credit guarantee schemes and Nigeria’s Development Bank approach, (2) simplifying regulatory frameworks and supporting formalization such as Colombia’s formalization program (3) strengthening infrastructure support such as India’s Infrastructure Investment through the RAMP program and Ethiopia’s leasing for Infrastructure program. Similarly, the 2019 KIPPRA study on “County Business Environment for Micro and Small Enterprises in Kenya identifies five key areas essential to unlocking MSMEs potential and includes worksites and adequacy of their infrastructure; market environment; financial and technical capacity; and governance and regulatory framework.

Despite the aforementioned initiatives, key challenges persist in the MSME sector including limited access to finance, inadequate infrastructure, lack of skilled labour, limited market access, lack of technology adoption, regulatory and compliance issues, fragmented policies and laws on MSMEs, policy lacuna focusing on the ecosystems for start- ups, lack of coordination between development partners and stakeholders, lack of coordination and synergy for MSMEs initiatives, limited awareness of the provisions of the MSE Act and Policy, vulnerability to covariate shocks such as flooding and COVID-19, gender discrimination and cultural barriers that exclude special interest groups, lack of business skills and training and extensive informality.
In recognition of the sector’s potential, this policy seeks to build on the gains of previous policy initiatives while addressing weaknesses, policy gaps, and persistent and emerging challenges.

1.2 Methodology of Policy Review

An extensive review of the literature, relevant surveys, and a critical review of past and existing policies, strategies, plans, and studies guided the formulation of this policy. The reviews were guided by the aspirations and provisions articulated in the Constitution of Kenya, Kenya Vision 2030, Fourth Medium Term Plan 2023-2027 - BETA, the United Nations 2030 Agenda for Sustainable Development Goals, the East African Community Vision 2050, and the African Union Agenda 2063.

1.3 Rationale for Reviewing the MSE Policy 2020

In recognition of the sector's critical and growing contribution to Kenya's economy, the Government has progressively increased attention to MSMEs. The rationale for reviewing the MSE Policy 2020 and formulating a new MSME policy is three-fold: first, to address institutional and structural changes introduced since 2020 and integrate new government priorities; second, to resolve longstanding gaps in the scope and coverage of the MSE Policy 2020; and third, to address persistent challenges and emerging issues, and align Kenya's MSME support framework with global best practices.

Since the MSE Policy 2020 was enacted, significant institutional reforms and new planning priorities have fundamentally altered the Government's MSME support architecture, necessitating a corresponding policy update.

The establishment of the State Department for Micro, Small and Medium Enterprises Development under the Ministry of Co-operatives and MSMEs Development through Executive Order No. 1 of 2023 represents the most consequential structural change. This dedicated State Department centralises policy coordination, financing, regulatory functions, and MSME development programmes, including the administration of the Financial Inclusion Fund (Hustler Fund), affirmative funds, capacity development, market development, and technology modernisation, under a single institutional framework. The MSE Policy 2020 predates this architecture and does not reflect the mandate, functions, or coordination mechanisms of the new State Department, creating a critical policy-institutional misalignment that the review must resolve.

Equally significant is the alignment of the MSME agenda with the Fourth Medium Term Plan (MTP IV) 2023–2027, which is anchored in the Bottom-up Economic Transformation Agenda (BETA). BETA positions the MSME sector as one of its five core pillars alongside agriculture, housing, healthcare, and the digital superhighway and espouses a value chain approach to economic development that breaks sectoral silos, links production to value addition and marketing, and creates competitive advantage through end-to-end investment. Under MTP IV, the Government targets the transformation of key value chains in leather and leather products, textiles and apparel, dairy, tea, rice, edible oils, the blue economy, minerals, and construction materials, with MSMEs as primary beneficiaries. The MSE Policy 2020 predates MTP IV and BETA and does not incorporate the value chain and cluster development approach that now defines government strategy; the review is necessary to embed these priorities into the policy framework.

The Government has also implemented a range of coordinated responses to accelerate MSME growth, which the updated policy must mainstream: the operationalisation of the Financial Inclusion Fund (Hustler Fund) to provide accessible, low-interest credit and foster financial inclusion at the bottom of the pyramid; the expansion of the Credit Guarantee Scheme (CGS) to reduce lending risks and increase accessible finance through partnerships with banks and international organisations; the refurbishment of Constituency Industrial Development Centres (CIDCs) and development of County Aggregation and Industrial Parks (CAIPs) to provide affordable shared infrastructure; and digital transformation initiatives including e-commerce training and partnerships to equip MSMEs to access online markets. To fully realise the impact of these interventions, a coherent, well-coordinated policy framework that ties them together and eliminates duplication is imperative.

The MSE Policy 2020 contained significant structural omissions that limited its effectiveness as a comprehensive development framework for Kenya's enterprise sector. The most critical gap is the exclusion of medium-sized enterprises. The MSE Policy 2020 focused exclusively on micro and small enterprises, creating a gap in the enterprise transition cycle from micro to small to medium. According to the Kenya National Bureau of Statistics MSME Survey of 2016, medium establishments account for only 0.7 percent of licensed establishments, a phenomenon referred to as the *missing middle,* reflecting constraints that prevent MSEs from graduating to medium enterprise status and, in turn, limiting the economy's capacity for decent job creation and wealth generation. The policy review expands the framework's scope to cover medium enterprises, defined under the MSE Act 2012 as firms with an annual turnover of between Ksh 5 million and Ksh 100 million and engaging between 51 and 250 employees, thereby completing the support continuum and addressing the missing middle.

The MSE Policy 2020 also insufficiently provided for devolved governance in MSME development. The Constitution of Kenya 2010, through the Fourth Schedule, assigns county governments functions of trade development and regulation, including markets, trade licensing, fair trade practices, and local tourism; and Article 174 provides that one of the objectives of devolution is to promote social and economic development and accessible services throughout the country. Since the advent of devolution, counties have made strides in providing markets and decent workspaces, and in simplifying business licensing; however, challenges in coordinated market access, affordable financing, multiple levies and cess that hamper inter-county trade, and technology adoption remain largely unresolved. The review strengthens the policy's devolution dimension by providing a framework for national-county coordination, county-level policy guidance, localised implementation, infrastructure development, and market access tailored to regional socio-economic dynamics, in line with the Intergovernmental Relations Act and the County Government Act.

In addition, the MSE Policy 2020 did not adequately address the green economy and climate resilience dimension of MSME development. The review incorporates climate-smart approaches, sustainable production, renewable energy adoption, and resilience to climate shocks, including floods and other covariate risks, into the MSME support framework. This aligns with Kenya's international commitments under the Sustainable Development Goals, particularly SDG 12 on responsible consumption and production, and with MTP IV/BETA priorities, including the blue economy and green value chains.

Progress has been made in implementing the MSE Policy 2020; however, persistent challenges and rapidly emerging issues require a comprehensive policy response to enable MSMEs to realise their full potential and compete at the regional and international levels. Persistent challenges include limited access to affordable finance, inadequate infrastructure, lack of skilled labour, limited market access, low technology adoption, regulatory and compliance burdens, fragmented policies and laws, lack of coordination between development partners and stakeholders, limited awareness of the provisions of the MSE Act, extensive informality, and vulnerability to covariate shocks. The review directly addresses these challenges by updating policy objectives that cover the legal and regulatory environment, skills development, formalisation, infrastructure, finance, market access, innovation and research, and resilience.

Emerging issues that the MSE Policy 2020 did not adequately capture include digitalisation, globalisation, AfCFTA regional trade frameworks, financial inclusion, climate shocks, and geopolitical dynamics. Kenya's alignment with the African Continental Free Trade Area (AfCFTA) creates significant market opportunities for MSMEs to access a continental market of over 1.4 billion people, but also introduces competitive pressures that require MSMEs to be equipped for cross-border trade. Similarly, the digital economy, underpinned by the Digital Economy Blueprint 2019 and MTP IV's digital superhighway pillar, presents transformative opportunities for MSME growth that must be systematically mainstreamed into policy.

The review also aims to align Kenya's MSME framework with international best practices and Kenya's broader obligations under the United Nations 2030 Agenda for Sustainable Development

Goals, the African Union Agenda 2063, the EAC Vision 2050, and trade facilitation agreements, including the WTO Trade Facilitation Agreement. Finally, the review will facilitate the alignment and amendment of the MSE Act of 2012 to ensure the legal framework keeps pace with the revised policy, addresses gaps in coverage of medium enterprises, and strengthens institutional structures for coordinated and effective MSME support.

To fully realise the potential of MSMEs and bring Kenya's support framework to par with global standards, the Government, private sector, and non-state actors must work together through a coherent, well-coordinated approach that maximises the impact of these interventions, eliminates duplication, addresses emerging trends, and creates a more enabling environment for MSMEs to grow, scale, and compete at regional and international levels.

1.4 Policy Goal and Objectives

1.4.1 Policy Goal

This policy aims to provide an integrated, enabling business environment for a productive, competitive, and sustainable MSME sector that creates wealth and employment.

1.4.2 Policy Objectives

The policy objectives are to:

1. Provide a conducive and supportive environment that promotes MSME growth and development.
2. Foster an entrepreneurial culture and enhance skills development for MSMEs.
3. Support the formalisation of MSMEs.
4. Enhance access to decent and affordable commercial infrastructure for the MSMEs sector.
5. Enhance access to diversified and affordable financial products and services for MSMEs.
6. Enhance market access and economic opportunities for MSMEs' products and services.
7. Promote Digitalisation, Innovation, and research and development in the MSME sector.
8. Build MSME Resilience and Adaptability.

1.5 Scope of the Policy

This policy applies to both the National and County Governments, as well as Micro, Small, and Medium Enterprises (MSMEs), and the broad network of supporting institutions, including private-sector entities, development partners, and other non-state actors involved in MSME development. At the national level, the policy guides overarching strategic planning, regulatory framework, and implementation to foster a supportive ecosystem for MSMEs.

At the county level, the policy will guide county policy development, address localised implementation, capacity building, infrastructure development, and market access tailored to regional needs. Together, these efforts promote a coordinated, inclusive, and sustainable approach to MSME growth across all levels, ensuring cohesive support and alignment with the unique socio-economic dynamics of each county.

1.6 Structure of the Policy

The policy is structured in line with the public policy handbook with following sections: (1) Preliminary (2) Introduction consisting of the background, methodology of policy review, rationale for reviewing MSE policy 2020, policy goals and objectives; (3) Situation analysis (4) Policy statements (5) Policy coordination and implementation and (6) Monitoring and evaluation.

CHAPTER TWO

SITUATIONAL ANALYSIS OF THE MSME SECTOR

2.1 Overview of MSME sector in Kenya

According to the KNBS MSME Survey of 2016, there are over 7.4 million MSMEs (1.6 million licensed by county governments and 5.8 million unlicensed) in Kenya, employing over 14.9 million Kenyans across all sectors, with unlicensed establishments contributing 57.8 percent. Recent employment data from the 2024 KNBS Economic Survey Report found that employment in the informal sector, which is dominated by Micro, Small and Medium Enterprises (MSMEs), created 720,900 new jobs in 2023, which is 85% of all new jobs created.

The value of the MSMEs output is estimated at KShs. 3,371.7 billion against a national output of KShs. 9,971.4 billion, representing a contribution of 33.8 percent in 2015.

Manufacturing ranked highest, contributing 24.3 percent of MSMEs' gross value added. Wholesale and retail trade, transport and storage, and education services ranked high, contributing 22.8, 15.4, and 7.3 percent, respectively, to gross value added. Unlicensed establishments accounted for 10.4 percent of MSMEs' gross value added. In terms of sector distribution, the majority of MSMEs are in the service sector, with most operating in wholesale and retail trade, repair of motor vehicles and motorcycles, and accommodation and food services.

MSME size distribution is highly skewed towards micro, with the KNBS findings indicating that 92.2 percent of licensed establishments are micro, employing between 1 and 9 employees, and that all unlicensed businesses are micro. Small and medium establishments accounted for 7.1 percent and 0.7 percent respectively, highlighting the challenge commonly referred to as the 'missing middle', suggesting constraints that limit the growth of MSMEs, consequently denying the economy decent jobs and wealth creation. As such, there is a need to address the constraints facing MSMEs that limit their growth and, hence, their progression to medium enterprises. The MSMEs sector also provides opportunities for absorbing the low-skill and economically excluded segment of the labour force, including youth, women, persons with disabilities and those with low levels of education.

The 2019 Kenya Population and Housing Census reveals that persons under 35 account for 76% of the population, indicating rising demand for job opportunities. The Census further reveals that youth in the age bracket of 15 to 34 years represents 36% of the population. Of the labour force, 2.6 million of the economically active population are seeking work, of whom females represent 44% and youth 68%.

The youth are therefore disproportionately affected by unemployment. Additionally, 2% of the population lives with disabilities of various forms, including visual, hearing, communication, cognition, mobility and self-care. Among Persons with Disabilities (PWDs), 55% reported difficulties engaging in economic activities. A large proportion of the labour force derives its livelihood from the MSME sector. The sector, therefore, provides income for low-income earners and offers an avenue to reduce poverty. Poverty reduction has been a key policy priority in Kenya.

KNBS Kenya Poverty Report 2022 estimated at the individual level, the national food poverty headcount rate in 2022 was 31.7 per cent, translating to over 16 million people being unable to meet the food poverty line threshold, while the overall poverty headcount rate was at 39.8 per cent, implying that over 20 million individuals were unable to meet the overall poverty line threshold. The overall poverty headcount rate decreased from 36.1 per cent in 2015/16 to 33.6 per cent in 2019. The sharp increase to 42.9 percent in 2020 reflects the economic disruption caused by the COVID-19 pandemic, which disproportionately affected MSMEs and informal workers. While the rate subsequently declined to 38.6 per cent in 2021 as the economy recovered, it rose again to 39.8 per cent in 2022, indicating that the recovery has been uneven and that structural vulnerabilities in the MSME sector continue to contribute to persistent poverty.

The crucial role of MSMEs is underscored in Kenya's Vision 2030, Kenya's development blueprint, which seeks to transform Kenya into an industrial middle-income country. The MSME sector has been identified and prioritised as a key driver of the development blueprint.

Fourth Medium Term Plan (MTP IV), which has been aligned to the aspirations of the Kenya Vision 2030 and the Kenya Kwanza Bottom-Up Economic Transformation Agenda (BETA) planning approach and its key priorities. Under MTP IV, the Government aims to transform agriculture by raising the productivity of key value chains, including leather and leather products, textile and apparel, dairy, tea, rice, edible oils, the blue economy, minerals, forestry, and construction/building materials. A key element of the value chain approach will be to support Micro, Small and Medium Enterprises (MSMEs) to provide employment and income opportunities for economically excluded segments of the population.

2.2 Policy and Regulatory Framework

Globally and regionally, Micro, Small and Medium Enterprises are widely recognised as the backbone of economies, contributing over 50 percent of GDP and more than 60 percent of employment in high-income countries, while driving industrialisation, innovation and poverty reduction across the developing world. International frameworks including the United Nations 2030 Agenda for Sustainable Development Goals (SDGs), the African Union Agenda 2063, the East African Community Vision 2050, and the African Continental Free Trade Area (AfCFTA), all place MSME development at the centre of inclusive and sustainable economic transformation, recognising their catalytic role in achieving SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure). Regional commitments under the EAC, COMESA, and the Economic Partnership Agreement (EPA) with the European Union further open new market frontiers for MSMEs, reinforcing the importance of aligning national policy and regulatory frameworks with these evolving global and continental standards to ensure that MSMEs remain competitive, resilient and capable of participating in global value chains.

In Kenya, Micro, Small and Medium Enterprises constitute a formidable force in the national economy, with over 7.4 million MSMEs comprising 1.56 million formal and 5.84 million informal enterprises, and employing approximately 14.9 million Kenyans across all sectors, contributing an estimated 33.8 to 40 percent of Gross Domestic Product. The sector is the single largest source of new employment, having created 720,900 jobs in 2023 alone, representing 85 percent of all new jobs generated that year, and providing critical income and livelihood opportunities for youth, women, persons with disabilities and economically excluded segments of the labour force. Notwithstanding this significant contribution, the sector faces deep structural challenges, including the "missing middle" phenomenon where 92.2 percent of enterprises remain micro, with small and medium establishments accounting for only 7.1 percent and 0.7 percent respectively reflecting constraints in access to finance, inadequate infrastructure, limited market access, low technology adoption, extensive informality, and weak institutional coordination that collectively impede the graduation of enterprises from micro to small and ultimately to medium enterprise level.

In recognition of the sector's critical and growing contribution to Kenya's economy, the Government has progressively increased attention to MSMEs, implementing a range of coordinated responses to align Kenya's MSME support architecture with global best practices and address longstanding coordination gaps. These responses include the establishment of the State Department for Micro, Small and Medium Enterprises Development under the Ministry of Co-operatives and MSMEs Development through Executive Order No. 1 of 2023, which centralises policy coordination, financing and regulatory functions for the sector; the operationalisation of the Financial Inclusion Fund (Hustler Fund) to provide accessible, low-interest credit and foster financial inclusion at the bottom of the pyramid; the expansion of the Credit Guarantee Scheme (CGS) to reduce lending risks and increase accessible finance for MSMEs through partnerships with banks and international organisations; the refurbishment of Constituency Industrial Development Centres (CIDCs) and development of County Aggregation and Industrial Parks (CAIPs) to provide affordable shared infrastructure; and digital transformation initiatives including e-commerce training and partnerships to equip MSMEs to access online markets. To fully realise the potential of MSMEs and bring Kenya's support framework to par with global standards, the Government, private sector, and non-state actors must work together through a coherent, well-coordinated approach that maximises the impact of these interventions, eliminates duplication, addresses emerging trends such as digitalisation, globalisation, regional trade frameworks, financial inclusion, climate and pandemics shocks and geopolitical dynamics, and creates a more enabling environment for MSMEs to grow, scale and compete at regional and international levels.

2.2.1 Evolution of MSME Policy in Kenya

The government of Kenya has recognised the importance of MSMEs and has implemented various policies and strategies to support their growth and development. An overview of MSMEs policy development in Kenya includes:

The ***Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya*** emphasised African ownership and management of enterprises, skills, and cooperative development. The ***Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth*** **recognis**ed the role of MSEs, then termed ‘informal sector and small-scale industries’, in economic development. The ***Sessional Paper No. 2 of 1992 on Small Enterprises and Jua Kali Development in Kenya*****,** informed by the report of a Special Taskforce established in March 1987 to review all policies for promoting small-scale enterprises in the country, provided a more comprehensive policy framework for the sector. The ***Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction,*** which prioritised MSEs’ access to markets, including public procurement reservations. The **National Policy on Micro, Small, and Medium Enterprises (MSMEs) in Kenya (2005)** aimed to foster the development of MSMEs by providing an enabling environment. The enactment of the **MSE Act 2012** established MSEA with the mandate to promote, develop, and regulate the MSE sector. **Vision 2030 recognis**ed MSMEs as a crucial component of Kenya’s long-term development plan. The **Big Four Agenda (2017–2022) recognis**ed the critical role of MSMEs in the manufacturing pillar, as they are seen as vital drivers of industrialisation, innovation, and job creation. Further, the **Bottom-Up Economic Transformation Agenda (BETA)** places MSMEs at the core of economic development. It positions MSMEs at the heart of Kenya’s economic agenda, emphasising their empowerment to drive equitable and inclusive growth and uplift underserved communities. This focus aligns with global frameworks such as the **Sustainable Development Goals (SDGs)** and the **African Union Agenda 2063**, both of which recognise MSMEs as catalysts for sustainable, inclusive development across Africa.

2.2.2 Policy Framework Review

The **MSE Act of 2012** is a cornerstone policy guiding the development of Kenya's micro, small, and medium enterprises (MSMEs) sector. The Act outlines provisions for creating a supportive ecosystem for MSEs through access to credit, market opportunities, capacity building, and technology, while emphasising business formalisation. The Act also aims to streamline licensing and registration processes to promote the formalisation of MSEs.

While the MSE Act has laid a strong foundation, several gaps remain. One limitation is the focus on micro and small enterprises, with insufficient attention to medium-sized enterprises, which face distinct challenges yet offer immense opportunities for value, employment creation, and economic growth. Additionally, the Act does not fully address emerging trends, such as digitalisation, globalisation, AfCFTA, and gender and social inclusion, which have a significant impact on business operations. Consequently, subsequent policies have sought to fill these gaps and enhance the MSMEs ecosystem.

Several policies enacted after the MSE Act were particularly relevant. The **National Trade Policy 2019** and the **Kenya Investment Policy 2019** emphasise the need to support MSMEs by providing affordable financing, capacity building, access to infrastructure, and access to local and international markets. These policies highlight the importance of integrating MSMEs into value chains and facilitating their participation in global trade.

Similarly, the **Kenya Youth Development Policy 2019** and the **Digital Economy Blueprint 2019** recognise the role of young entrepreneurs and information and communication technology (ICT) in driving MSME growth. These policies encourage youth engagement in the MSME sector and promote digital solutions to enhance business competitiveness.

The **Cooperative Development Policy 2019** provides another crucial avenue for MSMEs' growth by focusing on the modernisation of cooperatives, which serve as vital aggregators for MSMEs. The policy aims to increase the participation of women and youth in cooperatives, thus providing them with access to financing, technical support, and markets through collective action.

Sessional Paper No. 4 of 2020 on the National Cooperative Policy. Parliament approved the policy as a Sessional Paper and serves as a framework for guiding the growth, regulation, and sustainability of cooperatives within a devolved system of governance. It aims to modernise and strengthen cooperatives, ensuring they align with the country's socio-economic development goals.

Furthermore, the policy enhances the role of cooperatives as key drivers of Micro and Small Enterprise (MSE) growth by improving access to finance, providing capacity-building opportunities, and facilitating market linkages. This, in turn, strengthens the resilience and competitiveness of MSEs in Kenya's economy.

The **Sessional Paper No. 5 of 2020** on the **Kenya Micro and Small Enterprises Policy** offers a comprehensive framework outlining 10 objectives to promote MSME development. These include fostering an entrepreneurial culture, providing MSMEs with access to domestic and international markets, enhancing access to a diverse range of financial products, and ensuring adequate infrastructure. The policy also prioritises the formalisation of informal businesses, the mitigation of external risks, and the creation of a conducive regulatory environment at both the national and county levels.

Model Tariffs and Pricing Policy for County Governments of 2024. Section 120 of the County Governments Act mandates counties to establish a Tariffs and Pricing Policy for public services. Further, article 209(4) of the Kenyan Constitution allows counties to collect revenues from property taxes, entertainment taxes, user charges for services, business regulatory fees, and outdoor activities, thereby increasing their own-source revenue. The new model policy addresses the gap created by the lack of county policy, ensuring fairness and consistency aligned with the mandate under Section 120 of the County Governments Act and Article 209(4) of the Kenyan Constitution. It provides counties with a comprehensive guide to setting tariffs. The policy aims to enhance revenue sources, ensure equitable revenue sharing, and promote prudent public financial management.
The model policy will help county governments develop transparent and understandable tariff structures, providing a clear basis for setting fees.

MSME credit guarantee policy. The policy, developed by the national treasury and approved by the cabinet on 21st January 2025, provides a framework to enable MSMEs to access quality, affordable credit through credit guarantees.

Kenya's National AI Strategy 2025–2030 emphasises research, innovation, and the ethical commercialisation of artificial intelligence to drive inclusive socio-economic development. The strategy prioritises locally driven solutions, shaped through broad public engagement, with a strong focus on AI infrastructure, data governance, and research to address pressing national challenges in key sectors such as healthcare, agriculture, and education. This national agenda aligns closely with the needs of micro and small enterprises by enhancing productivity, accelerating innovation, and creating digital employment opportunities. The AI strategy offers practical pathways for MSEs to adopt AI-driven solutions, access new markets, and build the digital skills necessary to remain competitive in an evolving economy. To maximise this potential, targeted support mechanisms, such as access to innovation hubs, funding for AI-enabled startups, and tailored capacity-building programs, should be integrated into MSE development policies. Doing so will ensure that MSEs are not only beneficiaries of AI advancements but also active contributors to Kenya's digital transformation journey.

2.2.3 Legal Framework Analysis

2.2.3.1 National Legal Framework

The Constitution of Kenya, 2010

The Constitution of Kenya provides as follows, where Micro and Small Enterprises are concerned:

a. Article 2(5) and (6) of the Kenyan Constitution state that international law to which Kenya is a party automatically becomes part of the country's legal framework. This integration ensures that Kenya's domestic laws align with its international obligations without requiring additional legislation.

b. Article 40 provides for the right to property, which is crucial for Micro and Small Enterprises to own and operate their businesses.

c. Article 43 guarantees economic and social rights, including the right to social security, which may be linked to the support and protection of Micro and Small Enterprises.

d. Article 46 Grants consumer rights, ensuring access to goods and services of reasonable quality, providing necessary information, and protecting health, safety, and economic interests. This article requires both public and private entities to offer quality goods and services.

e. Article 176 of the Constitution provides that there shall be an establishment for county governments that shall consist of a county assembly and a county executive.

f. Article 174 (f) and (h) provides that one of the objectives of devolution is to promote social and economic development and the provision of easily accessible services throughout the country. The Fourth Schedule of the Constitution mandates county governments with the responsibility of trade development and regulation, including markets, local tourism and licensing and control of businesses; and

g. Article 189(1) of the Constitution provides that the Government at either level shall perform its powers in a manner that respects the functional and institutional integrity of the government at the other level, and respects the constitutional status and institutions of government at the other level and in the case of the county government, within the county level. Article 189(4) provides that National legislation shall provide procedures for settling intergovernmental disputes by alternative dispute resolution mechanisms, including negotiation, mediation and arbitration.

Micro and Small Enterprises Act, Cap 499C

The Micro and Small Enterprises Act No. 55 of 2012 provides a legal and institutional framework for the promotion, development, and regulation of micro and small enterprises, with an emphasis on business formalisation and an enabling environment. To operationalise this framework, the Act establishes four key institutions: the Office of the Registrar of Micro and Small Enterprises, responsible for the registration of enterprises, associations, and umbrella organisations; the Micro and Small Enterprises Authority MSEA, a state corporation mandated to formulate policies, coordinate public and private sector programmes, promote market access, build capacity, and facilitate technology transfer; the Micro and Small Enterprises Development Fund, which finances the promotion of MSEs, provides affordable and accessible credit, supports capacity building, and funds research, innovation, and technology transfer; and the Micro and Small Enterprises Tribunal, which handles disputes and claims arising within the MSE sector.

Competition Act, Cap 504

The Competition Act aims to promote and safeguard competition in the national economy. Section 7 establishes the Competition Authority, which is responsible for enforcing and promoting compliance with the Act. This statute protects consumers from unfair and misleading market conduct and outlines the establishment, powers, and functions of the Competition Authority and the Competition Tribunal.

Companies Act, Cap 486

The main mandate of the Companies Act is to facilitate commerce, industry, and other socio-economic activities by allowing one or more individuals to incorporate entities with perpetual succession. It also aims to regulate these entities in the public interest, with a specific focus on protecting the interests of their members and creditors.

Limited Liability Partnership Act, Cap 30

The Limited Liability Partnerships Act enables individuals to register a partnership with a corporate status similar to that of a company. Key features of this statute include granting the partnership the status of a body corporate, complete with a seal and the capacity for perpetual succession, similar to the provisions under the Companies Act. Additionally, the Act allows a Limited Liability Partnership (LLP) to convert into a Private Limited Company under Section 25 of the Limited Liability Partnerships Act.

Public Procurement Assets and Disposal Act, Cap 412C

This Act promotes transparency and accountability in government procurement processes, providing opportunities for Micro and Small Enterprises to participate in government tenders and contracts.

Section 53(6) of the Public Procurement Assets and Disposal Act requires county governments to implement affirmative action programs, including procurement opportunities for MSMEs. In addition to this, Section 155 (1) (a) ensures that 30% of public procurement is reserved for youth, women and persons with disabilities, directly benefiting small enterprises.

Public Finance Management Act 2012

The PFM Act 2012 establishes a framework for the effective management of public finances by national and county governments, emphasising transparency, accountability, and efficient use of resources. Section 68 of the Act holds accounting officers accountable for ensuring that funds are used for their intended purposes, maintaining proper records, and submitting financial statements for audit.

The PFM Act 2012, enacted to ensure effective management of public finances at both national and county levels, provides for the creation of special funds under Section 24, which allows the National Treasury to establish funds for specific purposes. Affirmative action funds such as NGAAF, WEF, YEDF, and the Uwezo Fund were established by regulations under this Act, including the Public Finance Management (Affirmative Action Social Development Fund) Regulations, 2015 for NGAAF, and similar regulations for the others.

County Licensing (Uniform Procedures) Act No 8 of 2024

This Act standardises licensing procedures across all 47 counties, replacing the previously fragmented and county-specific licensing regimes. For MSMEs, the Act reduces the administrative burden by establishing uniform timelines for license processing, standardised application forms, and a single-fee structure for each license category. The Act complements the proposed single-window registration portal under this policy (Section 3.1, item v) by providing the legal basis for counties to participate in an integrated digital licensing platform. However, the Act does not address the relationship between county trade licenses and the registration of MSMEs under the MSE Act, 2012, which is administered by the Registrar of Micro and Small Enterprises. This policy shall facilitate the alignment of county licensing procedures under this Act with the national MSME registration framework, to ensure that MSMEs are not required to undergo duplicative registration and licensing processes at both levels of government.

The Movable Property Security Rights Act, Cap 499A

The Movable Property Security Rights Act, Cap 499A, was enacted to facilitate access to credit by allowing the use of movable assets, such as equipment, inventory, livestock, receivables, and intellectual property rights, as collateral. This significantly broadens the scope of acceptable security for lenders, particularly benefiting Micro, Small, and Medium Enterprises (MSMEs), which often lack traditional fixed assets. To operationalise this legal framework, the Movable Property Security Rights (General) Regulations, 2017, provide for the establishment of an electronic collateral registry, which the Office of the Registrar of Security Rights administers. This digital registry enhances the transparency, efficiency, and accessibility of secured lending transactions, thereby strengthening financial inclusion and credit access for underserved sectors.

The Copyright Act, Cap 130

This statute establishes the Kenya Copyright Board to oversee the administration and enforcement of copyright laws. The Act defines works eligible for copyright protection, including literary, musical, artistic, and audio-visual works, as well as computer programs. It also outlines the rights of authors, including moral rights, and specifies the procedures for copyright registration.

The Act prohibits unauthorised reproduction, distribution, and public performance of copyrighted works and provides penalties for copyright infringement. It also includes provisions for technological protection measures, performers' rights, and the establishment of collective management organisations to administer and collect royalties on behalf of rights holders. Additionally, the Act outlines the role of inspectors in enforcing copyright laws and provides mechanisms for resolving disputes related to copyright infringement.

The County Government Act, Cap 265

Section 5(1) (g) of the County Government Act provides that counties are responsible for creating an enabling environment for businesses and the environment. Section 36(1)(b) allows counties to establish economic zones, business incubators and industrial parks to promote entrepreneurship and job creation. Section 104(1) (e) mandates that counties develop integrated development plans that include policies for Micro and Small Enterprises.

The Data Protection Act, 2019

The Act establishes a comprehensive framework for the protection of personal data in Kenya and creates the Office of the Data Protection Commissioner. The Act governs the collection, processing, storage, and sharing of personal data by both public and private entities. This legislation is directly relevant to the MSME sector, particularly in the context of the proposed integrated national MSME database, the national credit scoring system, digital trade platforms, and inter-agency data-sharing mechanisms envisioned under this policy. All such initiatives must comply with the data-protection principles of lawfulness, minimality, accuracy, storage limitation, and data-subject rights established under the Act. The State Department shall ensure that data-protection impact assessments are conducted prior to the deployment of any MSME data system, and that appropriate data-sharing agreements are executed between participating agencies in accordance with the Act.

Other acts of parliament that are relevant to MSMEs are:

Companies Act, 2015: The objective of the Act is to facilitate commerce, industry and other socioeconomic activities by enabling one or more natural persons to incorporate as entities, including MSMEs with perpetual succession, with or without limited liability, and to provide for the regulation of those entities in the public interest, and in the interests of their members and creditors. The acts simplify company registration procedures and promote ease of doing business.

Tax Laws: Various tax laws, such as the Income Tax Act and the Value Added Tax Act, contain provisions that offer tax incentives and exemptions to MSMEs, encouraging their growth and development.

Public Procurement and Asset Disposal Act, 2015: This Act promotes transparency and accountability in government procurement processes, providing opportunities for MSMEs to participate in government tenders and contracts.

Industrial Training Act: This Act promotes skills development and training within the workforce, which is crucial for the success of MSMEs.

Copyright Act: This Act protects the intellectual property rights of MSMEs, encouraging innovation and creativity.

Some of the East African Community acts supporting MSMEs include the East African Community Customs Management Act, 2004, the East African Trade Negotiations Act, 2008, and the EAC Competition Act, among others.

2.2.3.2 International Legal Framework

The international framework governing Micro, Medium, and Small Enterprises is guided by the United Nations Commission on International Trade Law (UNICTRAL). The guidance given by this legislative body that harmonises international Trade law is as follows:

UNCITRAL Legislative Guide on Key Principles of a Business Registry (2019): The legislative guide aims to simplify and streamline business registration processes to promote the formalisation of Micro, Small, and Medium Enterprises. It emphasises designing these processes from a business perspective to make them accessible, simple, and efficient. Key recommendations include creating a single entry point for registration, allowing simultaneous registration with relevant authorities, using electronic registries and unique business identifiers, establishing one-stop shops (physical or virtual) for simultaneous registration with all relevant authorities, and ensuring transparency and accessibility by providing easy access to business information, which facilitates the search for potential business partners, clients, or financial sources. These measures aim to reduce the registration burden and costs for Micro and Small Enterprises, thereby promoting their formalisation and integration into the formal economy.

UNCITRAL Legislative Guide on Limited Liability Enterprises (2021): the guide assists legislators and policymakers in creating a simplified legal framework for Micro, Small, and Medium Enterprises, tailored to their unique needs. It promotes a "think small first" approach, aiming to reduce unnecessary legal burdens and streamline the incorporation process, thereby encouraging formalisation. The guide emphasises operational efficiency by reducing regulatory hurdles and fostering economic inclusion, especially for women and other disadvantaged entrepreneurs. Overall, it aims to enhance the sustainability and growth of MSMEs by making legal processes more accessible and efficient; and

UNCITRAL Legislative Guide on Insolvency Law for Micro- and Small Enterprises (2021): This guide provides mechanisms and solutions specifically tailored for Micro and Small Enterprises. Globally, it is acknowledged that MSMEs often have intermingled business and personal debts and operate under centralised governance models. They frequently encounter cash flow problems, higher interest rates, and larger collateral requirements. The guide aims to address these challenges by offering mechanisms to resolve financial difficulties and support the sustainability and growth of Micro Small Enterprises.

World Trade Organisation Trade Facilitation Agreement: The World Trade Organisation's Trade Facilitation Agreement supports micro and small enterprises by simplifying trade processes, cutting costs, and increasing transparency. Article 2 of the Agreement provides that the Government should publish trade regulations online and seek private-sector input on trade policies. Article 3 enhances customs predictability, while Articles 6, 7, and 10 focus on streamlining customs fees, electronic payments, and documentation, minimising bureaucratic delays. Additionally, Article 8 promotes coordination among border agencies, improving trade efficiency. By reducing trade barriers, the Trade Facilitation Agreement facilitates greater participation of small businesses in global markets.

In addition, the East African legal framework impacting the Small and Medium Enterprises includes:

The East African Community Customs Act. This law governs the management and administration of customs within the East African Community (EAC). It provides regulations for warehousing dutiable goods and outlines procedures for the disembarkation and clearance of passengers. Additionally, it details procedures for customs control of goods, including entry, examination, and delivery.

The East African Trade Negotiations Act, 2008

This law aims to streamline joint trade negotiations and develop a unified trade regime within the East African Community (EAC). Its key objectives include establishing the East African Trade Commission to oversee trade negotiations, mandating that partner states negotiate as a bloc in bilateral, regional, and multilateral trade matters, and promoting the establishment of a common trade regime in line with the EAC Treaty and Customs Union Protocol.

The East African Competition Act, 2006. This law is designed to foster and safeguard fair competition within the East African Community. This law prohibits anti-competitive practices and the abuse of market dominance, ensuring consumer protection and welfare. The statute establishes the East African Competition Authority to enforce the law and oversee competition matters within the region.

2.2.4 Institutional framework supporting MSMEs in Kenya

The State Department for Micro, Small and Medium Enterprises (MSME) Development, established vide Executive Order No. 1 of 2023 under the Ministry of Cooperatives and Micro, Small and Medium Enterprises Development, is responsible for coordinating and mainstreaming the MSME development function in Kenya.

The Executive Order outlines the functions of the State Department as the transformation of the MSME sector, including MSME Policies, financing, administration of Financial Inclusion (Hustler Fund) and Affirmative Funds, capacity development, market development, technology upgradation and modernisation, and the enhancement of the competitiveness of MSMEs. The state department for MSMEs has agencies that support its core mandate and include:

The Kenya Institute of Business Training is a training Institution whose mandate is to provide Business and Management Development Services to MSMEs and other Interest Groups through training, research, consultancy, Counselling, Extension Services, and Business Information for improved performance.

Financial Inclusion Fund (Hustler Fund), whose objective is to offer holistic financial solutions targeting people at the bottom of the pyramid. The financial inclusion fund has five pillars: affordable credit, competitive savings and Pensions products, comprehensive insurance solutions, access to affordable housing, market linkages, and Financial Literacy.

Kenya Industrial Estates, whose mandate is to support the industrial sector by promoting entrepreneurship, providing medium- and long-term development finance to indigenous MSMEs, and incubating MSMEs nationwide to support their survival and growth.

Uwezo Fund, whose objectives are to expand access to loans for the promotion of youth and women businesses and enterprises at the constituency level and thereby enhance economic growth towards the realisation of the goals of Vision 2030, to generate gainful self-employment for the youth and women, and to model an alternative framework in funding community-driven development.

The Micro and Small Enterprise Authority (MSEA) is a state corporation established under the Micro and Small Enterprise Act No. 55 of 2012. It is mandated to facilitate the integration and harmonisation of various public and private sector initiatives for the promotion, development, and regulation of Micro and Small Enterprises to become key Industries of tomorrow.

Other government agencies that offer MSMEs support include:

Kenya Industrial Research and Development Institute (KIRDI), whose mandate is to undertake research, development, and innovation in industrial and allied technologies, and to disseminate research findings to support industrial development. KIRDI offers MSMEs capacity building, access to shared manufacturing facilities, product standardisation and quality assurance, industrial incubation, and equipment design and fabrication, among others.

Kenya Bureau of Standards (**KEBS**), whose mandate, among other things, is to promote standardisation in industry and commerce. KEBS activities have grown from developing standards and quality control for a limited number of locally made products in the 1970s to providing more comprehensive standards development, Metrology, Conformity Assessment, Training, and Certification services.

The Business Registration Service is a State Corporation established to administer policies, laws, and other matters relating to the registration of Companies, partnerships, and firms, and corporations carrying on business under a business name, bankruptcy, hire-purchase, and security rights (Section 4(1) of the BRS Act, 2015).

Youth Enterprise Fund is a state corporation mandated to support financial and business development services to youth-owned enterprises.

Women Enterprise Fund whose mandate is to: provide subsidized credit to Kenyan women entrepreneurs for enterprise development, capacity building of women entrepreneurs and their organizations, attract and facilitate investment in MSME oriented infrastructure such as business markets or business incubators that will be beneficial to women enterprises, Support women oriented MSMEs to develop linkages with large enterprises and facilitate marketing of products and services of women enterprises in both domestic and international markets.

Kenya Development Corporation Ltd (KDC) is a Development Finance Institution established in 2020 to merge the operations of the Industrial and Commercial Development Corporation (ICDC), the Tourism Finance Corporation (TFC), and IDB Capital Limited. KDC is mandated to play a catalytic role in Kenya’s socio-economic development by providing long-term financing and other financial, investment, and business advisory services. Therefore, KDC plays an important role in addressing critical long-term funding gaps that commercial banks cannot meet in Kenya’s target sectors and elsewhere.

Export Processing Zones Authority (EPZA): The Export Processing Zone (EPZ) program is managed by the Export Processing Zones Authority (EPZA), which was created to promote export-oriented industrial investment within designated zones. EPZA has the EPZA SME Development Program, whose aim is to nurture SME exporters with a majority local Kenyan shareholding seeking to set up under the EPZA program. It targets SMEs from the Horticulture/food processing, Textile/apparel, Leather, Commercial crafts, BPO, and ICT sectors.

Special Economic Zones Authority (SEZA) is mandated to oversee the establishment, development, and management of Special Economic Zones (SEZs) in Kenya. The Authority facilitates investment by providing an enabling business environment through streamlined regulatory processes, infrastructure coordination, and fiscal and non-fiscal incentives. SEZA promotes industrialisation, export growth, job creation, and regional development by attracting both local and foreign direct investment into designated SEZs. Additionally, the Authority works with national and county governments, private developers, and investors to ensure efficient implementation of SEZ policies and standards that enhance Kenya’s competitiveness as an investment destination.

The Kenya Export Promotion and Branding Agency (KEPROBA) is a State Corporation established under the State Corporations Act, Cap 446, through Legal Notice No. 110 of August 9th, 2019, following the merger of the Export Promotion Council and the Brand Kenya Board. The Agency's mandate is to implement export promotion and nation branding initiatives and policies to promote Kenya’s export of goods and services.

The Kenya National Trading Corporation Ltd (KNTC) is a state corporation under the Ministry of Investments, Trade and Industry, mandated to serve as a procurement agent for the Government. Specific mandates that impact MSMEs are to participate in promoting wholesale, retail, and e-trade in line with Vision 2030, the medium-term plan, and the parent Ministry's Strategic Plan, and to promote the development of SME markets, as well as the expansion and diversification of trade, in line with the Government Policy.

Kenya Industrial Property Institute (KIPI) is a State Corporation under the Ministry of Investments, Trade, and Industry. The Institute was established on 2nd May 2002 upon the coming into force of the Industrial Property Act 2001. Previously, the Institute was known as the Kenya Industrial Property Office (KIPO), established in February 1990 following the enactment of the Industrial Property Act, CAP 509 of the Laws of Kenya.

The mandate of the Institute, as provided under the Industrial Property Act and the Trademarks Act, is to promote inventive and innovative activities and facilitate the acquisition of technology by registering and regulating patents, utility models, technovations, industrial designs, and trademarks.

The Kenya Copyright Board (KECOBO) is a State Corporation under the Ministry of Gender, Culture, the Arts and Heritage - State Department for Culture, The Arts & Heritage. It was established by section 3 of the Copyright Act 2001 and mandated to administer and enforce copyright and related rights. The Board is responsible for organising legislation on copyright and related rights; conducting training programs on copyright and related rights; enlightening and informing the public on matters related to copyright; licensing and supervising the activities of collective management societies; and maintaining an effective database on authors and their works.

2.2.5 Devolved Governance in MSME Development

The Fourth Schedule of the Constitution assigns counties functions in trade development and regulation, including markets, trade licenses (excluding professions), fair trade practices, local tourism, and cooperative societies.

Intergovernmental Relations Act, the Kenya Gazette Vol. CXXVI-No.219 Gazette notice No.16472 delineates counties with the overall function: implement national policies, standards, and norms on international trade, develop and implement county policies on trade development and regulations, provide business development services to MSMEs engaged in trade, trade licensing (excluding professional services), promote fair trade practices and development and regulations of markets, among others. The counties will also collect business information and manage County Business Information Centres. Other functions of the counties include county planning and development.

Moreover, County Governments can improve the business environment for MSMEs by providing the requisite infrastructure, county-tailored policies, and legislative and administrative interventions.

County Governments in Kenya play a critical role in the Development of MSMEs, which are core to addressing poverty, job creation, and other development issues. Since the advent of devolution, counties have made strides in some areas, notably the provision of markets and decent workspaces, and simplification and automation of business licensing.

There is an evident need for continued intergovernmental cooperation among the institutions and agencies at both levels of government to harness their interdependence and respective mandates, ensuring that the combined bureaucracy remains a catalyst for business.

2.3 Challenges Facing MSME Sector

2.3.1 Entrepreneurial Culture

Entrepreneurial culture comprises values, beliefs, mindsets, and behaviours that promote or curtail individuals' ability to successfully start and run a business, as well as society's ability to do so.

Self-employment is often considered a last resort for the less educated, and those who fail to secure white-collar jobs with MSMEs in Kenya are associated with low returns and remain unattractive to young people. Additionally, the entrepreneurial ecosystem in Kenya lacks sufficient visibility of successful entrepreneurs who could serve as role models; many aspiring business owners lack guidance and inspiration.

Different countries seek to integrate entrepreneurship and enterprise education into secondary education through various approaches, depending on available resources. Entrepreneurship education is a collection of formalised teachings that informs, trains, and educates anyone interested in participating in socioeconomic development through projects that promote entrepreneurship awareness, business creation, and small business development.

Study findings from UNESCO and ILO report titled Towards an entrepreneurial culture for the twenty first century, stimulating entrepreneurial spirit through entrepreneurship education in secondary schools contends that it's important to change the orientation of secondary education to prepare students for work and living in society noting that it's during the crucial years of secondary education that young people are beginning to make decisions on how they should channel their talent, skills and energy learning to assume the responsibilities of adulthood and preparing to entering the world of work and society.
The report recommends that the national education system must: increase job-related content in academic education streams that traditionally prepare young people for tertiary education and entry to universities, and increase work-based content (dual training model) in the vocational skills stream.

2.3.2 Skills for MSMEs Capacity

Kenya's socio-economic growth largely depends upon the effectiveness and quality of the country's Human Resources Development (HRD) system. Vision 2030 places great emphasis on the link between education, training, and the labour market to develop a relevant and skilled workforce. The country faces a severe shortage of a quality, relevantly skilled workforce due to a mismatch between the skills produced and labour market needs. However, the demographic structure indicates that 92% of Kenyan youth have unrecognised competencies acquired through informal and non-formal means but are not certified to practice them.

Furthermore, MSMEs in Kenya are characterised by low levels of managerial, financial, technical, technological, and industry-relevant skills. Many MSMEs are unaware of available training opportunities or struggle to find accessible, affordable ones.

Formal education and training face challenges in addressing emerging issues due to rigid systems and a broad scope of courses, even as workplaces increasingly shift toward highly specialised, narrow skills.

To strengthen Technical and vocational education and training, Kenya adopted a dual training policy that aims to address skills mismatches in the labour market by integrating classroom instruction with hands-on industry training.

To address the challenge of recognition and lack of certification of artisans with practical experiences, Kenya established and adopted a recognition of prior Learning policy framework critical to the development of a responsive and equitable education and training system that facilitates access, mobility, progression, and fair chances to the disadvantaged, discouraged, and traditionally marginalised groups, including MSMEs

2.3.3 Access to Markets and Linkages

According to the KNBS MSME Survey, most unlicensed businesses (17%) and licensed businesses (15%) in Kenya reported market access challenges as the most serious constraint to their growth and development. The main consumers of MSMEs' goods and services in Kenya are individual local consumers. Most MSMEs are unable to supply their goods and services to domestic multinationals and corporations due to their small scale of production and low quality.

Many MSMEs lack reliable information on market demand, pricing, consumer preferences, and tastes. They are skewed towards foreign-made products and competitor activity, making it difficult to make informed decisions about product offerings, pricing, and expansion strategies. Further, the

MSME survey revealed that a large proportion of MSMEs did not market/advertise their goods or services at all.

This is because they lack the resources and expertise to invest in branding, marketing, and customer engagement strategies. There is also low uptake of intellectual property protection amongst MSMEs, such as trademarks, due to low awareness of the significance of IP protection for market access. As a result, there is low awareness of MSME products and services among consumers and potential buyers.

In addition, the market for locally manufactured products by MSMEs is shrinking, largely due to competition from larger domestic firms and the influx of cheaper imported goods, especially in the retail and manufacturing sectors.

This trend has made it difficult for local MSMEs to compete, especially as Kenyan consumers increasingly view imported products as superior in quality compared to domestic alternatives. This undercuts the prices of goods and services offered by local MSMES, reducing their profits and sales volume. This also results in job losses.

There are limited business linkages and low levels of collaboration between micro, small, medium, and large firms. These linkages are crucial for knowledge transfer, market access, and growth. The large firms could be aggregators or processors who bulk and offtake MSMEs' produce, thereby offering a reliable market.

According to the KNBS MSME Survey, there is low participation of MSMEs in the Access to Government Procurement Opportunities (AGPO). Although the government has provided quotas for local products in government procurement under Buy Kenya and Build Kenya, as well as AGPO, these quotas are not being met due to a lack of capital, delayed payments, and insufficient technical capacity in some specialised areas.

Although e-commerce provides new market opportunities, many MSMEs face barriers to accessing online markets due to low digital literacy and limited internet connectivity. The additional challenges of inadequate cybersecurity measures and payment processing issues make it difficult for MSMEs to establish a functional online presence, leading to missed opportunities with the growing consumer base in the digital market.

Very few MSMSEs participate in export markets, even though Kenya has negotiated international trade agreements such as the EPA, WTO, and AfCFTA, or joined regional trading blocs such as COMESA and EAC. This is because of stringent certification and export market requirements for product standards, quality, safety, and packaging, which demand substantial investment and technical expertise that many MSMEs lack. Other factors include the high cost of doing business, a lack of market intelligence, low production capacity, and a fluctuating currency.

Although there have been several trade promotion programs, many MSMEs report difficulty in accessing these resources due to bureaucracy and limited awareness. Trade missions and expos, which could help MSMEs build connections abroad, are often beyond their reach due to associated costs and a lack of information on these opportunities. As a result, MSMEs are unable to take advantage of these opportunities.

2.3.4 Access to Financial Services and Products

Kenya has a vibrant financial sector, though the unmet need for financing for MSMEs has persisted over the years. According to the International Finance Corporation's 2019 estimates, there is an annual unmet financing need for Kenyan MSMEs of KShs.4 trillion. Further, the Central Bank of Kenya (CBK) 2022 survey report on MSME access to bank credit indicates there were 1.18 million active MSME loan accounts in the banking industry as of December 2022, with a total value of KShs—783.3 billion, leaving out a significant portion to be met by non-bank and informal lenders.

Similarly, the 2016 KNBS survey indicated that 71% of MSMEs that borrowed working capital reported receiving inadequate loans. The 2022 CBK report on MSME access to bank credit further asserts that the proportion of the MSME loan portfolio to the total banking sector loan book as at December 2022 stood at 21.3 percent, compared to 20.9 percent as at the end of 2020, despite MSMEs being a significant source of funding for the banking industry. Further, 21 per cent of commercial banks offer products targeting only enterprises in the medium category, while 10 per cent offer products targeting enterprises in both the small and medium categories. 43 percent of MFBs offer products targeting all three MSME categories, while 14 percent offer products targeting only micro and small enterprises.

The Financial Sector Deepening (FSD) transforming MSMEs in Kenya report estimated that 11% of SMEs in Kenya are fully financially constrained, defined as those that find it challenging to obtain credit. In comparison, 17% of micro-enterprises are fully financially constrained, and 25% are partly financially constrained, defined as those that have been somewhat successful in obtaining external financing in Kenya. In comparison, 20% of SMEs are partly financially constrained, compared to other markets; on average, 21% of microenterprises in developing countries are fully constrained, 19% are partially constrained, and 60% are unconstrained.

There are limited financial products for MSMEs, with traditional loans from commercial banks as the main option. The 2016 KNBS survey reveals that 78.6 percent of credit for licensed MSMEs came from commercial banks, MFIs, and SACCOs, at 56.1, 12.5, and 10.0 percent, respectively. For unlicensed businesses, 74.4 percent of loans were sourced from commercial banks, Rotating Savings and Credit Associations (ROSCAs), and MFIs, and 80.6 % of MSME start-ups relied on family or their own funds as the source of start-up capital. Many MSMEs lack the collateral required by banks and financial institutions to secure loans. Furthermore, many financial products are not tailored to the unique needs of MSMEs across sectors. The average interest rate charged on facilities to MSMEs as of December 2022 was 15.5 percent, and 27.0 percent for commercial banks and MFBs, respectively, indicating high interest rates that make borrowing unsustainable for businesses with limited profit margins.

Digital lending has emerged as an additional line of credit for MSMEs with the Central Bank of Kenya (CBK) pursuant to Section 59(2) of the Central Bank of Kenya Act (CBK Act), with 85 Digital Credit Providers (DCPs) licensed as of 2024.

The government has established catalytic funds to address the needs of different categories of MSMEs. These include the Financial Inclusion Fund, the UWEZO Fund, the Youth Enterprise Development Fund, and the Women Enterprise Fund. Many MSMEs report difficulties in accessing government catalytic funds due to bureaucratic hurdles, limited outreach, and a lack of information on how to apply. Most of these funds face operational challenges and high loan default rates, which limit their sustainability. Furthermore, the government initiative to finance medium-sized enterprises through institutions such as Kenya Industrial Estates and IDC has reached only a small proportion of the target group.

The Government, through the National Treasury, launched the Credit Guarantee Scheme (CGS) on 8th December 2020 to support access to quality and affordable credit by Micro, Small and Medium Enterprises (MSMEs). The CGS is anchored on the Public Finance Management (Amendment) (No. 2) Act, 2020, and operationalised through the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020. So far, the implementation of the CGS has supported 4,121 MSMEs in accessing credit amounting to KShs—6.29 billion as at 30th June 2024.

The CGS has so far achieved a leverage ratio of KShs. 2.32. This implies that every shilling committed by the Government has unlocked private-sector credit worth KShs. 2.32 to MSMEs. This proves that the CGS initiative is a cost-efficient tool for providing targeted support to MSMEs in accessing finance. However, the high level of informality and poor financial literacy among MSMEs render many ineligible for CGS facilities under the PFM Act and CGS Regulations.

Enterprises have limited access to international financing, which offers lower interest rates and larger volumes. Beyond credit, other important financial products and services vital to the development of MSMEs, such as insurance, leasing, and capital market instruments, still require further development.

The lack of an effective dispute-resolution mechanism for Micro, Small, and Medium Enterprises (MSMEs) is a notable challenge that hinders their growth and sustainability. MSMEs often face barriers when trying to resolve disputes with financial institutions or lenders. Traditional court systems can be costly, time-consuming, and complex for small businesses to navigate, which makes it hard to enforce contracts or resolve financial disputes quickly.

These efforts are further hampered by low financial literacy among MSMEs, with a 2021 Financial Sector Deepening (FSD) Kenya survey indicating that less than 40 per cent of MSME owners have basic financial literacy, and many lack knowledge of loan terms, interest rates, and repayment schedules. This leads to mismanagement of funds, high default rates, and reluctance from financial institutions to lend.

2.3.5 Infrastructure

Workspace is a basic factor of economic production necessary in entrepreneurship. It provides a conducive physical environment for economic activities, primarily for the production of goods and the provision of services. It provides the necessary physical infrastructure and amenities that optimise engagement in economic activities, with minimal challenges and interruptions. MSMEs, due to the nature of their activities and the scale of their operations, largely lack the means to develop, establish, or acquire appropriate and affordable workspace. Many operate in cottages in their backyards, and others in the open air, leading to the coining of the word “Jua Kali” for these enterprises.

The key aspects considered for the worksite include access to the worksite, access to common manufacturing facilities, and the adequacy of infrastructure services, such as electricity and water connections, public toilets, and waste management.

To transform the MSMEs economy, the government considers it a key pillar in the bottom-up economic transformation agenda. The medium-term plan four (MTP IV) of Vision 2030 targets to raise the manufacturing contribution to GDP from the current 7% to 15% by 2027 and to 20% by 2030. The government has deployed a multi-pronged approach to providing affordable, appropriate workspace for MSMEs across various sectors of the economy. Through collaboration with counties, the government is developing County Aggregation and Industrial Parks (CAIPS) to support county-level aggregation, value addition, and processing of farm products. In addition, the national and county governments have engaged in constructing markets for farm produce and other goods in major urban towns to provide MSMEs with affordable workspace.

The markets have the necessary infrastructure, such as cold rooms, for storing highly perishable farm produce. In addition, to enable e-commerce, these markets have been installed with free public Wi-Fi. The 2009/10 economic stimulus programme entailed the construction and equipping of workshops/jua kali centres in the 210 constituencies. The government established Constituency Industrial Development Centres to spur industrial activities at the constituency level.

The government, through Kenya Industrial Estates, developed industrial estates across the country to incubate industrial activities, creating enterprises and jobs. Industrial estates have varying workspaces in size and design depending on the intended industrial activities. Enterprises within the incubators also access a pool of shared support services to reduce overhead/production costs (e.g. water, electricity, waste disposal, security services, training centres/halls and exhibition halls); Management and technical assistance (skills upgrading, marketing and advisory services); Networking services (synergy between client firms and associations); Acquisition of machinery/equipment and financial support services. The government, through KIRDI, has established centres to incubate industrial and allied innovations for commercialisation.

The government has made efforts to establish equipped workspaces with machinery, mainly common-user facilities and technical assistance centres, where MSMEs can share capital-intensive machinery and receive technical assistance. The government's spatial planning has set aside designated areas for industrial activities where private enterprises lease and develop their workspaces.

Demand for workspace exceeds the available supply, particularly in urban centres, with the KIPPRA County business environment for micro and small enterprises in Kenya reporting that a significant proportion of MSMEs operate in illegal sites, heightening their vulnerability to demolition by national and county governments. There is also limited land to construct worksites, in some cases, an inappropriate locality for them, and an inability of existing worksites to meet growing demand.

With rural-urban migration, many urban towns experience rapid population growth, necessitating more markets to serve them. More markets and home-based (cottage) industries are sporadically sprouting in both rural and urban areas, thus necessitating more formal, structured, and zoned markets.

MSMEs' workshops are inadequate and lack safety equipment, limiting access to common manufacturing facilities. While electricity connection ranks high among the 20 indicators, various challenges require attention, including power outages, connection costs, and pending bills. Other key challenges facing MSMEs include the cost of water connection, especially where contractors handed over incomplete projects; poor drainage and sewerage systems; and a lack of waste disposal facilities, as reported in the KIPPRA County business environment for micro and small enterprises in Kenya report.

Some of the workspaces, particularly markets, have had challenges with MSME uptake, with storied workspaces citing a lack of proximity to customers. Many MSMEs, particularly in trade, prefer to operate by the roadside, where there is heavy foot traffic, thus attracting more customers, and where there is no cost for workspace. This results in encroachment on pedestrian walkways and obstruction of traffic flow, which at times has led to motor vehicle accidents with fatalities. In addition, encroachment on public land, public spaces, and road reserves is difficult to reverse once MSMEs have established themselves.

MSMEs engaged in agribusiness suffer losses due to the highly perishable farm produce they handle. Further, aggregators largely lack the capacity to acquire capital-intensive machinery to process their farm produce, resulting in post-harvest losses or poor sale prices. There is no clear sectoral leasing framework to enable MSMEs engaged in aggregation to lease machinery from established processors and manufacturers on a short-term basis for periodic production.

KIPPRA contends that to create an enabling environment for MSMEs to operate, the national government, through the responsible MDAs, and the county governments need to work closely to facilitate the development of adequately equipped worksites designated for MSMEs, thereby saving them from sporadic disruptions caused by demolitions and reducing production costs. Construction of worksites should factor in easy access to markets, amenities and growth.

2.3.6 Limited Adoption of Innovation and Information Communication Technology

Innovation is the driving force behind MSME growth, enabling businesses to adapt, compete, and thrive in dynamic markets. By embracing innovation, MSMEs can boost efficiency, improve product offerings, and unravel new opportunities for success. Further innovation enables MSMEs to stay ahead of competitors by enhancing product quality, optimising processes, and effectively addressing customer needs. Further adoption of ICT tools such as Enterprise Resource Planning (ERP) software and Customer Relationship Management (CRM) systems by MSMEs can automate routine tasks, save time, and enable a focus on strategic growth.

One of the significant impacts of adopting appropriate technology and ICT by any business is its ability to streamline operations and enhance operational efficiency, which is crucial for maintaining a competitive edge. Automation tools can take over repetitive and time-consuming tasks. Cloud-based solutions enable real-time data access and collaboration, making it easier for teams to coordinate and manage projects from anywhere. Data analytics and business intelligence tools provide MSMEs with valuable insights into customer behaviour, market trends, and operational performance.

The adoption of appropriate technology and ICT by MSMEs reduces human error, broadens market reach both locally and globally, ensures accuracy, and frees up resources that can be redirected toward strategic growth initiatives. In addition, technology and ICT facilitate more efficient financial management, internal operations, and data analysis. All these efforts can help MSMEs reduce operational costs, improve product and service quality, and enhance their competitiveness. Digital platforms and e-commerce have revolutionised the way MSMEs reach and interact with customers. Online marketplaces and social media platforms have levelled the playing field, allowing MSMEs to compete with larger enterprises on a global scale. E-commerce websites provide MSMEs with a ready-made infrastructure for selling products online, while social media platforms offer powerful marketing tools to engage customers and build brand loyalty.

The cost of acquiring, installing, and maintaining appropriate technology and ICT is high. Technology and ICT infrastructure are not one-time costs; there are ongoing costs for maintenance, upgrades, and human capacity building. Large firms have sufficient resources to invest in appropriate technology, giving them a competitive advantage over MSMEs.

The level of education and technical skills is a key determinant of MSMES' adoption of technology in their operations. Several MSME owners and employees lack the necessary knowledge and skills to use technology effectively in their operations and are unaware of how it can improve their businesses. This means MSMEs don't optimally leverage the opportunities presented by technological advancements and emerging ICTs such as AI, Robotics, Machine learning, and social media, among others. This lack of awareness stems from limited exposure to the latest technologies and a focus on immediate operational challenges rather than long-term investments. Some MSME owners prefer traditional business practices and are sceptical of new technologies, which may arise from fear of change, a perception that technology is complex, or concerns over security and data privacy. It is important to note that programs that facilitate access to technology are often not widely publicised, and bureaucratic barriers make it difficult for small businesses to access these resources.

The disparities in infrastructure development across the country disadvantage some regions' ability to adopt new technologies. Most new technologies and ICTs require electricity and the internet to operate. Though the government has made substantial investments in electricity and ICT infrastructure, some regions are yet to be reached. This digital divide hampers MSMEs' ability to engage in e-commerce, access online training, or adopt digital solutions that could help them become more competitive. Therefore, MSMEs in some regions cannot take advantage of the latest technology, which constrains their growth.

2.3.7 Limited Support of Innovation, research and development

Research and Development (R&D) plays a pivotal role in the manufacturing sector, serving as the engine that drives innovation, technological advancement, and overall progress. Most developed nations are witnessing unprecedented changes in their socio-economic development, driven by rapid advances in frontier technologies, encompassed by the 4th and 5th IR.

Kenya's manufacturing sector is recognised as a key driver of economic growth due to its ability to create direct and indirect jobs and to establish backwards and forward linkages with other sectors, such as agriculture. However, the performance of the manufacturing sector has declined over the last five years, with its contribution to GDP decreasing from 8.4 percent in 2017 to 7.2 percent in 2022.

Manufacturing in Kenya remains largely focused on low-technology industries, with low manufacturing value added per capita underpinned by a low rate of converting Science, Technology, and Innovation (STI) outputs into new or improved products and processes. In addition, external and internal shocks, including high costs of production inputs, inadequate infrastructure, dominance of low-technology manufacturing activities, a weak innovation ecosystem, skills deficits, and limited access to affordable credit, also hamper industrial growth.

Raising the manufacturing sector's share of GDP hinges on increasing the productivity and competitiveness of local industries. Industrial productivity and competitiveness can only be guaranteed by mainstreaming STI in industrial processes and structures. STI is important for supporting the manufacturing sector by facilitating knowledge transfer to create new and improved products and processes.

Without robust investment in R&D, MSMEs face challenges in developing unique products and services, reducing their competitiveness in local and international markets. The situation is evidenced by the KNBS 2016 MSME report, which indicates that individual consumers and other MSMEs were the main buyers of goods and services, with direct exports accounting for 0.1 percent, 1 percent and 3.5 percent for licensed micro, small and medium establishments, respectively.

This has been recognised in several national, regional and industrial policy agendas. Countries that have effectively translated STI outputs into improved products and processes achieve faster economic growth and enhanced global competitiveness. In addition, countries with strong manufacturing capabilities and diversified industrial sectors are better able to weather economic downturns. The government aims to increase manufacturing contribution to GDP from 7.2 percent in 2022 to 15 percent in 2027 and 20 percent in 2030 by enhancing resource allocation to medium and high technology industries in five priority sectors: agro-processing, MSME economy, housing and settlement, healthcare and digital superhighway.

The manufacturing objective of MTP IV is to increase the share of manufacturing contribution to GDP from 7.5 percent in 2022 to 15 per cent by 2027 and 20 percent by 2030. The sector also aims to create 1 million new jobs annually. This will be achieved through the development of industrial clusters, attracting investment into Special Economic Zones and Industrial Parks, instituting business sector reforms, and promoting the growth and development of MSMEs through MSME parks. MTP IV seeks to promote the manufacture of affordable construction materials; electrical and electronic products; pharmaceutical and other medical supplies; and machinery, equipment, and parts for the motor vehicle, motorcycle, aerospace, and shipbuilding industries. It shall also facilitate the establishment of an integrated iron and steel mill plant and mineral value addition.

BETA is the development agenda for the current government (2022-2027). This agenda is cognizant of the critical role that enterprises at the bottom of the economic pyramid play in employment and wealth creation. Consequently, BETA seeks to direct the limited national resources to sectors with the highest economic impact by supporting economic activities at the bottom of the pyramid. The BETA has identified five priority sectors for economic transformation: agriculture and agro-processing, the MSME economy, housing and settlements, healthcare, and the digital superhighway and creative economy. The government will adopt a value chain approach to support the growth of the manufacturing sector. It has prioritised nine value chains for support: leather, cotton, dairy, edible oils, tea, rice, blue economy, natural resources (minerals and forestry), and building materials. Other priority areas of focus in BETA include the assembly of automotive components and electronics; the chemicals and pharmaceuticals industries; the manufacture of metals and engineering products; petroleum and petrochemical processing; ICT and software engineering; and clean and renewable energy.

2.3.8 Survival of new Micro businesses and upgrade to Medium

MSMEs are the engine of Kenya's economy, accounting for 33.8 per cent of the national output (KNBS Economic Survey, 2022). The survival and growth from micro to small, small to medium, and medium to large are key to robust economic growth and job creation. However, developing countries have many microenterprises and some large firms, but far fewer small and medium enterprises.

In high-income countries, small and medium enterprises (MSMEs) account for over 50% of GDP and over 60% of employment, whereas in low-income countries they account for less than half of employment and 17% of GDP (World Bank).

This MSME gap is called the 'missing middle'. The 2016 MSMEs Survey reveals high mortality amongst newly set-up MSEs. About 2.2 million MSEs closed within five years, with 46% failing to make it past the first year of operation. Among the owners who closed businesses; 34% indicated they were not engaged in any other business; 29% started working for someone else, and 23% started other businesses.

The main reasons for closures include financial constraints (30%), personal reasons (23%), market access constraints (20%), and a shortage of stock or raw materials (6%).

The low survival rates are attributed to hurdles that MSMEs disproportionately face, such as unfair competition practices, including instances where buyer firms with superior bargaining power delay payments, impose unfair contract terms, or shift costs onto suppliers. Additionally, poor management, poor market research and planning, competition from large enterprises, high cost of operations, coupled with a weak regulatory framework, Unfair exclusive agreements imposed by big players which foreclose the distribution chain by creating barriers to entry and expansion, while price-fixing contraventions render certain services inaccessible to and unaffordable for MSMEs.

2.3.9 Formalisation of MSMEs

The KNBS 2016 MSME survey defines informal enterprises as unincorporated, household-based enterprises, distinguished from corporations and quasi-corporations by their legal status. The segment comprises either self-owned enterprises or those that are not registered under specific forms of national legislation, such as company acts, partnership acts, tax or social security laws, professional groups' regulations, or similar acts, laws, or regulations established by national legislative bodies. The report further defines formal enterprises as those registered with the Registrar of Companies under the Business Names Act, the Partnership Act, and the Companies Act.

The International Labour Organisation (ILO) defines enterprise formalisation as a process that firms go through when formalising their business and involves the following dimensions: Registration and licensing with the national, provincial and municipal authorities; Access to social security for the business owner and their employees; Compliance with the legal framework, including tax, social security and labour laws.

According to the KNBS, MSME Survey of 2016, there are over 7.4 million MSMEs (1.6 million MSMEs licensed by the county governments, with 5.8 million unlicensed MSMEs) in Kenya. The high level of unlicensed activity impedes data-driven policymaking, undermines optimal budgetary allocation, hampers access to financial services, and hinders MSMEs from contributing more meaningfully to national development. Further the high lack of registration poses challenges to MSMEs including: Exclusion from businesses from loans and credit; Difficulty in accessing larger markets, formal tenders, or government contracts; Informal MSMEs lack legal protection and exposure to exploitation by authorities; Limited access to resources, technology, and training reduces growth potential and; Widespread informality undermines government revenue and creates an uneven playing field; exposure to calamities due to lack of social security.

Some issues have discouraged full registration of MSMEs. Lack of clear incentives, such as tax reliefs or subsidies, to encourage MSMEs to formalise. Complex regulatory frameworks, including lengthy, complicated procedures for business registration and licensing and the need for multiple licenses and permits from different authorities, increase costs and the administrative burden. Inadequate coordination between MDACs leads to duplicative and contradictory requirements. Secondly, registration fees, licensing charges, and other compliance costs are often unaffordable for MSMEs.

Many formalisation policies are designed without adequate input from MSME stakeholders, resulting in poor alignment with their needs. MSMEs are often unaware of the benefits, processes, or requirements of formalisation. Many MSMEs lack the technological tools and knowledge to leverage digital platforms for formalisation, and There Is a Lack of an integrated framework for formalising the informal economy.

2.3.10 Legal and Regulatory Business Environment

Regulatory business environment constraints have been identified as the third main constraint experienced by micro (15%) and small (13%) enterprises in Kenya. A weak regulatory framework presents significant challenges for micro, small and medium-sized enterprises (MSMEs). A primary issue is regulatory compliance, which is complex and often costly for MSMEs to navigate.

These businesses must adhere to various requirements from multiple authorities, including the Kenya Revenue Authority (KRA), the Capital Markets Authority (CMA), and the National Environmental Management Authority (NEMA). Non-compliance with these regulations, such as failing to meet tax or environmental standards, can result in heavy penalties, license suspensions, and even complete business closures, which stifles MSME growth and sustainability. Moreover, frequent changes in policies and regulations add uncertainty, limiting MSMEs' capacity for long-term planning and investment. For instance, shifts in tax policies or sudden adjustments to sector-specific regulations make it challenging for MSMEs to remain agile and profitable. Regulatory inconsistencies across different countries also create confusion, as MSMEs operating in multiple locations must meet distinct local requirements, adding to operational costs and complexity. Additionally, the cost of compliance itself can be prohibitive for MSMEs with limited resources, leading some to operate informally to avoid regulatory burdens. This situation affects their access to credit, market opportunities, and overall growth potential.

2.3.11 Co-ordination and Implementation of MSME Policies and Programmes

The National and County Governments play a critical role in the development of the MSME Sector in the Country. In addition, development partners, the private sector, academic and research institutions, and non-governmental organisations have been implementing and supporting programmes and initiatives targeting MSMEs. Therefore, non-state actors complement the government’s efforts. These diverse efforts by the government and other stakeholders to promote MSME sector development include policy formulation, training and capacity building; infrastructure development; support for technology upgrades and modernisation; support for MSMEs' market access; and financing.

The multiplicity of actors in the MSME sector, each pursuing their own agenda to advance their strategic focus, poses a challenge to coordination. This conflict of interest leads to missed opportunities for collaboration and learning from each other. This fragmentation of efforts across government institutions and non-state actors leads to duplication, policy implementation gaps, and inefficient use of available human, financial, and infrastructure resources. The uncoordinated efforts of all these stakeholders have tended to curtail the sector's growth despite the breadth of human and business opportunities within it. In addition, the initiatives and programmes from different stakeholders tend to compete, rather than complement each other. A well-coordinated sector will enable well-informed policymaking and the achievement of key government policy objectives. Operational linkages among academia, MSMEs, and government are weak, resulting in a poor enabling environment for innovation and a low rate of commercialisation of research outputs. In addition, the operational structures and financial support to facilitate the necessary linkages among the key actors are weak. This constrains the sector's growth.

The current interventions and programs by the government and other stakeholders largely focus on select larger or more formal enterprises and often exclude smaller MSMEs and those run by women or youth, who struggle to access finance, training, and markets. This impedes the growth sector by condemning Micro and Small enterprises to their own devices.
Monitoring, evaluation, and reporting are critical in tracking and evaluating the policies, strategies, regulations, plans, and projects for Sector development. There is now no integrated monitoring, evaluation, and reporting framework to guide all actors in the Sector. Therefore, there is a challenge in tracking the sector's progress toward achieving its national development goals, as well as in determining the relevance and effectiveness of the projects and programs in the Sector.

Access to complete, timely, accurate, reliable, and quality data and information is key to the development of the Sector. MSME data is not only valuable to actors in the sector but also to many other sectors of the economy at the County, National, and International levels. The lack of an integrated database is a significant challenge that affects policy formulation, planning, credit allocation, and support mechanisms for the Sector. Without a centralised, true, reliable source of MSME data, it's difficult to understand the sector's real size, growth patterns, and the specific challenges it faces. The Sector experiences gaps in data management capacity. There is no clear framework for data collection, collation, and analysis across the MSME ecosystem. There are also infrastructural and institutional barriers that affect data collection, analysis, sharing, and use at both the National and County levels, as well as with other non-state actors. An integrated data management framework will be an important pillar in enhancing collaboration and coordination among the MSME sector players.

2.3.12 Inadequate Data-Driven MSME Incentives

Incentives are necessary to the creation, survival and growth of MSMEs. They cushion MSMEs at their nascent stage from the stiff competition and stringent requirements in the business environment. Incentives, both fiscal and non-fiscal, that MSMEs may need while running an enterprise. The government has Fiscal incentives accessible to (MSMEs) include Credit Guarantee Scheme (CGS) for loans MSMEs, capital allowances on building and machinery investments, exemptions on import duties for raw materials in certain industries; investment deduction allowances, reduced corporate tax rates for specific sectors, and tax holidays in designated Special Economic Zones (SEZs), all aimed at encouraging business growth and investment by MSMEs.

Non-fiscal incentives for MSMEs include access to specialised training programs, business development support, mentorship opportunities, streamlined regulatory processes, access to government procurement contracts, participation in trade missions, and facilitation of connections with potential investors, all aimed at supporting their growth without direct government financial assistance.

The suboptimal MSME uptake of current incentives suggests that the Kenyan government may not be effectively using data to design and implement incentives for Micro, Small, and Medium Enterprises (MSMEs), leading to resource misallocation, inefficient programs, and missed opportunities, among other implications.

2.3.13 Low Levels of Productivity, Creativity and Competitiveness

MSMEs in Kenya face low levels of productivity, innovation, and competitiveness, which hinder their growth and development. These issues can be attributed to various factors:
Many MSMEs lack the resources to invest in new technology, which limits their productivity and ability to compete in larger markets, leading to inefficiencies and higher production costs.
A lack of technical and business skills among MSME owners and employees affects MSMEs' ability to innovate, adopt new practices, and improve productivity. A lack of training or limited access to it in areas such as digital literacy, financial management, and technical skills further hinders their competitiveness.

Most MSMEs do not invest in Research and Development due to financial constraints or a lack of awareness of the potential benefits. This limits their capacity to develop new products, adapt to changing market demands, or enhance operational efficiency.

MSMEs produce on a smaller scale due to high production costs and therefore cannot benefit from Economies of Scale. These high costs reduce their competitiveness, particularly in markets where they face competition from larger firms or cheaper imports.
Digital tools can significantly boost productivity and innovation, yet many MSMEs lack the resources or knowledge to leverage them effectively. Lack of internet access, digital literacy, and digital tools limits their ability to tap into e-commerce, marketing, and product development.

2.4 Emerging Opportunities for MSMEs Growth and Sustainability

Emerging issues in the MSME sector have been drawn from the MSE Policy 2020, MTP IV and insights gathered through literature review. The issues include gender equality and social inclusion, value chain approach, Market expansion through trade agreements, Participation in Sustainable Supply Chains, MSME Resilience and Adaptability.

2.4.1 Gender Equality and Social Inclusion

The Fourth Medium Term Plan (MTP IV) integrates gender equality and social inclusion into its strategies for developing MSMEs. Section 31(e) of the Micro and Small Enterprises Act, No 55 of 2012, provides for the mainstreaming of youth, gender, and persons with disabilities in all micro and small enterprises programs.

The Kenya National Bureau of Statistics report indicates that MSME ownership is predominantly male, with 47.9% of licensed establishments owned by males and 32.2% by females. In addition, 60.7% of unlicensed businesses are solely owned by females.

Establishments owned by male-female partners accounted for 16.5% and 6.4% of licensed and unlicensed businesses, respectively. In addition, the data indicate that female ownership is significantly higher among micro enterprises than among small enterprises. However, women-owned enterprises are primarily informal and face substantial barriers in accessing opportunities such as financing and markets. Informal microenterprises are largely operated by women, most of whom have only a primary education. In contrast, informal small and medium enterprises are predominantly managed by men who have attained college- level education.

Youth and persons with disabilities also face unique challenges in the MSME sector. Young entrepreneurs often encounter difficulties in securing financing and may lack the necessary experience or networks to navigate the business landscape effectively. Similarly, individuals with disabilities frequently confront additional barriers that limit their access to opportunities, resources, and support systems.

In addressing these disparities, it is essential to incorporate gender responsiveness and the inclusion of youth and people with disabilities across all aspects of MSME development. The key indicators for achieving gender equality and social inclusion include targeted financing programs that provide accessible loans and grants for women, youth and persons with disabilities.

There is a need to include comprehensive training initiatives that equip these groups with the necessary skills in business management and entrepreneurship programs specifically designed to support marginalised groups. In ensuring these strategies and programs accommodate the diverse needs of all individuals, an equitable environment can be fostered that supports the growth and sustainability of MSMEs for women, youth and persons with disabilities.

2.4.2 Value Chain Approach

The Cambridge Institute for Sustainability Leadership defines a value chain as "the full cycle of a product or process including material sourcing, production, consumption and disposal/ recycling processes".

The fourth Medium Term Plan (MTP IV) highlights that a key element of the value chain approach is to support MSMEs in harnessing opportunities and providing employment for economically excluded segments of the population. However, the absence of robust value chain linkages reduces opportunities for economic growth, competitiveness of Micro, Small, and Medium Enterprises (MSMEs), social inclusion, and environmental sustainability.

A value chain approach is critical in addressing inefficiencies, improving productivity, and fostering sustainable linkages. However, many MSMEs lack the resources, knowledge, and capacity to integrate into value chains fully. This disconnect undermines their potential to contribute significantly to Kenya's socio-economic development, including the realisation of Kenya Vision 2030 and related agendas.

With the increasing need for sustainability, digital transformation, and regional integration, MSMEs face unique pressures to adapt to global trends while leveraging supportive government policies and initiatives. MSMEs can navigate evolving environmental, economic, and regulatory shifts by capitalising on sectors such as the green, blue, and circular economies. By addressing these issues and tapping into new opportunities, MSMEs have the potential to drive inclusive growth, innovation, and job creation across Kenya, strengthening their role as engines of economic development.

2.4.3 MSME Resilience and Adaptability

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Kenyan economy, contributing significantly to GDP growth, employment, and innovation. However, these enterprises face numerous challenges that hinder their resilience and adaptability, especially in the face of economic shocks, natural disasters, and other disruptions.

Some key factors that undermine Kenyan MSMEs are: economic shocks that manifest in the form of global economic downturns, currency fluctuations and commodity price volatility, political and social instability, natural disasters such as droughts and floods, climate change and environmental risks, technological disruption due to rapid change and cybersecurity threat, competition for larger firms, limited access to resources, changing consumer preference and regulatory changes among others.

Agriculture-based and agro-processing Micro, Small, and Medium Enterprises (MSMEs) in Kenya are vital to the economy, contributing significantly to employment, food security, and rural development. Agriculture forms the backbone of Kenya's economy, accounting for over 20 percent of GDP directly and another 20 percent indirectly through linkages with other sectors, according to the World Bank's Kenya Economic Update (2019). MSMEs in this sector, which include smallholder farmers, horticultural processors, dairy processors, and other agro-based enterprises, employ over 80 percent of the rural workforce and are key to achieving the MSME Policy 2026 goals of wealth and employment creation. However, these enterprises face numerous challenges that test their resilience and adaptability, including Climate Change and Environmental Shocks, Poor Infrastructure and Technology Adoption, Market Access and Competition, and access to Finance. These are just some of the key factors that affect the resilience and adaptability of MSMEs in Kenya. Addressing these challenges requires a multi-pronged approach involving government interventions, private sector engagement, and community support.

2.4.4 Market expansion through trade agreements

Regional and international trade agreements provide Kenyan MSMEs access to larger markets. These include the East Africa Community, the Common Market for East and Southern Africa, the African Continental Free Trade Area (AfCFTA) which open Africa-wide trade, while the Economic Partnership Agreement (EPA) with the European Union and. These agreements simplify market entry, reduce tariffs, and help MSMEs expand their reach to new consumers across Africa, Europe, and North America.; Tripartite Free Trade Area

2.4.5 Participation in Sustainable Supply Chains

Global companies increasingly seek MSMEs that align with sustainable supply chain standards. Kenyan MSMEs that meet Environmental, Social, and Governance (ESG) criteria could secure contracts with international firms, particularly in high-demand sectors such as agribusiness, textiles, and crafts.

CHAPTER THREE

MSME SECTOR POLICY STATEMENTS

The policy interventions highlighted in this section are intended to address challenges that cut across MSMEs, with a view to growing them into medium and ultimately large enterprises. The policy is anchored in an integrated value chain approach and structured around eight (8) policy strategic objective areas, as stated in the following section.

3.1 Provide a conducive and supportive environment that promotes MSME growth and development.

The following interventions will be pursued to provide a conducive legal and regulatory environment for MSMEs:

i. Strengthen legislation to enhance compliance, financing, business development services coordination mechanisms, and institutional frameworks for the MSME sector.
ii. Promote targeted tax and business incentives for MSMEs.
iii. Strengthen governance in MSME associations and umbrella organisations.
iv. Enhance data and knowledge management in the MSMEs sector.
v. Establish a single window portal for the simplified licences/approvals/registration of MSMEs
vi. Encourage the use of simplified and alternative dispute resolution mechanisms for MSMEs

3.2 Fostering entrepreneurial culture and enhancing skills development for MSMEs

To enhance entrepreneurial culture, managerial skills, financial skills, technical skills, technology and innovation, and industry-relevant skills, the following interventions will be pursued:

i. Strengthen and standardise Business Development Service (BDS).
ii. Promote the captain of industry mentorship and coaching of MSMEs
iii. Strengthen and promote linkages among learning and research institutions, technology developers, and MSMEs for skills transfer.
iv. Strengthen and integrate entrepreneurship programs into the existing education curriculum.
v. Promote acquisition of Intellectual Property Rights/ Support use of IP
vi. Promote the adoption of digital technologies to enhance business operations and market reach.

3.3 Support the formalisation of MSMEs

To promote the Formalization of micro, small, and medium enterprises (MSMEs), the following policy interventions will be pursued:

i. Centralisation and simplification of MSMEs registration processes.
ii. Enhance Collaboration among relevant MDACs towards the formalisation of MSMEs; and
iii. Create incentives to promote formalisation.

3.4 Enhance access to decent, affordable infrastructure for the MSME sector.

To enhance access to decent and affordable infrastructure for MSMEs, the following policy interventions will be pursued:

i. Mainstream and integrate MSME zones in the national and County spatial planning
ii. Promote the establishment and use of common user facilities
iii. Promote standardisation of workspaces and markets.

3.5 Achieve financial inclusion in the MSME sector.

To achieve financial inclusion in the MSME sector, the following policy interventions will be pursued:

i. Innovate and develop bottom-of-the-pyramid financial products
ii. Develop and operationalise targeted policy incentives
iii. Promote financial literacy among MSMEs.
iv. Establish and Socialise National Credit Score.
v. Strengthen existing funds/financial institutions dedicated to providing affordable credit to MSMEs.
vi. Promote MSME Derisking Mechanisms.

3.6 Enhance market access and economic opportunities for MSMEs' products and services.

To enhance market access and economic opportunities for MSMEs' products and services, the following policy interventions will be pursued:

i. Strengthen preferential treatment for locally manufactured MSME products
ii. Promote digital trade
iii. Facilitate linkages between MSMEs and large enterprises
iv. Promote standardisation of MSME products
v. Advance the internationalisation of Kenyan MSMEs and products
vi. Strengthen the Cluster and Value Chain Approach for MSME sector development

3.7 Digitalisation, Innovation, Research and Development for the MSME sector

To support and enhance digitalisation, innovation and development of the MSME sector and promote Innovation by MSMEs, the policy will pursue the following interventions:

i. Mobilise Fiscal Resources for R&D
ii. Promote affordable access to non-fiscal R&D resources, including laboratories, equipment and technical expertise for MSMEs
iii. Establish a structured approach to the technology adaptation, transfer, and commercialisation of innovations.
iv. Foster the development of a supportive startup ecosystem
v. Strengthen partnerships, linkages and Collaboration with players in the R&D ecosystem and the MSMEs sector.
vi. Ease the process of registering Intellectual Property (IP).

3.8 Building MSME Resilience and Adaptability

To enhance MSME resilience and adaptability, the Policy will pursue the following interventions:

i. Promote climate change awareness and knowledge building among MSMEs
ii. Promote the adoption of climate-smart technologies and support sustainable practices
iii. Promote risk management and mitigation strategies
iv. Establish and implement the MSME disaster economic recovery program
v. Promote access to social protection and occupational health and safety for MSMEs

CHAPTER FOUR

POLICY COORDINATION & IMPLEMENTATION

4.1 Policy Coordination and Implementation

There are several stakeholders at the national and county levels, both state and non-state actors, who play a critical role in implementing MSME policies and programs. The coordination of activities undertaken by these stakeholders and the integration of public- and private-sector activities, programs, and development plans relating to MSMEs are the mandate of the State Department responsible for MSME development. The Ministry, in meeting this mandate, will undertake to implement the policy statements and strategies enumerated under Chapter 3 above, as well as the following activities:

i. Review the MSEs Act, No. 55 of 2012, to ensure full alignment with the Constitution of Kenya.
ii. Establish a multi-stakeholder team comprising state and non-state actors in the MSMEs sector at the county and national level, co-chaired by national and county government officials, to meet quarterly to discuss MSMEs issues. This is in line with the Intergovernmental Relations Act, 2012, which mandates sector forums to ensure equitable participation by both levels of government.
iii. Hold at least one MSME round table meeting per year to deliberate on MSME issues.
iv. Develop a framework to coordinate and implement MSME policies and programmes to ensure efficiency and effectiveness.
v. Adopt a collaborative stakeholder approach to policy planning, budgeting, and implementation through sector- and thematic-working groups.
vi. Establish an effective institutional framework for identifying actors that are involved, undertake mapping of relevant stakeholders, create a database of MSMEs support institutions and services provided, and disseminate the same as prescribed in the policy interventions.
vii. Facilitate the establishment of collaborations among stakeholders with common interests/goals.
viii. Develop a tool to facilitate monitoring the business environment for the purpose of informing policy implementation, identifying policy intervention areas and facilitating the growth and development of MSMEs across counties.
ix. Establish a formal Intergovernmental MSME Dispute Resolution Mechanism, under the framework of the Intergovernmental Relations Act, 2012, to address conflicts between national MSME policy objectives and county trade regulations, levies, or infrastructure decisions.
x. Undertake frequent research to inform policy decisions.
xi. Undertake surveys every five years aimed to inform policy decisions; and
xii. Adopt an effective M&E mechanism as presented in Chapter 5 of this policy to continuously and systematically review, analyse and assess MSMEs policies and programmes using an integrated approach with the overall aim of ensuring effective implementation.

4.2 The Role of Stakeholders

4.2.1 State Actors

The Government's primary mandate in the MSME sector is to provide policy direction, design strategic interventions, and monitor the effective implementation of the MSME Policy. To achieve this, several state actors are playing complementary roles to support MSME development across the country.

The Ministry and state agencies responsible for MSME development play a central role in policy formulation, financing mechanisms, and administration of the Financial Inclusion Fund (Hustler Fund) and other Affirmative Funds. They also oversee capacity development, product and market expansion, infrastructure development, technology upgrading and modernisation, and efforts to enhance competitiveness within the MSME sector. Reports generated from these activities are shared with implementing agencies and other stakeholders to ensure evidence-based policy decisions and continuous improvement of MSME support frameworks.

The MSEs Tribunal, under the Judiciary, provides a mechanism for resolving disputes among MSMEs and between MSMEs and support institutions. This specialised body ensures fair adjudication and enhances the trust and stability of the MSME ecosystem. Similarly, the Small Claims Court handles cases involving small monetary amounts. Its creation was part of a national initiative to improve the ease of doing business by providing quick, affordable judicial determinations in commercial disputes. To avoid forum shopping and ensure clarity for MSME disputants, the State Department shall, in consultation with the Judiciary, develop guidelines that delineate the jurisdictional boundaries between the MSE Tribunal and the Small Claims Court. In general, the MSE Tribunal shall handle disputes arising under the MSE Act, including those between MSMEs and support institutions, registration disputes, and sector-specific regulatory matters. The Small Claims Court shall handle commercial disputes of a general nature between MSMEs and their trading partners where the claim value falls within the Court's monetary threshold. Where jurisdictional ambiguity arises, the matter shall be referred to the MSE Tribunal as the specialist body.

County Governments also play an integral role in MSME policy implementation as guided by the Intergovernmental Relations Act and the Kenya Gazette Vol. CXXVI-No.219 (Gazette Notice No.16472). They are mandated to implement national trade policies, standards, and norms and to develop and enforce county-level trade policies and regulations. Counties provide business development services to MSMEs engaged in trade, manage trade licensing (excluding professional services), promote fair trade practices, and regulate market development. In addition, they collect business information and manage County Business Information Centres to support evidence-based local economic planning.

To ensure effective county-level implementation, each county government shall be encouraged to develop a County MSME Development Plan that is aligned with the national policy and integrated into the County Integrated Development Plan (CIDP), while also establishing a County MSME Stakeholders Forum comprising representatives from county government, local business associations, financial institutions, and development partners, with the forum meeting at least bi-annually to facilitate coordination and engagement. Additionally, county governments shall be required to submit annual progress reports on MSME policy implementation to the State Department through the Council of Governors, enabling consolidation of these reports into the national Monitoring and Evaluation (M&E) framework.

Other Ministries, Departments, and Agencies (MDAs) play supportive roles in implementing the MSME Policy through targeted interventions in infrastructure, finance, product development, market access, and research. These contributions collectively strengthen the MSME ecosystem, with specific stakeholders and roles defined in the national MSME Policy Implementation Plan.

4.2.2 Non-State Actors

Micro, small, and medium enterprises (MSMEs) associations and umbrella business organisations will be integrated into the public policy process as they play critical roles in disseminating information, channelling support services to individual MSMEs, monitoring policy implementation, and lobbying the government on behalf of the sector. Their involvement ensures that MSME priorities and challenges are effectively represented in national and county policy dialogues.

The private sector remains central to industrial and economic development. Private sector players provide investment, goods, and services across various domains, including infrastructure, training and education, finance, and technology; essential components for enterprise growth and competitiveness. They also contribute significantly to monitoring policy execution and providing feedback to strengthen implementation strategies. Key private sector institutions that the government will collaborate with business membership organisations, industry sector associations, private sector umbrella organisations, enterprise support associations including the Kenya Private Sector Alliance (KEPSA), Kenya Bankers Association (KBA), Kenya Association of Manufacturers (KAM), Kenya National Chamber of Commerce and Industry (KNCCI), Association of Startups and SMEs Enablers of Kenya (ASSEK), Association of Countrywide Innovation Hubs, and the Kenya National Federation of Jua Kali Associations, among others.

Development partners are vital contributors to MSME policy implementation. Their support extends to financial assistance, technical expertise, research collaboration, and capacity building. Partnerships with development partners will continue to be leveraged to enhance sector performance, promote innovation, and ensure alignment with global best practices in MSME development.

Academia also serves as an important non-state actor in supporting the MSME Policy. Academic institutions and research organisations contribute through evidence-based research, innovation, training, and policy analysis, which inform policy formulation and evaluation. Universities and technical training institutions play a key role in developing entrepreneurial and technical skills, fostering innovation, and incubating start-ups. They also facilitate knowledge transfer and collaboration between the government, private sector, and MSMEs, thereby reinforcing a sustainable ecosystem for enterprise growth and competitiveness.

CHAPTER FIVE

5.0 MONITORING AND EVALUATION

Monitoring and Evaluation (M&E) will be used to measure the policy's efficiency and effectiveness. The establishment of the M&E system is informed by the National Monitoring and Evaluation Policy 2022.

The policy prioritises establishing reliable mechanisms to collect and analyse policy implementation data and to assess interventions and programmes related to MSMEs, to ensure they meet the intended objectives, outcomes, and impacts, and remain relevant, efficient, effective, impactful, and sustainable.

The M&E mechanism aims to provide government agencies with information on potential interventions and on performance and impact assessments. This policy will complement the National M&E Policy 2022 by providing timely, accurate information at regular intervals to inform policy implementation and evidence-based decision-making.

The State Department for MSMEs Development will undertake the following measures in line with monitoring and evaluating this policy:

i. Build human and institutional capacity within the State Department for MSMEs Development to undertake M&E effectively and efficiently.
ii. Track the progress of implementation of the policy through the e-NIMES/e-CIMES
iii. Establish a multisectoral M&E framework for the sector that outlines the objectives, inputs, and outcomes of MSME policy and related policies.
iv. Establish an M&E Plan to outline the resources necessary for the M&E function, including baseline data, stakeholders responsible, and data collection tools. The M&E plan will provide the requirements and accompanying budget. This includes staff, training, workshops and other resources required for data collection, data analysis, data verification, evaluations and impact assessments; and
v. Undertake monitoring by continuously collecting data and information during the policy implementation period. To achieve this, the following activities will be undertaken:
    a. Strengthen and streamline institutional capacity among implementing agencies at the national and government levels to undertake M&E;
    b. Strengthen reporting of performance in the implementation of programmes, policies and projects undertaken at the county and national government levels;
    c. Establish a participatory monitoring mechanism with relevant stakeholders to design data collection, reporting and analysis tools and indicators; and
    d. Establish reporting mechanisms from all stakeholders at the sub-county level, building on the County Integrated Monitoring and Evaluation System (CIMES) and National Integrated Monitoring and Evaluation System (NIMES).
vi. Conduct a comprehensive Mid-Term Policy Review at the end of Year 3 of implementation. The mid-term review shall assess progress against all KPIs, evaluate the relevance and adequacy of policy interventions in light of emerging developments, and recommend course corrections including reallocation of resources, revision of targets, or introduction of new interventions.
vii. Establish accountability mechanisms for policy implementation by:
    a. Integrating MSME policy implementation targets into the performance contracts;

b. Requiring annual progress reports to the relevant parliamentary committee (National Assembly Committee on Trade, Industry and Cooperatives);
c. Empowering the State Department to issue implementation advisories to agencies that fall below 50 per cent of their annual KPI targets; and
d. Linking budgetary allocations for MSME programmes to demonstrated implementation performance in preceding periods.

viii. Establish an MSME Feedback and Grievance Mechanism through which MSMEs can:
a. Report service-delivery failures or delays in MSME-facing government services;
b. Provide feedback on the relevance and quality of government-supported BDS, financing, and market-access programmes; and
c. Lodge formal complaints regarding corruption, regulatory abuse, or non-compliance with AGPO provisions. All complaints shall be tracked, responded to within 30 working days, and their resolution status reported in the annual M&E report.

As guided by the National Monitoring and Evaluation Policy 2022, data and information will inform M&E quarterly and annual reports, which will be amalgamated at the Ministerial level and presented to the Cabinet Secretary in charge of MSMEs to inform policy decisions.

Data and information will be presented in annual reports, which will be made accessible to stakeholders. The reports will include:

i. Annual reports, as provided in the MSE Act 2012, Section 73, are to provide a status, progress, impact, and challenges in the implementation of MSME development policies and programmes.
ii. Other monitoring reports aimed at assessing MSME Policy and programme performance.
iii. Data and information captured to inform implementers and other stakeholders on progress;
iv. Lessons learnt.

The assessment of the policy will be undertaken annually to gauge the implementation progress. The policy's impact evaluation will be conducted every five years to analyse the extent to which its objectives have been achieved.

ANNEX: POLICY MONITORING AND EVALUATION IMPLEMENTATION MATRIX

Policy Objectives	**Provide a conducive and supportive environment that promotes MSME growth and development**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Outputs**	**Timeframe**	**Estimated Cost (Million)**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Strengthen legislation to enhance compliance, financing, business development services, coordination mechanisms, and institutional frameworks for the MSME sector	Enhanced MSME Compliance Enhanced Competitiveness-Export Market Reduced Risk for Lenders Improved Creditworthiness-Finances Enhanced MSME ease of doing business Improved Policy Coherence and Effectiveness Enhanced Resource Utilization Improved Service Delivery Increased Accountability and Transparency	% of MSMEs registered in the harmonized database No of government agencies accessing the database No of active CSO and Private Sector partners engaged Stakeholder satisfaction with TWG coordination Total amount of funding mobilized for MSMEs through TWG efforts % of government procurement contracts awarded to MSMEs No of government agencies complying with MSME procurement targets Value of procurement contracts awarded to MSMEs	Harmonisation of MSME database and coordinating MSME funding in government MSME Technical working group coordinating CSO/Private sector MSME funding Enforcement Mechanisms to support MSMEs in preferential procurement opportunities		200	GOK	State Department	County governments Business Registration Services Private sector business umbrella associations

		No of sanctions imposed for non-compliance						
Promote targeted tax and business incentives for MSMEs	Increased employment by MSMEs Increased Business Registration Increased Innovation Increased access to new markets Improved Competitiveness	No of county governments with established MSME incentive programs No of MSMEs benefiting from county incentive programs No of national government fees, taxes, and levies affecting MSMEs No of agencies collecting fees, taxes, and levies from MSMEs Average compliance cost for MSMEs	Framework to facilitate MSME incentives at county (MSME Technical working group coordinating national government MSMEs interventions and county government tariffs) Harmonisation of and coordinating national government fees, taxes and levies affecting MSMEs Establishment of a comprehensive tax support mechanism for MSMEs		100		State Department	National Treasury COG County Governments MSEA
Strengthen governance in MSME associations and umbrella organizations	Enhanced Representation and Advocacy Increased Accountability and Transparency Enhanced Collaboration and Networking Increased Member Engagement and public Participation	No of associations/umbrella organizations adopting or revising governance documents to best practice No of trainers trained on governance best practices No of training programs conducted for MSME associations and umbrella organizations	Training of MSME associations and umbrella organizations on governance		50		State Department	COG County Governments

		Development and dissemination of governance resources and tools Establishment of peer learning and networking platforms Implementation of Good Governance Practices						
Enhance data and knowledge management in the MSMEs sector	Evidence-Based Policymaking Enhanced Policy Monitoring and Evaluation Increased access to Trade Opportunities Data-Driven BDS support to MSMEs Improved Coordination among Stakeholders	Completion of system development within budget and timeline No of government agencies integrated into the system % of estimated MSMEs registered in the system No of government agencies accessing and utilizing the system Data accuracy and validity Data standardization and consistency User satisfaction with system functionality and usability	Integrated national MSME database system Annual MSME Abstract Report		100		State Department	MSEA KNBS COG County Governments KIE State and non states actors

Establish a single window portal for the simplified licences/approvals/registration of high MSMEs	Simplified registration, approvals and licensing processes	Completion of portal development within budget and timeline No of government agencies integrated into the portal No of license and registration processes available on the portal Portal uptime and reliability Portal security measures implemented and tested No of MSMEs registered on the portal No of license and registration applications submitted through the portal User satisfaction with portal functionality and usability Average time taken to process license and registration applications through the portal	Integrated single window portal for the simplified licences/approvals/registration of MSMEs		100		State Department	ICTA Ecitizen
Encourage the use of simplified and alternative dispute resolution mechanisms for MSMEs	Higher rates of MSME dispute resolution through ADR	No of MSMEs reached by sensitization campaigns Reach of different sensitization channels	Sensitization of MSMES on available ADR including small claims court, MSME tribunal, mediation, arbitration		50		State Department	Judiciary

	Lower cost of dispute resolution for MSMEs Enhanced Business Environment Higher levels of awareness among MSMEs about available ADR options	(e.g., social media, radio, print media) Geographic coverage of sensitization campaigns No of MSMEs utilizing ADR mechanisms to resolve disputes Time taken to resolve disputes through ADR compared to traditional courts No of ADR practitioners trained on MSME-related disputes						
Policy Objective	**Fostering Entrepreneurial Culture and Enhancing Skills Development for MSMEs**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Outputs**	**Timeframe**	**Estimated Cost**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Strengthen and Standardize Business Development Services	Enhanced Managerial and Technical Skills Increased Productivity and Efficiency Higher Business Survival Rates Enhanced Quality and Consistency of BDS	No of standardized BDS modules/curricula developed and adopted % of BDS providers adhering to standardized curricula No of BDS providers certified or accredited based on standardized criteria	Harmonised and standardized of BDS provider programs		50		State Department	KIBT MSEA KIE

	Increased Export Readiness Enhanced Inclusivity and Equity-Gender and Underserved MSMEs	No of MSMEs reached by harmonized BDS programs						
Promote captain of industry mentorship and coaching of MSMEs	Enhanced MSME Managerial and Technical Capacity Increased MSME Growth and Competitiveness Increased Entrepreneurial Culture and Leadership Development	No of mentors recruited and trained No of MSMEs (mentees) participating in the program Frequency and quality of mentor-mentee interactions No of Public campaign to promote entrepreneurship	MSME mentorship program Public campaign to promote entrepreneurship		50		State Department	KIE KIBT
Strengthen and promote the linkages between learning institutions and research institutions, technology developers and MSMEs for skills transfer	Greater adoption of new technologies by MSMEs Increased collaboration on research and development More relevant skills training for MSME workforce	No of private sector companies participating in MSME innovation and skills development initiatives Total value of private sector investment in MSME innovation and skills development No of public-private partnerships (PPPs) established to support MSME innovation and skills development	Public Private sector collaboration framework in supporting MSME innovation and new technology skills		50		State Department	KIRDI,KIE,MSEA

		No of corporate social responsibility (CSR) initiatives focused on MSME innovation and new tech skills No of MSMEs benefiting from private sector-led innovation and skills development programs Uptake rate of private sector incentives (e.g., tax breaks, grants, matching funds) for MSME support						
Strengthen and integrate entrepreneurship programs into existing education curriculum	Increased entrepreneurial knowledge and skills among graduates Higher rate of business start-ups among graduates Increased collaboration between educational institutions and businesses Improved alignment of education with industry needs	No of students reached by the program (disaggregated by education level) No of mentors recruited and trained (disaggregated by sector/expertise) No of student participation rates in program activities	Mentorship program in primary, secondary, college and universities. Establishment of county business training centres (through KIBT)		50		State Department	KICD, TVETA KIBT

Promote acquisition of IP rights/support use of IP	Enhanced MSME competitiveness Enhanced MSME attractiveness to investors Increased business value	No of MSMEs reached by sensitization campaigns Reach of different sensitization channels (e.g., social media, radio, print media, online platforms) Geographic coverage of sensitization campaigns No of MSMEs applying for trademarks, patents, copyrights, or industrial designs No of new products and services launched by MSMEs based on IP MSME export performance linked to IP	MSME IP rights sensitization program		50		State Department	KIPI,MSEA
Promote the adoption of digital technologies to enhance business operations and market reach	Increased Productivity Access to New Markets Improved Record-Keeping and Reporting Increased Business Formalization	% of MSMEs with access to reliable internet connectivity Availability of affordable internet plans for MSMEs Development and accessibility of digital hubs or tech parks for MSMEs No of MSMEs reached by capacity building programs	Tech infrastructure to facilitate digital adoption Training/capacity building		50		State Department	ICTA KEPROBA

		(disaggregated by sector, size, location) No of trainers trained and certified on digital technologies and MSME training methodologies No of partnerships established with technology providers, industry associations, and other stakeholders No of MSMEs utilizing e-commerce platforms to sell their products/services						
Policy Objective	**Support the formalization of MSMEs**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Outputs**	**Timeframe**	**Estimated Cost (Million)**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Centralization, harmonization and simplification of MSME associations and umbrella bodies registration processes	Higher Registration Rates Reduced Informality Improved Business Environment Improved Data on the MSME Sector Better Planning and Resource Allocation	Completion of portal development within budget and timeline No of relevant government agencies integrated into the portal No of license, approval, and registration processes available on the portal No of MSME associations and umbrella bodies registered on the portal	Integrated single-window portal for the simplified licenses/approvals/registration		100		State Department	MSEA

	Greater Participation in Government Programs	No of license, approval, and registration applications submitted through the portal						
Enhance collaboration among relevant MDACs towards formalization of MSMEs	Streamlined and Efficient Registration Processes Improved Data Collection and Sharing Coordinated support services Increased MSME Formalization Rates	No of inter-agency meetings and joint initiatives No of MoUs or agreements signed between agencies No of data sharing agreements established between agencies	MDAC MSME formalisation coordination and harmonisation mechanism		50		State Department	MSEA Registrar of Co Social Services BRS
Create Incentives to support formalization	Higher Registration Rates Improved Tax Revenue Easier access to finance Greater Participation in Government Programs Increased Competitiveness Improved access to export market	No of different types of non-fiscal incentives offered by the county No of MSMEs benefiting from each type of non-fiscal incentive Geographic distribution of MSME beneficiaries No of different types of non-fiscal incentives offered by national government ministries (disaggregated by ministry)	Framework to facilitate MSME non fiscal incentives at county Harmonisation of and coordinating national government non fiscal incentives MSME award and recognition program Incentive program for procuring entities that are paying MSMEs		50		State Department	MSEA COG County Governments

	Better Planning and Resource Allocation	Degree of harmonization of non-fiscal incentives across ministries No of MSMEs benefiting from each type of non-fiscal incentive (disaggregated by ministry and incentive type) Program Reach and Participation Increase in revenue of winning MSMEs Increase in employment generated by winning MSMEs Increase in market access for winning MSMEs						
Policy Objective	**Enhance access to decent and affordable infrastructure for the MSME sector**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Outputs**	**Timeframe**	**Estimated Cost**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Mainstream and integrate MSME zones in the national and County spatial planning	Better planning and resource allocation Improved access to market Improved social and economic inclusion	% of County Spatial Plans that explicitly include MSME zones No of MSME zones designated within County Spatial Plans % of public investment allocated to infrastructure development within	MSME Zones		50		State Department	MSEA COG County Governments Min of lands

	Improved livelihoods for local communities	designated MSME zones No of MSMEs operating within designated zones No of consultations held with MSMEs in the development of spatial plans No of public-private partnerships established for MSME development within designated zones						
Promote Establishment and use of common user facilities	Enhanced access to technology Improved product quality and competitiveness Increased market share and export potential	No of CUFs established Types of CUFs established No of MSMEs accessing CUFs Increase in MSME productivity and efficiency MSME revenue and profitability Financial sustainability of CUFs Effectiveness of CUF management No of partnerships established between government, private sector, and	Sustainable Business model for value chained based CUF		50		State Department	KIE MSEA KIRDI MITI COG County Governments National Treasury

		communities for CUF development Level of community participation in the design and utilization of CUFs						
Promote standardization of workspaces and markets	Reduction in workplace accidents and injuries Compliance with workplace safety and health regulations Improved productivity and efficiency Enhanced consumer confidence	% of MSMEs adhering to national quality standards Compliance rates with workplace safety and health standards % of MSMEs accessing public and private manufacturing spaces	Fit for purpose value chain-based workspace and markets Comprehensive and competitive MSME Manufacturing spaces		50		State Department	COG County Governments

Policy Objective	**Achieve financial inclusion in the MSME sector**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Output**	**Timeframe**	**Estimated Cost (million)**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Innovate and develop bottom-of-the-pyramid financial products	Increased access to affordable and diversified credit for MSMEs, including women-owned, youth-led and rural enterprises Improved financial product quality and	No of MSMEs whitelisted by credit reference bureaus and re-integration into the mainstream financial sector No. of new non predatory innovative financial products developed for MSMEs	Diversified portfolio of financial products (credit, savings, insurance, pension) deployed.		50		State Department	CBK, FIF (Hustler Fund) Affirmative action funds Commercial banks, Catalytic Funds, FinTechs, KIE, SACCOs, MFIs

	competitiveness across the MSME spectrum Enhanced financial inclusion rates, especially for bottom-of-the-pyramid enterprises previously excluded from formal financial services Enhanced products diversifications including sector specific and value chains financing Deployed Commercially viable, rapidly scalable products at low operational risk	Adoption rate of innovative financial products (% of target MSME population) No. of formal partnerships established % change in formally included MSMEs (financial inclusion rate) Value of credit channeled through digital lending platforms No. of MSMEs accessing savings/investment products disaggregated by gender, age and county. No. of MSMEs graduated and scaled from Government catalytic funds to Private sector led financial institutions	Operational partnership framework for on-lending and co-financing. Digital financial product delivery infrastructure on mobile payment platforms Periodic product-performance reports disaggregated by MSME category, gender and county. Bottom-of-the-pyramid financial product catalogue published and disseminated to all eligible persons MSMEs graduated and scaled from Government catalytic funds to Private sector led financial institutions					
Develop and operationalise targeted policy incentives	Increased availability of MSME-friendly financial products across commercial banks, microfinance banks and FinTechs.	No. of MSMEs benefiting from credit guarantees (disaggregated by size, gender, county)	Enhanced CGS framework with expanded PFI participation and improved leverage ratios		500		The National Treasury, State Department	CBK, Private sector business umbrella associations, CRBs, FinTechs

	Improved affordability: reduction in average lending rates for MSMEs. Enhanced MSME Credit Guarantee Scheme (CGS) ecosystem with improved leverage ratios Greater formal financial system participation by women-owned, youth-led and rural MSMEs.	Value of loans guaranteed (cumulative and annual). No. of Participating Financial Institutions (PFIs) offering MSME-friendly financial products CGS leverage ratio (mobilized vs Government capital) % year-on-year growth in MSME lending volume by PFIs. Average loan processing time (days) disaggregated by channel. % increase in access to credit for unserved, underserved and unbanked segments (women, youth, rural).	Government lending facility via banks and FinTechs with standardized application procedures Policy incentive framework (fiscal and non-fiscal) for PFIs on MSME-tailored products Operational credit-information sharing mechanism Regulatory guidelines on responsible MSME lending					
Promote Financial Literacy among MSMEs	Improved Financial Management Practices within MSMEs Improved MSMEs Lending Readiness	Reach and Participation in Financial Literacy Programs	Enhance financial literacy skills for MSMEs		50		State Department	KIE KIBT FIF Commercial banks
Establish and Socialize National Credit Score	Enhanced inclusion of alternative data in credit underwriting	Development of the credit scoring methodology and gazetted	National Credit Scoring developed and gazetted		50		State Department	CBK

	Increased Access to Credit for Unserved, Underserved and Unbanked MSMEs Mainstreamed National Credit Score in the Financial Sector Improved Accuracy and Efficiency of Credit Assessment Robust and inclusive credit ecosystem integrating banks, MFIs, SACCOs, FinTechs and digital lenders.	Accuracy and predictive power of the credit scoring model No of Financial Institutions adopting the national credit score No. of MSMEs entering the mainstream financing system Amount of private sector financing accessed by MSMEs % increase in credit access for previously Unserved, Underserved and Unbanked MSMEs segments Reduction in average loan processing time (days) using credit scoring.	Operational credit information sharing mechanism integrating CBK, CRBs, FIF and PFIs. Regulatory framework for alternative credit underwriting instruments (mobile money data, psychometric scoring, transaction histories). National MSME credit database accessible to registered PFIs for creditworthiness assessments.					Private sector business umbrella associations CRBs FinTechs
Strengthen existing funds/financial institutions dedicated towards the provision of affordable credit to MSMEs	Enhanced Accessibility and Reach of MSME Financing Improved Financial Product Development Improved Efficiency and Effectiveness of Fund Operations Long-Term Sustainability of MSME Funds	No of financial institutions responsive to MSMEs financial needs (banks, MFIs, SACCOs, fintech companies) No. of financial products re-engineered Clarity and transparency of fund governance structure and operational procedures Efficiency of fund administration (measured by administrative cost ratio)	Re-engineered financial products Periodic fund audits and financial reports Operating procedures manuals		50		State Department	National treasury

		Loan recovery/repayment rate (% of disbursed loans recovered) No. of eligible MSMEs reached (disaggregated by county, gender, enterprise size). Frequency and quality of fund audits and financial reporting Implementation of risk management framework						
Promote MSME Derisking Mechanisms	Increased Insurance Coverage among MSMEs Enhanced MSME Savings and Investments Promote Credit behaviour Improved Affordability and Accessibility of Insurance Products Enhanced MSME Resilience and Business Continuity Institutionalized Credit Repair Mechanisms	No of different types of insurance products available to MSMEs Average cost of insurance premiums as a percentage of MSME revenue Availability of microinsurance products tailored to the needs of micro and small enterprises No of premium payment options available to MSMEs No of MSMEs with active insurance policies No of MSMEs whitelisted by credit reference bureaus and re-integration into the mainstream financial sector	Mechanism for affordable, accessible and appropriate insurance products for MSMEs Mechanism for affordable, accessible and appropriate insurance products for MSMEs in Agriculture and Agro based MSMEs		50		State Department	MSEA FIF IRA Credit GUARANTEE SCHEME
Policy Objective	**Enhance market access and economic opportunities for MSMEs products and Services**							

Strategy	Expected Outcome	Key Performance Indicators	Output	Timeframe	Estimated Cost (Million)	Funding Sources	Responsibilities LEAD	Responsibilities SUPPORT
Strengthen preferential treatment for locally manufactured MSME products	Increased Market Access for Locally Produced MSME Products improved Competitiveness of MSME Products	No of new market linkages created for MSME products No of MSMEs participating in trade fairs, exhibitions, and other market access events including MSME Connect No of MSME products exported to regional and international markets No of MSMEs receiving support for product development and improvement No of MSME products meeting quality standards and certifications No of MSME products adopted by larger businesses or incorporated into their supply chains Completion of the RoO framework development within budget and timeline Clarity and simplicity of the RoO criteria Publication and dissemination of the RoO framework to relevant stakeholders	Mechanism for Enhanced markets for locally produced MSME products Framework of identifying locally produced MSME products through a rule of origin for local products (MSE Act incorporation) Establish AGPO compliance framework for all MDAs		50		State Department	MITI National treasury KEBS KEPROBA MDAs

		Awareness and Understanding of RoO No of MSME products certified as locally produced under the RoO Efficiency of the RoO certification process No of audits and verification checks conducted to ensure RoO compliance Improvement in the competitiveness of locally produced MSME products						
Promote Digital Trade	Increased Participation of SMEs in Digital Trade Enhanced Competitiveness and Market Access for SMEs Improved Efficiency and Productivity of SME Operations	% of MSMEs with access to reliable internet connectivity Availability and affordability of digital devices No of MSMEs registered on e-commerce platforms and online marketplaces No of MSMEs utilizing digital payment systems (mobile money, online payment gateways) No of MSMEs trained on digital trade skills % of MSMEs actively selling products/services online	Enhanced adoption of digital trade for MSMEs		50		State Dep	ICTA KEPROBA KENTRADE MSEA
Facilitate linkages between MSMEs and large enterprises	Increased MSME Participation in Large	Policy and regulatory framework supporting MSME-LE collaboration	MSME and large enterprise collaboration framework		50		State Department	KIE MSEA

	Enterprise (LE) Supply Chains Enhanced MSME Access to Markets and Finance Capacity Building and Technology Transfer to MSMEs Enhanced Competitiveness and Growth of both MSMEs and LEs	No of collaboration platforms/mechanisms established No of LEs sourcing products/services from MSMEs						Private sector business umbrella associations
Promote Standardization of MSME products	Improved Product Quality and Consistency Enhanced Market Access for MSME Products Increased Competitiveness of MSME Products	No of product standards developed and adopted for MSME products Inclusivity of the standards development process Alignment of MSME product standards with regional and international standards Accessibility and affordability of MSME product standards No of MSMEs trained on product standardization and quality management No of MSME products certified to meet relevant standards	MSME product standardization program		50		State Department	KEBS
Advance the internationalization of Kenyan MSMEs and products	Expansion of Export Destinations for MSME Products	No of new international markets accessed by Kenyan MSMEs No of trade missions, exhibitions, and other export	Enhanced and diversified markets for MSME products		50		State Department	MSEA KEPROBA KENTRADE

	Growth and Diversification of MSME Export Products Enhanced MSME Export Competitiveness	promotion events attended by Kenyan MSMEs No of linkages with cross border MSMEs and partners No of partnerships established between Kenyan MSMEs and international buyers/distributors No of export-focused business development service providers (BDS) supporting Kenyan MSMEs Value of MSME product exports No of MSME products certified to meet international quality standards No of MSME trained on export readiness program						KESPA KAM KNCCI
Strengthen cluster and value chain approach for MSME sector development	Increased MSME Participation in Global Value Chains Enhanced MSME Competitiveness and Productivity	Greater integration of MSMEs as suppliers and producers within key value chains Increased adoption of improved technologies and production practices by MSMEs Improved access to inputs and raw materials for MSMEs Improved Quality and Standards of MSME Products	Increased value chain-based production		100		State Department	KIE MSEA Kenya leather council MITI Min of Agri COG County Government Private sector business umbrella associations

		Increased MSME Market Access and Sales						
Policy Objective	**Digitization, Innovation, Research and Development for the MSME sector**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Output**	**Timeframe**	**Estimated Cost (Million)**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Mobilise Fiscal Resources for R&D	Increased Investment in MSME R&D Increased Innovation and Commercialization within MSMEs Enhanced MSME Competitiveness and Growth	Total amount of fiscal resources mobilized for MSME R&D % of government budget allocated to MSME R&D No of partnerships established with private sector and development partners to co-fund MSME R&D No of MSMEs accessing fiscal resources for R&D Value of fiscal resources disbursed to MSMEs for R&D Number of new products, processes, or services developed by MSMEs with fiscal support Number of patents, trademarks, and other intellectual property rights (IPR) generated by MSMEs with fiscal support	Mechanism for fiscal R&D resources mobilised		500		State Dept	KIRDI Min of Education National treasury NITA

Promote affordable access to non-fiscal R&D resources including laboratories, equipment and technical expertise for MSMEs	Increased Private Sector Engagement in MSME R&D Enhanced Access to Technical Assistance and Expertise for MSME R&D Strengthened Networks and Collaboration for MSME R&D	No of partnerships established between MSMEs and large enterprises for R&D Value of private sector investment leveraged for MSME R&D No of MSMEs accessing technical assistance and expertise for R&D No of MSMEs participating in R&D-focused incubators, accelerators, and innovation hubs	Mechanism for Non-fiscal R&D resources accessed		500		State Dept	MITI KIRDI NITA
Establish structured approach for technology adaptation, transfer and commercialisation of innovations	Improved discoverability of relevant technologies for SMEs Increased Adoption of Appropriate Technologies by SMEs Enhanced SME Productivity and Efficiency	Completion of the technology map database within budget and timeline No of technology solutions mapped and categorized (disaggregated by sector, technology type, and readiness level) Accessibility and usability of the technology map database (e.g., online platform, search functionality, user-friendly interface) No of SMEs reached by awareness campaigns and outreach activities No of SMEs accessing and utilizing the technology map database No of connections facilitated between SMEs and	Framework for mapping and awareness creation of available technology		50		State Department	ICTA KIE KENIA

		technology providers/developers:						
Foster the Development of a Supportive Startup Ecosystem	Increased Innovation and Business Model Testing by MSME Startups Reduced Regulatory Barriers to MSME Innovation Enhanced Access to Early-Stage Capital for MSME Startups Strengthened Tax Incentive Framework for Angel Investment Increased Number and Quality of Functional Innovation Support Institutions Improved Technical Capacity of Innovation Ecosystem Institutions Improved Data-Driven Management of High-Growth MSME Startups Enhanced Targeted Support for High-Growth MSME Startups Strengthened Alignment of MSME Startup Support with National Digital and AI Agendas Increased Adoption of AI and Digital Technologies by MSME Startups	No. of MSME startups admitted to the sandbox annually No. of regulatory reforms informed by sandbox findings Volume of angel investment mobilised for early-stage MSMEs (KShs) Value of tax incentives utilised for MSME angel investment No. of hubs/incubators receiving co-funding Survival rate of startups graduating from supported hubs (at 2 years) No. of startups registered on the National Startup Registry Proportion receiving targeted support within 12 months of registration No. of MSME startup support programmes aligned with the National AI Strategy 2025–2030 No. of MSME startup founders trained on AI and digital entrepreneurship	Regulatory Sandbox Framework developed and gazetted - Annual sandbox review reports informing regulatory reform National Angel Investor Network framework and registration guidelines developed Tax incentive framework for angel investors gazetted (Income Tax Act amendment) Co-funding framework for innovation hubs, incubators & accelerators developed National directory of accredited innovation hubs published National Startup Registry platform developed and operationalised Annual Startup Ecosystem Report produced from Registry data MSME Startup-AI Alignment Framework developed and adopted		500		State Department	ICTA KIE KENIA Private sector business umbrella associations

			AI and digital skills curriculum for MSME startups integrated into BDS					
Strengthen partnerships, linkages and collaboration with players in the R&D ecosystem and MSME sector	Increased Collaboration between MSMEs and R&D Players Enhanced MSME Access to R&D Resources and Expertise	Development and Availability of the Partnership Framework Level of awareness of the partnership framework among MSMEs and R&D players Understanding of the partnership framework's benefits and opportunities by MSMEs and R&D players No of training sessions or workshops conducted on the partnership framework and collaborative strategies No of partnerships established between MSMEs and R&D players No of new products, processes, or services developed or improved by MSMEs through collaborations with R&D players	Partnership and collaboration framework Commercialised R&D				State Department	MSEA KIRDI Min of Education KENIA
Ease the process of registering intellectual property	Increased IP Registration by MSMEs Enhanced Utilization of IP by MSMEs Improved Competitiveness and Growth of MSMEs	Reduction in the number of steps required for IP registration Reduction in the documentation requirements for IP registration applications	Simplified IP registration		50			KIPI

		Availability of online application platforms for all types of IP registration Reduction in the official fees for IP registration for MSMEs Availability of financial assistance or subsidies for MSME IP registration costs						
Policy Objective	**Building MSME Resilience and Adaptability**							
Strategy	**Expected Outcome**	**Key Performance Indicators**	**Output**	**Timeframe**	**Estimated Cost (Million)**	**Funding Sources**	**Responsibilities** **LEAD**	**Responsibilities** **SUPPORT**
Promote climate change awareness and knowledge building among MSMEs	Greater awareness of climate change risks and opportunities Increased knowledge of climate change adaptation and mitigation strategies Enhanced Capacity of SMEs to Integrate Climate Action into Business Practices Increased Engagement of SMEs in Climate Change Initiatives Improved Resilience of SMEs to Climate Change Impacts	No of workshops, seminars, and training sessions conducted No of partnerships established with media outlets to disseminate climate change information No of SMEs trained on climate change adaptation and mitigation strategies No of SMEs developing and implementing climate resilience plans	Awareness Raising and Outreach program		50		State Department	Private sector business umbrella associations
Promote adoption of climate-smart technologies and supporting sustainable practices	Increased Adoption of Climate-Smart Technologies by SMEs	% of SMEs investing in climate-friendly technologies or equipment	Awareness Raising and Outreach		50		State Department	Private sector business umbrella associations

	Increased Implementation of Sustainable Business Practices by SMEs Enhanced Access to Finance and Support for Climate-Smart Investments	% of SMEs adopting sustainable technologies % of SMEs integrating environmental and social considerations into their business plans No of MSMEs accessing green financing No of MSMEs participating in training programs or workshops on climate-smart technologies and practices	Collaboration with sustainability ecosystem					
Promote risk management and mitigation strategies	Increased Awareness and Understanding of Risk Management by SMEs Enhanced Capacity of SMEs to Implement Risk Management Practices Increased Resilience and Business Continuity of SMEs	No of workshops, seminars, and training sessions conducted on risk management An MSME disaster support framework developed No of SMEs participating in risk management training programs No of awareness campaigns or events conducted to promote risk management among SMEs No of SMEs reached by awareness campaigns (e.g., through social media, workshops, publications)	Training and Capacity Building MSME Disaster Support Framework Awareness Raising and Outreach Development of Resources and Tools		50		State Department	Private sector business umbrella associations
Establish and implement MSME disaster economic recovery program		No of disaster economic recovery plans developed at national, regional, or county levels	Disaster economic recovery program Planning and Framework Legal framework and regulations developed		100		State Department	Private sector business umbrella associations

		No of sector-specific disaster recovery plans developed No of vulnerability assessments conducted to identify MSMEs most at risk from disasters No of stakeholder consultations held to gather input on disaster recovery planning No of MSMEs receiving emergency grants or cash transfers after a disaster Value of grants or cash transfers disbursed to MSMEs for disaster recovery No of MSMEs accessing subsidized loans or credit lines for disaster recovery No of partnerships established with financial institutions to provide disaster recovery loans or insurance products to MSMEs No of training workshops or seminars conducted on disaster preparedness and business continuity planning for MSMEs No of temporary market spaces or business incubators established to support MSMEs affected by disasters	or amended to support disaster economic recovery						

		No of coordination meetings held with stakeholders involved in disaster economic recovery						
Promote access to social protection and occupational health and safety for MSMEs	Enhanced Social Protection Coverage Improved Occupational Health and Safety Standards Enhanced Productivity and Economic Growth	% of MSME workers enrolled in social security schemes No of MSMEs contributing to social protection funds % of MSME workers with health insurance coverage % of MSME workers receiving OHS training No of OHS inspections conducted at MSME workplaces % of MSMEs with documented OHS policies and procedures	Training and capacity building on occupational health and safety Coordinate MSME access to socio protection partnerships established with financial institutions to offer tailored social protection products		50		State Department	Private sector business umbrella associations