REPUBLIC OF KENYA

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

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

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STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPISES (MSMEs) DEVELOPMENT

FINANCIAL INCLUSION POLICY 2026

AUGUST 2026

PRELIMINARY

FINANCIAL INCLUSION POLICY 2026

FOREWARD

Cabinet Secretary for the Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development

Kenya stands at a defining juncture in its development trajectory. The past two decades have witnessed remarkable strides in expanding access to financial services. Yet behind this headline achievement lies a sobering reality: financial health among Kenyan adults has been steadily declining. For the Micro, Small and Medium Enterprise (MSME) sector which accounts for over 90 per cent of Kenya's businesses, contributes approximately over 33 per cent of GDP, and is the principal source of employment for millions of Kenyans this gap between access and meaningful financial wellbeing is not a statistical abstraction. It is a lived constraint on investment, growth, and the realization of Kenya's economic potential. It is against this backdrop that the Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development presents the Kenya MSME Financial Inclusion Policy 2026 a foundational, cross-sectoral policy document that establishes a coherent, evidence-based, and action-oriented framework to transform how Kenya finances its small business economy. The policy direction of the Kenya MSME Financial Inclusion Policy 2026 is clear and deliberately ambitious:

> *"To establish a conducive, inclusive, and sustainable enabling environment that expands MSMEs' access to affordable, appropriate, and diversified credit and equity financing, enabling MSMEs across Kenya to invest, grow, create decent employment, and contribute to Kenya's economic transformation and social development."*

This direction is not merely aspirational. It is anchored in Kenya's constitutional obligation under Article 43 to guarantee every person the right to economic and social rights, and in the government's broader Bottom-Up Economic Transformation Agenda (BETA), which places MSMEs at the centre of inclusive growth. It reflects a deliberate shift from measuring financial inclusion by the number of accounts opened to measuring it by the quality, affordability, and developmental impact of the financial services received.

The policy is designed to serve as the coordinating framework that aligns the actions of the National Treasury, the Central Bank of Kenya, sector regulators, county governments, development finance institutions, the private sector, and civil society around a single, coherent MSME financing objective. It does not replace existing sector-specific policies; rather, it provides the strategic architecture within which those policies are given purposeful direction and accountability.

The Kenya MSME Financial Inclusion Policy 2026 is not a response to a single challenge. It is a response to a convergence of structural failures, missed opportunities, and unfulfilled obligations that have collectively constrained Kenya's MSME financing ecosystem. The rationale for this policy rests on six mutually reinforcing pillars: (1) Constitutional and Developmental Mandate : Article 43 of the Constitution of Kenya guarantees economic and social rights, while the Bottom-Up Economic Transformation Agenda (BETA) explicitly places MSMEs at the centre of Kenya's inclusive growth strategy (2) Severity and Persistence of the MSME Financing Gap: Despite the proliferation of financial service providers, catalytic funds, and digital lending platforms, majority of MSMEs particularly those owned by women, youth, and rural entrepreneurs continue to rely on informal, expensive, or inadequate financing (3) The Inadequacy of the Existing Regulatory, Institutional, and Product Ecosystem: Kenya's current MSME financing ecosystem suffers from fragmentation, regulatory gaps, and institutional weaknesses. (4) Rapidly Deteriorating MSME Financial Health despite rising access (5) New Opportunities Through AfCFTA, Digital Finance, and the BETA: Kenya's ratification of the AfCFTA creates a USD 3.4 trillion continental market that Kenyan MSMEs are structurally ill-equipped to access without trade finance infrastructure, export credit instruments, and digital payment connectivity. The emergence of alternative data scoring, platform-based supply chain finance, and the CBK's Risk-Based Credit Pricing Model creates an unprecedented opportunity to build an inclusive, technology-enabled MSME financing architecture. The BETA economic framework provides the political mandate (6) Kenya's Unfulfilled International Obligations: Kenya has ratified and committed to multiple international frameworks that carry specific MSME financing obligations with sub optimal progress against these commitments. The Government of Kenya, through the Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development, is unequivocal in its commitment to the full and effective implementation of this policy. This commitment is institutional, financial, and political.

I call upon financial institutions, development finance partners, county governments, civil society organisations, the private sector, and most importantly Kenya's millions of micro and small enterprises owner's women, youth, persons with disabilities, and rural entrepreneurs to embrace this policy as a shared compact for building a more just, inclusive, and prosperous Kenya. The journey toward a Kenya where every MSME has access to the financial resources it needs to invest, grow, and create decent employment begins with this policy.

Cabinet Secretary Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development FCPA, Hon. Dr. Wycliffe A. Oparanya, EGH,

PREFACE AND ACKNOWLEDGEMT

Principal Secretary, State Department of Micro, Small and Medium Enterprises (MSMEs) Development

It is my honour and privilege to present the Kenya MSME Financial Inclusion Policy 2026 on behalf of the State Department for Micro, Small and Medium Enterprises (MSMEs) Development. This policy represents the culmination of an extensive, multi-stakeholder, evidence-based process that has sought to understand, with honesty and rigour, why Kenya's remarkable progress in expanding financial access has not translated into the financial health, productive investment, and decent employment that Kenyan MSMEs and the broader economy deserve.

Kenya's MSME sector is not a peripheral component of the national economy it is its backbone. Over 90 per cent of all registered businesses in Kenya are MSMEs. They account for approximately 33 per cent of GDP, generate over 83.6 per cent of new formal employment (2025) , and are the primary livelihood source for millions of Kenyan households, particularly in rural areas, among women, and among youth. And yet, despite this centrality, the sector faces a financing deficit estimated at over Ksh 2.6 trillion. This is not a failure of ambition. It is a failure of structure, coordination, and policy coherence.

The Kenya MSME Financial Inclusion Policy 2026 is Kenya's response to that structural failure. It is a policy designed not to replace what exists, but to give it direction, coherence, and accountability. It identifies the gaps, names the failures, and charts a practical path toward an MSME financing ecosystem that is affordable, appropriate, diversified, and inclusive.

The Kenya MSME Financial Inclusion Policy 2026 was developed through a rigorous, participatory, and constitutionally compliant process. The methodology was designed to ensure that the policy is grounded in evidence, reflective of lived experience, and responsive to the full diversity of Kenya's MSME ecosystem. The development process comprised three interlinked phases: (1) Comprehensive Literature Review and Critical Policy Analysis: The policy development process began with an extensive review of literature, relevant surveys, and a critical analysis of past and existing policies, strategies, plans, and studies governing MSME development and financial inclusion in Kenya. This review was guided by the aspirations and provisions articulated in the Constitution of Kenya 2010, Kenya Vision 2030, the Fourth Medium-Term Plan (MTP IV) 2023–2027 under the BETA framework, the United Nations 2030 Agenda for Sustainable Development Goals, the African Union Agenda 2063 and the East African Community Vision 2050 (2) Key Informant Interviews with Stakeholders: The literature review was complemented by structured key informant interviews (KIIs) conducted with a broad cross-section of stakeholders across the financial sector, the MSME ecosystem, and government (3) Nationwide Public Participation: Consistent with Article 10(2)(a) of the Constitution of Kenya 2010, which establishes public participation as a national value and principle of governance, the policy development process included comprehensive nationwide public participation. Participation forums were conducted across all 47 counties, reaching diverse constituencies including MSME owners, traders, artisans, farmers, women entrepreneurs, youth-led businesses, persons with disabilities, financial institutions, microfinance institutions, co-operative societies, SACCOs, community-based organisations, development partners, academic and research institutions, and county governments. The public participation process was designed to be accessible and inclusive conducted in both English and Kiswahili, with sessions adapted for persons with hearing and visual impairments and structured to reach rural populations who are often excluded from policy processes. Submissions and recommendations received through the public participation process were systematically reviewed, analysed, and incorporated into the final policy document. This process not only strengthened the technical quality of the policy but conferred upon it the democratic legitimacy that Kenya's constitutional order demands

> *"The development of this policy reflects our collective resolve as a government, as a financial sector, and as a nation to build an MSME financing ecosystem that serves every Kenyan entrepreneur, wherever they are, and whatever their circumstances."*

The Kenya MSME Financial Inclusion Policy 2026 is the product of collective effort, intellectual generosity, and shared commitment. Its development would not have been possible without the contributions of a wide range of individuals and institutions, to whom the State Department for Micro, Small and Medium Enterprises (MSMEs) Development is deeply grateful. Special appreciation to GIZ Kenya, officers from the state department for MSME development, and the technical working group members

Hon. Susan Auma Mang'eni Principal Secretary, State Department of Micro, Small and Medium Enterprises (MSMEs) Development

ACRONYMS AND ABBREVIATIONS

AFCTFA African Continental Free Trade Area
AFI Alliance for Financial Inclusion
AI Artificial Intelligence
AMFI Association of Microfinance Institutions
API Application Programming Interface
AU African Union
BIS Bank for International Settlements
CA Communications Authority
CAK Competition Authority of Kenya
CBK Central Bank of Kenya
CGS Credit Guarantee Scheme
CMA Capital Markets Authority
CRB Credit Reference Bureau
DCPs Digital Credit Providers
DFI Development Finance Institution
DFS Digital Financial Services
DPA Data Protection Act
DPI Digital Public Infrastructure
EAC East African Community
EPA Economic Partnership Agreement
ESG Environmental, Social, Governance
FinAccess Financial Access Household Survey
FPS Fast Payment System
FSD Kenya Financial Sector Deepening Trust Kenya
GDP Gross Domestic Product
GOK Government of Kenya
IGRA Kenyan Intergovernmental Relations Act of 2012
ILO International Labour Organization
KIPPRA Kenya Institute for Public Policy Research and Analysis
KNBS Kenya National Bureau of Statistics
MDACs Ministries, Departments, Agencies and Counties
MSME Micro Small Medium Enterprise
MTP Medium Term Plan
NIMES National Integrated Monitoring and Evaluation System
PFM Act Public Finance Management Act

SDGs Sustainable Development Goals

DEFITION OF TERMS

Access: Consumers' proximity to financial services providers' touch points such as a Head Office, branch or outlet, agent, Automated Teller Machine (ATM), and Point of Sale (POS),

Credit Guarantee Scheme: An arrangement that allows a third party to assume part or all the credit risk of loans granted by financial institutions to specific groups of borrowers, such as SMEs or youth, thereby encouraging lending

Digital Financial Services: Financial services delivered through a digital channel, such as mobile banking, digital payments and online loans.

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.

Financial Inclusion: A state where all people of working age (adults) and businesses have access to and use a comprehensive range of quality financial services and products that are relevant, affordable, secure and sustainable, delivered responsibly and conveniently, through diverse and suitable delivery models.

Financial Literacy: The knowledge, skills, attitudes and behaviours that enable individuals to make informed and effective decisions about their financial lives.

Interoperability: The ability of different payment infrastructures and financial service providers to interact seamlessly to enable a transaction to be processed and completed regardless of the specific service, device or system used by the payer and the recipient

Payment Service Provider: An institution authorized by the Central Bank of Kenya to provide payment services.

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 consequence that results 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 because of the implementation of a particular policy.

Policy Output: Tangible results or actions that are generated because 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
Usage: Actual uptake of financial devices and products by consumers to meet their needs, such as transactions, savings, credit, investment, insurance and risk management, etc. using diverse devices, delivery methods and channels.
Vulnerable Populations: This includes individuals with special needs, youth, women, rural populations, forcibly displaced persons and others who may be at a disadvantage in accessing and using financial services.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The MSME sector in Kenya has over the years been recognized for its role in the provision of goods and services, enhancing competition, fostering innovation, generating employment and, in effect, alleviation of poverty. The crucial role of MSMEs is underscored in Kenya's Vision 2030 development blueprint which seeks to transform Kenya into an industrialized middle-income country, providing a high-quality life to all its citizens by the year 2030. The MSME sector has been identified and prioritized as a key growth driver for achievement of the development blueprint underpinned on output value estimated at KSh 3,371.7 billion against a national output of KSh 9,971.4 representing a contribution of 33.8 per cent in 2015. (KNBS 2016). Further the MSME sector accounted for 83.6 percent (17.4 million) of new jobs created with formal jobs accounting for 16.4 percent (3.4 million) (KNBS Economic survey 2025)

As of 2016 major MSMEs constraints emanated from (1) regulatory environment characterized by requirement of multiple and expensive licenses for the same business, (2) interference from authorities (3) High taxes (4) multiple procedures in applying for business registration that are hectic and restrictive. Other constraints include lack of capital, expensive loans, and lack of markets, stiff local competition, poor infrastructure (roads, power and water supply) and insecurity.

The 2016 KNBS MSME survey findings further shows that it was more difficult for MSMEs to access loans from commercial banks than from other small financial institutions. Some entrepreneurs reported of avoiding taking loans due to the high interest rates or lack of collateral to support the loan application. Other businesspeople did not like being in debt while others thought that loans are too much trouble not worth going through.

MSMEs have relied on family and savings as major funding source in starting their businesses (71.9 percent) followed by banks, government, chamas and cooperatives at 5.6 percent, 2 percent, 1.4 percent and 0.4 percent respectively.

Agricultural-Based MSMEs: Agriculture is Kenya's dominant sector, directly accounting for 22.5 per cent of GDP in 2024 (KNBS Economic Survey 2025) and employing over 40 per cent of the total population, including more than 70 per cent of the rural labour force (Ministry of Agriculture, 2025)), yet it receives less than 5 percent of total commercial bank lending. Agricultural finance in Kenya remains underdeveloped, characterised by: (1) limited affordable credit, (2) high perceived risks (climate variability, pests, market volatility), (3) weak tailored products, and (4) poor alignment with seasonal cycles. Only 43 percent of farmers access formal Agri-credit, while just 19.3 percent of loans are bundled with insurance; most MSMEs rely on reinvested income (49.3 percent in rural areas) or informal sources. Further collateral requirements, high transaction costs, inadequate post-loan support, and low financial literacy exacerbate exclusion, particularly for smallholder farmers and value-chain actors in rural areas (Kenya-National-Financial-Inclusion-Strategy-2025-2028)

Persons with Disability Entrepreneurs: PWDs (approximately 2.2 percent of the population per the 2019 census, with 80 percent in rural areas) face systemic barriers to entrepreneurship and finance. Financial inclusion for PWDs stands at 77.9 percent (versus the national 84.8 percent), with only 7 percent financially healthy.

Key obstacles include (1) Discriminatory attitudes (staff viewing PWDs as high-risk or incapable of repayment), (2) Inaccessible physical and digital infrastructure (e.g., non-ramped branches, non-screen-reader-compatible apps, small-print forms), (3) lack of tailored products (no flexible collateral or disability-sensitive terms), and (4) additional costs (transport, assistive aids). Entrepreneurs with disabilities report loan denials, stigma, and limited uptake of group lending or government procurement set asides due to documentation and awareness gaps.

Qualitative studies highlight that financial institutions rarely collect disability-disaggregated data or train staff on inclusion, resulting in unintentional exclusion (Financial inclusion for persons with disabilities in Kenya: A rapid review and qualitative study. Nairobi: Sightsavers. 2023.)

Geographically Marginalised Groups: Exclusion is starkest in arid and semi-arid lands (ASALs) and rural counties. The 2024 FinAccess Survey shows the highest exclusion in Turkana (31.5–49.6 percent), West Pokot (27 percent), Elgeyo-Marakwet (26 percent), and similar marginalised areas, compared to under 3 percent in Nairobi/Kiambu.

Rural exclusion overall is 12.6 percent (versus 6.2 percent urban), driven by: (1) Poor infrastructure, (2) limited mobile network coverage (35.9 percent of sub-locations), (3) lack of national IDs (47.2 percent among excluded rural youth), and (4) distance to service points. Rural youth (18–25 years) account for 45.6 percent of the excluded, with barriers including no phones (36.5 percent) and low digital literacy. Informal-sector actors and pastoralists in these regions rely heavily on informal finance, with low uptake of formal credit, savings, or insurance (Kenya-National-Financial-Inclusion-Strategy-2025-2028)

The current administration under the Fourth Medium Term Plan themed: 'Bottom-Up Economic Transformation Agenda for Inclusive Growth' aims to transform agriculture by raising productivity of key value chains that include leather and leather products, textile and apparel, dairy, tea, rice, edible oils, the blue economy, minerals including 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.

The Government targets to transform the Micro, Small and Medium Enterprise (MSME) economy by strengthening of the Hustler Fund to provide access to affordable credit; capacity building; and linkage to markets. In addition, the Government will strengthen the capacity of MSMEs to venture into economic activities in building and construction value chains and ring-fencing certain components of low-cost housing projects for MSMEs.

Prior to the current administration, a review of MTP III 2018-2022 underscored the importance of MSME financing and recommends the enhancement of MSMEs access to affordable credit and digital money platforms. This is on the back of several targeted programs to improve access to finance for Micro, Small, and Medium Enterprises (MSMEs) such as the Credit Guarantee scheme, Movable Property Securities Act and Affirmative Action Funds (Targeted for Vulnerable Groups)

Financial inclusion is defined as the provision of beneficial and appropriate financial services and products in a transparent, responsible, and sustainable manner that meets the needs of households and firms. This definition covers four lenses or dimensions of financial inclusion comprising: Access, Usage, Quality and Impact/ Welfare.

The NFIS further clarifies that usage encompasses "transactions, savings, credit, investment, insurance and risk management," while the strategy's background explicitly identifies savings as one of the core product categories (alongside payments, credit, insurance, pensions, and investment) essential for achieving financial health and sustainable livelihoods. This definition aligns with world bank definition of individuals and businesses having access to useful and affordable financial products and services that meet their needs ie transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way.

Kenya has consistently emerged as a regional and global leader in financial inclusion, driven by rapid technological advancements, innovation led public-private partnerships, and progressive regulatory reforms. The FinAccess Household Survey (2024) shows that 84.8 percent of Kenyan adults now have access to formal financial services up from 83.7 percent in 2021, a significant rise from just 26.7 percent in 2006. This transformation is largely attributed to the widespread adoption of mobile money platforms, the growth of agency banking, digital credit, and SACCOs. Despite this impressive progress, the financial inclusion landscape remains uneven, with significant disparities in the usage, quality, and impact of services. While mobile money usage is high, only 44.1 percent of adults use more than one formal financial product, just 36 percent regularly save with formal institutions, and insurance usage (including NHIF) is 22 percent, pointing to gaps in financial literacy, product relevance, and affordability.

Additionally, the rapid expansion of digital credit has raised concerns about over-indebtedness and consumer protection, as many borrowers take on multiple short-term loans for consumption without adequate safeguards. Gender, age, geographic, and socio-economic disparities persist for example, while 86.8 percent of men have access to formal financial services, only 81.4 percent of women do, and youth (18–25 years) are often excluded from tailored savings, credit, and insurance products despite their high mobile money use.

This evolving landscape highlights the need for a more inclusive, equitable, and impact driven approach to financial inclusion, in alignment with Kenya Vision 2030 and the Fourth Medium-term Plan (Kenya National Financial Inclusion Strategy 2025-2028). The financial inclusion policy seeks to interrogate the following thematic areas of (1) Strengthen lending models and coordinated grants governance framework ,(2) Veracity of financial products (3) Credit data systems (4) Structural and systematic barriers that impact MSME financial inclusion (5) Debt recovery practices (6) Financial literacy (7) Trade finance topography in relation to local and export market with the main objective of establishing a conducive environment for increased access to credit and equity financing by Kenya MSMEs

1.2 Policy Issues

Kenya's 7.4 million micro, small and medium enterprises responsible for approximately 33 percent of GDP, 83.6 percent of new formal employment (2025), and the livelihoods of 14.9 million Kenyans are systematically excluded from the financial services they need to invest, grow, and create employment. This exclusion constitutes the central policy problem: a structural, multi-dimensional market failure in which Kenya's financial system, despite record headline access metrics, fails to deliver productive, appropriately priced, and tenure-adequate credit and equity financing to the vast majority of MSMEs. The World Bank estimates the resulting financing deficit at Ksh 2.6 trillion a figure equivalent to approximately 22 percent of Kenya's GDP.

The problem manifests across nine interrelated thematic areas, each of which represents both a distinct market failure and a component of a systemic whole. No single instrument or institution can resolve them in isolation. They demand a coherent, evidence-grounded, and legally anchored policy framework which Kenya currently lacks.

The policy problem is comprehensively evidenced by Kenya's most authoritative official data sources, spanning household surveys, banking sector surveys, institutional reports, and international databases such as (1) FinAccess Household Survey 2024 (CBK / KNBS / FSD Kenya)(2) CBK FinAccess Business Supply-Side Survey 2025 (3) KIPPRA (2024) (3) National Treasury (2024) (4) World Bank / IFC (2024) among others

The severity of Kenya's MSME financial inclusion problem is extraordinary by any standard of comparative analysis. It operates simultaneously at three levels macro-economic, institutional, and individual enterprise each compounding the other in a self-reinforcing cycle of exclusion.

At the macro level, At the macro level, a Ksh 2.6 trillion financing gap in a sector that contributed approximately 33.8 percent of GDP as at 2015 — and is estimated to account for up to 40 percent today (UNDP/MSEA, 2020) and that generates approximately 83.6

percent of total employment in Kenya (KNBS Economic Survey 2025), represents a structural drag on Kenya's growth trajectory. The BETA economic transformation agenda, which positions MSME development as one of five core pillars alongside agriculture, housing and settlement, healthcare, and the digital superhighway and creative economy (MTP IV, 2023–2027), targets the creation of 1.2 million jobs annually a target whose achievement is fundamentally contingent on MSMEs gaining access to productive, appropriately priced capital. Resolving the financing gap is therefore an economic imperative.

At the institutional level, the problem is severe because it is systemic and coordinated across multiple market failures simultaneously: a collateral architecture that excludes asset-light enterprises; a credit data system that renders most creditworthy MSMEs invisible to formal lenders; a lending product ecosystem structurally mismatched to MSME business cycles; a debt recovery framework that permanently blacklists rather than rehabilitates defaulting businesses; and an institutional coordination failure that wastes public investment across over 20 uncoordinated bodies. The recent trend is worsening rather than improving active MSME loan accounts fell nearly 25 percent in two years while headline inclusion metrics rose to record levels.

At the individual enterprise level, the severity is measured in livelihoods destroyed, enterprise mortality, and wasted human capital. MSME ability to invest in growth has collapsed from 63 percent to 24 percent in three years. Over 95,000 MSME operators lost access to formal credit in 2024 through loan write-offs. The over 70 percent first-year enterprise mortality rate for youth-owned MSMEs directly linked to undercapitalisation represents a generational opportunity cost that cannot be recovered once the window of youth entrepreneurship closes.

The policy problem affects distinct population groups with varying degrees of severity and through different channels. Understanding who is affected and how is essential for designing targeted interventions within the proposed policy framework:

(1) Women-owned MSMEs: Women entrepreneurs face layered exclusion: only 46.5 percent hold banking products compared to 58.9 percent men; lower titled land ownership limits collateral eligibility; cultural and social barriers reduce loan application rates; and WEF their primary government credit vehicle records 20 to 30 percent default rates due to product mismatch and inadequate financial literacy support. Despite BETA's women empowerment mandate, 'gender-disaggregated CGS data is not publicly available, limiting assessment of women-owned MSME access

(2) Youth-owned MSMEs. Youth entrepreneurs face the highest enterprise mortality rates of over 70 percent failure within three years, primarily due to undercapitalisation at start-up. 45.6 percent of the financially excluded nationally are rural youth aged 18–25, excluded primarily by lack of phones and national identity documents rather than willingness to engage with the financial system. YEDF Kenya's primary youth enterprise finance vehicle is domiciled under a different State Department from MSME, creating coordination gaps.

(3) Rural MSME operators. Rural enterprises face geographic exclusion compounded by infrastructure deficits. Financial exclusion in Turkana County stands at 31.5 percent, West Pokot at 27 percent, and Trans Nzoia at 21percent compared to 5.0 percent in Nairobi. Rural MSMEs in agriculture, agro-processing, and artisan production the backbone of Kenya's food security and export diversification agenda have the least access to term credit, trade finance, and digital financial tools

(4) **Informal MSMEs:** The over 70 percent of MSMEs operating without formal registration are locked in a circular exclusion: informality prevents access to bank credit; absence of credit prevents the investment returns that would make formalisation worthwhile. Despite the eCitizen registration system, no structured financial incentive links formalisation to credit access preferencing

(5) **Micro and small enterprises in the 'missing middle':** Enterprises seeking Ksh 500,000 to Ksh 5 million in capital too large for microfinance, too risky and undocumented for commercial banks constitute Kenya's 'missing middle'. KIE, designed to serve this segment, reaches a small fraction of its target group due to severe capitalisation constraints. This gap perpetuates subsistence-level enterprise scale across hundreds of thousands of businesses with genuine growth potential.

The problem is national in its geographic scope but deepest in arid and semi-arid counties, rural constituencies, and among demographics excluded from conventional financial infrastructure. All 47 counties are affected, but the intensity of financial exclusion and MSME credit inaccessibility is highest in counties with limited financial infrastructure, lower mobile penetration, and higher informality rates.

The policy problem is not the product of a sudden external shock unlike the COVID-19 pandemic, which caused a temporary disruption in MSME operations documented in the 2021 and 2023 FinAccess MSE Tracker surveys. Rather, it is the product of a long, gradual, and structurally embedded process of market failure accumulation over decades, compounded by three distinct transition periods of

(1) **The Pre-Digital Era (pre-2007): Collateral-Bound Exclusion**: Kenya's financial system was built around formal enterprise characteristics titled land collateral, audited accounts, and corporate legal structure that most MSMEs do not and cannot possess. This architecture, established during the post-independence bank-led development finance era, created a structural exclusion of informal and micro-enterprises that has never been fundamentally reformed.

(2) **The Mobile Money Era (2007–2018): Access Without Depth**: The introduction of M-PESA in 2007 transformed Kenya's financial inclusion landscape at the access level, expanding inclusion from 26.7 percent in 2006 to 75.3 percent by 2016. However, mobile money solved the payment and savings access problem without addressing the credit infrastructure problem. MSME credit remained dominated by informal sources (family, chamas, moneylenders) while formal bank credit expanded only marginally for the MSME segment.

(3) **The Digital Credit Era (2018–present): Growth Without Quality** The explosion of digital credit accelerated by the Hustler Fund (2022) and the licensing of 85 Digital Credit Providers (2022–2024) expanded credit access dramatically in volume but not in developmental quality. Short-tenure, high-cost digital credit captured the majority of MSME borrowers but structurally cannot serve investment needs. The access-health paradox 84.8 percent inclusion, 18.3 percent health is the defining consequence of this era. The COVID-19 pandemic (2020–2022) temporarily accelerated the collapse of MSME financial health through lockdown-driven revenue losses, supply chain disruptions, and emergency debt accumulation that many enterprises have never fully unwound.

Underlying causes of MSME financial inclusion challenge based on literature review among others are:

(1). **Information asymmetry:** Lenders lack reliable, low-cost information on MSME creditworthiness. The CRB system excludes the majority of MSME lending activity, and alternative data (mobile money, tax, utility) has not been systematically converted into credit scoring signals.

(2). **Structural collateral mismatch:** The financial system requires land-based collateral; MSMEs predominantly hold movable assets. Despite the Movable Property Security Rights Act 2017, formal bank adoption of movable collateral as primary security remains limited.

(3). **Product design failure:** No regulatory standard mandates minimum product adequacy for MSME credit, resulting in a market dominated by short-tenure, high-cost products incompatible with enterprise investment cycles.

(4). **Institutional coordination failure:** Twenty-plus institutions with overlapping mandates operate without a statutory coordination mechanism, shared KPIs, or a common graduated credit ladder. Public investment is duplicated and diluted rather than sequenced and compounded.

(5). **Capacity and literacy deficit:** With 42.1 percent adult financial literacy and severely underfunded financial literacy delivery infrastructure (KIBT), the majority of MSME operators cannot effectively navigate, negotiate, or benefit from available financial products.

(6). **Regulatory framework gaps:** No SME supporting factor in prudential rules; DCP licensing backlog with over 480 applications pending; no MSME pre-insolvency restructuring track; no statutory CRB rehabilitation pathway; no open banking regulations. These gaps mean the regulatory architecture incentivises conservative bank lending rather than productive MSME credit.

The Government of Kenya has made substantial efforts to address MSME financial inclusion through a series of instruments such Credit Guarantee Scheme (2020), Hustler Fund / Financial Inclusion Fund (2022) , Women Enterprise Fund (2007) and Youth Enterprise Fund (2006), National Financial Inclusion Strategy and Digital Credit Provider Regulations (2022) among other with none of which has been sufficient individually or collectively to close the financing gap.

Government intervention in 2026 is justified by five convergent factors that make the cost of further delay uniquely high and the window of opportunity uniquely favourable.

1) **The MTP IV window:** Kenya is mid-implementation of MTP IV (2023–2027), which explicitly commits to MSME financial inclusion as a BETA core pillar. The 2026 Budget Policy Statement allocates significant public resources to MSME financial inclusion instruments. Without a policy framework to govern these investments, they will produce fragmented outputs. A policy developed in 2026 operates within the MTP IV investment envelope: policy delay to 2027 means operating outside the current planning cycle with reduced resource certainty.
2) **The KCGSC transition:** The Government is transitioning the CGS to the Kenya Credit Guarantee Scheme Company. This requires new legislation and a capital adequacy framework. The MSME Financial Inclusion Policy provides the strategic architecture that must precede not follow KCGSC legislation if the new company is to serve MSMEs rather than replicate existing CGS limitations.
3) **The AfCFTA trade finance opportunity:** The USD 285 million UBA/AfCFTA Kenya SME allocation and the AfCFTA Phase II Protocol negotiations on Digital Trade and Women/Youth in Trade are time sensitive. Kenya's competitors Ethiopia, Rwanda, Ghana are moving faster to capture AfCFTA MSME market share. A 2026 policy that creates the MSME trade finance architecture capitalises on Kenya's first mover advantage: delay forfeits market position.
4) **The NFIS alignment opportunity:** The CBK NFIS 2025–2028 was launched in December 2025. Developing the MSME Financial Inclusion Policy concurrently enables direct architectural alignment between the NFIS and the MSME policy avoiding duplication and ensuring complementarity. Delayed policy development risks the two frameworks developing in parallel without integration.
5) **The deteriorating financial health trend:** MSME financial health cannot be allowed to deteriorate further. The decline from 39 percent in 2016 to 18.3 percent in 2024 represents a near-halving of financial utility despite doubled access metrics. The trend if unaddressed projects a financially included but economically marginalised MSME population by 2030, directly contradicting the BETA transformation agenda. Every year of policy delay is a year of further financial health erosion with compounding economic consequences.

The MSME financial inclusion problem carries direct constitutional implications under the Constitution of Kenya 2010. Article 43(1)(f) the right to social security has been interpreted to encompass the right to economic opportunity, including the enabling conditions for productive self-employment. Article 10 mandates sustainable development, equity, and protection of the marginalised as national values binding on all public policy. Article 56 mandates affirmative action for marginalised groups which includes economically marginalised MSME owners. The continued failure to address the Ksh 2.6 trillion financing gap is, on these grounds, a constitutional deficiency that creates a legal obligation for Government intervention.

The Data Protection Act 2019 creates both an opportunity and an obligation: it enables the development of consented alternative credit data systems using mobile money and utility data, while requiring that any such system be governed by robust data rights frameworks. The proposed MSME Financial Inclusion Policy must address both the enabling and the protective dimensions of data-driven credit scoring.

The concentration of financial exclusion among women, youth, rural communities, and the poor raises fundamental questions of distributive justice. A financial system that records 84.8 percent access at the aggregate level while producing only 18.3 percent financial health is not equitably serving Kenya's population it is producing access metrics that mask persistent economic marginalisation. The predatory practices of unlicensed digital lenders documented in a 28 percent increase in CAK consumer complaints in 2025 represent an ethical failure that Government has a moral obligation to address through a comprehensive consumer protection and regulatory framework. The permanent CRB blacklisting of MSME operators who have resolved past defaults denying them a second chance that is standard practice in most OECD economies is a morally unjustifiable practice that a progressive MSME financial inclusion policy must remedy.

1.3 Rationale for Financial Inclusion Policy 2026 Development

The Kenya MSME Financial Inclusion Policy 2026 is being developed in response to a persistent, structurally entrenched, and economically consequential market failure: the systemic exclusion of Kenya's 7.4 million micro, small and medium enterprises from the formal financial system. This failure is not accidental it reflects the absence of a dedicated, coherent, and legally anchored policy framework that treats MSME financial inclusion as a distinct policy domain requiring targeted intervention. The rationale for this policy rests on six mutually reinforcing pillars: (1) The constitutional and developmental mandate to create an enabling environment for MSME financial inclusion (2) The severity and persistence of the MSME financing gap (3) The inadequacy of the existing regulatory, institutional, and product ecosystem (4) The evidence of rapidly deteriorating MSME financial health despite rising access metrics (5) The emergence of new opportunities through the AfCFTA, digital finance, and the BETA economic framework that require a coordinating policy to unlock; and (6) Kenya's unfulfilled obligations under multiple international frameworks it has ratified, including the AFI Maputo Accord, UN SDG 8.3, and the G20 GPFI MSME Financing Action Plan among others

1.4 Policy Goal and Objectives

1.4.1 Policy Goal

To establish a conducive, inclusive, and sustainable enabling environment that expands MSMEs' access to affordable, appropriate, and diversified credit and equity financing, enabling MSMEs across Kenya to invest, grow, create decent employment, and contribute to Kenya's economic transformation and social development.

1.4.2 Policy Objectives

Overall policy objective is operationalised through nine specific policy objectives, each aligned with one of the nine policy issue areas. Together, these objectives constitute the policy's commitment to shifting Kenya's MSME financial inclusion ecosystem from access metrics to financial utility outcomes from counting account holders to enabling investable, creditworthy, and market-ready enterprises at every stage of the MSME graduation ladder.
Specific Objectives are:

1. Strengthen lending models and coordinated grants governance framework for MSME financial inclusion
2. Enhance fitness for purpose of financial products for MSMEs
3. Establish a comprehensive and inclusive national MSME credit data architecture
4. Strengthen policy and legal environment in addressing structural and systemic barriers to MSME financial inclusion
5. Promote the reform of debt recovery practices to balance creditor rights with MSME viability
6. Develop and scale a national MSME financial literacy and capability programme
7. Establish an MSME trade finance infrastructure for local and export market access

1.6 Scope of the Policy

The scope of the Kenya MSME Financial Inclusion Policy 2026 is defined across six dimensions: subject matter coverage, target beneficiaries, institutional applicability, geographic coverage, temporal coverage, and the policy’s relationship to other policies and legislation.

1.6.1 Subject Matter Coverage

The Kenya MSME Financial Inclusion Policy 2026 is a financial inclusion policy specifically tailored to the MSME sector. Its subject matter covers the full spectrum of financial products, services, infrastructure, and enabling conditions necessary for MSMEs to access and meaningfully use financial services for productive investment, business growth, and resilience. Specifically, the policy covers the following thematic areas:

1. **Credit and Lending:** The policy covers all instruments through which MSMEs access debt financing, including commercial bank loans, microfinance loans, digital credit, government catalytic fund disbursements, and guarantee-backed lending. It addresses the governance, pricing, consumer protection, credit information, and product design dimensions of MSME credit markets.

2. **Equity and Risk Capital:** The policy covers the conditions under which MSMEs access equity financing, including through capital markets, venture capital, private equity, crowdfunding, and development finance institution instruments. It addresses the regulatory barriers in the Capital Markets Act that prevent MSME participation in formal equity markets.
3. **Trade Finance:** The policy covers the instruments and infrastructure through which MSMEs finance domestic and cross-border trade transactions, including supply chain finance, factoring and receivables discounting, export credit, letters of credit, and AfCFTA-aligned trade finance mechanisms.
4. **Insurance and Risk Management:** The policy covers MSME access to appropriate insurance products including credit guarantee instruments, index-based agricultural insurance, business interruption insurance, and microinsurance. It addresses the low penetration of insurance products among MSMEs, and the structural barriers created by the Insurance Act.
5. **Savings and Pension:** The policy covers the enabling conditions for MSMEs and their workers particularly in the informal sector to access and contribute to formal savings and pension schemes, including, occupational pension schemes, and mobile-based savings instruments.
6. **Credit Information and Alternative Data Scoring:** The policy covers the architecture and governance of Kenya's credit information sharing ecosystem as it pertains to MSMEs, including the Credit Reference Bureau framework, the CIS ValiData system, alternative data scoring models using mobile money transaction data, and the integration of SACCO and MFI data into the credit information sharing framework.
7. **Financial Infrastructure and Enabling Environment:** The policy covers the foundational infrastructure that supports MSME financial inclusion, including digital payment systems, mobile money interoperability, the Movable Property Security Rights Act and collateral registry, financial literacy and capability, and the regulatory and legislative reforms necessary to create a more MSME-responsive financial ecosystem.
8. **Government Catalytic Financing Instruments:** The policy covers the reform, coordination, and governance of government-administered MSME financing instruments including the Hustler Fund, Women Enterprise Fund, Youth Enterprise Development Fund, Uwezo Fund, Credit Guarantee Scheme, and Kenya Industrial Estates financing programmes among others. It establishes the policy framework within which these instruments are held accountable for financial health and developmental outcomes.

What This Policy Does Not Cover

The Kenya MSME Financial Inclusion Policy 2026 does not govern the general financial inclusion of individual consumers who are not engaged in MSME activity. Consumer financial inclusion is addressed through the National Financial Inclusion Strategy (NFIS) 2025–2028. The policy does not govern large enterprise financing, public enterprise financing, or the general commercial banking regulatory framework except where such frameworks directly affect MSME financial inclusion. It does not replace sector-specific policies such as the Co-operatives

Policy, the Agricultural Finance Policy, or the Capital Markets Development Policy, but provides the coordination framework within which these policies serve MSME financial inclusion objectives.

1.6.2 Target Beneficiaries

The primary beneficiaries of this policy are Kenya's estimated 7.4 million MSMEs, as defined by the Micro and Small Enterprises Act, 2012 and the proposed MSME Amendment Bill 2025. The policy applies to enterprises across all three tiers of the MSME classification.

Within this broad population of 7.4 million enterprises, the policy identifies priority target groups whose financial inclusion gaps are most severe and whose exclusion from financial services carries the greatest social and economic cost. Consistent with the equity and inclusion pillar of the NFIS 2025–2028 , these priority groups are:

1. **Women-owned and women-led MSMEs:** who face compounding barriers of collateral requirements, social norms, gender-disaggregated data gaps, and product misalignment that limit their access to credit, insurance, and equity financing.
2. **Youth-owned MSMEs:** including enterprises owned by persons aged 18–35, who face challenges of limited credit history, insufficient collateral, and early-stage business risk that make them disproportionately excluded from formal financing.
3. **MSMEs owned by Persons with Disabilities (PWDs):** who face physical, informational, and product design barriers to accessing financial services.
4. **Rural and peri-urban MSMEs:** who are geographically disadvantaged by the concentration of financial infrastructure in urban centres and who face additional constraints related to infrastructure quality, digital connectivity, and income seasonality.
5. **Informal and semi-formal MSMEs:** including the 5.84 million unlicensed enterprises that constitute the majority of Kenya's MSME sector, whose informality creates barriers to formal financial service access and who are the primary focus of this policy's formalization and financial identity provisions.
6. **Agri-MSMEs and rural smallholder farmer enterprises:** for whom tailored agricultural finance, index-based insurance, and value chain finance instruments are essential to enable productive investment and resilience.
7. **Start-ups and early-stage enterprises:** within the first three years of operation, which represent the highest risk of failure (approximately 70 per cent failure rate within three years) and the greatest need for patient, risk-tolerant financing instruments.

1.6.3 Institutional Applicability

Consistent with the 'Whole of Government' approach articulated in the Kenya Public Policy Handbook (2024) which emphasizes collaboration and coordination across all Ministries, Departments, Agencies, and Counties (MDACs) the Kenya MSME Financial Inclusion Policy 2026 applies to a broad range of institutions. These are organized into four categories:

(a) National Government Ministries, Departments, and Agencies (MDAs)

1. **Ministry of Co-operatives and MSMEs Development:** as the lead implementing ministry, responsible for policy coordination, reporting, and legislative alignment.
2. **National Treasury and Economic Planning:** responsible for fiscal policy alignment, Credit Guarantee Scheme governance, and integration of MSME financial inclusion targets into the medium-term expenditure framework (MTEF).
3. **Central Bank of Kenya (CBK):** as the principal regulator of banks, microfinance institutions, digital credit providers, and the credit information sharing framework. The CBK is the co-custodian of the NFIS 2025–2028 and is a critical implementing partner.
4. **Capital Markets Authority (CMA):** responsible for regulatory reforms to the Capital Markets Act to unlock MSME access to equity and debt financing instruments.
5. **Insurance Regulatory Authority (IRA):** responsible for the development and regulation of MSME-appropriate insurance products including microinsurance, index-based insurance, and credit guarantee instruments.
6. **Retirement Benefits Authority (RBA):** responsible for expanding pension coverage to informal sector MSME workers.
7. **SACCO Societies Regulatory Authority (SASRA):** responsible for integrating SACCOs more fully into the credit information sharing framework and expanding SACCO-based MSME financing.
8. **Micro and Small Enterprises Authority (MSEA):** as the operational arm of MSME development policy implementation.
9. **Kenya Revenue Authority (KRA):** responsible for the eTIMS electronic invoicing system, which underpins the proposed digital trade finance platform, and for formalization incentives.
10. **Business Registration Service (BRS):** responsible for the Movable Property Security Rights (MPSR) Registry and MSME registration systems.
11. **Other relevant MDAs:** including Kenya Export Promotion and Branding Agency (KEPROBA), Kenya Industrial Estates (KIE), Kenya Industrial Research and Development Institute (KIRDI), and constituency-level industrial development centres.

(b) Financial Sector Institutions

1. Commercial banks and tier-1, tier-2, and tier-3 deposit-taking institutions regulated by the CBK
2. Microfinance institutions (MFIs), both deposit-taking and credit-only, regulated by the CBK
3. Digital credit providers licensed under the CBK (Digital Credit Providers) Regulations 2022
4. SACCOs regulated by SASRA

5. Insurance companies and micro insurers regulated by the IRA
6. Capital markets intermediaries regulated by the CMA
7. Government catalytic funds including the Hustler Fund, Women Enterprise Fund, Youth Enterprise Development Fund, Uwezo Fund, and Kenya Industrial Estates
8. Development finance institutions including Afreximbank, IFC, and the Kenya Development Corporation (KDC)
9. Credit Reference Bureaus (Metropol, Transunion, CreditInfo) and the Credit Information Sharing Association of Kenya (CIS Kenya)

(c) County Governments

Consistent with Kenya's devolved system of government under the Constitution 2010, the policy applies to all 47 county governments. Counties are a critical implementing layer of the policy, responsible for licensing and regulation of informal MSMEs within their jurisdictions, local financial infrastructure development, county-level public participation in policy implementation, integration of MSME financial inclusion targets into County Integrated Development Plans (CIDPs), and facilitating access to county-administered enterprise development funds and business development services.

(d) Non-State Actors and Development Partners

1. The private sector, including industry associations (Kenya Bankers Association, KEPSA, KAM, AMFI-K, DFSAK among others)
2. Civil society organisations working on financial inclusion, consumer protection, and MSME advocacy
3. Bilateral and multilateral development partners
4. Academic and research institutions
5. Co-operative societies and the Co-operative Alliances

1.6.4 Geographic Coverage

The Kenya MSME Financial Inclusion Policy 2026 applies to the entire territory of the Republic of Kenya, covering all 47 counties at both the national and sub-national level. Its geographic reach reflects the reality that MSME financial inclusion challenges and opportunities are not uniform across the country, and that effective policy must account for the distinct characteristics of different geographic contexts:

1. **Urban centres:** where MSMEs are generally better served by financial infrastructure but face high operational costs, intense competition, and growing digital credit dependency with associated debt stress.
2. **Peri-urban and secondary towns:** which represent the fastest-growing segment of Kenya's MSME economy but often lack the financial infrastructure density of major urban centres.
3. **Rural areas and agricultural zones:** where the majority of Kenya's excluded population resides, including the nearly 50 per cent of excluded persons who are rural youth lacking phones or identification documents, as documented in the FinAccess

2024 Survey. The policy's agricultural and rural finance provisions are specifically designed for these areas.
4. **Arid and Semi-Arid Lands (ASALs):** which face compounding disadvantages of geographic remoteness, climate vulnerability, limited digital connectivity, and historically low financial service provider density. The policy mandates specific inclusion interventions for ASAL communities.
5. **Border counties and cross-border trade zones:** which are particularly relevant to the policy's trade finance provisions, given their role in facilitating intra-EAC and AfCFTA trade.

1.6.5 Temporal Coverage

The Kenya MSME Financial Inclusion Policy 2026 covers the period from 2026 to 2030, a five-year implementation horizon deliberately aligned with:

1. **The National Financial Inclusion Strategy (NFIS) 2025–2028:** to ensure coherence and mutual reinforcement between this policy and Kenya's overarching financial inclusion strategy.
2. **The Fourth Medium-Term Plan (MTP IV) 2023–2027 under the BETA Framework:** to align MSME financial inclusion targets with Kenya's national development planning cycle and resource allocation processes.
3. **The African Union Agenda 2063 and EAC Vision 2050 implementation timelines:** which require progressive integration of MSME financing frameworks into continental and regional architectures.
4. **The UN SDG 2030 Agenda:** particularly SDG 8.3, which calls for the promotion of development-oriented policies supporting productive activities, decent job creation, entrepreneurship, and innovation by 2030.

The policy provides for a mandatory mid-term review in 2028, aligned with the conclusion of the NFIS 2025–2028 cycle, and a comprehensive end-of-term evaluation in 2030. At each review point, the policy will be assessed against its key performance indicators, updated to reflect changing economic conditions and technological developments, and re-submitted to Cabinet for reaffirmation or revision as appropriate.

POLICY REVIEW INTERVAL

As prescribed by the Kenya Public Policy Handbook (March 2024), this policy is subject to mandatory review at the midpoint of its implementation cycle (2028) and at expiry (2030). The review process will be led by the State Department for MSME Development in collaboration with an independent evaluation team, and findings will be reported to the National Assembly, Cabinet, and the public. The policy may be reviewed earlier in the event of a significant change in the legal, economic, or regulatory environment that materially affects its relevance or implementation.

1.6.6 Relationship to Other Policies, Strategies, and Legislation

The Kenya MSME Financial Inclusion Policy 2026 operates within a dense web of existing policies, strategies, and legal frameworks. Consistent with the principle of policy coherence articulated in the Kenya Public Policy Handbook (2024), this policy does not create parallel or conflicting obligations but provides the coordinating architecture within which existing instruments serve the MSME financial inclusion objective.

Instrument	Relationship to This Policy
Constitution of Kenya 2010	The supreme legal authority. This policy derives its mandate from Articles 10 (national values including equity), 43 (economic and social rights), 46 (consumer rights), 55 (youth), 56 (marginalised groups), and 174–175 (devolution). All policy provisions must be interpreted consistently with the Constitution.
Kenya Vision 2030 and MTP IV (BETA)	The overarching national development framework. This policy is a sectoral implementing instrument of Vision 2030 and specifically operationalises the MSME financial inclusion components of MTP IV's Bottom-Up Economic Transformation Agenda (BETA).
NFIS 2025–2028	The overarching financial inclusion strategy. This policy is the MSME-specific implementing instrument of the NFIS 2025–2028 and should be read as a companion document to the national strategy. Targets in this policy are aligned with and nested within NFIS targets.
MSME Policy 2026	The parent MSME development policy. This policy provides the detailed financial inclusion framework within Objective 5 of the MSME Policy 2026 ('Access to diversified and affordable financial products and services for MSMEs'). The two documents are complementary and should be implemented in an integrated manner.
MSE Act 2012 and MSME Amendment Bill 2025	The primary legislation governing MSMEs. This policy informs and is informed by the proposed MSME Amendment Bill 2025. Legislative reforms identified in this policy, including recognition of MSMEs by banks upon presentation of business licences, will require enactment of the Amendment Bill.
Banking Act (Cap. 488) and CBK Regulations	Governs commercial bank and MFI lending. This policy identifies amendments required to the Banking (Credit Reference Bureau) Regulations and to lending frameworks to better serve MSMEs.
Capital Markets Act (Cap. 485A)	Governs capital markets access. This policy identifies specific gaps in the Capital Markets Act that restrict MSME access to

Instrument	Relationship to This Policy
	equity and debt financing and calls for targeted legislative reform.
Insurance Act (Cap. 487)	Governs insurance products and providers. This policy works with the IRA's proposed Index Insurance Regulations 2025 and calls for further reforms to reduce entry barriers for MSME-focused microinsurers.
Movable Property Security Rights Act 2017	Governs use of movable collateral. This policy builds on and expands the MPSR framework as the foundation of MSME collateral reform, requiring continued investment in the MPSR Registry and its integration with financial sector systems.
AfCFTA Agreement and EAC Treaty	International trade frameworks. This policy's trade finance provisions are specifically designed to equip Kenyan MSMEs to participate in the AfCFTA market and EAC common market, using PAPSS and Afreximbank instruments.
AFI Maputo Accord, UN SDG 8.3, G20 GPFI MSME Financing Action Plan	International commitments. This policy is Kenya's domestic implementing framework for these international MSME financing obligations. Progress against these frameworks will be reported through the relevant international reporting mechanisms.

1.6.7 Exclusions from the Scope of This Policy

To ensure clarity and prevent overlap with other policy instruments, the following are explicitly excluded from the scope of the Kenya MSME Financial Inclusion Policy 2026:

1. Individual consumer financial inclusion for persons not engaged in MSME activity governed by the NFIS 2025–2028
2. Large enterprise (turnover above Ksh 100 million or employment above 250 persons) financing policy- governed by industry-specific frameworks
3. General commercial banking regulation and monetary policy — governed by the CBK Act and Banking Act
4. Co-operative society governance and management — governed by the Co-operative Societies Act and the Co-operatives Policy
5. Public enterprise financing and State-Owned Enterprise reform — governed by the State Corporations Act
6. Capital market regulation beyond MSME access provisions — governed by the Capital Markets Act and CMA's Capital Markets Master Plan
7. Agricultural development policy beyond agricultural MSME financing — governed by the Agriculture Sector Transformation and Growth Strategy

1.7 Structure of the Policy

Consistent with the policy document structure prescribed in Chapter Four of the Kenya Public Policy Handbook (March 2024), the Kenya MSME Financial Inclusion Policy 2026 is organised as follows:

Chapter / Section	Content
Preliminary Sections	Foreword (Cabinet Secretary); Preface and Acknowledgement (Principal Secretary); Table of Contents; List of Tables and Figures; Acronyms and Abbreviations; Definitions of Key Terms.
Chapter One: Introduction	Overview; Background; Scope of the Policy; Policy Goal and Objectives; Structure of the Policy.
Chapter Two: Situation Analysis	The analysis examines seven policy issue areas across global, African continental, and national dimensions: (1) lending models and grant governance framework (2) credit and equity product design (3) credit data systems (4) structural and systemic barriers (5) debt recovery practices (6) financial literacy (7) trade finance and market access. It reviews Kenya's existing policy, legal and institutional framework, identifies critical gaps, examines regional and international frameworks, and distils lessons for policy formulation.
Chapter Three: Policy Statements	The policy's seven strategic pillars, each articulated as a set of policy statements with associated policy objectives, strategies, and key interventions. Pillar areas: (1) Strengthen lending models and coordinated grants governance framework for MSME financial inclusion (2) Enhance fit for purpose financial products for MSMEs (3) Establish a comprehensive and inclusive national MSME credit data architecture (4) Strengthen policy and legal environment in addressing structural and systemic barriers to MSME financial inclusion (5) Promote the reform of debt recovery practices to balance creditor rights with MSME viability (6) Develop and scale a national MSME financial literacy and capability programme (7) Establish an MSME trade finance infrastructure for local and export market access
Chapter Four:	Institutional roles and responsibilities; coordination

Chapter / Section	Content
Implementation Framework	mechanisms; resource mobilisation and financing; legislative reform agenda; county government integration; and the Policy Implementation Matrix.
Chapter Five: Monitoring, Evaluation, Reporting and Learning (MERL)	Key Performance Indicators; data collection and reporting mechanisms; independent evaluation schedule; learning and adaptive management provisions; and reporting obligations to Parliament, Cabinet, and the public.
Annexes	Annex 1: MSME Definition Matrix; Annex 2: Policy Implementation Matrix; Annex 3: M&E Framework and KPI Schedule; Annex 4: Legislative Reform Action Plan; Annex 5: Stakeholder Engagement Summary.

CHAPTER 2

2.0 SITUATIONAL ANALYSIS OF MSME SECTOR FINANCIAL INLCUSION

2.1 Executive Summary

This Situation Analysis provides a comprehensive, evidence-based foundation for the development of Kenya's Financial Inclusion Policy for Micro, Small and Medium Enterprises (MSMEs). It is prepared in direct support of the State Department for MSME Development's mandate to create a conducive environment for increased access to credit and equity financing by MSMEs across Kenya.

Kenya's MSME sector is the backbone of its economy, comprising over 7.4 million enterprises, employing approximately 14.9 million Kenyans, and contributing an estimated 33 percent of GDP. Despite this outsized economic significance, the sector faces a financing deficit of over Ksh 2.6 trillion (World Bank, 2024). The 2024 FinAccess Household Survey reveals that while overall financial inclusion reached 84.8%, the ability of micro and small enterprises to invest in growth has collapsed by nearly 40 percentage points from 63 percent in 2021 to just 24 percent in 2024 signalling a deepening crisis beyond mere account access.

The analysis examines seven policy issue areas across global, African continental, and national dimensions: (1) lending models and grant governance framework (2) credit and equity product design (3) credit data systems (4) structural and systemic barriers (5) debt recovery practices (6) financial literacy (7) trade finance and market access. It reviews Kenya's existing policy, legal and institutional framework, identifies critical gaps, examines regional and international frameworks, and distils lessons for policy formulation.

2.2 Introduction and Context

MSMEs globally constitute approximately 90 percent of all businesses and generate more than 50 percent of employment worldwide (IFC, 2019). In low- and middle-income countries, MSMEs contribute over 40 percent to national GDP (IFC, 2023). Yet the global MSME financing gap in emerging economies stood at an estimated USD 5.2–5.7 trillion as of 2019, with East Asia and the Pacific accounting for 46 percent of that shortfall, followed by Latin America (19 percent) and Sub-Saharan Africa (12 percent) (IFC/GPFI, 2024). Despite technological advances in financial services, this gap has remained stubbornly persistent.

In Kenya, the challenge is acute and worsening. The 2024 FinAccess Business Supply-Side Survey (CBK, 2025) and the 2024 FinAccess Household Survey (FSD Kenya) collectively reveal a financial system that is increasingly accessible at the account level but falling short in delivering productive, affordable, and appropriately structured financing to MSMEs operating across diverse sectors and geographies.

2.3 Policy Issue Area 1: Lending Models and Grants Governance framework

2.3.1 Global Status and Trends

The global lending landscape for MSMEs is undergoing profound transformation. The dominant trend is the digitisation of lending, with the global digital lending market valued in the hundreds of billions and growing at a compound annual rate of approximately 13 to 15 percent. Machine learning models now process hundreds of borrower attributes in real time, cutting origination costs and enabling near-instant approvals. By 2025, over 90 percent of digital loan applications globally are routed through automated underwriting engines, with platforms reporting 80 percent instant approvals without document uploads (Mordor Intelligence, 2025).

Fintech partnerships now account for over 35 percent of SME loan originations globally, and average loan approval times dropped to 2.6 days in 2025 (SME Banking Statistics, 2025). The global microfinance market is projected to grow from USD 215.51 billion in 2024 to USD 368 billion by 2029 (CAGR of 11.2%), reflecting rising demand for inclusive financial services in emerging economies. Key lending models in the global market include:

(1) Traditional bank lending (declining share for smaller MSMEs due to collateral barriers),

(2) Digital fintech lending (rapid growth; data-driven; high interest rates)

(3) Microfinance institution (MFI) lending (essential for micro-enterprises and women-owned businesses

(4) Peer-to-peer (P2P) and crowdfunding platforms (5) Supply-chain and invoice financing (anchored-buyer models) (6) Blended finance vehicles combining concessional and commercial capital

(7) Credit guarantee-backed lending (government-facilitated risk-sharing)

According to BIS Working Papers (2024), fintech and big tech lending, while growing rapidly, still constitute less than 0.1 percent of GDP in most emerging market economies. Crucially, alternative credit appears to complement rather than replace traditional bank credit: SMEs that borrow from fintechs or big techs are more likely to subsequently obtain a bank loan or credit line, suggesting a credit escalation pathway.

Similarly, Grants and non-repayable funding occupy a distinct and necessary position in the MSME financial inclusion architecture. Their justification rests on a well-established market failure argument: despite years of government-backed support programmes, MSMEs still face significant financing gaps that hinder their growth, productivity, resilience, and, ultimately, a country's economic potential (World Bank, 2024). The credit gap for emerging market and developing economies (EMDEs) was estimated at USD 5.7 trillion in 2019, with the gap for women-owned MSMEs representing 34 percent of this amount (G20 GPFI, December 2024). Where commercial finance structurally cannot reach the earliest-stage, highest-risk, and most underserved enterprise segments, non-repayable capital has historically served as the critical entry point.

Globally, non-repayable funding flows to MSME financial inclusion through three primary channels:
(1) Bilateral Official Development Assistance (ODA),
(2) Multilateral development bank grant facilities,
(3) Philanthropic capital.
The World Bank's Lebanon Innovative SME (iSME) project illustrates the catalytic effect achievable: a USD 30 million grant and equity co-investment facility supported 174 seed-stage firms, with 60 grantees subsequently leveraging a combined USD 13.1 million from private sources a leverage ratio of 5.3 times, demonstrating grants' capacity to crowd in private capital when well-designed (World Bank). Similarly, IFC's Global SME Finance Facility (GSMEF) a blended finance partnership funded by the UK FCDO and the Netherlands aims to generate one million new jobs in the SME sector by catalysing access to finance for underserved enterprises (IFC, 2024). In May 2024, IFC launched a USD 4 billion MSME Finance Platform deploying a Catalytic First Loss Guarantee a grant-equivalent instrument to extend first loss protection to financial service providers who often have local currency liquidity but limited MSME exposure due to the segment's perceived high risk International Finance Corporation.
The dominant global policy consensus has shifted decisively against perpetual, poorly targeted grant subsidies. The World Bank's flagship report Boosting SME Finance for Growth (2024) cautions that public financing programmes should not crowd in private capital, and policymakers must carefully monitor programmes for the potential to displace commercial financing, especially programmes that provide financing to MSMEs at better terms than those available in the market World Bank. Specifically, in debt financing, this translates to scaling back direct lending programmes which often fail to mobilise private capital and may even crowd it out. The OECD's 2023 SME and Entrepreneurship Ministerial guidance similarly recommends a broader range of finance interventions, including grants and wage subsidies, alongside equity and quasi-equity, while paying attention to longer-term repayment patterns and delaying the start of debt repayments signalling that grants must be part of a graduated financing continuum, not a standalone instrument.
The global grant landscape for MSME financial inclusion is under acute structural pressure. Official development assistance (ODA) funding reached an all-time high in 2023 but then plunged by 6 percent in 2024 and a further 9 to 17 percent in 2025, with additional reductions expected in 2026, and by 2027 ODA is expected to recede to 2020 levels CGAP (CGAP, 2025). Three developments defined the funding environment in 2025:
(1) USAID effectively came to an end;
(2) bilateral donors including Germany, France, and the Netherlands sharply reduced their commitments
(3) the Gates Foundation plans to sunset its Inclusive Financial Systems team by 2030 (Center for Financial Inclusion, December 2025). Cumulatively, the international development funding landscape shifted dramatically in 2025, with cuts leading to an

overall annual reduction in global aid projected at USD 40 to 60 billion Center for Financial Inclusion.

Global best practice now defines effective non-repayable funding as transitional, time-bound, and explicitly designed to catalyse market development rather than substitute for it. Organisations that have historically relied on grants are evolving toward a blend of donor-funded projects and commercial contracts, as the ecosystem matures and diverse financial service providers, platforms, and regulators seek specialised expertise Center for Financial Inclusion. The consensus, anchored in the G20 GPFI Action Plan (December 2024), the World Bank's Boosting SME Finance for Growth (2024), and the OECD Financing SMEs Scoreboard (2025), is unambiguous: grants retain an indispensable role in reaching market failures particularly for women-owned enterprises, rural MSMEs, and early-stage innovation but must be governed by robust diagnostics, leverage targets, graduation pathways to commercial credit, and rigorous impact measurement to justify their deployment in an era of dramatically contracting public finance.

2.3.2 African Continental Status and Trends

Africa's 125 million formal and informal SMEs representing 90 percent of all private-sector businesses face a financing gap estimated at USD 331 billion in sub-Saharan Africa alone (MIT Sloan, 2024). The continent's MSMEs are trapped in the 'missing middle': too large for microfinance institutions but too small and risky for conventional commercial banks. This structural dislocation is compounded by currency volatility, with more than 20 African currencies experiencing double-digit depreciation against the US dollar over the past decade, including the Kenyan shilling depreciating 30 percent in 2023 (MIT Sloan, 2024).

The continent's dominant lending model trends include: (1) the rapid growth of mobile money-linked credit products (Kenya's M-Shwari, Ghana's MTN MoMo Loans, and similar products across 40 plus African markets); (2) the emergence of fintech lending fintechs offering alternative credit scoring using mobile data, transaction histories, and psychometric testing; (3) development finance institution (DFI) funding flowing through commercial banks under on-lending arrangements; and (4) a nascent but growing leasing and factoring market. A 2024 AFI (Alliance for Financial Inclusion) scoping survey found that leasing and factoring remain at a nascent phase across much of Africa, with only 31 percent of surveyed countries reporting that these mechanisms are being actively offered to MSMEs. The use of capital markets for MSME financing remains marginal, though regulatory frameworks are being developed in several jurisdictions.

Across sub-Saharan Africa, non-repayable grants and concessional non-repayable funding constitute a significant but structurally fragile pillar of MSME financial inclusion. Official Development Assistance (ODA) represents a mere 6 percent of the USD 2.5 trillion Sustainable Development Goal investment gap, meaning that grant resources are fundamentally insufficient to close the MSME financing gap on their own. Notwithstanding this constraint, multilateral institutions have deployed substantial grant envelopes targeted at MSME ecosystems.

Since its creation in 1972, the African Development Fund has provided more than USD 45 billion in grants, low-interest loans, and guarantees tailored to the needs of 37 of Africa's least-developed countries. The African Development Bank's Africa Digital Financial Inclusion Facility (ADFI) further exemplifies the grant-as-catalyst model: ADFI makes strategic investments in digital solutions that can address systemic barriers to the take-up and usage of financial inclusion, leveraging technology and partnerships to reach women, youth, MSMEs, and rural clients the segments lying at the heart of Africa's economy.
The evidence base on African grants for MSME inclusion consistently identifies their highest-value application as system-building and de-risking rather than direct enterprise finance. Grants are deployed to provide technical assistance to catalyse increased financing and investments to MSMEs, particularly for projects that are initially funded with grants but must migrate towards sustainability a key design principle embedded in the African Development Bank's Green Investment Program for Africa. For African SMEs, two of the most important uses for grants are technical assistance and 'soft money' during the pilot stage of a firm, since grants come with no strings attached, lacking repayment or ownership reduction. At the institutional level, IFC's 2024 MSME Finance Platform a USD 4 billion financing package was itself enabled by prior concessional grant investments in financial intermediaries, reflecting the leverage function of non-repayable funding in mobilising private capital flows.

Despite their catalytic potential, grants applied indiscriminately create documented market failures across the continent. Given the inherently distortionary effects of grants, it is important that they are applied selectively to reduce the risk of crowding out private investment. Once firms reach a certain stage in their growth, they no longer want grant financing because they wish to be perceived as legitimate using loans or equity to grow instead. Therefore, grants should be used selectively during the pilot stage of a firm. This challenge is acutely visible in national government grant programmes. Traditional ODA approaches often perpetuate dependency, impose top-down solutions, and marginalize local agency, highlighting the limitations of existing aid models. The ILO's 2024 study on Credit Guarantee Schemes (CGS) in Africa a semi-grant instrument further confirms this ambivalence: the credit guarantee leverage ratio shows that for every monetary unit in the CGS, MSMEs get nearly double the CGS size, indicating positive impact on access to finance yet despite the guarantor assuming a portion of the risk, financial institutions still impose restrictive collateral conditions. This reveals that non-repayable risk cover alone does not restructure lender behaviour.

The dominant continental trend, reflected in frameworks from the AfDB, IFC, and bilateral donors, is a deliberate shift away from standalone grants toward blended finance architectures. Blended finance is not sustainable without investing in and supporting African institutions; grants and ODA allocations should be targeted toward investment facilitation and the strengthening of local advisory firms and intermediaries, since an effective investment facilitation infrastructure is critical to developing a self-sustaining investment ecosystem allowing continued engagement between African

MSMEs and commercial lenders. The AfDB's 17th African Development Fund replenishment (ADF-17, December 2025) operationalises this principle: the blended structure helps to mobilise private capital, particularly in high-risk environments combining grants with concessional loans and guarantees to progressively reduce public subsidy dependency. The emerging policy consensus across the continent is that grants must be time-limited, outcome-linked, and explicitly designed to graduate MSME recipients toward commercial credit or risk perpetuating the very exclusion they seek to remedy.

2.3.3 Kenya National Status and Trends

Kenya's MSME sector comprising over 7.4 million enterprises, employing 14.9 million people, and contributing an estimated 34 percent of GDP operates within a lending ecosystem that is structurally rich yet practically exclusionary for most small businesses (National Treasury, 2020; KIPPRA, 2024). The landscape for MSME financing in Kenya is relatively fragmented, with commercial banks dominating lending to MSMEs, but with a growing number of other lenders such as microfinance banks (MFBs), savings and credit cooperative organisations (SACCOs), and unregulated microfinance institutions (MFIs) and informal lenders (Macdonald, IDS/K4DD, 2024).

Despite constituting the backbone of formal credit, commercial bank lending to MSMEs is contracting. The value of loans awarded by banks to MSMEs dropped 13 percent in the two years to 2024, on account of high cost of credit and lack of collateral. As of December 2024, there were 0.89 million active MSME loan accounts in the banking industry a notable 24.7 percent decrease from 1.18 million accounts in December 2022. Borrowing costs are prohibitive: the average rate of interest charged on facilities to MSMEs as at December 2024 was 16.4 percent for commercial banks and 26.3 percent for microfinance banks respectively, with MFBs charging micro enterprises 23.8 percent, small enterprises 30.9 percent, and medium-sized enterprises 24.3 percent (CBK, 2025).

The most dynamic growth segment is digital credit. Digital lenders overtook microfinance banks in total loans disbursed as early as December 2024. The number of active digital credit accounts increased significantly from 2.4 million in December 2023 to 4 million in December 2024, and further to 5.5 million by June 2025. However, most loans issued by digital credit providers (DCPs) were below Ksh 20,000, consistent with their microloan model offering short-term credit with maturities ranging between one week and two months products structurally mismatched to MSME investment and working-capital needs (CBK, 2025). The CBK had licensed 85 Digital Credit Providers as of 2024 following enactment of the Central Bank of Kenya (Amendment) Act, 2021, which empowered the CBK to regulate digital lenders for the first time.

The government operates three flagship lending models. (1) The Hustler Fund (Financial Inclusion Fund), launched on 30 November 2022, had disbursed over Ksh 53 billion reaching approximately 24 million Kenyans by September 2024 (KHRC, 2025; State Department for MSME Development, 2024). The Fund's default performance deteriorated sharply: the Auditor General found that 64 per cent of the outstanding loan portfolio equivalent to Ksh 8.74 billion of Ksh 13.57 billion remained unpaid as at June 2024 (Auditor General, 2024/25), while Parliamentary testimony in late 2024 placed the default rate at 78 per cent at its peak (Special Funds Accounts Committee, 2024). The Fund CEO subsequently reported to Parliament that defaults had eased to 15 per cent by March 2026 as recovery efforts intensified (Hustler Fund CEO Henry Tanui, Parliamentary testimony, March 2026), with total disbursements reaching Ksh 83 billion by that date exposing the fund's structural fragility.(2) Credit Guarantee Scheme (CGS) had disbursed Ksh 6.34 billion to 4,147 MSMEs across 46 counties by September 2024 (National Treasury, 2024) far below its potential, prompting a planned eightfold expansion from Ksh 3 billion to Ksh 25 billion to unlock up to Ksh 50 billion in commercial bank lending to over 200,000 enterprises by providing partial risk guarantees to financial institutions (National Treasury, 2025) .

(3) The Movable Property Security Rights (MPSR) Act of 2017 is a legislation aimed at facilitating the use of movable property as collateral for securing credit. The Act unified various legal provisions that had previously governed the use of movable collateral into a single piece of legislation and provided for the establishment of an electronic movable collateral registry managed by the Business Registration Service (BRS), replacing the paper-based chattels registry. As of June 2022, over 600,000 initial notices had been registered through the registry, and the number and value of credit facilities granted using the registry had grown steadily over the years (FSD Kenya). BRS data shows MPSR initial notices increased sharply to a record high of 167,271 in financial year 2022/23, up from 118,157 in 2021/22 the third consecutive year of volume increase, having dipped sharply in FY 2019/20 due to the Covid-19 pandemic. The use of movable assets as loan collateral rose 43.02% in 2025, with initial security notices filed by financiers at the MPSR registry increasing to 151,057, up from 105,617 in 2024. The BRS indicated this jump reflects growing reliance on movable property as credit demand strengthens across the economy amid easing monetary conditions. Searches conducted on the MPSR registry also rose 19.1% to 30,760 during the year, up from 25,830 in 2024, signalling increased due diligence by lenders seeking to confirm whether assets offered as collateral are already encumbered. The rise in registrations and searches points to deeper integration of the registry into mainstream lending, nearly a decade after it was established.

Microfinance banks' total assets declined by 5.1 percent year-on-year to Ksh 60.9 billion in 2024, driven by subdued lending activity and intensified competition from commercial banks and digital lenders. Meanwhile, SACCOs remain a critical MSME credit channel, particularly for rural and agricultural enterprises, operating through the World Bank's SAFER Programme on-lending mechanism at capped rates of up to 11 percent

Across all models, the CBK attributes the decline in bank MSME lending to high lending interest rates, subdued consumer demand, and increased competition from alternative lenders, particularly digital credit providers and SACCOs active in MSME lending (CBK FinAccess Business Survey, 2025). Kenya's MSME lending ecosystem is shifting from bank-dominated, collateral-based models toward fragmented digital micro-credit a transition that expands access in volume but deepens the structural mismatch between available credit products and the long-term, investment-grade financing MSMEs require to grow.

Non-repayable funding spanning public affirmative funds, development partner grants, private sector initiatives, and civil society disbursements constitutes a significant, if structurally fragmented, pillar of MSME financial inclusion in Kenya. While these instruments address genuine market failures by reaching MSMEs excluded from formal credit, evidence points to a landscape of growing resource commitment alongside persistent governance, sustainability, and graduation challenges.
The Government of Kenya administers four principal affirmative funding vehicles through the State Department for MSME Development: The Financial Inclusion Fund (Hustler Fund), the Women Enterprise Fund (WEF), the Youth Enterprise Development Fund (YEDF), and the Uwezo Fund. The FY 2024/25 budget allocated Ksh 5 billion to the Hustler Fund, Ksh 200 million each to the YEDF and Uwezo Fund, and Ksh 182.8 million to WEF (Cytonn Research, 2024).
The Hustler Fund has disbursed close to Ksh 57 billion (2024) , reaching 24 million Kenyans almost three-quarters of the adult population and is promoting a culture of creditworthiness as a response to conventional collateral systems that are out of reach by most Kenyans. The Uwezo Fund has disbursed Ksh 7.2 billion cumulatively to 79,145 groups of youth, women, and persons with disabilities since inception. WEF has cumulatively disbursed Ksh 26.4 billion to over 136,721 self-help groups and 2,063,147 individuals

Yet structural weaknesses undermine impact. Many MSMEs report difficulties in accessing government catalytic funds due to bureaucratic hurdles, limited outreach, and lack of information on how to apply, with most funds recording operational challenges and high loan default rates that limit their sustainability. The Uwezo Fund recorded a 61.7 percent cumulative default rate (Auditor General, 2024). Recognising these overlaps and inefficiencies, the Government announced plans to merge the Uwezo Fund, Youth Fund, and Women Enterprise Fund into a single Biashara Fund to streamline access, eliminate loopholes that have led to misuse, and curb cases of individuals accessing multiple funds unfairly.

Development partners provide non-repayable grants primarily targeting financial systems infrastructure, capacity building, and pilot innovations. IFAD, under the EU-funded PRIME Africa initiative, allocated grants to Credit Bank and FSD Kenya to reduce remittance transaction costs and promote financial inclusion in rural areas through

SACCOs. Similarly, USAID approved three catalytic projects totalling USD 2.48 million through the Drip Programme to stimulate MSME growth, deploying USD 1.9 million for capacity building and receivables financing and USD 1 million for fertiliser investment leveraging, creating over 10,000 jobs for women and youth.

Private-sector grant activity is growing, anchored in corporate social responsibility and impact investment mandates. FSD Africa proposed establishing an SME debt fund in Kenya structured with permanent equity from development agencies and philanthropic investors as first-loss capital (FSD Africa, 2024).

The Government launched the Women Entrepreneurs Finance Code in December 2025 and is implementing the National Financial Inclusion Strategy 2025–2028, with the Code seeking to expand institutions working to close the financing gap for women entrepreneurs.

2.4 Policy Issue Area 2: Veracity of Financial Products

2.4.1 Global Status and Trends

The adequacy, fairness, and fitness-for-purpose of financial products available to MSMEs has emerged as a defining global policy concern. The overwhelming consensus among leading multilateral institutions such as IFC, World Bank, OECD, G20 GPFI, and IMF is that existing credit and equity products are structurally misaligned with the financial realities of small enterprises.
In emerging markets, 70 percent of MSMEs lack adequate financing to thrive and grow (IFC, 2025). The formal MSME financing gap stands at USD 5.7 trillion rising to USD 8 trillion when informal enterprises are included having grown at over 6 percent annually between 2015 and 2019, outpacing GDP growth by a factor of two (IFC/SME Finance Forum, March 2025). Women-owned MSMEs account for 34 percent of this gap, underscoring deep structural inequity in product access (G20 GPFI Action Plan, December 2024).

Conventional bank credit products are characterised by fixed repayment schedules, short tenures, and collateral requirements that routinely demand 150 to 200 percent of loan value poorly matched to the irregular cash flows, seasonal revenues, and asset-light profiles of most MSMEs. Complex documentation requirements, unfavourable interest rates, and insufficient loan maturities discourage MSME applicants even before formal rejection (PMC/Campbell Collaboration, 2025; IFC, 2017). While fintech and alternative data-driven scoring have made inroads into short-term working capital lending, the World Bank's Boosting SME Finance for Growth (2024) cautions that technology has yet to resolve the higher perceived risk of MSMEs for longer-tenure products, and that fintech introduces new risks in cybersecurity, data privacy, and consumer protection.

Rather than improving, the product environment has worsened since 2022. The OECD's Financing SMEs and Entrepreneurs Scoreboard: 2025 Highlights documents that SME lending fell 4.7 percent in 2023, factoring contracted by 1.3 percent, and equity finance fell sharply by 34 percent. Venture capital fluctuated but remained largely inaccessible beyond North America and large emerging markets. The defining trend is a dangerous shift toward smaller-scale, short-term financing at the expense of the long-term investment products MSMEs need to grow, innovate, and build resilience (OECD, April 2025).

Equity financing critical for innovation-driven, high-growth, and intangible-asset-intensive MSMEs remains structurally absent in most markets. The OECD Recommendation on SME Financing (2022/2023) calls for hybrid instruments, quasi-equity, and early-stage venture capital frameworks, but implementation lags far behind the policy rhetoric. The World Bank's Unleashing Productivity through Firm Financing (2024) estimates that closing MSME financing gaps could unlock aggregate productivity gains of up to 86 percent in middle-income economies. Correcting product design failures therefore represents one of the highest-return policy investments available to governments requiring diversified debt and equity instruments, gender-responsive product design, movable collateral frameworks, and open finance infrastructure to convert data richness into creditworthiness signals at scale.

2.4.2 African Continental Status and Trends

Across Africa, a central challenge to MSME financial inclusion is not merely the absence of financial products, but their structural inadequacy. The dominant credit products available to MSMEs short-tenor commercial bank loans, digital microcredit, and microfinance are widely characterised as poorly designed for the business realities of Africa's estimated 125 million formal and informal MSMEs (MIT Sloan, 2024). As the IFC's MSME Banking in the Digital Era Handbook (2025) notes, MSMEs have diverse and continuous borrowing needs across their growth cycle from working capital and trade finance to equipment acquisition yet the tenure, pricing, collateral type, and covenants of available products vary widely, while MSMEs lack protective measures against macroeconomic headwinds, often resulting in premature closure, stagnation, and takeovers.

The most pervasive product deficiency is cost. Local interest rates from commercial banks are often in the double digits, sometimes higher than 20–25 percent. Alternative finance providers, such as microfinance institutions or digital lenders, can charge even higher rates as much as 40 to 50 percent and high interest rates often deter MSMEs from even trying to apply for financing.

This cost barrier is compounded by collateral requirements that bear no rational relationship to loan values. According to the ILO's 2024 study on credit guarantee schemes and MSME access to finance in Africa, despite the implementation of credit guarantee schemes, the collateral-to-loan ratio exceeds 100 percent, and MSMEs lacking preferred collateral face difficulties in securing credit from financial institutions, with the level of risk perceived by banks ranging from 120 to 200 percent, averaging 163 percent.

A structural driver of product mismatch is the lack of credit data on MSMEs. The AFI-GPFI MSMEs DFS Toolkit (2023) reveals that credit information coverage is as low as 5.8 percent in Sub-Saharan Africa for MSMEs, and AFI's Alternative Finance for MSMEs research highlighted that 47.7 percent of MSMEs cited information asymmetry and 75 percent cited lack of track record as key barriers to alternative financing. Without credit histories, lenders default to collateral-heavy, short-term products incompatible with MSME investment cycles.

Equity products remain almost entirely inaccessible. The GPFI Action Plan for MSME Financing (December 2024) estimates the MSME financing gap in emerging markets at USD 5.7 trillion, with women-owned enterprises representing 34 percent of that gap. Only 10 percent of women-owned SMEs in Africa have access to the financing they need, with limited land ownership for collateral and lack of credit histories making women appear even higher-risk to private lenders.

Emerging alternatives are beginning to address product mismatch. FinTech's have been leading the way in addressing SME financing gaps through data-driven, low-cost lending that moves away from collateral-heavy requirements, with digital lending growing 32 percent from 2020 to 2024, and demand for digital credit providers jumping five times between 2023 and September 2025. The AFI 2024 scoping survey further notes that leasing and factoring are in a nascent but growing phase, with 31 percent of African countries reporting that these alternative finance mechanisms are being offered to MSMEs. Blended finance structures combining concessional DFI capital with commercial debt are increasingly deployed to lower effective interest rates and extend tenors. Blended structures that combine equity, concessional capital, and commercial loans can significantly reduce overall financing costs, with credit guarantees and first-loss mechanisms provided by development partners lowering lender exposure and making banks more willing to extend funding on improved terms.

Africa's MSME credit and equity product landscape remains structurally misaligned with the continent's entrepreneurial reality. Products are too expensive, too short, too collateral-dependent, and equity nearly non-existent. Addressing this requires deliberate product standards regulation, blended finance scaling, digital credit governance, and gender-responsive product design.

On the other end of the spectrum, the intellectual case for public credit guarantees rests on credit rationing under asymmetric information, the foundational argument being that lenders facing unobservable borrower quality will ration credit by quantity rather than clear the market on price (Stiglitz and Weiss, 1981). Micro, small and medium enterprises (MSMEs) sit at the sharp end of this problem: they are opaque, lack audited accounts and trading history, and hold few of the fixed assets that conventional collateral regimes recognise. A guarantee scheme intervenes by supplying third-party credit risk mitigation absorbing a defined portion of the lender's loss on default, typically in exchange for a fee thereby converting an unbankable exposure into a bankable one. The African guarantee landscape can be usefully stratified into four layers : **Pan-African and regional vehicles** such as **African Guarantee Fund (AGF):** Established in 2011 by the Danish Government (DANIDA), the Spanish Government (AECID) and the African Development Bank, with a mandate to facilitate access to financing for SMEs, **AFAWA Guarantee for Growth (G4G).** The AfDB's flagship gender-lens risk-sharing mechanism, implemented in partnership with AGF and **Afreximbank Guarantee Programme (AFGAP);** Oriented to cross-border trade and regional integration under the African Continental Free Trade Area (AfCFTA) among others , **National public schemes** as documented by the ILO working set of national African CGS: the Business Development Fund (BDF) in Rwanda, the Small Industries Development Organisation (SIDO) in Tanzania, the Agricultural Business Initiative (aBi) in Uganda, the Agricultural Credit Guarantee Scheme Fund (ACGSF) in Nigeria, the Fonds de Garantie des Crédits aux Petites et Moyennes Entreprises (FGPME) in Côte d'Ivoire, the Fonds de Garantie pour le Secteur Privé (FGSP SA) in Mali, and the Société Financière de Garantie Interbancaire du Burkina (SOFIGIB) in Burkina Faso

. Additional national schemes include the Credit Guarantee Company of Egypt (CGC-Egypt), regulated by the Central Bank of Egypt and operating since 1991 as the country's sole guarantee scheme; Nigeria's newer corporatised vehicles including InfraCredit, Impact Credit Guarantee Limited and NIRSAL Credit Risk Guarantee, operating under Central Bank of Nigeria credit guarantee company guidelines (Oc-Chukwuocha, 2025); and schemes in Ghana, Kenya, Tanzania and Rwanda that are explicitly aligned to national employment and private sector development strategies**, Donor and bilateral guarantee facilities and sub soverign and sector windows.**

2.4.3 Kenya National Status and Trends

A critical challenge confronting Kenya's MSME sector is not merely insufficient financing, but the fundamental unsuitability of available financial products relative to the operational realities of small enterprises.

In Kenya, private equity markets for MSMEs are relatively underdeveloped (FSD Kenya, 2024). The dominant products remain commercial bank term loans and revolving credit facilities; microfinance institution (MFI) loans; digital credit (short-term, high cost); SACCO savings and lending; and government fund disbursements (Hustler Fund, Women Enterprise Fund, Youth Enterprise Development Fund, Uwezo Fund).

Kenya's government catalytic funds the Financial Inclusion (Hustler) Fund, Uwezo Fund, Women Enterprise Fund (WEF), Youth Enterprise Development Fund (YEDF), and Kenya Industrial Estates (KIE) were established to widen credit access for youth, women, MSMEs, and persons with disabilities. While these funds serve a critical financial inclusion mandate, audit evidence from Auditor General points to weak credit governance, poor data integrity, and unsustainable cost structures. Structural reform, stronger loan recovery mechanisms, and independent oversight are imperative to preserve public resources and restore the funds' developmental impact.

Other government finance support programs include : **Kenya Development Corporation (KDC)** Established 27 November 2020 by merging the Industrial and Commercial Development Corporation, Tourism Finance Corporation and IDB Capital Limited. Mandate: provide development finance, infrastructure finance and business support and advisory services to SMEs, large-scale industries, infrastructure projects and commercial undertakings, filling long-term funding gaps commercial banks won't, **Agricultural Finance Corporation (AFC)** a wholly government-owned DFI incorporated under the AFC Act (Cap 323) in 1969, mandated to assist development of agriculture and agricultural industries by making loans and providing managerial and technical assistance to beneficiaries. Loans typically run KSh 50,000 to KSh 50 million at roughly 8–12% p.a., **NGAAF (National Government Affirmative Action Fund)** — a SAGA under the Ministry of Gender, established by Legal Notice No. 24 under the PFM Act and governed by the NGAAF Regulations 2016, mandated to empower women, youth, PWDs, vulnerable children and the elderly through education, health, economic empowerment and social protection projects managed by County Woman Representatives — including funding SMEs., **National Council for Persons with Disabilities (NCPWD)** — runs an LPO Financing Programme supporting PWD-owned businesses registered under AGPO to finance LPOs, LSOs and contracts awarded by government procuring entities, plus the National Development Fund for PWDs

The 2024 FinAccess Household Survey, released by the Central Bank of Kenya (CBK) and FSD Kenya, reveals a stark paradox: while overall financial inclusion reached 84.8 percent, the ability of micro and small enterprises to invest in growth collapsed from 63 percent in 2021 to just 24 percent in 2024 a nearly 40-percentage-point decline that signals a deepening crisis of product fitness-for-purpose, not merely access.

Kenya's dominant MSME credit instruments commercial bank term loans, microfinance institution (MFI) loans, and digital credit are structurally misaligned with MSME cash flow profiles. MSMEs that access credit is compounded by unfavourable terms, including lack of sufficient collateral, high collateralisation requirements, short repayment periods, and high interest rates, as they are perceived as risky by financial institutions (National Treasury, CGS Framework). Commercial lending rates for MSMEs remained elevated at 13 to 18 per cent through much of 2025, even as the CBK reduced its Central Bank Rate through seven consecutive cuts to 9.50 per cent as of August 2025 (CBK MPC Statement, 12 August 2025; Chambers & Partners Banking & Finance Guide 2025), reflecting weak monetary policy pass-through during that period. Average commercial bank lending rates declined only marginally to approximately 14.8 per cent by January 2026 (CBK data), indicating that while monetary easing eventually contributed to a significant surge in MSME credit volumes — Ksh 326.5 billion disbursed in 2025, more than double the Kenya Bankers Association's annual target (KBA, 2026) — the cost of credit for MSMEs remains above levels compatible with productive investment and enterprise growth.

Digital credit, which has grown exponentially through mobile platforms, compounds rather than resolves product mismatch. Empirical research published in PLOS ONE (2021) establishes that in Kenya, digital credit is characterised as short-term, low-sized consumption credit with high interest rates, and these features make it unsuitable for long-term investments, since short repayment periods and small loan sizes render digital credit in its typical form incompatible with business investment needs. The consequence is measurable: Kenya's MSE default rate surged from 42.8 percent to 60.7 percent between survey cycles, driven by tough business conditions, rising interest rates, and inflation that impaired profitability and market linkages (CBK MSE Tracker Survey, 2023).

By end-2024, commercial banks and microfinance institutions collectively wrote off loans amounting to Ksh 8.8 billion owed by MSMEs, with the number of affected accounts jumping nearly fivefold compared to the prior year (CBK data, 2025). This is not a moral hazard problem it is systemic product-market misalignment.

Equity financing for MSMEs in Kenya remains critically underdeveloped. In Kenya, traditional bank financing is often not available and private equity markets are relatively under-developed (FSD Kenya). Access to long-term patient capital remains a persistent challenge for many MSMEs (FSD Africa, 2024), with the sector lacking dedicated local-currency equity vehicles. Africa-wide, deal volume in venture and private equity fell 22 percent and deal value slid 28 percent year-on-year in 2024, with four markets of Nigeria, Kenya, South Africa, and Egypt absorbing 64 percent of all capital (Lexology, 2025), leaving the overwhelming majority of Kenyan MSMEs entirely outside the equity financing ecosystem. Even where equity exists, the core issue is a mismatch between what MSMEs' growth stage needs, what financiers are willing to offer, and what the regulatory environment allows and many MSMEs are not investor-ready due to poor bookkeeping, lack of growth projections, and absence of formal governance structures (Abojani Investment, 2026).

The Kenyan insurance sector is positioned for reform and growth, balancing between steady expansion and ongoing challenges in achieving broader insurance inclusion. While the industry has made significant progress with insurance premiums increasing from KES 227.9 billion in 2019 to KES 361.0 billion in 2023, insurance penetration has improved only marginally, rising from 2.34 percent in 2019 to 2.39 percent in 2023 (Insurance Regulatory Authority, 2023). According to the 2024 FinAccess Household Survey, insurance accessibility, excluding the National Health Insurance Fund (NHIF), has increased steadily from 5.5% in 2019 to 6.3% in 2024. However, a significant risk protection gap exists, with 70.5 percent of households lacking insurance coverage. Primary insurance access, including NHIF, declined from 27.9 percent to 22.0 percent from 2019 to 2024, while only a smaller proportion (7.5 percent) enjoy secondary insurance access as dependants. This could be attributed to the fact that most Kenyans are employed in the informal sector where incomes are irregular. Conventional insurance requires fixed regular premium payments; failure to pay may lead to policy lapses which further disincentivizes these individuals from purchasing insurance. Additionally, the survey highlights a widening gap in insurance access, with women facing greater exclusion than men. Similarly, youth aged 18-25 years continue to face limited access to insurance.

Exclusion from insurance markets predisposes vulnerable households to financial instability thus exacerbating social inequalities. Some of the barriers include: (1) Affordability: Cost remains the most cited obstacle, with 76.2% of survey respondents identifying affordability as the primary reason for not accessing insurance, (FinAccess 2024 Household Survey). This underscores the urgent need for affordable insurance solutions tailored to low-income households. (2) Lack of Awareness: According to FinAccess 2024 Household Survey, 23.4% of individuals reported lack of understanding of insurance products, highlighting a gap in insurance literacy. This challenge is particularly pronounced among those aged above 55 years and rural populations. (3) Geographic Barriers: Findings of the FinAccess Household Survey, 2024 indicated that limited access to insurance services in rural areas is exacerbated by the absence of insurance providers, leading to significant disparities between urban and rural insurance coverage. Urban populations exhibit higher insurance access rates, further entrenching regional inequalities. (4) Cultural and Religious beliefs; Some communities view insurance as unnecessary. Religious beliefs in some instances conflict with conventional insurance models thus posing a challenge to uptake of insurance products and services and (5) Pricing: The Insurance Regulatory Authority (IRA) faces challenges in enforcing pricing controls due to legal constraints. Insurance companies may underprice premiums to attract customers, leading to unsustainable business practices and market instability. Under-pricing may result in insurers being unable to meet their obligations, increasing the risk of insolvency and eroding public trust in the industry

2.5 Policy Issue Area 3: Credit Data Systems

2.5.1 Global Status and Trends

Credit data systems sit at the heart of MSME financial inclusion. Their adequacy or inadequacy directly determines whether lenders can assess creditworthiness, price risk appropriately, and extend finance to the millions of small enterprises that fall outside traditional banking frameworks.

The core challenge is persistent information asymmetry. Access to finance remains a key constraint to MSME development in emerging economies. According to the MSME Finance Gap Report (2017), an estimated 44 percent of formal SMEs in developing countries do not have access to formal institutional loans or overdrafts despite a genuine need, and the estimated financing gap for formal SMEs is USD 4.52 trillion annually a gap that is far larger when informal MSMEs are included. Even where credit information exists, coverage of MSMEs is typically much lower than that of larger corporates as low as 5.8 percent in Sub-Saharan Africa and information asymmetry is cited as a barrier by 47.7 percent of MSMEs seeking alternative financing.

Traditional credit scoring systems, which rely heavily on formal financial statements, tax records, or historical loan performance, disproportionately label MSMEs particularly in the informal and semi-formal sectors as high-risk or "unscorable," despite demonstrating strong cash flows or operational stability.

The dominant trend reshaping credit data systems globally is the integration of alternative data into credit assessment. A 2024 publication by the International Committee on Credit Reporting (ICCR), The Use of Alternative Data in Credit Risk Assessment: Opportunities, Challenges, and Policy Recommendations, assessed the evolving alternative data landscape, emphasising that leveraging alternative data can significantly enhance access to credit for underserved individuals and MSMEs. It highlights emerging models for utilising alternative data, associated risks and opportunities, and how regulatory environments are adapting. Adding data sets from utility, telecom, and streaming service accounts increased the credit scores of 2.5 million consumers in the United States by an average of 13 points, helping them access more than USD 1.7 billion in credit.

The Alliance for Financial Inclusion's (AFI) 2025 report Alternative Data for Credit Scoring drawing on regulatory insights from 32 AFI member countries explores how non-traditional data sources such as utility payments, social media insights, and behavioural patterns can revolutionise credit assessment for MSMEs, advancing access to finance for underserved populations. Alternative data types now include mobile money transaction histories, e-commerce activity, point-of-sale records, psychometric assessments, agricultural input usage data, and supply-chain payment flows.

A new generation of fintechs is using AI-powered credit scoring models and alternative data such as mobile money, transaction history, utility bills, and behavioural indicators to assess creditworthiness more inclusively, including for women-owned and informal SMEs who are disproportionately excluded by collateral-dependent models. Research demonstrates that digital footprint-based models achieve predictive accuracy comparable to traditional bureau assessments while significantly expanding credit access to previously excluded populations (Berg et al., 2020, cited in Advances in Consumer Research, 2025). Open banking frameworks mandating that borrowers can share verified financial data with lenders of their choice are emerging as critical enablers: advances in big data, fintech, and other emerging technologies are transforming credit information systems, and when paired with sound legal and regulatory frameworks, these innovations boost financial inclusion by giving lenders better information and offering borrowers improved credit terms and greater transparency.

The G20 Global Partnership for Financial Inclusion (GPFI) Action Plan for MSME Financing (December 2024), prepared by the World Bank Group, IFC, and OECD, identifies credit infrastructure as the first horizontal reform priority: improving credit reporting systems using alternative data and lenders, simplifying insolvency regimes, and completing frameworks for secured transactions and movable collateral registries. The G20 has recognised that lack of sound credit infrastructure is one of the major problems in the SME credit market and endorsed country commitments to fully develop credit infrastructure for SMEs as a foundation for closing the financing gap.

Despite this momentum, significant barriers remain. Realising the potential of alternative data requires addressing digital literacy disparities, infrastructure gaps, and data privacy concerns. While the proliferation of alternative data may open a traditionally closed credit market, it is unlikely to result in the decline of traditional credit bureaus which are adapting through acquisitions and strategic partnerships to remain relevant. Algorithmic bias, inconsistent regulatory frameworks, and the risk of creating new inequalities between digitally connected and unconnected MSMEs represent the frontier challenges for policymakers as credit data systems continue to evolve.

2.5.2 African Continental Status and Trends

Africa's MSME financial inclusion challenge is, at its core, an information problem. Credit data-driven lending has increased credit access and resulted in fairer, more objective lending decisions globally yet data-driven lending requires data. Those who do not have data collected on them may find themselves increasingly shut out from lenders that use highly automated lending approaches. For African MSMEs, this exclusion is structural and pervasive.

In many countries in Africa and other emerging markets, information about a business's or individual's credit track record is simply unavailable. The result is that borrowing money is difficult and interest rates are high to offset the higher risk. The IFC has responded by supporting the establishment of credit bureaus and reporting systems across Ghana, Mozambique, Tanzania, and other Sub-Saharan economies, though coverage remains deeply uneven.

The quantitative gap is stark. In many emerging markets with very low rates of traditional credit bureau coverage such as 5.8 percent in Sub-Saharan Africa coverage by non-financial services such as mobile subscriptions can extend to most of the adult population.

This 5.8 percent coverage figure encapsulates the continent's structural challenge: the formal credit information architecture covers a negligible fraction of the population, leaving the vast majority of MSME operators unscored and thus invisible to formal lenders.

Poor information quality relating to MSMEs is a persistently identified issue that inhibits financial inclusion and access to credit. In the absence of robust credit information, MSMEs will always be at a disadvantage due to their tendency to have less available collateral, lack of audited financial statements, and shorter trading histories, along with typically smaller loan sizes which make the fixed cost of obtaining credit information more expensive. Research cited by AFI found that information asymmetry was identified as a barrier by 47.7 percent of MSMEs, and lack of track record by 75 percent.

Where credit bureaus do exist across Africa, they overwhelmingly capture negative information defaults and non-payments rather than positive repayment behaviour. Credit reporting systems are databases of debtor information supported by the legal, institutional, and technological frameworks needed for their effective operation. IFC helps governments and stakeholders establish or reform credit reporting systems with the goals of expanding responsible access to finance and supporting financial stability. However, without mandatory positive data reporting, compliant and creditworthy MSMEs that have never defaulted remain unrecognised by the system.

The most significant continental development is the pivot to alternative data scoring. Sub-Saharan Africa hosts 52 percent of the world's mobile-money accounts, yet only 7 percent of adults there borrowed via these services in 2024, with many still relying on informal sources for financial needs. The untapped opportunity is vast. Rising digital adoption and the spread of digital payment ecosystems are helping to change credit access by enriching data trails, with digital payment histories, mobile-money transactions, supplier records, telecom usage patterns, and utility payments all offering insights into the viability of business models that traditional credit assessments overlook.

Country-level innovation is advancing. In South Africa, MTN and TransUnion Africa have launched the TransUnion Telco Data Score, a first-of-its-kind credit scoring solution that uses mobile phone call data records to help millions of South Africans with limited or no formal credit history gain access to financial services. In Ghana, the CARES programme deployed GHS 600 million in COVID-19 recovery loans to MSMEs using standardised scoring, achieving a 92% repayment rate compared to historical rates of 65 to 70 percent for similar government-backed schemes.

Africa's credit data ecosystem is at a critical inflection point. The structural deficit 5.8 percent bureau coverage, negative-data bias, and exclusion of the informal sector continue to deny the majority of the continent's MSMEs access to affordable finance. However, the convergence of mobile money penetration, AI-driven alternative credit scoring, and regulatory reform creates an unprecedented opportunity to build a new data architecture that reflects how African businesses operate. Realising this potential requires deliberate policy investment in open credit data frameworks, mandatory positive reporting, and interoperable data-sharing infrastructure across the continent.

2.5.3 Kenya National Status and Trends

Kenya's credit data infrastructure has undergone significant evolution over the past two decades, yet it remains structurally misaligned with the needs of the MSME sector creating a paradox in which a data-rich digital economy co-exists with chronic MSME credit exclusion. Kenya operates three licensed Credit Reference Bureaus (CRBs) (1) CreditInfo CRB, (2) Metropol CRB, and (3) TransUnion Kenya all regulated by the Central Bank of Kenya (CBK). The Credit Information Sharing (CIS) initiative, coordinated by CIS Kenya, was established in 2013 to facilitate data sharing between financial institutions and these three CRBs, using a standardised Data Submission

Template (DST). By 2019, World Bank data recorded that private credit bureau coverage rose to 36.4 percent of Kenya's adult population from a mere 4.7 percent in 2013 growth largely driven by regulatory reforms (Cytonn Research, 2022). As of 2024, Metropol CRB alone had compiled data for 21 million Kenyans to help lenders make credit decisions.

The CBK's Credit Repair Framework, launched in November 2022, aimed to extend financial credit products to at least 4.2 million Kenyans who had been locked out of mainstream borrowing after being negatively listed by CRBs. In November 2021, the CBK also suspended for 12 months the listing of negative credit information for borrowers with loans below Ksh 5 million, specifically targeting MSMEs to shield them from the adverse impact of COVID-19.

The most critical gap is the complete exclusion of Kenya's predominantly informal MSME sector from formal credit data systems. For low-income households, especially women and small enterprises, the absence of reliable data trails contributes to their exclusion from formal credit markets and higher interest rates, particularly for those whose risk profiles are not well understood. The data providers mandated by the CBK to submit data to CRBs are banks, microfinance banks, SACCOs, and a few microfinance institutions leaving the vast majority of over 7.4 million Kenyan MSMEs, most of which operate informally, entirely outside the credit data ecosystem.

Kenya continues to face a structural problem that impedes how the financial sector interacts with its private sector: on one hand, a very formal financial services sector; on the other, a highly informal private sector resulting in undercapitalisation of the sector or higher NPLs for banks. FSD Kenya has identified alternative data including mobile money transaction records, utility payments, and supply chain data as the key to resolving this exclusion, noting that with expanded coverage and improved access to credit information including alternative data, financial service providers will be better positioned to extend credit to excluded segments at affordable price points.

The use of the mobile phone is prevalent In Kenya compared to Africa being more than four times the Sub-Saharan African regional average of 7%, making Kenya the undisputed regional leader in translating mobile money accounts into active credit relationships. A recent analysis by Creditinfo Kenya revealed that integrating behavioural data from mobile money platforms into credit assessments reduced loan default rates for MSMEs by 15 percent. Additionally, the adoption of the Movable Property Security Rights Registry (MPSR) has allowed over 5,000 MSMEs to secure loans using movable assets since its launch. The CIS ValiData tool a standardised data validation and submission mechanism approved by CBK on 5 August 2025 represents a major step toward improving data quality and coverage (FSD Kenya, 2025). The CBK and CIS Kenya signed a Memorandum of Understanding in October 2025 to deepen collaboration in advancing Kenya's credit information sharing framework.

Kenyan courts from the Magistrates Courts to the High Court and Court of Appeal have issued significant and often landmark decisions on Credit Reference Bureaus (CRBs), addressing wrongful listing, constitutional validity of regulations, borrower dignity, and

the exclusion of digital lenders from the credit information sharing framework. Across these cases, Kenyan courts have articulated the following consistent principles regarding CRBs:
(1) Dignity and Reputation: Adverse CRB listing is not a neutral administrative act as it causes real reputational harm and destroys a borrower's financial identity, attracting constitutional scrutiny under Articles 28 and 31 of the Constitution (2) Procedural Regularity: CRB regulations must comply strictly with the Statutory Instruments Act and constitutional public participation requirements. Non-compliance renders them void, regardless of the policy intent behind them (3) Lender Obligations: Financial institutions have a continuous duty to notify borrowers before listing, investigate disputes within 14 days, and correct erroneous listings promptly. (4) Limits of Court Intervention: Courts will not compel delisting where the listing was procedurally proper, but will award damages where lenders acted negligently or in breach of regulatory obligations and (5) Systemic Regulatory Risk: The nullification of CRB regulations by courts can create dangerous regulatory vacuums, underscoring the need for rigorous drafting and parliamentary compliance in the promulgation of credit information rules.

Kenya's credit data system has the structural foundations for transformative MSME financial inclusion but remains limited by a negative-data bias, exclusion of informal sector operators, and incomplete integration of the rich alternative data generated by Kenya's mobile money ecosystem. Closing the MSME credit data gap requires a deliberate policy shift toward positive comprehensive credit reporting, mainstreaming of alternative data into formal credit scoring, and a regulatory framework that converts Kenya's digital transaction data into bankable creditworthiness signals for the millions of MSME operators currently invisible to formal lenders.

2.6 Policy Issue Area 4: Structural and Systematic Barriers

2.6.1 Global Status and Trends

MSMEs account for over 90 percent of all firms globally, contribute approximately 50 percent of GDP, and generate 60 to 70 percent of total employment worldwide (IFC, 2024). Yet they remain persistently excluded from formal finance. The credit gap for emerging market and developing economies was estimated at USD 5.7 trillion as of 2019, with women-owned MSMEs accounting for 34 percent of that gap a deficit that has widened rather than narrowed in the years since.

The IFC (2017), drawing on a systematic literature review later validated by the Campbell Collaboration (2025), identifies five core structural barriers to MSME financial inclusion: (1) lack of credit information when assessing borrowers' creditworthiness; (2) absence of alternatives to traditional collateral-based lending; (3) ineffective debt recovery and poor business exit mechanisms; (4) inaccessible financing instrument alternatives; and (5) lack of technological innovation in credit assessment practices.

Collateral requirements remain the most pervasive global barrier. Most MSMEs are not considered eligible for business loans by traditional lending institutions owing to a lack of necessary track record, acceptable collateral, and credit history. Furthermore, MSMEs may be discouraged by the tedious documentation process required for business loans (OECD, 2015). The AFI MSME Digital Financial Services Toolkit (2023) adds quantitative weight to this: key barriers for MSME alternative financing include information asymmetry (cited by 47.7% of MSMEs) and lack of track record (75%), with credit bureau coverage of MSMEs as low as 5.8% in some markets.

The macroeconomic environment has significantly worsened structural conditions since 2022. The OECD Financing SMEs and Entrepreneurs Scoreboard: 2025 Highlights, tracking nearly 50 countries, shows that SMEs continue to face a restrictive financing environment, with high interest rates and economic uncertainty leading to sharp declines in SME lending. The shift towards smaller-scale, short-term financing for immediate needs, to the detriment of longer-term investments, has implications for investment, productivity, competitiveness, and resilience. Specifically, bankruptcies rose by 11 percent in 2023, and banks responded with higher costs and stricter collateral requirements, running the risk of leaving many viable firms unable to access the finance needed to run their businesses. Venture capital investments fell sharply by 34 percent in 2023, recovering only slightly in 2024.

Gender and informality compound these barriers systematically. Women-owned businesses comprise 23 percent of MSMEs yet account for 32 percent of the MSME finance gap, with collateral requirements particularly land and property predominantly owned by men serving as the primary exclusionary mechanism. Informality multiplies exposure: more than half of all SMEs, both formal and informal, lack access to formal credit, and financing constraints are exacerbated for informal businesses which are often small yet contribute significantly to economic activity.

Systemic barriers further include weak legal and regulatory frameworks. The G20 GPFI Action Plan for MSME Financing (IFC/World Bank/OECD, December 2024) identifies three horizontal enabling-environment priorities requiring urgent reform globally: improving credit reporting systems using alternative data, simplifying insolvency regimes, and completing frameworks for secured transactions and movable collateral registries.

The global trend is unambiguous: structural and systemic exclusion of MSMEs from formal finance is not a residual market imperfection but a durable feature of financial systems that require deliberate, multi-layered policy reform combining regulatory redesign, credit infrastructure investment, and gender-responsive financial inclusion architecture.

2.6.2 African Continental Status and Trends

Africa's MSME sector is the engine of its economies, with 125 million formal and informal SMEs accounting for 90% of all private sector businesses, generating 80 percent of job opportunities in many sub-Saharan markets, and supplying 80% of all consumer goods sold on the continent. Yet these enterprises face deeply entrenched structural and systemic barriers that continue to widen an already catastrophic financing gap. The SME financing gap in sub-Saharan Africa is estimated at USD 331 billion and continues to expand despite significant efforts from both public and private capital providers. Globally, in emerging markets 70 percent of MSMEs lack adequate financing to thrive and grow, with the formal MSME finance gap estimated at USD 5.2 trillion.

The most pervasive structural barrier across the continent is the collateral trap. Commercial banks often demand collateral worth far more than the loan value, while financial institutions justify elevated interest rates by citing inflation risks, weak contract enforcement, and borrower uncertainty rates that often exceed MSME capacity to repay, deterring businesses from even applying for loans. Compounding this, credit registries and bureaus, which enable lenders to assess borrower histories, remain underdeveloped or non-existent in many countries, meaning MSMEs face rejection due to informational asymmetry even when they demonstrate reliable repayment behaviour. The Campbell Collaboration's 2025 Evidence and Gap Map identify five core institutional barriers to MSME financing: lack of credit information when assessing borrowers' creditworthiness; absence of alternatives to traditional collateral-based lending; ineffective debt recovery and poor business exit mechanisms; inaccessible financing instrument alternatives; and lack of technological innovation in credit assessment practices.

Structural exclusion is deepened by widespread enterprise informality. Given that the majority of MSMEs are small, they are likely to be informal, with shortcomings in access to finance and the provision of social security for workers. This informality renders most African MSMEs invisible to formal lending systems. Africa's MSMEs comprise the continent's oft-cited "missing middle" too large to be served by microfinance institutions alone, yet too small for many traditional commercial banks.

Gender discrimination constitutes a critical systemic barrier. In sub-Saharan Africa, only 37 percent of women have a bank account compared with 48 percent of men a gap that has only widened over recent years with supply-side constraints such as high interest rates and collateral requirements playing a major role in excluding women. Women-owned businesses account for 34 percent of the total MSME finance gap, estimated at USD 1.9 trillion.

Currency volatility constitutes an additional systemic burden: more than 20 African currencies have faced significant double-digit depreciations against major global currencies over the past decade, while hard currency financing the dominant instrument

used by development finance institutions and private credit funds can drastically increase MSME repayment obligations during periods of exchange rate depreciation.
Inadequate regulatory frameworks, information asymmetry, and infrastructural deficits, alongside weak financial literacy among entrepreneurs, continue to compound barriers in sub-Saharan Africa. The African Development Bank further notes that recent and ongoing crises have deepened barriers to financial inclusion, leaving women and young entrepreneurs refused loans due to lack of collateral or formal employment, remote residents unable to access basic banking services, and farmers unable to access relief funds due to missing documentation. Digital solutions, while promising, carry their own exclusionary risks. Africa's economy is predominantly informal, and traditional financial systems often do not account for cultural nuances such as community-based savings systems like ROSCAs, known as esusu, stokvels, or chamas leading to a disconnect between financial products and actual consumer behaviour.
Without decisive structural reforms including collateral-free credit instruments, comprehensive credit data systems, gender-mainstreamed financial regulation, and currency risk mitigation frameworks the USD 331 billion financing gap will continue to widen, foreclosing Africa's most powerful economic development lever.

2.6.3 Kenya National Status and Trends

Kenya's MSME sector comprising over 7.4 million enterprises, employing 14.9 million people, and contributing approximately 34 percent of GDP (KIPPRA, 2024) faces a deeply entrenched web of structural and systemic barriers that continue to obstruct meaningful financial inclusion, despite record formal access rates of 84.8 percent recorded in the 2024 FinAccess Household Survey (CBK/KNBS/FSD Kenya, 2024).
The most pervasive structural barrier remains the demand for immovable property as collateral by commercial banks. Kenya's MSME sector faces stringent collateral requirements, lack of credit history, and perceived risks by financial institutions that systematically lock out asset-light operators. Many MSMEs remain largely undocumented in the formal financial ecosystem, lacking the credit history and visibility that banks require to extend loans, leaving a funding deficit as per World Bank (2024) estimates of Ksh 2.6 trillion though the State Department for MSME Development's 2025 estimate puts the figure at Ksh 3.3 trillion, reflecting updated calculations.
Structural exclusion is amplified by rampant informality and documentation barriers. 9.9 percent of Kenyan adults remain financially excluded, with rural youth forming nearly half (45.5 percent) of this group, with key barriers to exclusion including lack of mobile phone (64.1 percent) and lack of Identity Card (51.5 percent) (KNBS, 2024). Of the 2.3 million Kenyans without IDs, 1.9 million are aged 18 to 25 the primary MSME entry cohort structurally barred before they can begin a credit journey.
Structural barriers are geographically concentrated. Small businesses in Turkana and Samburu counties struggle to access credit due to high transaction costs and lack of collateral (Tandfonline, 2025), while financial exclusion in Turkana stands at 31.5 percent and West Pokot at 27 percent over three times the national urban rate of 6.2 percent

(FinAccess, 2024). Rural youth exclusion highlights a persistent rural/urban divide, driven by rural poverty and lower levels of access to digital technology (FSD Kenya, 2025).

Systemic gender barriers compound structural exclusion. The structural requirements of financial systems such as collateral demands disproportionately disadvantage women, reinforcing a cycle that confines female entrepreneurs to smaller informal businesses with lower growth potential (Nature/Scientific Reports, 2025). Rural youth, especially young women, face significant barriers to accessing formal finance, which could be addressed through inclusive and gender-sensitive policies and solution design (FSD Kenya, 2025).

Systemic product mismatch is generating mass enterprise failure. By the time 2024 closed, over 95,000 loan accounts held by Kenya's small businesses had been written off by commercial banks and microfinance institutions amounting to Ksh 8.8 billion with the number of affected accounts jumping nearly fivefold compared to the year before (CBK/TechTrends, 2025). Concurrently, debt distress is a major challenge, with 16.6 percent of borrowers completely defaulting on their loans, compared to 10.7 percent in 2021 and financial health remains critically low at just 18.3 percent of the population (FSD Kenya/CBK, 2024).

Financial access remains the greatest barrier in the MSME sector, stifling growth and scalability and hampering the potential to generate more jobs, with the World Bank reporting a financing deficit of over Ksh 2.6 trillion, with mainstream market financing declining due to the high risk characterised of the sector. Despite the CBK reducing its benchmark rate to 9.75 percent through six consecutive cuts, commercial lending rates remain prohibitively high for MSMEs reflecting systemic information asymmetry, weak collateral frameworks, and lender risk aversion rather than monetary conditions alone.

Cumulatively, these barriers reveal a financial system whose architecture was designed for salaried, asset-owning borrowers rather than the irregular cash-flow, asset-light realities of Kenya's overwhelming MSME majority. Addressing them demands not incremental adjustments, but structural policy redesign.

2.7 Policy Issue Area 5: Debt Recovery Practices

2.7.1 Global Status and Trends

Debt recovery practices represent one of the most consequential yet under-reformed dimensions of the global MSME financial inclusion agenda. How lenders pursue repayment when MSMEs default directly shapes whether entrepreneurs can access credit, survive financial distress, and ultimately return to productive economic participation.

The World Bank's 2021 revised Principles for Effective Insolvency and Creditor/Debtor Regimes (ICR Principles) explicitly acknowledges that MSMEs represent over 60 percent of private sector employment globally but face unique disadvantages in navigating insolvency systems that are "too costly or complex" and designed primarily with large corporations in mind. Key reforms called for in the updated Principles include the promotion of informal out-of-court workouts, simplified restructuring procedures, and a broad discharge-of-debts regime for entrepreneurs following liquidation measures intended to reduce the heavy stigma of bankruptcy and enable a genuine fresh start.

In developing countries, the problem is acute. Insolvency regimes in emerging markets disproportionately result in liquidating firms even when they are viable and return less than 30 percent on average to creditors, while weak frameworks also generate companies that cannot invest in new activity and starve healthy businesses of credit.

The explosive growth of digital lending has introduced a new generation of debt recovery challenges that are particularly harmful to MSME operators. The IFC (2017), cited in a 2025 Campbell Collaboration systematic review, identifies "ineffective debt recovery and poor business exit mechanisms" as one of five core structural barriers limiting MSME access to finance in low- and middle-income countries.

CGAP's decade of research on digital credit reveals a persistent pattern of harmful recovery practices globally. Around three-quarters of digital borrowers in Côte d'Ivoire and around half in Kenya and Tanzania repay their digital loans late, while in India research has identified risks related to hundreds of digital credit apps including abuse of personal data for debt recovery and lack of transparency on pricing. A 2023 study examining unlicensed digital lending across Ghana, Nigeria, South Africa, and Kenya found that while digital credit improves financial access, unlicensed instant digital lending firms pose risks including high interest rates, debt collector harassment, and over-indebtedness, with apps selling or exposing user data without consent.

The World Bank advises governments, regulators, and central banks across 141 countries on establishing consumer protection frameworks to prevent aggressive, predatory lending and abusive debt collection practices, recognising that responsible finance ecosystems require stronger supervisory oversight over an evolving landscape of new technologies and providers. The OECD's updated Insolvency Framework Indicator covering 45 countries including all OECD and EU members finds that while most countries have enhanced their frameworks through early warning systems and pre-insolvency procedures since 2016, simplified insolvency frameworks specifically for small businesses remain largely absent and represent the most significant remaining reform gap.

CGAP's guidance on regulatory options to curb debt stress argues that implementing appropriate monitoring mechanisms and regulatory interventions at an early stage of credit market development is preferable to reactive intervention, as unchecked debt stress and over-indebtedness pose risks not only to individual borrowers but to entire credit markets and the credibility of regulators.

The global evidence is unambiguous: debt recovery practices that prioritise aggressive enforcement over viable business rescue undermine MSME financial inclusion by deterring first-time borrowers, triggering enterprise failure, and entrenching financial exclusion. Best-practice reform requires simplified pre-insolvency restructuring tracks, enforceable ethical debt collection standards, meaningful discharge regimes, and proportionate digital credit regulation — all calibrated specifically to the realities of small enterprises.

2.7.2 African Continental Status and Trends

Debt recovery practices across the African continent represent one of the most acute structural barriers to MSME financial inclusion. The prevailing framework is built around creditor-rights protection rather than debtor rehabilitation, creating a self-reinforcing cycle of enterprise failure, credit aversion, and deepening financial exclusion.

The World Bank's assessment of insolvency regimes in developing economies identifies a persistent pattern directly relevant to Africa: in countries without strong restructuring frameworks, insolvency frameworks in developing countries disproportionately result in liquidating firms even when they are viable and return less than 30 percent, on average, to creditors.

The consequence for MSMEs is devastating viable enterprises that encounter temporary cash-flow stress are pushed into irreversible closure rather than managed recovery. Many bankruptcy laws on the African continent might be considered outdated and poorly equipped to deal with current concerns on the ground, such as the large number of informal and micro businesses, the lack of a business rescue culture, and the cultural stigma of bankruptcy. Even where modern insolvency statutes exist, a possibly greater challenge in strengthening the region's credit environment is the general disconnect between formal insolvency laws and how they are applied in practice.

The explosive growth of digital credit across sub-Saharan Africa has introduced a new and particularly damaging dimension to debt recovery. Through unsolicited text messages and calls, loan providers in some fintech companies entice potential borrowers with often exorbitant interest rates. Despite the relatively low loan amounts, borrowers can quickly accumulate a significant amount of debt through mobile loans. When borrowers are hesitant or unable to make payments, creditors frequently resort to invading the borrower's privacy by contacting the borrower's family and friends to obtain repayment.

The scale of the problem is alarming: a staggering 65.9 percent of credit holders defaulted on their mobile loans in 2021, a figure that reflects not only borrower vulnerability but the structurally predatory nature of many digital lending products. The World Bank's digital finance consumer risk analysis confirms that experience demonstrates that for digital credit, reaching scale in a developing economy involves a high risk of customer over-indebtedness leading to default, heavy-handed collection attempts, cutoff of credit access, and reduced welfare.

Aggressive debt recovery practices do not merely harm individual borrowers they produce systemic exclusion effects. The high cost of debt enforcement in relation to small credit volumes is a key reason why many MSMEs are excluded from traditional lending channels (OECD, 2024). When lenders anticipate recovery difficulties, they ration credit upward to larger borrowers, exclude informal MSMEs entirely, or price risk through punishingly high interest rates. The IFC notes that in emerging markets, 70 percent of micro, small and medium-sized enterprises lack adequate financing to thrive and grow, and debt recovery dysfunction is a primary structural driver.

A positive trend is the emergence of consumer-protective digital lending regulation. Kenya and Nigeria are leading continental responses: Kenya's CBK licensing and oversight regulations enacted in 2022 address predatory lending and data abuse, high interest rates, and aggressive debt collection, while Nigeria has passed the Digital, Electronic, Online, or Non-Traditional Consumer Lending Regulations (DEON) 2025, creating a comprehensive framework mandating transparent loan terms, ethical recovery practices, responsible lending, and robust data privacy protections. Ethiopia has similarly introduced, for the first time, corporate rescue proceedings unlike the previous regime, which made no provision for the rehabilitation of financially distressed companies, enabling companies in difficulty to restructure and pursue recovery.

The World Bank's 2021 revised Principles for Effective Insolvency and Creditor/Debtor Regimes explicitly recommends that African governments prioritise flexible and efficient rescue and restructuring laws for micro and small enterprises, alongside the promotion of informal out-of-court workouts both of which remain largely absent across the continent.

Across Africa, debt recovery practices continue to prioritise creditor recovery over enterprise survival, with digital lending amplifying predatory collection behaviours at scale. The chilling effect on MSME credit demand, formal sector participation, and repeat borrowing makes reform of debt recovery frameworks a non-negotiable pillar of any credible MSME financial inclusion strategy.

2.7.3 Kenya National Status and Trends

Kenya's debt recovery landscape has emerged as one of the most consequential and contested dimensions of MSME financial inclusion. The interaction between aggressive recovery practices, a rising default crisis, and weak consumer protection enforcement is actively narrowing the credit market for small enterprises rather than expanding it.

The 2024 FinAccess Household Survey, conducted by the Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS), and Financial Sector Deepening Kenya (FSD

Kenya), found that debt distress is a major challenge, with 16.6 percent of borrowers completely defaulting on their loans up from 10.7 percent in 2021. This represents the highest default rate in nearly two decades. A further 37.2 percent of Kenyans paid late or paid less than expected, meaning less than half of individual borrowers are currently servicing their loans on time.

At the enterprise level, the collapse is starker. According to CBK data, by end of 2024, over 95,000 MSME loan accounts had been written off by commercial banks and microfinance institutions a near-fivefold increase year-on-year amounting to Ksh 8.8 billion. Commercial banks accounted for Ksh 7.7 billion of that total, while microfinance banks covered Ksh 1.1 billion. The cost of recovering defaulted MSME loans also rose dramatically: banks spent 16 percent more on recovery operations, while microfinance banks incurred 15 percent higher costs, driven by legal fees, asset tracing, and third-party collection efforts. Meanwhile, the digital lending sector disbursed approximately Ksh 180 billion in 2024, but between Ksh 54 and Ksh 72 billion equivalent to default rates of up to 40 percent was written off due to non-performance.

The rapid proliferation of digital credit has coincided with a documented rise in abusive debt recovery. The Competition Authority of Kenya initiated 858 consumer protection investigations in the 12 months to June 2025, a 28 per cent increase from 668 the previous year, with digital lending emerging as one of the sectors under active scrutiny. Borrowers face harassment including lenders contacting friends, family, or employers without consent practices that violate consumer dignity. The Business Laws (Amendment) Act, 2024 explicitly bars non-deposit-taking microfinance lenders from harassing, abusing, or oppressing borrowers, guarantors, or any individuals involved in debt recovery, and prohibits the use of threats, violence, or unlawful means in debt collection. However, enforcement against unlicensed digital lenders and informal creditors operating outside the CBK regulatory perimeter remains a persistent gap. Research drawing on qualitative interviews finds that digital credit consumers suffer from aggressive debt collection practices that cause mental distress, exorbitant interest rates, unlicensed lenders, and deceptive marketing. One respondent reported being reported to the Credit Reference Bureau (CRB) for a debt of just Ksh 400 (approximately USD 2.86), rendering him uncreditworthy and unable to access any further formal credit.

CRB blacklisting has become a blunt instrument that disproportionately punishes MSME borrowers. The current CRB ecosystem has inadvertently created a pipeline for predatory lending. Small debts balloon with penalties, and the process of clearing CRB records is slow, costly, and inaccessible to many by the time a borrower's record is cleared, they have often already turned to informal lenders. In response, the CBK barred unregulated digital lenders from forwarding defaulters to CRBs, and under the 2022 Digital Credit Providers Regulations, digital lenders are required to give borrowers 30 days' written notice before forwarding negative information to a CRB, while only defaults above Ksh 1,000 qualify for listing. Kenya lacks a dedicated pre-insolvency business rescue track for

MSMEs. The CBK's MSE Tracker Survey found that the MSME loan default rate rose from 42.8 percent to 60.7 percent in 2023, with most MSEs experiencing inconsistent cash flows arising from high operating costs, high interest rates, and inflation conditions that make short-tenure, fixed-repayment products structurally incompatible with the business reality of micro enterprises.

Cumulatively, the evidence points to a debt recovery ecosystem that in the absence of graduated restructuring mechanisms, proportionate enforcement, and credit rehabilitation pathways is compounding financial exclusion rather than correcting it.

2.8 Policy Issue Area 6: Financial Literacy

2.8.1 Global Status and Trends

Financial literacy has been formally recognised at the global level as a foundational life skill of the 21st century and a core enabler of individual and enterprise financial well-being. The OECD/INFE 2023 International Survey of Adult Financial Literacy — the most comprehensive global benchmark, conducted across 39 countries affirms that collecting reliable and internationally comparable financial literacy data is a key step in building effective national financial education strategies and programmes. This benchmark directly informs how countries design interventions for MSMEs, the segment most vulnerable to financial exclusion.

Globally, financial literacy deficits are acute and structurally linked to MSME credit exclusion. The OECD/INFE international survey found that only 56% of adults across participating countries achieved the minimum target score for financial knowledge, revealing widespread gaps in comprehension of basic financial concepts. For MSME owner-managers, these gaps translate directly into reduced creditworthiness, poor financial record-keeping, inability to interpret loan terms, and low uptake of formal financial products. A systematic bibliometric review of 195 studies on SME financial literacy published between 2021 and 2024 (Springer Nature, 2024) confirms that the common dimensions of MSME financial literacy are knowledge, awareness, and skill and that smaller enterprises face greater challenges than large corporations in terms of financial literacy and access to credit.

The evidence linking financial literacy to MSME financial inclusion outcomes is robust and growing. A literature review of prior studies found that financial literacy has a significant influence on both business performance and loan repayment performance among MSMEs, with financially literate entrepreneurs demonstrating improved financial management practices and higher loan repayment rates. A 2025 serial mediation study drawing on data from 469 SMEs confirms that financial literacy directly enhances loan availability and FinTech adoption, establishing it as a critical prerequisite — not merely a complement to credit access.

Digital financial literacy has emerged as a distinct and urgent sub-domain. The BRICS Digital Financial Inclusion Report (2021) highlights that major emerging economies are facing the urgent problem of limited financial literacy among SMEs even as they experience rapid technological advancement, and that the interplay among financial literacy, credit accessibility, and digital transformation is a crucial element in the sustainable expansion and competitiveness of SMEs in the digital era. The OECD/INFE developed a dedicated Digital Financial Literacy Survey Instrument in 2024, defining digital financial literacy as the combination of knowledge, skills, attitudes, and behaviours necessary for individuals to safely use digital financial services a framework now endorsed across 130 plus member economies.

The G20 Global Partnership for Financial Inclusion (GPFI) explicitly positions financial literacy as a horizontal enabler of MSME financing. The G20 GPFI Action Plan for MSME Financing (December 2024) identifies tailored financial literacy education for MSMEs as one of the key interventions that enhances creditworthiness and uptake of financial services noting that countries such as Italy have developed diagnostic surveys and targeted education programmes for microenterprises specifically to address borrower opacity and self-exclusion from credit markets.

The gender dimension is critical. Research in Sub-Saharan Africa establishes that financial literacy functions as both an enabler and a multiplier for women entrepreneurs enhancing their ability to access and effectively utilise credit while strengthening entrepreneurial autonomy and resilience — and recommends that financial literacy be prioritised not as a technical afterthought but as a critical dimension of gender-transformative financial inclusion strategy.

2.8.2 African Continental Status and Trends

Financial literacy is a foundational prerequisite for meaningful MSME financial inclusion, yet it remains one of the most persistently underdeveloped enablers across the African continent. According to FinDev Gateway, only about 27% of adults in Sub-Saharan Africa possess basic financial knowledge meaning most of the population lacks understanding of key concepts such as interest rates, inflation, and risk diversification compared to financial literacy rates exceeding 50% in high-income OECD countries. This structural deficit has direct and measurable consequences for MSME access to formal finance.

The International Labour Organization's landmark 2024 study on credit guarantee schemes and MSME access to finance in Africa provides a critical supply-side perspective. Surveying financial institutions across African countries, the ILO found that the lack of sufficient collateral was cited as the main challenge to MSME lending by 83% of financial institutions surveyed, closely followed by MSMEs lacking financial literacy, cited by 61% of lenders. This places low financial literacy as the second most significant barrier above regulatory complexity, high transaction costs, and information asymmetry in the eyes of the institutions that MSMEs depend on for credit.

A recurring and troubling continental trend are what analysts describe as a financial inclusion paradox: despite overall progress in promoting financial inclusion across the continent, there are still significant gaps, with challenges including poor coordination, a discrepancy between financial deepening and inclusion, limited financial literacy, and gender inequality. Account ownership and mobile money penetration have grown substantially, yet without foundational financial knowledge, mere access to financial services may not translate into empowerment—individuals may misuse services, fall into debt, or remain excluded from fully benefiting from financial opportunities.

The Alliance for Financial Inclusion (AFI) MSME Digital Financial Services Toolkit, produced jointly with the G20 GPFI, highlights a compounding dynamic: credit information coverage of MSMEs is typically much lower than that of larger corporates as low as 5.8 percent in Sub-Saharan Africa—with information asymmetry cited by 47.7 percent of MSMEs as a key barrier to alternative financing, and lack of track record cited by 75 percent. Low financial literacy reinforces this gap: MSME owners without bookkeeping skills cannot generate the financial records that would build their credit histories.

The gender dimension is acute. Digital literacy gaps further restrict adoption of mobile banking applications and online credit portals, leaving many small entrepreneurs dependent on cash-based systems with this digital exclusion disproportionately affecting rural enterprises and women-led businesses.

The Campbell Collaboration's 2025 evidence and gap map on MSME financial inclusion interventions in low- and middle-income countries drawing heavily on 175 Sub-Saharan African studies finds that financial literacy programmes are among the two most studied intervention types, yet emerging areas like digital literacy interventions have almost no evidence base, representing a critical research and programmatic gap.

Across Africa, financial literacy remains weakly integrated into MSME financial inclusion strategies. The evidence is unambiguous: financial globalization and literacy rates positively and significantly drive financial inclusion in Sub-Saharan Africa, while rural population growth has a profound adverse impact pointing to the need for geographically targeted, contextually designed financial education embedded within credit access pathways rather than delivered as standalone interventions.

2.8.3 Kenya National Status and Trends

Financial literacy defined under OECD standards as the knowledge, attitudes, and behaviours necessary to make sound financial decisions is both a prerequisite and a persistent bottleneck for MSME financial inclusion in Kenya. Despite the country's globally celebrated financial access story, the evidence reveals a widening chasm between account ownership and the functional financial capability needed for productive credit use.

The 2024 FinAccess Household Survey, conducted by the Central Bank of Kenya (CBK) in partnership with KNBS and FSD Kenya, found that only 42.1 percent of the adult population demonstrated high financial literacy, defined as correctly answering all three questions on inflation, interest rates, and risk diversification under the OECD measurement framework. This means that over half of Kenya's adult population including the overwhelming majority of MSME operators lacks the foundational financial knowledge required to make informed borrowing, saving, and investment decisions. The 2024 survey represents the first time the FinAccess series applied the OECD standard, enabling international comparability, but already signals a significant deficit.

The consequences of low financial literacy are starkly visible in financial health outcomes. In 2024, only 18.3% of adults were financially healthy a figure far below the 39 percent recorded in 2016 raising important questions about why financial inclusion is not translating into improved financial health. The ability to invest in the future has significantly declined, particularly among micro and small enterprises (MSEs), whose capacity to invest in growth plummeted from 63 percent in 2021 to 24 percent in 2024. The 2024 survey also reveals a decline in savings rates for the first time since 2006, from 74 percent in 2021 to 68.1 percent, paralleled by an increase in debt stress, with 16.7% of borrowers completely defaulting on loans, up from 10.7 percent in 2021.

KIPPRA's analysis confirms this structural weakness: low financial literacy levels expose consumers to poor credit facility choices and financial habits. About half of Kenyans receive financial advice from family and friends rather than formal financial institutions, and only about 5 percent reported acquiring financial advice from formal institutions.

The rapid proliferation of digital credit has compounded the financial literacy deficit for MSMEs. Key drivers of predatory informal lending in Kenya include gaps in financial literacy, limited formal credit access, and weak enforcement mechanisms, with unchecked proliferation of such lenders disproportionately affecting low-income households and microenterprises, thereby exacerbating financial exclusion. MSME operators who lack the skills to decode annual percentage rates, compare loan products, or recognise rollover fee structures are systemically vulnerable.

Academic evidence reinforces the policy concern. A 2024 study published in the *African Journal of Commercial Studies* found that MSEs confront hurdles in accessing financial resources and often resort to informal lenders with limited support and high interest rates. Insufficient knowledge about banking services, bookkeeping, and budgeting further hinders their growth.

Kenya's institutional response is nascent. In February 2026, the Kenya Bankers Association (KBA) and Caritas Microfinance Bank entered a three-year partnership aimed at boosting financial literacy, entrepreneurship skills, and access to credit for MSMEs across the country. The National Financial Inclusion Strategy 2025–2028 also commits to large-scale financial literacy rollout. Kenya's new strategy is one of the first in

Africa to explicitly make financial health not access the core outcome of inclusion policy, signalling a shift in ambition from transactional access to meaningful usage, affordability, transparency, and consumer empowerment.

The evidence is unambiguous: financial literacy is the missing link in Kenya's MSME financial inclusion architecture. Without deliberate, scaled, and measurable financial capability investments, expanded credit access risks deepening MSME debt vulnerability rather than catalysing growth.

2.9 Policy Issue Area 7: Trade Finance and Market Access

2.9.1 Global Status and Trends

Trade finance encompassing instruments such as letters of credit, supply chain finance, invoice discounting, and export credit guarantees is the lubricant of global commerce, facilitating an estimated 80 to 90 percent of all cross-border trade (ICC/WTO). Despite this foundational role, MSMEs face systemic and widening exclusion from trade finance markets, making it the single most critical missing link between their productive capacity and global market participation.

The global trade finance gap grew to a record USD 2.5 trillion in 2022 from USD 1.7 trillion two years earlier, as rising interest rates, flagging economic prospects, inflation, and geopolitical volatility reduced the capacity of banks to deliver trade financing, according to the 2023 Trade Finance Gaps, Growth and Jobs Survey released by the Asian Development Bank (ADB). Critically, the 2025 ADB Global Trade Finance Gap Survey confirms the estimated global trade finance gap remains at USD 2.5 trillion representing approximately 10 percent of global trade with demand for trade finance expected to increase further due to trade diversification and supply chain reorganisation.

MSMEs bear a disproportionate share of this burden. The WTO has noted that globally, more than half of SME trade finance applications are turned down compared with a rejection rate of just 7 percent for multinational corporations. However, there are tentative signs of marginal improvement: the 2025 ADB survey suggests SME rejection rates for trade finance (41 percent) have fallen to nearly the same level as those for large and mid-cap corporates (40 percent), with more than 80 percent of banks reporting dedicated strategies for supporting SMEs though ADB notes this finding requires further research.

The gap is felt most acutely by SMEs, particularly in developing markets where banking relationships, compliance burdens, and limited digital access intersect. In Africa, the regional trade finance gap is estimated at USD 81 billion, and in Asia, over 45 percent of SME trade finance requests are rejected by traditional banks, with 74 percent of rejected applications attributable to perceived credit risk or lack of information. SMEs face significantly higher rejection rates for trade finance applications than large corporations, with women-led businesses particularly disadvantaged 70 percent of their applications were partially or fully rejected, owing to systemic biases in credit assessment, collateral requirements, and limited banking relationships (ADB).

The dominant global trend is the rapid digitalisation of trade finance. Although 40 percent of global trade is currently supported by bank-intermediated trade finance, coverage is not uniform across countries or segments, particularly in developing countries and with MSMEs. Financial inclusion financial products and services accessible and affordable to all businesses is a fundamental pillar of a healthy trade ecosystem, and increased coordination of all trade participants, boosted by technology and standards, will be a significant step toward closing the MSME financing gap (McKinsey/ICC, 2021).

Supply chain finance (SCF) is emerging as a transformative MSME inclusion vehicle. During the World Bank Group Annual Meetings in October 2024, six multilateral development banks together with the WTO issued a joint statement committing to increase financial and advisory support of supply chain finance, with IFC increasing the limit on its Global Supply Chain Finance Program from USD 1 billion to USD 3 billion. The IFC reported that in 2023, its financial clients disbursed USD 64.4 million in loans to MSMEs, bringing the total MSME loan size to USD 353.2 billion, with a pivot on women-owned enterprises, which received almost 10% of the total portfolio.

MSMEs account for 95 percent of all businesses and 60 percent of global employment, yet face persistent barriers to benefiting from international trade, including limited access to finance, complex regulations, and poor digital infrastructure challenges exacerbated by a polycrisis of economic shocks, supply chain disruptions, climate change, and geopolitical uncertainty (WEF/WTO, 2025). In 2023 alone, the International Trade Centre (ITC) supported over 5,000 MSMEs in trade and market intelligence training, with nearly 70 percent reporting positive business outcomes including access to new markets.

2.9.2 African Continental Status and Trends

Africa's trade finance landscape presents one of the starkest illustrations of MSME financial exclusion on the continent. Despite impressive macroeconomic momentum Africa’s total merchandise trade grew by 13.9 percent to USD 1.5 trillion in 2024, and intra-African trade rose 12.4 percent to USD 220.3 billion, driven by the early impact of the African Continental Free Trade Area (AfCFTA) the structural barriers preventing MSMEs from accessing trade finance remain deeply entrenched.

The estimated trade finance gap on the continent remains over USD 100 billion annually, disproportionately affecting SMEs and informal traders. This figure is corroborated across multiple authoritative sources: a persistent trade finance gap estimated at about USD 100 billion limits SME participation in regional trade, with some estimates placing it as high as USD 120 billion when informal trade flows are included. At the institutional level, Afreximbank provided over USD 17.5 billion in trade finance in 2024 and aims to increase that to USD 40 billion by 2026 but this intervention, while significant, addresses only a fraction of the total gap.

The demand for trade finance far exceeds supply, and MSMEs bear the heaviest burden of rejection. Trade finance supported only 25 percent of goods trade in ECOWAS economies, well below the African average of 40 percent and the global average of 60 to 80 percent. Just over 20 percent of all trade finance requests to banks were rejected; measured by value, the rejection rate reached 25 percent, falling disproportionately on SMEs. Compounding this, technical requirements, inefficient customs processes and other non-tariff barriers restrict African trade three times more than tariffs, and road transport accounts for approximately 29 percent of the price of goods traded in Africa, compared to 7 percent for those traded outside the continent costs that small businesses cannot absorb.

Africa faces a persistent USD 100–120 billion annual trade finance gaps, hitting SMEs hardest who represent 80 to 90 percent of businesses. Over 80 percent of intra-African payments are still routed through offshore correspondent banks in USD or EUR, incurring multiple conversions, delays of days or weeks, and fees that can reach up to 10 percent. Currency volatility exacerbates this: in 2024, the Nigerian naira depreciated by over 40 percent, forcing importers into costly upfront payments. For MSMEs with thin margins, these frictions are prohibitive.

Before AfCFTA's launch, intra-African trade was just 16 percent of total trade, compared to 59 percent in Asia and 68 percent in Europe largely due to non-tariff barriers, poor logistics infrastructure, multiple currencies, and fragmented standards, with average customs dwell time at 126 hours and logistics costs nearly double the global average. Five years after trading officially began, progress has been slowed by uneven implementation, persistent non-tariff barriers, weak infrastructure and wavering political commitment to harmonise national trade policies. For MSMEs specifically, key obstacles include limited trade information, unclear export and import procedures, high fees, and difficulty meeting regulatory standards such as health and safety certification.

The AfCFTA's Pan-African Payment and Settlement System (PAPSS) represent a structural breakthrough, enabling cross-border settlement in local currencies. The AfCFTA Digital Trade Protocol with eight annexes adopted by the African Union in February 2025, covering digital identities, cross-border payments, data transfers, cybersecurity, and emerging technologies provides the regulatory scaffolding for inclusive digital trade. Medium- to long-term solutions include digitalising trade processes in line with the AfCFTA Protocol on Digital Trade, increasing e-commerce capabilities of MSMEs, and promoting innovative financing mechanisms to facilitate access to affordable trade finance for MSMEs. Supply chain finance and factoring are gaining recognition as practical instruments: Afreximbank has hosted regional workshops focused on solving the African MSME trade finance gap through factoring and supply chain finance, describing factoring as a vital trade finance tool that provides MSMEs with access to financing while helping to boost trade under AfCFTA.

The evidence is unambiguous: Africa's MSME sector is systemically excluded from the trade finance ecosystem that fuels continental commerce. Without deliberate reform combining digital payment infrastructure, reduced non-tariff barriers, targeted credit guarantee mechanisms, and MSME capacity building the AfCFTA's transformative potential will remain captured by large corporates while the continent's 90 percent of businesses go underserved.

2.9.3 Kenya National Status and Trends

Trade finance is a critical but systematically underutilised dimension of MSME financial inclusion in Kenya. The International Chamber of Commerce (ICC) estimates that between 80 to 90 percent of global trade depends on some form of trade finance, yet structural access barriers create persistent gaps, with over half of trade finance requests by SMEs rejected globally, against just 7 percent for multinational companies WTO (WTO/ICC, 2014).

The Asian Development Bank estimated the global trade finance gap at USD 1.7 trillion in 2020, representing 10 percent of global trade, with financing rejection rates for MSMEs running at 40% ICC (ICC/McKinsey, 2022). These global patterns are sharply amplified in Kenya's MSME landscape.

Kenya's MSMEs constitute 90 percent of all businesses yet account for a disproportionately small share of formal export activity. Africa contributes only 3 percent of global manufactured goods despite having 17 percent of the world's population, and intra-African trade stands at just 15 percent compared to 60 to 70 percent in Europe and Asia Khusoko (Kenya Route to Market Strategy, 2025). Kenya's exports to the African continent declined 2.1 percent from Ksh 435 billion in 2023 to Ksh 425.6 billion in 2024, while the EAC's expanded market now encompasses 312 million people and approximately USD 305 billion in GDP following DRC and Somalia's accession. Despite this market potential, most Kenyan MSMEs remain excluded from formal trade finance instruments.

The African Continental Free Trade Area (AfCFTA) creating a single market of 1.4 billion people and USD 3.4 trillion in GDP represents Kenya's most significant market access catalyst. AfCFTA is projected to increase intra-African trade by 52 percent by 2030, and Kenya's Route to Market Strategy 2025–2027 explicitly identifies trade finance improvement as a core pillar Khusoko (Khusoko/KAM, 2025). Kenya's first MSME exports under AfCFTA to Zambia, DRC, and South Sudan through the TradeConnect Initiative (November 2024) demonstrated tangible progress. Yet the structural disconnect between Kenya's export infrastructure and MSME operators persists.

Non-tariff barriers (NTBs) represent the most immediate trade market access threat to Kenyan MSMEs. EAC non-tariff barriers surged sharply, rising from 10 in November

2024 to 48 by May 2025, driven by political instability, cumbersome customs procedures, inconsistent regulations, and numerous roadblocks Zawya (Zawya/Nation, 2025).

The UNDP-backed groupage model consolidating smaller MSME shipments into larger export volumes is gaining traction as a practical solution to lower trade costs, with Ghana already successfully targeting Kenyan markets under AfCFTA using this approach United Nations Development Programme (UNDP, 2025). E-commerce and digital trade platforms represent the government's priority response:

Kenya's trade finance and market access landscape presents a defining paradox: robust continental frameworks (AfCFTA, EAC), committed institutional actors, and a trade finance commitment from UBA Bank under the UBA-AfCFTA TradeConnect initiative (UBA Kenya 2024) yet most of the country's 7.4 million MSMEs remain overwhelmingly oriented toward domestic markets, with formal export participation confined to a small minority constrained by regulatory barriers, credit gaps, and infrastructure deficits (KNBS MSME Survey 2016; African Transformation Index, 2025). The proposed USD 285 million under the UBA-AfCFTA TradeConnect initiative represents a three-year financing commitment ceiling under an MOU signed in June 2023, not a deployed or utilised facility. The last-mile connection between MSME producers and trade finance instruments remains structurally broken, making this a priority intervention area for the MSME Financial Inclusion Policy.

2.1 Kenya's Policy, legal and Institutional Frameworks

2.1.1 Policy and Legal Framework

The section reviews Kenya's existing policy, legislative, and institutional frameworks as they relate to the nine thematic areas of the proposed MSME Financial Inclusion Policy. For each framework, the review assesses: (a) the key provisions relevant to MSME financial inclusion; (b) the degree to which the framework addresses the nine policy issues; and (c) the critical gaps that the proposed policy must address. The seven policy issues are: (1) Lending Models and grant governance framework, (2) Credit and Equity Product Design, (3) Credit Data Systems, (4) Structural and Systemic Barriers, (5) Debt Recovery Practices, (6) Financial Literacy, (7) Trade Finance and Market Access

Sufficiency ratings are classified as: Sufficient (comprehensively addresses the issue), Partial (addresses some aspects but with significant gaps), or Insufficient (does not meaningfully address the issue).

The table below lists all principal Government of Kenya policies, legislation, and strategic frameworks relevant to the proposed MSME Financial Inclusion Policy, their year of enactment, key provisions, issue areas covered, and sufficiency rating.

Policy / Legislation	Year	Key Provisions	Issue Areas	Sufficiency	Key Gaps

			Covered		
Constitution of Kenya, 2010	2010	Article 43: The right to Economic and Social Rights. N/B the Constitution does not expressly provide for the right to financial access, but the stipulated economic rights can only be achieved when there is access to useful and affordable financial products. Article 231 established the Central Bank of Kenya, spells out its mandate and confers independence on the CBK (Section 4 (2). Article 227 provides for fair, equitable, transparent and cost-effective procurement, giving rise to the Access to Government Programme Opportunities (AGPO) which is stipulated the Procurement Act, to facilitate the youth, women and persons living with disability to participate in government procurement.	4, 5, 6, 7	**Partial**	Does not specifically address MSME financial inclusion; rights-based provisions require enabling legislation to operationalise for MSMEs.
Micro and Small Enterprises Act, No. 55 of 2012	2012	Creates MSEA; mandates credit access, market linkages, capacity building, formalisation, and licensing streamlining for micro and small enterprises.	1, 2, 4, 6, 7	**Partial**	Excludes medium enterprises; does not address digital lending, equity products, credit data, or trade finance; silent on AfCFTA and gender-inclusive finance.
Sessional Paper No. 5 of 2020 — Kenya Micro and Small Enterprises Policy	2020	Overarching MSME policy; identifies 10 objectives including financial access, financial education, credit sharing, formalisation, and market access.	1, 2, 4, 6, 7	**Partial**	Lacks binding regulatory force; does not address credit data architecture, DCP regulation, trade finance, or grant governance frameworks; underimplemented.
Central Bank of Kenya Act (Cap 491) • **Central Bank**	1966 (amended)	Establishes CBK; grants power to regulate banking,	1, 2, 3, 5, 6	**Partial**	Risk weights under CBK prudential rules do not include

of Kenya Prudential Guidelines • **Central Bank of Kenya (Digital Credit Providers) Regulations, 2021** • **CBK Money Remittance Regulations 2013**		issue currency, manage monetary policy, and supervise payment systems.			an 'SME supporting factor'; no explicit MSME product adequacy standards mandated.
Banking Act (Cap 488)	1989 (amended)	Governs commercial bank licensing, capital adequacy, in duplum rule (Sec. 44A), and CRB framework (Sec. 31).	1, 2, 3, 5	**Partial**	No minimum product suitability standards for MSME loans; no requirement for banks to report sex-disaggregated MSME lending data; in duplum rule inconsistently applied to non-bank lenders.
Insurance Act	Enacted in 1985 and amended in 2006	The Acts governs the operations of insurance. IRA was enacted to regulate, supervise and promote the development of insurance industry in Kenya	1	**Partial**	Prohibitive Capital Requirements for Microinsurers, Formal-Sector Product Design Bias, Absence of a Statutory Framework for Bundled and Index-Based Products, Weak Distribution Regulation for MSME Channels such as SACCOs mobile money platforms, and digital lenders as legitimate insurance distribution intermediaries for MSMEs
Capital Market Act CMA Regulatory Sandbox Policy Guidance Note (PGN)		CMA was enacted for the purpose of promoting, regulating and facilitating the development of an orderly, fair and efficient capital market in Kenya and for connected purposes The PGN provides a framework for the establishment of a regulatory sandbox to allow for the live testing of new	1	**Partial**	Governance Compliance Costs, Limited Crowdfunding Framework Coverage

		products, services and solutions that have the potential to deepen Kenya' Capital markets.			
CBK (Digital Credit Providers) Regulations, 2022	2022	Licences and regulates DCPs; mandates disclosure of loan costs, ethical debt recovery, and borrower data protection.	1, 2, 5	Partial	Only 85 of 480 plus applicants licensed by 2024; informal lenders remain unregulated; regulations do not set product tenure floors or debt-service-coverage requirements.
Business Laws (Amendment) Act, 2024	2024	Extends CBK regulatory oversight to all Non-Deposit-Taking Credit Providers (NDTCPs); mandates CBK licensing of all credit providers.	1, 2, 5	Partial	6-month compliance deadline creates implementation bottleneck; no accompanying product standards or consumer redress enhancements.
Microfinance Act (Cap 493C) of 2006	2006 (amended)	Regulates deposit-taking MFBs; mandates CBK licensing, capital adequacy, consumer protection, and CRB reporting by MFBs.	1, 2, 3, 5	Partial	Does not regulate non-deposit-taking MFIs; MFB interest rates (avg 26.3% in 2024) not subject to adequate affordability standards for MSMEs.
SACCO Societies Act (Cap 490B) and SASRA Regulations	2008 (amended)	Establishes SASRA; regulates deposit-taking SACCOs; mandates prudential requirements, CRB reporting, and member protection.	1, 2, 3	Partial	Non-deposit-taking SACCOs remain under Ministry oversight with limited prudential oversight; SACCO lending data not integrated into national credit information system.
Banking (Credit Reference Bureau) Regulations, 2020	2020	Governs CRBs; mandates positive and negative data submission by banks and MFBs; covers dispute resolution and credit score usage.	3	Partial	Mobile money lenders, SACCOs, and informal lenders not mandated to report; no framework for alternative data (utility, tax, mobile money); insufficient MSME-specific scoring models.
Movable Property Security Rights Act, 2017	2017	Establishes e-collateral registry for movable assets; enables asset-based lending beyond immovable property.	2, 4	Partial	Low uptake among MSMEs and financial institutions; no accompanying financial literacy campaign; registry not integrated into CRB framework.

Insolvency Act, No. 18 of 2015	2015	Provides for liquidation, administration (business rescue), individual bankruptcy, and regulated insolvency practitioners.	5	**Insufficient**	Business rescue (administration) rarely applied to small businesses; no dedicated pre-insolvency MSME restructuring track; no second-chance credit rehabilitation pathway; bankruptcy threshold (Ksh 100,000) has not been reviewed.
Consumer Protection Act, 2012	2012	Prohibits deceptive, unconscionable, and unfair business practices; covers misleading advertisements and unsafe products.	2, 5	**Partial**	CAK enforcement capacity insufficient; does not specifically govern digital lending conduct; informal lenders outside scope; no specialised MSME borrower protection provisions.
Data Protection Act, 2019	2019	Governs personal data collection, processing, and sharing; applies to borrower data used by digital lenders and CRBs.	3, 5	**Partial**	ODPC enforcement limited against digital lenders; lack of harmonisation between Data Protection Act and CRB Regulations on data sharing rules.
National Payments System Act, 2011	2011 (under review)	Regulates payment systems including M-Pesa; empowers CBK to oversee electronic payments and mobile money.	1, 3	**Partial**	Under review (2023/24); does not yet mandate data portability for MSME credit scoring; no open banking framework enabling alternative data access by lenders.
Kenya Information and Communications Act & Regulations					
Public Finance Management (Credit Guarantee Scheme) Regulations, 2020	2020	Establishes CGS legal basis; defines coverage ratio (25%), risk sharing (50:50), loan limit (Ksh 5M), and 36-month tenure.	1, 2, 9	**Partial**	Coverage ratio too low to attract banks; MSME definition inconsistencies limit eligibility; CGS disbursed only Ksh 6.34 billion by Sept 2024 against a Ksh 2.6 trillion financing gap.
Public Finance Management Act, 2012 (amended 2020)	2012 (amended)	Governs public funds including Women Enterprise Fund, Youth Enterprise Development Fund,	9	**Insufficient**	No unified grants governance framework; no mandatory graduation pathway from grants to

		and Uwezo Fund.			commercial credit; no impact measurement standards for grant programmes.
National Financial Inclusion Strategy 2025–2028 (CBK)	2025	Overarching financial inclusion strategy; covers digital finance, credit, savings, insurance, and consumer protection.	1, 3, 6, 7	**Partial**	MSME-specific credit ecosystem development is underweighted relative to household financial inclusion metrics; no MSME graduated lending framework or trade finance pillar.
National Trade Policy, 2019	2019	Promotes export diversification, market access, standards, and MSME participation in trade; aligns with AfCFTA.	8	**Partial**	No specific trade finance instruments or export credit guarantee mechanism for MSMEs; lacks last-mile MSME trade finance implementation provisions.
Kenya AfCFTA Implementation Strategy, 2022–2027	2022	Targets 5% annual growth in value-added manufacturing exports; includes MSME participation as an explicit objective.	8	**Partial**	Trade finance access mechanisms for MSMEs underspecified; export aggregation and groupage models not codified; standards compliance support for MSME exporters absent.
Kenya Investment Policy, 2019	2019	Promotes FDI and domestic investment; includes MSME support provisions for capacity and market access.	4, 8	**Partial**	Does not address equity product design for MSMEs; no specific private equity or venture capital development provisions for MSME market.
Cooperative Societies Act and Cooperative Policy 2020	2020	Governs cooperative societies including SACCOs; aims to modernise cooperatives for MSME market access and financing.	1, 4, 6	**Partial**	Cooperative Bill 2024 pending; no MSME financial literacy mandate within cooperative framework; cooperative lending data not integrated with national MSME financial inclusion metrics.
Sacco (savings and credit cooperatives) Societies Act **• Sacco Societies (Deposit taking Sacco Business), Regulations**					

2010 **• Sacco Societies (Non-Deposit-Taking Business) Regulations**					
County Licensing (Uniform Procedures) Act No. 8 of 2024	2024	Standardises and streamlines county-level business licensing; reduces regulatory burden for MSMEs.	4, 6	**Partial**	Addresses licensing but not financial access; county-national coordination on MSME financial inclusion not mandated; county financial inclusion programming absent.
National Financial Education Framework (CBK/KNEC)	2020 (ongoing)	Provides guidelines for coordinating financial literacy education across institutions; covers basic financial education.	7	**Insufficient**	Not statutory; no costed national MSME financial literacy strategy; no defined outcome metrics; delivery not linked to credit access pathways; inadequately resourced.
Vision 2030 and MTP IV (2023–2027)	2023	National development blueprint; MSME economy identified as a priority sector; targets transformation through financial inclusion, market access, and technology.	1, 4, 6, 7, 8	**Partial**	Strategic aspirations without binding policy mechanisms; MSME financial inclusion KPIs not disaggregated by issue area; MTP IV targets largely aspirational.
Sessional Paper No. 2 of 2005 on MSE Development	2005	Foundational MSME development policy; identified access to finance, markets, and technology as key constraints.	1, 4, 7	**Insufficient**	Superseded by 2020 Policy; historical reference only; financial system context completely changed. Included for completeness.
Executive Order No. 1 of 2023	2023	Establishes State Department for MSME Development; mandates MSME policies, financing, Hustler Fund administration, and capacity development.	1, 6, 9	**Partial**	Creates institutional home but mandates overlap with National Treasury and CBK; no MSME financial inclusion coordination mechanism with statutory authority.

Sufficiency Assessment by Policy Area

Policy Area 1: Lending Models

Kenya's lending model framework is primarily governed by the (1) Banking Act (Cap 488), (2) Microfinance Act (2006), (3) SACCO Societies Act, (4) CBK DCP Regulations

(2022), (5) Business Laws (Amendment) Act (2024), and (6) PFM (CGS) Regulations (2020). These collectively create a multi-tier lending architecture covering commercial banks, MFBs, SACCOs, and digital credit providers.
The framework sufficiency in addressing key challenges In Kenya's MSME lending model is partial as it defines and licenses multiple lending channels but does not create a coherent graduated lending pathway for MSMEs, mandate MSME-appropriate product structures, or incentivise banks through prudential relief.
Key gaps include: (1) No consolidated graduated MSME lending framework connecting micro credit (Hustler Fund) to MFI/SACCO to commercial bank and to equity/trade finance (2) No Basel III-equivalent 'SME supporting factor' reducing bank capital charges for MSME loans below a defined threshold (3) CBK DCP licensing backlog (85 licensed of 480 plus applicants by 2024) leaves the majority of digital lenders operating without regulatory oversight and (4) Interest rate environment (commercial banks 16.4%; MFBs 26.3% as of December 2024 CBK FinAccess Survey 2025) has no regulatory floor for MSME product affordability assessment.
Key gaps under grants and non-repayable finances include : (1) No Grants Governance Framework distinguishing pure grants (enterprise incubation, financial literacy) from subsidised loans (growth-stage MSMEs) from CGS-backed commercial credit (2) No mandatory graduation pathway from grant support to commercial credit; affirmative funds operate as standalone programmes without credit system integration (3) No standardised impact measurement framework for government MSME grant programmes; sustainability is undermined by high default rates and limited outreach (4) No policy framework for time-bound, outcome-linked grants designed to catalyse private sector participation grants function as perpetual subsidies rather than strategic market-making instruments.

Policy Area 2: Credit and Equity Product Design

Product suitability for MSMEs is partly addressed by the (1) Consumer Protection Act (2012), (2) Banking Act (Sec. 44A in duplum rule), (3) CBK DCP Regulations (2022) However, no framework mandates minimum product standards tenure floors, grace periods, or debt-service-coverage tests specifically for MSME credit products.

Kenya has no single framework that requires financial institutions to demonstrate that credit products are structurally compatible with MSME cash flow profiles. Equity product development for MSMEs is entirely absent from the regulatory framework.
Key gaps include: (1) No statutory product adequacy standards for MSME credit such as minimum 12-month tenure for term loans, grace periods, or revenue-based repayment options (2) No regulatory sandbox or innovation framework for MSME-fit products such as revenue-based finance, Islamic finance structures, convertible notes (3) Kenya's equity capital market for MSMEs is underdeveloped. The NSE Growth Enterprise Market Segment (GEMS) had only 5 listed enterprises as of 2023 (KIPPRA). No dedicated policy enables venture capital, angel investment, or impact equity for MSMEs.

(4) The Movable Property Security Rights Act (2017) is underutilised no accompanying awareness campaign, financial literacy component, or integration with CRB systems.

Policy Area 3: Credit Data Systems

Key policies and legislations that address Kenya's credit data systems include: (1) The Banking (CRB) Regulations 2020, (2) Banking Act (Sec. 31), (3) Microfinance Act (Sec. 34), (4) Data Protection Act (2019), and (5) the National Payments System Act (2011) collectively form the credit data framework. Three licensed CRBs (TransUnion, Metropol, CreditInfo) operate under this framework. The Hustler Fund Credit Score initiative (announced 2024) represents an emerging alternative data model.

Kenya's current credit data ecosystem is insufficient and excludes the majority of MSME operators such as informal the sector, mobile-money-only borrowers and SACCOs among others and relies disproportionately on negative data. No open banking or alternative data framework exists.

Key gaps include : (1) Non-bank lenders such as digital lenders, non-deposit-taking SACCOs and informal MFIs are not mandated to submit data to CRBs, leaving the majority of MSME lending activity invisible to credit scoring (2) No framework exists to convert mobile money transaction data, utility payment data, or tax compliance data into creditworthiness signals at scale (3) CRB blacklisting has a disproportionate chilling effect on MSME credit access with no time-bound rehabilitation pathway for borrowers who resolve defaults (4) No open banking regulations mandate data portability, preventing MSME borrowers from sharing verified financial histories across lenders and (5) The Hustler Fund Credit Score has not been operationalised under a broader open data governance architecture.

Policy Area 4: Structural and Systemic Barriers

MSME financial inclusion structural and systemic barriers are collectively addressed under (1) The Constitution of Kenya (2010), (2) MSE Act (2012), (3) Sessional Paper No. 5 (2020), (4) Movable Property Security Rights Act (2017), and County Licensing (Uniform Procedures) Act (2024). Individual frameworks address specific barriers but do not constitute a coherent system to dismantle structural exclusion. Rural exclusion, digital divide, and informal sector barriers are addressed aspirational rather than operationally.

Key gaps include: (1) Collateral requirements where majority of MSME lending requires immovable property. Despite the Movable Property Security Rights Act (2017), over 80.6 percent of enterprises still rely on family/own funds (KIPPRA). No bank incentive exists to adopt movable collateral frameworks, (2) Informality with Over 70 percent of MSMEs operate informally (KNBS 2016). No unified digital formalisation incentive links registration to preferential credit access (3) Gender exclusion with no mainstreamed gender lens in bank regulatory/supervisory frameworks. Sex-disaggregated MSME lending data is not mandated from commercial banks (4) Geographic Exclusion-Financial exclusion rates as high as 31.5 percent in Turkana County (FinAccess 2024). No targeted rural MSME financial access mandate beyond aspirational policy language (5) Youth exclusion. 45.5 percent of formally excluded adults are rural youth lacking phones or national IDs (Agusto Research, 2025). No identity-linked financial inclusion pathway for this segment.

Policy Area 5: Debt Recovery Practices

The (1) Insolvency Act (2015), (2) Banking Act (Sec. 44A), (3) Consumer Protection Act (2012), (4) CBK DCP Regulations (2022), (5) CBK Debt Collection Guidelines (2023), (6) Data Protection Act (2019), (7) Auctioneers Act, and (8) the Debt (Summary Recovery) Act collectively govern debt recovery. The Civil Procedure Act and Limitation of Actions Act (6-year limitation period) provide procedural frameworks.

Kenya's debt recovery framework is insufficient is supporting MSME financial inclusion agenda and overwhelmingly favours creditor rights over debtor rehabilitation. The Insolvency Act's administration provisions are rarely applied to MSMEs. Predatory debt recovery practices especially by digital lenders continue despite CBK regulations.
Key gaps include : (1) No dedicated pre-insolvency MSME restructuring track under the Insolvency Act; business administration provisions are designed for corporate rescues, not small business workouts (2) No statutory credit rehabilitation pathway: MSMEs that resolve defaults face indefinite CRB negative listings with no prescribed timebound clearance mechanism (3) Predatory digital lending practices persist despite DCP Regulations (2022); CAK reported a 28 percent increase in consumer complaints against lenders in 2025. Informal lenders (shylocks, shop-based creditors) remain entirely outside the regulatory framework (4) Over 95,000 MSME loan accounts written off (Ksh 8.8 billion) in 2024 a near-fivefold annual increase (CBK, 2025) with no systemic early-warning or workout intervention mechanism.

Policy Area 6: Financial Literacy

Financial literacy is addressed in the MSE Act (2012), Sessional Paper No. 5 (2020), CBK's National Financial Education Framework. Kenya's 2024 FinAccess Survey records adult financial literacy at 42.1 percent with only 18.3 percent of adults financially healthy. No statutory, costed, or outcome-linked national MSME financial literacy strategy exists. Delivery responsibilities are fragmented across KIBT, CBK, FSD Kenya, and development partners without a unified coordination mechanism or measurable targets.

Key gaps include: (1) No costed National MSME Financial Literacy Strategy with defined outcome metrics, annual targets, and dedicated budget line; existing frameworks are guidelines, not mandates (2) Financial literacy delivery is not systematically linked to credit access pathways; borrowers can access Hustler Fund without any financial literacy pre-qualification (3) Digital financial literacy. understanding digital credit products, data rights, and online market tools is not addressed in any standalone national framework (4)

KIBT (Kenya Institute of Business Training) is underfunded relative to its mandate of providing business and management development services to MSMEs nationwide.

Policy Area 7: Trade Finance and Market Access

Trade finance and market access are addressed by the (1) National Trade Policy (2019), (2) Kenya AfCFTA Implementation Strategy (2022–2027), (3) Kenya Investment Policy (2019). The Trade Connect Initiative (2024), the Route to Market Strategy (2025–2027), and the UBA/AfCFTA Secretariat agreement (USD 285M for Kenya) represent emerging operational frameworks.

Kenya has no dedicated trade finance policy or instrument exists specifically for MSMEs. The nexus between MSME financial inclusion and export finance remains unaddressed in any regulatory framework. AfCFTA opportunity capture by MSMEs is impeded by the absence of last-mile trade finance infrastructure.

Key gaps include : (1) No dedicated MSME Trade Finance Policy or Facility; the UBA/AfCFTA USD 285M allocation to Kenya has no MSME-specific disbursement framework (2) No supply chain/receivables-based finance framework enabling MSME exporters to access trade credit against purchase orders or invoices from anchor buyers (3) Standards and certification support for MSME exporters is not codified; the Standards Bill awaited in 2025 had not been enacted at the time of this review (4) Digital trade finance platforms for MSMEs which would reduce documentation barriers are absent from Kenya's fintech regulatory framework and innovation agenda (5) MSME participation in export markets is structurally limited with 80 percent of businesses are MSMEs yet contribute a disproportionately small share of formal export activity.

Kenya has developed a substantially rich body of legislation, policy, and institutional frameworks relevant to MSME financial inclusion. However, this review demonstrates that existing frameworks are fragmentary, aspirational, and insufficient when assessed against the nine critical policy issue areas of the proposed MSME Financial Inclusion Policy. The following summarises the overall sufficiency assessment:

Policy Issue Area	Verdict	Number of Critical Gaps
1. Lending Models	**Partial**	4 gaps — Graduated framework, prudential incentives, licensing, affordability standards
2. Financial Product Design	**Insufficient**	3 gaps — Product standards, sandbox, equity ecosystem
3. Credit Data Systems	**Insufficient**	5 gaps — CRB coverage, alternative

		data, rehabilitation, open banking
4. Structural & Systemic Barriers	**Partial**	5 gaps — Collateral, informality, gender, geography, youth exclusion
5. Debt Recovery Practices	**Insufficient**	4 gaps — MSME restructuring, second-chance, predatory practices, write-offs
6. Financial Literacy	**Insufficient**	4 gaps — Strategy, delivery linkage, digital literacy, KIBT funding
7. Trade Finance & Market Access	**Insufficient**	5 gaps — Trade finance facility, receivables finance, standards, digital platforms

Of the seven policy issue areas, five are rated Insufficient and two are rated Partial. No issue area is rated Sufficient. This reflects a systemic gap in Kenya's legal and policy architecture for MSME financial inclusion. A total of 30 critical gaps has been identified across the seven issue areas. The proposed MSME Financial Inclusion Policy must address all these gaps to deliver transformative change for Kenya's 7.4 million MSMEs.

2.1.2 Institutional Framework

Kenya's institutional framework for MSME financial inclusion can be organised into five categories:

1) **Policy and Regulatory Authorities:** Institutions that set the rules governing the financial system and MSME development (CBK, CMA, SASRA, IRA, State Department for MSME Development, National Treasury).
2) **Government MSME Support Agencies:** State-funded entities with direct MSME development mandates (MSEA, KIE, KIBT, Credit Guarantee Scheme/KCGSC, Hustler Fund, Women Enterprise Fund, Youth Enterprise Development Fund, Uwezo Fund).

3) **Financial Service Providers:** Institutions that directly channel credit and financial services to MSMEs (Commercial Banks/KBA, Microfinance Banks/AMFI-K, SACCOs, Digital Credit Providers, Capital Markets/NSE GEMS).
4) **Financial Infrastructure Institutions:** Entities that provide the data, information, and payment systems underpinning MSME credit access (Credit Reference Bureaus, CIS Kenya, Kenya National Payments System/CBK).
5) **Development Partners and Research Bodies:** Organisations providing funding, technical assistance, and evidence for MSME financial inclusion (FSD Kenya, World Bank/SAFER Programme, KfW/GIZ, KEPSA, KNBS).

2.1.2.1 Policy and regulatory authorities

1. Central Bank of Kenya (CBK)

The CBK plays the most comprehensive institutional role in MSME financial inclusion of any single institution in Kenya. Its National Financial Inclusion Strategy 2025–2028 sets targets across access, usage, quality, and financial health. However, the strategy's MSME-specific interventions are insufficient relative to the scale of the Ksh 2.6 trillion financing gap. CBK's prudential framework does not include risk-weight relief for qualifying MSME loans (analogous to the EU's 'SME supporting factor'), creating a structural disincentive for commercial bank MSME lending. Its DCP licensing backlog (85 of 480+ applicants licensed by 2024) leaves most digital lenders unregulated.

Key gaps include : (1) No SME risk-weight relief in CBK prudential framework; high capital charges disincentivise commercial bank MSME lending (2) DCP licensing bottleneck 85 licensed vs. 480 plus applicants leading to majority of digital lenders operating without oversight (3)NFIS 2025–2028 focuses predominantly on household inclusion metrics; MSME graduated lending and trade finance not prioritised (4) No open banking framework mandating data portability for MSME credit scoring despite Kenya's rich mobile money transaction data.

2. National Treasury and Economic Planning

The National Treasury is the anchor fiscal institution for MSME financial inclusion, controlling the government's risk-sharing and grant-based instruments. The credit guarantee scheme (CGS) represents a significant market-making intervention achieving a leverage ratio of Ksh 2.32 (every Ksh 1 of government commitment unlocking Ksh 2.32 in bank credit as of June 2024). However, the aggregate impact (Ksh 6.34 billion) remains minuscule relative to the Ksh 2.6 trillion financing gap.

Key gaps include : (1) CGS coverage ratio (25%) and loan cap (Ksh 5 million) too low to meaningfully attract commercial bank MSME lending at scale (2) Government catalytic funds (WEF, YEDF, Uwezo) have high default rates (WEF 20–30%, Uwezo 61.7 percent cumulative default rate), limited outreach, and no mandatory graduation pathways to commercial credit (3) Proposed merger of WEF, YEDF, and Uwezo into the Biashara Fund (announced 2025) is still in progress with no implementation timeline (4) dedicated grants governance framework distinguishing non-repayable grants from subsidised loans; no impact measurement standards for government MSME funds.

3. State Department for MSME Development

The State Department represents Kenya's most recent and comprehensive institutional response to the MSME development challenge. Established under Executive Order No. 1 of 2023, it consolidates functions previously dispersed across multiple ministries. The Hustler Fund demonstrates its capacity for mass digital financial inclusion delivery. However, the Department's mandate overlaps with those of the National Treasury (CGS, affirmative funds), the Ministry of Investments, Trade and Industry (trade policy), and CBK (financial regulation), creating coordination deficits.
Key gaps include : (1) Mandate overlap between State Department, National Treasury (CGS), and Ministry of Investments, Trade and Industry (trade finance, AfCFTA) causes fragmented programming (2) MSME Policy 2026 and MSME Amendment Act 2025 not yet enacted; the sector lacks an up-to-date statutory framework (3) No statutory MSME Financial Inclusion Coordination Committee (MFICC) linking all MSME financial inclusion actors.

4. SACCO Societies Regulatory Authority (SASRA)
SACCOs serve an estimated 14 million Kenyans and are a primary credit source for rural and agricultural MSMEs. However, SASRA's regulatory reach covers only deposit-taking SACCOs; non-deposit-taking SACCOs (NWDTs) remain under the Commissioner of Cooperatives with weaker oversight. SACCO lending data is not integrated into the national CRB system, creating blind spots in MSME creditworthiness assessment. The SAFER Programme on-lending model channelling KfW/World Bank funds through KDC to SACCOs at capped 11 percent rates represents an effective model but reaches only a subset of MSMEs.
Key gaps include: (1) non-deposit-taking SACCOs (NWDTs) are not under SASRA prudential supervision; lending data from these entities is not captured in CRB systems (2) No SACCO-to-CRB mandatory reporting; MSME borrowers using SACCOs as primary credit channel remain unscored by CRBs.

5. Capital Markets Authority (CMA)

The CMA's potential contribution to MSME financial inclusion through equity capital, venture capital, and capital market development remains largely unrealised. Kenya's equity capital market for MSMEs is one of the most underdeveloped in East Africa. GEMS has attracted only 5 listings in over a decade of operation (KIPPRA, 2023), due to high listing costs, regulatory complexity, and low MSME awareness. The CMA has not yet developed a regulatory framework specifically enabling venture capital, private equity, or impact investment funds targeting MSMEs. While FSD Africa proposed an SME debt fund under CMA regulation in 2024, this remains at the proposal stage.

Key gaps include : (1) NSE GEMS has only 5 MSME listings; no targeted MSME equity ecosystem policy exists under CMA (2) No regulatory sandbox or dedicated framework for venture capital, angel investment, or impact equity funds targeting MSMEs (3) CMA not engaged in MSME credit data or lending model work; equity and credit policy are treated as separate silos.

2.1.2.2 Government msme support agencies

6. Micro and Small Enterprises Authority (MSEA)

MSEA is the designated authority for MSME coordination under the MSE Act 2012. However, its mandate is limited to micro and small enterprises, excluding medium enterprises a significant gap given that the 'missing middle' (medium enterprises) face distinct but equally critical financial access challenges. MSEA is chronically underfunded and understaffed relative to its mandated scope (7.4 million MSEs). Its role in credit access is facilitative rather than regulatory, and it has no direct authority over financial institutions. Formalisation rates remain low (over 70% of MSMEs informal: KNBS 2016), limiting MSEA's effectiveness as a financial inclusion enabler.
Key gaps include: (1) MSEA mandate excludes medium enterprises; the draft MSME Amendment Act 2025 proposes to include medium enterprises but is not yet enacted (2) MSEA lacks statutory authority over financial institutions; its financial inclusion role is advocacy rather than enforcement (3) MSEA is insufficiently funded and staffed to deliver its mandate across all 47 counties and 7.4 million MSEs.

7. Kenya Industrial Estates (KIE)

KIE fills an important niche as a provider of infrastructure and concessional credit to medium-scale enterprises though has limited reach. Kie’s lending capacity is limited by its revolving fund size, and its geographic reach is concentrated in urban and peri-urban areas. KIE's model does not address the digital credit, trade finance, or equity product gaps that constrain the majority of MSMEs.
Key gaps include: (1) KIE financing capacity is vastly outstripped by demand; geographic reach limited to urban/peri-urban industrial clusters and (2) KIE model does not address digital financial inclusion, credit data, or trade finance for MSMEs.

8. Kenya Institute of Business Training (KIBT)

KIBT is critically underfunded relative to its mandate. With a national MSME population of 7.4 million and an adult financial literacy rate of only 42.1 percent, the scale of KIBT's task is vast. Yet KIBT operates with a limited budget, few county-level delivery channels, and no statutory obligation linking financial literacy completion to preferential credit access. KIBT does not have a digital financial literacy curriculum and is not integrated into the credit access pathway of any government fund or commercial lending

programme. The National Financial Education Framework (CBK/KNEC) provides guidelines but is non-statutory and provides no additional funding to KIBT.
Key gaps include : (1) KIBT budget and staffing insufficient for national MSME financial literacy delivery; no defined outcome metrics or targets (2) Financial literacy delivery not linked to credit access pathways; borrowers can access Hustler Fund, CGS, and affirmative funds without financial literacy pre-qualification and (3) No digital financial literacy curriculum; KIBT not equipped to address digital credit risks or mobile money-based business finance.

9. Hustler Fund (Financial Inclusion Fund)

The Hustler Fund is Kenya's most innovative and high-reach financial inclusion instrument, demonstrating the government's capacity to deliver digital credit at scale. However, its product design is structurally misaligned with MSME investment needs: maximum loans of Ksh 50,000, 14-day repayment windows, and no grace periods make the Fund unsuitable for business investment, working capital cycles, or enterprise growth. Default rates reached 78 percent in 2024 before easing to 15 percent by March 2026, indicating severe product-market mismatch. The Fund functions as a micro-credit product, not an MSME financial inclusion instrument.

Key gaps include: (1) Hustler Fund loan ceiling (Ksh 50,000) and repayment window (14 days) are incompatible with MSME investment and working capital needs. (2) No statutory graduation pathway from Hustler Fund to CGS-backed commercial bank lending; the credit escalation mechanism remains informal (3) Hustler Fund Credit Score (announced 2024) not yet operationalised under a broader open data governance architecture.

10. Women Enterprise Fund (WEF), Youth Enterprise Development Fund (YEDF) & Uwezo Fund

These three funds target the most financially excluded MSME segments women, youth, and persons with disabilities and in principle address the most critical structural barriers to financial inclusion. In practice, all three have been undermined by high default rates (WEF 20–30 percent; YEDF chronically un-serviced; Uwezo 61.7 percent cumulative default rate), bureaucratic access barriers, limited outreach, no mandatory graduation pathways to commercial credit and proposed Biashara Fund merger is a positive step but remains unimplemented.
Key gaps include : (1) High default rates across all three funds (WEF 20–30 percent; Uwezo 61.7 percent cumulative default rate) reflect absence of financial literacy pre-qualification and inadequate follow-up support (2) Proposed Biashara Fund merger not yet implemented; fragmented fund architecture perpetuates duplication and misuse (3) No standardised impact measurement or graduation pathway to commercial credit for any of the three funds.

2.1.2.3 Financial service providers

11. Commercial Banks / Kenya Bankers Association (KBA)

Commercial banks are the most important formal credit channel for growth-stage MSMEs, but their contribution to MSME financial inclusion is declining. The number of active MSME loan accounts fell 24.7 percent between 2022 and 2024, while interest rates for MSMEs averaged 16.4 percent for commercial banks (CBK, 2025) rates that significantly constrain MSME profitability and debt serviceability. The KBA's commitment to Ksh 150 billion in annual new MSME lending from 2025 represents an ambitious pivot, but structural barriers (collateral requirements, high risk perceptions, Basel III capital weights) constrain delivery without corresponding regulatory reform.
Key gaps include: (1) No bank MSME product suitability standards (minimum tenure, grace periods, affordability assessments); products remain structurally misaligned with MSME cash flows and (2) Commercial banks do not provide sex-disaggregated MSME lending data, preventing gender-responsive financial inclusion monitoring.

12. Microfinance Banks (MFBs) / AMFI-K

MFBs are a critical financial inclusion bridge for MSMEs between informal credit and commercial banking. However, the sector is under significant stress. MFB total assets declined 5.1 percent year-on-year in 2024 due to subdued lending activity and competition from digital lenders (Agusto Research, 2025). MFB interest rates (26.3 percent average) are the highest in the formal sector micro enterprises face 23.8 percent, small enterprises 30.9 percent. The Business Laws (Amendment) Act 2024 extends CBK oversight to all non-deposit-taking credit providers, creating new compliance costs that may further reduce MFI lending to MSMEs.
Key gaps include: (1) MFB interest rates (avg. 26.3%) represent the highest formal lending costs for MSMEs; no affordability standard or rate ceiling for MSME financial inclusion and (2) MFI sector lacks systematic integration into the national credit graduation framework; MFI loans are not consistently reported to CRBs.

13. SACCOs

SACCOs are among the most effective MSME financial inclusion vehicles in Kenya, offering member-based lending at preferential rates with lower collateral requirements than commercial banks. Their governance structures, built on member accountability and savings-linked lending, reduce moral hazard. However, SACCOs face regulatory fragmentation (DT-SACCOs under SASRA; NWDTs under Commissioner of

Cooperatives), and SACCO lending data is not systematically integrated into the national CRB system, leaving SACCO borrowers unscored and invisible to commercial lenders.
Key gaps include: (1) SACCO lending data (both DT-SACCOs and NWDTs) is not integrated into national CRB systems; SACCO borrowers remain unscored and unable to graduate to commercial credit.

14. Digital Credit Providers (DCPs)

DCPs represent the most dynamic and fastest-growing lending channel for micro-enterprise operators in Kenya, leveraging mobile data to extend credit to previously unbanked populations. However, DCP products are structurally misaligned with MSME investment needs: short tenures, high effective interest rates, and predatory recovery practices limit their positive impact on enterprise development. Consumer complaints against digital lenders rose 28% in 2025 (CAK), and the majority of the DCP market continues to operate without CBK licensing, undermining consumer protection.

Key gaps include: (1) No minimum product suitability standards for DCP loans (tenure floors, affordability tests, debt-service-coverage ratios); products misaligned with MSME business cycles and (2) 480 plus DCP applicants not yet licensed; majority of digital lenders operating outside formal oversight, perpetuating predatory practices.

2.1.2.4 Financial infrastructure institutions

15. Credit Reference Bureaus (CRBs) / CIS Kenya

Kenya's CRB system is structurally incomplete for MSME financial inclusion purposes. It captures bank and MFB data but excludes non-bank lenders (DCPs), non-deposit-taking SACCOs, informal lenders, utility payment data, tax compliance records, and mobile money transaction data sources that would provide the most actionable creditworthiness signals for the majority of MSME operators.

CRB blacklisting has had a chilling effect on MSME credit: over 7 million Kenyans were blacklisted as credit-unworthy in 2022 with no time-bound rehabilitation pathway. The Hustler Fund Credit Score initiative (announced 2024) represents a potentially transformative alternative but has not been operationalised under a broader open data architecture.

Key gaps include: (1) Over 7 million Kenyans blacklisted with no time-bound credit rehabilitation mechanism; disproportionate barrier to MSME re-entry into formal credit markets (2) No framework to integrate mobile money transaction data, utility payments, or tax compliance records into MSME credit scoring and (3) DCPs, NWDTs, and informal MFIs not mandated to submit data to CRBs; majority of MSME borrowing activity invisible to credit scoring.

2.1.2.5 Development partners and research bodies

16. FSD Kenya (Financial Sector Deepening Kenya)

FSD Kenya occupies a uniquely powerful position in Kenya's financial inclusion institutional landscape generating the evidence base (FinAccess), shaping market structures (bank-MSME partnerships), and influencing policy (NFIS). However, FSD Kenya is a development partner institution, not a government agency, limiting its statutory authority. Its MSME finance work, while high-quality, focuses primarily on demand-side diagnostics and market analysis rather than direct credit delivery or regulatory change. FSD Kenya does not have a mandate to ensure institutional coordination. Key gap is that FSD Kenya's evidence on MSME financial inclusion is not systematically incorporated into the CBK NFIS or MSME policy processes through a formal mechanism.

17. World Bank / SAFER Programme

The SAFER Programme represents Kenya's most significant external institutional intervention for MSME financial inclusion. By channelling development finance through the CGS and SACCO on-lending mechanisms, it has demonstrated effective leverage of public resources for private sector MSME credit. However, SAFER's impact is constrained by the same structural barriers that limit domestic instruments: CGS uptake remains low (Ksh 6.34 billion vs. a Ksh 2.6 trillion gap), and its three-component structure has not generated a self-sustaining institutional architecture beyond the programme period.

Key gap is that SAFER Programme's institutional gains (CGS capacity, SACCO on-lending model) risk reversing at programme end without a self-sustaining national mechanism.

18. Kenya Private Sector Alliance (KEPSA)

KEPSA plays an important advocacy and facilitation role in MSME financial inclusion, particularly through the MSME Financing Gateway. However, its financial inclusion mandate is secondary to its broader private sector advocacy function. KEPSA does not have a regulatory or direct financing role, and its ability to drive systemic change in MSME financial inclusion is limited without stronger government partnership mandates. Key gap is that the KEPSA MSME Financing Gateway has limited MSME awareness and uptake and is not integrated with government financial inclusion programmes.

The table below summarises all 18 institutions reviewed, their category, mandate scope (relative to the nine policy issue areas), sufficiency rating, and key gap summary.

Institution	Category	Mandate Scope	Sufficiency	Critical Gap Summary
Central Bank of Kenya (CBK)	Regulatory Authority	Issues 1, 2, 3, 4, 5, 6, 7	Partial	No SME risk-weight relief; DCP licensing backlog; NFIS underweights MSMEs; no open banking framework
National Treasury	Fiscal Authority	Issues 1, 2, 6, 9	Partial	CGS too small (25% coverage, Ksh 5M cap); affirmative funds high default; no grants governance framework
State Dept. for MSME Development	Government Dept.	Issues 1, 6, 7, 8, 9	Partial	Mandate overlap; no MFICC coordination mechanism
SASRA	Regulatory Authority	Issues 1, 3, 6	Partial	NWDTs unregulated; SACCO lending not in CRB; SACCO data absent from national credit system
Capital Markets Authority (CMA)	Regulatory Authority	Issues 2, 6	Insufficient	GEMS dormant (5 listings); no VC/PE MSME framework; equity policy silo from credit policy
MSEA	State Corporation	Issues 4, 6, 7	Partial	Excludes medium enterprises; no authority over FIs; underfunded for national mandate
Kenya Industrial Estates (KIE)	State Corporation	Issues 1, 7	Partial	Reaches small fraction of MSMEs; urban-focused; no digital/trade finance role
KIBT	State Training Inst.	Issue 7	Insufficient	Underfunded; no outcomes metrics; not linked to credit access; no digital literacy curriculum
Hustler Fund	Govt. Digital Lender	Issues 1, 9	Partial	Product misaligned with MSME needs (Ksh 50K cap, 14-day window); no graduation pathway; default rate crisis (78% in 2024)
WEF / YEDF / Uwezo Fund	Affirmative Funds	Issues 4, 7, 9	Insufficient	High default rates (Uwezo 61.7 percent cumulative default rate); limited outreach; no graduation pathways; Biashara merger not implemented

Commercial Banks / KBA	Financial Service Providers	Issues 1, 2, 6, 7	Partial	MSME portfolio declining 13%; interest rates 16.4%; no product suitability standards; no gender-disaggregated data
MFBs / AMFI-K	Financial Service Providers	Issues 1, 2, 7	Partial	Sector under stress; interest rates 26.3% avg; compliance costs threaten viability; CRB integration incomplete
SACCOs	Cooperative FIs	Issues 1, 4	Partial	Regulatory fragmentation; SACCO data absent from CRBs; NWDTs under weaker oversight
Digital Credit Providers	Fintech Lenders	Issues 1, 3	Partial	Products misaligned with MSMEs; predatory practices; 480+ applicants unlicensed; no product standards
CRBs / CIS Kenya	Credit Infrastructure	Issue 3	Insufficient	7M+ Kenyans blacklisted; no rehabilitation pathway; excludes DCPs/SACCOs/mobile money data; no open banking
FSD Kenya	Dev. Partner / Research	Issues 3, 6, 7	Partial	Evidence not formally integrated into policy processes; no statutory authority or direct financing mandate
World Bank / SAFER Programme	Development Finance	Issues 1, 6, 9	Partial	Programme period limited; structural barriers constrain CGS leverage; no sustainable exit mechanism
KEPSA	Private Sector Body	Issue 6	Partial	Financing Gateway underutilised; limited regulatory authority; advocacy role not backed by statutory mandate

2.1.3 International and Regional Frameworks

The section catalogues and analyses the international, African continental, and regional frameworks to which Kenya is a signatory that support MSME financial inclusion. It examines the specific provisions within each framework that are most relevant to the nine policy issue areas of the proposed MSME Financial Inclusion Policy: (1) lending models; (2) credit and equity product design; (3) credit data systems; (4) structural and systemic barriers; (5) debt recovery practices; (6) stakeholder collaboration; (7) financial literacy; (8) trade finance and market access; and (9) the role of grants. It also identifies the obligations, opportunities, and gaps in Kenya's alignment with these frameworks.

Global frameworks

A. United Nations Frameworks

1. The 2030 Agenda for Sustainable Development: Sustainable Development Goals (SDGs)

Kenya adopted the 2030 Agenda for Sustainable Development at the UN Sustainable Development Summit in New York in September 2015, committing to achieving all 17 Sustainable Development Goals (SDGs) and their 169 targets. Kenya's long-term development blueprint, Vision 2030, and all successive Medium-Term Plans (MTP II, III, and IV) have mainstreamed the SDGs, with Kenya recognised as one of the most active advocates of the SDGs at the global level — Kenya's Permanent Representative to the UN co-chaired the Open Working Group on SDGs mandated to develop the goals (UN SDG Knowledge Platform).

Key Provisions Relevant to MSME Financial Inclusion: SDG 1 (No Poverty): Target 1.4 calls for access to financial services, inheritance, and basic services for all directly relevant to MSME financial inclusion for the poor, SDG 5 (Gender Equality): Target 5.a promotes equal rights to economic resources, including access to financial services underpins Kenya's obligation to address the gender credit gap for women-owned MSMEs, SDG 8 (Decent Work and Economic Growth): Target 8.3 specifically calls for policies that support productive activities, decent job creation, entrepreneurship, creativity, innovation, and encourage the formalization and growth of MSMEs. Target 8.10 calls for strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all, SDG 9 (Industry, Innovation and Infrastructure): Target 9.3 calls for increasing access of small-scale industrial and other enterprises to financial services, including affordable credit, and their integration into value chains and markets, SDG 10 (Reduced Inequalities): Calls for reducing income inequality and ensuring equal opportunity — relevant to structural and systemic barriers facing MSMEs owned by women, youth, and persons with disabilities, SDG 17 (Partnerships for the Goals): Calls for mobilising resources, enhancing north-south and south-south cooperation, and building multi-stakeholder partnerships directly applicable to Kenya's MSME financial inclusion stakeholder collaboration framework.

Kenya's Alignment: Kenya has mainstreamed SDGs in Vision 2030, MTP III (2018–2022), and MTP IV (2023–2027). The SDG principle of 'leave no one behind' is reflected in Kenya's Hustler Fund, WEF, YEDF, and CGS interventions. Kenya submitted its first Voluntary National Review in 2017 and was a member of the 2020 VNR High-level Political Forum. Key Gap is that Kenya's SDG reporting does not systematically disaggregate SDG 8 and 9 progress indicators by MSME size, sector, gender, or geographic location limiting the evidence base for targeted MSME financial inclusion policy adjustments.

2. Addis Ababa Action Agenda (AAAA) on Financing for Development (2015)

The Addis Ababa Action Agenda was adopted at the Third International Conference on Financing for Development in July 2015 and forms an integral part of the 2030 Agenda. Kenya, as an African nation and member of the Group of 77, was a key participant in the negotiation and adoption of the AAAA. The AAAA provides the global financing framework for implementing the SDGs.

Key MSME Financial Inclusion Provisions: (1) Domestic resource mobilisation: Commits governments to strengthen domestic resource mobilisation and direct finance to productive sectors including MSMEs (2) Private business and finance: Recognises the role of the private sector including MSMEs in driving inclusive growth; calls for enabling environments for business development and private investment. (3) Domestic and international private business investment: Calls for improved business environments, including access to finance, for productive sectors (4) Technology and innovation: Commits to facilitating the scaling up of innovative financial products and services for MSMEs (5) Remittance cost reduction: Commits to reducing the average transaction cost of remittances to less than 3% directly relevant to MSME operators in Kenya's diaspora and informal sector and (5) Financial literacy and consumer protection: Calls for improving financial literacy and financial consumer protection at all levels.

Kenya's Alignment to the the AAAA is reflected in Kenya's National Treasury's Medium-Term Expenditure Framework and in the mandate of development partner programmes such as the SAFER Programme (World Bank/IFC, USD 100M IDA Credit). Kenya's Credit Guarantee Scheme and Hustler Fund are consistent with AAAA's domestic financial mobilisation principles. Key gap is that Kenya's formal Financing for Development strategy does not include MSME-specific financing targets aligned with AAAA commitments; there is no annual AAAA progress report tracking MSME financial inclusion outcomes.

3. UN General Assembly Resolution A/RES/71/279 — MSME Day (2017)

The UN General Assembly designated 27 June as MSME Day in 2017, recognising MSMEs as economic backbones worldwide and their critical role in achieving the SDGs. Kenya has consistently observed MSME Day through government events, including the 2025 celebration that highlighted Kenya's MSME Policy 2025 development, the 2024

National MSME Survey, and the MSMEs Connect initiative across all 47 counties. In February 2025, African Union Heads of State adopted a 10-year Social and Solidarity Economy strategy aligning with the 2023 UN Resolution recognising MSMEs' role in sustainable development an initiative Kenya endorsed.
Kenya's Alignment is through celebrating MSME Day with high-level government engagement. The 2025 theme ‘Enhancing the role of MSMEs as drivers of sustainable growth and innovation directly aligns with Kenya's MSME Policy 2026 development agenda.

B. G20 Global Partnership for Financial Inclusion (GPFI) Frameworks

Although Kenya is not a G20 member, the Central Bank of Kenya has engaged actively with the G20 Global Partnership for Financial Inclusion (GPFI) through AFI as a key implementing partner. Kenya's financial inclusion policies are aligned with successive G20 Financial Inclusion Action Plans (FIAPs), and CBK has contributed to and adopted the norms, data standards, and policy frameworks developed under the GPFI framework.

4. G20 Financial Inclusion Action Plans (FIAPs) — 2010 to 2024 Series

The G20 FIAP series launched in 2010 at the Seoul G20 Summit provides the global normative framework for financial inclusion policy. The 2023 GPFI FIAP establishes a three-year mission (2024–2026) on digital financial inclusion, MSME finance, and financial consumer protection. Kenya's CBK has engaged with the GPFI through AFI, which was nominated by the G20 as one of three implementing partners in 2010.

Key Provisions Relevant to Kenya's MSME Financial Inclusion Policy (1) SME Finance Subgroup: The GPFI's SME Finance Subgroup develops global norms for MSME credit infrastructure, data standards, and product innovation Kenya engages through AFI's SMEFWG (2) Digital financial inclusion principles: The 2016 G20 High-Level Principles for Digital Financial Inclusion (8 principles) are directly applicable to Kenya's Hustler Fund architecture, DCP regulatory framework, and open banking considerations (3) Financial consumer protection: G20 norms on fair lending, transparent disclosure, and responsible finance underpin Kenya's CBK DCP Regulations (2022) and Consumer Protection Act (2012) (4) MSME data: G20 FIAPs call for improved collection of sex-disaggregated MSME financial inclusion data directly relevant to Kenya's gap in gender-disaggregated bank lending data.
Kenya's Alignment to the series is through the National Financial Inclusion Strategy (NFIS) 2025–2028 which explicitly aligns with G20 GPFI frameworks. The Hustler Fund Credit Score initiative is consistent with G20 principles on alternative data for MSME credit scoring. The CBK's DCP Regulations (2022) reflect G20 principles on digital financial inclusion.

5. G20 GPFI Action Plan for MSME Financing (December 2024)

The G20 GPFI Action Plan for MSME Financing was adopted in December 2024 under the G20 Brazil Presidency, prepared by the World Bank, IFC, and OECD. It represents the most comprehensive and current global framework for MSME financial inclusion, with direct policy prescriptions relevant to Kenya's proposed policy. The Action Plan identifies a credit gap for emerging market and developing economies of USD 5.7 trillion, with the gap for women-owned MSMEs representing 34%.

Key Provisions and their Implications for Kenya are (1) Horizontal Enabling Environment .Credit Infrastructure: Improve credit reporting systems using alternative data; simplify insolvency regimes; complete frameworks for secured transactions and movable collateral registries. Kenya’s gaps are: CRBs exclude majority of MSME lenders, no alternative data framework and Insolvency Act lacks MSME restructuring track (2) Horizontal Enabling Environment -Consumer Protection: Develop comprehensive consumer protection for financial services; address unfair lending practices. Kenya's gaps are: DCP Regulations (2022) enforcement limited, informal lenders unregulated and 28% increase in CAK lending complaints in 2025 (3) Vertical Interventions. Credit Guarantee Schemes: Expand and redesign CGS with portfolio guarantee models, gender-specific windows, and higher coverage ratios. Kenya's gap is: 25% CGS coverage ratio too low; no gender/youth windows and KCGSC transition incomplete (4) Vertical Interventions. Digital Financial Services: Leverage fintech and DFS for MSME credit; promote responsible digital lending. Kenya's alignment is: 85 licensed DCPs; Hustler Fund reaches 24.6M customers while gasp is: DCP licensing backlog; product mismatch; no open banking framework (5) Vertical Interventions. Financial Literacy for MSMEs: Tailored financial education enhancing creditworthiness; delivery through credit access pathways. Kenya's gap is: 42.1% financial literacy rate; KIBT underfunded; training not linked to credit access.

C. Alliance for Financial Inclusion (AFI) Frameworks- Kenya as Founding Member
Kenya holds a uniquely privileged position in the AFI network: the Central Bank of Kenya is one of the five founding members (2009), hosted the inaugural AFI Global Policy Forum in Nairobi in 2009, and the CBK Governor served as the first AFI Steering Committee Chair. AFI was founded in Nairobi with the stated goal of advancing financial inclusion policy in developing economies. As a founding and principal member, Kenya has adopted all key AFI declarations, accords, and commitments.

6. AFI Maya Declaration (2011)
Adopted at the 3rd AFI Global Policy Forum in Riviera Maya, Mexico in 2011, the Maya Declaration is the world's first global set of measurable financial inclusion commitments

by developing country governments. As of September 2025, AFI members from 79 countries have collectively made 1,469 Maya Declaration targets. CBK, as a founding member, has made multiple commitments and reports progress through the AFI Data Portal. Core commitments include (1) Putting in place enabling policies for cost-effective financial access (2) collecting financial inclusion data (3) implementing proportionate financial integrity frameworks (4) scaling government-to-person payment partnership (5) reducing financial exclusion among women, youth, rural populations, and MSMEs.

Kenya's Alignment and implementation of the Maya Declaration commitments is through CBK's NFIS 2025–2028 and FinAccess surveys. The Hustler Fund and CGS are consistent with Maya Declaration government partnership principles. CBK's DCP Regulations (2022) reflect the financial integrity proportionality commitment.

Key gap is that Kenya's Maya Declaration commitments have not been systematically linked to MSME-specific targets for lending model reform, credit data system development, or trade finance facilitation these should be captured in the proposed MSME Financial Inclusion Policy as measurable AFI commitments.

7. AFI Maputo Accord (2015) — SME Finance

Launched at the 7th AFI Global Policy Forum in Maputo, Mozambique in 2015, the Maputo Accord commits AFI members to support access to finance for SMEs, promote sustainable and inclusive development, and spur innovation. The Accord was proposed by Mozambique's Central Bank Governor and unanimously adopted, making SME finance a core priority of the AFI network. It followed directly from Turkey's G20 Presidency, which made SME support a key theme.

Core commitments included: (1) Develop enabling policy and regulatory environments for SME finance (2) promote innovative financial products for SMEs; (3) collect and publish SME-specific financial inclusion data and (4) support credit infrastructure for SME credit assessment.

The Maputo Accord provides direct AFI-level mandate for Kenya's CBK to prioritise MSME financial inclusion in its supervisory and regulatory framework. The proposed MSME Financial Inclusion Policy should explicitly align with Maputo Accord commitments and be registered as a CBK Maya Declaration/Maputo Accord target.

Key gaps are that CBK has not made a specific Maputo Accord commitment on MSME-specific credit data infrastructure, SME supporting factor in prudential rules, or open banking for MSME credit these represent concrete gaps to address in the proposed policy.

8. AFI Denarau Action Plan on Gender Inclusive Finance (2016)

Adopted at the 8th AFI Global Policy Forum in Nadi, Fiji in 2016, the Denarau Action Plan commits AFI members to increase women's access to quality and affordable financial services and close the financial inclusion gender gap. The Plan identifies specific policy measures including financial product design for women, sex-disaggregated data collection, gender-responsive regulatory frameworks, and women's financial literacy.

Kenya's Women Enterprise Fund and WE Finance Code (signed at NFIS 2025–2028 launch in December 2025) reflect alignment with Denarau Action Plan commitments. However, CBK has not yet mandated sex-disaggregated MSME credit data from commercial banks a core Denarau Action Plan requirement.
Key gap is that no commercial bank in Kenya is required to report sex-disaggregated MSME credit data to CBK or publish gender-specific MSME lending metrics a direct non-compliance gap with the Denarau Action Plan that Kenya's proposed policy must address.

9. AFI Sharm El Sheikh Accord on Climate Change and Green Finance (2017) and Additional AFI Accords

The Sharm El Sheikh Accord (2017) commits AFI members to advance inclusive green finance and sets quantified climate and financial inclusion targets. The subsequent Sochi Accord (2018) on de-risking, Kigali Statement (2019) on accelerating financial inclusion for disadvantaged groups, Manila Manifesto (2023) on engagement with global standard-setting bodies, and the San Salvador Consensus (2024) on inclusive and responsible financial innovation collectively form Kenya's AFI commitment architecture.

Kenya's rural MSME green finance agenda (solar energy, agritech, climate adaptation) aligns with the Sharm El Sheikh Accord. The San Salvador Consensus (2024) on responsible financial innovation is directly relevant to Kenya's AI-driven credit scoring and digital lending ecosystem development.

10. WTO Trade Facilitation Agreement (TFA)

Kenya ratified the WTO Trade Facilitation Agreement in 2017. The TFA reduces documentation requirements, streamlines customs procedures, promotes transparency, and establishes single-window trade facilitation systems. These provisions directly reduce the cost and complexity of cross-border trade for MSME exporters, complementing Kenya's AfCFTA obligations.
Kenya Revenue Authority's implementation of AfCFTA certificates of origin, border post readiness at 8 border stations, and participation in COMESA's REPSS payment system reflect WTO TFA implementation. Kenya exported its first consignment under AfCFTA in October 2022.
Key gap is that MSME-specific trade facilitation particularly for small exporters with limited documentation capacity is not systematically addressed in Kenya's WTO TFA implementation or AfCFTA implementation strategy. A dedicated MSME export facilitation programme aligned with WTO TFA is absent.

African continental frameworks

11. African Union Agenda 2063

Agenda 2063 was adopted by the African Union Assembly of Heads of State and Government in January 2015 as Africa's 50-year blueprint for inclusive and sustainable socio-economic development. Kenya is a founding member of the African Union and has consistently led continental integration efforts. President Ruto was appointed AU Champion on Institutional Reform in February 2024 at the 37th AU Assembly. Agenda 2063's seven aspirations and 20 goals provide the continental development architecture within which MSME financial inclusion must be situated.

Key MSME Financial Inclusion Provisions: Aspiration 1: Prosperous Africa: Goal 5 calls for modern and productive agriculture and other productive sectors; Goal 4 emphasises transformed economies and job creation through MSME development, Aspiration 2: Integrated Continent: AfCFTA as Flagship Project; Pan-African Payments and Settlement System (PAPSS); infrastructure integration all directly enabling MSME market access and trade finance, Aspiration 6: People-Driven Development: Emphasises financial inclusion, women's economic empowerment, and youth entrepreneurship directly applicable to Kenya's MSME financial inclusion gaps and Digital economy: Agenda 2063 calls for a continental digital economy enabling innovation and entrepreneurship aligned with Kenya's fintech and digital credit development agenda.
Kenya's Alignment: Kenya's Vision 2030 and MTP IV explicitly align with Agenda 2063. Kenya's AfCFTA Implementation Strategy (2022–2027) is framed as a contribution to Agenda 2063's flagship AfCFTA project. President Ruto's AU Institutional Reform Championship role elevates Kenya's responsibility to demonstrate Agenda 2063 implementation leadership.

12. Agreement Establishing the African Continental Free Trade Area (AfCFTA)

Kenya was among the first countries to ratify the AfCFTA, signed in Kigali in March 2018. Trade under AfCFTA officially began on 1 January 2021. Kenya participated in the AfCFTA Guided Trade Initiative (GTI) from October 2022, exporting the first consignment to Ghana on 5 October 2022. Kenya's AfCFTA Implementation Strategy (2022–2027) targets 5% annual real value-added growth in manufacturing, with MSME participation as an explicit objective. AfCFTA creates a single market of 54 countries, 1.4 billion people, and USD 3.4 trillion in GDP.

Key MSME Financial Inclusion Provisions: (1) Protocol on Trade in Goods: Elimination of tariffs on 90% of tariff lines (5 years for regular parties; 10 years for LDCs); creation of preferential certificates of origin system directly reduces MSME export costs (2) Phase II Protocol on Investment: Promotes investment liberalisation and protection across the continent creates enabling environment for MSME investment in regional markets (3) Phase II Protocol on Digital Trade: Establishes continental framework for digital trade, data governance, and e-commerce — directly enables MSME participation in digital market platforms and digital financial services (4) Phase II Protocol on Women and Youth in Trade: Explicitly mandates inclusion of women and youth in AfCFTA trade opportunities — directly applicable to Kenya's women-owned and youth-owned MSME financial inclusion gaps (5) Pan-African Payment and Settlement System (PAPSS): Enables trade settlement in African currencies; reduces USD dependency for intra-African MSME trade critical for Kenya's SME trade finance (6) AfCFTA MSME-specific commitments: AfCFTA Secretariat collaboration with intra-African infrastructure development for MSMEs; Kenya's UBA/AfCFTA Secretariat MoU (USD 285 million SME trade finance allocation for Kenya) represents a direct AfCFTA financial inclusion instrument.

Kenya's November 2024 TradeConnect Initiative shipped first MSME exports to Zambia, DRC, and South Sudan under AfCFTA. The UBA/AfCFTA MoU allocates USD 285 million in trade finance specifically for Kenyan SMEs. Kenya reaffirmed AfCFTA commitment at the October 2025 National Assembly Workshop on Phase II Protocols in Mombasa.

Key gap is that despite the AfCFTA's MSME financial inclusion provisions, 80 percent of Kenya's businesses (MSMEs) have negligible formal export participation. The USD 285M UBA/AfCFTA Kenya allocation has no MSME-specific disbursement framework. No MSME trade finance desk exists to operationalise AfCFTA trade finance for small exporters.

13. AU Strategy for SME/I Development in Africa

The African Union's Strategy for SME and Industrial (SME/I) Development in Africa provides a continental policy framework specifically for MSME development. It directly acknowledges that collateral requirements, high bank interest rates, lack of financial literacy, and absence of business plans are the primary financing barriers for African SMEs. It maps existing REC-level frameworks including the COMESA MSME Policy (2013), EAC SME Charter, and ECOWAS SME Charter (2015).

Key provisions include : (1) National policy frameworks that calls for comprehensive national SME development policies (2) Financial system development which calls for development of DFIs, capital markets, and alternative financing mechanisms for SMEs and (3) Regional value chain integration which calls for Promoting SME integration into African value chains through AfCFTA directly applicable to Kenya's MSME export gap.

Kenya's MSE Act (2012), MSEA, KIE, and CGS are all aligned with the AU SME/I Strategy's institutional framework recommendations. However, the AU Strategy's call for alternative financing mechanisms (leasing, factoring, capital markets) for MSMEs remains under implemented in Kenya.

14. African Financial Inclusion Policy Initiative (AfPI)

AfPI is AFI's Africa regional initiative, chaired by the Bank of Tanzania, that provides peer learning, technical assistance, and policy development for financial inclusion in Africa. Kenya's CBK is an active AfPI member. The AfPI SMEFWG (SME Finance Working Group) conducts the Africa-level
MSME finance scoping surveys and develops continent-specific MSME financial inclusion policy guidance.
The 2024 AFI/AfPI Scoping and Assessment Report on MSME Access to Finance Ecosystem in Africa provides the most current continental evidence base for MSME financial inclusion policy design.

Kenya's CBK contributes actively to AfPI peer learning. AfPI's 2024 MSME scoping report specifically includes Kenya as a case study country, documenting the fragmented but growing MSME access to finance landscape. The proposed MSME Financial Inclusion Policy should formally align with AfPI SMEFWG frameworks and commit to annual progress reporting.

Regional frameworks

15. East African Community (EAC) Treaty and Integration Frameworks
Kenya is a founding member of the EAC, having signed the Treaty for the Establishment of the East African Community on 30 November 1999. The EAC currently has eight Partner States (Kenya, Tanzania, Uganda, Rwanda, Burundi, South Sudan, DRC, and Somalia), with a combined GDP of approximately USD 305 billion and a population of 312 million. President Ruto serves as EAC Chairman (2024). Kenya is the EAC's largest economy and financial centre.
Key MSME Financial Inclusion Provisions include: (1) EAC Common Market Protocol (2009/2010): Mandates liberalisation of trade in financial services; promotes freedom of movement of capital; harmonises financial sector regulation; directly enables MSME access to regional financial services markets.

(2) EAC Financial Services Commission (under development): Proposed continental financial sector regulator for the EAC; will harmonise prudential standards including MSME lending frameworks (3) EAC Monetary Union Protocol (2013): Promotes macroeconomic convergence; East African Payments System (EAPS) integration; directly relevant to MSME cross-border payment facilitation.(4) EAC SME Charter: Commits EAC Partner States to develop enabling environments for SME development, including access to finance — directly applicable to Kenya's MSME financial inclusion obligations within the EAC framework (5) EAC Industrial Strategy (2012–2032): Promotes industrial development through MSME manufacturing clusters; aligns with Kenya's CAIP (County Aggregation and Industrial Parks) initiative.

Kenya's EAC leadership position creates an obligation to demonstrate MSME financial inclusion best practice within the Community. Kenya's EAC MSME Trade Fair participation, digital payment system integration (EAPS/REPSS), and AfCFTA export initiation are consistent with EAC treaty obligations.
Key gap is that EAC financial services liberalisation has not been translated into MSME-specific lending product accessibility across the EAC. A Kenyan MSME cannot access KBA member bank MSME products across EAC borders. An EAC MSME financial inclusion protocol does not exist despite the Common Market Protocol's financial services provisions.

16. EAC-IGAD Eastern Africa Regional Digital Integration Project (EARDIP)

EARDIP is a flagship initiative jointly implemented by IGAD and EAC with World Bank support, designed to boost regional digital market integration by expanding broadband infrastructure and strengthening the environment for cross-border digital services including digital payments. In 2025, the Central Bank of Kenya participated in an EAC-IGAD workshop on fast payment system (FPS) interoperability, digital infrastructure, and legal harmonisation with recommendations specifically noting that cross-border payment interoperability 'will especially enable safer, faster and low-cost retail payments across borders helping end-users, individuals and MSMEs to make and receive payments seamlessly' (EAC, 2025).

Kenya's National Payment System (KNPS) is already linked with REPSS and EAPS regional cross-border systems. Kenya's National Payments Strategy 2022–2025 includes regional digital payment integration. The Commercial Bank of Kenya joined PAPSS in June 2023. Kenya bid to host the PAPSS headquarters.
Key gap is that EARDIP's digital payment interoperability benefits are primarily captured by large enterprises and mobile money operators, not by MSMEs directly. No dedicated MSME digital payment facilitation mechanism under EARDIP or PAPSS has been established in Kenya.

17. COMESA Regional Integration Framework and MSME Policy (2013)

Kenya is a founding member of the Common Market for Eastern and Southern Africa (COMESA). The COMESA MSME Policy (2013) provides a region-specific framework for MSME development, access to finance, and value chain integration. COMESA's Regional Payments and Settlement System (REPSS) facilitate cross-border payments in local currencies. The COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) creates a single market of 26 countries, 625 million people, and USD 624 billion GDP, which was the precursor to the AfCFTA.

Key MSME Financial Inclusion Provisions (1) COMESA MSME Policy (2013): Commits COMESA member states (including Kenya) to develop MSME finance policy frameworks; promote alternative financing mechanisms; reduce collateral barriers; build financial literacy for MSME operators (2) REPSS: COMESA's Regional Payments and Settlement System facilitate cross-border financial transactions, reducing MSME trade payment costs. (3) COMESA trade standards: Harmonisation of standards within COMESA reduces non-tariff barriers for MSME exporters directly applicable to Kenya's MSME export product standards gap.

Kenya's KNPS is connected to REPSS. Kenya's COMESA membership enables Kenyan MSMEs to access a market of 625M people under harmonised trade rules. Kenya is also part of the COMESA-EAC-SADC TFTA, which was the building block for AfCFTA.

18. Pan-African Payment and Settlement System (PAPSS)

PAPSS was established by AfreximBank and the African Union as a payment infrastructure to enable instant, low-cost cross-border payments in African local currencies, removing the dependence on the USD for intra-African trade. The system covers 42 African currencies. At the 30th AfreximBank Annual Meeting in Accra in June 2023, the Commercial Bank of Kenya joined PAPSS. Kenya has also bid to host the PAPSS headquarters, positioning it as East Africa's financial hub for continental trade settlements.

Key provision supporting MSME financial inclusion are: (1) MSME payment facilitation: PAPSS enables MSME exporters to receive payment in local currencies without USD conversion costs directly reducing the cost and complexity of intra-African MSME trade. (2) Trade finance integration: PAPSS is being integrated with AfreximBank's trade finance facilities creating a potential pathway for MSME trade finance under AfCFTA. (3) Financial inclusion dividend: PAPSS serves as an avenue for expanding financial inclusion to the informal sector while monitoring fund transfers, reducing money laundering costs (AU, 2023).

Kenya's Commercial Bank of Kenya joining PAPSS in June 2023 was a significant milestone. Kenya's bid to host PAPSS would position Nairobi as the continental hub for African trade finance creating a strategic opportunity to develop MSME-accessible trade finance products under the PAPSS infrastructure.

Key gap is that PAPSS's MSME financial inclusion benefits are captured primarily by commercial banks and large corporates. No MSME-specific PAPSS facilitation mechanism (e.g., MSME-accessible trade finance products using PAPSS settlement) has been developed in Kenya's financial sector.

Key Alignment Gaps between Kenya's Domestic Frameworks and International Obligations

International Obligation	Kenya's Domestic Gap	Proposed Alignment Action
SDG 8.10 / GPFI MSME Action Plan: Alternative data for MSME credit scoring	No framework converting M-Pesa transaction data, KRA data, or utility payments into creditworthiness signals at scale	Develop National MSME Credit Data Architecture; operationalise Hustler Fund Credit Score as open credit data asset under CBK governance
GPFI 2024 / Maputo Accord: Simplified insolvency and business rescue for MSMEs	Insolvency Act (2015) has no dedicated MSME pre-insolvency restructuring track; no second-chance credit rehabilitation pathway	Amend Insolvency Act to create MSME restructuring track; introduce statutory CRB rehabilitation pathway post-default resolution
GPFI 2024: Expanded CGS with portfolio guarantees at 50–90% coverage	Kenya's CGS has 25% coverage ratio — insufficient to materially shift bank lending behaviour	Redesign CGS as portfolio guarantee scheme with 50–75% coverage for targeted MSME segments, gender/youth windows aligned with GPFI best practice (South Africa's Khula model)
AFI Denarau Action Plan: Sex-disaggregated MSME lending data	Commercial banks not required to collect or publish sex-disaggregated MSME lending data	CBK to mandate quarterly sex-disaggregated MSME credit data reporting from all regulated financial institutions
AFI Maputo Accord: SME supporting factor in prudential framework	No risk weight reduction for qualifying MSME loans under Banking (Capital Requirements) Regulations	Introduce SME supporting factor reducing risk weights for MSME loans below a threshold consistent with Kenya's MSME scale (e.g., Ksh 10 million)
AfCFTA Phase II Digital Trade Protocol: Digital financial services framework	No open banking regulations; no MSME digital trade finance platform standards	Develop open banking regulations aligned with AfCFTA Digital Trade Protocol; create digital trade finance platform standards for MSME exporters

AfCFTA MSME Inclusion: Last-mile trade finance for MSME exporters	USD 285M UBA/AfCFTA Kenya allocation has no MSME-specific disbursement framework; no MSME trade finance desk	Establish MSME Trade Finance Desk at State Department or KDC; develop MSME-accessible products under the UBA/AfCFTA allocation
EAC Common Market Protocol: Financial services liberalisation	EAC financial services liberalisation not translated into MSME-specific cross-border lending product accessibility	Develop an EAC MSME Financial Services Protocol as part of Kenya's EAC Chairmanship legacy initiative under Ruto's leadership
AAAA / SDG 17: Multi-stakeholder partnerships for MSME finance	No statutory National MSME Financial Inclusion Coordination Committee (MFICC) linking all institutional actors	Establish statutory MFICC with Parliament reporting; frame as Kenya's formal implementation of AAAA multi-stakeholder partnership commitments
AFI Maya Declaration: Financial literacy linked to credit access	National MSME financial literacy rate at 42.1%; training not linked to credit access pathways; no digital financial literacy curriculum	Enact National MSME Financial Literacy Strategy aligned with Maya Declaration commitments; link KIBT training completion to preferential credit access

2.2 lessons learnt and proposed solutions

2.2.1 Policy and Legal Framework

The following matrix consolidates the 30 critical gaps identified across all nine policy issue areas, with corresponding recommended actions for the proposed MSME Financial Inclusion Policy.

Policy Issue Area	Critical Gap Identified	Recommended Policy Action
1. Lending Models	No graduated MSME lending framework; no bank capital incentive (SME supporting factor); licensing backlog for DCPs; high interest rates with no affordability standard.	Establish a four-tier graduated MSME lending framework (micro → MFI/SACCO → commercial bank → equity/trade finance); introduce prudential relief for qualifying MSME loans; fast-track DCP licensing; mandate affordability assessments.
2. Financial Products	No statutory product suitability standards for MSME loans (tenure, grace periods, DSCR); no regulatory sandbox; equity market for MSMEs entirely underdeveloped.	Debt-Mandate minimum MSME loan tenure standards (12 months for term loans); establish a regulatory sandbox for MSME-fit products; develop a dedicated SME equity ecosystem policy. Insurance products: Strengthening Financial Literacy Initiatives, Innovative Product Development, Leveraging Digital Financial Solutions,

		Strengthening Public-Private Partnerships (PPPs), Advanced Embedded Insurance Solutions and Exploring Emerging Frontiers and regulatory and Policy Reforms
3. Credit Data Systems	Non-bank lenders excluded from CRB reporting; no alternative data framework; CRB blacklisting has no rehabilitation timeline; no open banking rules.	Mandate universal CRB reporting for all licensed credit providers; create an open data governance architecture for MSME credit scoring using mobile money, utility, and tax data; introduce time-bound CRB rehabilitation for resolved defaults.
4. Structural Barriers	Collateral bias persists despite MPSRA (2017); 70%+ MSMEs informal with no credit incentive to formalise; no gender/youth data mandate; rural exclusion unaddressed.	Amend banking prudential rules to accept movable collateral; create digital formalisation incentives linked to preferential credit; mandate sex-disaggregated MSME lending data; develop targeted rural MSME financial inclusion programme.
5. Debt Recovery	No MSME pre-insolvency restructuring track; no second-chance framework; predatory digital lending practices persist; 95,000 MSME write-offs in 2024.	Create a dedicated MSME restructuring track under the Insolvency Act; introduce a statutory credit rehabilitation pathway; strengthen enforcement of DCP Regulations against predatory practices; introduce early-warning systems for at-risk MSME portfolios.
6. Stakeholder Collaboration	No statutory coordination mechanism; mandate overlap between MSME State Dept, CBK, Treasury; fragmented programming; no county-national coordination.	Establish a statutory National MSME Financial Inclusion Coordination Committee (MFICC) with mandated annual Parliament reporting; define clear institutional mandates; develop a county-level MSME financial inclusion implementation framework.
7. Financial Literacy	No costed national MSME financial literacy strategy; delivery not linked to credit access; no digital literacy framework; KIBT underfunded.	Develop a statutory, costed National MSME Financial Literacy Strategy with measurable targets (e.g., increase financial literacy rate from 42.1% to 65% in 5 years); link financial literacy completion to preferential credit access; establish a dedicated digital financial literacy curriculum.
8. Trade Finance & Market Access	No MSME trade finance facility; no receivables-based export finance framework; standards support absent; digital trade finance platforms absent.	Establish an MSME Trade Finance Facility operationalising the UBA/AfCFTA USD 285M

		Kenya allocation; create an MSME export credit guarantee window; develop digital trade finance platform standards; fund MSME standards and certification support.
9. Role of Grants	No unified grants governance framework; no graduation pathways; high default rates; no impact measurement standards; grants function as perpetual subsidies.	Enact a Grants Governance Policy distinguishing incubation grants, concessional loans, and CGS-backed credit; mandate a 24-month graduation pathway from all grant programmes to commercial credit; introduce standardised impact measurement for all government MSME funds.

2.2.2 Intuitional Framework

The following matrix consolidates the 43 critical institutional gaps identified, mapped by institution, with recommended policy actions for the proposed MSME Financial Inclusion Policy.

Institution	Critical Gaps Identified	Recommended Actions
CBK	No SME supporting factor in prudential framework; DCP licensing backlog (395+ unlicensed); NFIS 2025–2028 underweights MSME-specific interventions; no open banking mandate for MSME credit data portability.	Introduce risk-weight relief for qualifying MSME loans (below Ksh 10M); establish a DCP fast-track licensing track; develop a dedicated MSME financial inclusion pillar in NFIS; enact open banking regulations enabling alternative data credit scoring.
National Treasury	CGS coverage ratio (25%) and loan cap (Ksh 5M) are too low; affirmative funds (WEF, YEDF, Uwezo) have unsustainably high default rates and no graduation pathways; no unified grants governance framework; Biashara Fund merger not implemented.	Expand CGS to Ksh 25 billion with 50% coverage ratio; enact a Grants Governance Policy with mandatory 24-month graduation pathways; fast-track Biashara Fund merger with standardised impact measurement; mandate financial literacy pre-qualification for all affirmative fund beneficiaries.
State Dept. for MSME Development	Mandate overlaps with National Treasury and Ministry of Investments; ; no statutory MSME Financial Inclusion Coordination Mechanism; Hustler Fund Credit Score did not operationalise.	Enact MSME Amendment Act; establish statutory MSME Financial Inclusion Coordination Committee (MFICC) with Parliament reporting mandate; operationalise Hustler Fund Credit Score under open data governance; define clear mandate boundaries with other ministries.
SASRA	Non-deposit-taking SACCOs (NWDTs) unregulated; SACCO lending data absent	Bring NWDTs under SASRA prudential supervision; mandate DT-

	from national CRB system; rural MSME credit through SACCOs is unscored and non-portable.	SACCO and NDTS CRB reporting; develop a SACCO-CRB integration framework enabling SACCO borrowers to build portable credit histories.
CMA	GEMS dormant (5 listings); no VC/PE/impact equity framework for MSMEs; FSD Africa SME debt fund (2024) remains at proposal stage; equity and credit policy treated as separate silos.	Develop a dedicated MSME equity ecosystem policy; create a regulatory sandbox for VC, angel investment, and impact equity targeting MSMEs; expedite CMA approval for the FSD Africa SME debt fund; mandate CMA-CBK coordination on MSME equity-credit continuum.
MSEA / KIE / KIBT	MSEA mandate excludes medium enterprises; KIE reaches only a small fraction of MSMEs; KIBT is underfunded, lacks digital literacy curriculum, and is not linked to credit access pathways.	Amend MSE Act to include medium enterprises (MSME Amendment Act 2025); increase KIBT budget 3-fold; mandate financial literacy completion as pre-qualification for CGS and affirmative fund access; develop digital financial literacy curriculum; expand KIE reach to rural areas through CAIPs.
Hustler Fund	Loan ceiling (Ksh 50,000) and 14-day repayment window incompatible with MSME investment; default rates reached 78% in 2024; no graduation pathway to commercial credit; Hustler Fund Credit Score did not operationalise.	Introduce tiered Hustler Fund products: (a) micro credit (existing); (b) MSME working capital (up to Ksh 500K, 12-month tenure); create statutory graduation pathway from Hustler Fund to CGS-backed commercial lending; operationalise Hustler Fund Credit Score.
WEF / YEDF / Uwezo	Uwezo 61.7 percent cumulative default rate; YEDF chronically unserved; WEF default 20–30%; no graduation pathways; Biashara Fund merger stalled; no digital application system; double-dipping facilitated by fragmented architecture.	Fast-track Biashara Fund merger; introduce digital application and tracking system to prevent double-dipping; mandate financial literacy completion before disbursement; link all beneficiaries to CGS graduation pathway within 24 months; set standardised recovery targets with enforcement.
Commercial Banks / KBA	MSME loan portfolio declining 13%; no MSME product suitability standards; no sex-disaggregated lending data; KBA's Ksh 150B MSME lending commitment requires structural reform to deliver.	Mandate minimum MSME loan tenure standards (12 months for term loans) and affordability assessments via CBK prudential guidelines; require sex-disaggregated MSME lending data reporting; formally embed CGS into KBA MSME commitment framework; establish KBA-MSEA joint MSME onboarding platform.
MFBs / AMFI-K	MFB sector under stress; interest rates (26.3% avg.) prohibitively high; Business Laws Amendment Act compliance costs threaten viability; MFI lending not consistently in CRBs.	Provide CBK DCP licensing support and compliance relief for compliant MFIs; mandate MFI CRB reporting for all licensed lenders; explore tiered interest rate standards for MSME products; integrate MFIs into CGS framework.
DCPs	480+ DCPs not yet licensed; predatory practices (28% rise in CAK complaints	Fast-track DCP licensing with simplified process for small DCPs;

	2025); no product suitability standards; no DCP-CRB mandatory reporting; data misuse widespread.	introduce minimum product standards (tenure floors, fee disclosure, affordability tests); mandate DCP CRB reporting; establish a dedicated MSME consumer protection enforcement unit at CAK.
CRBs / CIS Kenya	7 million+ Kenyans blacklisted; no rehabilitation timeline; mobile money and utility data excluded; no open banking; Hustler Fund Credit Score not integrated.	Introduce a 5-year statutory CRB rehabilitation mechanism for resolved defaults; mandate CBK-open banking regulations for alternative data integration; require all licensed credit providers (banks, MFBs, SACCOs, DCPs) to submit data to CRBs; operationalise Hustler Fund Credit Score as an alternative scoring model.
FSD Kenya / World Bank / Dev. Partners	Evidence not formally integrated into policy processes via a statutory mechanism; SAFER Programme gains risk reversing at programme end; no self-sustaining institutional architecture.	Establish a statutory evidence-policy linkage mechanism requiring annual integration of FinAccess and MSME research into NFIS and MSME Policy reviews; design SAFER successor programme with institutional sustainability provisions; include FSD Kenya as permanent technical secretariat to MFICC.

CHAPTER THREE

3.0 FINANCIAL INCLUSION POLICY STATEMENTS

The policy responses outlined in this Chapter are informed by the situational analysis and lessons learned presented in Chapter Two.

3.1 Strengthen lending models and coordinated grants governance framework for MSME financial inclusion

Objective

To establish a coherent, accountable, and performance-driven MSME financial inclusion framework that integrates diversified lending models including risk-based credit, blended finance, and alternative data scoring with a unified grants governance architecture, reducing Kenya's estimated Ksh 2.6 trillion MSME financing gap and improving financial health outcomes for underserve MSMEs, particularly those owned by women, youth, and persons with disabilities

The following interventions will be pursued

1. Establish a Unified MSME Fund Governance Architecture under a Statutory Biashara Fund
2. Scale and Institutionalise the Credit Guarantee Scheme as the Primary MSME Credit De-Risking Mechanism

3. Embed Alternative Data Credit Scoring into MSME Lending Decision Frameworks
4. Establish a Blended Finance and Concessional Capital Layer for High-Impact MSME Segments

3.2 Enhance fit for purpose financial products for MSMEs

Objective

To expand the availability, affordability, and uptake of demand-responsive financial products spanning debt, equity, insurance, and pension that are tailored to the operating realities, risk profiles, and growth aspirations of Kenya's micro, small, and medium enterprises, with the aim of closing the MSME financing gap, reducing over-indebtedness, and advancing measurable financial health outcomes in alignment with the National Financial Inclusion Strategy 2025–2028 and Kenya Vision 2030.

The following interventions will be pursued

1. Develop and Scale a Tiered MSME Debt Product Framework Anchored in Cash-Flow and Alternative Data Scoring
2. Establish a Blended Finance and Risk-Sharing Architecture to Catalyse Equity and Quasi-Equity Financing for MSMEs
3. Strengthen the Insurance Regulatory Framework to support and Scale Affordable MSME-Specific Risk Products
4. Integrate MSMEs into Kenya's Pension Architecture Through Flexible, Technology-Enabled Retirement Savings Products
5. Establish a Unified MSME Financial Products Regulatory Sandbox and Market Conduct Framework to Drive Consumer-Centric Product Innovation

3.3 Establish a comprehensive and inclusive national MSME credit data architecture

Objective

To establish a comprehensive, inclusive, and interoperable national MSME credit data architecture that aggregates formal, semi-formal, and alternative data from across Kenya's financial ecosystem enabling risk-based lending, reducing information asymmetry, and expanding equitable access to affordable credit for micro, small, and medium enterprises, including those operating in the informal economy, in agriculture, and in underserved regions.

The following interventions will be pursued

1. Establish universal and mandatory MSME data submission framework across all credit providers in Kenya
2. Establish a national alternative data framework for MSME credit scoring
3. Establish a government-anchored MSME public credit registry as a data utility
4. Strengthen borrower rights, dispute resolution, and consumer data protection
5. Build an interoperable data infrastructure and regulatory sandbox for MSME credit innovation

3.4 Strengthen policy and legal environment in addressing structural and systemic barriers to MSME financial inclusion

Objective

To review, harmonise, and strengthen Kenya's legislative, regulatory, and institutional frameworks governing MSME financial inclusion eliminating structural and systemic barriers including inadequate collateral requirements, fragmented legal regimes, gender-discriminatory access conditions, information asymmetries, and weak consumer protection so as to create an enabling legal environment in which all MSMEs, regardless of sector, size, gender, or geography, can access affordable, appropriate, and dignified financial services.

The following interventions will be pursued

1. Establish a Comprehensive, MSME-Dedicated Financial Access legislation
2. Accelerate and Deepen Implementation of the Movable Property Security Rights Act and Alternative Collateral Frameworks
3. Strengthen consumer Protection and Market Conduct legislation on MSME access to financial services
4. Strengthen the Credit Information Sharing Legal Framework to Achieve Universal, Equitable, and Positive Data Coverage for MSMEs
5. Establish an Integrated Regulatory Sandbox and Fast-Track Legislative Review Mechanism for MSME-Focused Financial Innovation

3.5 Promote the reform of debt recovery practices to balance creditor rights with MSME viability

Objective

To reform Kenya's debt recovery legal and regulatory framework to ensure that enforcement mechanisms respect the constitutional rights and economic viability of MSMEs, by mandating proportionate, sequenced, and restructuring-first recovery processes that balance creditor rights with debtor dignity, business continuity, and the national financial inclusion agenda

The following interventions will be pursued

1. Establish pre-enforcement restructuring protocol for MSME Debtors
2. Strengthen MSME Debt mediation and restructuring platforms and frameworks
3. Establish and enforce a comprehensive MSME Debt collection code of conduct
4. Develop a differentiated MSME Insolvency and business rescue regime
5. Establish and integrate MSME Debt Distress Early Warning Triggers into the Credit Information Sharing Framework

3.6 Develop and scale a national MSME financial literacy and capability programme

Objective

To develop, resource, and scale a nationally coordinated MSME Financial Literacy and Capability Programme that equips micro, small, and medium enterprise owners and operators with the knowledge, skills, attitudes, and confidence to make informed financial decisions enabling them to effectively access, use, and benefit from formal financial products and services thereby transitioning Kenya's MSME sector from mere financial access to measurable financial health

The following interventions will be pursued
1. Establish a National MSME Financial Literacy Coordination architecture
2. Establish and deliver context specific, tiered financial capability training through a blended channel architecture
3. Strengthen and promote MSME Financial literacy in the education and entrepreneurship ecosystem
4. Develop Sector-Specific Digital Financial Literacy Tools Addressing Predatory Lending, Over-Indebtedness, and Consumer Rights
5. Establish a National MSME Financial Literacy Research, Monitoring and Evaluation Framework

3.7 Establish an MSME trade finance infrastructure for local and export market access

Objective

To establish a comprehensive, inclusive, and digitally enabled MSME trade finance infrastructure that provides Kenyan micro, small, and medium enterprises with structured access to working capital, receivables financing, credit guarantees, and export facilitation instruments enabling their competitive participation in domestic, regional, and international markets, in alignment with Kenya's obligations under the various economic partnership agreements

The following interventions will be pursued
1. Establish a Dedicated MSME Trade Finance Guarantee Facility
2. Develop a Regulatory and Legal Framework for MSME Factoring and Receivables Finance
3. Integrate Kenyan MSMEs into AfCFTA Trade Finance Architecture and PAPSS
4. Build a Digital MSME Trade Finance Platform Linking Buyers, Suppliers, and Financiers
5. Establish a Structured MSME Export Credit and Trade Finance Capacity-Building Programme

CHAPTER FOUR

4.0 POLICY COORDINATION & IMPLEMENTATION

4.1 Overview

This Chapter establishes the implementation framework for the Kenya MSME Financial Inclusion Policy 2026 consistent with the Kenya Public Policy Handbook.

The chapter is structured around three foundational pillars: the Coordination Framework and Administrative Mechanisms; the Legal and Regulatory Framework; and the Funding Arrangements. Together, these pillars provide the institutional, legal, and financial foundations for accountable, coherent, and inclusive implementation of the policy across all levels of government and among all relevant stakeholders.

4.2 Coordination Framework and Administrative Mechanisms

Effective coordination is the single most important precondition for successful implementation of the Kenya MSME Financial Inclusion Policy 2026. The policy spans multiple ministries, regulators, county governments, financial institutions, development partners, and non-state actors whose activities must be aligned around a common objective. Fragmentation the defining failure of Kenya's existing MSME financing ecosystem will only be overcome through a structured, hierarchical, and accountable coordination architecture.

The coordination framework is designed in accordance with the 'Whole of Government' approach prescribed by the Kenya Public Policy Handbook , the intergovernmental coordination model established under the Intergovernmental Relations Act 2012, and the coordination architecture of the NFIS 2025–2028, which operates through a National Financial Inclusion Council (NFIC), Technical Coordination Committee (TCC), and thematic working groups.

4.2.1 Institutional Hierarchy and Coordination Flowchart

The policy is administered through a five-level coordination hierarchy, with clear lines of authority, accountability, and information flow:

CABINET / NATIONAL EXECUTIVE (Policy approval & supreme oversight)

▼

CABINET SECRETARY Ministry of Co-operatives and MSMEs Development (Political oversight & accountability)

▼

MSME FINANCIAL INCLUSION POLICY STEERING COMMITTEE Chaired by: Principal Secretary, State Dept. for MSME Development Co-Chaired by: PS, National Treasury Secretariat: MSME FI Policy Coordination Unit (Strategic direction, inter-ministerial coordination, annual reporting)

▼

INTER-AGENCY TECHNICAL WORKING GROUPS (6 TWGs) TWG 1: Credit & Lending | TWG 2: Equity & Capital Markets TWG 3: Trade Finance | TWG 4: Insurance & Pension TWG 5: Credit Information & Data | TWG 6: Enabling Environment (Technical analysis, regulatory reform proposals, implementation tracking)

▼

SECTOR REGULATORS AND IMPLEMENTING AGENCIES CBK | CMA | IRA |

RBA | SASRA | BRS | MSEA | KIE | KEPROBA | KRA (Regulatory implementation, licensing, enforcement, data provision)

▼

COUNTY GOVERNMENTS (47 Counties) County Executive Committee Members (CECMs) for Trade/Finance County MSME Financial Inclusion Focal Points (Local implementation, public participation, CIDP alignment, informal MSME outreach)

▼

TARGET BENEFICIARIES MSMEs | Women Entrepreneurs | Youth MSMEs | Agri-MSMEs Persons with Disabilities | Informal Sector Enterprises | Rural MSMEs

COORDINATION PRINCIPLE

The hierarchy is not bureaucratic gatekeeping but an accountability architecture. Each level has distinct functions, receives regular performance reports from the level below, and escalates unresolved policy conflicts to the level above. The MSME Financial Inclusion Policy Coordination Unit (housed within the State Department for MSME Development) serves as the day-to-day secretariat for the entire framework, receiving reports from all TWGs and preparing consolidated progress reports for the Steering Committee and Cabinet.

4.2.2 Composition, Membership, and Functions of Coordination Bodies

(a) MSME Financial Inclusion Policy Steering Committee (MSME-FI-SC)

The Steering Committee is the apex coordination body for the policy, responsible for strategic direction, inter-ministerial coordination, and annual accountability reporting to the Cabinet Secretary and Parliament.

Membership Category	Institution / Representative	Role
Chair	Principal Secretary, State Dept. for MSME Development	Policy owner; provides direction to all TWGs; presents annual report to Cabinet Secretary
Co-Chair	Principal Secretary, National Treasury	Ensures fiscal alignment; co-coordinates NFIS-MSME policy interface
Member	Governor/Deputy Governor, Central Bank of Kenya	Financial regulation liaison; oversees credit,

Membership Category	Institution / Representative	Role
		CRB, and digital finance workstreams
Member	Director General, Capital Markets Authority	Equity and capital markets reform coordination
Member	Commissioner of Insurance, IRA	Insurance and microinsurance workstream
Member	CEO, Retirement Benefits Authority	Pension inclusion workstream
Member	CEO, SASRA	SACCO integration workstream
Member	CEO, Micro and Small Enterprises Authority (MSEA)	Operational implementation liaison
Member	CEO, Kenya Export Promotion and Branding Agency (KEPROBA)	Trade finance workstream
Member	Registrar, Business Registration Service	MPSR registry and business identity workstream
Member	Commissioner General, Kenya Revenue Authority	eTIMS and tax compliance workstream
Member	Representative, Council of Governors (CoG)	County government coordination
Member	Representative, Kenya Bankers Association	Private financial sector voice
Member	Representative, AMFI-K	MFI and microfinance sector voice
Member	Representative, FSD Kenya	Development partner technical liaison
Observer	Representative, Development Partners Group	Resource mobilisation and technical assistance
Secretariat	MSME FI Policy Coordination Unit (State Dept. MSME Dev.)	Administrative, reporting, and coordination functions

The Steering Committee shall meet quarterly, with an annual retreat for strategic review. Decisions shall be taken by consensus, with the Chair holding a casting vote. A quorum shall consist of at least 60 per cent of members.

(b) Inter-Agency Technical Working Groups (TWGs)

Six thematic TWGs provide the technical backbone of the coordination framework. Each TWG is chaired by the lead regulatory agency for that thematic area, co-chaired by the State Department for MSME Development, and includes private sector, civil society, and development partner members.

TWG	Chair	Co-Chair	Key Members	Core Functions
TWG 1: Credit & Lending	CBK (Director, Financial Sector Regulation)	State Dept. MSME Dev.	KBA, AMFI-K, DFSAK, CGS Manager, FSD Kenya, MSEA	Oversee Credit Guarantee Scheme reform; catalytic fund governance; digital credit consumer protection; MSME credit product design
TWG 2: Equity & Capital Markets	CMA (Director, Market Operations)	State Dept. MSME Dev.	NSE, KEPSA, KAM, IFC, EAVCA development finance partners, crowdfunding platforms	Capital Markets Act reform agenda; GEMS/SMEMS market development; crowdfunding regulations; PE/VC ecosystem development
TWG 3: Trade Finance	KEPROBA (Director, Trade Development)	State Dept. MSME Dev.	KBA, KRA (eTIMS), Afreximbank liaison, EAC Secretariat liaison, DFSAK, KIE	MSME Trade Finance Guarantee Facility; factoring regulations; AfCFTA on-ramp programme; digital trade finance platform
TWG 4: Insurance & Pension	IRA (Director, Supervision) + RBA (Director, Supervision)	State Dept. MSME Dev.	AKI, SASRA, NSSF, FSD Kenya, Jubilee Insurance, AMFI-K	Microinsurance framework; index insurance regulations; NSSF informal sector coverage; occupational pension access for MSMEs
TWG 5: Credit Information & Data	CBK (Director, Financial Consumer Protection)	State Dept. MSME Dev.	CIS Kenya, CRBs (Metropol, TransUnion, CreditInfo), SASRA, DFSAK, BRS	CIS ValiData rollout; SACCO CIS integration; alternative data scoring framework; CRB regulatory reform; gender-disaggregated data
TWG 6: Enabling Environment	BRS (Registrar) + State Dept. MSME Dev.	National Treasury	KRA, MSEA, KNFJA, KNCCI Ministry of Lands, KNBS, GIZ, World	MPSR registry enhancement; MSME Amendment Bill; financial literacy;

TWG	Chair	Co-Chair	Key Members	Core Functions
			Bank, civil society	county-level enabling environment; data and measurement

Each TWG shall meet bi-monthly and submit a quarterly progress report to the Secretariat. TWGs shall prepare annual workplans aligned with the Policy Implementation Matrix and present findings at the quarterly Steering Committee meeting.

(c) MSME Financial Inclusion Policy Coordination Unit (Secretariat)

The Coordination Unit is a dedicated administrative unit within the State Department for MSME Development, established to provide day-to-day operational support to the Steering Committee and TWGs. Its core functions are:

- Convening and servicing Steering Committee and TWG meetings
- Consolidating quarterly and annual progress reports from all TWGs
- Maintaining the Policy Implementation Matrix and M&E dashboard
- Liaising with county governments through the Council of Governors Secretariat
- Managing development partner coordination and grant management
- Preparing the Annual MSME Financial Inclusion Policy Report for Parliament and the public
- Coordinating mid-term (2028) and end-of-term (2030) independent evaluations

STAFFING OF THE COORDINATION UNIT

The Unit shall be headed by a Director (MSME Financial Inclusion) at Job Group S or equivalent, supported by a team of technical officers covering each of the six TWG thematic areas. The Unit shall be funded through the State Department's recurrent budget, supplemented by technical assistance from development partners in the first two years of implementation.

4.2.3 Role of Each Agency in Supporting the Policy

The table below specifies the distinct role of each key implementing and supporting agency, with the State Department for MSME Development as the coordinating institution:

Institution	Specific Role in Policy Implementation

Institution	Specific Role in Policy Implementation
State Department for MSME Development (Lead / Coordinating Institution)	Policy owner and primary coordinator. Chairs the Steering Committee; provides secretariats for all TWGs; presents annual implementation reports to Cabinet and Parliament; co-chairs all TWGs; leads legislative reform agenda; manages county government coordination.
National Treasury	Co-chairs Steering Committee: ensures MSME financial inclusion targets are embedded in MTEF; manages Credit Guarantee Scheme (CGS) governance; coordinates donor funding; oversees compliance with PFM Act in catalytic fund management; leads the Hustler Fund, WEF, YEDF, and Uwezo Fund reform agenda.
Central Bank of Kenya (CBK)	Chairs TWG 1 and TWG 5; implements credit consumer protection regulations; licenses and supervises digital credit providers; enforces CRB regulations and CIS framework; implements Risk-Based Credit Pricing Model (RBCPM); oversees KESONIA interbank rate alignment; co-custodian of the NFIS 2025–2028.
Capital Markets Authority (CMA)	Chairs TWG 2; leads reforms to Capital Markets Act for MSME access; develops crowdfunding and SMEMS market; regulates private equity and venture capital; implements Capital Markets Master Plan provisions relevant to MSMEs.
Insurance Regulatory Authority (IRA)	Co-chairs TWG 4; develops and regulates microinsurance products; implements Index Insurance Regulations 2025; reviews minimum capital requirements for microinsurers; promotes MSME insurance literacy.
Retirement Benefits Authority (RBA)	Co-chairs TWG 4; implements informal sector pension coverage agenda; coordinates with NSSF on Tier II and Tier III contributions for informal MSME workers; promotes occupational pension scheme access.
SACCO Societies Regulatory Authority (SASRA)	Member of TWG 1 and TWG 5; mandates SACCO integration into credit information sharing framework; promotes SACCO-based MSME lending products; facilitates SACCO participation in CGS.
Micro and Small Enterprises Authority (MSEA)	Operationalises MSME identification, registration, and capacity building; implements MSME Amendment Bill upon enactment; maintains MSME registry as data source for credit profiling; coordinates Business Development Services (BDS) delivery through CIDCs.
Kenya Export Promotion and Branding Agency (KEPROBA)	Chairs TWG 3; leads MSME trade finance programme; coordinates AfCFTA on-ramp for MSMEs; administers MSME Trade Finance Literacy and Advisory Programme; interfaces with Afreximbank and PAPSS.
Kenya Industrial Estates (KIE)	Implements medium enterprise financing programme; manages industrial parks and CIDCs; coordinates with TWG 3 on agri-MSME and manufacturing MSME financing.
Business Registration	Co-chairs TWG 6; manages MPSR Collateral Registry (enhancement

Institution	Specific Role in Policy Implementation
Service (BRS)	and digitalisation); maintains MSME business registration data; implements digital business identity systems.
Kenya Revenue Authority (KRA)	Member of TWG 6; manages eTIMS electronic invoicing system as backbone of digital trade finance platform; implements tax compliance incentives for MSME formalisation; provides transaction data for alternative credit scoring (within privacy frameworks).
Kenya National Bureau of Statistics (KNBS)	Provides gender-disaggregated and sector-disaggregated MSME data; conducts periodic MSME surveys; supports M&E data infrastructure; coordinates with FinAccess survey cycle.
Council of Governors (CoG)	Represents all 47 county governments on the Steering Committee; facilitates county MSME financial inclusion focal point network; integrates policy targets into CIDPs; coordinates county-level public participation in policy implementation.

4.2.4 Coordination Mechanisms at All Levels

The following coordination mechanisms are established to prevent duplication and resolve conflicts across all levels of implementation:

National Level

1. **Quarterly Steering Committee Meetings:** Bring together all lead implementing agencies to review progress, resolve inter-agency conflicts, and approve workplan adjustments. Chaired by the PS, State Department for MSME Development.
2. **NFIS-MSME Policy Interface Mechanism:** Quarterly joint meeting between the MSME FI Policy Coordination Unit and the NFIS Secretariat (at CBK) to ensure alignment of targets, avoid duplication of initiatives, and coordinate data collection. Attended by both PS Treasury and PS MSME.
3. **Annual Policy Implementation Review:** A one-day annual retreat of the Steering Committee to review the Annual MSME Financial Inclusion Report, update the Policy Implementation Matrix, and agree on priorities for the coming year.
4. **Policy Implementation Matrix (PIM):** A consolidated, publicly accessible matrix tracking all policy commitments, lead agencies, timelines, milestones, and resource allocations. Updated quarterly by the Coordination Unit and published on the State Department website.

Sector/Regulatory Level

5. **TWG Bi-Monthly Meetings:** Each of the six TWGs meets bi-monthly to review sector-specific implementation progress, address regulatory bottlenecks, and prepare consolidated inputs for the Steering Committee.

6. **Regulators' Forum on MSME Finance:** A semi-annual convening of all financial sector regulators (CBK, CMA, IRA, RBA, SASRA) to coordinate on cross-cutting regulatory reforms. Secretariat provided by the CBK, with MSME Coordination Unit as co-host.
7. **Private Sector Engagement Forum:** A quarterly meeting between the Steering Committee and private sector representatives (KBA, KEPSA, AMFI-K, DFSAK, KAM) to assess the market impact of regulatory reforms and identify private sector implementation constraints.

County Level

8. **County MSME Financial Inclusion Focal Points:** Each of the 47 counties designates a MSME Financial Inclusion Focal Point within the County Executive Committee responsible for Trade, Finance, and Enterprise Development. Focal Points coordinate county-level implementation, report to the CoG Secretariat, and interface with the national Coordination Unit.
9. **Inter-County Cluster Forums:** The 47 counties are organized into 8 regional clusters (consistent with the Kenya government's regional cluster framework) for peer learning, shared implementation planning, and joint county-level public participation. Each cluster meets quarterly.
10. **County CIDP Alignment Reviews:** Annual review (led by the Coordination Unit in partnership with CoG) to ensure county MSME financial inclusion targets are integrated into County Integrated Development Plans (CIDPs) and county budget allocations.

4.2.5 Framework for Integrating Other Stakeholders

Beyond government institutions, the policy's success depends on meaningful and structured integration of non-state actors. The following framework governs stakeholder engagement:

Stakeholder Category	Integration Mechanism	Frequency
Financial institutions (banks, MFIs, SACCOs, DCPs)	Private Sector Engagement Forum; TWG membership; bilateral implementation agreements with lead agencies; WE Finance Code reporting	Quarterly (Forum); bi-monthly (TWGs)
Development partners (World Bank, IFC, AFI, FSD Kenya, GIZ, FCDO)	Development Partners Working Group; co-financing of TWG workplans; technical assistance agreements; joint data collection; observer status on Steering Committee	Monthly (Working Group); quarterly (Steering Committee)
Civil society and consumer advocacy organisations	Consumer Protection Advisory Panel (under TWG 1 and TWG 5); public participation in annual policy reviews; formal complaint escalation pathway to Coordination Unit	Quarterly (Panel); annual (policy review)
Academic and research institutions (KIPPRA, universities)	Research advisory function for M&E; annual MSME Financial Inclusion Research Symposium; commissioned research on policy impact; FinAccess survey partnership	Annual (Symposium); per commissioned research
MSME associations and entrepreneur networks	Beneficiary Voice Mechanism: structured feedback through MSEA's MSME Registry; county-level focus groups; public participation in mid-term review	Semi-annual (focus groups); annual (policy review)
Media	Annual MSME Financial Inclusion Policy Progress Brief; media training on financial inclusion reporting; policy communication coordination through Government Spokesperson	Annual (Brief); per major milestone

4.3 Legal and Regulatory Framework

As required by the Kenya Public Policy Handbook (March 2024), a policy implementation framework must identify the existing legal framework within which the policy operates, specify how the policy aligns with or requires amendment of existing laws, address the domestication of international conventions, and outline necessary legislative proposals. The Kenya MSME Financial Inclusion Policy 2026 operates within a complex multi-tiered legal architecture.

4.3.1 Existing Laws and Their Alignment with the Policy

The following laws constitute the primary legal framework within which the policy operates. Where alignment is required, the nature of the required action is specified:

Legislation	Relevance to Policy	Alignment Status
Constitution of Kenya, 2010 (Articles 10, 43, 46, 55, 56, 174-175)	Supreme legal authority. Guarantees economic rights (Art. 43), consumer rights (Art. 46), rights of youth (Art. 55) and marginalised groups (Art. 56), and devolution framework (Arts. 174-175). All policy provisions derive their constitutional mandate from these articles.	Aligned. No amendment required. Policy provisions must be interpreted consistently with the Constitution.
Micro and Small Enterprises Act, 2012 (Cap. 499)	Primary legislation governing MSME registration, regulation, and institutional framework (MSEA). Current Act excludes medium enterprises, lacks value chain provisions, and has limited financial inclusion provisions.	Partially aligned. MSME Amendment Bill 2025 required to: (a) include medium enterprises; (b) mandate banks to recognise MSMEs upon presentation of business licences; (c) establish intergovernmental MSME working group; (d) integrate value chain and cluster development provisions.
Central Bank of Kenya Act (Cap. 491)	Governs CBK mandate including bank regulation, monetary policy, and financial consumer protection. Business Laws Amendment Act 2024 expanded CBK mandate to regulate non-deposit taking credit providers.	Aligned. Recent amendments (2024) have strengthened alignment. Policy implementation reinforces CBK's expanded regulatory remit.
Banking Act (Cap. 488) and Banking (CRB) Regulations 2020	Governs commercial bank lending and the credit information sharing framework. CRB Regulations 2020 were declared null and void by the High Court (Bogongo case, 2023); Court of Appeal suspended the declaration pending appeal.	Partially aligned. New CRB Regulations required (pending outcome of Court of Appeal proceedings) to: (a) confirm minimum Ksh 1,000 listing threshold; (b) mandate SACCO and MFI CIS participation; (c) re-integrate digital lenders. Regulations must comply with Statutory

Legislation	Relevance to Policy	Alignment Status
		Instruments Act, 2013.
Microfinance Act, 2006 (Cap. 493D)	Governs deposit-taking and credit-only MFIs. The Business Laws Amendment Act 2024 brought credit-only MFIs under CBK licensing.	Aligned. Policy reinforces MFI integration into credit information sharing framework.
Capital Markets Act (Cap. 485A) and Regulations	Governs capital markets access including NSE listing, collective investment schemes, crowdfunding, and private placements. Contains onerous MSME listing requirements.	Partially aligned. Requires: (a) reduction of GEMS/SMEMS compliance costs; (b) raising of Ksh 100 million crowdfunding cap; (c) expansion of CMA regulatory sandbox for MSME-focused instruments; (d) development of an MSME-specific debt issuance framework.
Insurance Act (Cap. 487) and IRA Regulations	Governs insurance products and providers. Proposed Index Insurance Regulations 2025 establish microinsurance framework. Ksh 50 million minimum capital for microinsurers creates entry barrier.	Partially aligned. Policy supports Index Insurance Regulations 2025. Calls for: (a) review of minimum capital requirement for MSME-focused microinsurers; (b) regulatory sandbox for new MSME insurance products; (c) mandatory MSME insurance literacy provisions.
SACCO Societies Act, 2008 and SASRA Regulations	Governs SACCO registration, prudential supervision, and operations. Current framework provides for voluntary CIS participation, limiting data completeness.	Partially aligned. Requires amendment to mandate SACCO participation in credit information sharing as a licensing condition — consistent with the policy's credit information pillar.
Movable Property Security Rights Act, 2017	Governs use of movable collateral and MPSR Registry. A core enabler of MSME collateral reform, with over 151,057 initial notices registered in 2025.	Aligned. Policy builds on and expands this framework. Requires continued investment in MPSR Registry digitalisation,

Legislation	Relevance to Policy	Alignment Status
		interoperability with financial sector systems, and capacity building for county-level implementation.
Public Finance Management Act, 2012 (PFM Act)	Governs management of public funds including catalytic funds. Credit Guarantee Scheme is anchored on PFM (Amendment) (No. 2) Act 2021.	Aligned. Policy reinforces PFM Act compliance for all government catalytic funds. Calls for updated PFM guidelines for catalytic fund governance consistent with Auditor General recommendations.
Statutory Instruments Act, 2013	Governs the promulgation of all subsidiary legislation. The Bogongo ruling confirms that failure to comply with this Act renders CRB regulations void.	Critical. All legislative reforms proposed under this policy must comply strictly with the Statutory Instruments Act, including the 7-day tabling requirement in Parliament.

4.3.2 Laws and Regulations Supporting Policy Implementation

The following additional statutes and regulations directly support implementation of the policy's strategic pillars:

- **Business Laws (Amendment) Act, 2024:** Expanded CBK mandate to regulate non-deposit taking credit providers and foreign lenders. Directly supports digital credit consumer protection and credit information provisions.
- **National Payment System Act, 2011 and NPS Regulations 2014:** Govern mobile money and digital payment systems including M-Pesa, providing the legal foundation for the digital trade finance platform and alternative data scoring infrastructure.
- **Kenya Information and Communications Act (Cap. 411A):** Governs digital infrastructure and e-signatures, supporting the electronic invoicing (eTIMS) backbone of the trade finance platform.
- **Retirement Benefits Act, 1997 and NSSF Act, 2013:** Govern pension contributions and occupational schemes. NSSF Act 2013 provides for mandatory contributions from informal sector workers — a key provision for MSME worker pension coverage.

- **Intergovernmental Relations Act, 2012:** Provides the legal framework for national-county coordination mechanisms used in this policy's county-level implementation architecture.
- **Public Participation Act (Draft, 2024):** Provides guidance for the structured public participation mechanisms used in policy implementation and review.
- **Consumer Protection Act, 2012:** Provides the overarching consumer protection framework supplementing CBK's Financial Consumer Protection Regulations in governing MSME borrower rights.
- **Data Protection Act, 2019:** Governs the collection, processing, and sharing of personal data, including the MSME transaction data used in alternative credit scoring models. All data-sharing arrangements under the policy must comply with this Act.

4.3.3 International Conventions, Treaties, and Their Domestication

Kenya has ratified and acceded to a range of international frameworks that carry MSME financial inclusion obligations. The table below specifies how each has been domesticated and how it will supplement policy implementation:

International Framework	Domestication Status	Supplementary Role in Policy
AFI Maputo Accord on SME Finance (2012, re-affirmed 2019)	Kenya is a member of the Alliance for Financial Inclusion (AFI) and committed to the Maputo Accord through its AFI membership. Obligations are incorporated into the NFIS 2025–2028 and this policy as its MSME-specific instrument.	Provides benchmarks for MSME credit access targets. AFI's peer learning and technical assistance will support TWG capacity building. Kenya will report to AFI annually on Maputo Accord commitments.
UN SDG 8.3 (2030 Agenda for Sustainable Development, 2015)	Kenya domesticated the SDGs through Vision 2030 and all Medium-Term Plans. SDG 8.3 specifically calls for promotion of development-oriented policies supporting productive activities, decent job creation, entrepreneurship, and innovation.	Policy KPIs are mapped to SDG 8.3 indicators. Kenya's Voluntary National Review (VNR) to the UN High-Level Political Forum will include MSME financial inclusion progress as part of SDG 8 reporting.
G20 GPFI MSME Financing Action Plan	Kenya, as an emerging market partner of the G20 GPFI, committed to the MSME Financing Action Plan. The Plan calls for dedicated MSME financing policies, data disaggregation, and regulatory reform.	Provides the international benchmarking framework for this policy's six strategic pillars. Kenya will report progress to the G20 GPFI through its AFI membership and bilateral development partner reporting.
African Continental Free	Kenya ratified the AfCFTA on 10 May 2018. The Agreement has been	The policy's trade finance pillar (TWG 3) is the primary domestic

International Framework	Domestication Status	Supplementary Role in Policy
Trade Agreement (AfCFTA)	domesticated through amendments to trade regulations and is implemented through the State Department for Trade. KEPROBA leads AfCFTA MSME engagement.	instrument for equipping Kenyan MSMEs to participate in AfCFTA markets. The AfCFTA Adjustment Fund (managed by Afreximbank) provides a funding source for the MSME Trade Finance Guarantee Facility.
EAC Treaty and EAC Vision 2050	Kenya is a founding member of the East African Community. EAC Treaty provisions on common market and financial services liberalisation are domesticated through EAC Partner State legislation.	Policy's trade finance provisions align with EAC Common Market Protocol obligations. Kenya will use EAC financial integration frameworks to expand cross-border MSME payment infrastructure.
ILO Conventions on Decent Work (Conventions 87, 98, 122)	Domesticated through the Labour Relations Act 2007, Employment Act 2007, and National Employment Authority Act. Convention 122 on Employment Policy is directly relevant to MSME job creation.	Policy's employment creation targets are aligned with Kenya's ILO Decent Work Country Programme. ILO will provide technical support for MSME financial health and employment data collection.
WE Finance Code (2023, Kenya Chapter launched December 2025)	Domesticated through Kenya's formal accession to the Code as a National Champion (CBK), with 30 institutions signed as of December 2025. Embedded within NFIS 2025–2028 Pillar 6.	The WE Finance Code's four working groups (Governance & Advocacy, Data & Measurement, Communications, and Product Design) are integrated into TWG 1 and TWG 5 of this policy. Annual WE Finance Code reporting supplements the policy's gender data requirements.
UNCITRAL Model Law on Electronic Commerce (1996) and Model Law on Electronic Signatures (2001)	Domesticated through the Kenya Information and Communications Act (Cap. 411A) and the Business Laws Amendment Act (2020), which affirmed enforceability of e-signatures and electronic invoicing.	Provides the international legal foundation for the policy's digital trade finance platform and eTIMS-based electronic invoicing framework, enabling Kenyan MSMEs to participate in cross-border digital commerce.

4.3.4 Legislative Proposals for Implementation

Consistent with section 4.2.4 of the Kenya Public Policy Handbook (2024), which requires a policy to outline legislative proposals necessary to give legal effect to its provisions, the following Bills and regulatory instruments are identified as legislative priorities for the 2026–2030 implementation period. All proposed instruments must comply with the Statutory Instruments Act, 2013, including mandatory tabling before Parliament within seven days of publication, consistent with the High Court ruling in Bogongo v CS National Treasury (2023).

Legislative Proposal	Type	Lead Agency	Priority	Key Provisions
MSME (Amendment) Bill 2025	Primary legislation — National Assembly	State Dept. MSME Dev. / AG's Office	Immediate (2026)	(a) Include medium enterprises in MSME definition; (b) mandate banks to recognise MSMEs upon business licence presentation; (c) establish Intergovernmental MSME Working Group; (d) integrate value chain and cluster development; (e) provide for MSME data disaggregation obligations on financial institutions.
Banking (Credit Reference Bureau) Regulations [Revised]	Subsidiary legislation — National Assembly	CBK / National Treasury	Immediate (2026) — subject to Court of Appeal ruling	(a) Comply strictly with Statutory Instruments Act (7-day tabling); (b) mandate SACCO and MFI CIS participation as licensing condition; (c) re-integrate digital lenders into CIS framework; (d) retain Ksh 1,000 minimum listing threshold; (e) require gender-disaggregated CRB data; (f) establish 14-day dispute resolution obligation.
Factoring and Receivables Finance Bill	Primary legislation — National Assembly	National Treasury + CBK	Short-term (2026–2027)	(a) Establish legal framework for domestic and cross-border factoring; (b) govern receivables assignment,

Legislative Proposal	Type	Lead Agency	Priority	Key Provisions
				reverse factoring, and forfaiting; (c) specify notification, priority, and enforcement rules; (d) provide for electronic invoice assignment compatible with eTIMS; (e) integrate with MPSR registry.
Capital Markets (MSME Finance) Regulations	Subsidiary legislation — National Assembly	CMA	Short-term (2026–2027)	(a) Reduce GEMS/SMEMS compliance costs for MSME issuers; (b) raise crowdfunding cap from Ksh 100 million to Ksh 500 million; (c) reduce minimum operating track record from 2 years to 1 year for crowdfunding eligibility; (d) create regulatory sandbox provisions for MSME capital market products.
Insurance (Microinsurance and MSME Products) Regulations	Subsidiary legislation	IRA	Short-term (2026–2027)	(a) Reduce Ksh 50 million minimum capital for dedicated MSME microinsurers; (b) provide for simplified MSME product approval process; (c) mandate insurance literacy obligations for providers targeting MSMEs; (d) establish digital microinsurance distribution framework.
SACCO Societies (Credit Information Sharing) Regulations	Subsidiary legislation — National Assembly	SASRA + CBK	Medium-term (2027–2028)	Mandate SACCOs to participate in the credit information sharing framework as a condition of SASRA licensing, transitioning from voluntary to mandatory participation. Include both positive and negative data sharing obligations.

Legislative Proposal	Type	Lead Agency	Priority	Key Provisions
MSME Trade Finance Guarantee Fund Regulations	Subsidiary legislation	National Treasury	Medium-term (2027)	Establish the legal basis for the MSME Trade Finance Guarantee Facility; specify fund governance, eligibility criteria, guarantee ratios (up to 60% first-loss), drawdown conditions, and reporting obligations under PFM Act.
Data Protection (Financial Data for Credit Scoring) Guidelines	Regulatory guidelines	Office of the Data Protection Commissioner + CBK	Medium-term (2027)	Provide clear rules for collection, use, storage, and sharing of mobile transaction data, telecom data, and other alternative data for credit scoring purposes, consistent with the Data Protection Act 2019 and consumer consent requirements.

4.4 Funding Arrangements

The sustainable implementation of the Kenya MSME Financial Inclusion Policy 2026 requires a well-structured, diversified, and accountable funding architecture. Consistent with section 4.2.5 of the Kenya Public Policy Handbook (2024) which requires a policy to specify resource mobilisation mechanisms, funding sources, and financing frameworks — this section establishes the multi-source funding model for the policy's implementation over the 2026–2030 period.

4.4.1 Guiding Principles for Funding

- **Additionality:** Policy funding should mobilise additional resources rather than merely reallocate existing budget lines, growing the total quantum of financial resources available for MSME financial inclusion.
- **Coordination:** All funding flows should be coordinated through the Steering Committee and Coordination Unit to prevent duplication, ensure strategic alignment, and maximise developmental impact.
- **PFM Compliance:** All public funding for policy implementation shall comply with the Public Finance Management Act, 2012, including appropriation by Parliament, procurement through PPRA-approved processes, and reporting through the Integrated Financial Management Information System (IFMIS).

- **Leverage:** Government funding should be deployed to catalyse and leverage larger volumes of private sector and development partner financing, consistent with the blended finance approach adopted by the Credit Guarantee Scheme.
- **Gender Responsiveness:** At least 40 per cent of policy financing instruments (grants, guarantees, technical assistance) shall be targeted toward women-owned and women-led MSMEs, consistent with the WE Finance Code commitments.

4.4.2 Funding Sources

(a) National Government Budget Allocations

The primary source of funding for policy coordination, administration, and government-administered financial instruments is the national government budget, appropriated through Parliament under the Medium-Term Expenditure Framework (MTEF) process.

Budget Category	Description	Lead Institution
State Department for MSME Development Recurrent Budget	Funds the MSME FI Policy Coordination Unit staffing, TWG operations, M&E system, annual reporting, and county coordination activities.	State Dept. MSME Dev. (Vote 1061)
Credit Guarantee Scheme (CGS) Capitalisation	Annual budget allocations to progressively increase the CGS fund to Ksh 10 billion by 2028, consistent with BETA targets. Currently anchored on PFM (Amendment) (No. 2) Act 2021.	National Treasury
Hustler Fund / Financial Inclusion Fund	Annual budget allocation for the Financial Inclusion Fund, with governance reforms mandated by Auditor General findings. Allocation to include dedicated data management and credit profiling costs.	National Treasury / State Dept. MSME Dev.
Women Enterprise Fund, YEDF, Uwezo Fund	Annual allocations, with catalytic fund merger/reform agenda to reduce duplication and improve sustainability. Treasury to implement post-audit governance reforms.	National Treasury / State Dept. MSME Dev.
MSME Trade Finance Guarantee Facility (new)	Seed capital of Ksh 3 billion to be provided through national budget over 2026–2028, with matching contributions from development finance partners.	National Treasury / KEPROBA
County Government Allocations	County own-revenue and equitable share allocations to enterprise development, to be aligned with MSME FI policy targets through CIDP integration. CoG to coordinate.	County Governments (47 counties)

(b) Development Partner Financing

Development partner funding is a critical supplementary source for technical assistance, capacity building, research, and catalytic financing instruments. The Coordination Unit shall maintain a Development Partner Funding Register to track all DP contributions and prevent duplication.

Development Partner	Existing / Planned Engagement	Funding Type
World Bank / IFC	CGS technical advisory; supply chain finance market assessment; MSME financing gap research; investment in digital finance infrastructure.	Technical assistance; concessional lending; equity investment through IFC
Financial Sector Deepening Kenya (FSD Kenya)	FinAccess survey; CIS ValiData co-development; consumer protection research; women's financial health programme.	Grant funding; research and technical assistance
FSD Africa	Capital markets MSME access scoping study; IMFact pooled receivables model; regional knowledge exchange.	Grant funding; catalytic investment
Alliance for Financial Inclusion (AFI)	Maputo Accord reporting; peer learning; capacity building for TWG members; global benchmarking data.	Technical assistance; peer learning
Afreximbank	MSME Trade Finance Guarantee Facility co-financing; AfCFTA Adjustment Fund allocation; PAPSS payment infrastructure.	Concessional trade finance; guarantee co-financing
German Development Cooperation (GIZ)	MSME capacity building (confirmed partner in MSME Policy 2026 process); sustainable economic development support; PPP facilitation.	Grant-funded technical assistance
FCDO (UK)	Financial inclusion and women's economic empowerment programmes; FSD Kenya co-funder.	Grant funding through FSD Kenya
African Development Bank (AfDB)	MSME financing through private sector window; possible co-financing of KDC MSME lending facility.	Concessional lending; equity investment
UNDP	SDG 8.3 implementation support; informal sector inclusion; youth enterprise development programmes.	Grant-funded technical assistance

Development Partner	Existing / Planned Engagement	Funding Type
USAID / Power Africa	Digital financial services; agri-finance; women MSME financing.	Grant-funded technical assistance and investment facilitation

(c) Private Sector Co-Financing

The policy creates the enabling conditions for private sector institutions to co-invest in MSME financial inclusion infrastructure as a commercial and developmental imperative. The following private sector funding mechanisms are envisaged:

- **Credit Guarantee Scheme:** Commercial banks co-invest by providing guaranteed MSME loans, with CGS absorbing first-loss risk. As of 2024, 13 participating banks have disbursed over Ksh 12 billion in CGS-backed loans.
- **WE Finance Code Institutional Commitments:** 30 financial institutions that signed the WE Finance Code in December 2025 have committed to concrete product design, data reporting, and financing targets for women MSMEs. These commitments translate to private sector co-financing of the policy's gender inclusion pillar.
- **MSME Trade Finance Platform:** Private sector fintech companies and commercial banks shall co-invest in the National MSME Digital Trade Finance Platform as equity partners or licensed platform operators, with regulatory incentives for early adopters.
- **MSME Trade Finance Guarantee Facility:** Private banks and development finance institutions shall provide co-guarantee contributions, targeting a 3:1 private-to-public leverage ratio consistent with best practice blended finance models.
- **Pension Fund MSME Investments:** The RBA shall develop guidelines enabling pension funds to allocate up to 5 per cent of assets under management to MSME-focused instruments, unlocking an estimated Ksh 111 billion from the Ksh 2.23 trillion pension fund base.

(d) Innovative and Blended Finance Instruments

The policy promotes innovation in financing instruments to mobilise non-traditional resources:

Instrument	Description	Lead
Green MSME Finance Window	A dedicated green finance window within the CGS for climate-resilient MSMEs, including	National Treasury + CBK

Instrument	Description	Lead
	agri-MSMEs adopting sustainable practices. Co-funded with multilateral climate finance (GCF, AfDB climate window).	
MSME Diaspora Bond	A targeted diaspora investment instrument enabling Kenyans in the diaspora (who remit over USD 4 billion annually) to invest in MSME-backed securities through the NSE SMEMS segment.	National Treasury + CMA
Impact-Linked Finance	Performance-based financing agreements with development partners where disbursements are linked to verified improvements in MSME financial health indicators (e.g. per cent of MSMEs with positive credit history).	Coordination Unit + FSD Kenya
Revenue Guarantee Instruments	Structured agreements whereby government agencies (county governments, KPA, KeNHA) guarantee MSME supplier revenues, enabling MSMEs to access supply chain finance from commercial banks.	National Treasury + KEPROBA

4.4.3 Financial Governance and Accountability

All public funds allocated to policy implementation shall be subject to the following financial governance requirements, consistent with the PFM Act 2012 and the Auditor General's recommendations on catalytic fund management:

1. **Annual Appropriation:** All government budget allocations for policy implementation shall be appropriated through Parliament on an annual basis, with programme-specific budget codes established within the MSME State Department and National Treasury votes.
2. **Quarterly Financial Reports:** The Coordination Unit shall prepare quarterly financial reports covering budget utilisation, development partner disbursements, and catalytic fund performance, submitted to the Principal Secretary and published on the State Department website.
3. **Annual Independent Audit:** All public funds for policy implementation, including catalytic funds, shall be subject to annual independent audit by the Auditor General or appointed external auditors. Audit findings shall be reported to the Public Accounts Committee of the National Assembly within 60 days of completion.
4. **Catalytic Fund Reform:** Consistent with Auditor General recommendations, all government catalytic funds (Hustler Fund, WEF, YEDF, Uwezo Fund) shall implement board-approved credit risk governance frameworks, prudential loan recovery policies, and digital credit profiling systems within 12 months of this policy's adoption.

5. **Development Partner Aid Management:** All development partner grants and technical assistance shall be registered in the Aid Information Management System (AIMS) and reported through the Government of Kenya's Official Development Assistance (ODA) tracking framework.

FUNDING ADEQUACY REVIEW

The Steering Committee shall conduct a Funding Adequacy Review at the end of Year 2 (2028) to assess whether budget allocations, development partner disbursements, and private sector co-financing are sufficient to achieve the policy's six-pillar targets. Where a funding gap is identified, the Coordination Unit shall prepare a Resource Mobilisation Plan for presentation to the Cabinet Secretary and development partner community within 90 days of the review.

CHAPTER FIVE

5.0 MONITORING AND EVALUATION

5.1 Overview

The Monitoring, Evaluation, Reporting and Learning (MERL) framework for the Kenya MSME Financial Inclusion Policy 2026 provides the structured architecture through which the government will track policy implementation, measure progress toward stated objectives, evaluate outcomes and impact, generate learning, and report findings to all relevant stakeholders. The framework is developed in full conformity with the requirements of the Kenya Public Policy Handbook

The MERL framework is anchored in four guiding principles: (1) Evidence-based decision-making all monitoring and evaluation processes will generate credible, timely, and actionable data to inform course corrections and resource allocation decisions; (2) Inclusivity the framework will capture disaggregated data by gender, age, disability status, geographic location, and enterprise size to ensure that policy outcomes reach all target beneficiaries; (3) Accountability clearly designated institutional responsibilities and transparent reporting channels will ensure public accountability for policy implementation; and (4) Learning — systematic reflection on implementation experience will continuously improve the quality of policy delivery.

The National Integrated Monitoring and Evaluation System (NIMES), coordinated by the State Department for Economic Planning, provides the overarching national platform within which this policy's M&E data will be integrated, ensuring alignment with Kenya Vision 2030, MTP IV/BETA, and the SDGs.

5.2 Monitoring

Monitoring is the systematic and continuous collection, analysis, and use of information about policy implementation progress. For the Kenya MSME Financial Inclusion Policy 2026, monitoring serves to track the execution of planned activities, measure outputs against targets, identify implementation bottlenecks, and provide implementing institutions with timely data to make in-course adjustments. Monitoring is an ongoing process, conducted throughout the five-year implementation period (2026–2030).

5.2.1 Mechanisms for Data Collection, Analysis, and Storage

(a) Data Collection Mechanisms

The policy will utilise six primary data collection mechanisms, selected for their reliability, coverage, and alignment with existing national data systems:

1. **FinAccess Household Survey:** Conducted biennially by the Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS), and FSD Kenya, the FinAccess survey is the primary instrument for measuring household-level financial inclusion, financial health, product usage, and exclusion rates. This survey provides the baseline and periodic tracking data for the policy's demand-side indicators. Data will be disaggregated by gender, age, county, enterprise size, and sector.
2. **MSME Financing Survey:** A dedicated biennial MSME-specific financing survey will be commissioned by the State Department for MSME Development, building on the KNBS MSME Survey methodology. This survey will collect enterprise-level data on credit access, financing gaps, collateral usage, trade finance uptake, insurance penetration, and borrowing costs, disaggregated by enterprise tier, sector, gender of owner, county, and formality status.
3. **Administrative Data from Financial Regulators:** The CBK, CMA, IRA, RBA, and SASRA will provide quarterly administrative data including: number of active MSME borrowers; volume and value of MSME loans disbursed; NPL ratios on MSME portfolios; insurance policies issued to MSMEs; SACCO membership and lending to MSMEs; digital credit provider lending statistics; and Credit Guarantee Scheme utilisation. This data will be aggregated by the MSME Financial Inclusion Policy Coordination Unit (MFIPCU) within the State Department.
4. **MPSR and Business Registration Service Data:** The BRS will provide quarterly data on MPSR registry registrations, searches, and value of financing secured through

movable collateral, disaggregated by asset type, borrower gender, county, and lender type. This tracks the effectiveness of the movable collateral reform pillar.

5. **Government Catalytic Fund Performance Data:** Fund managers of the Hustler Fund, Women Enterprise Fund, Youth Enterprise Development Fund, Uwezo Fund, and Kenya Industrial Estates will submit quarterly performance reports to the MFIPCU covering disbursements, repayments, default rates, borrower demographics, and audit findings. These reports will be reconciled against Auditor General findings.
6. **Stakeholder and Beneficiary Feedback:** Semi-annual structured feedback surveys will be conducted among a sample of MSME beneficiaries, financial service providers, and county governments to collect qualitative data on policy implementation experience, product appropriateness, service quality, and persistent barriers. This mechanism captures the experiential dimension that administrative data cannot provide.

(b) Data Analysis

The MFIPCU will maintain a dedicated data analysis function, staffed by an M&E Specialist and supported by contracted analytical capacity from KIPPRA and FSD Kenya. Data analysis will utilise the following approaches:

- **Quantitative trend analysis:** tracking indicator values against baselines and targets at quarterly and annual intervals, using the Policy Implementation Matrix (see Annex 3).
- **Disaggregated analysis:** all data will be analysed by gender, youth status, disability, county/region, enterprise tier, and sector to identify differential impacts and persistent exclusion.
- **Cost-efficiency analysis:** comparing financial and human resource inputs against policy outputs and outcomes to assess resource utilisation.
- **Bottleneck analysis:** systematic identification of implementation delays, regulatory barriers, and resource gaps using a structured traffic-light monitoring dashboard integrated into the national e-NIMES platform.
- **Contribution analysis:** assessing the extent to which observed changes in MSME financial inclusion indicators can be attributed to specific policy interventions, accounting for contextual factors.

(c) Data Storage and Management

All policy M&E data will be stored and managed through three integrated systems:

- **e-NIMES (electronic National Integrated Monitoring and Evaluation System):** the national performance management platform coordinated by the State Department for Economic Planning. Policy indicators and targets will be uploaded to e-NIMES and updated quarterly, enabling real-time tracking against the MTP IV/BETA national results framework.

- **MSME Policy M&E Database:** a dedicated relational database maintained by the MFIPCU, storing all administrative data, survey results, stakeholder feedback, and M&E reports in a structured, searchable format with role-based access controls.
- **National Financial Inclusion Data Repository:** a shared repository maintained by CBK in partnership with KNBS and FSD Kenya, integrating FinAccess, regulatory administrative data, and sector M&E datasets. This repository will be accessible to authorised researchers and development partners under a data sharing protocol.

All data will be stored in compliance with the Data Protection Act, 2019, with personally identifiable information anonymised at the point of collection. Data retention will be for a minimum of ten years to enable longitudinal analysis.

5.2.2 Baseline Values, Indicators, and Targets

The policy's performance measurement framework is structured around four levels of results: Inputs (resources deployed), Outputs (immediate deliverables of policy actions), Outcomes (medium-term changes in MSME financing conditions and behaviour), and Impact (long-term change in MSME financial health, growth, and employment). The following table presents the primary indicators, baselines, targets, data sources, and responsible institutions:

Indicator	Baseline (2025)	2028 Target	2030 Target	Data Source	Responsible Institution
IMPACT INDICATORS					
% of MSME owners who are financially healthy	18.3%	28%	38%	FinAccess Survey	CBK/KNBS/FSD Kenya
MSME financing gap (Ksh trillion)	2.6T	2.0T	1.4T	MSME Financing Survey	State Dept. MSMEs/KNBS
MSME contribution to GDP (%)	~40%	43%	47%	KNBS Economic Survey	KNBS
Jobs created by MSMEs (annual, thousands)	800,000	950,000	1.2M	KNBS Economic Survey	KNBS
OUTCOME					

Indicator	Baseline (2025)	2028 Target	2030 Target	Data Source	Responsible Institution
INDICATORS					
% of MSMEs accessing formal credit	<15%	25%	35%	MSME Financing Survey	CBK/State Dept. MSMEs
% of MSMEs with active insurance cover	<10%	18%	28%	IRA Annual Report	IRA
% of MSME owners with pension cover	<12%	20%	30%	RBA Annual Report	RBA
Active MPSR registrations (cumulative)	151,057 (2025)	280,000	420,000	BRS/MPSR Registry	BRS
MSME NPL ratio on bank loan portfolios	~14%	<10%	<8%	CBK Bank Supervision	CBK
% of women-owned MSMEs accessing formal credit	<10%	18%	26%	MSME Financing Survey (gender)	State Dept. MSMEs/FSD Kenya
Average cost of MSME loan (effective interest rate)	~18%	<15%	<12%	CBK Risk-Based Pricing Report	CBK
OUTPUT INDICATORS					
Credit Guarantee Scheme portfolio (Ksh billion)	3.2B	12B	20B	CGS Annual Report	National Treasury
No. of MSMEs accessing capital markets (SMEMS/GEMS)	<50	200	500	CMA Annual Report	CMA
Value of MSME trade finance facilitated (Ksh billion)	Baseline to be set 2026	5B	15B	MSME Trade Finance Facility Report	State Dept. MSMEs
No. of MSMEs onboarded to PAPSS/AfCFTA trade finance	0	500	2,000	Afreximbank/PAPSS Data	KEPROBA/CBK
No. of MSMEs covered by index-based insurance products	~50,000	150,000	350,000	IRA Annual Report	IRA
No. of digital credit	<30	85 (all	95%+	CBK DCP	CBK

Indicator	Baseline (2025)	2028 Target	2030 Target	Data Source	Responsible Institution
providers submitting MSME data to CRBs		licensed DCPs)	compliance	Supervision	
No. of counties with MSME financial inclusion action plans	0	25	47	State Dept. County Reports	State Dept. MSMEs

5.2.3 Monitoring Policy Activities Against Timeframe and Budget

The Policy Implementation Matrix (PIM), set out in Annex 3, provides a comprehensive activity-level tracking tool mapping every policy action to: a lead responsible institution; supporting institutions; start and end dates; resource requirements (human and financial); and key milestones. The MFIPCU will use the PIM as the primary operational monitoring instrument, updated quarterly.

Monitoring Mechanism	Frequency	Responsible Institution	Platform/Tool
Policy Implementation Matrix (PIM) update	Quarterly	MFIPCU / Lead MDAs	e-NIMES / MSME M&E Database
Budget utilisation tracking against MTEF allocations	Quarterly	National Treasury / MFIPCU	IFMIS (Integrated Financial Management Information System)
Legislative reform action plan tracking	Quarterly	State Dept. MSMEs / AG's Office / CMA / CBK	e-NIMES / Legislative Tracker
Catalytic fund performance dashboard	Quarterly	National Treasury / Fund Managers	MSME M&E Database
County MSME financial inclusion action plan implementation tracking	Bi-annually	State Dept. MSMEs / Council of Governors	e-CIMES (County NIMES)
Annual Policy Implementation Progress Review	Annually	MFIPCU + Inter-Agency Technical Committee	Physical Review Meeting + e-NIMES

Where quarterly monitoring identifies a deviation of more than 20 per cent from planned activity timelines or a budget utilisation variance of more than 15 per cent, the MFIPCU will initiate a structured corrective action process within 30 days, escalating to the Principal Secretary where systemic delays are identified.

5.2.4 Identification of Implementation Challenges and Bottlenecks

The policy recognises that implementation challenges are inevitable in a complex, multi-actor policy environment. The following risk and bottleneck identification mechanisms will be operational throughout the implementation period:

Risk / Bottleneck Category	Specific Risk	Likelihood	Mitigation Mechanism	Early Warning Indicator
Legislative delays	Parliament does not enact MSME Amendment Bill, Capital Markets reforms, or Factoring legislation within planned timeframes	High	Parliamentary liaison by State Dept.; Cabinet Memoranda prioritisation; inclusion in Annual Legislative Programme	Bill not tabled in Parliament by scheduled date
Regulatory coordination failure	CBK, CMA, IRA, RBA act without coordination, creating conflicting or contradictory MSME financing regulations	Medium	Inter-Agency Technical Committee (quarterly); joint regulatory impact assessments; shared annual workplan	Absence of co-signed regulatory actions; conflicting regulatory circulars
Catalytic fund governance failure	Continued high default rates and governance failures in Hustler Fund, Uwezo Fund, WEF, YEDF undermine policy credibility	High	Quarterly performance dashboards; Auditor General integration; restructuring benchmarks tied to budget releases	NPL ratio exceeds 30%; Auditor General adverse opinion
Data gaps and quality failures	Insufficient disaggregated data, particularly for informal MSMEs, women, and rural borrowers, limits policy tracking accuracy	High	MSME Financing Survey design; FinAccess disaggregation requirements; MPSR gender data module	Data submitted to CBK lacks gender or county disaggregation
County government disengagement	County governments do not develop or implement MSME financial inclusion action plans	Medium	Council of Governors engagement; CIMES integration; conditional grants tied to action plan completion	Fewer than 15 counties submit CIDPs with MSME financial inclusion targets by end of Year 1

Risk / Bottleneck Category	Specific Risk	Likelihood	Mitigation Mechanism	Early Warning Indicator
Private sector non-participation	Financial institutions do not develop MSME-appropriate products or participate in CGS/trade finance facility	Medium	Kenya Bankers Association partnership; incentive framework; CBK supervisory expectations	CGS utilisation below 40% of target by end of Year 1
Digital exclusion of rural MSMEs	Poor digital infrastructure limits rural MSME access to digital financial services	High	Rural infrastructure pillar of NFIS 2025-2028; county-level digital access mapping; satellite connectivity partnerships	Digital financial service access below 30% in ASAL counties

5.3 Evaluation

Evaluation involves periodic, systematic, and objective assessment of whether the policy is achieving its intended outcomes and impact. Unlike monitoring, which tracks ongoing implementation, evaluation provides a deeper analysis of effectiveness, efficiency, coherence, and sustainability. The Kenya MSME Financial Inclusion Policy 2026 provides for three types of evaluation: process evaluation (is the policy being implemented as designed?), outcome evaluation (are the desired changes occurring?), and impact evaluation (can observed changes be attributed to the policy?).

5.3.1 Evaluating Achievement of Desired Outcomes and Objectives

Achievement of the policy's six strategic pillar objectives will be evaluated through a combination of quantitative indicator tracking (against the baselines and targets in section 5.2.2) and qualitative outcome assessment. The evaluation framework applies the OECD-DAC evaluation criteria Relevance, Coherence, Effectiveness, Efficiency, Impact, and Sustainability as adopted in the Kenya Public Policy Handbook.

OECD-DAC Criterion	Evaluation Question	Primary Evaluation Method
Relevance	Is the policy still addressing the most significant MSME financial inclusion challenges? Are its objectives aligned with evolving MSME needs, the NFIS 2025-2028, and Kenya's development priorities?	Mid-term and end-term stakeholder surveys; political economy analysis; alignment review with NFIS and MTP IV
Coherence	Are the policy's six strategic pillars internally consistent and coherent with other sectoral policies (MSME Policy 2026, Capital Markets Policy, Insurance Policy)? Are there regulatory conflicts or duplication?	Policy mapping exercise; inter-agency peer review; legal and regulatory gap analysis
Effectiveness	Have the policy's output and outcome targets been achieved? Which interventions have delivered the greatest change in MSME financial inclusion access and health?	Indicator tracking against PIM targets; comparative analysis of MSME financing data across the implementation period; case studies of selected interventions
Efficiency	Have policy outcomes been achieved at reasonable cost? Is the MFIPCU using its resources effectively? Are catalytic funds delivering value for money?	Cost-effectiveness analysis; Auditor General value-for-money audit; catalytic fund cost-per-beneficiary analysis
Impact	Has the policy contributed to a measurable improvement in the MSME financing gap, MSME financial health, employment, and economic transformation? Are improvements sustained beyond specific interventions?	Quasi-experimental impact evaluation using matched comparison groups; contribution analysis; longitudinal tracking of beneficiary cohorts
Sustainability	Are the financial inclusion improvements likely to be sustained beyond the policy period? Have regulatory, institutional, and market changes been embedded? Are financial institutions commercially motivated to continue serving MSMEs?	Institutional capacity assessment; regulatory review; market development assessment; financial institution business model analysis

5.3.2 Evaluation Schedule and Types

Evaluation Type	Timing	Scope	Conducted By	Output
Process Evaluation (Year 1 Review)	Q4 2027 (18 months post-	Assessment of implementation progress, early	MFIPCU with KIPPRA support	Process Evaluation Report → Cabinet and Parliament

Evaluation Type	Timing	Scope	Conducted By	Output
	launch)	bottlenecks, stakeholder satisfaction, and data quality		
Mid-Term Evaluation	2028 (aligned with NFIS 2025-2028 end)	Full outcome evaluation against all PIM targets; relevance, coherence, effectiveness, and efficiency assessment; revision of 2029-2030 targets	Independent Evaluation Team (open competitive procurement)	Mid-Term Evaluation Report → Cabinet, Parliament, Public
Impact Evaluation	2029	Quasi-experimental assessment of policy's causal contribution to MSME financing gap reduction, financial health improvement, and job creation, using matched control groups	Independent Research Consortium (KIPPRA + University + FSD Kenya)	Impact Evaluation Report → published for public access
End-Term Evaluation	2030	Comprehensive assessment of all six evaluation criteria (Relevance, Coherence, Effectiveness, Efficiency, Impact, Sustainability); policy review recommendations	Independent Evaluation Team	End-Term Evaluation Report → basis for Policy 2031-2035 design
Special Thematic Evaluations	As required (at least one per pillar by 2030)	Deep-dive evaluations of specific policy pillars (e.g. trade finance, catalytic fund reform, alternative data scoring)	Specialist consultants / development partners	Thematic Evaluation Reports → technical working group review

5.3.3 Collection of Evidence to Support Policy Impact Assessment

The following evidence collection methods will be used to build the evidence base for evaluation, particularly for impact assessment:

- **Longitudinal MSME Panel Survey:** a cohort of 3,000 MSMEs across all 47 counties, stratified by enterprise tier, gender, sector, and geographic location, will be tracked annually from 2026 to 2030. This panel will provide the longitudinal data necessary to assess changes in financing access, business performance, employment, and financial health over time.

- **Matched Comparison Group Design:** for the 2029 impact evaluation, MSMEs participating in policy-specific interventions (e.g. the Trade Finance Guarantee Facility, CGS-backed loans, index insurance) will be matched with comparable non-participating MSMEs to estimate the counterfactual and isolate policy contribution from other economic changes.
- **Financial Institution Transaction Data:** with appropriate data sharing agreements and Data Protection Act compliance, anonymised transaction-level data from commercial banks, MFIs, SACCOs, and digital lenders will be used to assess credit flow patterns, pricing, and product uptake over time.
- **Key Informant Interviews and Focus Group Discussions:** qualitative evidence collection with MSME owners, financial service providers, regulators, county government officials, and development partners at mid-term and end-term evaluation points.
- **Auditor General and Parliamentary Accounts Committee Reports:** findings from the Auditor General on catalytic fund performance, CGS utilisation, and budget execution will be integrated into the evaluation evidence base as independent verification of administrative data.

5.3.4 Identification of Intended and Unintended Consequences

Policy evaluation will specifically assess both intended outcomes and unintended consequences — positive and negative — of policy implementation. This is critical in a complex financial system where interventions can have ripple effects across markets, institutions, and population groups. The following mechanisms will be used:

- **Theory of Change Monitoring:** the policy's Theory of Change (Annex) articulates the causal chain from inputs to impact. Evaluation will assess both whether this causal chain held and where unexpected pathways emerged.
- **Unintended Consequence Watch List:** based on experience from Kenya's digital credit market (debt stress, over-indebtedness, privacy violations, predatory lending), and from the Hustler Fund audit findings (disbursements to unborn and underage borrowers), the M&E framework will maintain a standing 'watch list' of potential negative side-effects for quarterly monitoring. These include increased household debt stress from expanded MSME credit; market concentration among large digital lenders; regulatory arbitrage by non-compliant providers; exclusion of non-digital MSMEs from digital-first interventions.
- **FinAccess Financial Health Tracking:** since financial health (not just access) is the ultimate policy objective, the FinAccess survey's financial health module will serve

as the primary instrument for detecting whether expanded access is translating into improved financial wellbeing or increased debt stress — an early warning for unintended negative consequences.

- **Gender and Social Inclusion Analysis:** all evaluations will include a dedicated gender and social inclusion chapter assessing whether policy interventions are reaching women, youth, PWDs, and marginalised communities as intended, and whether any interventions have inadvertently disadvantaged these groups.
- **Participatory Evaluation Sessions:** mid-term and end-term evaluations will include structured sessions with MSME owners and community representatives in at least 10 counties, providing a bottom-up assessment of policy effects that complements the quantitative data.

5.4 Reporting

Reporting is the systematic communication of M&E findings to decision-makers, implementing institutions, oversight bodies, and the public. The Kenya MSME Financial Inclusion Policy 2026 establishes a structured, multi-level reporting architecture that ensures timely, accurate, and accessible information reaches all relevant stakeholders. Reporting channels are defined both within the implementing organisation and outward to oversight and public audiences.

5.4.1 Types of Reports, Frequency, Format, and Users

Report Type	Frequency	Content	Format	Primary Users
Quarterly Implementation Progress Report	Quarterly (Q1-Q4 each year)	PIM activity tracking; budget utilisation; indicator updates where data is available; bottleneck identification; corrective action log	Structured administrative report (10-15 pages) + e-NIMES dashboard update	MFIPCU; Inter-Agency Technical Committee; Principal Secretary; National Treasury
Annual Policy Performance Report	Annually (by 31 March following	Full indicator tracking against annual targets;	Formal report (30-50 pages) tabled in	Cabinet; Parliament (Senate and National Assembly

Report Type	Frequency	Content	Format	Primary Users
	year-end)	budget execution; catalytic fund performance; legislative reform progress; county implementation update; highlight of emerging issues	Cabinet and Parliament; public-facing summary (5-page executive summary published on Ministry website)	Committees); County Governments; Development Partners; Public
Mid-Term Evaluation Report	2028	Full OECD-DAC evaluation; target revision; policy adjustment recommendations	Independent evaluation report (60-80 pages); standalone executive summary; press briefing	Cabinet; Parliament; all implementing MDAs; Development Partners; Public; Media
Impact Evaluation Report	2029	Causal attribution of policy impact on MSME financing gap, financial health, and employment	Academic-quality research report; policy brief; data tables for public release	All implementing institutions; CBK; academia; development partners; public
End-Term Evaluation Report	2030	Comprehensive policy assessment; lessons learned; recommendations for Policy 2031-2035	Full evaluation report (80-100 pages); executive summary; Cabinet Memorandum	Cabinet; Parliament; all stakeholders; basis for next policy cycle
Thematic / Special Reports	As commissioned (at least 1 per pillar)	Deep analysis of specific policy areas (e.g. trade finance uptake, digital credit consumer protection, MPSR impact)	Technical report + accessible policy brief	Technical working groups; sector regulators; development partners
Public MSME Financial Inclusion Dashboard	Quarterly (online, real-time update)	Key indicators and targets in visual format; progress toward 2030 goals; county-level disaggregation	Interactive online dashboard on Ministry of MSMEs website and CBK Open Data Portal	General public; MSMEs; media; civil society; researchers; investors

5.4.2 Internal Reporting Channels

Within the Ministry of Co-operatives and MSMEs Development, the reporting hierarchy is as follows:

- **MFIPCU to Principal Secretary (PS):** quarterly implementation progress reports submitted by the MFIPCU to the PS within 30 days of each quarter-end.
- **PS to Cabinet Secretary (CS):** quarterly briefing notes and the annual policy performance report submitted by the PS to the CS prior to tabling in Cabinet.
- **CS to Cabinet:** the Annual Policy Performance Report tabled in Cabinet by March 31 each year, accompanied by a Cabinet Memorandum identifying policy adjustments requiring Cabinet approval.
- **Inter-Agency Technical Committee:** quarterly meetings of the inter-agency committee co-chaired by the PS for MSMEs and the PS for the National Treasury, with all member MDA representatives. Quarterly progress reports shared 14 days before each meeting.
- **County Reporting Line:** County Executive Committee Members (CECMs) responsible for Trade and MSMEs submit biannual county MSME financial inclusion implementation reports to the State Department, channelled through the Council of Governors Secretariat.

5.4.3 External Reporting and Dissemination Channels

Policy M&E results will be disseminated to external audiences through the following channels:

- **Parliament:** the Annual Policy Performance Report will be tabled before the National Assembly Committee on Finance and Planning and the Senate Committee on Finance and Budget. The PS or CS will appear before these committees annually to present findings and respond to questions.
- **Kenya Gazette:** key policy performance milestones, evaluation findings, and policy review decisions will be gazetted in the Kenya Gazette as part of the government's legal transparency obligations.
- **Ministry Website and social media:** the Annual Policy Performance Report, executive summaries, and the public MSME Financial Inclusion Dashboard will be published on the Ministry of MSMEs Development website. Annual performance highlights will be communicated via official social media platforms.
- **Press Conferences and Media Briefings:** the CS or PS will convene at least one annual press conference following tabling of the Annual Policy Performance Report to brief the public and media on progress, challenges, and adjustments.

- **NFIS Secretariat (CBK):** MSME-specific M&E data will be submitted annually to the CBK-led NFIS Secretariat for integration into the national financial inclusion reporting framework.
- **Development Partner Briefings:** annual briefings will be convened with development finance partners (World Bank/IFC, AfDB, Afreximbank, AFI, FSD Kenya) to share performance data, identify technical assistance needs, and mobilise aligned resources.
- **International Reporting Obligations:** progress data will be reported annually to the AFI for the Maputo Accord, to the UN SDG voluntary national review process for SDG 8.3, and to the G20 GPFI MSME Financing Action Plan monitoring framework.

5.4.4 Public Feedback Mechanism on Policy Implementation

The Constitution of Kenya 2010 establishes public participation as a national value and principle of governance. Consistent with this requirement, the policy establishes the following formal mechanisms for the public to provide feedback on policy implementation:

- **MSME Policy Feedback Portal:** a dedicated online portal (hosted on the Ministry of MSMEs Development website) will allow MSMEs, financial service providers, county residents, civil society organisations, and the public to submit feedback on policy implementation, report service delivery failures, flag regulatory barriers, and suggest improvements. Submissions will be reviewed quarterly by the MFIPCU.
- **Annual Public Validation Forum:** an annual public validation forum will be convened, rotated across at least four regions (Nairobi, Mombasa, Kisumu, and one ASAL county), at which the Ministry presents annual performance findings to the public and receives structured feedback. Forum outputs will be incorporated into the subsequent annual performance report.
- **County-Level Public Hearings:** county governments will convene biannual public hearings on MSME financial inclusion implementation within their jurisdictions, with findings submitted to the State Department and integrated into county implementation reports.
- **Citizen Score Card:** a structured Citizen Score Card tool will be administered annually to a sample of 1,000 MSMEs across 10 counties, measuring satisfaction with government financial inclusion services, perceived policy relevance, and awareness of available instruments. Results will be published in the Annual Policy Performance Report.
- **Parliamentary Petitions and Representations:** the policy recognises the constitutional right of citizens to petition Parliament on matters of public concern.

The MFIPCU will monitor Parliamentary petitions related to MSME financing and respond formally through the Ministry's Parliamentary liaison function.

- **Digital Feedback Channels:** a dedicated WhatsApp Business number and email address will be maintained by the MFIPCU for real-time MSME feedback and complaints. All submissions will be logged, acknowledged within 5 business days, and tracked through to resolution.

5.5 Learning

Learning is the process through which evidence generated by monitoring and evaluation is reflected upon and used to continuously improve the quality, efficiency, and impact of policy implementation. The Kenya Public Policy Handbook (2024) designates learning as a distinct and essential element of the MERL framework. For the Kenya MSME Financial Inclusion Policy 2026, learning is operationalised through four mechanisms: lessons collation, replication of success, avoidance of failure, and management improvement.

5.5.1 Collating Lessons Learnt from Policy Implementation

The MFIPCU will establish a structured Lessons Learning System with the following components:

- **After-Action Reviews (AARs):** following the completion of each major policy activity or programme cycle (e.g. a round of Credit Guarantee Scheme disbursements, a cohort of the MSME Trade Finance Facility, a county public participation exercise), the MFIPCU will convene a structured AAR with all implementing institutions to document: what was planned, what happened, why, and what should be done differently. AAR summaries will be stored in the MSME M&E Database and shared with all implementing MDAs.
- **Annual Learning Review:** each Annual Policy Performance Report will include a dedicated 'Lessons Learnt' chapter synthesising AARs, stakeholder feedback, evaluation findings, and Auditor General recommendations from the preceding year. This chapter will be the primary vehicle for translating experience into actionable improvements.
- **Learning Briefs:** concise, accessible learning briefs (2-4 pages) will be produced quarterly by the MFIPCU on specific implementation challenges or innovations, and shared with all implementing institutions, development partners, and county governments. These briefs will be published on the Ministry website.
- **Cross-Country Learning:** the Ministry will actively engage with AFI, FSD Africa, and the Alliance for Financial Inclusion's SME Finance Working Group to draw on

lessons from comparable MSME financial inclusion initiatives in Rwanda, Ghana, Tanzania, and other jurisdictions. Relevant international lessons will be presented at the annual Inter-Agency Technical Committee meeting.

5.5.2 Replicating Successful Elements

Where monitoring and evaluation evidence demonstrates that a policy intervention has achieved its intended outcomes efficiently and with positive beneficiary experience, the policy provides for structured scale-up and replication:

- **Pilot-to-Scale Pathway:** consistent with the Kenya Public Policy Handbook's guidance that 'successful pilots help to upscale an intervention to cover a wider scope,' all trade finance, alternative data scoring, and digital financial inclusion pilots will be implemented with a built-in scale-up pathway, conditioned on achieving pre-specified performance benchmarks within the first 12-18 months.
- **Best Practice Register:** the MFIPCU will maintain a Best Practice Register documenting successful intervention, their design features, implementation conditions, and performance outcomes. This register will be shared with county governments, financial institutions, and development partners to enable adaptation and replication.
- **Regional Learning Networks:** county governments implementing successful local MSME financial inclusion innovations will be profiled in the Annual Policy Performance Report and connected through a national learning network coordinated by the Council of Governors and the Ministry, enabling horizontal replication across counties.

5.5.3 Avoiding Unsuccessful Elements

The policy draws explicitly on documented failures in Kenya's MSME financing history — including the Auditor General's findings on catalytic fund governance failures, the High Court's nullification of the CRB Regulations for procedural non-compliance, and the 40% default rate on some digital credit products — as the basis for avoiding repeated mistakes. The following safeguards are embedded in the MERL framework:

- **Audit Integration:** all Auditor General adverse findings, qualified opinions, and recommendations relating to government MSME financing instruments will be formally logged by the MFIPCU within 30 days of publication and addressed through a time-bound corrective action plan. Progress against these plans will be reported quarterly.

- **Regulatory Compliance Pre-Check:** all new regulations developed to implement this policy will be subject to a pre-publication compliance review against the Statutory Instruments Act, 2013 — specifically the requirement that regulations be tabled before Parliament within seven days of publication — to prevent a recurrence of the CRB Regulations nullification.
- **Failure Analysis in Annual Report:** the 'Lessons Learnt' chapter of each Annual Policy Performance Report will explicitly document policy actions that did not deliver intended outcomes, the reasons for failure, and the adjustments made. This practice of transparent failure reporting is essential for institutional learning and public trust.
- **Exit Provisions for Non-Performing Instruments:** where a government catalytic fund or financing instrument consistently fails to meet performance benchmarks over two consecutive years (as measured by the quarterly dashboards), the MFIPCU will initiate a formal review and recommend to the Inter-Agency Technical Committee whether the instrument should be restructured, merged, or discontinued.

5.5.4 Improving Management of Interventions, M&E, and Partner Engagement

The policy's learning framework also addresses the quality of the MERL system itself, recognising that an M&E framework is only as effective as the capacity and commitment of those implementing it:

- **Annual MERL System Review:** each year, the MFIPCU will conduct a self-assessment of the MERL system, assessing data quality and completeness; timeliness of reporting; stakeholder engagement quality; tool relevance; and resource adequacy. Findings will be reported to the PS and used to update the MERL framework for the subsequent year.
- **Capacity Building for M&E:** the MFIPCU will convene biannual M&E capacity building workshops for staff of all implementing MDAs, county government M&E officers, and catalytic fund managers. Training will cover: use of e-NIMES; data collection and quality standards; performance reporting; and the use of M&E evidence in decision-making.
- **Development Partner M&E Coordination:** the Ministry will establish a Development Partner M&E Working Group that meets biannually to share data, align reporting requirements, reduce duplication of data collection, and jointly commission evaluations where interests overlap (e.g. joint evaluations with FSD Kenya, IFC, and AFI).

- **Adaptive Management Protocol:** the policy adopts an adaptive management approach, under which the Inter-Agency Technical Committee is empowered to approve in-year adjustments to the Policy Implementation Matrix (activity timelines, resource reallocation, output target recalibration) without requiring full Cabinet approval, subject to the adjustments not altering the policy's core objectives or strategic pillars. All adaptive management decisions will be documented and reported in the subsequent Annual Performance Report.

5.6 Public Policy Review Interval

The Kenya MSME Financial Inclusion Policy 2026 provides for a structured, multi-stage review architecture over its five-year implementation horizon and beyond.

5.6.1 Scheduled Review Intervals

Review Type	Scheduled Date	Trigger Conditions	Process	Output	Approval Authority

Review Type	Scheduled Date	Trigger Conditions	Process	Output	Approval Authority
Annual Operational Review	March each year (2027-2030)	Mandatory annual process	MFIPCU compiles Annual Performance Report; tabled in Inter-Agency Technical Committee and Cabinet	Annual Performance Report; updated PIM; corrective action plan where required	Principal Secretary
Mid-Term Policy Review	2028	Mandatory; aligned with NFIS 2025-2028 end cycle and conclusion of Mid-Term Evaluation	Independent evaluation followed by structured review by Inter-Agency Technical Committee, CS, and Cabinet	Revised policy targets for 2029-2030; legislative reform priority update; Cabinet Memorandum	Cabinet (for target revisions and pillar adjustments)
End-Term Policy Review	2030	Mandatory at policy expiry; informed by End-Term Evaluation and Impact Evaluation (2029)	Comprehensive evaluation; National stakeholder validation forum; Cabinet Memorandum; Parliamentary tabling	New policy document or extension: Kenya MSME Financial Inclusion Policy 2031-2035	Cabinet and Parliament
Emergency / Ad Hoc Review	As required (anytime during implementation period)	Triggered by: (1) Major economic shock significantly affecting MSME financing conditions (e.g. post-COVID equivalent); (2) Constitutional or Supreme Court ruling materially affecting policy provisions; (3) Enactment of legislation that supersedes or conflicts with policy provisions; (4) Request by	Emergency session of Inter-Agency Technical Committee; CS recommendation to Cabinet	Amended policy sections or new Cabinet Memorandum directing policy adjustment	Cabinet

Review Type	Scheduled Date	Trigger Conditions	Process	Output	Approval Authority
		Cabinet for policy reassessment			

5.6.2 Review Process

Each scheduled review will follow the structured process as set below

1. **Evidence Compilation:** The MFIPCU compiles all relevant monitoring data, evaluation reports, Auditor General findings, stakeholder feedback, international benchmarking data, and policy environment analysis into a comprehensive evidence package.
2. **Technical Working Group Review:** The Inter-Agency Technical Committee convenes to review the evidence package, assess policy performance against all six OECD-DAC criteria, and formulate draft recommendations for policy adjustment.
3. **Stakeholder Consultation:** Draft review recommendations are shared with all key stakeholders — financial institutions, county governments, development partners, MSME associations, civil society, and the public — for a 30-day comment period. Submissions are collated and considered by the Technical Working Group.
4. **Cabinet Memorandum Preparation:** The MFIPCU drafts a Cabinet Memorandum presenting the policy review findings, proposed adjustments, resource implications, and implementation timeline. The Memorandum is cleared by the AG's Office for legal compliance before submission.
5. **Cabinet Approval:** The Cabinet Memorandum is tabled in Cabinet for approval of any policy revisions, new legislative proposals, or significant resource reallocation.
6. **Publication and Communication:** Approved policy revisions are published in the Kenya Gazette, communicated to Parliament, and disseminated publicly through the Ministry website and a press conference.

5.6.3 Institutional Responsibility for Policy Review

Role	Responsible Institution
Lead coordinator of all policy review processes	MFIPCU, State Department for MSME Development
Technical review and recommendations	Inter-Agency MSME Finance Technical Committee (PS MSMEs + PS National Treasury + CBK + CMA + IRA + RBA + SASRA)
Independent evaluation (mid-term and end-term)	Independently procured evaluation team (competitive procurement, approved by PPOA)
Legal compliance review of revised policy and draft legislation	Office of the Attorney General and Department of Justice
Cabinet approval of policy revisions	Cabinet of the Republic of Kenya
Parliamentary oversight of policy performance	National Assembly Committee on Finance and Planning; Senate Committee on Finance and Budget
Public engagement in review process	State Department for MSME Development (County Forums + Online Portal + Media)
Integration of review findings into national M&E systems	State Department for Economic Planning (e-NIMES); CBK (NFIS Secretariat)

5.7 M&E institutional responsibilities matrix

The following matrix summarises the primary responsibilities of all institutions in the MERL framework:

Institution	Monitoring Role	Reporting Role	Learning Role
MFIPCU (State Dept. MSMEs)	Coordinate all data collection; maintain PIM; operate e-NIMES input; manage M&E database; convene AARs	Compile all reports; submit to PS, Cabinet, Parliament; manage public dashboard; coordinate feedback portal	Compile lessons learned; produce learning briefs; coordinate capacity building; manage Best Practice Register
National Treasury	Track CGS and catalytic fund budget utilisation; MTEF alignment; provide financial data	Annual fiscal report on MSME financing expenditure; budget execution reporting	Inform policy on fiscal efficiency of catalytic instruments
Central Bank of Kenya	Provide regulatory administrative data quarterly; conduct FinAccess Survey; track DCP compliance	Contribute data to Annual Performance Report; NFIS Secretariat reporting	Lead alternative data scoring learning agenda; share international best practice
Capital Markets Authority	Track MSME capital market access (SMEMS, GEMS, crowdfunding)	Contribute CMA MSME section to Annual Report	Evaluate regulatory reform effectiveness; advise on barriers
Insurance Regulatory Authority	Track MSME insurance product uptake; index insurance rollout	IRA MSME insurance data to Annual Report	Learning on microinsurance product design and distribution
Retirement Benefits Authority	Track MSME and informal sector pension coverage	RBA pension data to Annual Report	Learning on mobile-based pension product adoption
BRS / MPSR	Track MPSR registrations, searches, and value of credit secured	Quarterly MPSR data to MFIPCU	Learning on collateral registry design and usage barriers
County Governments	Implement county-level MSME financial inclusion actions; track local data	Biannual county implementation reports to State Department	Horizontal learning through Council of Governors network
KIPPRA	Provide research and analytical support to MFIPCU; lead impact evaluation consortium	Publish research findings; contribute to evaluation reports	Systematic academic learning and knowledge management
FSD Kenya / CBK Open Data Portal	Provide FinAccess data; support analytical capacity	Annual financial inclusion data publication	International learning and best practice dissemination
Auditor General	Conduct annual value-for-money and financial audits of catalytic funds and CGS	Annual Audit Reports tabled in Parliament	Identify governance failures and systemic risks for learning

ANNEX: POLICY MONITORING AND EVALUATION IMPLEMENTATION MATRIX

POLICY PILLAR 3.1: STRENGTHEN LENDING MODELS AND COORDINATED GRANTS GOVERNANCE FRAMEWORK FOR MSME FINANCIAL INCLUSION

PILLAR 3.1: STRENGTHEN LENDING MODELS AND COORDINATED GRANTS GOVERNANCE FRAMEWORK FOR MSME FINANCIAL INCLUSION

OBJECTIVE: To establish a coherent, accountable, and performance-driven MSME financial inclusion framework that integrates diversified lending models — including risk-based credit, blended finance, and alternative data scoring — with a unified grants governance architecture, reducing Kenya's estimated Ksh 2.6 trillion MSME financing gap and improving financial health outcomes for underserved MSMEs, particularly those owned by women, youth, and persons with disabilities.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.1.1	3.1: Strengthen lending models and coordinated grants governance framework	Establish a Unified MSME Fund Governance Architecture under a Statutory Biashara Fund	• Develop and enact the MSME Financial Inclusion (Biashara Fund) Act consolidating Hustler Fund, WEF, YEDF, and Uwezo Fund • Establish a unified Board of Trustees with statutory accountability to Parliament • Develop a graduated lending ladder from micro to small to medium • Publish quarterly financial and impact reports publicly	State Dept. MSME Dev. / National Treasury	CBK, MSEA, CMA, Council of Governors, KBA, AMFI-K, FSD Kenya, GIZ	Y1–2 (2026–27)	• Biashara Fund Act enacted • Unified Fund Board constituted • Graduated lending ladder gazetted	• Ksh 50B disbursed to 200,000 MSMEs by 2030 • Default rate <15% • 40% women-owned beneficiaries	Ksh 2.5B (setup); Ksh 50B (capital)	National Budget (MTEF); World Bank, IFC	Political resistance to consolidation; mitigate via Parliamentary engagement
3.1.2	3.1: Strengthen lending models and coordinated grants governance framework	Scale and Institutionalise the Credit Guarantee Scheme (CGS) as Primary MSME Credit De-Risking Mechanism	• Expand CGS from Ksh 3B to Ksh 25B to unlock Ksh 50B bank MSME lending • Establish KCGSC as standalone statutory entity • Develop tiered guarantee products (micro/small/medium) • Integrate SACCOs and MFIs as CGS participants • Mandate 40% of	National Treasury / KCGSC Board	CBK, KBA, AMFI-K, SASRA, State Dept. MSME Dev., FSD Kenya, IFC	Y1–3 (2026–28)	• KCGSC Act enacted • Ksh 25B capitalisation achieved • Tiered guarantee products gazetted	• 200,000+ MSMEs with CGS credit by 2028 • NPL <10% • ≥40% guarantees to women	Ksh 25.3B total	National Budget; IFC Blended Finance; World Bank DPO	High default rates deplete fund; mitigate via credit scoring pre-qualification

			guarantees to women-led MSMEs								
3.1.3	3.1: Strengthen lending models and coordinated grants governance framework	Embed Alternative Data Credit Scoring into MSME Lending Decision Frameworks	• Develop National Alternative Data Credit Scoring Framework (ADCSF) • Mandate M-Pesa, eTIMS, MPSR data in credit assessments • Establish regulatory sandbox for pilots • Build open API standards for MSME data portability • Commission KNBS biennial MSME alternative data survey	CBK / State Dept. MSME Dev.	CIS Kenya/CRBs, KRA (eTIMS), BRS (MPSR), Safaricom, AMFI-K, DFSAK, KNBS, FSD Kenya	Y1–2 (2026–27)	• ADCSF published and gazetted • Alternative data API standards issued • 3 DCP/bank pilots operational	• 500,000 MSME alt-data profiles by 2028 • 20% increase in first-time borrowers • Gender credit gap reduced 30%	Ksh 200M	CBK budget; FSD Kenya; GIZ; World Bank IDA	Data privacy risks; mitigate via ODPC consultation and privacy-by-design
3.1.4	3.1: Strengthen lending models and coordinated grants governance framework	Establish a Blended Finance and Concessional Capital Layer for High-Impact MSME Segments	• Design Kenya MSME Blended Finance Facility (KMBFF) with first-loss guarantees • Establish DFI co-financing partnerships (IFC, Afreximbank, AfDB) • Develop Green MSME Finance Window for climate-resilient MSMEs • Prioritise 50% of KMBFF allocations to women/youth MSMEs	National Treasury / State Dept. MSME Dev.	CBK, IFC, AfDB, Afreximbank, EIB, FSD Kenya, KBA, KIE, KEPROBA	Y1–4 (2026–29)	• KMBFF established with DFI co-financing • Green Finance Window operational • Annual Blended Finance Market Report	• USD 100M DFI co-financing mobilised by 2028 • Ksh 20B new MSME credit catalysed • 5,000 green MSMEs financed	Ksh 5B + USD 100M DFI	DFI co-financing; National Budget; GCF/GEF	DFI delays; currency risk; mitigate via MOU-backed agreements, hedging

POLICY PILLAR 3.2: ENHANCE FIT FOR PURPOSE FINANCIAL PRODUCTS FOR MSMES

PILLAR 3.2: ENHANCE FIT FOR PURPOSE FINANCIAL PRODUCTS FOR MSMES

OBJECTIVE: To expand the availability, affordability, and uptake of demand-responsive financial products — spanning debt, equity, insurance, and pension — tailored to the operating realities, risk profiles, and growth aspirations of Kenya's MSMEs, closing the financing gap, reducing over-indebtedness, and advancing measurable financial health outcomes in alignment with the NFIS 2025–2028 and Kenya Vision 2030.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs/ Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.2.1	3.2: Enhance fit for purpose financial products for MSMEs	Develop and Scale a Tiered MSME Debt Product Framework Anchored in Cash-Flow and Alternative Data Scoring	• Develop CBK guidelines for tiered MSME debt products (nano/micro/ SME credit) • Mandate cash-flow and alt-data as primary scoring for Tiers 1–2 • Develop MSME loan product disclosure standards • Implement CBK Risk-Based Credit Pricing Model (RBCPM) across all regulated lenders	CBK (Director, Financial Sector Regulation)	KBA, AMFI-K, DFSAK, SASRA, FSD Kenya, State Dept. MSME Dev., KNBS	Y1–2 (2026–27)	• Tiered MSME debt guidelines published • RBCPM implemented • Loan disclosure standard gazetted	• 30% reduction in avg. borrowing cost by 2029 • 1M new MSME borrowers by 2030 • 40% women borrowers	Ksh 80M	CBK regulatory budget; FSD Kenya; World Bank	Lender resistance; mitigate via CBK supervisory sanctions
3.2.2	3.2: Enhance fit for purpose financial products for MSMEs	Establish Blended Finance and Risk-Sharing Architecture to Catalyse Equity and Quasi-Equity Financing	• Amend Capital Markets Act to establish MSME Equity Market (SMEMS) on NSE • Develop CMA regulations for revenue-based financing • Establish Government Equity Co-Investment Fund (GECIF) • Strengthen PE/VC ecosystem via tax incentives for MSME-focused funds	CMA (TWG 2 Chair) / National Treasury	NSE, KBA, EAVCA, IFC, AfDB, KEPSA, KAM, State Dept. MSME Dev.	Y2–4 (2027–29)	• Capital Markets Act amendment enacted • SMEMS regulations gazetted • GECIF established	• 500 MSMEs accessing equity by 2029 • Ksh 5B equity investment catalysed • 50% GECIF: women/youth enterprises	Ksh 2.7B	National Budget; IFC; EAVCA; Bilateral DFI	Weak investor appetite; mitigate via government first-loss layer

3.2.3	3.2: Enhance fit for purpose financial products for MSMEs	Strengthen the Insurance Regulatory Framework to Scale Affordable MSME-Specific Risk Products	• Enact IRA Microinsurance Regulations 2025 (dedicated MSME licensing category) • Develop IRA Index Insurance Regulations • Establish Public Reinsurance Backstop for Climate/Catastrophe MSME insurance • Launch MSME Insurance Literacy Campaign	IRA (Commissioner of Insurance) / TWG 4	AKI, SASRA, FSD Kenya, State Dept. MSME Dev., AMFI-K, County Govts.	Y1–3 (2026–28)	• Microinsurance Regs gazetted • Index Insurance Regs published • Reinsurance Backstop operational	• 1M MSMEs with insurance by 2029 • 30% women policyholders • Claims settlement >80% in 30 days	Ksh 550 M	National Budget; FCDO; GIZ; IFC Insuresilience	Low willingness to pay; mitigate via bundled products and tax incentives
3.2.4	3.2: Enhance fit for purpose financial products for MSMEs	Integrate MSMEs into Kenya's Pension Architecture Through Flexible Technology-Enabled Savings	• Amend Retirement Benefits Act for Voluntary MSME Pension Tier • Develop mobile-first MSME pension product specifications • Enable SACCO-based pension contribution mechanisms linked to NSSF Tier II • Launch pension awareness programme via MSEA and county platforms	RBA / NSSF / TWG 4	SASRA, NSSF, IRA, State Dept. MSME Dev., KBA, Telcos, County Govts.	Y2–4 (2027–29)	• Retirement Benefits Act amended • Voluntary MSME Pension Tier established • Mobile pension product specifications published	• 500,000 MSMEs with pension coverage by 2030 • 40% women enrollees • Avg. contribution: Ksh 1,000/month	Ksh 150 M	National Budget; ILO Decent Work; World Bank	Low disposable income; mitigate via variable premium and tax deductibility
3.2.5	3.2: Enhance fit for purpose financial products for MSMEs	Establish a Unified MSME Financial Products Regulatory Sandbox and Market Conduct Framework	• Establish Joint Financial Sector Regulatory Sandbox (JFRS) co-governed by CBK, CMA, IRA, RBA, SASRA • Develop Market Conduct Framework covering pricing, suitability, and redress • Establish annual MSME Financial Products Innovation Prize (Ksh 10M) •	CBK (Lead) / CMA, IRA, RBA, SASRA (Joint)	DFSAK, AMFI-K, KEPSA, FSD Kenya, GIZ, State Dept. MSME Dev., MSEA	Y1–2 (2026–27)	• JFRS established • Market Conduct Framework published • First Innovation Prize awarded	• 20 MSME innovations piloted by 2028 • 5 sandbox graduates with regulatory approval • 90% FSP Market Conduct compliance	Ksh 130 M	CBK/CMA/IRA/RBA/SASRA budgets; FSD Kenya; GIZ	Regulatory turf conflicts; mitigate via JFRS MOU with clear mandate delineation

			Mandate MSME associations in sandbox product co-design								

POLICY PILLAR 3.3: ESTABLISH A COMPREHENSIVE AND INCLUSIVE NATIONAL MSME CREDIT DATA ARCHITECTURE

PILLAR 3.3: ESTABLISH A COMPREHENSIVE AND INCLUSIVE NATIONAL MSME CREDIT DATA ARCHITECTURE

OBJECTIVE: To establish a comprehensive, inclusive, and interoperable national MSME credit data architecture aggregating formal, semi-formal, and alternative data from across Kenya's financial ecosystem — enabling risk-based lending, reducing information asymmetry, and expanding equitable access to affordable credit for MSMEs including those operating in the informal economy, agriculture, and underserved regions.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.3.1	3.3: Establish comprehensive and inclusive national MSME credit data architecture	Establish Universal and Mandatory MSME Data Submission Framework Across All Credit Providers	• Amend CIS regulations to mandate submission by banks, MFIs, SACCOs, and DCPs • Implement CBK CIS ValiData across all regulated lenders • Develop mandatory data submission API standards • Commission annual CIS compliance audit • Mandate positive data reporting (not just defaults)	CBK (TWG 5 Chair)	CIS Kenya, CRBs (Metropol, TransUnion, CreditInfo), SASRA, AMFI-K, DFSAK, State Dept. MSME Dev.	Y1–2 (2026–27)	• CIS Regs amended and gazetted • CIS ValiData operational • Positive data reporting mandated • Annual compliance audit framework	• 100% regulated lenders submitting CIS by 2027 • 5M MSME credit profiles by 2028 • 100% gender-disaggregated data	Ksh 350M	CBK budget; World Bank IDA; FSD Kenya	SACCO resistance; mitigate via phased onboarding with SASRA support
3.3.2	3.3: Establish comprehensive and inclusive national MSME credit data architecture	Establish a National Alternative Data Framework (NADF) for MSME Credit Scoring	• Develop CBK-led NADF defining approved alt-data sources: M-Pesa, eTIMS, MPSR, utility, rental • Establish privacy-safe data sharing	CBK / BRS / KRA (Joint)	ODPC, CIS Kenya, Safaricom/Telcos, DFSAK, AMFI-K, KNBS, FSD Kenya, GIZ	Y1–3 (2026–28)	• NADF published and gazetted • Privacy-safe protocols issued • Gender-responsive scoring protocol operatio	• 500,000 MSME alt-data profiles by 2028 • 25% gender credit gap reduction by 2030 • 80% DCP/bank NADF compliance	Ksh 250M	CBK; KRA; FSD Kenya; GIZ; FCDO	Data privacy violations; mitigate via mandatory Privacy Impact Assessments

			protocols under DPA 2019 • Mandate DCP/bank integration of NADF-approved data • Develop gender-responsive scoring protocols • Commission biennial alt-data landscape review				nal					
3.3.3	3.3: Establish comprehensive and inclusive national MSME credit data architecture	Establish a Government-Anchored MSME Public Credit Registry (PCR) as a Data Utility	• Design PCR as open, non-commercial utility under CBK governance • Integrate MSME Registry (MSEA), MPSR (BRS), eTIMS (KRA), and CIS data • Establish real-time API for participating lenders • Publish PCR open data dashboard (anonymised) • Mandate all government lending programmes to submit to PCR	CBK / State Dept. MSME Dev. (Joint)	MSEA, BRS, KRA, KNBS, SASRA, CIS Kenya, National Treasury, FSD Kenya	Y2–4 (2027–29)	• PCR established with integrated data • Real-time API operational • Open data dashboard launched	• 3M MSME credit profiles in PCR by 2029 • 200 financial institutions querying PCR • 100% government MSME programmes integrated	Ksh 900M	National Budget; World Bank IDA; IFC; GIZ	PCR duplicates CRB functions; mitigate by positioning as public utility complement
3.3.4	3.3: Establish comprehensive and inclusive national MSME credit data architecture	Strengthen Borrower Rights, Dispute Resolution, and Consumer Data Protection	• Amend CRB Regs: 30-day MSME dispute resolution timeline • Establish MSME Credit Dispute Resolution Centre under CBK FCP • Mandate CRBs to provide	CBK (FCP Directorate) / KNFJA	CIS Kenya, CRBs, MSEA, CAK, State Dept. MSME Dev., County Govts.	Y1–3 (2026–28)	• CRB Regs amended (30-day timeline) • MSME Credit Dispute Centre operational • Borrower Rights Charter published	• 80% disputes resolved within 30 days • 100,000 MSMEs with free annual reports • 5,000 owners trained on rights per year	Ksh 80M	CBK budget; CAK; FSD Kenya	CRBs resist free report mandate; mitigate via cost-recovery in licensing fee

			free annual credit report to all registered MSMEs • Develop MSME Borrower Rights Charter • Train 5,000 MSME owners annually on credit rights								
3.3.5	3.3: Establish comprehensive and inclusive national MSME credit data architecture	Build Interoperable Data Infrastructure and Regulatory Sandbox for MSME Credit Innovation	• Establish CBK-led MSME Credit Data Innovation Sandbox • Develop open API standards for MSME credit data portability • Establish MSME Data Exchange (MSMEDE) integrating CIS, PCR, MPSR, eTIMS • Commission annual MSME Credit Innovation State of Market Report • Convene MSME Data Governance Council	CBK / ODPC / ICT Authority	BRS, KRA, CIS Kenya, DFSAK, KNBS, FSD Kenya, State Dept. MSME Dev., GIZ	Y2–4 (2027–29)	• Credit Data Sandbox operational • MSMEDE established • API portability standards published	• 30 fintechs in sandbox by 2028 • MSMEDE: 5+ data sources by 2029 • API portability: 50% regulated lenders	Ksh 500M	CBK; ICT Authority; World Bank; GIZ; FSD Kenya	Cybersecurity risks in shared exchange; mitigate via ISO 27001 architecture

POLICY PILLAR 3.4: STRENGTHEN POLICY AND LEGAL ENVIRONMENT IN ADDRESSING STRUCTURAL AND SYSTEMIC BARRIERS

PILLAR 3.4: STRENGTHEN POLICY AND LEGAL ENVIRONMENT IN ADDRESSING STRUCTURAL AND SYSTEMIC BARRIERS

OBJECTIVE: To review, harmonise, and strengthen Kenya's legislative, regulatory, and institutional frameworks governing MSME financial inclusion — eliminating structural and systemic barriers including inadequate collateral requirements, fragmented legal regimes, gender-discriminatory access conditions, and weak consumer protection — creating an enabling legal environment for all MSMEs regardless of sector, size, gender, or geography.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.4.1	3.4: Strengthen policy and legal environment in addressing structural and systemic barriers	Establish a Comprehensive MSME-Dedicated Financial Access Legislation (MSMEFAA)	• Draft and enact MSME Financial Access Act (MSMEFAA) • Mandate all financial institutions to publish annual MSME lending plans • Establish MSME Ombudsman Office under MSMEFAA • Introduce statutory MSME Lending Ratio: minimum 5% of loan book • Develop MSMEFAA implementation regulations within 6 months	State Dept. MSME Dev. / National Treasury / AG	CBK, CMA, IRA, SASRA, KBA, AMFI-K, KNFJA, KEPSA, MSEA, FSD Kenya	Y1–3 (2026–28)	• MSMEFAA drafted and tabled • MSME Ombudsman Office established • MSME Lending Ratio gazetted	• MSMEFAA enacted by 2028 • 5% MSME lending ratio by 2030 • 500+ cases resolved by Ombudsman annually	Ksh 300M	National Budget; GIZ; World Bank DPF	Parliamentary delays; mitigate via Cabinet priority designation
3.4.2	3.4: Strengthen policy and legal environment in addressing structural and systemic barriers	Accelerate and Deepen Implementation of the MPSR Act and Alternative Collateral Frameworks	• Digitize MPSR Registry with real-time API, mobile registration, county access • Enable digital assets, livestock, crop receivables,	BRS (Registrar) / TWG 6	CBK, KBA, AMFI-K, MSEA, County Govts., KIE, KIRDI, FSD Kenya, GIZ	Y1–3 (2026–28)	• MPSR Registry digitized with real-time API • Expanded collateral guidance gazetted • 10,000 owners trained annually	• 300,000 new MPSR registrations by 2028 • 25% credit increase via movable collateral • 40% women-registered assets	Ksh 390M	National Budget (BRS); World Bank IFC; FSD Kenya	Low rural MSME awareness; mitigate via county-level CIDP-integrated training

			IP as MPSR-eligible collateral • Train 10,000 MSME owners annually on MPSR rights through MSEA/CIDCs • Establish MSME Collateral Education Fund (Ksh 50M) • Commission biennial MPSR Impact Assessment							
3.4.3	3.4: Strengthen policy and legal environment in addressing structural and systemic barriers	Strengthen Consumer Protection and Market Conduct Legislation on MSME Financial Services	• Develop and enact the Financial Consumer Protection Act (FCPA) • Develop sector-specific MSME Market Conduct Regulations (CBK, CMA, IRA, SASRA) • Establish cross-sector Financial Consumer Redress Platform (FCRP) • Mandate total cost of credit disclosure for all MSME loans • Develop predatory digital lender blacklisting register	CBK / CAK / National Treasury (Joint)	CMA, IRA, SASRA, KNFJA, State Dept. MSME Dev., Civil Society	Y1–3 (2026–28)	• FCPA enacted • Market Conduct Regs gazetted by all regulators • FCRP operational • Cost of credit disclosure standard gazetted	• 5,000+ MSME complaints resolved annually • 95% FSP cost-of-credit compliance • 80% MSME borrower satisfaction (FinAccess)	Ksh 230M	National Budget; CBK; GIZ; FCDO; FSD Kenya	Unregistered DCPs evade FCPA; mitigate via CAK enforcement and EAC MOU
3.4.4	3.4: Strengthen policy and legal environment in addressing structural and systemic barriers	Strengthen the Credit Information Sharing Legal Framework for Universal Positive Data Coverage	• Amend Banking Act to mandate positive data reporting for all lenders • Repeal permanent credit blacklisting provisions for rehabilitated MSME borrowers	CBK / National Treasury	CIS Kenya, CRBs, KBA, AMFI-K, SASRA, KNFJA, State Dept. MSME Dev.	Y1–2 (2026–27)	• Banking Act amended (positive data) • CRB Regs amended (5-year limit) • Gender-Responsive CIS Framework published	• 100% regulated lenders with positive data by 2027 • 1M new MSME positive profiles by 2028 • 25% gender credit gap reduction	Ksh 50M	CBK budget; FSD Kenya; GIZ	CRBs resist shorter retention; mitigate via international comparator evidence

			• Introduce 5-year credit data retention limit for MSME defaults • Develop Gender-Responsive CIS Framework • Mandate CBK annual CIS Market Report disaggregated by gender, county, sector					by 2030			
3.4.5	3.4: Strengthen policy and legal environment in addressing structural and systemic barriers	Establish an Integrated Regulatory Sandbox and Fast-Track Legislative Review for MSME Financial Innovation	• Establish MSME Financial Innovation Fast-Track (MFIFT) mechanism: 90-day joint regulatory review • Expand CBK Regulatory Sandbox mandate to MSME-specific innovation • Develop Sunset Clause Review Protocol: mandatory review every 3 years • Publish Annual MSME Financial Regulation Burden Assessment • Launch quarterly MSME Regulatory Horizon Calendar	State Dept. MSME Dev. / CBK / National Treasury	CMA, IRA, SASRA, BRS, MSEA, KRA, Law Reform Commission, KEPSA	Y1–2 (2026–27)	• MFIFT mechanism established • Sandbox expanded • Annual Regulation Burden Assessment published	• 90-day avg. review time for MSME proposals • 10 reforms fast-tracked by 2028 • 20% regulatory burden reduction by 2030	Ksh 50M	National Budget; GIZ; Law Reform Commission	Interagency coordination failures; mitigate via PS-chaired Steering Committee escalation

POLICY PILLAR 3.5: PROMOTE REFORM OF DEBT RECOVERY PRACTICES TO BALANCE CREDITOR RIGHTS WITH MSME VIABILITY

PILLAR 3.5: PROMOTE REFORM OF DEBT RECOVERY PRACTICES TO BALANCE CREDITOR RIGHTS WITH MSME VIABILITY

OBJECTIVE: To reform Kenya's debt recovery legal and regulatory framework to ensure that enforcement mechanisms respect the constitutional rights and economic viability of MSMEs, by mandating proportionate, sequenced, and restructuring-first recovery processes that balance creditor rights with debtor dignity, business continuity, and the national financial inclusion agenda.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.5.1	3.5: Promote reform of debt recovery practices	Establish Pre-Enforcement Restructuring Protocol for MSME Debtors	• Develop CBK/SASRA Pre-Enforcement Restructuring Guidelines: 90-day restructuring window before enforcement • Mandate at least one restructuring option (payment holiday, term extension, rate reduction) before enforcement • Develop standard MSME Restructuring Agreement templates • Train 500 bank/MFI credit officers annually on restructuring-first protocols • Establish MSME Restructuring Monitoring Register under CBK FCP	CBK (FCP) / SASRA	KBA, AMFI-K, DFSAK, KNFJA, State Dept. MSME Dev., FSD Kenya	Y1–2 (2026–27)	• Pre-Enforcement Guidelines gazetted • Standard templates published • 500 credit officers trained annually • Monitoring Register operational	• 100% compliance with 90-day window by regulated lenders • 50% distressed MSME loans restructured (not enforced) • 10,000+ restructuring records by 2029	Ksh 50M	CBK budget; KBA (training co-funding)	Lenders reclassify MSME loans to circumvent; mitigate via CBK supervisory examination
3.5.	3.5:	Strengthen	• Establish	CBK /	KBA,	Y1–3	• KDMC	• 5,000	Ksh	Nation	Low MSME

2	Promote reform of debt recovery practices	MSME Debt Mediation and Restructuring Platforms and Frameworks	Kenya MSME Debt Mediation Centre (KDMC) under CBK, MSEA, and KNFJA • Develop KDMC mediation protocols and mediator accreditation standards • Train 200 accredited MSME debt mediators nationwide • Integrate KDMC with Judiciary Commercial Courts mediation programme • Provide pro-bono mediation for MSMEs with debts below Ksh 500,000 • Publish quarterly KDMC performance report	MSEA / KNFJA (Joint)	AMFI-K, Judiciary, County Govts., State Dept. MSME Dev., Law Society	(2026–28)	established and operational • 200 accredited mediators deployed • Pro-bono programme operational • Quarterly performance report	cases mediated annually by 2029 • 70% mediation success rate • 200 mediators covering 47 counties • 2,000 pro-bono cases annually	280M	al Budget; Judiciary; CBK; IFC/FSD Kenya	uptake; mitigate via community-based mediators, Kiswahili services
3.5.3	3.5: Promote reform of debt recovery practices	Establish and Enforce a Comprehensive MSME Debt Collection Code of Conduct (KDCCC)	• Develop KDCCC under CBK and CAK joint authority • Prohibit harassment, public shaming, and unauthorised data sharing • Mandate debt collector identity disclosure before contact • Establish Debt Collector Registration and Licensing Register • Introduce civil	CBK (FCP) / CAK (Joint Enforcement)	KBA, AMFI-K, DFSAK, KNFJA, State Dept. MSME Dev., Law Reform Commission	Y1–2 (2026–27)	• KDCCC gazetted • Debt Collector Register operational • Civil liability provision enacted • Compliance blacklist published quarterly	• 95% compliance by regulated collectors by 2028 • 80% reduction in MSME debt harassment complaints • 1,000 collectors trained annually	Ksh 80M	CBK budget; CAK budget; FSD Kenya	Unregistered collectors operate outside KDCCC; mitigate via criminal liability

			liability for violations (minimum Ksh 100,000 damages) • Train 1,000 debt collectors annually; publish compliance blacklist								
3.5.4	3.5: Promote reform of debt recovery practices	Develop a Differentiated MSME Insolvency and Business Rescue Regime	• Enact MSME Insolvency and Business Rescue provisions within Insolvency Act Amendment • Establish simplified Fast-Track Business Rescue for MSMEs with debts below Ksh 10M • Develop court-supervised MSME Rescue Plans (50%+1 creditor approval) • Establish MSME Business Rescue Fund (Ksh 500M) for bridge finance • Train 100 Judiciary officers on MSME insolvency annually	Attorney General / National Treasury / Judiciary	KBA, AMFI-K, Law Reform Commission, MSEA, State Dept. MSME Dev., KNFJA	Y2–4 (2027–29)	• Insolvency Act Amendment enacted • Fast-Track procedure operational • MSME Business Rescue Fund established • 100 Judiciary officers trained annually	• 1,000 MSMEs completing rescue annually by 2029 • 70% rescued MSMEs still operating 2 years later • Average 90-day Fast-Track completion	Ksh 650M	National Budget; IFC; World Bank; DFAT	Creditor gaming of rescue; mitigate via court supervision and CBK monitoring
3.5.5	3.5: Promote reform of debt recovery practices	Establish and Integrate MSME Debt Distress Early Warning Triggers into CIS Framework	• Develop MSME Debt Distress Early Warning System (MDEWS) using CIS data • Mandate FSIs to activate restructuring upon MDEWS trigger signals • Integrate MDEWS	CBK (TWG 5) / CIS Kenya	CRBs, DFSAK, MSEA, KNBS, KRA (eTIMS), State Dept. MSME Dev., FSD Kenya	Y2–3 (2027–28)	• MDEWS operational • MDEWS-NADF integration completed • Early Warning Dashboard launched • Quarterly Debt Distress Index	• MDEWS covering 80% of CIS MSMEs by 2028 • 30% reduction in defaults among flagged borrowers • Quarterly Index from Q1 2028	Ksh 300M	CBK; CIS Kenya; World Bank IDA; FSD Kenya	Data latency reduces accuracy; mitigate via real-time eTIMS/mobile money API integration

			with National Alternative Data Framework • Establish MSME Early Warning Dashboard for regulated lenders • Publish quarterly MSME Debt Distress Index (by county, sector, gender)				published				

POLICY PILLAR 3.6: DEVELOP AND SCALE A NATIONAL MSME FINANCIAL LITERACY AND CAPABILITY PROGRAMME

PILLAR 3.6: DEVELOP AND SCALE A NATIONAL MSME FINANCIAL LITERACY AND CAPABILITY PROGRAMME

OBJECTIVE: To develop, resource, and scale a nationally coordinated MSME Financial Literacy and Capability Programme equipping MSME owners with the knowledge, skills, attitudes, and confidence to make informed financial decisions — enabling effective access to and use of formal financial products and services — thereby transitioning Kenya's MSME sector from mere financial access to measurable financial health.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.6.1	3.6: Develop and scale a national MSME financial literacy and capability programme	Establish a National MSME Financial Literacy Coordination Architecture (NFLIC)	• Establish NFLIC within State Dept. for MSME Development, co-convened with CBK FCP • Develop National MSME Financial Literacy Strategy 2026–2030 with county targets • Publish annual National MSME Financial Literacy Report	State Dept. MSME Dev. / CBK (FCP)	CMA, IRA, SASRA, MSEA, FSD Kenya, KIE, County Govts., Development Partners	Y1 (2026)	• NFLIC established • National Literacy Strategy 2026–2030 published • Annual Literacy Report baseline published	• NFLIC operational • 47 county literacy targets set	Ksh 550M	National Budget; FSD Kenya, GIZ, FCDO (20%)	Non-cooperation from financial sector players. To be mitigated through continuous engagement
3.6.2	3.6: Develop and scale a national MSME financial literacy and capability programme	Establish and Deliver Context-Specific Tiered Financial Capability Training Through Blended Channels	• Develop 3-tier Financial Capability Curriculum (basic/MSME-specific/advanced) • Deliver through CIDCs, mobile learning, radio/TV, peer champion networks • Train 500,000 MSME owners annually (50% women, 30% youth) • Develop Kiswahili and local language content for 10 most-spoken	MSEA / KIE (Delivery Leads) / State Dept. MSME Dev.	County Govts., CA (media), KBA, AMFI-K, FSD Kenya, GIZ, Safaricom Foundation	Y1–5 (2026–30)	• 3-tier curriculum published • Blended channels operational • 500,000 trained annually • 10 language versions • 2,000 champions trained	• FinAccess MSME literacy index: 42% → 65% by 2030 • 50% women trainees; 30% youth • 10 language versions by 2028	Ksh 1.5B (5 years)	Literacy Fund; National Budget; County CIDPs; FSD Kenya; GIZ	Low MSME time availability; mitigate via micro-learning (15–30 min); WhatsApp delivery

			languages • Establish 'Train the Trainer': 2,000 county-level financial literacy champions								
3.6.3	3.6: Develop and scale a national MSME financial literacy and capability programme	Strengthen and Promote MSME Financial Literacy in the Education and Entrepreneurship Ecosystem	• Integrate MSME financial literacy into TVET and university entrepreneurship curricula • Establish National MSME Entrepreneurship and Financial Literacy Curriculum Framework (NEFLIC) for all TVETs • Mandate financial literacy modules in all government MSME programmes (Hustler Fund, WEF, YEDF) • Establish Kenya MSME Financial Literacy Awards (annual) • Embed financial literacy in MSEA Business Development Services (BDS) delivery	State Dept. MSME Dev. / Ministry of Education / TVET Authority	MSEA, KIE, KIBT, University Fund, WEF, YEDF, County Govts., KNQA	Y1–3 (2026–28)	• NEFLIC framework adopted by TVET Authority • Literacy modules mandated in all govt. MSME programmes • Annual Literacy Awards established	• NEFLIC adopted by 100% of TVETs by 2028 • 500,000 TVET students receiving literacy annually • 100% govt. programme beneficiaries completing literacy module	Ksh 200M	MoE budget; TVET Authority; National Budget; Partners	TVET curriculum overload; mitigate by integrating into existing Entrepreneurship modules
3.6.4	3.6: Develop and scale a national MSME financial literacy and capability programme	Develop Sector-Specific Digital Financial Literacy Tools Addressing Predatory Lending and Consumer Rights	• Develop sector-specific digital literacy toolkits (agri-MSMEs, women traders, informal sector, youth, rural MSMEs) • Launch USSD loan cost calculator, WhatsApp debt management bot, and CBK-branded 'Know Your Rights' mobile app • Establish National MSME	CBK (FCP) / State Dept. MSME Dev. / CA	MSEA, AMFI-K, DFSAK, Telcos, FSD Kenya, GIZ, KIRDI, WEF	Y1–3 (2026–28)	• Sector digital toolkits published (6 sectors) • USSD calculator, WhatsApp bot, app launched • msmelearn.go.ke Digital Hub live • Telco partnership agreements signed	• 1M MSME digital tool users by 2028 • 500,000 unique Hub visitors annually • 40% reduction in DCP misconduct complaints by 2030	Ksh 300M	CBK; FSD Kenya; GIZ; Telco CSR	Low rural smartphone penetration; mitigate via USSD tools as primary delivery

			Financial Literacy Digital Hub at msmelearn.go.ke • Partner with Safaricom, Airtel, Telkom to embed literacy content in MSME platforms • Train 10,000 MSME owners annually on predatory lending recognition								
3.6.5	3.6: Develop and scale a national MSME financial literacy and capability programme	Establish a National MSME Financial Literacy Research, Monitoring and Evaluation Framework	• Develop MSME Financial Literacy M&E Framework aligned with FinAccess methodology • Commission National MSME Financial Literacy Baseline Survey (2026) and endlines (2028, 2030) • Establish MSME Financial Literacy Research Network (KIPPRA, universities, FSD Kenya) • Publish Annual MSME Financial Literacy State of the Nation Report • Annually recalibrate delivery channels using M&E findings	State Dept. MSME Dev. / KIPPRA / KNBS	FSD Kenya, CBK FCP, MSEA, Universities, GIZ, World Bank	Y1–5 (2026–30)	• M&E Framework published • Baseline Survey completed by Q4 2026 • Annual State of Nation Report from 2027 • Research Network established	• Baseline survey completed Q4 2026 • Annual literacy index tracking 42% → 65% • Annual Report: 5,000+ policymaker downloads	Ksh 150M	National Budget; KIPPRA; FSD Kenya; GIZ; World Bank	Insufficient survey frequency; mitigate via annual rapid assessments

POLICY PILLAR 3.7: ESTABLISH AN MSME TRADE FINANCE INFRASTRUCTURE FOR LOCAL AND EXPORT MARKET ACCESS

PILLAR 3.7: ESTABLISH AN MSME TRADE FINANCE INFRASTRUCTURE FOR LOCAL AND EXPORT MARKET ACCESS

OBJECTIVE: To establish a comprehensive, inclusive, and digitally enabled MSME trade finance infrastructure providing Kenyan MSMEs with structured access to working capital, receivables financing, credit guarantees, and export facilitation instruments — enabling competitive participation in domestic, regional, and international markets in alignment with Kenya's obligations under AfCFTA and various economic partnership agreements.

No.	Policy Statement	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (Ksh)	Funding Source	Risks & Mitigation
3.7.1	3.7: Establish an MSME trade finance infrastructure	Establish a Dedicated MSME Trade Finance Guarantee Facility (KTFGF)	• Establish KTFGF under KEPROBA with Afreximbank co-capitalization • Develop tiered guarantee products: domestic trade (70%), intra-EAC (80%), AfCFTA (90%) • Establish partnerships with 20 banks and MFIs as participating institutions • Mandate 40% of KTFGF guarantees to women-led MSME exporters • Target 5,000 MSMEs accessing trade finance guarantees by 2029	KEPROBA / National Treasury	CBK, KBA, AMFI-K, Afreximbank, AfDB, EAC Secretariat, UNCTAD, State Dept. MSME Dev.	Y1–3 (2026–28)	• KTFGF established and capitalized • Tiered guarantee products gazetted • 20 participating institutions onboarded	• 5,000 MSMEs with KTFGF-backed trade finance by 2029 • Ksh 20B in MSME trade finance by 2030 • 40% women-led MSME beneficiaries	Ksh 5B + USD 50M Afreximbank	National Budget (Ksh 2.5B); Afreximbank; AfDB; IFC	Low MSME export volumes; mitigate via export readiness programme and TradeConnect
3.7.2	3.7: Establish an MSME trade finance infrastructure	Develop a Regulatory and Legal Framework for MSME Factoring and Receivables Finance	• Enact Factoring and Receivables Finance Act • Establish Electronic Invoice Registry (EIR) under BRS • Develop CBK licensing framework for factoring companies • Integrate eTIMS (KRA) with EIR for real-time receivables verification • Target 10,000 MSMEs using	National Treasury / BRS / CBK (Joint)	KRA (eTIMS), KBA, AMFI-K, DFSAK, Law Reform Commission, State Dept. MSME Dev., KEPROBA	Y1–3 (2026–28)	• Factoring Act enacted • EIR established and operational • CBK factoring licensing framework gazetted • eTIMS-EIR integration completed	• Factoring Act enacted by 2027 • EIR: 100,000 invoices registered by 2028 • 10,000 MSMEs using factoring by 2029	Ksh 400M	National Budget; IFC (EIR co-investment); World Bank	Market resistance to factoring; mitigate via awareness campaign and MSME factoring accelerator

			factoring/invoice discounting by 2029								
3.7.3	3.7: Establish an MSME trade finance infrastructure	Integrate Kenyan MSMEs into AfCFTA Trade Finance Architecture and PAPSS	• Develop Kenya AfCFTA MSME Digital On-Ramp Programme • Register 10,000 Kenyan MSMEs on AfCFTA Business Hub by 2028 • Integrate PAPSS with Kenyan mobile money platforms • Establish Kenya-AfCFTA MSME Trade Finance Desk at KEPROBA • Train 5,000 MSME exporters annually on AfCFTA rules of origin and documentary requirements	KEPROBA / State Dept. Trade (AfCFTA Focal Point)	CBK, KRA, KenTrade, Afreximbank, EAC Secretariat, KEPSA, State Dept. MSME Dev.	Y1–4 (2026–29)	• AfCFTA MSME On-Ramp Programme launched • 10,000 MSMEs on AfCFTA Business Hub • PAPSS integrated with M-Pesa/Airtel • MSME Trade Finance Desk operational	• 10,000 MSMEs on AfCFTA Hub by 2028 • PAPSS: 5 payment providers by 2027 • MSME AfCFTA export value: Ksh 10B annually by 2030	Ksh 450M	National Budget; Afreximbank; AfDB; GIZ	Non-tariff barriers in partner countries; mitigate via Kenya-led EAC NTB advocacy
3.7.4	3.7: Establish an MSME trade finance infrastructure	Build a Digital MSME Trade Finance Platform Linking Buyers, Suppliers, and Financiers (KDTFP)	• Design and launch Kenya MSME Digital Trade Finance Platform (KDTFP) • Develop KDTFP API connectivity with eTIMS, MPSR, PAPSS, and bank treasury systems • Establish marketplace connecting MSME sellers with domestic anchor buyers • Integrate supply chain finance (dynamic discounting, reverse factoring) • Target 50,000 MSME suppliers and 500 anchor buyers by 2029	KEPROBA / KenTrade / State Dept. MSME Dev. (Joint)	CBK, KRA, BRS, KBA, AMFI-K, Government Procurement (IFMIS), KEPSA, IFC	Y2–4 (2027–29)	• KDTFP designed and piloted • API integrations completed • Marketplace operational • Supply chain finance module launched	• 50,000 MSME suppliers on KDTFP by 2029 • 500 anchor buyers onboarded • Ksh 15B supply chain finance transactions by 2030	Ksh 1.2B	National Budget (50%); IFC (25%); World Bank IDA (25%)	Adoption below critical mass; mitigate via IFMIS-KDTFP procurement mandate
3.7.5	3.7: Establish an MSME trade finance infrastructure	Establish a Structured MSME Export Credit and Trade Finance Capacity-Building Programme (KMECP)	• Develop Kenya MSME Export Credit Programme (KMECP) with Afreximbank pre-export finance • Establish MSME Export Finance Advisory Service at KEPROBA (free first appointment) • Train 5,000 MSME exporters	KEPROBA / Afreximbank / KIE	CBK, KBA, AMFI-K, KenTrade, EAC Secretariat, State Dept. MSME Dev., KEPSA, KAM	Y1–4 (2026–29)	• KMECP launched • Export Finance Advisory Service operational • 5,000 exporters trained annually • Mentorship Programme	• 2,000 MSMEs accessing KMECP pre-export finance by 2029 • 5,000 trained annually from 2027 • 40% women-led MSME	Ksh 2.2B	National Budget (50%); Afreximbank (30%); AfDB; FCDO; GIZ	MSMEs lack documentation for export credit; mitigate via KenTrade-BRS documentation support

			annually on LCs, trade insurance, and export bonds • Establish Trade Finance Mentorship Programme: 500 experienced exporter-MSME pairs annually • Develop National MSME Export Finance Dashboard (quarterly, by sector/county/gender)				launched • Export Finance Dashboard published	exporters in KMECP			

NOTES ON IMPLEMENTATION

1. Quarterly Review: This matrix shall be reviewed and updated quarterly by the MSME Financial Inclusion Policy Coordination Unit (MFIPCU) housed within the State Department for MSME Development. Progress against KPIs shall be reported to the MSME Financial Inclusion Policy Steering Committee at each quarterly meeting.

2. Conformity with Kenya Public Policy Handbook (March 2024): The matrix is structured in accordance with the 'Whole of Government' coordination approach, the intergovernmental coordination model under the Intergovernmental Relations Act 2012, and the Policy Implementation Matrix requirements prescribed in the Kenya Public Policy Handbook. It specifies lead and supporting institutions, timelines, outputs, KPIs, budget estimates, and risk mitigation measures for each intervention.

3. Budget Estimates: All budget estimates are indicative and subject to annual MTEF appropriation. Estimates will be refined through the annual workplanning process of each Technical Working Group (TWG) and validated by the National Treasury during budget preparation.

4. MTP IV Alignment: All timelines are aligned with the Fourth Medium-Term Plan (MTP IV) 2023–2027 and its successor MTP V (2028–2032), which is expected to carry forward the MSME financial inclusion agenda within the continuing BETA economic transformation framework.

5. Gender and Inclusion Targets: All interventions specify minimum gender disaggregation targets (minimum 40% women beneficiaries unless otherwise specified) consistent with the WE Finance Code signed at the NFIS 2025–2028 launch (December 2025) and Kenya's obligations under the AFI Denarau Action Plan and Maputo Accord on SME Finance.

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