THE 2016 NATIONAL MICRO, SMALL AND MEDIUM ESTABLISHMENT (MSME) SURVEY

HIGHLIGHTS OF BASIC REPORT

By

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DIRECTOR GENERAL
OUTLINE

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• MSME Survey Findings
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  ii. Employment Characteristics in the Micro, Small, and Medium Establishments
  iii. Comparison of MSME to National value added
  iv. Changes in Micro, Small, Medium Enterprises
  v. Constraints and Access to Amenities and Support Services
  vi. Conclusions
Introduction

• The study adopts Kenya’s official definition where MSMEs are defined according to employment size.
  - Micro-enterprises ~ less than 10 employees;
  - Small enterprises ~ 10 to 49 employees
  - Medium sized enterprises ~50 and 99 employees

• The MSMEs covered in the survey were all non-primary product activities or businesses. Plus agri-businesses. It excluded primary activities such as agricultural production, animal husbandry, fishing, among others
Introduction

• The previous MSE studies used the household-based approach to identify businesses/establishments. However, the 2016 MSME survey, in addition to the household-based approach, interviewed businesses/establishments identified from business registers maintained by county governments.

• In total, about 50,000 MSMEs were sampled for the survey, targeting licensed businesses. A further 14,000 households were sampled targeting to capture household-based enterprises which are largely unlicensed.

• The unit of observation in the survey was the establishment and not the enterprise. Implying that an enterprise that engaged in say three economic activities, was recorded as having three businesses as opposed to one.
Targeted Indicators

• Number of MSME in the country
• Distribution of MSMEs by Sex of Owners
• Level of Innovation in the sector
• Education qualifications and Training
• Persons engaged in the MSME Sector
• Comparison of MSME to National value added
• Financing of MSME operations
Targeted Indicators Cont’

- MSMEs Expenditure structure
- Constraints faced by MSMEs
- Prevalence for Closure of Businesses
- Reasons for Business Closures
- Disposal of Stock after Business Closure
Entrepreneur and MSME Business Profiles
Magnitude of the MSME Sector

• The survey established that there were about 1.56 million licensed MSMEs and 5.85 million unlicensed businesses

• These establishments are both in the formal and informal sectors

• Most of the unlicensed establishments were being operated at the household level
Distribution of Establishments by Economic Activity and Licensing Status

- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewerage, waste management and remediation activities
- Construction
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities
- Administrative and support service activities
- Education
- Human health and social work activities
- Arts, entertainment and recreation
- Other service activities

Licenced and UnLicenced
Distribution of MSMEs (Licensed)

- Licensed Micro: 92.2%
- Licensed Small: 7.1%
- Licensed Medium: 0.7%

<table>
<thead>
<tr>
<th>Size</th>
<th>Licensed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>92.2%</td>
</tr>
<tr>
<td>Small</td>
<td>7.1%</td>
</tr>
<tr>
<td>Medium</td>
<td>0.7%</td>
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</table>
Distribution of MSMEs by Type of Structure of operation

<table>
<thead>
<tr>
<th>Type of Structure of Operation</th>
<th>Unlicenced</th>
<th>Licenced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>0.5</td>
<td>78.9</td>
</tr>
<tr>
<td>Semi - Permanent</td>
<td>0.1</td>
<td>14.3</td>
</tr>
<tr>
<td>Temporary</td>
<td>40.6</td>
<td>19.3</td>
</tr>
<tr>
<td>No structure/open</td>
<td>13.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Vehicle</td>
<td>0.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Others</td>
<td>0.0</td>
<td>1.5</td>
</tr>
<tr>
<td>No structure/open</td>
<td>0.1</td>
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<tr>
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</tr>
<tr>
<td>Others</td>
<td>0.0</td>
<td>1.5</td>
</tr>
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</table>
Education Qualification of Business Owners/Operators

- **CPE / KCPE**: 39.7% Unlicensed, 31.4% Licensed
- **EACE / KCE / KCSE**: 30.3% Unlicensed, 19.1% Licensed
- **Diploma**: 13.8% Unlicensed, 9.8% Licensed
- **Degree**: 9.8% Unlicensed, 1.2% Licensed
- **Certificate**: 7.3% Unlicensed, 3.7% Licensed
- **EACE / KCE / KCSE**: 7.3% Unlicensed, 3.7% Licensed
- **Postgraduate**: 2.4% Unlicensed, 0.0% Licensed
- **Other Qualifications**: 6.2% Unlicensed, 1.0% Licensed
- **None**: 7.0% Unlicensed, 1.0% Licensed
Main Sponsor of MSMEs Business Owners’ Training

Unlicensed
- Self-help groups: 1.8%
- Saccos: 0.0%
- Religious organization: 2.7%
- Private business institution: 6.6%
- Govt.: 18.6%
- NGO: 52.7%
- Other individuals: 9.3%
- Self: 0.0%
- Others: 0.0%

Licensed
- Self-help groups: 0.0%
- Saccos: 0.0%
- Religious organization: 0.8%
- Private business institution: 5.4%
- Govt.: 6.7%
- NGO: 18.3%
- Other individuals: 9.3%
- Self: 50.6%
- Others: 0.0%

Legend:
- Self-help groups
- Saccos
- Religious organization
- Private business institution
- Govt.
- NGO
- Other individuals
- Self
- Others
## Start-up Capital by Size of Establishments

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Per cent</th>
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<td><strong>Licensed</strong></td>
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<td>50,000 or less</td>
<td>57.2</td>
<td>59.0</td>
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<td>50,001 - 200,000</td>
<td>27.6</td>
<td>28.0</td>
<td>22.0</td>
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<tr>
<td>200,001 - 1,000,000</td>
<td>11.5</td>
<td>10.9</td>
<td>21.8</td>
<td>25.4</td>
<td></td>
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<tr>
<td>Above 1,000,000</td>
<td>3.7</td>
<td>2.1</td>
<td>29.8</td>
<td>27.9</td>
<td></td>
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<tr>
<td><strong>Unlicensed</strong></td>
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<tr>
<td>50,000 or less</td>
<td>94.5</td>
<td>94.5</td>
<td>-</td>
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<td>50,001 - 200,000</td>
<td>4.8</td>
<td>4.8</td>
<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td>200,001 - 1,000,000</td>
<td>0.7</td>
<td>0.7</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Above 1,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
Main Source of Capital for the Business

- Family/own funds: 80.6%
- Family/Friends Loan (Not free): 4.2%
- Money Lender: 0.7%
- Bank: 5.6%
- ROSCAs: 1.1%
- Non-Bank credit inst: 1.0%
- Government loan: 0.1%
- NGOs: 0.1%
- Cooperatives: 0.4%
- Trade credits: 0.2%
- In-kind: 0.3%
- Postal savings: 0.5%
- Others: 2.1%

Unlicensed versus Licensed
Reasons for Starting a Business

- Other (Specify): 3.8%
- Prefer self employment: 13.1%
- Better income: 23.5%
- No other alternative: 23.8%
- Influenced by advertisements: 0.0%
- High demand/ready market: 12.5%
- Availability of capital required: 6.7%
- Advised by others: 3.7%
- Family has worked in this activity: 5.2%
- Skilled in this activity: 9.8%
Type of Reports Generated from Business Records

![Bar chart showing the percentage of reports generated from business records by type and employee size.](chart.png)
Establishments by Location of Business

• Over 70 per cent of all licensed MSME were operating from commercial premises

• About 28 percent of the unlicensed enterprises were operating at the residential areas

• On the other hand, most of the unlicensed businesses operated in residential areas with no special outfits for the business or were mobile (no fixed location)
Main Buyers of Products from MSME Establishments

• Individual consumers and other MSMEs were the main buyers of goods/services from these businesses.

• Government, non-MSMEs (large establishments) and direct exports constituted a very small proportion of consumers of MSME products and/or services.

• There was no unlicensed business which reported to be exporting their products.
Employment Characteristics in MSMES
Employment by Economic Activity

• MSMEs engaged about 14.9 million persons

• Wholesale and retail trade and repair of motor vehicles and motor cycles accounted for more than half of the total persons working in MSMEs (over 8 m)

• Manufacturing, Accommodation and food service activities accounted for 11.8 per cent and 11.1 per cent of all persons engaged in MSMEs, respectively.
Percentage Distribution of Employment in Licensed Establishments

- Small: 32.3%
- Medium: 12.5%
- Micro: 55.2%
Percentage Distribution of Employees by Highest Educational Qualification Acquired and Establishment Licensing Status

- CPE/KCPE
- KCE/KCSE
- KJSE
- KACE/EAACE
- Certificate
- Diploma
- Higher Diploma
- Degree
- Post Graduate Diploma
- Post Graduate Degree
- Others

Unlicenced: 93.5%
Licenced: 6.3%
Percentage Distribution of Employees by Training Received and Establishment Licensing Status
Distribution of Employees by Age and Terms of Engagement (Excluding owners)
Distribution of persons by Employment and Licensing Status

- Attachees/Interns: Unlicenced 0.4, Licensed 1.9
- Contributing family workers: Unlicenced 7.3, Licensed 3.6
- Paid Employees: Unlicenced 16.5, Licensed 63.8
- Ownaccount workers: Unlicenced 12.1, Licensed 58.6
- Working employers: Unlicenced 17.3, Licensed 18.5
Comparison of MSME to National value added
Comparison of Value Added

MSME contribute 28.5 percent of the total economy
Proportion of Income Generated by MSME by Type and Most Important Use

• Licensed micro establishments reported spending 45.3 per cent of their net income on investments, either as re-investment or investing in new businesses and investment in agriculture, while expenditure on household and family needs accounted for 44.5 per cent.

• Small and Medium establishments spent significantly high part of their net income on investment at 63.4 and 69.7, per cent, respectively.

• This result indicate a positive correlation between the proportion of savings and the size of the establishment.
Expenditure by Size of Establishment

• Monthly expenditure on salaries and wages for licensed businesses was reported at KSh 64.1 billion while unlicensed MSMEs spent KSh 9.0 billion which translates to approximately 25.0 per cent of total outlays a piece.

• A look at the expenditure components revealed that unlicensed businesses are poor in remitting social security payments.

• Results of the survey further indicate that licensed MSMEs spent about KSh 1.0 billion on all forms of innovation.
Changes in Micro, Small, Medium Enterprises
Changes in Employment Size by Sex and Sector

• Employment in licensed MSMEs was 6.3 million persons by the time of carrying out the survey compared to 3.1 million persons at inception.

• Overall, male and female participation remained almost the same at the time of the survey compared to inception.

• A significant rise was reported in the wholesale and retail trade, repair of motor vehicles and motorcycle sector from 1.4 million employees at inception to 2.6 million employees during the time of the survey.
Kind of Changes

• The changes examined here are those that have occurred in MSME activities with regard to employment size, age, business mutations, startups, closures and their distribution by counties.

• Change in employment relative to inception provides critical information on establishment growth.

• Establishment mutations has been associated with activity changes in either the same sector or to different sectors.
Changes in Employment Size at Inception, Peak and at Closure

• There were no significant changes in the number of employees engaged at inception and at closure.

• On average, each establishment engaged 1.4 persons at inception and at closure but at peak times the average number rose to 1.6 employees.

• At closure, the number employees had increased by 3.5 per cent compared to the time of inception.
Closure of Businesses

Distribution of Closed Establishments by Age at Closure

- 1 year: 46%
- 2 years: 15%
- 3 years: 10%
- 4 years: 5%
- 5 years: 4%
- 6-10 years: 11%
- 11-15 years: 4%
- Over 15 years: 5%
Disposal of Stock after Business Closure

- Sold with business: 31%
- Gave to family / friends: 30%
- Used to start new business: 8%
- Liquidated: 15%
- Stored: 12%
- N/A: 2%
- Other: 2%
Percentage Distribution of Reasons for Closure of Establishment

- Shortage of operating funds: 29.6%
- Personal reasons: 22.9%
- Too few customers: 15.3%
- Shortage of stock or raw materials: 6.2%
- Too many competitors: 4.5%
- Legal problems/Gov. Regulations: 3.3%
- Other: 3.3%
- sickness: 3.2%
- Got a job: 3.2%
- Theft / Insecurity: 2.8%
- huge business debts: 2.8%
- Started another business: 2.1%
- Shortage of skilled manpower: 0.8%
- low rating by credit Bureau: 0.0%
Constraints and Access to Amenities and Support Services
## Challenges Faced by MSMEs

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Unlicensed</th>
<th>Licensed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of markets</td>
<td>15.0</td>
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<tr>
<td>Local competition</td>
<td>10.6</td>
<td>14.3</td>
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<tr>
<td>Licenses</td>
<td>12.6</td>
<td>11.9</td>
</tr>
<tr>
<td>None</td>
<td>10.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Other</td>
<td>8.2</td>
<td>5.6</td>
</tr>
<tr>
<td>poor roads/transport</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Lack of collateral for credit</td>
<td>5.9</td>
<td>3.9</td>
</tr>
<tr>
<td>poor security</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Power interruption</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Shortage of raw materials or stock</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Interference from authorities</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Poor access to water supply</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Other government Regulations</td>
<td>2.8</td>
<td>2.8</td>
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<tr>
<td>Inaccessibility to electricity</td>
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<tr>
<td>Taxes</td>
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<td>2.2</td>
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<tr>
<td>lack of space</td>
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<td>2.2</td>
</tr>
<tr>
<td>Lack of skilled manpower</td>
<td>2.2</td>
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<tr>
<td>Foreign Competition</td>
<td>2.2</td>
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</tr>
<tr>
<td>Impact of HIV-AIDS</td>
<td>2.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>

### Impact of HIV-AIDS
- Unlicensed: 28.3%
- Licensed: 10.6%

### Other
- Licenses: 11.0%
- Poor roads/transport: 11.0%
- Lack of collateral for credit: 11.0%
- Poor security: 11.0%
- Power interruption: 11.0%
- Shortage of raw materials or stock: 11.0%
- Interference from authorities: 11.0%
- Poor access to water supply: 11.0%
- Other government Regulations: 11.0%
- Inaccessibility to electricity: 11.0%
- Taxes: 11.0%
- lack of space: 11.0%
- Lack of skilled manpower: 11.0%
- Foreign Competition: 11.0%
- Impact of HIV-AIDS: 11.0%
Reasons for Low Uptake of Loans by MSMEs

- No need: 62.0%
- Too expensive: 12.3%
- Inadequate collateral: 9.4%
- Too much trouble for what it is worth: 6.0%
- Do not like to be in debt: 5.6%
- Other: 4.5%
- Believed would be refused: 4.4%
- Size of loan and maturity insufficient: 1.0%
- Do not know any lender: 0.6%

Licensed vs. Unlicensed lenders.
Reasons why Persons in Licensed and Unlicensed Businesses took Loans

- Working Capital
- Refurbishing business
- Purchase Inventory
- Non-Business Purpose
- Other
- Starting another business
- Pay debt

<table>
<thead>
<tr>
<th>Reason</th>
<th>Licensed</th>
<th>Unlicensed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital</td>
<td>37.0</td>
<td>34.1</td>
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<tr>
<td>Refurbishing business</td>
<td>24.9</td>
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<td>Purchase Inventory</td>
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<td>Other</td>
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<td>Starting another business</td>
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<tr>
<td>Pay debt</td>
<td>0.8</td>
<td>3.7</td>
</tr>
</tbody>
</table>
Accessibility to MSMEs’ Premises by Type of Roads

- **Tarmac**: 55.2% Licenced, 24.2% Unlicenced
- **Earth**: 33.5% Licenced, 17.9% Unlicenced
- **Murram Track**: 25.7% Licenced, 14.7% Unlicenced
- **Graded/Graveled**: 10.8% Licenced, 8.3% Unlicenced
- **Foot Paths**: 1.4% Licenced, 8.3% Unlicenced
## Support Groups for MSMEs

<table>
<thead>
<tr>
<th>Group</th>
<th>Licensed</th>
<th>Unlicensed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men/Women Association</td>
<td>64.2</td>
<td>4.2</td>
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<tr>
<td>Other Business</td>
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</tr>
<tr>
<td>ROSCAs</td>
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<td>Merry-go-round</td>
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<td>23.1</td>
</tr>
<tr>
<td>Chamber of Commerce</td>
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<td>MSEs associations</td>
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<tr>
<td>Other</td>
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</tbody>
</table>
Conclusions
Conclusions

• MSME sector has evolved to a highly vibrant and dynamic sector of the Kenyan economy over the last few decades

• **Number of MSMEs:** A high number of MSMES are undocumented businesses operating informally in Kenya.

• **MSME Categories:** Most of the MSME were micro establishments which were mostly operated by own account workers with few or no employees engaged.

• **Education Level:** The bigger firms were mostly owned by highly educated individuals but these were few. Persons with university degree should be encouraged to engage in businesses.
• **Training:** Majority of the business owners adopt self-sponsored training which indicates that business owners are aware of their skills’ deficits and they seek training to improve their entrepreneurial competencies.

• **Employment in the MSME sector:** The MSME sector arguably provides the highest employment opportunities in Kenya. Overall, the sector makes key contributions towards improving the economic and social sectors of the country through nurturing large scale employment across the country.
• **Employment per MSME Categories:** There is a skewed concentration of MSMEs in micro and small categories. This underscores the fact that majority of the businesses are only able to support small numbers of employees as majority are only operated by their owners. There is high potential for creating more employment with growth and expansion of MSME sector.

• **Value of MSME output:** The high contribution of the MSME sector underscores the fundamental role played by the MSMEs towards economic growth and development. All efforts therefore should be put in place to support and build the capacity of MSMEs to be in a position to sustainably absorb more employees.
Conclusions Cont’d

• *Net Income:* The biggest proportion of net income generated by MSMEs is injected back into the business as re-investment and also spent to meet household and family needs. In order for the businesses to grow and transit from micro to small and small to medium, there is need for increase savings and re-investment by ploughing back the income.
THANK YOU