

Impact of COVID-19 on Kenyan MSMEs

Strategies for Resilience and Recovery

SUMMARY REPORT

ACKNOWLEDGEMENTS

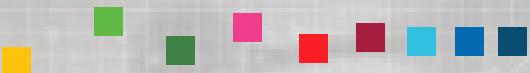
This report was prepared by the UNDP Accelerator Lab team in Kenya supported by a consultant team in collaboration with Micro Small Enterprise Authority (MSEA), UNDP Data Surge Hub and UNDP Kenya. The data for this report was collected between August and December 2020. We are grateful to all the MSMEs who took part in the survey and shared their insights and experiences with us.

How to cite this report: Kiarie, C., Ndedda, C., (2021). Impact of COVID-19 on Kenyan MSMEs; Strategies for Resilience and Recovery. Nairobi, Kenya. United Nations Development Programme.

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Impact Of COVID 19 on MSMEs in KENYA

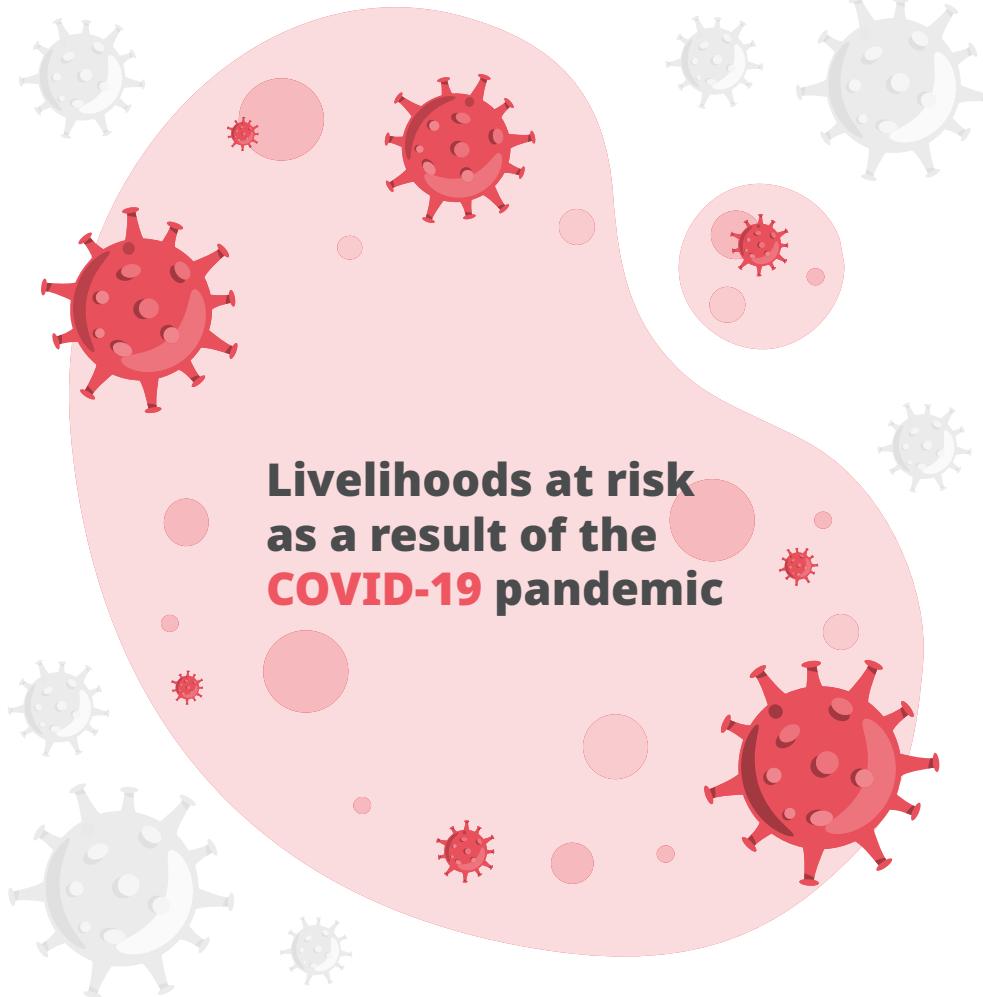
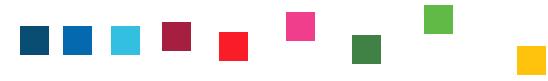
COVID-19 pandemic has impacted on millions of lives and livelihoods. Since its emergence in 2019/2020, lives have been lost, businesses halted and jobs lost across the world. Different sectors, regions and communities of people have been affected in different ways with COVID-19 exposing and increasing existing vulnerabilities.

In August 2020, United Nations Development Programme (UNDP) through the UNDP Accelerator Lab in conjunction with Micro and Small Enterprise Authority (MSEA) undertook an assessment of the impact of the COVID-19 pandemic on MSMEs. A total of 580 MSMEs took part in the survey which was conducted both online and offline. The objective of this assessment was to inform existing or new areas of support for MSMEs and identify gaps and opportunities that would stimulate and accelerate economic growth for the sector during and beyond COVID-19. This report is a gender responsive analysis of characteristics of Micro Small and Medium enterprises, impact of the COVID-19 pandemic on operations and income, challenges faced by the sector with the mitigation mechanisms and the support and needs expressed by respondents. It goes further

to analyze digital maturity of the enterprises as well as the support needed to facilitate digital transformation as a key strategy to achieve sustained competitiveness of MSMEs.

Observed Characteristics of MSMEs

The analysis of MSMEs including their organization and operation helps identify patterns, trends and insights that would elucidate the growth trajectory and resilience of the sector. There has been an increase in MSME establishment in the last 10 years. Most Micro and small enterprises engaged within manufacturing, service, agriculture and infrastructure sectors while Medium-sized enterprises engaged mostly within the infrastructure sector. From the survey, it was observed that close to 50% of the enterprises had not formally registered their businesses. Registration challenges ranged from the processes being cumbersome at lowest and lack of familiarity with the registration process at highest.



There was a significant relationship between registration and size of enterprise with the proportion of registered enterprises increasing with size (49.4 % of Micro enterprises, 82.3% of Small enterprises and 90.9% of Medium enterprises).

About 69.3% also indicated membership in an association such as Jua Kali Associations, Self-Help Groups, Kenya Association of Manufacturers and Kenya National Chamber of Commerce and Industry among others. The proportion of enterprises with membership in associations increased with size of enterprise (Micro enterprise 68.2%, Small enterprises 71.9% and Medium enterprises 81.8%).

The level of inclusion of vulnerable populations both in employment and in leadership of MSMEs was average. Employment of women was found to be above average with 69.7% of the enterprises. 3 out every 5 MSMEs had women in employment with Micro-enterprises featuring the most women in employment. Women were mostly employed in the Manufacturing and service sectors. Their inclusion in leadership positions was also above average with 56.4% representation of women in leadership. It was observed that the sector employs a large number of youth. A total of 85.5% of enterprises had youth between the age of 18-35 in their employment. Despite this, youth were largely excluded from positions of leadership as less than 15% of the MSMEs had youth in leadership. Persons with disability (PWD) were most excluded with only 29.8% of enterprises having employed PWDs and a mere 16.4% of enterprises having included them in leadership positions.

56.4%
of registered enterprises

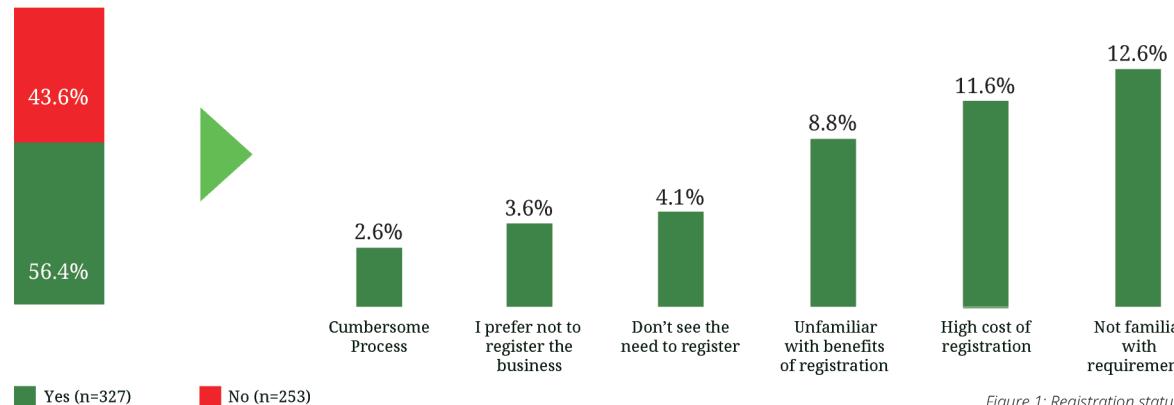


Figure 1: Registration status of MSMEs

Challenges expressed by MSMEs on business registration

Representation of membership in association and business registration among MSMEs

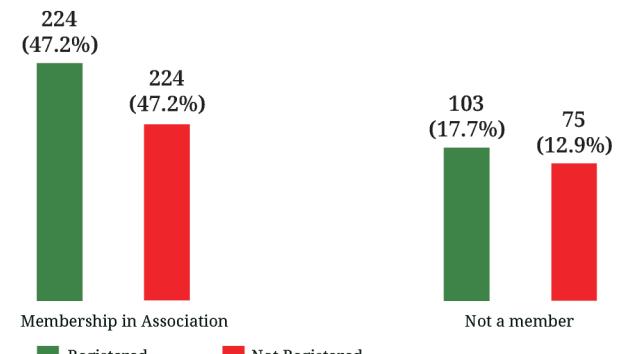


Figure 3: Membership of MSMEs in Associations

Top 10 business industries in the MSME sector

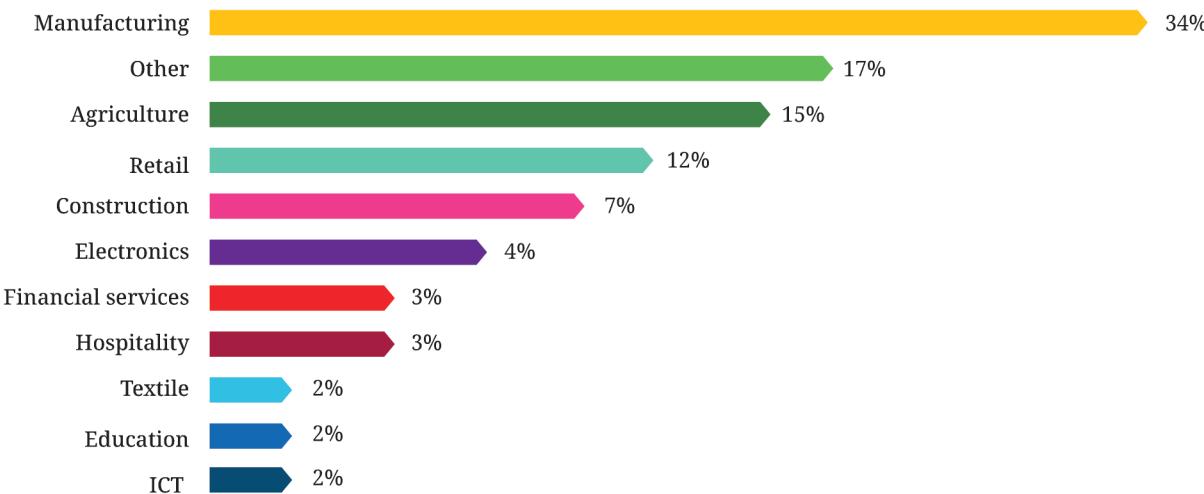


Figure 2: Main sectors of MSMEs

Distribution of MSMEs per organization category

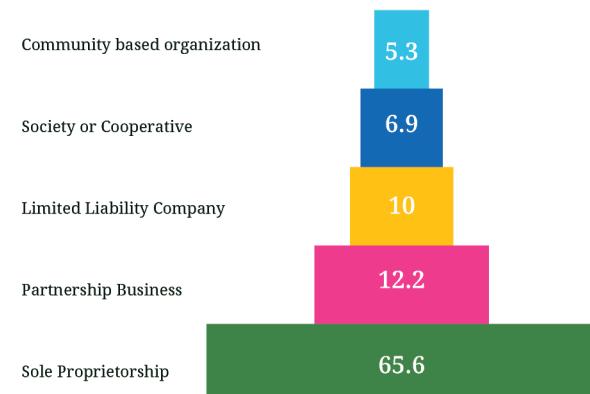


Figure 4: Organization category of MSMEs



A Juakali Vendor in Embu Town



Distribution of enterprises by size and organization type

Organization type of enterprise	Micro Enterprises		Small Enterprises		Medium Enterprises	
	N	%	N	%	N	%
Community Based organization	27	4.6%	4	0.7%	0	0.0%
Limited Liability Company	29	5.0%	17	2.9%	12	2.1%
Non-governmental organization	1	0.2%	0	0.0%	1	0.2%
Partnership Business	53	9.1%	15	2.6%	3	0.5%
Society or Cooperative	33	5.8%	7	1.2%	0	0.0%
Sole Proprietorship	319	55.0%	53	9.1%	6	1.0%

Table 1

69.7%
of enterprises that include
women in employment

404
69.7%

176
30.3%



Representation of women in MSME employment

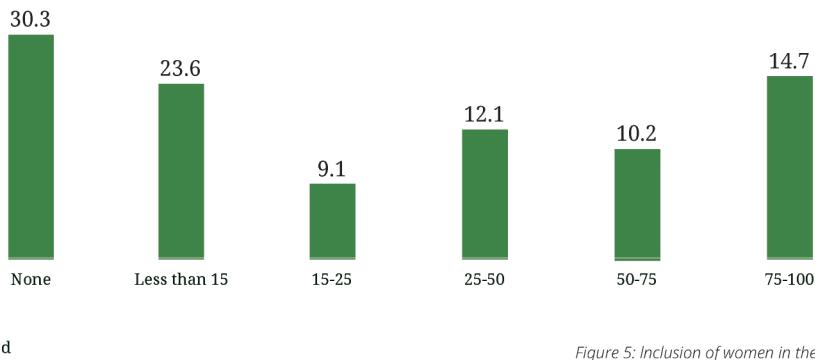


Figure 5: Inclusion of women in the workforce

Representation of women in MSME leadership

56.4 %

43.6 %

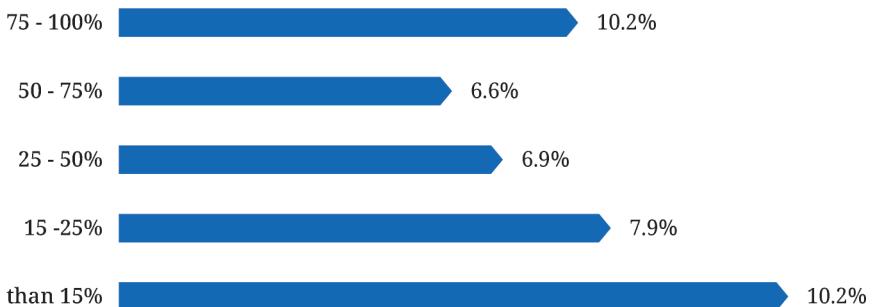
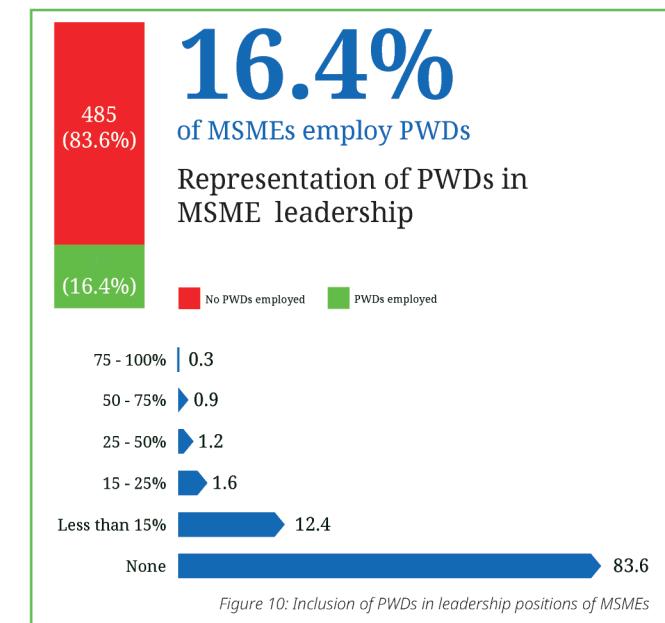
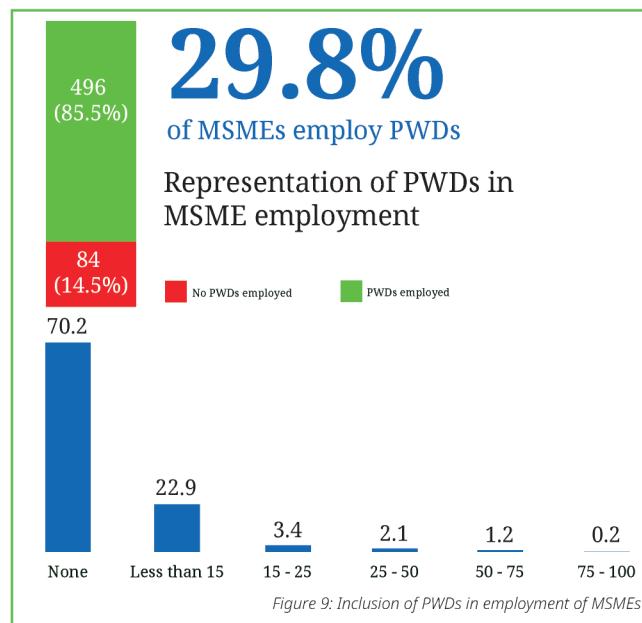
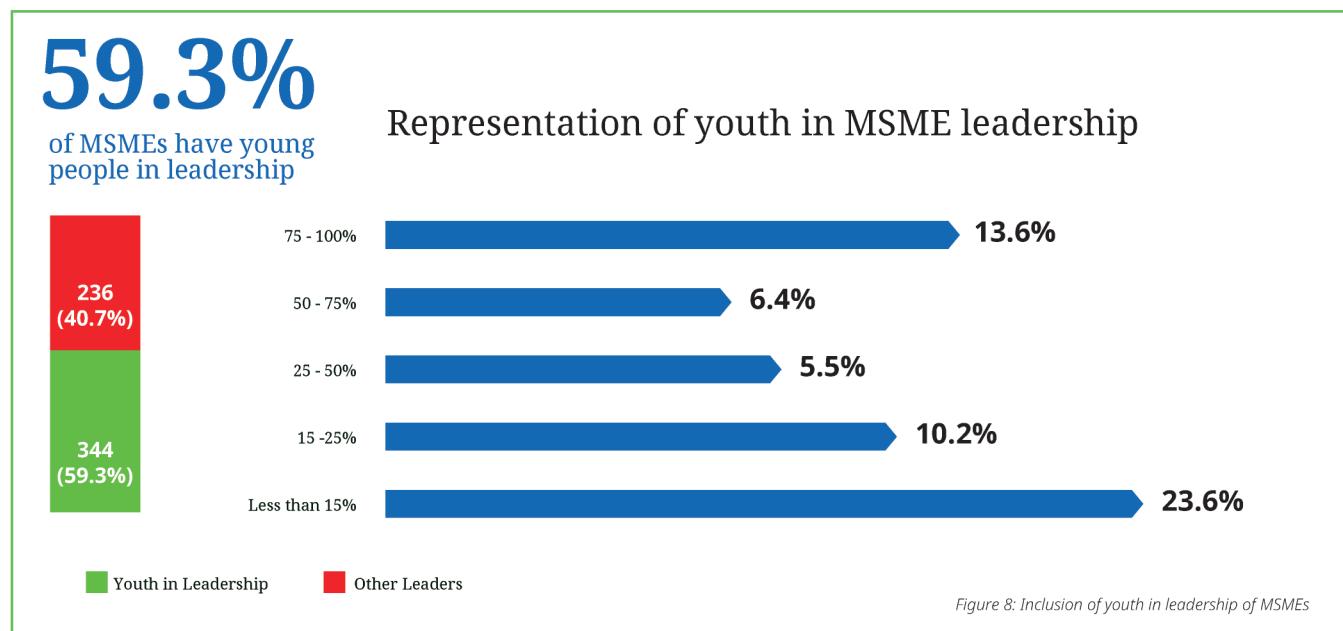
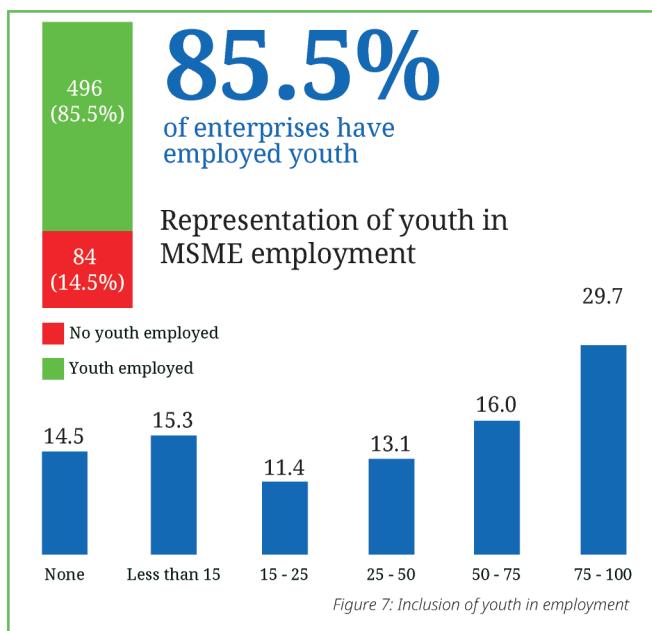
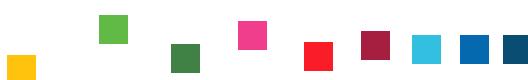


Figure 6: Inclusion of women in leadership



A metal works operator is a business in Nairobi





A business vendor selling fabric and clothes in Nairobi



Impact of COVID-19 on MSME operations



All the enterprises queried were negatively impacted by the COVID-19 pandemic in various ways and degrees. Reduction of customers, low sales, market closure and supply chain disruptions were common experiences across the enterprises. 1 out of every 10 enterprises shut down their businesses as a result of the COVID-19 pandemic. It was observed that 13.4% of enterprises irrespective of size had operations completely halted. Micro and Small enterprises appeared to have operations more greatly reduced than Medium enterprises. Enterprises in the manufacturing sector experienced most adverse impact of COVID-19 on operations and income while enterprises within the infrastructure sector experienced the least impact. The negative impact on operations and on income was inversely proportional to the size of the enterprises. Micro enterprises bore the burden of closure and complete loss of income. No medium-sized enterprise was completely shut down. Closure of schools early on in the pandemic also had a significant impact on MSMEs. Almost 10% of the respondents interviewed expressed a challenge related to the closure of schools.



Impact of COVID-19 on MSME operations

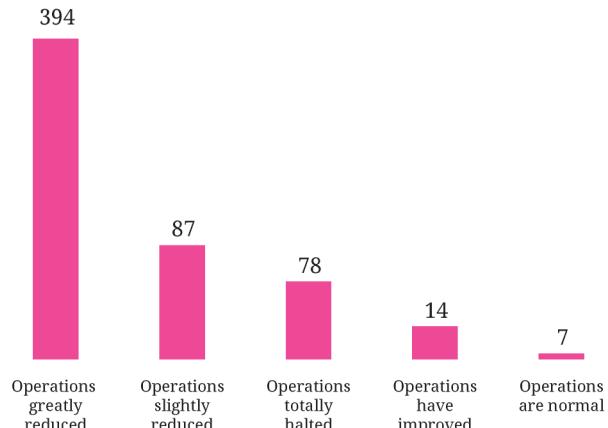


Figure 11: Impact of COVID-19 on operations of SMEs

Impact of COVID-19 on MSME operations by size of enterprises

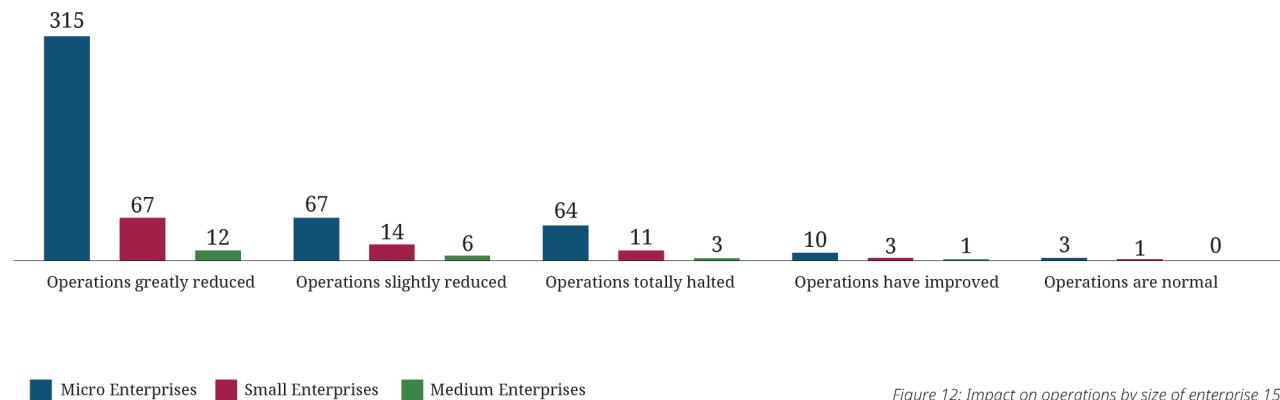
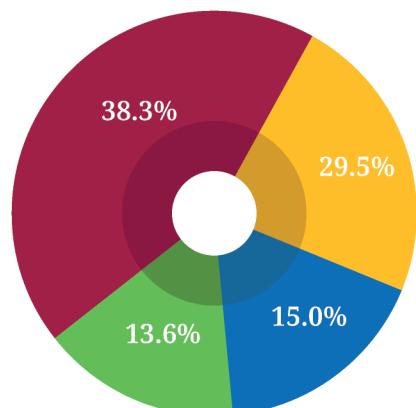


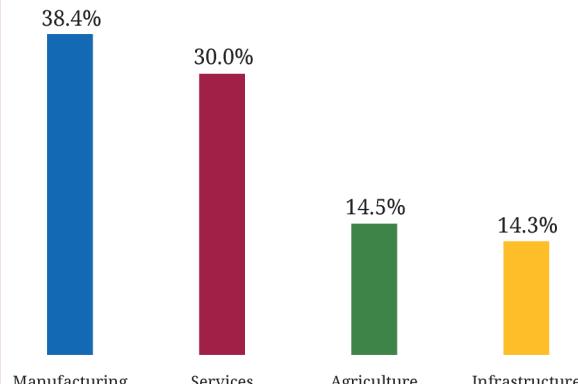
Figure 12: Impact on operations by size of enterprise 15

Percent distribution of adverse effects of COVID-19 on operations by sector



Impact on operations by business sector

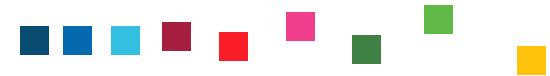
Impact of COVID-19 on MSME operations by industry



Percent distribution of adverse impact on income by sector



A business vendor dealing with art and crafts in Nairobi



Impact of COVID-19 on MSME impact by size of enterprises

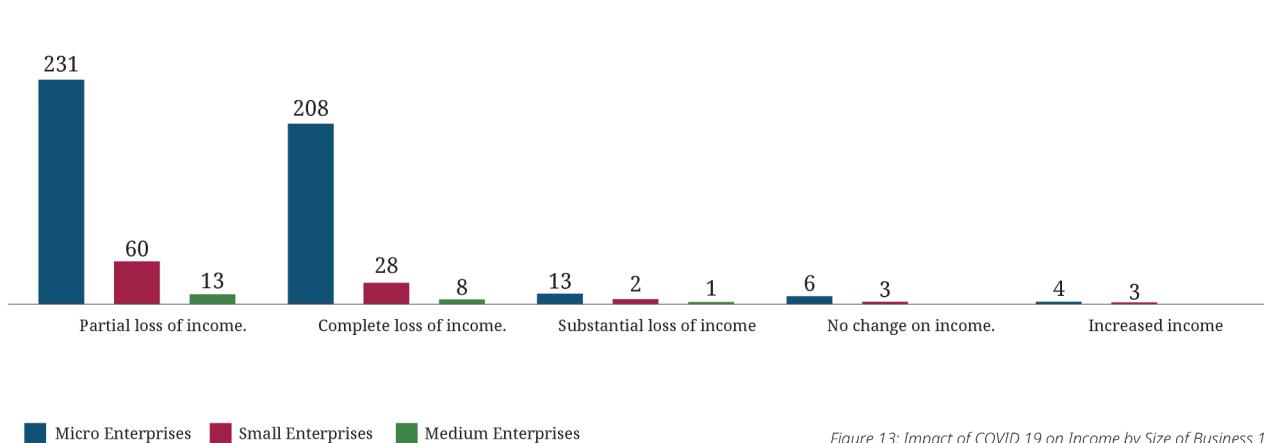
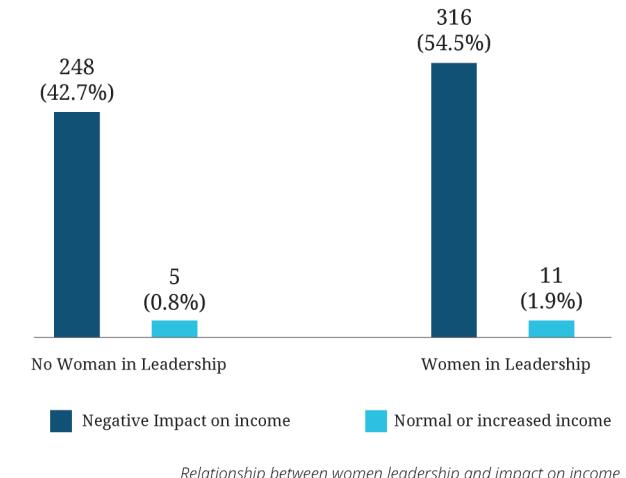


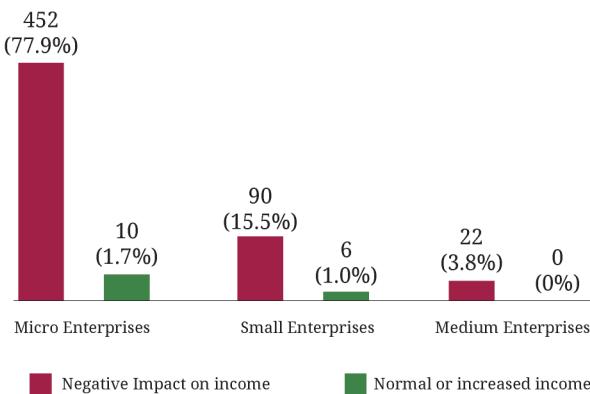
Figure 13: Impact of COVID 19 on Income by Size of Business 17

Relationship between women in MSME leadership and impact of COVID-19 on income



Relationship between women leadership and impact on income

Relationship between impact of COVID-19 on income and size of enterprise



Relationship between youth in MSME leadership and impact of COVID-19 on operations



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*Inadequate inclusion
of youth in MSME
leadership.*

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Relationship between PWDs in MSME leadership and impact of COVID-19 on operations

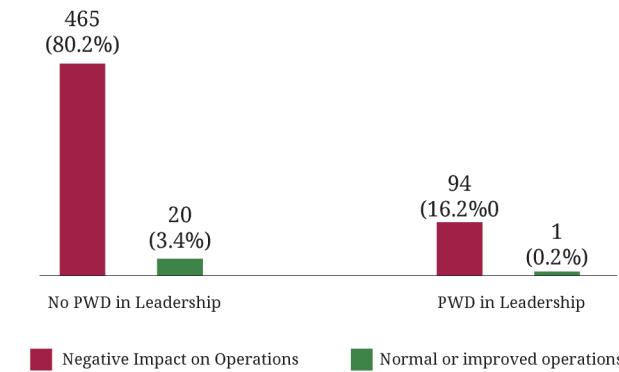


Figure 18: Relationship between PWD leadership with impact on operations 22

Relationship between MSME membership in associations and impact of COVID-19 on operations

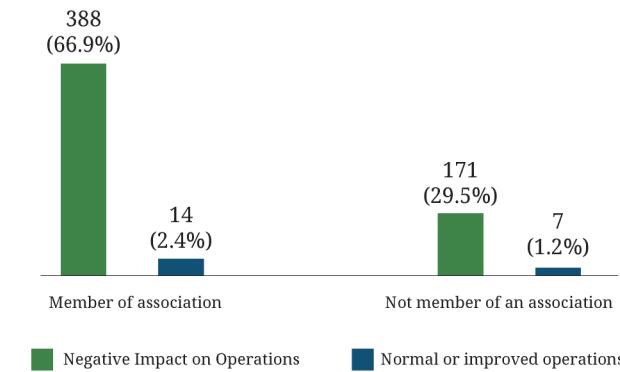


Figure 20: Relationship of membership in associations with impact of COVID-19

Relationship between size of enterprise and impact of COVID-19 on operations

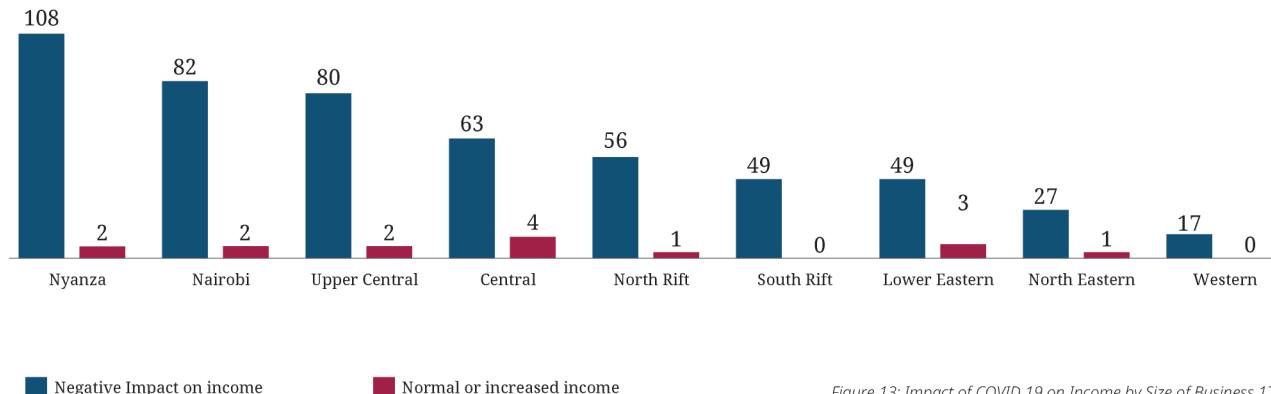
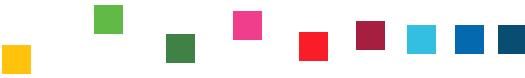


Figure 13: Impact of COVID 19 on Income by Size of Business 17





A certified metal fabricator in Thika



Impact of COVID-19 on MSME income

PWDs led enterprises were more resilient against complete loss of income.



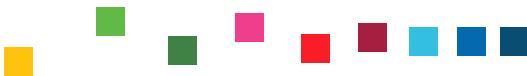
The survey revealed Micro and Small enterprises to be less resilient against the COVID-19 income disruptions than the Medium enterprises. Experiences included complete loss of income, substantial and partial loss of income among others. There was a weak negative correlation between the size of enterprises and complete loss of income. Medium enterprises appeared to be more resilient to complete loss of income than the smaller ones.

There was no relationship between women and youth leadership of enterprises with complete loss of income.

However, the study found that PWDs led enterprises were more resilient against complete loss of income.



A business owner engaging in tailoring.



Challenges faced during COVID-19

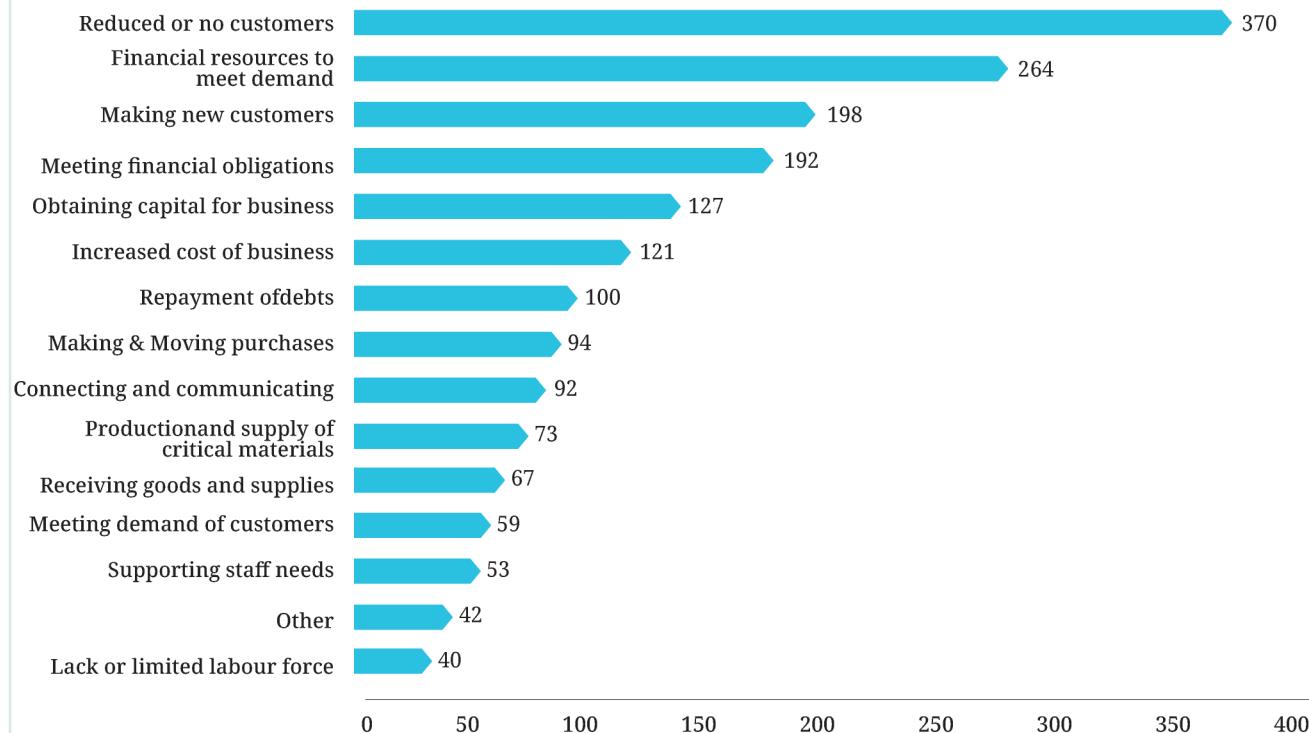


Figure 20: Challenges faced during the COVID-19 pandemic

Actions taken by MSMEs during the COVID-19 pandemic

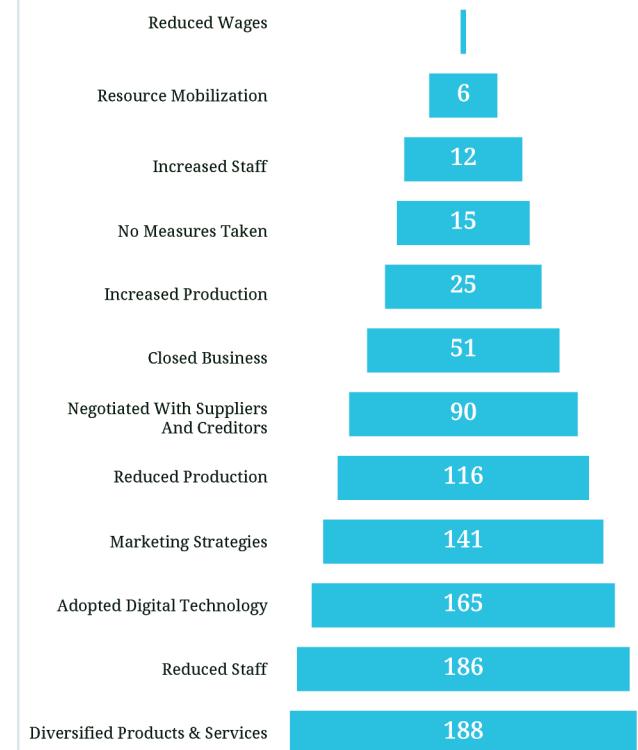
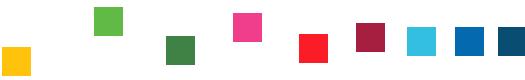


Figure 21: Actions taken by MSMEs



Busia juakali worksite



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18% of the MSMEs in the survey highlighted that as recourse to the impact of the pandemic to their businesses, they had to negotiate with creditors such as banks and suppliers.

”

Challenges Faced by MSMEs During the Pandemic

MSMEs adopted various measures to mitigate the impact of COVID-19 on their businesses. About 52.7% of enterprises highlighted the adoption and transition to online and digital platforms for market access and business operations. Use of social media platforms such as WhatsApp, and Facebook was prevalent among respondents. However, MSMEs engaged in the survey reported low engagement with websites with only 14% of the respondents reporting to have websites. Entrepreneurs also took such measures as reducing working hours, diversifying business products and services, reducing remuneration of staff, reducing the number of

staff through retrenchment among other measures. The Central Government of Kenya agreed with Banks, Savings and Credit Cooperative Societies (SACCOs) and other financial institutions to provide a Moratorium – a legal authorization to debtors to postpone loan payments. This offered great relief for businesses.

However, it is important to observe, that MSMEs have varying and heterogeneous access to capital and funding. Despite various measures to target and provide financial inclusion for MSMEs by government, private sector and civil society, MSMEs remain significantly underserved by financial institutions. As such, there remains many MSMEs who could not or did not bene-

fit from moratoriums. 18% of the MSMEs in the survey highlighted that as recourse to the impact of the pandemic to their businesses, they had to negotiate with creditors such as banks and suppliers. 42% of the respondents reached out to other entities for support to mitigate the effect of the pandemic on their businesses. Many of them faced barriers to receiving support including requirements on registration, high interest rates on credit facilities, lack of collateral, poor comprehension of their business models on the part of creditors. Some of their responses are below.

"We reached out to KIE for a loan but were unable to get a title deed which is a mandatory requirement to secure the loan. We also reached out to the Kenya National Chamber of Commerce for loans but one is expected to be their member to access loans"

"I visited Jamii bora bank for a loan but they gave me a condition that I should register the business first. We reached out to Ministry of Agriculture for more information on how to maneuver, they advised us to try improved breeds which have turned out to be better and we've realized improved income"

"Many financial institutions did not understand the business of tanning fish leather and were therefore not willing to finance. Cooperative Bank recently gave the business an offer for a loan but the interest rate is high and would take away most of the profit"



“

Remedial measures taken by enterprises included retrenchment of staff, diversification of business, exploration of alternative marketing strategies, and negotiation for financing among others.

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The pandemic also provided the thrust towards “contactless” methods of providing goods and services and receiving payment with many businesses offering online shopping, delivery and payment options thus opening up of the digital space to many traditional brick and mortar enterprises. This was also reflected in the survey with 16% of the respondents indicating the use of mobile money payment options as a remedy measure for the impact of COVID-19 on business.

In summary, all enterprises surveyed faced various challenges including reduction of customers, low sales, market closures, movement restrictions, supply chain disruptions, cash flow problems including loss of capital. Remedial measures taken by enterprises included retrenchment of staff, diversification of business, exploration of alternative marketing strategies, and negotiation for financing among others. A few resorted to innovations such as availing incentives to attract customers

and digitalizing some services. Top 3 needs for support identified by MSMEs were; access to finance; access to market; training and capacity building. The provision, construction, renovation of business sheds including allocation of parcels of land for business were highly ranked as positive interventions by the Government.

Support desired by MSMEs for continuity of business-
The top five support needs mentioned by MSMEs in response to the pandemic were financial interventions (84.6%); market interventions (40.2%); training and capacity building (36.7%); Technological interventions (28.8%) and government interventions (28.4%). The desired Government support included providing policies that will result in tax relief, subsidies, negotiation for debt and direct financing by the Government.

The desired Government support included providing policies that will result in tax relief, subsidies, negotiation for debt and direct financing by the Government. Many MSMEs decried the lack of support for their businesses during the pandemic. Access to credit facilities and access to markets were a challenge to the MSMEs. Stakeholders may consider providing customized and sector specific support which may include capacity building on necessary business survival skills, legal awareness and product or service diversification.



A business displaying flip flops in a Machakos Juakali site



Support/intervention required to ensure continuity, survival and success of business

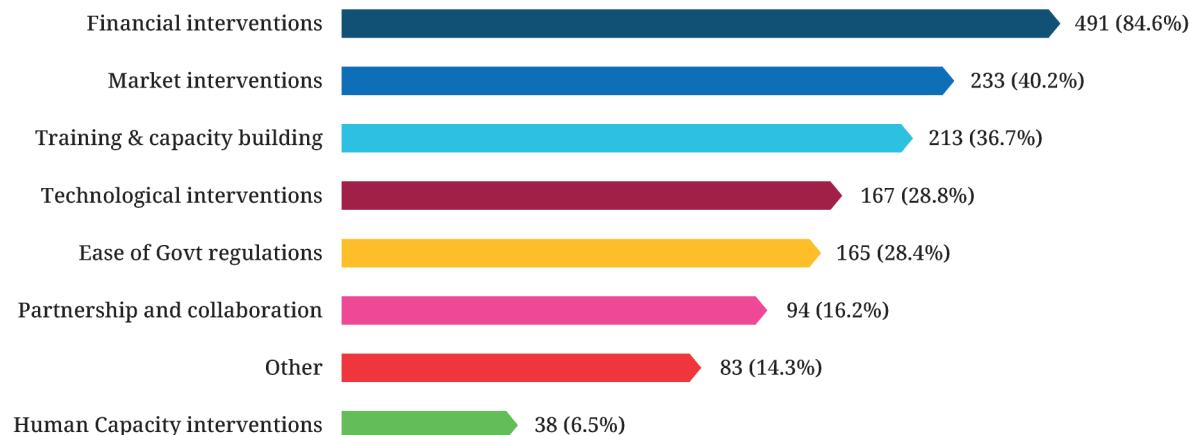


Figure 22: Kind of support MSMEs require to survive and thrive

Representation of preferred government interventions by MSMEs

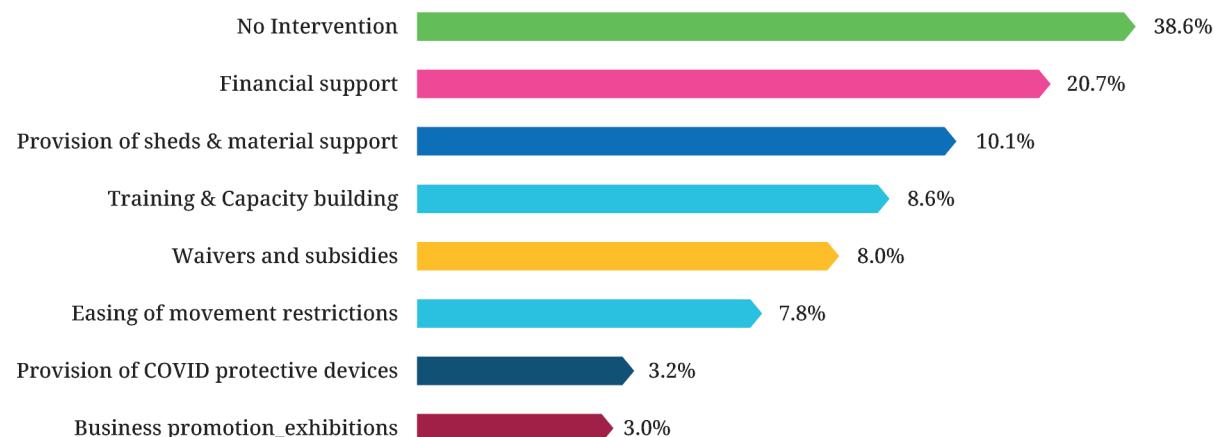
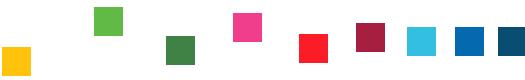


Figure 23: Most beneficial government interventions



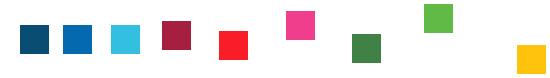
MSMEs and Adoption of Digital Technology

The survey also captured information relevant to understanding the digital preparedness of MSMEs. COVID-19 has provided impetus towards digital technology adoption, integration and reliance. While the immediate benefits of digital interventions may vary between sectors and firms, adoption of digital solutions can help MSMEs in areas such as: logistics, finance, marketing and advertising, customer engagement and business management. The survey therefore looked at the development and maturity levels of MSMEs with regard to adoption and engagement of digital technology. It also captured data and information on the gaps existing to support the digitalization of MSMEs.



Digitalization means the use of digital technologies and of data in order to create revenue, improve business, replace or transform business processes and create an environment for digital business, where digital information is at the core. Digital transformation in its broader context refers not only to technology but includes other business aspects such as those related to organization and leadership. Many businesses still look at digitalization primarily to invest in new

technologies (Accenture 2014). However, the whole enterprise must change to be able to realize the advantages of digitalization. Digital maturity refers to how companies adapt to operate successfully in a world that becomes increasingly digital and goes beyond the mere introduction of new technology, it also takes into account culture, policy, workforce, technology as well as digital demands of customers, employees and suppliers (Kane, Palmer, Nguyen-Phillips, et al. 2017).



Digital technology was identified as an enabler for marketing interventions. The use of tools such as social media, e-commerce platforms and website may support MSMEs to access wider markets. This is an area to consider capacity building and investment in. The majority of MSMEs are at the lowest level of digital maturity. MSMEs higher digital maturity had lower levels of negative impact on income.

Digital technology was needed for marketing products and services, development of products and services, procurement, financial management and customer care. For digital transformation, enterprises overwhelmingly needed skills development, technical and material support.





Representation of most commonly used digital platforms by MSMEs

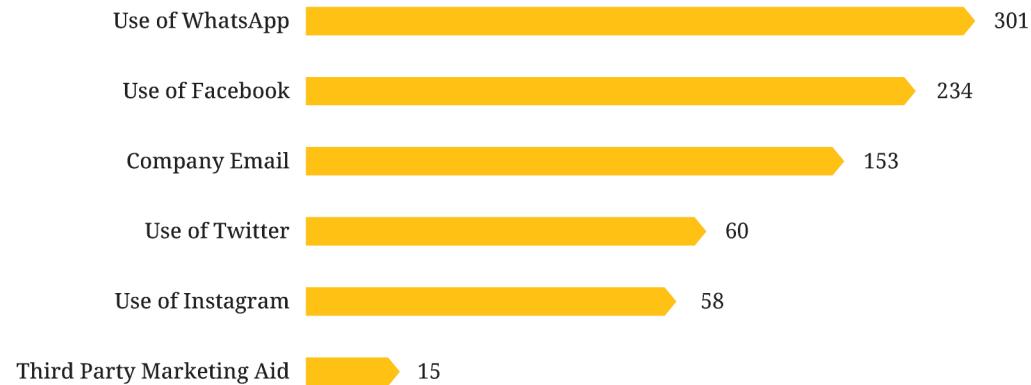


Figure 24: MSMEs that use common digital platforms 19



Representation of website functions by MSMEs



Figure 25: Possession of a company website

**Table 2: Classification of digital maturity of enterprises**

PARAMETER	NASCENT	EXPERIMENTING	EMERGING	ENABLED
Digital awareness	<ul style="list-style-type: none"> Low comfort and trust in digital tools limited willingness to use in the future. 	<ul style="list-style-type: none"> Use of digital tools is somewhat limited but there is openness to exploring new tools. 	<ul style="list-style-type: none"> High levels of comfort and trust in digital for certain use cases. May need support in more complex use. 	<ul style="list-style-type: none"> Digitally savvy and willingness to try new and more advanced digital tools
Financial and business readiness	<ul style="list-style-type: none"> All transactions happen face to face with a branch staff and/or agent. Mental accounting used for business management. 	<ul style="list-style-type: none"> Engaging in simple (information only) transactions, such as opting into SMS from the FSP. May leverage offline (paper-based solutions) to manage and market business. 	<ul style="list-style-type: none"> Engaging in both push and pull transactions from the bank (such as checking a bank balance). Leverages offline (paper-based solutions) to manage with some digital experimentation. 	<ul style="list-style-type: none"> Engaging in a range of transactions with limited / no human touch. May use some digital tools to manage their business.
Micro-enablers	<ul style="list-style-type: none"> Shared access to a feature phone or smartphone (no solely owned phone) 	<ul style="list-style-type: none"> May have access to a personal device or shared among several household members 	<ul style="list-style-type: none"> Access to a personal smartphone device 	<ul style="list-style-type: none"> Access to several personal devices (e.g. smartphone and laptop computer or tablet)

Digital segregation of SMEs by size of enterprise

Digital maturity	Micro Enterprises		Small Enterprises		Medium Enterprises	
	N	%	N	%	N	%
NASCENT	360	62.0%	64	11.0%	7	1.2%
EXPERIMENTING	55	9.5%	19	3.3%	8	1.4%
EMERGING	23	4.0%	9	1.6%	4	0.7%
ENABLED	24	4.1%	4	0.7%	3	0.5%

Table 3: Digital segregation of SMEs by size of enterprise

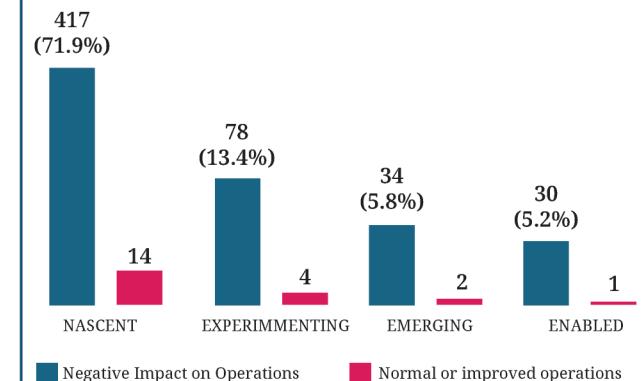
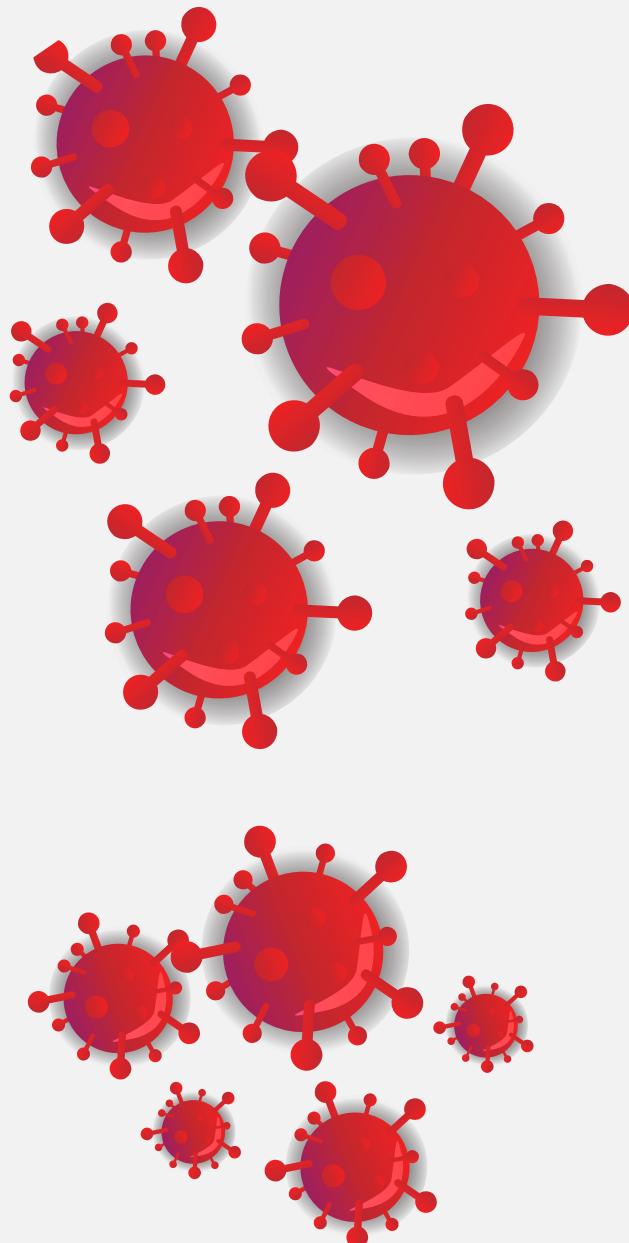
Relationship between impact of COVID-19 on operations by digital maturity of MSMEs

Figure 3: Membership of MSMEs in Associations



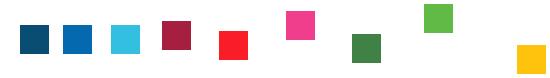
CHAPTER EIGHT

Conclusions, Insights & Recommendations

COVID-19 has had devastating effects on the world of business and particularly for Micro, Small and Medium enterprises (MSMEs). MSMEs play a big role in Kenya's economy. This study was able to yield critical insights into the impact of the pandemic on MSMEs and offer data that could inform engagement with the sector towards resilience and recovery.

Findings from this report show that many MSMEs in Kenya were adversely affected by the pandemic with 1 out of every 10 enterprises surveyed indicating a shutdown of their businesses as a result of the pandemic. Micro enterprises were most affected in comparison

to medium enterprises. Movement restrictions, lock down and enforcement of social distancing measures had significant impact on MSMEs. Disruptions of supply and demand for raw materials both locally and internationally also influenced the ability of MSMEs to continue with business. Remedial measures taken by many enterprises included retrenchment of staff, diversification of business, exploration of alternative marketing strategies, and negotiation for financing among others. The logistical challenges of managing stock suggest an opportunity for innovation and investment in local manufacturing and supply chains by both the private and public sector.



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Further, efforts need to be made support business creation and continuity among the youth by making it easy to access information, support and capital.

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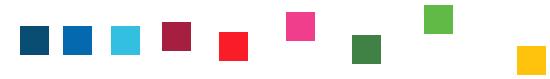
Digital technology was identified as an enabler for business resilience. MSMEs higher digital maturity reflected lower levels of negative impact on income. Digital technology was needed for marketing products and services, development of products and services, procurement, financial management and customer care. The use of tools such as social media, e-commerce platforms and website may support MSMEs to access wider markets. This is an area to consider capacity building and investment in. While recognizing the potential in adoption of digital technology of MSMEs it

was clear that the level of maturity may indicate aptitude, interest, applicability or utility of digital technology for some MSMEs. It may be worthwhile to consider context and need specific capacity building for digital skills. Digital technology should not be viewed as a one size fits all solution. Certain businesses and sectors may see more benefits from engaging with digital technology than others and as such it is important to weigh in not only on the digital awareness of MSMEs but the role that digital technology may serve for businesses.

43.6% of the MSMEs did not have their businesses registered with reasons offered for this being lack of information on the benefits and process of registration. This contributes to the informality of many MSMEs. While there was no apparent relationship between registration of businesses and the impact of COVID-19, it is worthwhile to address the information gaps communicated by the MSMEs. The ease of registration processes as well as information on the benefits of registration are factors for the Government to consider in facilitating MSME formalization.



A small Business dealing with dressmaking in Vipingo



Further, Government and Government agencies may consider increasing ease of access to information and services relevant to MSMEs such as information on opportunities, information on waivers, subsidies and business legal requirements and, opportunities for capacity building. Factors such as channels of communication as well as language and content will play a great role in enhancing reach to MSMEs with considerations made to factor in MSMEs in hard to reach areas, MSMEs run and led by persons with disability and MSMEs in low income areas.

MSME Associations also offer an opportunity for awareness raising as 30.7% of the enterprises were members of an association but not registered. 12.9% of all enterprises were neither members of association nor registered. The proportion of enterprises with membership in associations increased with size of enterprises. Enterprises in the manufacturing sector had the highest affiliation with associations. There was no relationship between membership to an association and impact of COVID-19. Nevertheless, there is an untapped opportunity for associations to offer more value for MSMEs in terms of capacity buildings and facilitation of networks for marketing, financing and skills building among others. From the survey 65.6% of the enterprises were sole proprietorships and as such at risk from single owner or founder related challenges,

associations can therefore play a role for such businesses by offering support such as mentorship, welfare support and negotiated access to services such as insurance and credit.

Access to financial support was a major challenge for MSMEs. Many of the MSMEs interviewed expressed frustration at not having access to support be it financial or information related. MSMEs remain significantly underserved by financial institutions. As such, there remains many MSMEs who could not or did not benefit from moratoriums or credit leniency. 18% of the MSMEs in the survey highlighted that as recourse to the impact of the pandemic to their businesses, they had to negotiate with creditors such as banks and suppliers. Many of them faced barriers to receiving support including high interest rates on credit facilities, lack of collateral, poor comprehension of their business models on the part of creditors. While there have been considerable efforts to cater to MSMEs by many financial institutions, financial inclusion and access to credit and financial services still remains a challenge. It is important for financial institutions, suppliers and creditors, to consider providing customized and sector-specific support that considers different and diverse user experiences and competencies of MSMEs. An inclusive approach should be adopted within the sector in the design, marketing and production of financial products and services.

MSMEs are the largest employer of the youth, a fact corroborated by the survey as total of 85.5% of enterprises surveyed had youth between the age of 18-35 in their employment. However, youth leadership of MSMEs remains a challenge meaning that more support is needed to nurture and foster youth leadership through mentorship, apprenticeship and leadership development. Further, efforts need to be made support business creation and continuity among the youth by making it easy to access information, support and capital.

Finally, development partners, Government agencies and sector associations will find this assessment useful for learning, programming and development of strategies. It will help policymakers diagnose problems in MSME capacities as well as their environment, and craft appropriate policies to address these issues.

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