



Impact of COVID-19 on Kenyan MSMEs

Strategies for Resilience and Recovery

ACKNOWLEDGEMENTS

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The UNDP Country programmes are delivered in consultation and partnership with a broad range of stakeholders including the Government of Kenya, civil society organizations, independent bodies, development partners and other UN agencies.

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The Accelerator Lab is tasked with exploring new data, partnerships and trends, mapping solutions and testing prototypes and hypothesis with the objective of using this experiential way of learning to scale and grow local solutions to global and national challenges.

MICRO AND SMALL ENTERPRISE AUTHORITY (MSEA)

The Micro and Small Enterprise Authority (MSEA) is a state corporation established under the Micro and Small Enterprise Act No. 55 of 2012. The Act was developed through a stakeholder's consultation process which took several years. The Authority is now domiciled in the Ministry of Industrialization, Trade and Enterprise.

The Act gives the Authority the mandate to formulate and coordinate policies that will facilitate the integration and harmonization of various public and private sector initiatives, for the promotion, development and regulation of the Micro and Small Enterprises to become key industries of tomorrow.

By creating the Micro and Small Enterprise Authority within the Ministry of Industrialization, Trade and Enterprise, the Government sets out to formulate and coordinate policies that will facilitate the integration and harmonization of various public and private sector initiatives, for the promotion, development and regulation of the Micro and Small Enterprises to become key Industries for the future (MSEA 2013).



FOREWORD



The COVID-19 pandemic has been a defining force across the world. With devastating impact on health, jobs, businesses and lives, the pandemic has challenged the way many systems operate and exist and demanded shifts in how normalcy is perceived. The social and economic impact of this crisis have been profound and will continue to be so. COVID-19 has been exceptionally hard for the Micro Small and Medium-Sized Enterprises (MSME) sectors across the world.

MSMEs have limited access to information, credit and business support services to scale up or sustain their businesses. This has been further compounded by the COVID-19 pandemic. While many businesses have gravitated towards digital technology to maintain business operations with options such as virtual working and telecommuting, e-commerce and online shopping, many MSMEs have not had such lifelines and remain critically underserved by gaps and access to the financial and technology sectors. In 2020, MSEA and UNDP through the Accelerator Lab came together to establish the challenges experienced by MSMEs during the pandemic in a bid to support the development of MSME strategies and identify opportunities for recovery and resilience.

The partnership between UNDP Kenya and MSEA is part of a multi-pronged strategy to support the government’s response to the pandemic. The UN under the technical leadership of UNDP developed the Kenya COVID-19 Socio-Economic Response Plan and continues to provide technical and financial support towards the Government’s two-year Economic Recovery Strategy and the County COVID-19 Social-Economic Reengineering and Recovery Strategy. These strategies provide the socio-economic response to COVID-19 in Kenya based on five critical pillars: 1. health services and systems; 2. social protection and basic services; 3. protecting jobs and small and medium-sized enterprises, and the most vulnerable productive actors; 4. macroeconomic response and multilateral collaboration; and 5. social cohesion and community resilience.

This is anchored on the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) which provide a pathway for Kenya to “build forward better”.

MSMEs play a critical role in Kenya’s economic development and employment creation. The Kenya National Bureau of Statistics (KNBS) indicates that there are over 7.4 million MSMEs in the country, which employ approximately 14.9 million Kenyans in various sectors of the economy and contribute approximately 40% of the GDP. In addition, the MSMEs cover a wide range of activities in almost all sectors of the economy and therefore are a major engine of inclusive economic growth. They are an important element in the implementation of the SDGs particularly Goal 8 (Decent work and economic growth), Goal 1 (No poverty), Goal 10 (Reduced inequalities) and SDG 9 (industry, innovation and infrastructure.) Indeed, as the country continues to adapt and respond to the crisis posed by the pandemic, it is paramount to prioritize the needs and existing challenges for the MSME sector. The insights, data and recommendations from this report will inform new or existing areas of support for MSMEs and will be a critical knowledge source for programming and strategy across all sectors engaging with and supporting MSMEs in Kenya.

Walid Badawi
Resident Representative, UNDP Kenya

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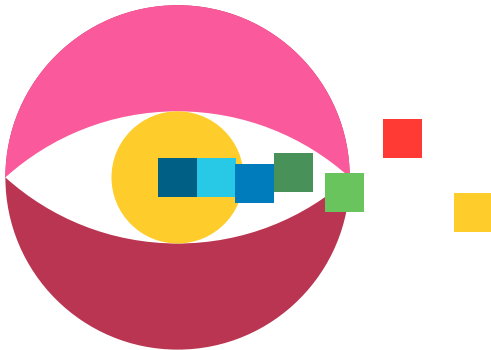
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ABBREVIATIONS & ACRONYMS

CPD	Country Programme Document
DT	Digital Transformation
GDP	Gross Domestic Product
GOK	Government of Kenya
ITC	International Trade Centre
KES	Kenya Shillings
KNBS	Kenya National Bureau of Statistics
MPI	Multidimensional Poverty Index
MSEA	Micro and Small Enterprise Authority
MSME	Micro, Small and Medium Enterprises
MVI	Multidimensional Vulnerability Index
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PWD	Persons with Disabilities
SME	Small and Medium Enterprises
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY



A total of 85.5% of enterprises had youth between the age of 18-35 years in their employment. Despite this, youth were largely excluded from positions of leadership as less than 15% of the MSMEs had youth in leadership.



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.

Micro, Small and Medium Enterprises (MSMEs) have been disproportionately impacted by the crisis, including loss of revenue owing to disruptions in supply chains, declining consumers and loss of labor. This is attributable to their size, liquidity, access to capital and proneness to informality which make them more vulnerable to extreme disturbances and economic shocks. Operating in the informal economy also makes MSMEs less likely to benefit from government and private sector initiatives, such as moratoriums, tax reliefs, emergency financial support and grants.

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. From the survey, it was observed



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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. 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 years 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.

Impact of COVID-19 on 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. There was a significant number of enterprises who attributed the closure of schools early on in the pandemic as cause for reduction of sales and operations. 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. There was an association between closure of business with women leadership as only 10.7% of women led enterprises and 9.7% of the PWD led enterprises were closed down. There was no association between youth leadership and closure of business. .

Impact of COVID-19 on 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 PWD led enterprises were more resilient against complete loss of income.

Challenges faced by Enterprises

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 digitize some services.

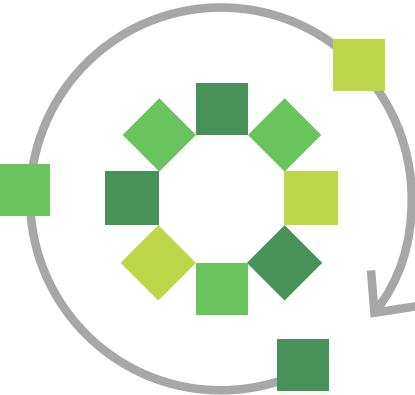
Support desired by MSMEs for continuity of business

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.

Digital Readiness

The study also explored the digital consciousness and maturity of MSMEs in a bid to establish the role that technology had and could potentially play in the sector. The study found below average digital awareness and low digital maturity among the MSMEs. Medium enterprises were somewhat more digitally mature than the smaller ones. There was a link between digital maturity and resilience against COVID-19. Enterprises desired digital support especially for advertising and marketing, e-commerce, training and capacity building, customer care and logistics.

“The study found that PWD led enterprises were more resilient during the pandemic.”



CHAPTER ONE

Introduction

1.1 Background

The Coronavirus 2019 (COVID-19) was first confirmed in Kenya in March 2020. Current evidence suggests that transmission of COVID-19 occurs primarily between people through direct, indirect, or close contact with infected secretions such as saliva and respiratory secretions, or through their respiratory droplets, which are expelled when an infected person coughs, sneezes, talks or sings. Indirect transmission occurs through interaction with surfaces or materials that have been contaminated by the virus. Measures to control and prevent COVID-19 transmission have included wearing of masks, washing of hands, sanitization with disinfectant and regulation of movement and social interaction within and without country borders. The COVID-19 pandemic has led to a dramatic loss of human life worldwide and presents an unprecedented challenge to public health, food systems and the world of work.

The pandemic has had a drastic impact on businesses and industries across the world with simultaneous disruptions to both supply and demand chains. The impact of COVID-19 on MSMEs in Kenya is of great importance and the economic disruptions on the sector has significant consequences to the national and global economy. Small and Medium Enterprises (SMEs) play a critical role in Kenya's economic development and employment creation. The Kenya National Bureau of Statistics (KNBS) indicates that there are over 7.4 million MSMEs in the country, which employ approximately 14.9 million Kenyans in various sectors of the economy and contribute approximately 40% of the GDP. In addition, the MSMEs cover a wide range of activities in almost all sectors of the economy and therefore are a major engine of inclusive economic growth.

Thus, the undertaking to assess the impact of COVID-19 on MSMEs would not only advise measures to support the resilience of MSMEs but also explore the gaps that impact on the development and adaptive capacity of the sector.

Livelihoods at risk as a result of the COVID-19 pandemic

Overview of MSMEs in Kenya

The classification of companies in Kenya is mainly determined by the number of workers hired by businesses and their turnover. The Micro and Small Enterprises Act (2012), defines:

- Micro enterprises as any company, exchange, service industry or business operation, formal or informal, with an annual turnover not exceeding KES 500,000 and 1-9 people employed (or rather engaged). The total assets and financial investment or the registered capital of the enterprise does not exceed KES 10 million in the manufacturing sector and does not exceed KES 5 million the service and farming sector.
- Small enterprises as those firms, trade, service, industry or business activities that post an annual turnover of between KES 500, 000 and KES 5 million and have an employee list of 10 to 50. In the manufacturing sector, investment in plant and machinery should be between KES 10 million and KES 50 million and registered capital of the enterprise between KES 5 million and KES 25 million in the service and farming sector.
- Medium enterprises comprise of those employing between 50 to 99 and with a turnover of between KES 5 million and 800 million (Kenya National Bureau of Statistics, 2016).

MSMEs and the COVID-19 Pandemic

Almost all sectors dominated by MSMEs have been impacted by the pandemic. From the survey, the most common sectors dominated by MSMEs were Manufacturing, Agriculture, Retail and Construction. The hospitality industry in Kenya for example, suffered various restrictions that impacted on businesses. In the onset of the pandemic, the Government called for restrictions on the number of customers to be served in an establishment at a time, later revising this to complete closure of hotels and restaurants. After some time, take out and deliveries were allowed for hotels and restaurant. This had significant impact on flow of stock for the businesses, for farmers and other suppliers. The Government had also called for closure of all schools which had a significant impact on MSMEs. Almost 10% of the respondents interviewed expressed a challenge related to the closure of schools. The Government did later advise the opening of schools in October 2020, with measures such as mask wearing and spacing of desks advised, the impact of the closure. Parents, teachers and students create a huge demand for books and school supplies, school uniform and garments, food and beverages, transport. Schools also rely on informal MSMEs for supply of artisanal material such as cookware, desks, chairs among others thereby impacting on multiple sectors. For example, one respondent

observed that the market for wool went down in part due to the closure of schools. Travel restrictions also had a huge impact on businesses. Measures such as closure of borders both intra-country and inter-county impacted on import and export of goods and services thus affecting the retail industry.

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. Lack of capital and funding is one of the leading constraints to SME growth. 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 benefit 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”

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.

Case for 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).

Statement of the problem

The COVID-19 pandemic is destined to be a watershed moment in human history, with the health, social and economic crises it has spawned calling into question the resilience of almost all aspects of our society. Many businesses across the world have experienced dire impact on their operations and this has had ripple effects on the economy. Efforts to support businesses must look at the most vulnerable of businesses which includes Micro, Small and Medium enterprises. The resilience and adaptive capacities of MSMEs greatly influence the economic development of the country.

In partnership with the Micro and Small Enterprise Authority in Kenya, the UNDP through the Accelerator Lab team conducted a survey to establish the impact of COVID-19 on Kenyan Micro, Small and Medium Enterprises (MSMEs) and their needs for recovery and sustenance.

1.2 Objectives of the Survey

The objective of the survey 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.

1.3 Study methodology

A cross-sectional semi-qualitative survey using online tools and telephone interviews was conducted involving 580 business spread countrywide. Participating MSMEs were drawn from 12 regions and 39 counties.

Data from the questionnaires was further strengthened by case studies conducted with respondents from UNDP, MSEA, Government Ministries and selected managers of Micro, Small and Medium Enterprises drawn from high and low COVID-19 prevalence counties. Quantitative

1.4 Limitations and considerations

The presented data was semi-quantitative thereby not allowing a purely quantitative analysis. A large number of variables required content analysis to derive themes that were used to categorize.

“

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

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