



**MINISTRY OF COOPERATIVES, MICRO, SMALL AND  
MEDIUM ENTERPRISES DEVELOPMENT**

**OFFICE OF THE CABINET SECRETARY**

**TALKING NOTES FOR HON. SIMON CHELUGUI, EGH, THE  
CABINET SECRETARY MINISTRY OF CO-OPERATIVES &  
MSMES DEVELOPMENT - FINANCIAL INCLUSION  
BREAKFAST MEETING, MARCH 10.**

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The Governor of the Central Bank of Kenya – Dr. Patrick Njoroge

Principal Secretaries Present

Chairpersons of various state and private agencies present

CEOs of various state and private agencies present

Distinguished Guests

Ladies and Gentlemen,

**Good Morning,**

It is indeed my privilege to address this important breakfast forum particularly on the Government's Initiatives for Inclusive Finance to Power MSMEs.

It is no doubt that MSMEs account for the vast majority of enterprises worldwide, making them significant contributors to job generation. A recent National Economic Survey report by the Central Bank of Kenya (CBK) indicates that MSMEs constitute **98%** of all business in Kenya, create 30% of the jobs annually as well as contribute **3%** of the GDP growth.

Additionally, the sector creates employment for **15 Million people** with a **value output of Kes. 3.3 trillion shillings**, making it a high priority segment in the realization of the Government's agenda for **bottom-up** economic transformation.

Given the significance of MSMEs as a source of employment, hurdles to accessing funding become obstacles to poverty reduction and economic progress. They are faced with two key financing obstacles: **accessibility** and **affordability**.

The Government of Kenya launched the **Hustler Fund** – a Flagship Programme of the Government's Manifesto that will go a long way in realizing **financial inclusion** for millions of Kenyans who would otherwise be excluded from the mainstream financial system.

The Fund was created to empower the people at the bottom of the pyramid, free low-income citizens from the bondage of loan sharks and provide them with the financial security they deserve.

The fund which is disbursed digitally will have four products that cater to

**Personal Finance, Micro (collectives), SMEs and startups** all of which will provide affordable credit at a **single digit interest rate**. Two products have so far been rolled out which are the Personal Finance Product and the Micro Loans.

The personal finance product which offers between **Ksh.500** and **Ksh.50,000** at an interest rate of 8% per annum has in over 3 months since its launch provided affordable credit to over **19 million** Kenyans with a total of over Ksh. **22billion (22,228,164,369)** disbursed.

It is impressive to note that the total repayment stands at over **Ksh.12Billion (Ksh.12,830,935,961)** representing over **57%**. The number of opt-ins **19,185,815** and repeat borrowers currently stands at over **6.5 million** Kenyans which signifies the relevance of the fund to the

ordinary citizen.

The Micro Enterprise Loan product which was launched by H.E The President last week offers targets micro business both at individual level and group/collective's level which will be channelled mainly through the digital platform and SACCos. This product offers between **Ksh. 10,000** and **Ksh.200,000** at an interest rate of **7%** per annum. There are over **359** SACCOs regulated under SASRA. The sector lending data from SASRA indicates an average of **12%** of the **670Billion** is to MSMEs while another **17%** is to agribusinesses.

This underscores the potential held in financing MSMEs with the right

policy support.

In order to enhance credit access for MSMEs who had been excluded through blacklisting by the Credit Referencing Bureau, The Hustler Fund has been remodeled around the Financial Grade in **credit scoring**.

This ensures gradual growth of credit access level as opposed to complete close out from the financial inclusion products.

In order to compliment the efforts of the Financial Inclusion Fund, there are various other Government Initiatives that offer Financing to specific sub-sectors of the MSME ecosystem.

The **Kenya Industrial Estates** provides affordable medium to long-term finance (of between Ksh.10,000 to Ksh.14 million) to MSMEs for the purchase of machinery, equipment and working capital, either for start-ups, expansion, modernization or rehabilitation focusing on priority sectors.

Through the **Uwezo fund**, women, youth and persons with disabilities are able to access finances to promote businesses and enterprises at the grassroot level (constituencies).

Additionally, through the **Youth Enterprise Development Fund** provides affordable credit to youth led businesses in order to mainstream their participation in economic growth.

In order to increase employment and earning opportunities for targeted youth, the Ministry through the **Micro and Small Enterprises Authority** has been implementing the **Kenya Youth Employment and Opportunities Project (KYEOP)** which provides targeted youth with start-up grants to start and grow their business.

Despite the Government's multipronged interventions to foster financial inclusion through strong partnerships with financial institutions, traditional bank credit products are still out of reach for many MSMEs due to their **perceived “high risk” profile**. This perceived risk locks out hundreds of thousands of MSMEs who, across all stages of their life cycle, require access to appropriate sources of financing for their survival and growth.

Additionally, most of them are **informal**—meaning they are not formally registered as businesses—and this makes it difficult for them to access financing.

**Alternative lenders**, such as shylocks or digital/mobile lenders offer **collateral-free loans** making them attractive to borrowers looking for quick cash, and who are often locked out by banks due to prerequisites such as account history/collateral.

While these credit products are easily accessible, it has led to borrowing from multiple apps resulting in **debt distress** and the **reduction of credit scores** — affecting the borrowers' ability to obtain credit from banks in future. Such products charge interest rates as high as **10% per day** thereby adversely affecting the liquidity of the borrowers.

One approach to solving the obstacles of accessibility and affordability of credit is **blended finance** leveraging of the private sector and development partners.

The capital markets, through a full range of instruments including - debt and equity, have the opportunity to offer alternatives for MSMEs with a higher risk profile seeking flexible form and conditions beyond traditional bank financing.

The alternative finance models the capital markets can explore for 'Perceived high risk' MSMEs include **business angel investments, crowd-funding platforms, venture capital** as well as **public equity**. I challenge MSMEs to explore such alternative financing options.

There is also a need to enhance MSME **capacity building** not only on financial literacy but also capital markets in order to mainstream their participation.

Finally, there is a need to Promote policies that support access to financing instruments for MSMEs as well as Create risk sharing/ risk mitigation strategies for high risk MSMEs seeking financing.

I look forward to rich and insightful discussions during this forum on enhancing financial inclusivity of MSMEs by exploring practical and sustainable solutions to the challenges that inhibit their participation.

**Thank you and God bless you all.**