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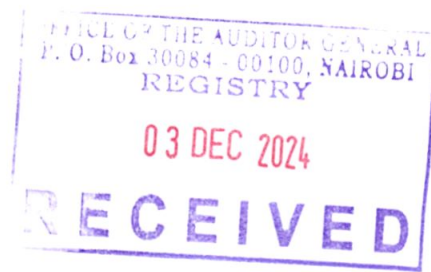
THE AUDITOR-GENERAL

ON

STATE DEPARTMENT FOR MICRO, SMALL  
AND MEDIUM ENTERPRISES (MSMED)  
DEVELOPMENT

FOR THE YEAR ENDED  
30 JUNE, 2024





*Revised Template 30<sup>th</sup> June 2024*



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

**STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM  
ENTERPRISES (MSME) DEVELOPMENT**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2024**

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Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector  
Accounting Standards (IPSAS)

**MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES(MSME) DEVELOPMENT**  
**STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT**  
*Annual Report and Financial Statements for the year ended 30th June 2024*

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## **Table of Contents**

1. Acronym and Glossary of Terms .....	iv
2. Key Entity Information and Management .....	v
3. Statement of Governance .....	xv
4. Statement by the Cabinet Secretary Statement .....	xxiv
5. Statement by the Principal Secretary .....	xxv
3. Highlight key risk management strategies .....	xxxvii
4. Implementation Challenges .....	xxxvii
6. Statement of Performance Against Predetermined Objectives for the FY2023/24 .....	xli
7. Management Discussion and Analysis .....	lx
8. Environmental and Sustainability Reporting .....	lxii
9. Statement of Management Responsibilities .....	lxix
10. Report of the Independent Auditors of the Financial Statements for the State Department for Micro, Small and Medium Enterprises Development .....	lxxii
11. Statement of Receipts and Payments for the Year ended 30 <sup>th</sup> June 2024 .....	1
12. Statement Of Financial Assets And Financial Liabilities As At 30 <sup>th</sup> June 2024 .....	2
13. Statement of Cash Flows For The Year Ended 30 <sup>th</sup> June 2024 .....	3
14. Statement of Comparison of Budget and Actual Amounts for FY2023/24 .....	5
15. Notes to the Financial Statements .....	12
16. Annexes .....	37
17. Appendices .....	41

## **1. Acronym and Glossary of Terms**

AGPO	Access to Government Procurement Opportunities
AIE	Authority to Incur Expenditure
BETA	Bottom-Up Economic Transformation Agenda
CFO	Chief Finance Officer
CIDCs	Constituency Industrial Development Centres
FIF	Financial Inclusion Fund
HAU	Head of Accounting Unit
IPSAS	International Public Sector Accounting Standards
KIBT	Kenya Institute of Business Training
KIE	Kenya Industrial Estate
MSE	Micro and Small Enterprises
MSEA	Micro and Small Enterprises Authority
MSMEs	Micro, Small and Medium Enterprise Development
MTB	Medium-Term Budget
OAG	Office of the Auditor General
OCOB	Office of the Controller of Budget
PFM	Public Finance Management
SAGA	Semi- Autonomous Government Agencies
SDG	Sustainable Development Goals
YEDF	Youth Enterprise Development Fund

## 2. Key Entity Information and Management

### (a) Background information

The State Department for Micro, Small and Medium Enterprises Development was created through the Executive Order No. 1 of 2022 following the re-organization of Government after the August 2022 elections. At cabinet level, the State Department for Micro, Small and Medium Enterprise Development is represented by the Cabinet Secretary for Co-operatives and Micro, Small and Medium Enterprise Development, who is responsible for the general policy and strategic direction of the Ministry.

The State Department is charged with the responsibility of promotion and development of MSME sector through entrepreneurship and management training. MSMEs play a pivotal role in Kenya's economy contributing to over 90 per cent of total labour force.

#### **Who are MSMEs -Definition of Micro, Small and Medium Enterprise**

The definition of MSMEs set out under the Micro and Small Enterprises Act (2012) [MSEA Act 2012], and the Public Finance Management (Amendment) Act, (No. 2) of 2020. Under the MSEA Act, MSMEs are classified by either their **annual turnover**, **the number of employees engaged** or by their **total financial investment**.

**The specific definitions for each category are as follows: •**

- i) **Micro enterprise** – any firm with an annual turnover not exceeding Ksh.500,000 and employing (or rather engaging) 1-9 people. The total assets and financial investment or the registered capital of the enterprise does not exceed Ksh.10 million in the manufacturing sector and does not exceed Ksh.5 million in the service and farming sector.
- ii) **Small enterprises** – Any firm with an annual turnover of between Ksh.500,000 and Ksh.5 million and engaging 10-49 employees. In the manufacturing sector, investment in plant and machinery should be between Ksh.10 million and Ksh.50 million and registered capital of the enterprise between Ksh.5 million and Ksh.25 million in the service and farming sector.
- iii) **Medium enterprises** – Any firm with an annual turnover of between Ksh.5 – 100 million and engaging between 50-250 employees; in the manufacturing sector, total assets and investment in plant and machinery or the registered capital of the enterprise does not exceed Ksh.250 million; in

the service and agricultural sectors, investment in equipment or registered capital of the enterprise does not exceed Ksh.125 million.

### **Vision and Mission of the State Department**

#### **Vision**

A technologically advanced, highly productive, diversified, and competitive MSMEs sector for a globally competitive economy.

#### **Mission Statement**

To create an integrated enabling environment for a highly productive and diversified MSMEs Sector through financing, incubation and entrepreneurship management and training for wealth and employment creation.

#### **Strategic Goals/Objectives of the State Department**

The Strategic Objectives of the State Department include:

- i. To facilitate growth and development of the MSMEs.
- ii. To promote progressive credit policies and practices for MSMEs.
- iii. To promote market development for MSME products and services.
- iv. To promote entrepreneurial skills and business management.
- v. To enhance business innovation and incubation for MSMEs; and
- vi. To promote a saving culture for MSMEs.

#### **The Mandate Core Functions**

The mandate of the State Department includes:

- i. SME Policy.
- ii. Develop SME Financing Policy to facilitate adequate flow of credit from financial institutions.
- iii. Administration of the “Hustler Fund” for the promotion, development and enhancing competitiveness of MSMEs.
- iv. Capacity Development for Entrepreneurship including access to modern management practices.
- v. Support for technology upgradation and modernization.

- vi. Establishment of integrated infrastructural facilities.
- vii. Promotion and Development of Micro and Small Enterprise and enhance their competitiveness.
- viii. Promote Progressive credit policies and practices targeting MSMEs.
- ix. Business Innovation and Incubation.
- x. Administer Preference in Government procurements to products and services of the MSMEs.
- xi. Champion subcontracting arrangements between SMEs and Large Enterprises.
- xii. Market development for MSME products and services (access to domestic and export markets).
- xiii. Support for product development, design intervention and packaging.
- xiv. Promotion of establishment of Production clusters;
- xv. Promotion and Development of the Cottage Industry

**(b) Key Management**

The State Department executes part of its mandate through the following five (5) Parastatals/SAGAs and one department:

State Department for Micro, Small and Medium Enterprise Development Institutions has five (5) Semi-Autonomous Government Agencies (SAGAs).

1. Kenya Industrial Estates (Companies Act, Cap. 486).
2. Micro and Small Enterprise Authority (Micro and Small Enterprises Act, No. 55 of 2012).
3. Hustler Fund (Micro and Small Enterprises Act, No. 55 of 2012) and Public Finance Management Act, No. 18 of 2012.
4. Uwezo Fund (Public Finance Management Act, No. 18 of 2012).
5. Youth Enterprise Development Fund (Youth Enterprise Fund Board Order, of 2007).
6. Kenya Institute of Business Training (KIBT).

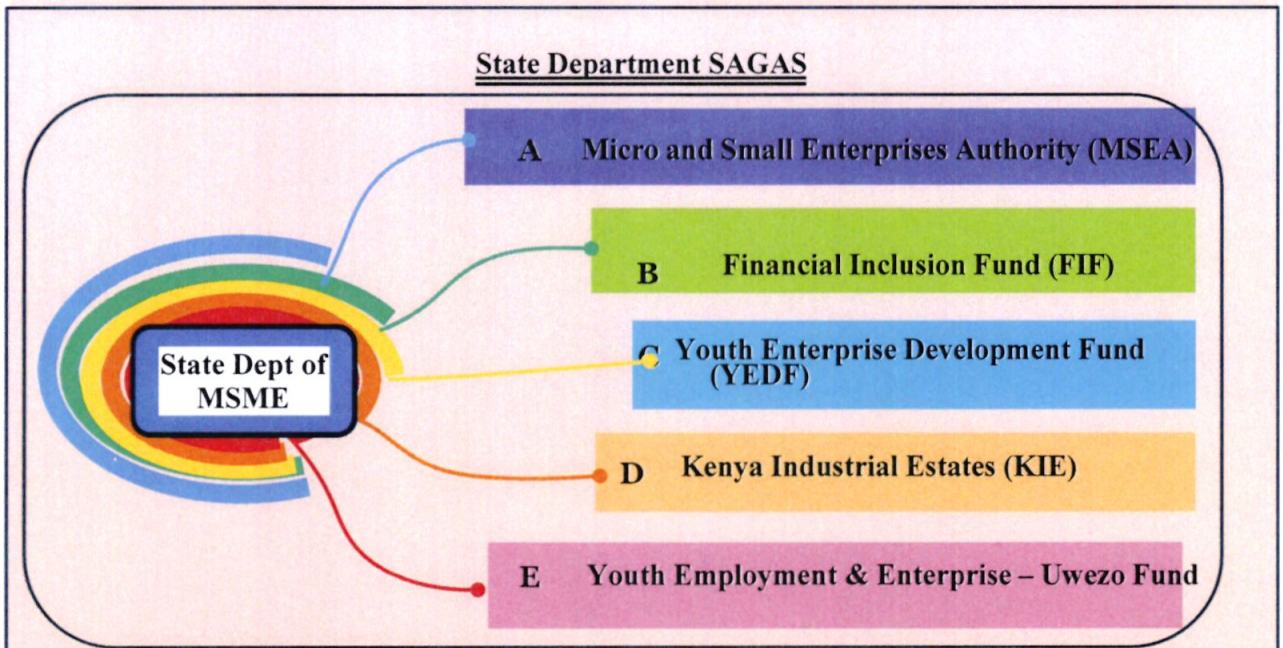
**MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES(MSME)  
DEVELOPMENT  
STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES  
(MSME) DEVELOPMENT.  
Annual Report and Financial Statements for the year ended 30th June 2024**

The State Department's day-to-day management is under the following key organs with various mandates and objectives.

<b>Department</b>	<b>Establishment</b>	<b>Mandate/Aim</b>
<b>Micro and Small Enterprises Authority (MSEA)</b>	Micro and Small Enterprises (MSE) Act No. 55 of 2012 section 29(1).	The Act mandates MSEA to promote, develop, and regulate the MSE sector. 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 robust industries.
<b>Kenya Industrial Estates (KIE)</b>	Kenya Industrial Estates (Companies Act, Cap. 486)	The Kenya Industrial Estates was established by the government of Kenya in 1967 with a mandate to promote Small and Medium Industries with focus on Rural Industrialization. Further, it is mandated to provide finances, workspace, Business Development Services (BDS) and promotion of subcontracting linkages to Micro, Small and Medium Industries.
<b>Uwezo Fund</b>	Uwezo Fund (Public Finance Management Act, No. 18 of 2012). established vide legal notice No. 21 of 21st February 2014	UWEZO Fund is a flagship programme for Vision 2030 established vide legal notice No. 21 of 21st February 2014 aimed at enabling women, youth and persons with disabilities access finances to promote businesses and enterprises at the constituency level, thereby enhancing economic growth towards the realization of the same and the Sustainable Development Goals No. 1 (eradicate extreme poverty and hunger) and 3 (promote gender equality and empower women). The Fund is highly devolved and adopted the concept of bottom-up approach with decision making done at the grass-root level.

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES(MSME)  
DEVELOPMENT  
STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES  
(MSME) DEVELOPMENT.  
Annual Report and Financial Statements for the year ended 30th June 2024

Department	Establishment	Mandate/Aim
<b>Youth Enterprise Development Fund (YEDF)</b>	Youth Enterprise Fund Board Order, of 2007 through the legal Notice No. 63/2007	The Youth Enterprise Development Fund (YEDF) was established in 2007 through the legal Notice No. 63/2007. The main purpose of the Fund is to reduce unemployment among the youth through enterprise development. The functions of the Fund include:
<b>Financial Inclusion Fund</b>	Public Finance Management Act, No. 18 of 2012 The Public Finance Management (Financial Inclusion Fund Regulation 2022. Kenya Gazette Supp No. 190.	The object and purpose of the Fund shall be to innovate, develop and deploy bottom of the pyramid financial services and products that are affordable, accessible, and appropriate for the unserved and under-served persons, including credit, saving, insurance and investment products.
<b>Kenya Institute of Business Training (KIBT)</b>	The Institute was established in 1966 with the assistance of ILO/UNDP under the name Management Training and Advisory Centre (M.T & A.C).	The objective of the Centre was to train and develop indigenous managers and entrepreneurs in practical management and business skills. The Mandate of the institute is to provide Business & Management Development Services to MSMEs and other Interest Groups and to provide Counselling, Extension Services and Business Information for improved performance.



**Role of MSEA and the Funds**

	<p><b>Micro and Small Enterprise Authority</b>                      The Authority was established for the purpose of promoting, developing, and <b>regulating</b> the Micro and Small Enterprises sector.</p>
	<p><b>Youth Enterprise Development Fund</b>                      Provides loans to <b>youth owned enterprises</b>. market to youth enterprises, develop linkages with large enterprises, provide trading premises and worksites, business development services to youth owned enterprises and Facilitate youth to obtain jobs abroad.</p>
	<p><b>Financial Inclusion Fund</b>                      The object and purpose of the Fund shall be to innovate, develop and deploy bottom of the pyramid financial services and <b>products that are affordable</b>, accessible, and appropriate for the unserved and underserved persons, including credit, saving, insurance and investment products.</p>
	<p><b>Uwezo Fund</b>                      The objective is to expand access to finances for the youth, women, and persons with disabilities at the <b>constituency level</b> for businesses and enterprises development, generate gainful self- employment for the youth and women.</p>

**(c) Fiduciary Management**

The key management personnel who held office during the period ended June 2024 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Cabinet Secretary, Ministry of Co-operatives, Micro, Small and Medium Enterprise Development	Hon. Wycliffe Ambetsa Oparanya, FCPA, EGH
2	Principal Secretary, State Department for Micro, Small and Medium Enterprise Development	PS Susan Mange'ni
3	Director Administration	Mr. James Ntabo
4	Senior Deputy Accountant General	Mr. Stephen Amon Gakang'a
5	Deputy Director Supply Chain Management	Mr, Julius Ngari Githu
6	Director Human Resource Management	Mr. Charles Ahenda
7	Chief Finance Officer	Mr. Robert Osano
8.	Ag. Director Kenya Institute of Business Training	Mr Patrick Nyakundi

## **(d) Fiduciary Oversight Arrangements**

### **I. Audit and Finance Committee Committees activities**

The main purpose of this Committee is to provide oversight of the financial reporting process, the audit process, the department's internal controls and compliance with laws and regulations. They provide an independent expert assessment of the activities of top management, the quality of the risk management, financial reporting, financial management and internal audit.

### **II. Audit and Finance**

#### **I. Budget Implementation Committee**

This is the committee charged with the responsibility of implementation of the State Department's budget and its prudent management. The duties of the committee will include:

- To review and consider the cash flow plans.
- To review utilization of the cash limits and consider any changes that may be required.
- To review the utilization of the donor funds voted for the State Department.
- To advise the Accounting Officer on the challenges related to the budget implementation.
- To review and recommend the reallocation of funds.
- To review and approve the submission of the payment returns, payroll IPPD, pending bills and A-I-A returns for the State Department and recommend actions to be taken.
- To participate in sector working groups.
- To review budgets, supplementary estimates and performance of budget against actual for the State Department in consultation with Heads of Departments.
- **Note:** During the period under review the State Department appointed members of the Committee.

**(a) Entity Headquarters**

**State Department for Micro, Small and Medium Enterprise Development  
Headquarters**

P.O. Box 3547-00100  
Social Security  
House, Bishop Road  
Capitol Hill  
NAIROBI, KENYA

**Entity Contacts**

**State Department for Micro, Small and Medium Enterprise Development  
Headquarters**

Telephone No. +254-0704097021/23.07884840/41  
Email: [ps@msme.go.ke](mailto:ps@msme.go.ke) Website: [www.msme.go.ke](http://www.msme.go.ke)

**(b) Entity Bankers (all banks)**

1. Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
NAIROBI, KENYA

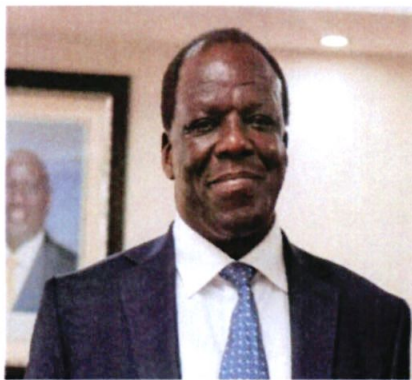
**(c) Independent Auditors**

Auditor - General  
Office of The Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
NAIROBI, KENYA

**(d) Principal Legal Adviser**

The Attorney General  
State Law Office & Department for Justice.  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

### 3. Statement of Governance



**Cabinet Secretary**

**CABINET SECRETARY-HON FCPA WYCLIFFE A. OPARANYA, EGH**

**Hon. FCPA Wycliffe A. Oparanya, EGH** is the Cabinet Secretary, Ministry of Co-operatives, and Micro, Small and Medium Enterprises Development. He holds a master's degree (MSc) In Finance, Investment & Strategic Management, and Bachelor of Commerce Degree from the University of Nairobi, Kenya. He has also been extensively trained in Corporate Governance. He has over twenty-five years of work experience in corporate governance, Policy Formulation among others He has worked directly with different Government institutions.



**Principal Secretary**

**PRINCIPAL SECRETARY-HON SUSAN MANG'ENI**

**Hon. Susan Auma Mang'eni** is the Principal Secretary of Micro Small and Medium Enterprises Development. Hon. Susan Mang'eni holds an MA in Entrepreneurship Development and a BA in Political Science and Public Administration both from the University of Nairobi. She is also, an alumna of the 2011 International Visitors Leadership Programme (IVLP) a US State department Exchange programme. She is a network member of the Mandela Institute for Development Studies. She is a governance and development expert with close to 15 years' experience in both the private and public sectors.

	<p><b><u>CPA STEPHEN GAKANG'A- HEAD OF ACCOUNTING UNIT</u></b></p>
	<p><b><u>MR. JULIUS NGARI GITHU HEAD OF PROCUREMENT</u></b></p> <p>Mr Stephen Gakang'a is the Head of the Accounting Unit and Deputy Accountant General in the State Department for Micro, Small and Medium Enterprises Development. He holds a Bachelor of Commerce. He is incharge of accounting and financial reporting. He is a CPA(K) finalist and a member of the Institute of Certified Public Accountants, Kenya (ICPAK).</p> <p>Mr Julius Ngari is the Deputy Director Supply Chain Management Service at the State Department for Micro, Small and Medium Enterprises (MSME). He has worked in the Civil Service for 19 years since 2004 in the procurement section. He holder of Bachelor of Arts (Economics) from University of Nairobi, Holder of Master of Science (Procurement and Logistics) from Jomo Kenyatta University of Agriculture and Technology (JKUAT). Holds Certificate in Strategic Leadership Development Program (SLDP) and Certificate in Senior Management Course (SMC) from Kenya School of Government.</p>

	<p><b><u>MR HENRY M. RITHAA</u></b> <b><u>CHIEF EXECUTIVE OFFECER MICRO AND SMALL ENTERPRISES AUTHORITY (MSEA)</u></b></p> <p>Mr Rithaa is the Chief Executive Officer Micro and Small Enterprises Authority. He holds an MBA (Strategic Management), Master of Arts in Regional Integration and bachelor’s degree in finance. He is a Certified Risk Professional (GARP). He has worked in Banking, Micro Finance and Corporate Strategy for over 17 years both in private financial institutions and the Public Sector. He is a member of the Kenya Institute of Management (MKIM) and Secretary to the Board of Directors.</p>
	<p><b><u>MR JOSIAH ARABU MORIASI, CHIEF EXECUTIVE OFFICER YOUTH ENTERPRISE DEVELOPEMMENT FUND</u></b></p> <p>Mr. Josiah Arabu Moriasi is the Chief Executive Officer (CEO) of the Youth Enterprise Development Fund (YEDF). He holds a Master of Business Administration (MBA) degree with a specialization in Management and Finance from Kenyatta University, Bachelor of Arts in Economics and Mathematics from Egerton University and is currently pursuing a PhD in Business Administration. He has extensive experience in various fields.</p>
	<p><b><u>CPA. CHARLES MATIVO</u></b> <b><u>AG. MANAGING DIRECTOR</u></b> <b><u>KENYA INDUSTRIALESTATES (KIE)</u></b></p> <p>CPA. Charles Mativo is the acting Managing Director, Kenya Industrial Estates. He holds a Bachelor of Commerce degree from KCA University. He is a highly motivated and experienced finance and accounting professional with over 30 years’ experience with excellent analytical, conceptual and human skills. He is Proficient in Accounting Systems, Data analysis, Budget preparation and implementation, Strategy formulation, financial reporting and possess a track record in leading cross-functional teams to achieve organizational goals. He is a Certified Public Accountant CPA (K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).</p>

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES(MSME)  
DEVELOPMENT  
STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES  
(MSME) DEVELOPMENT.

*Annual Report and Financial Statements for the year ended 30th June 2024*



**MR PETER L. LENGAPIANI**  
**HEAD OF SECRETARIAT**  
**UWEZO FUND**

**Mr. Peter Lengapiani** is the Head of Secretariat of Uwezo Fund Oversight Board. He holds MA (Project Planning and Management) – University of Nairobi CPA (K) and Member of ICPAK. He has 15 years experience in Administration and Management.



**MS. ELIZABETH N. NKUKUU**  
**Ag. CHIEF EXECUTIVE OFFICER**  
**FINANCIAL INCLUSIO FUND**

**Ms. Elizabeth Nkukuu** is the Ag. Chief Executive Officer of Financial Inclusion Fund. She is currently pursuing her Doctor of Philosophy (PHD) Degree in Business Administration (Finance) from Nairobi University. She holds Master of Business Administration (MBA) and Bachelor of Science in Actuarial Science from Nairobi University. She has close to 20 years experience in Financial Services Sector.

## **Management Committees Established and Their Roles**

### **(a). Human Resource Management Advisory Committee Activities**

The Committee is composed of the following members:

No.	Name	Designation
1.	Mr James Ntabo	Chairperson
2.	Mr Charles Ahenda	Secretary
3.	Mr Patrick Nyakundi	Member
4.	Mr Anthony Njeru	Member
5.	Mr. Stephen Gakanga	Member
6.	Mr. Julius Ngari Githu	Member
8.	Mr Paul Ndumia	Member
9.	Mr Robert Osano	Member

The committee will be responsible of taking care of human resource needs of the State Department, the committee's duties include:

- Review of promotions of officers in Job Group A-P;
- Review of Confirmations in Appointment, Review of disciplinary matters.
- Review of re-designation of officers from one cadre to another and Confirmation of surcharge of officers found to have misused Overall coordination of the training functions in the State Department.
- Review and implementation of the State Department training plan.
- Resolve unsettled and unimplemented Public Accounts Committees' recommendations; and,
- Provide a channel of communication between management, internal and external audit, and fostering an independent internal audit function.

**(b). Human Resource Development**

The Committee is composed of the following members:

No.	Name	Designation
1.	Ms Hellen Chepkwony	Senior Assistant Secretary (chairperson)
2.	Ms Grace Maina	Ass. Director, Human Resource Development
3.	Mr Patrick Nyakundi	Ag. Director, KIBT
4.	Mr Anthony Njeru	Principal Economist
5.	Mr. Anthony Kimani	Principal Supply Chain Mgt Officer
6.	Mr Paul Ndumia	Assistant Director, ICT
7.	Andrew Kipkoech Kigen	Senior Principal Finance Officer

The committee will be responsible of taking care of human resource needs of the State Department, the committee's duties include:

- Human Resource Development activities and programs
- Training and Development
- Formulation and review of human resource development interventions
- Skills gap analysis for capacity development to support government development priorities.
- Training needs Analysis Training Impact Assessment

**The audit committee**

The committee is in the formative stages

**Risk management, compliance, conflict of interest etc.**

The risks encountered by the State Department are operational, functional, and systematic. They are mitigated through: -

- a) Strong internal controls that must be detective, preventive and corrective.
- b) Separation of powers and segregation of duties
- c) Payroll controls and restricted access controls
- d) Accounting controls and definite policy guidelines.

### **Report on recent training and development in governance for those in key leadership.**

The State Department for MSMEs Development in collaboration with GIZ and UNES undertook a training needs Assessment for MSMEs, developed a zero draft report, analysed the training modules, identified training gaps and made proposals and made suggestions on how to re-engineer and rebrand KIBT to make it more responsive to clients needs.

#### **Objectives of the Training Workshop**

- I. Align the institutes training materials to the value chain in line with the Government Bottom up Economic Transformation Agenda (BETA).
- II. Include new ideas from key stakeholders and top management from the state department to enrich the document.
- III. Enhance interpersonal relationship through team building for senior management.

#### **Public participation activities**

Micro, Small and Medium Enterprises are vital in achieving sustainable development goals. They are an important element in the implementation of SDG8(Decent Work and Economic growth) and SDG (industry, innovation, and infrastructure).

The State Department has been engaged in various public participation Activities. Some of which included the following: -

##### **(i) MSME EXPO**

The Nation Media Group, Ministry of Cooperatives & Micro, Small and Medium Enterprises (MSME) Development, the Micro and Small Enterprises Authority (MSEA) and the National Chamber of Commerce and Industry (KNCCI) jointly organized the 4<sup>th</sup> Edition of the MSMEs conference and Expo that run from 19<sup>th</sup> to 22<sup>nd</sup> March 2024.

The three-day exhibition and Conference, which ran under the theme “Accelerating MSMEs Growth through Adoption of Technology and Innovation” provided a platform for SMEs to articulate issues affecting them by participating in discussions on policies for the growth and development of the MSME sector. The Expo further provided a platform for MSMEs to show case their innovative solutions and services, while also offering networking opportunities, knowledge sharing and learning lessons.

ii. **Hustler Fund 1<sup>st</sup> Anniversary**

The event took place on 30<sup>th</sup> November 2023 where exhibitors drawn from various sub sectors of MSME sector show cased their achievements in their trade. The key highlight of the day was a demonstration by a TukTuk operator on the effectiveness of hustler fund as a means of providing business capital to the “unbankable” population in Kenya.

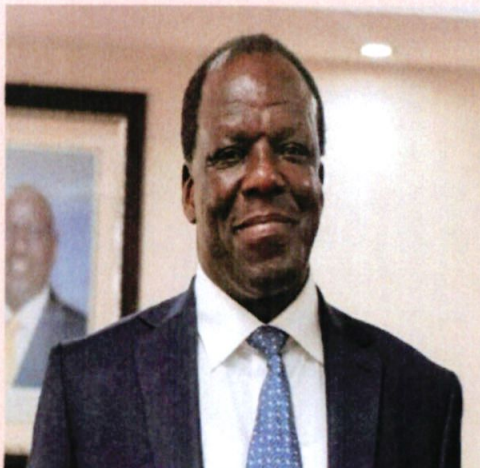




**Compliance with laws and regulations, among others.**

The State Department has complied with the laws and regulations in the implementation of the activities as per the approved 2023/2024 Annual Work Plan and Budget.

#### 4. Statement by the Cabinet Secretary Statement



The State Department for Micro, Small and Medium Enterprise Development is charged with the responsibility of promotion and development of MSME sector through entrepreneurship and management training. Kenya's economy relies heavily on the MSME sector, which provides employment to millions, spurs innovation, and contributes significantly to the GDP.

However, the sector is often faced with challenges including: limited access to finance; inadequate infrastructure, regulatory and compliance constraints; limited market access and stiff competition; skills and capacity gaps; technological challenges and weak institutional support and networking.

The State Department is in the process of adopting a comprehensive strategy geared towards addressing these challenges. The MSME sector is among the prioritized sectors under the BETA (BOTTOM UP ECONOMIC TRANSFORMATION AGENDA) model which aims to bring down the cost of living, eradicate hunger, create jobs, expand the tax base, improve the country's foreign exchange balance as well as inclusive growth.

##### **Key Priority**

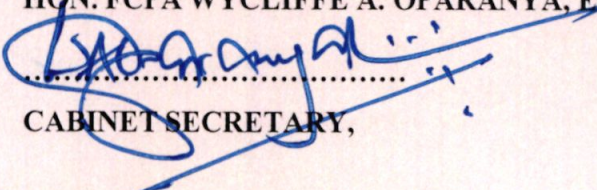
The Government has identified and prioritized key value chains which if successfully implemented will have a huge impact on the MSMEs Sector. These include: Leather and leather products; Textile and textile products;

Dairy and dairy products; Edible oils; Coffee; Tea; Building and Construction, and Rice value Chain. To propel the MSME sector towards sustainable development and competitiveness. A number of interventions measures will have to be employed.

Key among these interventions include: Enhancing Access to Finance and Credit; Improving Infrastructure and Technology Adoption; Streamlining Regulatory Frameworks; Expanding Market Access and Integration; Capacity Building and Skills Development; Fostering Innovation and Research; and Sustainability and Inclusive Growth.

These intervention measures can only be achieved through adoption of an all-inclusive approach by all stakeholders, including government agencies, private sector and development partners.

HON. FCPA WYCLIFFE A. OPARANYA, EGH

  
CABINET SECRETARY,

## 5. Statement by the Principal Secretary



The State Department for Micro, Small and Medium Enterprises Development was created through the Executive Order No. 1 of 2023 following the re-organization of Government after the August 2022 elections. The vision is to provide a technologically advanced, highly productive, diversified, and competitive MSMEs sector for a globally competitive economy. The State Department is charged with the responsibility of promotion and development of MSE sector through entrepreneurship and management training.

### **Economic growth**

The MSME sector is the backbone of the Kenyan economy, serving as a vital engine for job creation, innovation, and inclusive growth. The sector currently absorbs, 9 out of 10 of the young people joining the workforce. The micro enterprises alone contribute 12% to the GDP while small enterprises account for 11% of GDP.

Despite the critical role they play in the economy, MSMEs are frequently confronted,

with market imperfections including, difficulties in accessing credit, are de-linked with the market, they cannot get skilled manpower, are unable to integrate into large- scale business relationships due to lack of international standards and quality controls and majority operate without any type of certification, which greatly reduces their prospects of developing backward linkages with large enterprises.

### **Transformation**

The Government will facilitate issuance of licenses by developing policies and laws that will make trading license and provision of a trading location an entitlement to every citizen who applies. We will continue to commit resources through the Financial Inclusion Fund to ensure financial inclusion for all MSMEs. We are committed to establishing MSME Business Development Centre in every ward, industrial park, and business incubation centre in every TVET institution. The State Department is currently constructing CIDCs, Cold Storage Facilities, Incubation Centres and Centres of Excellence.

### **Our Strategic Focus**

Our strategic focus is to create an integrated enabling environment for a highly productive and diversified MSMEs Sector through financing, incubation and entrepreneurship management and training for wealth and employment creation.

**Budget Performance Against Actual Amounts for Financial Year 2023/2024**

Receipt/Expense Item	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	c=a+b	d	e=c-d	f=d/c %
Exchequer releases	7,689,563,354	3,189,793,275.15	4,499,770,078.85	41.48%
<b>Total Receipts</b>	<b>7,689,563,354</b>	<b>3,189,793,275.15</b>	<b>4,499,770,078.85</b>	<b>41.48%</b>
<b>Payments</b>				
Compensation of employees	98,700,000	81,354,109	17,345,891	82.4%
Use of goods and services & Routine Maintenance	160,215,467	142,633,011	17,582,456	89%
Transfers to other government entities	7,290,870,000	2,926,136,000	4,364,734,000	40.1%
Acquisition of assets	139,777,887	38,334,179	101,443,708	27.4%
<b>Total Payments</b>	<b>7,689,563,354</b>	<b>3,188,457,299</b>	<b>4,501,106,055</b>	<b>58.5%</b>

- **Budget-** During the financial year **2023/2024**, the State Department for Micro, Small and Medium Enterprises Development was allocated a **total gross budget** of **Kshs 7,689,563,354** made up of **Kshs 1,760,363,354** and **Kshs 5,929,200,000** for Recurrent for Development vote respectively.
- **Actual Expenditure-**The total actual expenditure during the year was **Kshs 3,188,457,299.95** which translates 41.5% absorption rate. The actual expenditure under the recurrent was **Kshs 1,467,991,299.95 (83.4%)** and development **Kshs 1,720,466,000(29.1%)** respectively.

**Exchequer Receipts against the Actual Budget**

During the Financial year 2023/2024 the State Department received exchequer Issues from the National Treasury amounting to Kshs 1,189,793,275.15 and the actual expenditure was Kshs 3,188,457,299.95

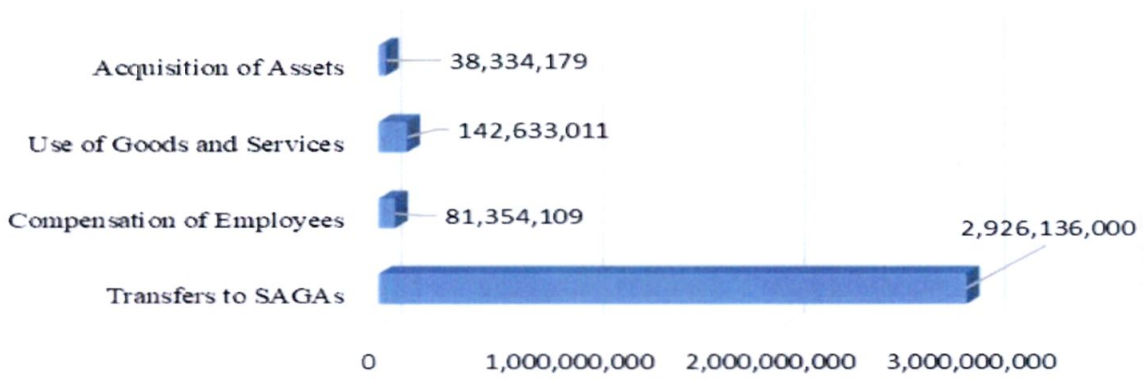
**Exchequer Receipts and Actual Expenditure**

	Exchequer 2023/2024	Actual Expenditure FY 2023/2024	Balance	Percentage Absorption
Recurrent	1,467,992,475.75	1,467,991,299.95	1,175.80	99.9%
Development	1,721,800,800	1,720,466,000.00	1,334,800.00	99.9%
<b>Gross Expenditure</b>	<b>3,189,793,275.75</b>	<b>3,188,457,299.95</b>	<b>1,335,975.80</b>	<b>99.9%</b>

**Economic Classification**

**Budget Utilisation as per Economic Items**

**Budget Utilisation as per Economic Items (Amount in Ksh)**



Out of the Total Payment amount of Ksh 2,926,136,000 (91.7%) was transferred to the Semi-Autonomous Government Agencies (SAGAs), Kshs 81,354,109 for compensation of employees (2.5%) , Kshs 142,633,011 was utilised under Use of Goods and Services (4.4%)and Kshs 38,334,179(1.4% ) on Acquisition of Assets.

### Budget Utilization by Programme

During the year the State Department had Four Programmes.

Programme 1 is Promotion and Development of MSMEs, with actual expenditure of Kshs 1,066,516,461.75 (33.5%)

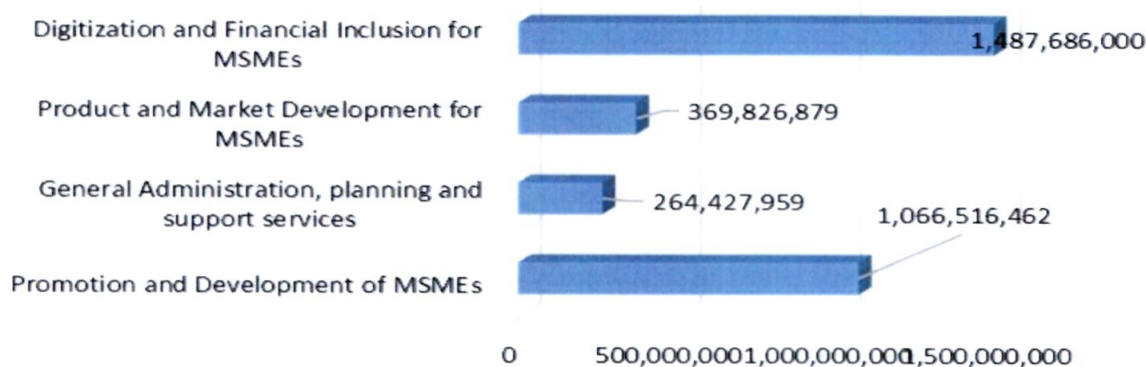
Programme 2 is General Administration, planning and support services with actual expenditure of Kshs 264,427,959.20 (8.3%)

Programme 3 is Product and Market Development for MSMEs with actual expenditure of Kshs 369,826,879 (11.6%)

Programme 4 is Digitization and Financial Inclusion for MSMEs with actual expenditure of Kshs 1,487,686,000 (46.6%)

### Budget Utilization by Programmes

## Budget Utilisation by Programmes Amount in Ksh



*MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
Annual Report and Financial Statements for the year ended 30th June 2024*

<b>Programme/Sub-programme</b>	<b>Final Budget</b>	<b>Actual on comparable basis</b>	<b>Budget utilization difference</b>
		<b>2023/24</b>	
		<b>Kshs</b>	<b>Kshs</b>
<b>0316000 Promotion and Development of MSMEs</b>	<b>1,189,522,288</b>	<b>1,066,516,461.75</b>	<b>123,005,826.25</b>
0316010 MSMEs Development and Promotion	1,141,696,650	1,028,817,007.80	112,879,642.20
0316020 Entrepreneurship and Business Development Services	47,825,638	37,699,453.95	10,126,184.05
<b>0317000 Product and Market Development for MSMEs</b>	<b>589,942,131</b>	<b>369,826,879</b>	<b>220,115,252</b>
0317010 Market Linkages for MSMEs	4,845,500	3,836,879	1,008,621
0317030 Value Addition, Innovation and Incubation for MSMEs	585,096,631	365,990,000	219,106,631
<b>0318000 Digitization and Financial Inclusion for MSMEs</b>	<b>5,865,780,000</b>	<b>1,487,686,000</b>	<b>4,378,094,000</b>
0318010 Financial Inclusion	5,120,000,000	800,000,000	4,320,000,000
0318020 Youth Employment Services	659,780,000	601,686,000	58,094,000
0318030 Youth, Women and PWDs Empowerment	86,000,000	86,000,000	0

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

Programme/Sub-programme	Final Budget	Actual on comparable basis	Budget utilization difference
		2023/24	
0319000 General Administration, Planning and Support Services	387,925,566	264,427,959.20	123,497,606.80
0319010 General Administration, Planning and Support Services	387,925,566	264,427,959.20	123,497,606.80
<b>TOTAL</b>	<b>8,033,169,985</b>	<b>3,188,457,299.95</b>	<b>4,844,712,685.05</b>

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## ***Key Achievements***

### **1. Achievements under Mainstreaming and Coordinating Hustler Nation Promise**

- i. The State Department is in the final stages of developing a five-year Strategic Plan which will guide the sector in addressing challenges facing the sector through several interventions. The interventions include: promoting and developing the MSME sector through financing, provision of requisite infrastructure, entrepreneurship management & training and access to markets.
- ii. The State Department has held several engagements with Development partners, Public Institutions and Private Sector and discussed initiatives and measures to be put in place in creating a conducive business environment.
  - a. Held several engagements with County Governments and Public Sector Agencies to align them with the Government's MSME agenda and sector policy measures to be mainstreamed within their strategies and short-term plans. The State Department will work with County Governments, Public Institutions and other stakeholders to support policy and regulatory reforms/review to create a conducive environment for MSMEs.
  - b. Held several engagements with Development Partners who are keen in supporting the MSME Sector. The Development Partners have committed to support several interventions in the Sector. The DPs have also aligned their plans to the priorities of the Government.
  - c. Initiated review of the Public Finance Management (Uwezo Fund) regulations 2014 towards addressing gaps that inhibit optimal support of MSMEs. The Review is at an advanced stage awaiting public participation.
- iii. **MSEA-** In an effort to formalize the Sector, a total of 720,821 MSEs data was registered in the Registrar's system and 195,498 MSE Associations and groups were registered in collaboration with other government agencies.
- iv. **KJET Project:** The State Department started the implementation of the Kenya Jobs and Economic Transformation Project (KJET) which is funded by the World Bank. The KJET project seeks to support MSMEs transformational agenda focusing on Strengthening Business and Investment Enabling Reforms especially the regulatory processes, regulatory frameworks, and

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policies aimed at lowering the constraints to firm entry and scale-up and streamlining international and domestic trade and investment processes. The component will finance technical assistance as well as Performance-Based Conditions (PBCs), which will support the implementation of well-defined entry and licensing regulatory reforms.

- v. The State Department has initiated the implementation of the **Center for Entrepreneurship (C4E) Project**. The project will establish a “Centre for Entrepreneurship, serving to empower the youth & young entrepreneurs for: employment, self-employment, creation of start-ups and promotion of youth owned enterprises through provision of services.
- vi. The CIDs build and operationalized: Machakos MSE site (Machakos); Malindi CIDC (Kilifi); Marimanti CIDC (Tharaka Nithi); Chuka Town CIDC (Tharaka Nithi); Embu Town CIDC (Embu); Muhoroni CIDC (Kisumu); Nyando CIDC (Kisumu); Kisumu Central (Kisumu); Seme- Kombewa (Kisumu); Matungu – Mayoni (Kakamega); West mugirango – Nyamai CIDC (Nyamira); Sameta CIDC (Kisii); Nzombe CIDC (Kitui); Sipili CIDC (Laikipia); Meru South – Igonji (Meru); Nandi Hills CIDC (Nandi); Wajir East CIDC(Wajir); Kuresoi CIDC (Nakuru); Kabarnet CIDC (Baringo); Sagana MSE site (Kirinyaga).
- vii. **MSEA-** 24,933 youth received business start-up grants under the KYEOP project resulting in job creation through self-employment of the beneficiaries.

## **2. Achievements Under Financial Access**

### **i. Financial Inclusion Fund (Hustler Fund) - FIF Loan Uptake, repayment and savings:**

#### **FIF- Update as at 30<sup>th</sup> July, 2024:**

##### **a. Personal Loan Product (PLP) as at 30th July, 2024**

- Disbursement – Kshs.55 Billion
- Repayment – Kshs.43 Billion
- Opted in customers – 23.7 Million
- Total transactions – 61.9 Million
- Repeat customers – 8.2 Million
- Savings – Kshs.3.1 Billion

##### **b. Group Loan Product**

- Disbursement – Kshs.186.3 Million
- Repayment – Kshs.39.8 Million

- 
- Members in borrowing groups – 296,960
  - Savings – Kshs.9.3 Million

The Fund was launched 18 months ago as a financial intervention to correct the existing market failures in the credit market through partnerships with the sector players (the telcos and financial institutions)

At the time of launch, more than 8,000,000 borrowers had been blacklisted by Credit Reference Bureaus (CRBs) and therefore the Fund was established to rehabilitate them and offer them a second chance to repair their credit ratings as well as helping them to build up a trusted credit rating that would enable them access credit in the mainstream financial markets.

So far, two (2) products have been rolled out namely:

- a. **Personal Loan Product** (rolled out on 30<sup>th</sup> November, 2022)
- b. **Group Loan Product** (launched on 1<sup>st</sup> June, 2023)

The Fund is in the process of graduating over 2 million Hustler Fund beneficiaries who have so far consistently demonstrated a high credit rating to the mainstream financial market.

The Hustler Fund Personal Product design provides room for the limit review. So far, there have been two limit reviews, the first one in **February, 2023** and the second one in **December, 2023** which introduced a **savings-led limit increase**. There were borrowers who saved voluntarily which boosted their loan limit increment.

- ii. **KIE and UWEZO Fund** have started implementing the re-engineering strategy.

**UWEZO Fund** - Disbursed Kshs 474,855,000 to 4,389 groups of youth (953 groups Ksh. 92m), women (3,342 groups, Kshs. 373m) and PWDs (106 groups, Kshs.10m). Collected Ksh.200m\* (projection). all the 4,389 groups have been trained on entrepreneurship, table banking and market linkages. The Fund has successfully onboarded on the e-citizen, loan request and repayment, which will increase access among the target population.

Complete re-engineering will be achieved once inhibitive aspects pointed out in the regulations are addressed by the ongoing review of the regulations governing the Fund.

**KIE**- Disbursed Kshs. 721,801,500.00

iii. **MSEA-** 24,933 youth received business start-up grants under the KYEOP project amounting to Kshs.

498,660,000

iv. **NYOTA-** From 2024/2025, MSEA will implement Component 2 of the National Youth Opportunities Towards Advancement (NYOTA) where 110,000 vulnerable youth will be facilitated to start small businesses through provision of Business Development Services and Start-up capital, or through social enterprises using seller-agent and franchise models. The project was declared effective on 21/6/2024.

### **3. Achievements Under Value Addition and Enterprise Development**

a. The State Department undertook mapping of the following value chains across selected counties:

i. Leather and Leather Products

ii. Dairy and dairy products

iii. Coffee

iv. Tea

v. Edible Oils

vi. Rice

vii. Banana

The counties included: Isiolo, Garissa, Wajir, Narok, Kajiado, Kiambu, Murang'a, Nyandarua, Bomet, Kisii, Kericho, Nandi, Kisumu, Homa Bay, Siaya, Busia, Bungoma, Kakamega and Vihiga.

b. **MSEA-** mapped out and equipped 21 CIDs to promote the BETA priority value chains as shown below:

A. 5 CIDs equipped with machines to support the leather value chain (Suneka, Isiolo South, Malindi CID, Runyenjes & Banisa)

B. 4 CIDs equipped with machines to support the textile value chain (Mwea CID, Kitale CID, Olkaleu & Embakasi North)

- 
- c. 5 CIDCs equipped with Machine and equipment for construction and building value chain (Machakos Town, Kajiando- Central, Ilasit, Iten CIDC & Aldai – Kabujoi Cidc
  - d. 3 CIDCs equipped with machines to promote dairy value chain in (Kangema, Othaya & Londiani
  - e. 4 CIDCs equipped with machines to promote edible oils value chain in (Funyula, Marimanti, Kianyaga CIDC & Chonyi)

c. **MSEA-** Identified and developed capacity of 153 MSMEs on utilization of the machines and equipment provided within the CIDCs as follows:

- 1. Leather value chain- 85 MSMEs trained
- 2. Edible Oils- 33 MSMEs trained
- Textile- 35 MSMEs trained

4. **Achievements Under Aggregation and Market Access**

- i. **MSEA-** A total of 720,821 MSEs data was captured in the Registrar's system and 195,498 MSE Associations and groups were registered in collaboration with other government agencies.
- ii. **UWEZO Fund-**  
Partnered with emobilis to provide access to market to 2000 groups Initiated the process of developing a portal to provide access to markets.
- iii. **SDMSME** will put up a virtual system for aggregation of produce to enhance distribution channels. (Virtual stall such as Alibaba) -Aggregation will be achieved through groups and associations.  
**UWEZO Fund-** Supported 4 beneficiary groups to exhibit in the EAC Regional Trade Fair, 34beneficiaries supported to participate in local ASK Shows, exhibitions and forums
- iv. **KIE-** Facilitated 4,099 linkages among MSMEs and between MSMEs and large enterprises (horizontal & vertical) linkages. This was actualized by linking MSMEs to: Markets, benchmarking opportunities through exchange visits; Sources of raw materials; and suppliers of machinery and Equipment (forward & backward linkage within the industry).
- v. **MSEA-** A total of 1,380 MSEs were facilitated to access various markets, including 302 who participated in the 23rd EAC MSMEs Trade Fair

5. **Achievement Under Promotion of a Saving Culture**

- i. **FIF-** As at 26<sup>th</sup> July, 2024, amount saved through the Personal Loan Product is Kshs. 3,110,874,012.

Amount saved through the Micro and Small Group Loan Product is Kshs. 9,287,849.

## **Emerging Issues**

Emerging issues and opportunities affecting the MSME Sector include:

### **i) Technological advancement and innovations**

While a lot of progress has been made in the field of technology, the rapid change in technology requires the MSME Sector to keep pace for it to remain competitive. Low levels of ICT adoption in the sector and high cost of ICT infrastructure have hindered access and usage of technology leading to increased costs of operation and inadequate service delivery. On the other hand, for those that have embraced technology there's enhanced service delivery.

### **ii) Geo-Politics**

The current geopolitics and alignments in the global economic power bases is a phenomenon that may continue to shape investments and trade flows. Therefore, businesses will be careful on how to manage the volatile conditions that could affect the global supply chains and globalization of trade. For instance, the Russian-Ukraine conflict has occasioned major supply chain disruptions leading to rising commodities and energy prices.

### **iii) Social and Digital Media Platforms**

Digital/Social Media Platforms are gaining prominence in official circles as fast ways of communication and information sharing. They are applied to shape opinion and undertake brand campaigns that make it possible for seamless communication and linkages with stakeholders in the MSME sector.

### **iv) Cyber security threats**

Cyber insecurity has emerged as a great threat to businesses in the sector as witnessed by fraudulent practices in mobile banking, e-Commerce and e-Business resulting in huge losses to consumers and businesses.

### **Highlight key risk management strategies.**

The risks encountered by the state department are mainly operational, functional and systematic. They are mitigated through.

- (i) Strong internal controls that must be detective, preventive and corrective.
- (ii) Separation of power and segregation of duties
- (iii) Payroll controls and restricted access controls.
- (iv) Accounting controls and definite policy guidelines.

### **Implementation Challenges**

Despite the critical role played by MSMEs in the economy, they are frequently confronted with market imperfections. Challenges that impede the implementation of various activities, projects and programs in the MSME Sector include:

#### **i. Limited access to affordable finances/credit.**

This is attributed mainly to financiers' widespread lack of clear information on the operations of MSMEs. This has led to stagnation of MSMEs while others have collapsed after a short duration of operation.

#### **ii. Inadequate and uncondusive business premises/infrastructure.**

Majority of MSMEs lack adequate business premises, leading to unplanned and informal development of markets and business premises which are temporary. Inadequate prioritization on funding for business premises and appropriate modern retail market development from the Government has made this a perennial problem.

**iii. Complex Regulatory Framework which creates an uncondusive business environment for MSMEs.**

The MSME sector regulatory framework is complex and multifaceted. It includes laws, regulations and policies governing the activities of MSMEs including those related to access to finance, legal registration, compliance, taxation, labor, health and safety. There are separate laws governing different types of businesses and activities from both National and County Governments. Moreover, the cost of complying with regulatory requirements is often high making it difficult for MSMEs to access and benefit from support provided by the Government. The complexity of the regulatory framework often impedes the promotion and development of MSMEs.

**iv. Lack of required business skills and capacity especially in the informal sector.**

Majority of MSMEs lack the necessary business skills and capacity to undertake their operations resulting in lower quality of goods and services, inefficient productivity and increased operation costs making them less competitive in the market.

**v. Low level of technology and innovation.**

MSMEs need to take up technology and innovation to ensure that their goods and services meet untapped customer needs. Technology adoption and innovation require adequate funding and especially with a view to encouraging process and marketing innovations, which studies show are not common features among MSMEs.

**vi. High cost of data**

The high cost of data and information on MSMEs is an obstacle for the development and growth and MSMEs. Despite the fact that MSMEs are an essential part of the Kenyan economy there is insufficient data and information available to understand their contribution and aid in planning and decision making. This makes it hard for decision makers to design and implement effective policies that would support their growth. Furthermore, it is also difficult to measure the impact of interventions and programmes meant to support MSMEs making it challenging to track progress and evaluate their effectiveness.

**vii. Lack of harmonization within the sector**

Lack of harmonization of policies and programs for the MSMEs in Kenya has been a major challenge for the Sector. The lack of coordination and standardization of policies and programmes for MSMEs has led to duplication of efforts and resources as well as creation of barriers for the growth of the sector. This has hindered the development of the sector as it has been unable to effectively compete with the larger and more organized businesses due to lack of an enabling environment.

## **Recommendations and Way Forward**

### **i. Access to finance**

Commit resources through the Financial Inclusion Fund to ensure financial inclusion for all MSMEs. The funds will be distributed through four products namely: Personal Loans Product; Micro Loan Product; Start-Up Loans; and Small Medium Enterprise Loan.

### **ii. Ending criminalisation of work**

The Government will facilitate issuance of licences by developing policies and laws that will make trading license and provision of a trading location an entitlement to every citizen who applies. The Government will work with County Governments to provide one street trading premise per 50 urban residents, with a view to increasing average daily income of informal traders by Sh200.

### **iii. Reduce Regressive taxation bureaucracy and regulatory compliance costs.**

The National Government will work with the County Government in reviewing and rationalizing all business licenses, cap total licences at 1.5 percent of turnover, and enact administrative burden law (similar to US Reduction of Paperwork Act) ensuring no business spends more than 4 person hours a month on tax and regulatory compliance.

### **iv. Infrastructure & Capacity Building**

Establish MSME Business Development Centre in every ward, and an industrial park and business incubation Centre in every TVET institution. The State Department is currently constructing CIDCs, Cold Storage Facilities, Incubation Centers, and Centre of Excellence.

HON. SUSAN MANG'ENI



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PRINCIPAL SECRETARY  
STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES  
DEVELOPMENT

## **6. Statement of Performance Against Predetermined Objectives for the FY2023/24**

### **Introduction**

The State Department is charged with the responsibility of promotion and development of the Micro, Small, and Medium Enterprises (MSMEs) sector through financing, provision of infrastructure as well as entrepreneurship and management training. The Micro, Small and Medium Enterprises (MSMEs) play a key role in the economy in both urban and rural areas of the Country. Over the years, the MSME Sector has provided opportunities for low-skill and economically excluded segment of the labor force including youth, women, persons with disabilities. According to the Kenya National Bureau of Statistics, the sector constitutes 98% of all businesses in Kenya, creating employment for over 15 million citizens with a value output of Kshs.3.3 trillion. In addition, the sector contributes to over 30 percent to GDP.

Despite the MSME Sector receiving policy attention since 1965, the sector has not achieved its full potential. MSMEs are frequently confronted with market imperfections that impede their growth. In Kenya, it is estimated that ten (10) million informal MSME operators/workers receive/generate less than Kshs. 5,000 income per month on average, which is below the living wage for one individual. This is due to the hostile environment they operate in, criminalization of their enterprises (e.g., hawkers), as well as disguised unemployment.

In realization of the challenges faced by the sector, the Government's Bottom-Up Economic Transformation Agenda (BETA) has prioritized MSME Economy among the five sectors that form the core pillars of the Administration's agenda. To address these challenges, the State Department is implementing the BETA model with the overall goal of Development of the MSME sector to enhance: Job Creation, Increased Income, Expanded Revenue Base, Inclusivity, Reduced Cost of Living, and Improving Balance of Payment (BOP).

The State Department also seeks to increase investments in at least nine (9) priority value chains which if successfully implemented will have a huge impact on the Sector. These include: (i) Leather and Leather Products; (ii) Dairy and Dairy Products; (iii) Edible Oils; (iv) Textile and Apparel; (v) Tea; (vi) Coffee; (vii) Building and Construction Materials; (viii) Rice; and (ix) Blue Economy value chains.

**Progress On the attainment of Strategic Objectives through Performance Contracting**

Priority Areas	Program/ Projects	Activities	Performance Target	Milestone Achieved	Anticipated Impact
<b>1. Mainstreaming and Coordinating Hustler Nation Promise</b>	<b>Aligning policies, Programme institutions, laws and resources within MSME and Cooperative</b>	Developing the Sector Strategic Plan	MSME Sector five-year plan that will facilitate collaboration for all Sector players	The State Department is in the final stages of developing a five-year Strategic Plan which will guide the sector in addressing challenges facing the sector through several interventions. The interventions include: promoting and developing the MSME sector through financing, provision of requisite infrastructure, entrepreneurship management & training and access to markets.	Creation of more employment opportunities in the MSME Sector, Increased Income, Increased contribution of the sector to GDP, Expanded Revenue Base, Inclusivity, Reduced Cost of Living, and Improving Balance of Payments (BOP).

		Review policy, legislation, Capacity Building, Resource mobilization. Monitoring and Evaluation of implementation	Create a Conducive Business Environment for MSME and Cooperatives	<p>The State Department has held several engagements with Development partners, Public Institutions and Private Sector and discussed initiatives and measures to be put in place in creating a conducive business environment.</p> <ol style="list-style-type: none"> <li>1. Held several engagements with County Governments and Public Sector Agencies to align them with the Government's MSME agenda and sector policy measures to be mainstreamed within their strategies and short-term plans. The State Department will work with County Governments, Public Institutions and other stakeholders to support policy and regulatory reforms/review to create a conducive environment for MSMEs.</li> <li>2. Held several engagements with Development Partners who are keen in supporting the MSME Sector. The Development Partners have committed to support several interventions in the Sector. The DPs have also aligned their plans to the priorities of the Government.</li> <li>3. Initiated review of the Public Finance Management (Uwezo Fund) regulations 2014 towards addressing</li> </ol>	<p>Review of policy, legislation and aligning of players within the MSME Sector will create a favorable environment for sustainable enterprises combining the legitimate quest for profit with the need for development that respects human dignity and decent work.</p> <p>Support from development partners in addressing challenges affecting the Sector.</p> <p>The conducive business environment created will encourage investment, entrepreneurship, workers' rights and growth of enterprises by balancing</p>
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	<p><b>Decriminalize MSMEs in the informal sector e.g boda boda, hawkers.</b></p>	<ol style="list-style-type: none"> <li>1. Engage County Governments to secure working spaces.</li> <li>2. Streamline licensing regime (licenses, Fees &amp; CESS).</li> <li>3. Facilitate creation of employment opportunities for the Youth</li> </ol>	<p>Undertake reforms towards a formalized, competitive MSME sector</p>	<p>gaps that inhibit optimal support of MSMEs. The Review is at an advanced stage awaiting public participation.</p> <p><b>MSEA-</b> In an effort to formalize the Sector, a total of 720,821 MSEs data was registered in the Registrar's system and 195,498 MSE Associations and groups were registered in collaboration with other government agencies.</p> <p><b>KJET Project:</b> The State Department started the implementation of the Kenya Jobs and Economic Transformation Project (KJET) which is funded by the World Bank. The KJET project seeks to support MSMEs transformational agenda focusing on Strengthening Business and Investment Enabling Reforms especially the regulatory processes, regulatory frameworks, and policies aimed at lowering the constraints to firm entry and scale-up and streamlining international and domestic trade and investment processes. The component will finance technical assistance as well as Performance-Based Conditions (PBCs), which will support the implementation of well-defined entry and licensing regulatory reforms.</p>	<p>the needs and interests of enterprises with the aspirations of the business community.</p> <p>The intervention will support the MSME Sector towards achieving the following:</p> <ol style="list-style-type: none"> <li>a) Harmonization of licensing Regime within Counties to reduce multiple licensing;</li> <li>b) Promote formalization of MSMEs in the informal sector;</li> <li>c) MSMEs will be provided with corridors and work spaces in major towns;</li> </ol>
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				<p>The State Department has initiated the implementation of the <b>Center for Entrepreneurship (C4E) Project</b>.</p> <p>The project will establish a “Centre for Entrepreneurship, serving to empower the youth &amp; young entrepreneurs for: employment, self-employment, creation of start-ups and promotion of youth owned enterprises through provision of services.</p>	<p>expanding the tax bracket;                  f) Reduce costs of complying with the licenses processes for small enterprises.                  g) Increase competitiveness of the MSME Sector.</p>
				<p>The project will address key challenges facing the youth namely: the transition to the labour market of the youth, reduction of youth unemployment, and support provision of business development services to MSMEs.</p> <p>The Project will contribute to the improvement of employability of skilled workers in Kenya leading to</p>	

					expansion of employment opportunities through self-employment, permanent employment, start-ups and young enterprises
		3. Construct and operationalize 20 CIDs to provide operating spaces for MSMEs	Employment opportunities provided	The CIDs build and operationalized: Machakos MSE site (Machakos); Malindi CIDC (Kilifi); Marimanti CIDC (Tharaka Nithi); Chuka Town CIDC (Tharaka Nithi); Embu Town CIDC (Embu); Muhoroni CIDC (Kisumu); Nyando CIDC (Kisumu); Kisumu Central (Kisumu); Seme- Kombewa (Kisumu); Matungu – Mayoni (Kakamega); West mugirango – Nyamai CIDC (Nyamira); Sameta CIDC (Kisii); Nzombe CIDC (Kitui); Sipili CIDC (Laikipia); Meru South – Igonji (Meru); Nandi Hills CIDC (Nandi); Wajir East CIDC	One of the major challenges affecting Micro enterprises is the lack of business infrastructure. The CIDs will provide premises that will be used by enterprises for incubation to facilitate growth of informal

				(Wajir); Kuresoi CIDC (Nakuru); Kabarnet CIDC (Baringo); Sagana MSE site (Kirinyaga)	enterprises and formalization.  The twenty (20) CIDCs refurbished and equipped will create 5,600 jobs both directly and indirectly. They will also provide conducive work environments.
		Kenya Youth Employment Opportunities Project (KYEOP)	Employment opportunities provided	<b>MSEA-</b> 24,933 youth received business start-up grants under the KYEOP project resulting in job creation through self-employment of the beneficiaries.	KYEOP provided business startup grants to youth to start or expand their business

<p><b>2. Financial Access</b></p>	<p><b>Financial inclusion access to the underserved population.</b></p>	<p>1. Hustler Fund Personal financing loan to 18M Kenyans                  2. Micro and Small Group loan products through existing Cooperative infrastructures to over 3000 groups</p>	<p>100% credit access by MSMES</p>	<p><b>Financial Inclusion Fund (Hustler Fund) - FIF Loan Uptake, repayment and savings:</b></p> <p><b>FIF- Update as at 30th July, 2024:</b></p> <p><b>a. Personal Loan Product (PLP) as at 30th July, 2024</b></p> <ul style="list-style-type: none"> <li>• Disbursement – Kshs.55 Billion</li> <li>• Repayment – Kshs.43 Billion</li> <li>• Opted in customers – 23.7 Million</li> <li>• Total transactions – 61.9 Million</li> <li>• Repeat customers – 8.2 Million</li> <li>• Savings – Kshs.3.1 Billion</li> </ul> <p><b>b. Group Loan Product</b></p> <ul style="list-style-type: none"> <li>• Disbursement – Kshs.186.3 Million</li> <li>• Repayment – Kshs.39.8 Million</li> <li>• Members in borrowing groups – 296,960</li> <li>• Savings – Kshs.9.3 Million</li> </ul>	<p>The Financial Inclusion Fund is categorized into four products namely, Personal Loan Product (PLP), Micro enterprise Loan Product (MELP), Small Medium Enterprise Loan Product (SMELP) and Start-Up Loan Product (SULP).</p> <p>The successful roll-out of the four (4) products is expected to provide credit access to a larger percentage of the population who could not access credit due to lack of collateral. In addition, the Fund will provide borrowers with an opportunity to improve their credit score. Improved credit scores for</p>
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				<p>The Fund was launched 18 months ago as a financial intervention to correct the existing market failures in the credit market through partnerships with the sector players (the telcos and financial institutions)</p> <p>At the time of launch, more than 8,000,000 borrowers had been blacklisted by Credit Reference Bureaus (CRBs) and therefore the Fund was established to rehabilitate them and offer them a second chance to repair their credit ratings as well as helping them to build up a trusted credit rating that would enable them access credit in the mainstream financial markets.</p> <p>So far, two (2) products have been rolled out namely:</p> <p><b>c. Personal Loan Product</b> (rolled out on 30<sup>th</sup> November, 2022)</p> <p><b>d. Group Loan Product</b> (launched on 1<sup>st</sup> June, 2023)</p> <p>The Fund is in the process of graduating over 2 million Hustler Fund beneficiaries who have so far consistently demonstrated a high credit rating to the mainstream financial market.</p>	<p>borrowers will provide an alternative way to credit underwriting for the MSME Sector.</p> <p>In the long-term, it is expected that a larger percentage of the population who could not access credit from Commercial Banks will have access to credit.</p>
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MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

				<p>The Hustler Fund Personal Product design provides room for the limit review. So far, there have been two limit reviews, the first one in <b>February, 2023</b> and the second one in <b>December, 2023</b> which introduced a <b>savings-led limit increase</b>. There were borrowers who saved voluntarily which boosted their loan limit increment.</p>	
	<p><b>Re-engineer MSME financing interventions</b></p>	<p>Disbursements: YEDF to 3000 enterprises, Uwezo Fund to 2500 groups, KIE disbursement to MSME in</p>	<p>Enable 100% credit access by MSMES</p>	<p>-<b>KIE and UWEZO Fund</b> have started implementing the re-engineering strategy.</p> <p><b>UWEZO Fund</b> - Disbursed Kshs 474,855,000 to 4,389 groups of youth (953 groups Ksh. 92m), women (3,342 groups, Kshs. 373m) and PWDs (106 groups, Kshs.10m). Collected Ksh.200m* (projection). all the</p>	<p>The re-engineering of the Government owned Funds will increase efficiency and reduce time taken in processing of loans by shifting from manual processing to digital processing.</p>

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

		<p>manufacturing, KYEOP Project to 16,000 youth</p>	<p>4,389 groups have been trained on entrepreneurship, table banking and market linkages. The Fund has successfully onboarded on the e-citizen, loan request and repayment, which will increase access among the target population. Complete re-engineering will be achieved once inhibitive aspects pointed out in the regulations are addressed by the ongoing review of the regulations governing the Fund.</p> <p><b>KIE-</b> Disbursed Kshs. 721,801,500.00</p> <p><b>MSEA-</b> 24,933 youth received business start-up grants under the KYEOP project amounting to Kshs. 498,660,000</p> <p><b>NYOTA-</b> From 2024/2025, MSEA will implement Component 2 of the National Youth Opportunities Towards Advancement (NYOTA) where 110,000 vulnerable youth will be facilitated to start small businesses through provision of Business Development Services and Start-up capital, or through social enterprises using seller-agent and franchise models. The project was declared effective on 21/6/2024.</p>	<p>The digitalization of the loan will also reduce turn-around time and ensure that more entrepreneurs are able to access credit.</p> <p>Provision of business start-up facilities will create employment directly and indirectly and hence contribute to economic development of the country</p>
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<p><b>3. Value Addition and Enterprise Development</b></p>	<p><b>Promoting high growth potential MSMEs</b></p>	<p>Map out key value chains &amp; production clusters in the Economy</p>	<p>Viable enterprises identified</p>	<p>The State Department undertook mapping of the following value chains across selected counties:</p> <ul style="list-style-type: none"> <li>i. Leather and Leather Products</li> <li>ii. Dairy and dairy products</li> <li>iii. Coffee</li> <li>iv. Tea</li> <li>v. Edible Oils</li> <li>vi. Rice</li> <li>vii. Banana</li> </ul> <p>The counties included: Isiolo, Garissa, Wajir, Narok, Kajiado, Kiambu, Murang'a, Nyandarua, Bomet, Kisii, Kericho, Nandi, Kisumu, Homa Bay, Siaya, Busia, Bungoma, Kakamega and Vihiga.</p>	<p>Focus on the seven priority sectors will create an entrepreneurial culture for MSMEs in the agricultural sector. It is anticipated that enterprising the MSME sector will increase production within the value chains, promote value addition and in the long-run reduce the balance of trade deficit through import substitution.</p>
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					<p>The interventions along the value chains will also provide massive employment opportunities for citizens particularly in the rural areas. The employment opportunities created will play a big role in reducing poverty levels in the rural population.</p> <p>The Government affirmative Funds will develop loan products for the value chains identified.</p>
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		MSMEs skills development, technology transfer, adoption and adaptation	MSMEs capacity developed on utilization of new modern machines and equipment	<p><b>MSEA-</b> Identified and developed capacity of 153 MSMEs on utilization of the machines and equipment provided within the CIDCs as follows:</p> <ol style="list-style-type: none"> <li>3. Leather value chain- 85 MSMEs trained</li> <li>4. Edible Oils- 33 MSMEs trained</li> <li>5. Textile- 35 MSMEs trained</li> </ol>	<p>The capacity exercised by enabled MSMEs to get familiar with modern technology, machinery, and equipment in BETA's priority value chains and provided practical skills for MSMEs to utilize these machines.</p> <p>This will enhance productivity and competitiveness of MSMEs in the BETA priority value chains.</p>
<p><b>4. Aggregation and Market Access</b></p>	<p>Enabling access to sustainable markets (Domestic and Exports)</p>	<p>Establish Country wide Sector based database of</p>	<p>MSME Database developed</p>	<p><b>MSEA-</b> A total of 720,821 MSEs data was captured in the Registrar's system and 195,498 MSE Associations and groups were registered in collaboration with other government agencies.</p>	<p>The State Department intends to create a sustainable and reliable market for MSME Products.</p>

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

		all MSMEs and products			<p>A reliable market access for MSME products will boost productivity, increase incomes and strengthen food security. In the long run, access to markets will contribute to reducing poverty and hunger for producing families and their communities within the MSME Sector.</p> <p>A more formalized MSME Sector since AGPO Program incentivizes</p>
		Digitalize MSMEs commercial market infrastructure	Access to markets	<p><b>UWEZO Fund-</b></p> <ul style="list-style-type: none"> <li>•Partnered with emobilis to provide access to market to 2000 groups</li> <li>•Initiated the process of developing a portal to provide access to markets</li> </ul>	
		Aggregation of MSME products for markets linkages	MSME linked to the markets	<p>-SDMSME will put up a virtual system for aggregation of produce to enhance distribution channels. (Virtual stall such as Alibaba)</p> <p>-Aggregation will be achieved through groups and associations.</p> <p><b>UWEZO Fund-</b> Supported 4 beneficiary groups to exhibit in the EAC Regional Trade Fair, 34</p>	

		<p>beneficiaries supported to participate in local ASK Shows, exhibitions and forums</p> <p><b>KIE-</b> Facilitated 4,099 linkages among MSMEs and between MSMEs and large enterprises (horizontal &amp; vertical) linkages. This was actualized by linking MSMEs to: Markets, benchmarking opportunities through exchange visits; Sources of raw materials; and suppliers of machinery and Equipment (forward &amp; backward linkage within the industry).</p>	<p><b>MSE-</b> A total of 1,380 MSEs were facilitated to access various markets, including 302 who participated in the 23rd EAC MSMEs Trade Fair</p>	<p>MSMEs to register and become legal entities.</p>	
<p><b>5. Promote a Saving Culture</b></p>	<p><b>Inculcate culture of saving and investment</b></p>	<p>Promote voluntary savings for hustlers within the Country &amp; Diaspora</p>	<p>Saving culture promoted</p>	<p><b>FIF-</b> As at 26th July, 2024, amount saved through the Personal Loan Product is Kshs. 3,110,874,012</p> <p>Amount saved through the Micro and Small Group Loan Product is Kshs. 9,287,849</p>	<p>Saving from borrowers will be used as collateral during credit underwriting.</p> <p>In addition, the savings will enable borrowers to access other safety products such as affordable housing.</p>



## **7. Management Discussion and Analysis**

The State Department for Micro, Small and Medium Enterprises Development was created in financial year 2022/2023 through the Executive Order No. 1 of 2023 following the re-organization of Government after the August 2022 elections. Therefore, there were no activities in 2021/2022 operations commenced in the fourth quarter 2022/2023. The state department has been in operation for only one financial year and two months.

### Entity key projects

The state department for MSMEs Development is implementing the Centre For Entrepreneurship (C4E) Project with the support of KfW Development Bank under the German Development Cooperation (GDC) with Kenya.

The project targets to increase income and wealth creation to the youths through entrepreneurship and employment opportunities.

The project is in the formative stages and more activities will roll out in the financial year 2024/25.

### **Future Development**

The MSME Sector is instrumental in accelerating economic growth through entrepreneurship and management training. These are the critical enablers that will also contribute significantly towards the attainment of Sustainable Development Goals (SDGs) and propel the realization of Kenya's Vision 2030.

During the Medium-Term Budget (MTB) period 2023/24 – 2025/26, the Sector will continue playing her role towards realizing the targets of the Fourth Medium Term Plan 2023-2027 of the Kenya Vision 2030. Key to this, the funding will be directed towards the following Priority areas:

- i. Supporting the Prioritized Value chains (Leather & Leather products, Textile and Apparels, Dairy products and Dairy products, Edible oils, Building & Construction materials, Rice, Tea and Coffee).
- ii. Enforcement of Access to Government Procurement Opportunities (AGPO).
- iii. Reducing regressive taxation bureaucracy and regulatory compliance costs.
- iv. Value addition, Innovation, and Incubation for MSMEs.
- v. Creating employment opportunities through construction, equipping and modernization of Constituency Industrial Development Centers (CIDCs).
- vi. Enhancing market access for MSMEs through exposure to local, regional, and international markets.
- vii. Advancing industrial credit and providing business advisory services to SMEs.
- viii. Providing credit facilities to women, youth and PWDs- UWEZO Fund; and
- ix. Capacity building for MSMEs including access to modern management practices.

## 8. Environmental and Sustainability Reporting

### Introduction

The Government has identified Micro, Small and Medium Enterprises (MSMEs) Economy as one of the five key sectors that will contribute to the creation of employment opportunities and growth of average incomes of players employed in the MSME Sector. The MSMEs are key players in the production of goods, industrialization, innovation and creation of employment that impact directly on the lives of the people at the bottom of the economic pyramid. Cognizant of the critical role of MSMEs in contributing to economic growth and employment creation, the Kenya Kwanza Administration constituted the State Department for MSME Development to mainstream MSMEs into national regulatory framework, policy, planning and budgeting to support their development through appropriate interventions to propel their growth, transformation and enhance their contribution to the Kenya economy.

#### a) Sustainability strategy and profile

Despite the Government's commitment to promoting and developing the MSME Sector, there are various trends that may cause interference along the way including:

- i. **Technological advancement and innovations:** While a lot of progress has been made in the field of technology, the rapid change in technology requires the sector to keep pace for it to remain competitive. Therefore, there is a need to improve on the current technology to cope up with the market dynamism and ensure competitiveness in the MSME sector.
- ii. **Geo-Politics:** The current geopolitics and alignments in the global economic power bases is a phenomenon that may continue to shape investments and trade flows. Therefore, businesses will be careful on how to manage the volatile conditions that could affect the global supply chains and globalization of trade.
- iii. **Multiple Trade Regulations and Non-Tariff Barriers in foreign markets:** Kenya is a member of various trading blocs. These blocs implement trade facilitation instruments such as Common External Tariff (CET), Rules of Origin (RoO), Axle-load limits, transport insurance requirements and trade regulations. This has resulted in Non-Tariff Barriers which pose challenges to the business community in complying with the different trading arrangements while crossing borders. This gives rise to the challenge of dealing with unfair

competition brought about by flow of exports through Partner States which belong to other trading blocs where RoO are not strictly enforced.

- iv. **High Cost of Energy:** Excessive cost of energy discourages the entrepreneurial development as businesses grapple with high cost of production resulting in small profit margins.
- v. **Insecurity:** The Sector faces insecurity challenges which hamper entrepreneurial development. Efforts have been made to address the challenges; however, a lot still needs to be done to ensure complete eradication of insecurity. Potential security threats such as Terrorism, Cybercrime, cattle rustling, tribal clashes among others are some key challenges the Sector experiences.
- vi. **Climate Change and Environmental Challenges:** Climate change has remained a concern which has influenced the operations and activities of the Sector. Even as Kenya continues to consolidate long-term solutions on adaptation and mitigation measures, issues such as emission reduction caps, the increased carbon sinks, carbon trading and credit ratings continually influence the operations of the Sector. Pollution and land use conflicts have resulted in pressure on natural resources on which the Sector depends upon.
- vii. **Scarcity of Land Banks:** The availability of adequate, affordable, and accessible land is a crucial factor for implementation of Sector programmes and projects. Excessive cost of land has significantly reduced the number of programmes and projects undertaken in the sector. Additionally, improper land use patterns, illegal occupation of land by squatters and acquisition of earmarked land by speculators has led to land scarcity resulting in delays in launch of projects and inflated costs.

**b) Environmental performance /climate change/ mitigation of natural disasters**

In Kenya, MSMEs are subject to various environmental policies and regulations aimed at promoting sustainable business practices and minimizing negative environmental impacts. Some of the key policies include:

- (i) **Environmental Management and Coordination Act (EMCA), 1999 Revised 2012:** This is a comprehensive piece of legislation that establishes the legal framework for environmental management in Kenya. It covers a wide range of issues, including environmental impact assessment, waste management, pollution control, and natural resource management. MSMEs are required to comply with the provisions of this Act and obtain relevant permits or licenses for their operations.
- (ii) **National Environmental Policy, 2013:** This policy outlines the government's approach to environmental management and sustainable development. It emphasizes the integration of environmental considerations into various sectors, including industry and business. MSMEs are encouraged to adopt environmentally friendly practices and technologies.
- (iii) **Waste Management Regulations, 2006:** These regulations provide guidelines for the proper management, handling, and disposal of various types of waste, including hazardous waste. MSMEs are required to manage their waste in accordance with these regulations to prevent environmental pollution.
- (iv) **Air Quality Regulations, 2014:** These regulations set standards for ambient air quality to safeguard human health and the environment. MSMEs that emit pollutants into the air are expected to adhere to these standards and implement measures to reduce air pollution.
- (v) **Water Quality Regulations, 2006:** These regulations establish water quality standards for different types of water bodies. MSMEs that discharge effluents into water bodies must ensure that their discharges meet the prescribed quality standards.
- (vi) **Plastic Ban and Extended Producer Responsibility (EPR) Initiatives:** Kenya has taken steps to address plastic pollution by banning single-use plastic bags and promoting the responsible use and disposal of plastics.

MSMEs involved in the production or use of plastics are affected by these regulations.

- (vii) **Climate Change Act, 2016:** This Act provides a framework for addressing climate change issues in Kenya. While it may not directly target MSMEs, it underscores the importance of reducing greenhouse gas emissions and building resilience to climate change impacts.

MSMEs in Kenya are encouraged to stay updated with relevant government agencies, such as the National Environment Management Authority (NEMA), to ensure compliance with current environmental policies and regulations. It's also recommended to seek guidance from legal experts or consultants who specialize in environmental compliance for businesses.

#### **Success on Environmental Performance**

The Sector provides a framework and compliance guidelines on matters related to environment during business development and operations. Further, the Sector provides policies that are compatible with open trade regime as they create market for environmentally certified goods that meet international standards. Through use of environmentally friendly packaging materials, the Sector has contributed significantly to a clean environment.

#### **Shortcomings on Environmental Performance**

The MSME sector is particularly vulnerable to the effects of climate change. Due to their limited resources and small size, MSMEs tend to have less access to innovative technologies, capital or insurance to protect their business from extreme climate effects. Climate change can also cause a shift in economic activities, leading to a decrease in demand for goods and services produced by MSMEs. MSMEs may also experience higher energy and water costs, increased difficulty in accessing natural resources and increased health risks. Therefore, it is important to develop policies and initiatives that consider the unique challenges faced by MSMEs to ensure their long-term sustainability.

The State Department is committed and engaged in the National Tree Growing Restoration Campaign as per the Presidential Directives., Below are some of the activities.



**Activity: National trees planting day**

Former CS Ministry of cooperatives, Micro, small and Medium Enterprise Development during a tree planting exercise in Uasin Gishu

**Activity: Annual Tree planting exercise.**

SDMSMEs PS Susan Mangeni at Timboroa forest , Kamur wetlands during the Tree planting exercise towards a National target of 15 Billion Trees.



**Activity: Combating climate change**

A total of 45 Acres in Kamur wetlands were restored with indigenous trees and a further 20 Acres restored with exotic trees. A total of 1.3 million tree seedlings were planted surpassing a 1 million target

**c) Employee welfare**

The State Department is guided by a Human Resource Plan and the Human Resources Policy and Procedures Manual, 2016. In this regard, the following committees have been operationalized to guide appointments, promotion, training, and staff performance appraisals.

- i) Human Resource Management and Advisory Committee
- ii) Performance Management Committee
- iii) Human Resource Development Committee.

**d) Operational practices/ Market place practices**

In accordance with article 27 of the 2010 Constitution that requires public entities to be fair, equitable, transparent, competitive, and cost effective when contracting for goods, works and services. The State Department has put in place measures to ensure that these crucial tenets of our constitution are achieved. The State Department further strictly adheres to the public procurement laws in order not only to ensure fairness and transparency in our procurement process but also realize value for money.

The State Department has continued to successfully implement the government policy on access to government procurement opportunities (AGPO) for disadvantaged groups of women, Youth and people living with disabilities.

**e) Community Engagements-**

The State Department is charged with the responsibility of promotion and development of MSME Sector through entrepreneurship and management training. All the various activities involve community engagement. Below are some of the activities.



**Activity: Jua Kali Sector Engagement**

The PS discusses with MSME groups who are in Juakali Industry at Kamukunji, Nairobi. The State Department of MSMEs through MSEA will continue to support Hustlers on development of enterprises and equipping them.

**Activity: Supporting youth, women and persons living with disabilities**

The PS presided over the disbursement of Uwezo Fund and youth fund Cheques worth Ksh. 13.7 million for Youth, Women & People living with Disabilities groups in Butere Constituency, Kakamega County.



## 9. Statement of Management Responsibilities

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the State Department for Micro, Small and Medium Enterprises Development is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2024. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity, (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the entity;

(v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the State Department for Micro, Small and Medium Enterprises Development accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2024, and of the entity's financial position as at that date. The Accounting Officer in charge of the State Department for Micro, Small and Medium Enterprises Development further confirms the completeness of the accounting records maintained for the State Department for Micro, Small and Medium Enterprises Development, which have been

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relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of State Department for Micro, Small and Medium Enterprises Development confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

**Approval of the financial statements**

The State Department for Micro, Small and Medium Enterprises Development financial statements were approved and signed by the Accounting Officer on 2/12/2024 2024.



.....  
**SUSAN MANG'ENI**  
Accounting Officer



.....  
**STEPHEN GAKANG'A**  
Head of Accounting Unit  
ICPAK M/No: 16194

# REPUBLIC OF KENYA



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## REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR MICRO SMALL AND MEDIUM ENTERPRISES DEVELOPMENT FOR THE YEAR ENDED 30 JUNE, 2024

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### PREAMBLE

I draw your attention to the contents of my report, which is in three parts:

- A. Report on the Financial Statements, which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws, and regulations, which have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance, which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the report on the Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of State Department for Micro Small and Medium Enterprises Development set out on pages 1 to 36, which comprise of

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*Report of the Auditor-General on State Department for Micro Small and Medium Enterprises Development for the year ended 30 June, 2024*

the statement of financial assets and financial liabilities as at 30 June, 2024, and the statement of receipts and payments, statement of cash flows, statement of comparison of budget and actual amounts, summary statement of appropriation - recurrent, summary statement of appropriation - development, budget execution by programmes and sub-programmes for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of State Department for Micro Small and Medium Enterprises Development as at 30 June, 2024, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department for Micro Small and Medium Enterprises Development Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Emphasis of Matter**

#### **1. Pending Accounts Payables**

Annex 1 to the financial statements reflects pending accounts payable of Kshs.53,750,295 relating to supply of goods and services. The was not settled during the year under review. The amount was not settled during the year but instead carried forward to 2024/2025 financial year. Management has not explained why the bills were not settled during the year they occurred.

Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

#### **2. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.7,689,563,354 and Kshs.3,189,793,275 respectively resulting in an under-funding of Kshs.4,499,770,078 or 59% of the budget. However, the state department spent a balance of Kshs.3,188,457,299 against actual receipts of Kshs.3,189,793,275 resulting to an under-utilization of Kshs.1,335,975.

The under-funding and under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

My report is not modified in respect of these matters.

### **Key Audit Matter**

Key audit matters are those matters which, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Other Information**

The Management are responsible for the other information set out on page v to lxxi which comprise of Key Entity Information and Management, Statement of Governance, Statement by the Cabinet Secretary, Statement by the Principal Secretary, Statement of Performance Against Predetermined Objectives, Management Discussion and analysis, Environmental and Sustainability Reporting and Statement of Management's responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the State Department for Micro Small and Medium Enterprises Development financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **Irregular Advance Payment for Fuel, Oils and Lubricants**

The statement of receipts and payments reflects expenditures on use of goods and services of Kshs. 142,633,011 as disclosed in Note 4 to the financial statements. The expenditure on use of goods and services include expenditure on fuel, oil and lubricants of Kshs.6,160,814. However, as previously reported, the expenditures on fuel, oil and lubricants totalling Kshs. 5,764,815 were paid in advance contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that no works, goods or

services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement. Such an advance payment shall not be paid before the contract is signed. Further, signed contracts between the State Department and suppliers were not provided for audit.

Further, the fuel, oil and lubricants were procured from one suppliers through direct method which was contrary to Section 103(2) of the Public Procurement and Asset Disposal Act, 2015

In the circumstances, Management was in breach of the law.

## **2. Value for Money on Rentals of Produced Assets**

The statement of financial performance reflects use of goods and services of Kshs.142,633,011 which includes rentals of produced assets expenditure of Kshs.12,000,000 as disclosed in Note 4 to the financial statements. According to lease agreement signed on 30 June, 2023 between a local company and The State Department, the State Department acquired the lease for a period of six (6) years. Further, the State Department was granted three (3) months rent-free period starting from July 2023 to September 2023, to enable fitting out partitions, fittings and fixtures. However, at close of audit in November 2024, fifteen (15) months later, the State Department has not occupied the premises. Cumulatively the State Department has spent an amount of Kshs.22,066,978 on leasing unoccupied office space. The Kenya Institute of Business Training (KIBT) which operates under the State Department for Micro, Small and Medium Enterprises has a building which is 60% occupied. No explanation was given why the State Department has not taken up the unoccupied space in KIBT building.

In the circumstances, the value for money of rentals of produced assets of Kshs.22,066,978 could not be confirmed.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards requires that I comply with ethical requirements, plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Disconnection of Rater Services at Kenya Institute of Business Training**

The Kenya Institute of Business training is a training institution under the State Department which is responsible for payment of all utilities used by the Institute. However, review of records revealed various incidences where water services had been disconnected due to non-payment of water bills during the year under review. No explanation given by Management for not making prompt payments for water services.

In the circumstances, the effectiveness of payment of utilities service could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the State Department's ability to continue sustaining its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to terminate the State Department or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the State Department for Trade financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.

  
FCPA Nancy Gatirungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**24 December, 2024**

### 11. Statement of Receipts and Payments for the Year ended 30<sup>th</sup> June 2024

Description	Note	2023/2024	2022/2023
		Kshs	Kshs
<b>Receipts</b>			
Exchequer Releases	1	3,189,793,275	389,545,727
Miscellaneous Receipts	2	0	257,604,131
<b>Total Receipts</b>		<b>3,189,793,275</b>	<b>647,149,858</b>
<b>Payments</b>			
Compensation of Employees	3	81,354,108	0.00
Use of Goods and Services	4	142,633,011	55,961,598
Grants and Transfers to Other Government Entities	5	2,926,136,000	525,748,781
Acquisition of Assets	6	38,334,179	15,722,064
<b>Total Payments</b>		<b>3,188,457,299</b>	<b>597,432,443</b>
<b>Surplus/(Deficit)</b>		<b>1,335,975</b>	<b>49,717,415</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 2/12/24 2024 and signed by:



SUSAN MANG'ENI  
Accounting Officer

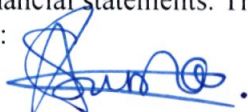


STEPHEN GAKANG'A  
Head of Accounting Unit  
ICPAK M/No: 16194

## 12. Statement Of Financial Assets And Financial Liabilities As At 30<sup>th</sup> June 2024

Description	Note	2023/2024	2022/2023
		Kshs	Kshs
<b>Financial assets</b>			
<b>Cash and cash equivalents</b>			
Bank balances	7	1,335,975	49,717,415
Cash balances		0	0
<b>Total cash and cash equivalents</b>		1,335,975	49,717,415
Imprests and advances		0	0
<b>Total financial assets</b>		1,335,975	49,717,415
<b>Financial liabilities</b>			
Third party deposits and retention		(0)	(0)
<b>Net financial assets</b>		1,335,975	49,717,415
<b>Represented by</b>			
Fund balance b/fwd.	8	49,717,415	0
Prior year adjustment	9	(49,717,415)	0
Surplus/(Deficit) for the year		1,335,975	49,717,415
<b>Net financial position</b>		1,335,975	49,717,415

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 2/12/24 2024 and signed by:



.....  
**SUSAN MANG'ENI**  
 Accounting Officer



.....  
**STEPHEN GAKANG'A**  
 Head of Accounting Unit  
 ICPAK M/No: 16194

### 13. Statement of Cash Flows For The Year Ended 30<sup>th</sup> June 2024

Description	Notes	2023/2024	2022/2023
		Kshs	Kshs
<b>Operating Activities</b>			
<b>Receipts</b>			
Exchequer releases	1	3,189,793,275	389,545,727
Miscellaneous receipts	2	0	257,604,131
<b>Total Receipts</b>		<b>3,189,793,275</b>	<b>647,149,858</b>
<b>Payments</b>			
Compensation of employees	3	81,354,109	0
Use of goods and services	4	142,633,011	55,961,598
Transfers to other government units	5	2,926,136,000	525,748,781
<b>Total Payment</b>		<b>3,150,123,120</b>	<b>581,710,379</b>
<b>Net receipts/(payments)</b>		<b>39,670,155</b>	<b>65,439,479</b>
<b>Adjusted For:</b>			
Adjustments during the year			
Prior year adjustments	9	(49,717,415)	0
Decrease/(Increase) in accounts receivable		(0)	0
Increase/(Decrease) in deposits and retention		0	0
<b>Net Cash Flow from Operating Activities</b>		<b>(10,047,259)</b>	<b>65,439,479</b>
<b>Cash flow From Investing Activities</b>			
Proceeds from sale of assets		0	0
Acquisition of assets	6	(38,334,179)	15,722,064
<b>Net Cash Flows from Investing Activities</b>		<b>(38,334,179)</b>	<b>15,722,064</b>
<b>Net increase in cash and cash equivalents</b>		<b>(48,381,438)</b>	<b>49,717,415</b>

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

Description	Notes	2023/2024	2022/2023
		Kshs	Kshs
Cash & Cash Equivalent at Start of The Year	9	49,717,415	0
Cash & Cash Equivalent at End of The Year		1,335,975	49,717,415

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 2/01 2024 and signed by:

.....  
**SUSAN MANG'ENI**  
 Accounting Officer

.....  
**STEPHEN GAKANG'A**  
 Head of Accounting Unit  
 ICPAK M/No: 16194

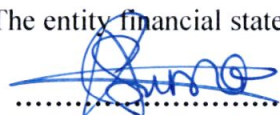
#### 14. Statement of Comparison of Budget and Actual Amounts for FY2023/24

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Exchequer releases	8,211,002,754	(521,439,400)	7,689,563,354	3,189,793,275	4,499,770,078	41.48%
Transfers from other government entities	0	0	0	0	0	0
Miscellaneous receipts	0	0	0	0	0	0
<b>Total Receipts</b>	<b>8,211,002,754</b>	<b>(521,439,400)</b>	<b>7,689,563,354</b>	<b>3,189,793,275</b>	<b>4,499,770,078</b>	<b>41.48%</b>
<b>Payments</b>						
Compensation of employees	154,700,000	(56,000,000)	98,700,000	81,354,109	17,345,891	82.4%
Use of goods and services & Routine Maintenance	167,065,467	(6,850,000)	160,215,467	142,633,011	17,582,456	89%
Transfers to other government entities	7,756,309,400	(465,439,400)	7,290,870,000	2,926,136,000	4,364,734,000	40.1%
Acquisition of assets	132,927,887	6,850,000	139,777,887	38,334,179	101,443,708	27.4%
<b>Total Payments</b>	<b>8,211,002,754</b>	<b>(521,439,400)</b>	<b>7,689,563,354</b>	<b>3,188,457,299</b>	<b>4,501,106,055</b>	<b>58.5%</b>
<b>Surplus/ Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,335,975</b>	<b>(1,335,975)</b>	

(a) **Variance analysis:** The underutilisation was as a result low funding of Financial Inclusion Fund and nil absorption in refurbishment of buildings.

(b) **Reallocations within the year:** The changes between original and final budget is a result of reallocation within the budget and realignments due to supplementary budget.

The entity financial statements were approved on 2/12 2024 and signed by:

  
.....

**SUSAN MANG'ENI**  
**Accounting Officer**

  
.....

**STEPHEN GAKANG'A**  
**Head of Accounting Unit**  
**ICPAK M/No: 16194**

14 (a) Statement Of Comparison of Budget and Actual Amounts: Recurrent for FY 2023/24

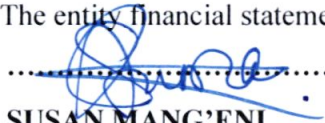
Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Exchequer releases	1,660,363,354	100,000,000	1,760,363,354	1,467,992,475	292,370,878	83.39%
Miscellaneous receipts	0	0	0			
<b>Total Receipts</b>	<b>1,660,363,354</b>	<b>100,000,000</b>	<b>1,760,363,354</b>	<b>1,467,992,475</b>	<b>292,370,878</b>	<b>83.39%</b>
<b>Payments</b>						
Compensation of employees	154,700,000	(56,000,000)	98,700,000	81,354,109	17,345,891	82.4%
Use of goods and services & Routine Maintenance	167,065,467	(6,850,000)	160,215,467	142,633,011	17,582,454	89%
Transfers to other Government entities	1,205,670,000	156,000,000	1,361,670,000	1,205,670,000	156,000,000	88.5%
Acquisition of assets	132,927,887	6,850,000	139,777,887	38,334,179	101,443,708	27.4%
Other payments						
<b>Total Payments</b>	<b>1,660,363,354</b>	<b>100,000,000</b>	<b>1,760,363,354</b>	<b>1,467,991,299</b>	<b>292,372,054</b>	<b>83.39%</b>
<b>Surplus/Deficit</b>				<b>1,175</b>	<b>(1,175)</b>	


Notes

*Variance analysis:* under Acquisition of assets, low absorption is occasioned by lack of utilisation of funds meant for refurbishment of buildings.

*Reallocations within the year: The changes between original and final budget is a result of reallocation within the budget and realignments due to supplementary budget.*

The entity financial statements were approved on 2/12 2024 and signed by:

  
.....  
**SUSAN MANG'ENI**  
**Accounting Officer**

  
.....  
**STEPHEN GAKANG'A**  
**Head of Accounting Unit**  
**ICPAK M/No: 16194**

14 (b) Statement Of Comparison of Budget and Actual Amounts: Development for FY 2023/24

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Exchequer releases	6,550,639,400	(621,439,400)	5,929,200,000	1,721,800,800	4,207,399,200	29%
Miscellaneous receipts	0	0	0			
<b>Total Receipts</b>	<b>6,650,639,400</b>	<b>(621,439,400)</b>	<b>5,929,200,000</b>	<b>1,721,800,800</b>	<b>4,207,399,200</b>	<b>29%</b>
<b>Payments</b>						
Transfers to other Government entity	6,650,639,400	(621,439,400)	5,929,200,000	1,720,466,000	4,208,734,000	29%
<b>Total Payments</b>	<b>6,650,639,400</b>	<b>(621,439,400)</b>	<b>5,929,200,000</b>	<b>1,720,466,000</b>	<b>4,208,734,000</b>	<b>29%</b>
<b>Surplus/Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,334,800</b>	<b>(1,334,800)</b>	

(c) *Variance analysis: The underutilisation was as a result of low funding of Financial Inclusion Fund.*

(a) *Reallocations within the year: The changes between original and final budget is a result of reallocation within the budget and realignments due to supplementary budget.*

The entity financial statements were approved on 2/12/ 2024 and signed by:

  
 .....

SUSAN MANG'ENI  
 Accounting Officer

  
 .....

STEPHEN GAKANG'A  
 Head of Accounting Unit  
 ICPAK M/No: 16194

14 (c) Budget Execution by Programmes and Sub-Programmes for FY2023/24

Programme/Sub-programme	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget utilization difference
	2023/24			2023/24	
	Kshs			Kshs	Kshs
<b>0316000 Promotion and Development of MSMEs</b>	<b>1,680,161,688</b>	<b>(490,639,400)</b>	<b>1,189,522,288</b>	<b>1,066,516,461</b>	<b>123,005,826</b>
0316010 MSMEs Development and Promotion	1,587,136,050	(445,439,400)	1,141,696,650	1,028,817,007	112,879,642
0316020 Entrepreneurship and Business Development Services	93,025,638	(45,200,000)	47,825,638	37,699,453	10,126,184
<b>0317000 Product and Market Development for MSMEs</b>	<b>577,535,500</b>	<b>12,406,631</b>	<b>589,942,131</b>	<b>369,826,879</b>	<b>220,115,252</b>
0317010 Market Linkages for MSMEs	4,845,500	0	4,845,500	3,836,879	1,008,621
0317030 Value Addition, Innovation and Incubation for MSMEs	572,690,000	12,406,631	585,096,631	365,990,000	219,106,631

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

<b>Programme/Sub-programme</b>	<b>Original Budget</b>	<b>Adjustments</b>	<b>Final Budget</b>	<b>Actual on comparable basis</b>	<b>Budget utilization difference</b>
	<b>2023/24</b>			<b>2023/24</b>	
<b>0318000 Digitization and Financial Inclusion for MSMEs</b>	<b>5,865,780,000</b>	<b>0</b>	<b>5,865,780,000</b>	<b>1,487,686,000</b>	<b>4,378,094,000</b>
0318010 Financial Inclusion	5,000,000,000	120,000,000	5,120,000,000	800,000,000	4,320,000,000
0318020 Youth Employment Services	623,780,000	36,000,000	659,780,000	601,686,000	58,094,000
0318030 Youth, Women and PWDs Empowerment	242,000,000	(156,000,000)	86,000,000	86,000,000	0
<b>0319000 General Administration, Planning and Support Services</b>	<b>398,725,566</b>	<b>(10,800,000)</b>	<b>387,925,566</b>	<b>264,427,959</b>	<b>123,497,606</b>
0319010 General Administration, Planning and Support Services	398,725,566	(10,800,000)	387,925,566	264,427,959	123,497,606
<b>TOTAL</b>	<b>8,522,202,754</b>	<b>(489,032,769)</b>	<b>8,033,169,985</b>	<b>3,188,457,299</b>	<b>4,844,712,685</b>

## 15. Notes to the Financial Statements

### 1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

### 2. Reporting Entity

The financial statements are for the State Department for Micro, Small and Medium Enterprises Development. The financial statements encompass the reporting entity as specified under Section 81 of the PFM Act 2012.

### 3. Reporting Currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

#### Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the State Department for Micro, Small and Medium Enterprises Development for all the years presented.

#### a) Recognition of Receipts

The State Department for Micro, Small and Medium Enterprises Development recognises all receipts from the various sources when the event occurs, and the related cash has been received.

##### (i) Transfers from the Exchequer

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving *entity*.

**(ii) External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners. Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment. During the year ended 30<sup>th</sup> June 2024, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans

**(iii) miscellaneous receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

**b) Recognition of payments**

The Entity recognises all payments when the event occurs, and the related cash has been paid out by the State Department for Micro, Small and Medium Enterprises Development.

**i) Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

**ii) Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

### **Significant Accounting Policies (Continued)**

#### **iii) Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

#### **iv) Principal on borrowing**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

#### **v) Acquisition of Fixed Assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained and a summary provided for purposes of consolidation. *This summary is disclosed as an annexure 2 to the financial statements.*

#### **vi) In-kind contributions**

In-kind contributions are donations that are made to the Entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *Entity* includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

#### **vii) Third Party Payments**

Included in the receipts and payments, are payments made on the entity's behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings or grants.

## Significant Accounting Policies (Continued)

### c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. A bank account register is maintained, and a summary provided for purposes of consolidation. *This summary is disclosed as note 8 to the financial statements.*

### Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits and retentions. As of 30th June 2024, this amounted to Kshs nil compared to Kshs nil in prior period as indicated on note . There were no other restrictions on cash during the year.

### d) Imprests and advances

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or Authority to Incur Expenditure (AIE) holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

## Significant Accounting Policies (Continued)

### e) Third party deposits and retention

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted for National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

### f) Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

### g) Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits and retentions, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament in *June 2023 for the period 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024* as required by Law and there were 2 number of supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements. Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

**h) Comparative Figures**

Where necessary, comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**i) Subsequent Events**

There have been no events after the financial year end with a significant impact on the financial statements for the year ended 30<sup>th</sup> June 2024.

**j) Prior Period Adjustment**

During the year, errors that have been corrected are disclosed *under note 10* explaining the nature and amounts.

**k) Related Party Transactions**

Related party means parties are related if one party has the ability to:

- a) Control the other party or
- b) Exercise significant influence over the other party in making financial and operational decisions, or if the related party entity and another entity are subject to common control.

Related party transaction is a transfer of resources or obligations between related parties regardless of whether a price is charged.

## Significant Accounting Policies (Continued)

### l) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
  - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships. The *entity* does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

## Notes to the Financial Statements

### 1 Exchequer releases

Description		2023/2024	2022/2023
		Kshs	Kshs
Recurrent:	Quarter 1	183,126,400	0
	Quarter 2	498,484,121	0
	Quarter 3	351,617,849	0
	Quarter 4	434,764,103	343,545,727
<b>Total</b>		<b>1,467,992,475</b>	<b>343,545,727</b>
Development:	Quarter 1	0	0
	Quarter 2	433,979,000	0
	Quarter 3	936,156,000	0
	Quarter 4	351,665,800	46,000,000
<b>Total</b>		<b>1,721,800,800</b>	<b>46,000,000</b>

During the year, the State department received Total exchequer amounting to Ksh 3,189,793,275. Out of which Ksh 1,467,992,475 was Recurrent and Ksh 1,721,800,800 was Development.

### 2 Miscellaneous Receipts

Description	2023/2024	2022/2023
	Kshs	Kshs
Receipts from Administrative Fees and Charges - Collected as AIA(KIE)	0	253,066,834
Receipts from Administrative Fees and Charges - Collected as AIA(MSEA)	0	4,537,297
Interest Receipts on Other Domestic Lending and On-Lending	0	0
<b>Total</b>		<b>257,604,131</b>

The state department does not collect AIA but its SAGAs do and they report in their financial statements.

### 3.Compensation to Employees

Description	2023/2024	2022/2023
	Kshs	Kshs
Basic salaries of permanent employees	53,912,020	0
Basic wages of temporary employees	0	0
Personal allowances paid as part of salary	27,442,088	0
Personal allowances paid as reimbursements	0	0
Personal allowances provided in kind	0	0
Pension and other social security contributions	0	0
Employer contributions to compulsory national social security schemes	0	0
Employer contributions to compulsory national health insurance schemes	0	0
<b>Total</b>	<b>81,354,108</b>	<b>0</b>

There was no expenditure under compensation of employees in the financial year 2022/2023. The State Department for Micro, Small and Medium Enterprises Development was a new Department created through the Executive Order No. 1 of 2023 following the re-organization of Government, therefore no funds were utilised under employee's compensation since all the staff were transferred from various Institutions and the payroll within the department had not been established.

**Notes to the Financial Statements (Continued)**

**4. Use of Goods and Services**

Description	2023/24	2022/23
	Kshs	Kshs
Utilities, Supplies and Services	4,487,848	0.00
Communication, supplies and services	4,012,045	2,430,757
Domestic travel and subsistence	40,840,629	5,626,275
Foreign travel and subsistence	11,349,251	9,305,971
Printing, advertising and information supplies	3,908,000	634,603
Rentals of produced assets	12,000,000	10,066,978
Training expenses	17,097,725	7,343,608
Hospitality supplies and services	25,347,049	12,286,550
Specialised Materials and supplies	48,000	0
Fuel Oil and Lubricants	6,160,814	2,286,472
Other operating expenses	10,586,826	3,630,300
General Office Supplies	5,454,429	1,655,318
Routine Maintenance - vehicles and other transport equipments	1,340,394	694,766
<b>TOTALS</b>	<b>142,633,011</b>	<b>55,961,598</b>

Notes to the Financial Statements (Continued)

5(a) Grants and Transfers to other Government Entities

Description	2023/2024	2022/2023
	Kshs	Kshs
<b>Transfers to National Government entities</b>		
(MSEA)	1,072,460,000	101,725,000
FUND(YEDF)	447,986,000	64,723,781
KENYA INDUSTRIAL ESTATE LIMITED (KIE)	365,990,000	274,917,500
UWEZO FUND (YOUTH EMPLOYMENT & ENTERPRISE) (YEMPE)	239,700,000	84,382,500
FINANCIAL INCLUSION FUND (FIF)	800,000,000	0.00
<b>TOTAL TRANSFERS</b>	<b>2,926,136,000</b>	<b>525,748,781</b>

Notes to the Financial Statements (Continued)

5 b: Transfers to self – reporting entities in the year

*The above transfers were made to the following self-reporting entities in the year:*

Description	Recurrent	Development	Total for the year	2022/2023
	Kshs	Kshs	Kshs	Kshs
<b>Transfers to SAGAs and SCs</b>				
(MSEA)	440,900,000	631,560,000	1,072,460,000	101,725,000
FUND(YEDF)	325,080,000	122,906,000	447,986,000	64,723,781
KENYA INDUSTRIAL ESTATE LIMITED (KIE)	285,990,000	80,000,000	365,990,000	274,917,500
UWEZO FUND (YOUTH EMPLOYMENT & ENTERPRISE) (YEMPE)	153,700,000	86,000,000	239,700,000	84,382,500
FINANCIAL INCLUSION FUND (FIF)	0	800,000,000	800,000,000	0
<b>Total</b>	<b>1,205,670,000</b>	<b>1,720,466,000</b>	<b>2,926,136,000</b>	<b>525,748,781</b>

*We have confirmed these amounts with the recipient entities and attached these confirmations as an Appendix to this financial statement. Include this list as an annex if it goes beyond one page.*

Notes to the Financial Statements (Continued)

6. Acquisition of Assets

Non -Financial Assets	2023/2024	2022/2023
	Kshs	Kshs
Purchase of Vehicles and Other Transport Equipment	34,445,179	11,188,510
Purchase of Office Furniture and General Equipment	1,139,000	3,377,241
Purchase of ICT Equipment, Software and Other ICT Assets	2,750,000	1,156,312
Acquisition of Intangible Assets	0	0
<b>TOTAL</b>	<b>38,334,179</b>	<b>15,722,064</b>

7. Cash and Bank Accounts

Description	2023/2024	2022/2023
	Kshs	Kshs
Bank Accounts (Note 8)	1,335,975	2,813,284
KIE (AIA)	0	46,366,833
MSEA (AIA)		537,297
Cash on hand	0	0
<b>Total</b>	<b>1,335,975</b>	<b>49,717,415</b>

**MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
Annual Report and Financial Statements for the year ended 30th June 2024**

**Bank Accounts**

Name of Bank, Account No. & currency	Amount in bank account KSHS	Indicate whether recurrent, Development , deposit etc.	Exc rate (if in foreign currency)	2023/2024	2022/2023
				Kshs	Kshs
1000695374, Kshs CBK- RECURRENT	1,175.80	RECURRENT		1,175	2,813,284
Kenya,1000695404, Kshs CBK - DEVELOPMENT	1,334,800. 00	DEVELOPMENT		1,334,800	0
Kenya,1000695382, Kshs CBK- DEPOSIT	0.00	DEPOSIT		0.00	0
KIE Bank balances		REVENUE			46,366,833.50
MSEA Bank balances		REVENUE			537,297.00
<b>TOTAL</b>	<b>1,335,975. 80</b>			<b>1,335,975</b>	<b>49,717,415</b>

*Notes to the Financial Statements (Continued)*

**Imprests and Advances**

<i>Description</i>	<i>2023/2024</i>	<i>2022/2023</i>
	<b>Kshs</b>	<b>Kshs</b>
Government Imprests	0	0
Salary advances	0	0
District suspense	0	0
Clearance accounts	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

*Provide explanation why imprest was not recovered at year end.*

**Imprests and advances Aging analysis.**

	<b>2023/2024</b>	<b>% of the total</b>	<b>2022/2023</b>	<b>% of the total</b>
Under one year	0	0%	0	0%
1-2 years	0	0%	0	0%
2-3 years	0	0%	0	0%
Over 3 years	0	0%	0	0%
<b>Total</b>	<b>0</b>		<b>0</b>	

**8. Fund Balance Brought Forward**

<i>Description</i>	<i>2023/2024</i>	<i>2022/2023</i>
	<b>Kshs</b>	<b>Kshs</b>
Bank Accounts	<b>49,717,415</b>	<b>0</b>
Cash in hand	0	0
Imprests and advances	0	0
Third party deposits and retention	0	0
<b>Total</b>	<b>49,717,415</b>	<b>0</b>

### 9. Prior Year Adjustments

	Balance b/f from previous year as per audited financial statements	Adjustments during the year relating to prior periods	Adjusted ** Balance b/f Current Year
Description of the error	Kshs	Kshs	Kshs
Bank Account Balances	49,717,415	(49,717,415)	0
Cash In Hand	0	0	0
Imprests and advances	0	0	0
Third party deposits and retention	0	0	0
Others ( <i>Specify</i> )	0	0	0
<b>TOTAL</b>	<b>49,717,415</b>	<b>(49,717,415)</b>	<b>0</b>

*The adjustment relates to correction of error noted with regard to treatment of AIA collected by MSEA and KIE. The balance of amount in the CBK recurrent account at the closure of financial year 2022/2023 was swept by the National Treasury to the consolidated fund.*

**(Increase)/ Decrease in Advances and Imprests**

Description	2023/2024	2022/2023
	Kshs	Kshs
Receivables As At 1 <sup>st</sup> July (A)	0	0
Receivables As At 30 <sup>th</sup> June (B)	0	0
<b>(Increase)/ Decrease in Receivables (C=(B-A))</b>	<b>0</b>	<b>0</b>

**Related Party Disclosures**

The following comprise of related parties to the State Department for Micro, Small and Medium Enterprises Development.

- i) Key management personnel
  - Cabinet Secretaries
  - Accounting Officers
- ii) Other Ministries Departments and Agencies and Development Projects.
  - Kenya Institute of Business Training (KIBT)
- iii) State Corporations and Semi-Autonomous Government Agencies.
  - Micro and Small Enterprises Authority (MSEA)
  - Kenya Industrial Estates (KIE)
  - Youth Enterprise Development Fund (YEDF)
  - Financial Inclusion Fund
  - Youth Employment & Enterprise – Uwezo Fund

Other Important Disclosures

**Related party transactions:**

Description	2023/2024	2022/2023
	Kshs	Kshs
Key Management Compensation	0	0
<b>Transfers to Related Parties</b>		
Transfers to other MDAs	0	0
Transfers to SAGAs	2,926,136,000	525,748,781
<b>Total Transfers to Related Parties</b>	<b>2,926,136,000</b>	<b>525,748,781</b>
<b>Purchase of Goods and Services</b>		
Purchase of Electricity from KPLC	0	0
Purchase of Water from Govt Service Providers	0	0
<b>Total Goods and Services paid to Govt. Agencies</b>	<b>0</b>	<b>0</b>
<b>Transfers from Related Parties</b>		
Transfers from the Exchequer	3,189,793,275	389,545,727
Transfers from other MDAs	0	0
(Insert any other Transfers Received from Govt.)	0	0
<b>Total Transfers from Related Parties</b>	<b>3,189,793,275</b>	<b>389,545,727</b>

*Other important disclosures (continued)*

**Pending Accounts Payable (See Annex 1)**

	<b>Balance b/f Previous FY</b>	<b>Additions for the period</b>	<b>Paid during the year</b>	<b>Balance c/f Current FY</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Construction of Buildings	0	0	(0)	0
Construction of Civil Works	0	0	(0)	0
Supply of Goods	0	1,355,250	(0)	1,355,250
Supply of Services	0	50,288,640	(0)	50,288,640
<b>Total</b>	<b>0</b>	<b>51,643,890</b>	<b>(0)</b>	<b>51,643,890</b>

**These liabilities were not paid at the end of the financial year due to non funding of  
 exchequer by the National Treasury.**

**Other important disclosures (continued)**

**Progress on follow-up of Prior Years Auditor-General's recommendations.**

The following is the summary of issues raised by the Auditor-General during the prior year and management comments that were provided.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
OAG/AU D/MSME/2022/2023/(11)	<p><b>Cash and cash Equivalent Balance</b></p> <p>The statement of financial assets and financial liabilities and as disclosed in note 7A to the financial statements reflects bank balance of kshs 49,717,415. The balance comprises of bank balance of kshs 2,813,284 and bank balance elsewhere for SAGAS (KIE and MSEA) of kshs 46,904,131. However, the cashbook balance in support of the Recurrent bank Account reflects nil balance resulting in unreconciled</p>	<p>Our actual bank balance as disclosed in Note 7A to the financial statements reflects a bank balance of kshs 49,505,283.20 comprising of CBK recurrent bank account of KSHS 2,601,152.20 and bank balances for SAGAs (Kenya Industrial Estate and Micro and Small Enterprise Authority) of kshs 46,904,131 as per copies of <b>certificates of bank balance and financial statements</b> ref no. MC &amp; MSME/MSME/1/2/(29) dated 23<sup>rd</sup> November 2023 received in OAG offices on 24<sup>th</sup> November 2023 (<b>copies attached</b>) <b>Appendix 1</b>. However, we have realised that the Auditor picked bank balance of kshs 2,813,284 from our earlier response to management letter ref</p>	Not Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>balance of kshs 2,813,284. Further the KIE and MSEA balance of kshs 46,904,131 was not supported with certificate of bank balance. In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of kshs 49,717,415 could not be confirmed.</p>	<p>no MC &amp; MSME/MSME/1/2/(27) dated 10<sup>th</sup> November 2023. <b>(copy attached). Appendix 2</b></p> <p>We acknowledge our bank balance of kshs 2,601,152.20 as per Note 7A to the financial statement should not have been treated as an expense in our cashbook in the month of June 2023 hence reflecting a NIL bank balance for the financial year under review. The balance of kshs 2,601,152.20 should have been treated as an opening balance for financial year 2023/24. We have made amendments to our cashbook to reflect a true position (<i>attached herewith, please find an extract of the cashbook</i>) <b>Appendix 3</b>. Further, an amount of kshs 2,601,152.20 was transferred to National treasury as an unspent balance on 24th July 2023 as per the <i>attached copy of bank statement</i>. <b>Appendix 4</b></p>		

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
OAG/AU D/MSME/2022/2023/(11)	<p><b>Budgetary Control and Performance</b></p> <p>The Statement of Comparison of Budget and Actual Amounts reflects final receipts budget and actual on comparable basis of kshs 633,620,281 and kshs 647,149,858 respectively resulting in an overcollection of kshs 13,529,577. The over collection is attributed to miscellaneous revenue over performance where the actual collection was kshs 257,604,131 against the budgeted collection of kshs 210,700,000. Further, the department spent kshs 644,336,574 against approved budget of kshs 633,620,281 resulting to over expenditure of kshs</p>	<p>Our statement of comparison of budget and actual amounts expenditure summary as contained in the financial report and statement for the period ended 30<sup>th</sup> June,2023 included an amount of kshs 46,904,131 being over collection of AIA by SAGAs. This over collection was treated as part of the transfers to SAGAS giving an impression of over expenditure. <b>(Attached herewith is an extract of the financial report). Appendix 5</b></p> <p>We have amended the financial reports and statements and presented to OAG office vide letter ref no. MC &amp; MSME/MSME/1/2/(29) dated 23<sup>rd</sup> November 2023. The miscellaneous receipt of kshs 46,904,131 has been excluded from statement of budget execution and actual amounts expenditure summary as part of the transfers to</p>	Not Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	10,716,293.	SAGAs. Our actual expenditure for the period therefore is kshs 597,644,575 against a budgetary allocation of kshs 633,620,281. The percentage of total expenditure to actual budget is 94.32%. <i>Attached herewith, please find an amended extract of statement of comparison of budget and actual amounts). Appendix 6</i>		
OAG/AU D/MSME/ 2022/2023 / (11)	<p><b>Irregular Advance payment for fuel, Oils and lubricants</b></p> <p>The statement of receipts and payments reflects expenditures on use of goods and services and routine maintenance of kshs 55,266,832 and kshs 694,766 respectively as disclosed in note 4 to the financial statements. The expenditure on use of goods and services include</p>	<p>The state department wish to state that we utilized the state department for public works - supplies branch contract (<i>attached herewith</i>). <i>Appendix 7</i></p> <p>It is a standard procedure that an item of the nature of fuel and lubricants be paid for in bulk and consumption is done on a need basis. This practise is most suitable where the department does not have storage facility for bulk fuel purchase. The state department for MSME employs the use of fuel cards as internal control measures in consumption of fuel.</p>	Not Resolved	

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>expenditure on fuel, oil and lubricants of kshs 2,286,472. However, expenditure on fuel, oil and lubricants and routine maintenance totalling kshs 2,981,238 were paid in advance contrary to section 146 of the Public Procurement and Disposal Act, 2015 which states that no works, goods or services contract shall be paid for before they are executed or delivered and executed or delivered and accepted by the accounting officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement. Such an advance payment shall not be paid before the</p>	<p>The fuel that was paid for has since been consumed in full as per the <b>statement herein attached. Appendix 8</b></p>		

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	contract is signed. Further, signed contracts between the state department and suppliers were not provided for audit.			



Accounting Officer



Head of Accounting Unit

## 16. Annexes

### Annex 1 - Analysis of Pending Accounts Payable

Supplier of Goods or Services	Date invoiced/contracted	Particulars	Original Amount	Balance at the beginning of the year	Addition During the year	Amount paid During the year	Outstanding Balance	Comments
				a	b	c	d=a+b-c	
<b>Supply of goods</b>								
1. Pamelyste Enterprises Limited	22.05.2024	Supply of Roller up banners	0	0	180,000	0	180,000	Exchequer not funded
2. Gitme Enterprises	31.05.2024	Supply of branded materials	0	0	575,000	0	575,000	Exchequer not funded
3. Silka General Suppliers	26.06.2024	Supply of stationery	0	0	600,250	0	600,250	Exchequer not funded
<b>Sub-Total</b>					<b>1,355,250</b>		<b>1,355,250</b>	
<b>Supply of services</b>								
4. Pamelyste Enterprises Limited	07.12.2023	hire of exhibition booth and other facilities	0	0	665,000	0	665,000	Exchequer not funded
5. Twende Worldwide Tours and Travel	18.04.2024	Provision of air ticket	0	0	3,457,840	0	3,457,840	Exchequer not funded
6. Twende Worldwide Tours and	11.04.2024	Provision of air ticket	0	0	2,774,160	0	2,774,160	Exchequer not funded

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 STATE DEPARTMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) DEVELOPMENT  
 Annual Report and Financial Statements for the year ended 30th June 2024

Supplier of Goods or Services	Date invoiced/contracted	Particulars	Original Amount	Balance at the beginning of the year	Addition During the year	Amount paid During the year	Outstanding Balance	Comments
Travel								
7. Twende Worldwide Tours and Travel	15.01.2024	Provision of air ticket	0	0	1,750,735	0	1,750,735	Exchequer not funded
8. Sarova Panafric	06.06.2024	Provision of conference facility	0	0	350,400	0	350,400	Exchequer not funded
9. Prism Towers Limited	30.04.2024	Rental of office space	0	0	2,106,405	0	2,106,405	Insufficient Budget
10. Noble Construction Company Limited	26.06.2024	Refurbishment and Partitioning of office space at prism Towers	0	0	41,290,505	0	41,290,505	Late submission of payment certificate
<b>Sub-Total</b>					<b>52,395,045</b>		<b>52,395,045</b>	
<b>Grand Total</b>					<b>53,750,295</b>		<b>53,750,295</b>	

**Annex 2 – Summary of Fixed Asset Register**

Asset class	Historical Cost b/f (Kshs) Previous Year	Additions during the year (Kshs)	Disposals during the year (Kshs)	Transfers in/(out) during the year	Historical Cost c/f (Kshs) Current Year
Motor vehicles and other Transport equipment	11,188,510	34,445,179	0	25,560,000	71,193,689
Office equipment, furniture and fittings	3,377,241	1,139,000	0	0	4,516,241
ICT Equipment	1,156,312	2,750,000	0	0	3,906,312
<b>Total</b>	<b>15,722,063</b>	<b>38,334,179</b>	<b>0</b>	<b>0</b>	<b>79,616,242</b>

**Annex 3 – List of Sagas and Public Funds**

Ref	SC, SAGA or Public Fund's name	Amount transferred during the year	Inter- entity reconciliations done?(yes/no)
1	MICRO SMALL ENTERPRISES AUTHORITY (MSEA)	1,072,460,000	Yes
2	YOUTH ENTERPRISES DEVELOPMENT FUND(YEDF)	447,986,000	Yes
3	KENYA INDUSTRIAL ESTATE LIMITED (KIE)	365,990,000	Yes
4	UWEZO FUND (YOUTH EMPLOYMENT & ENTERPRISE) (YEMPE)	239,700,000	Yes
5	FINANCIAL INCLUSION FUND	800,000,000	Yes

#### **Annex 4- Reports Generated from IFMIS**

IFMIS financial reports to be presented on request.

- i) **K IFMIS Comparison Trial Balance**
- ii) **FO 30 (Bank reconciliation) for all bank accounts**
- iii) **GOK IFMIS Receipts and Payments Statement**
- iv) **GOK IFMIS Statement of Financial Position**
- v) **GOK IFMIS Statement of Cash Flows**
- vi) **GOK IFMIS Notes to the Financial Statements**
- vii) **GOK IFMIS Statement of Budget Execution**
- viii) **GOK IFMIS Statement of Deposits**
- ix) **GOK IFMIS Budget Execution by Programme and Economic Classification**
- x) **GOK IFMIS Budget Execution by Head and Programmes**
- xi) **GOK IFMIS Budget Execution by Programmes and Sub- programmes**

## **17. Appendices**

- i) Appendix 1- Confirmation of SAGAs Disbursement**
- ii) Appendix 2- Board of Survey Report**
- iii) Appendix 3-Copies of Bank Statements Extract**
- iv) Appendix 5-Copies of Cash Book Extract**
- v) Appendix 6- Copies of Bank Certificates**
- vi) Appendix 7- Fixed Asset Register**

