KENYA BANKERS ASSOCIATION

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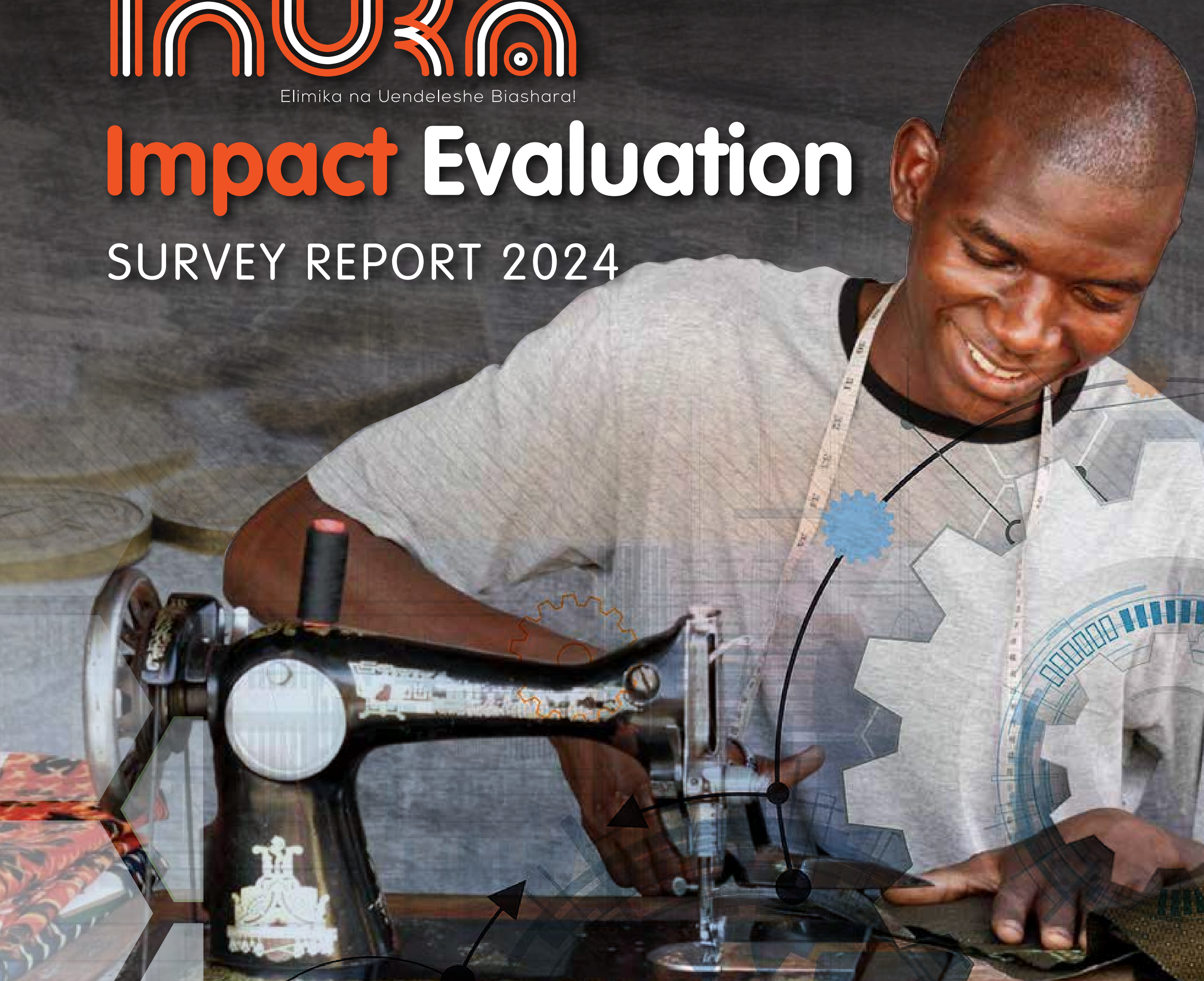
INUKA ENTERPRISE PROGRAM

Elimika na Uendeleshe Biashara!

Impact Evaluation

SURVEY REPORT 2024



CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY®

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Acknowledgement

We gratefully acknowledge the Japan International Cooperation Agency (JICA) for their vital financial support, enabling the completion of this report, The Kenya National Chamber of Commerce and Industry (KNCCI) for facilitating data collection in the 47 Counties. We also express our deep appreciation to Mr. Jared Osoro for his expertise in analysing the data and drafting the report. Special thanks are extended to the members of the Kenya Bankers Association research and policy department, namely Dr. Samuel Tiriongo, Roselyne Njino and Hillary Mulindi, for their thorough review of the report.

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ABOUT THIS REPORT

The Inuka impact evaluation survey report 2024, **comprehensively assesses several key aspects pertinent to the sustainable growth of Micro, Small and Medium Enterprises (SMEs), with a view of informing the redesign of the Inuka enterprise program.**

The report delves into the multifaceted landscape of MSMEs, analyzing their demographic profiles, formalization status, and impact on business growth and job creation. It evaluates capacity-building initiatives and opportunities for value addition, alongside assessing access to finance and record-keeping practices.

Central to the evaluation is the effectiveness, efficiency, and sustainability of the Inuka program. Conclusions drawn highlight challenges faced by MSMEs and the efficacy of existing support programs.

The analysis and conclusions presented in this report solely reflect the perspectives of the authors. As such, they should not be attributed to the KBA Governing Council or its General Body members.

The KBA Research Team

Dr. Samuel Tiriongo
Director, KBA Centre for Research on Financial Markets and Policy®

Roselyne Njino
Senior Sustainability Specialist

Hillary Mulindi
Research, Policy, and Knowledge Management Officer

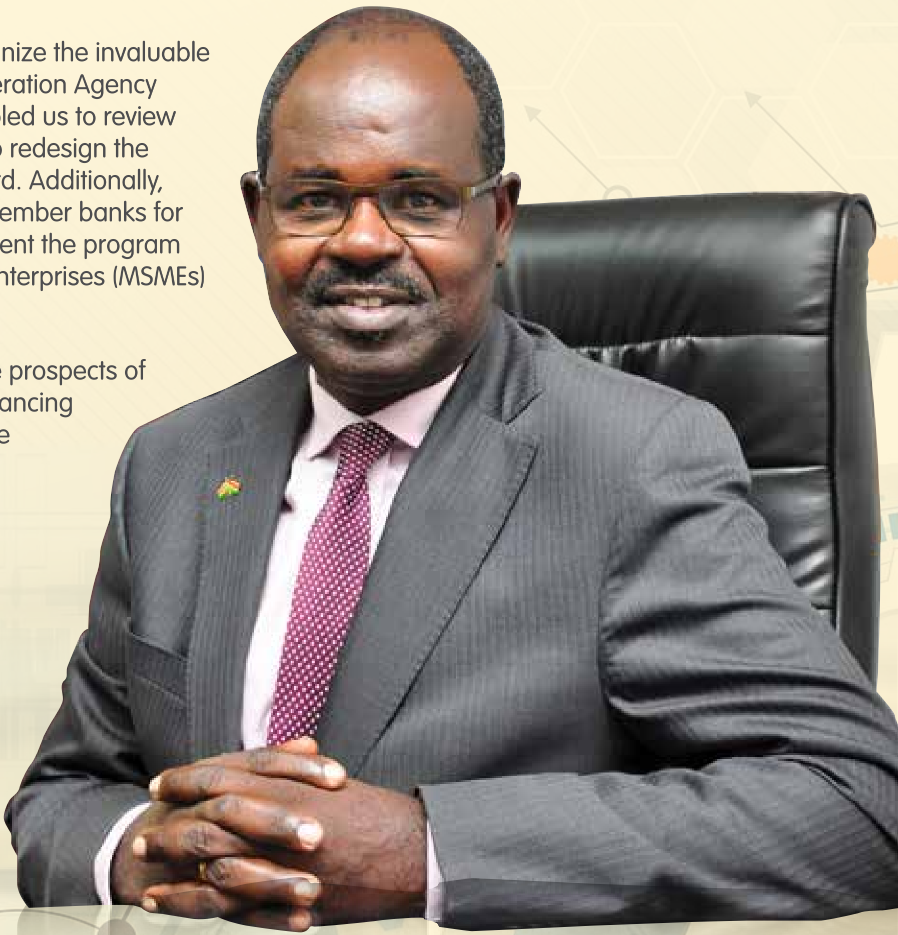
FOREWORD

FROM THE CEO'S DESK

I am delighted to present to you the *Inuka impact evaluation survey report 2024*. This report presents a retrospective analysis of the five-year journey of the Inuka Enterprise Program. Initially conceived as a capacity-building initiative, the program has evolved significantly over the years, adapting its activities to meet the dynamic needs of the MSME ecosystem.

As we reflect on this milestone, we recognize the invaluable support of the Japan International Cooperation Agency (JICA), whose financial backing has enabled us to review the program and gain insights on how to redesign the program for greater impact going forward. Additionally, we extend our sincere gratitude to the member banks for their unwavering commitment to implement the program and support Micro, small and medium enterprises (MSMEs) on their growth trajectories.

Looking ahead, we are excited about the prospects of greater collaboration and synergy in advancing our shared objectives. Finally, I encourage all stakeholders to provide their valuable comments and inquiries on this report to ***research@kba.co.ke***.



Dr. Habil Olaka, EBS
Chief Executive Officer,
Kenya Bankers Association

TABLE OF CONTENTS

INUKA Impact Evaluation

SURVEY REPORT 2024

Teresa Nasambu, an entrepreneur in Kibera, Nairobi, began with a candy shop. Since joining the INUKA Enterprise Program, she has experienced remarkable growth in her business. Today, she offers a diverse range of products, including fresh green groceries and healthy juices made on-site.

LIST OF FIGURES

LIST OF TABLES

ABBREVIATIONS

BRS	Business Registration Services
DFI	Development Finance Institution
ESG	Environmental, Social, and Governance
FIs	Financial Institutions
Fintech	Financial Technolgy
GDP	Gross Domestic Product
JICA	Japan International Cooperation Agency
KBA	Kenya Bankers Association
KNCCI	Kenya National Chamber of Commerce and Industry
KES	Kenya Shillings
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MFIs	Micro-Finance Institutions
MSMEs	Micro Small and Medium Enterprises
PAR	Portfolio at Risk
PWD	People with Disabilities
SACCO	Savings and Credit Cooperative Organization
SMS	Short Message Service
USSD	Unstructured Supplementary Service Data

Rosemary from Kakamega is an INUKA Enterprise Program success story. Starting with humble beginnings as a porridge hawker, she has successfully established an impressive hardware business.

EXECUTIVE SUMMARY

The Kenya Bankers Association (KBA) acknowledges that Micro Small and Medium Enterprises (MSMEs) play an important role in the Kenyan economy. It is in that context that the KBA mooted the idea, and rolled out the Inuka Enterprise Program, a financial literacy training initiative deployed via e-learning platform, webinars and face-to-face engagements with the objective of equipping MSMEs with the knowledge to promote their business growth and in turn enhance their ability to access finance from banks.

The essence of this evaluation report is to assess ex post the extent of effectiveness of the program whose implementation commenced in October 2018. This evaluation considers the period that the program has been ongoing as sufficient to inform a view on the high-level determination of its success or lack thereof. The assessment will inform the dimensions of review of the program, based on a nationwide survey. Based on the evidence from the survey, the main evaluation findings, and conclusions are as follows:

- The program has met its high-level objective. However, there are a number of areas that call for enhanced intervention.
- Inuka is bank focused while the MSMEs avenues for funding are wider, including micro finance institutions, Savings and Credit Cooperatives (SACCOs) as well as unregulated digital lenders.
- Training aspect as an enabler of access to finance is essential. It is, however, not sufficient unless mapped with other constraints that are exogenous to the enterprises such as market access issues and firms' competitiveness. Without these additional dimensions, the program's promotion of access will not optimally translate to enhanced usage of financial services.

Specific recommendations for program improvements based on the evaluation findings and conclusions:

- The design of all program activities/interventions should build in data templates that will support tracking of progress. This will obviate evaluation data requirements being designed ex post.
- While the program represents a significant step towards addressing the financing gap faced by MSMEs in Kenya, and its effectiveness and efficiency demonstrate a robust model for capacity building and access to finance, there is need to embed sustainability dimensions for scale.
- The program needs to continuously evolve to address the dynamic challenges and opportunities within the MSME financing ecosystem, including technological integration, scalability, and the sustainability of funding models.
- Continuous evaluation and adaptation are key to ensuring that the program remains relevant, effective, and efficient in fostering the growth and development of MSMEs in Kenya.
- The program going forward should structure more specialized support mechanisms for SMEs acknowledging their unique and dynamic challenges. Such interventions as advisory services to support hand holding of SMEs would be instrumental.

Chapter 1

BACKGROUND TO THE EVALUATION REPORT

The Kenya Bankers Association (KBA) acknowledges that Micro Small and Medium Enterprises (MSMEs) play an important role in the Kenyan economy[1]. According to the KNBS 2016 MSME report, there are over 7.4 million MSMEs in the country and they employ more than 15 million people. By 2015 MSMEs accounted for about 34 percent of the economy's Gross Domestic Product (GDP), equivalent to KES 3,372 billion.

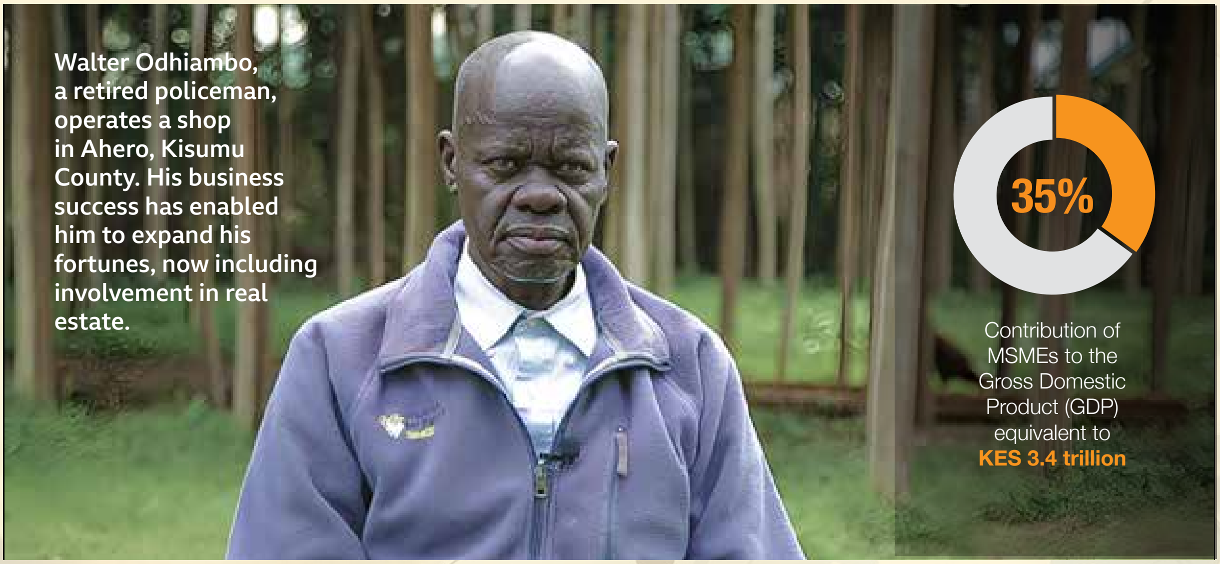
With job creation and economic growth through private sector development drawing the focus of public policy, the interest in MSMEs is inevitable. The focus has to contend with the extreme informality of MSMEs, with almost 60 percent of their employees working under informal status. The MSMEs' significant contribution to economic growth and job creation notwithstanding, a myriad of challenges limits their ability to operate optimally.

These challenges include constrained access to finance and markets as well as capacity-related issues at the MSMEs level. MSMEs suffer disproportionately from asymmetric information. They lack market information and continue to have limited support to strengthen business management skills such as financial planning and bookkeeping that are crucial to formalize their operations, increase market share and cope with market fluctuations.

While the outlined challenges are binding on MSMEs at varied degrees of severity, access to financing remains one of the most significant constraints to their survival, growth, and productivity. The MSMEs credit gap has proven to be an enduring structural feature

15m
Direct employment opportunities contributing 30% to the national value-added.

1 https://statistics.knbs.or.ke/nada/index.php/catalog/69/download/236



Walter Odhiambo, a retired policeman, operates a shop in Ahero, Kisumu County. His business success has enabled him to expand his fortunes, now including involvement in real estate.

Table:1 Highlights of the Kenya MSME Stabilization Facility (The Credit Guarantee Scheme)

Overview	Description
Product Features:	▪ Maximum amount – KES 5 million ▪ Grace period – up to 3 years with a grace period of up to 5 months ▪ Market determined lending rate with the risk sharing attribute being factored into making the pricing competitive. ▪ No guaranteed fees are charged. ▪ Standard collateral requirement as per lenders policy ▪ MSMEs can access only one loan at a time; the accessing of another loan will be possible once the existing loan under the scheme has been discharged.
Risk sharing mechanism:	First loss, shared on a 50:50 pari passu basis; subject to a maximum exposure of 25% of the principal amount. Therefore, the maximum exposure of the scheme to an individual borrower is 25%
Governance:	The National Treasury hosts a Steering Committee to oversee the Scheme.

despite policy interventions to support them in the broad agenda of financial inclusion. Consequently, there has been heightened commitment towards enhancing access to finance, a supporting legal and regulatory policy environment, and mainstreaming of capacity building initiatives for sustainability of small and medium enterprises.

The government and private sector players have in the recent past set up mechanisms to facilitate the flow of finance, such as the establishment of a credit guarantee scheme and innovative collateral instruments such as the movable collateral registry. Highlights of the credit guarantee scheme are provided in **table 1**.

The initiative outlined above notwithstanding, MSMEs continue to face sizeable financing gaps. The Inuka Enterprise program, the subject of this evaluation, points to the KBA's alignment supporting MSMEs in the country.

Chapter 2 of this report highlights the features of the Inuka Enterprise Program and contextualizes the evaluation. This is flowed in **Chapter 3** by detailed evaluation findings upon which conclusions are drawn both from an effectiveness, efficiency, and sustainability standpoint in **Chapter 4** and from a general standpoint in **Chapter 5.**

Chapter 2

EVALUATION CONTEXT

The Kenya Bankers Association (KBA) Inuka Enterprise Program initiative was designed to ultimately enhance access to finance for Micro, Small, and Medium Enterprises (MSMEs) in Kenya by building the capacity of MSMEs, making them "bankable" and able to access credit facilities more easily.

Specifically, the program is a financial literacy training initiative deployed via an e-learning platform and face to face engagements with the objective of equipping Micro, Small and Medium Sized Enterprises (MSMEs) with the knowledge to promote their business growth and in turn enhance their ability to access finance from banks.

The program adopted the approach presented in **figure 1.**

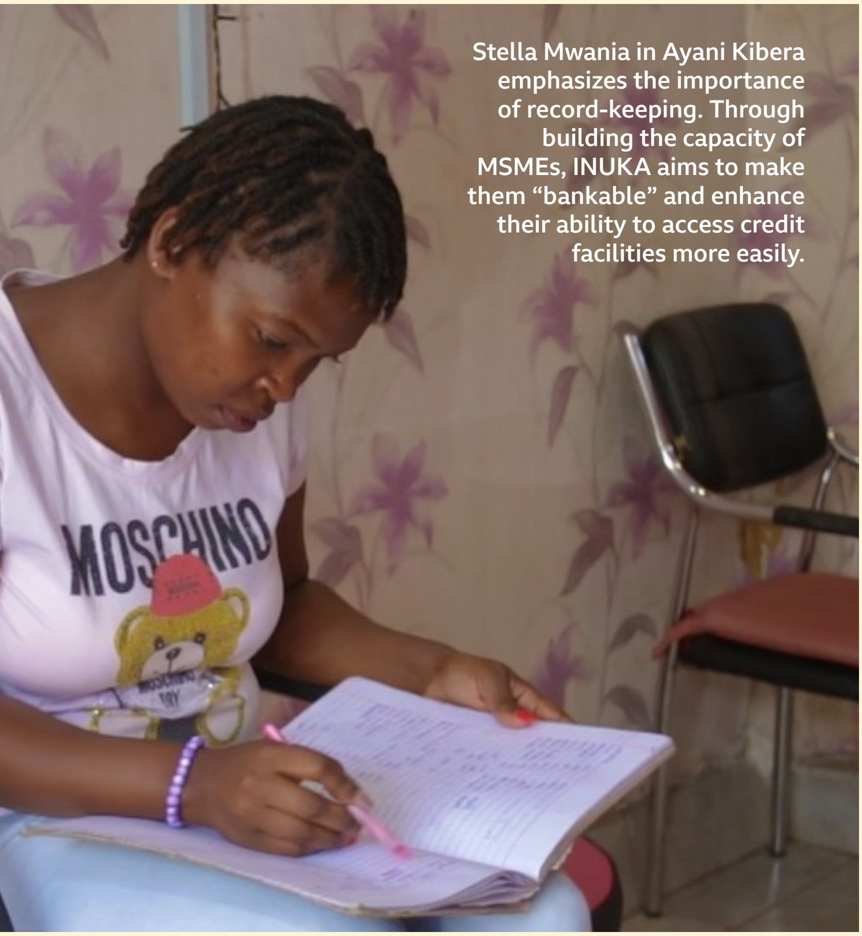
Figure 1: The INUKA Enterprise Program Approach

1 Training for MSMEs with content focuses on enhancing a business' ability to access finance from banks. The content is delivered via online and face-to-face learning.

3 Train-the-Trainer Model to reach scale with certified Trainer Partners with physical presence in the counties to reach National Footprint

2 Targeted intervention based on the Government's priority areas, namely leather, textiles and agriculture.

4 Leveraging partnerships to reach Scale and National Footprint, and to facilitate business networking and coaching opportunities at the Constituency and County levels.



Stella Mwania in Ayani Kibera emphasizes the importance of record-keeping. Through building the capacity of MSMEs, INUKA aims to make them "bankable" and enhance their ability to access credit facilities more easily.

The e-learning initiative contains seven modules which include:

- **Module 1:** Entrepreneurship
- **Module 2:** Financial Management
- **Module 3:** Business and Strategic planning
- **Module 4:** Operations and Value Chain Management
- **Module 5:** Marketing and Business communications
- **Module 6:** Human Resource Management
- **Module 7:** Legal Management, constitutional rights, vision 2030 and socioeconomic roles of MSMEs.

The working definition of MSMEs for the Inuka Enterprise Program is given in **table 2.** Based on a 2014 survey by KBA, banks lend to MSMEs across all economic sectors. The KBA's encouragement of these enterprises to participate in the Inuka Enterprise Program is premised on recognition of the important role MSMEs play in the economy. The strategic intent of the Program is to contribute towards the realisation of their full potential.

Table 2: Definitions

Micro Enterprise Target Group	Small Enterprise Target Group	Medium Enterprise Target Group
▪ May Be Formerly Registered (but likely not) ▪ Annual Turnover of KES 160,000 to KES 1 million ▪ General Workforce Size of less than 10 employees ▪ Full-time/Permanent Workforce of at least 1 employee (who may be the owner) to 5 employees. ▪ At least 1 year in business operations	▪ Formerly Registered ▪ Annual Turnover of KES 1 million to 50 million ▪ Asset Base of over KES 3million ▪ General Workforce Size of 5 to 30 employees ▪ Full-time/Permanent Workforce 2 to 20 employees ▪ At least 2 years in business operations	▪ Formerly Registered ▪ Annual Turnover of KES 50 million to KES 250 million ▪ An asset Base of over KES 4 million ▪ General Workforce Size of 30 to 150 employees ▪ Full-time/Permanent Workforce 10 to 50 employees ▪ At least 3 years in business operations

Rosemary Wawira from Embu, is a retired teacher who left gainful employment to focus on an LPG distribution business and grocery shop.

- The objective of the evaluation is to assess ex post the extent of effectiveness of the Inuka Enterprise Program activities.
- Towards that objective, the design of the instruments deliberately takes the "with-Inuka" – "without-Inuka" approach as a way of testing the effectiveness.
- The survey that took place in January 2024, targeted 1,000 enterprises, out of which 886 enterprises were interview translating to an 88.6 percent response rate. The sampling strategy adopted was stratified sampling with two strata; county and gender of the enterprise owner. Being a national sample, the nuances of MSMEs based on sector, geographical location, and demographics support the reliability of the sample considered for the evaluation.
- The data clean-up, followed by cross-tabulations underpins the highlighted findings of the survey that form the basis of evaluation assessments.

Chapter 3

EVALUATION AND FINDINGS

Before delving into the evaluation findings, it is worth mentioning that the Program across its various modes of delivery, by end January 2024, had reached more than 70 thousand MSMEs (including over 60 thousand through its 7 core training modules) across all the 47 counties in Kenya, as shown in Figure 2. This study targeted to reach 1000 MSMEs randomly selected across the 47 counties embedding gender and county as the primary factor of disaggregation.

Figure 2: Cumulative Progress with 7 Core Modules of Inuka e-learning Training Program

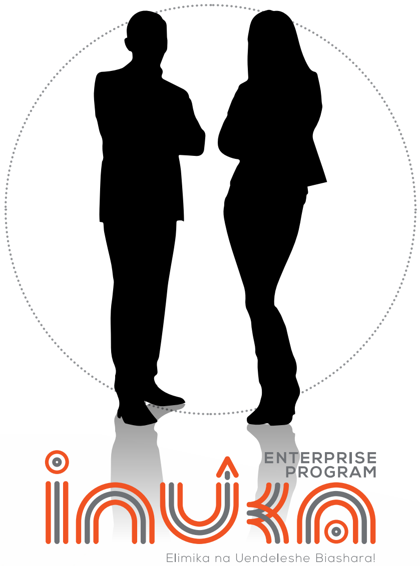
Source: Farwell (KBA Inuka Program Consultants)

3.1 MSMEs Demographic profiles

In this section, the demographic profiles of the enterprises interviewed are presented.

- **Majority of the enterprise owners are males.** 54.5% of the Inuka and 55.6% of the non-Inuka enterprise owners are male (**Figure 3a**).

- **A sizeable number of the enterprise owners have a secondary education and above.** Among the Inuka enterprise owners, a majority constituting 32% have mid-level college degree, while among non-Inuka enterprise owners a majority (34%) of them have a university degree education (**Figure 3b**).



- **Approximately two-thirds of the enterprise's owners are aged between 26-45 years.** Specifically, 61% of Inuka and 66% of non-Inuka enterprise owners are aged between 26-45 years, while 14% of Inuka and 10% of non-Inuka enterprise owners are aged above 56 years (**Figure 3d**).

- **Most of the enterprises interviewed are concentrated in a few counties, especially, Kisumu, Machakos, Mombasa, Narok, Nyandarua, and Nandi** (**Figure 3e**).

- **Most of the enterprises are predominantly micro-businesses.** 84.2% of Inuka, and 85.2% of non-Inuka enterprises are micro-businesses, 1.9% of Inuka and 3.5% of non-Inuka enterprises are medium enterprises, while 12.5% of Inuka and 11.9% of non-Inuka enterprises are small enterprises, and a small proportion of these are large businesses comprising of 0.4% of Inuka and 0.3% of non-Inuka enterprises (**Figure 3c**).

Figure 3: Demographic Profile of the enterprises

Figure 3a: Gender of the owner of the enterprise

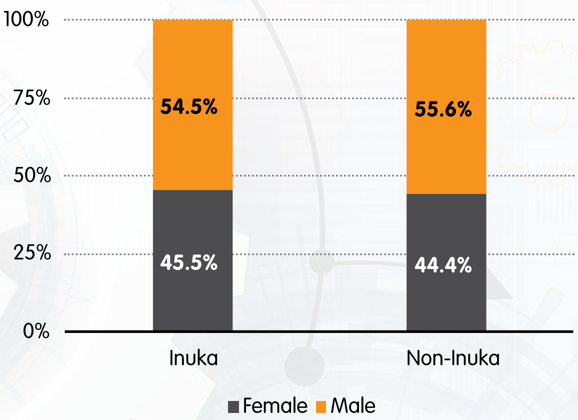


Figure 3b: Highest level of education attained by enterprise owner

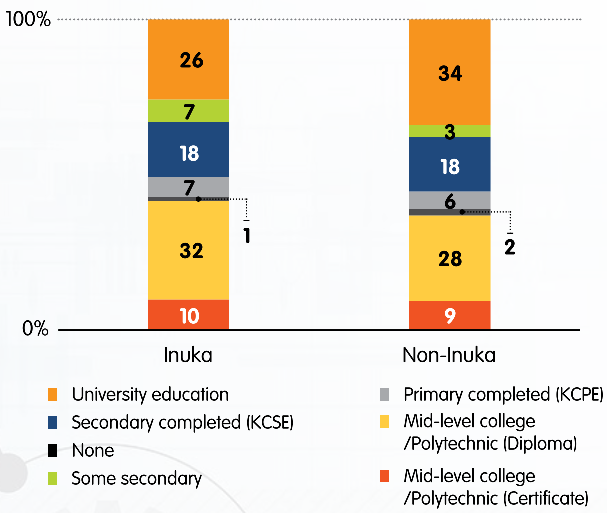


Figure 3c: MSMEs Classification by Type (%)

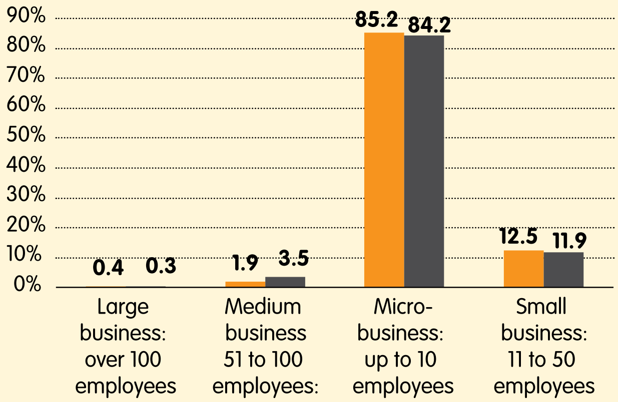


Figure 3d: Age of enterprise owner (in years)

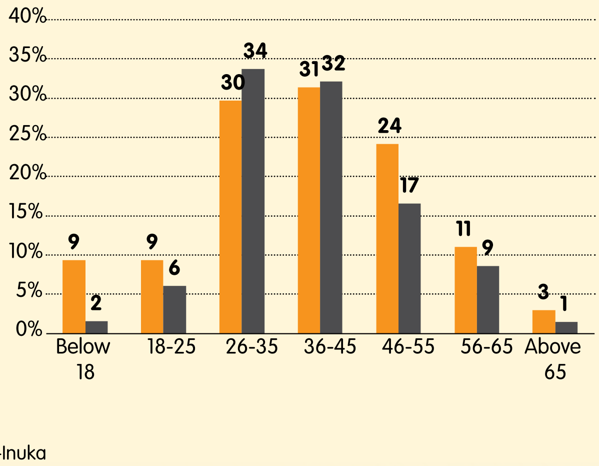
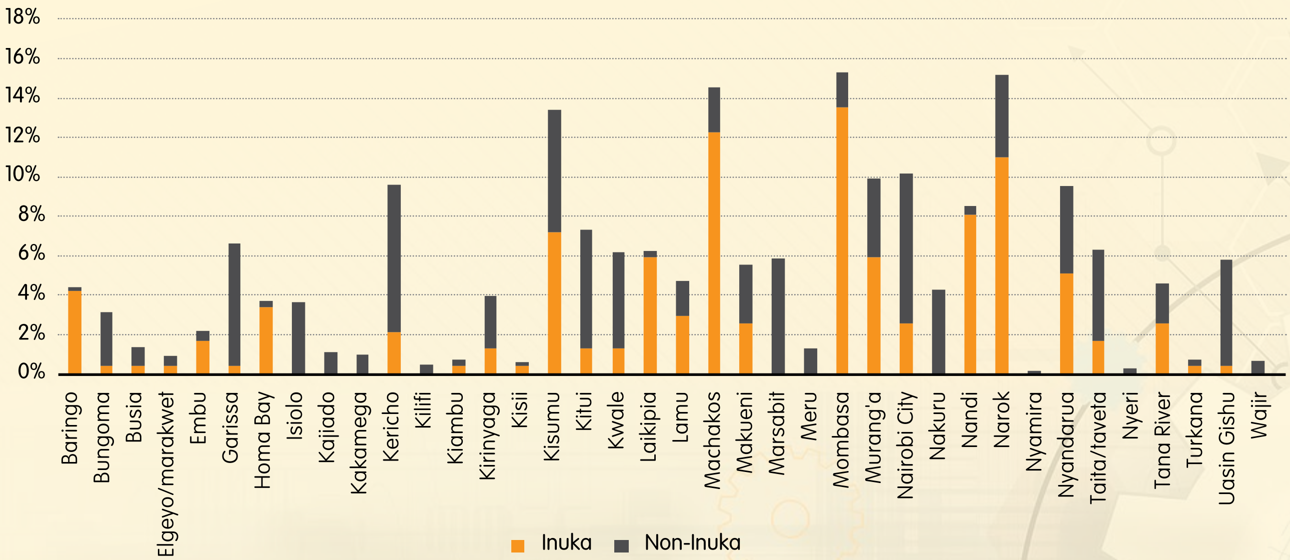


Figure 3e: In which county does the enterprise undertake its main activities

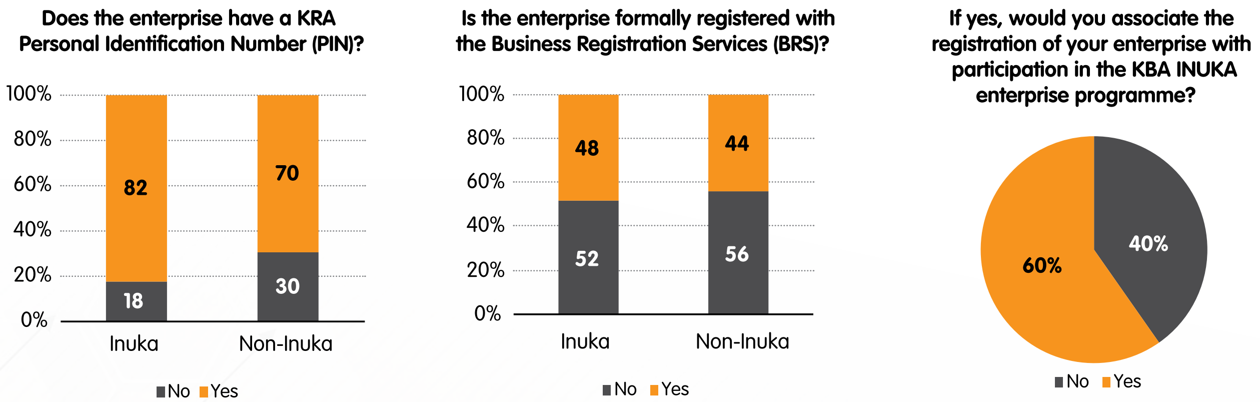


3.2 Enterprise formalization status

Informal businesses have been on a sharp increase during the past decade in Kenya. The survey findings reveal the following:

- **The formalization status is heavily dependent on metric adopted (Figure 4).** 82% of Inuka and 70% of non-Inuka enterprises have a KRA Pin, while only 48% of Inuka and 44% of non-Inuka enterprises are formally registered with the Business Registration Services (BRS), with 60% of the Inuka enterprises associating their registration with its participation in the KBA INUKA Enterprise Program.

Figure 4: Enterprise formalization status



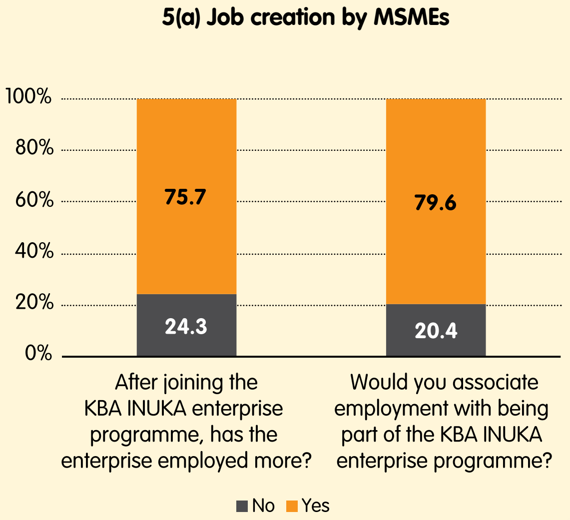
3.3 Promotion of business growth and job creation

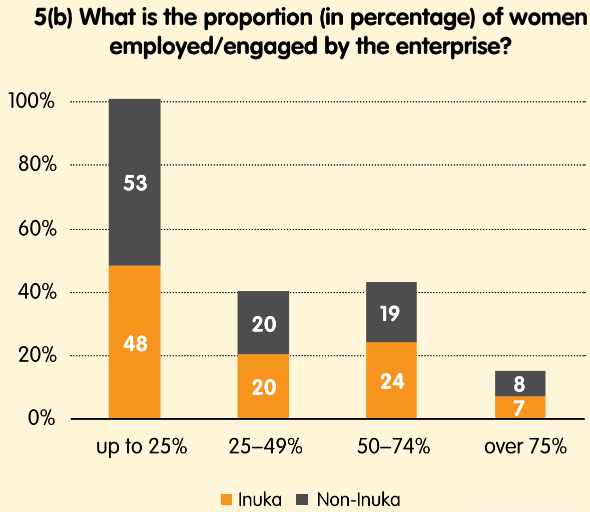
Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in promoting business growth and job creation in economies worldwide. The survey findings reveal that:

- **Participation in the program correlates positively with increased employment by enterprises** as depicted in **figure 5a.** 75.7% of the Inuka enterprises increased employment more after joining the program, with 79.6% associating the increased employment to being part of the KBA capacity building initiative.

- **Most of the enterprises employ/engage men more than women.** Specifically, 48% of Inuka enterprises employ/engage women compared to 53% of non-Inuka enterprises. 20% of Inuka, and also 20% of non-Inuka engage between 25%-49% of women in their enterprises (**Figure 5b**).

Figure 5: Enterprise Promotion of business growth and job creation





3.4 Enterprise Capacity Building Initiatives

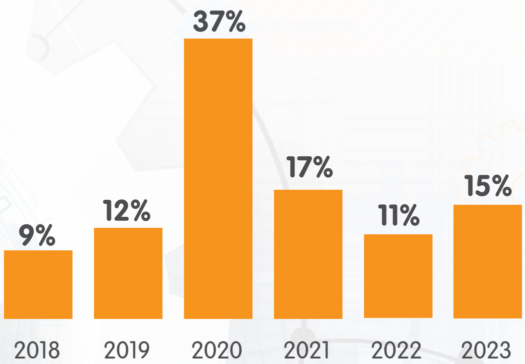
The importance of enterprise capacity building programs is critical in equipping MSMEs with the skills and knowledge to improve their products, services, and processes, making them more competitive both in domestic and international markets. Through capacity building, MSMEs can learn about market diversification strategies and how to comply with international standards, enabling them to tap into new and lucrative markets. In this section, we assess the participation of enterprises in the KBA Inuka Enterprise Program in terms of the quality, and the likelihood of its recommendation to other enterprises.

Key insights:

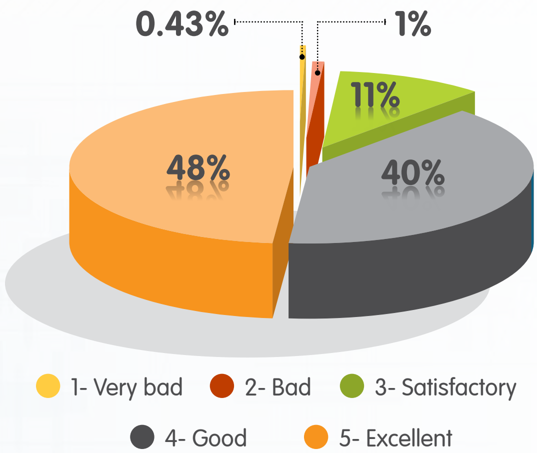
- **Most of the survey enterprises are 4-years into the program having joined the program in 2020;** 17% of the enterprises are 3 years having joined in 2021, while 15% of them are 1 year into the program, while 12% having been in the program since 2022, and 9% since 2018.
- **The Inuka Program is highly rated by the enterprises.** 48% of the enterprises rate it as *"excellent"*, while 40% rate it as being *"good"*, 11% rate it as *"satisfactory"*. However, 1% rate it as *"bad"* while another 0.4% rate it as being *"very bad."*
- **Besides, participating in the Inuka Program, other capacity building programs are also a common phenomenon.** 50% of the Inuka Program participants have participated in any other capacity-building initiatives aimed at empowering enterprises, compared to 40% of non-Inuka participants.
- The quality of the capacity-building interventions provided under the KBA Inuka Enterprise Program, along the seven areas is rated as *"satisfactory"* by the participants, and so is the peer-to-peer learning and online monthly webinars. Similarly, the Inuka Enterprise Program, according to the enterprises has impacted the enterprises *"relatively well"*.
- In addition, both Inuka (62%) and non-Inuka (59%) program participants support the view that the existing enterprise capacity building programs are a strong and effective actor in providing positive solutions to the constraints they face.
- 99% of the KBA Inuka Enterprise Program participants are likely to recommend the program to other enterprises.

Figure 6: **Enterprise participation in and rating of capacity building initiatives**

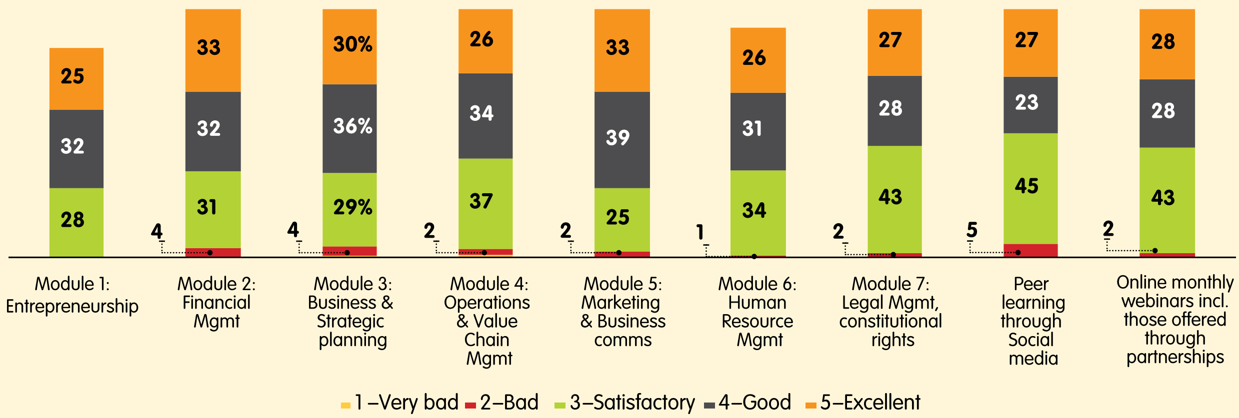
6 (a) Year the enterprise joined KBA INUKA enterprise program



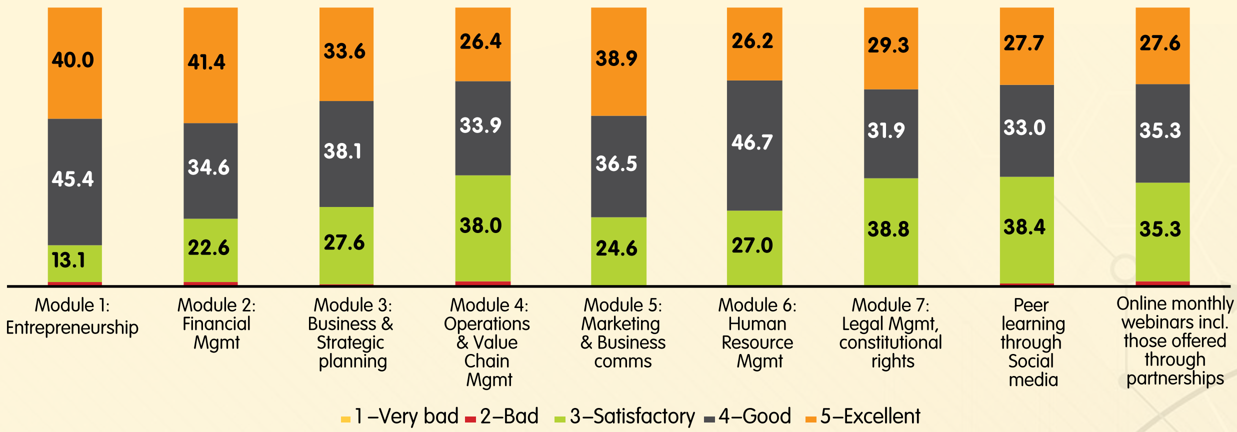
6 (b) Rating on the quality of the capacity-building initiatives of the KBA INUKA enterprise programs



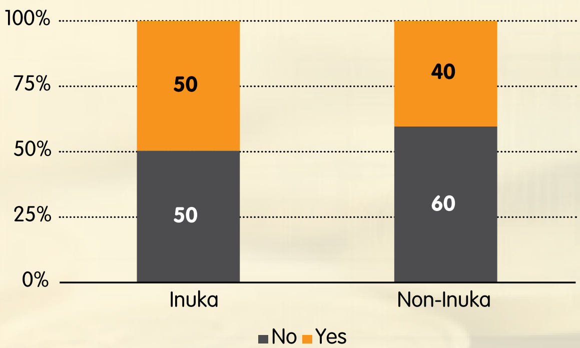
6 (c) Assess the quality of the capacitybuilding interventions provided under the KBA INUKA Enterprise Program



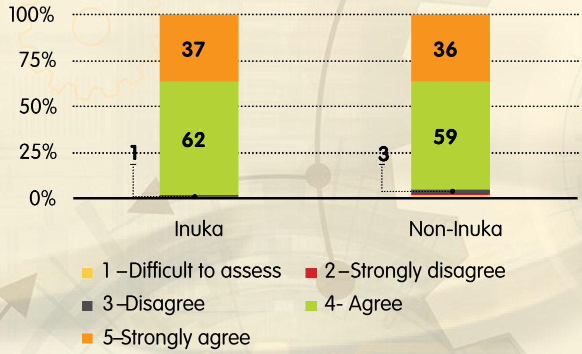
6(d) To what extent has the KBA INUKA enterprise programme impacted the following operations of the enterprise?



6(e) Have you ever participated in any other building initiatives aimed at empowering enterprises?



6(f) Acknowledging the constraints that negatively impact enterprises, do you see "the existing enterprise capacity building programs" as a strong and effective actor working to provide positive solutions for SMEs?



3.5 Enterprise value addition opportunities

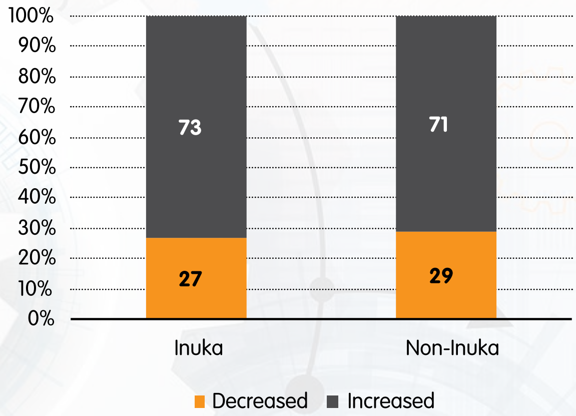
By supporting MSMEs in identifying and implementing value-added opportunities, the KBA Inuka initiative aims to foster a culture of innovation and resilience among small and medium-sized enterprises. Based on the survey findings the following insights can be inferred.

Key Insights:

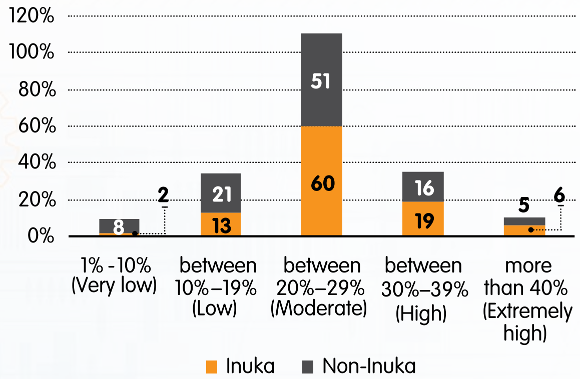
- **Overall, the average sales of enterprises have generally been on an upward trajectory, slightly higher among Inuka enterprises than non-Inuka enterprises.** 73% of Inuka enterprises report that sales in the last five years have generally increased compared to 71 percent of non-Inuka enterprises. Moreover, the extent of the increase has been moderate across both enterprises (**Figure 7a**).
- **Notably, the increase in enterprises' average sales, according to the survey, suggests that it is correlated with the capacity building initiatives.** 94% of the enterprises associate the increase in sales turnover to being part of the KBA Inuka enterprise initiative (**Figure 7b**).
- **Similarly, through the initiative product and/ or service quality has significantly improved with 93% of the enterprises reporting that the quality of the products and/or services has been enhanced by being part of the INUKA enterprise (Figure 7c).** This improvement in quality, however, has also been complemented by the participation in other capacity-building programs initiatives other than the Inuka Program as indicated by 93% of the participants and 78% of the non-Inuka participants (**Figure 7d**).
- **Main type of customers that the enterprises currently serve is predominantly individuals, followed by other MSMEs and at least serves public institutions.** 67% of Inuka and 73% of non-Inuka mainly serves individuals while 26% of Inuka and 19% of non-Inuka serve other MSMEs (**Figure 7e**). Lastly, 7% of Inuka, and 8% of non-Inuka enterprises serves public institutions (i.e. national and county governments (**Figure 7f**).

Figure 7: Enterprise assessment of value addition opportunities

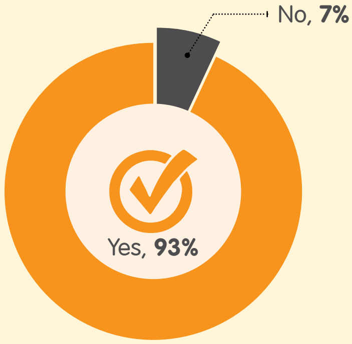
7 (a) Have the enterprise's average sales in the last 5 years increased or decreased?



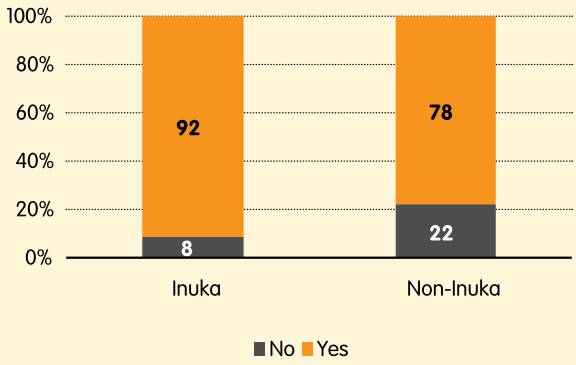
7 (b) What has been the extent of the estimated changes in sales turnover in the last one year



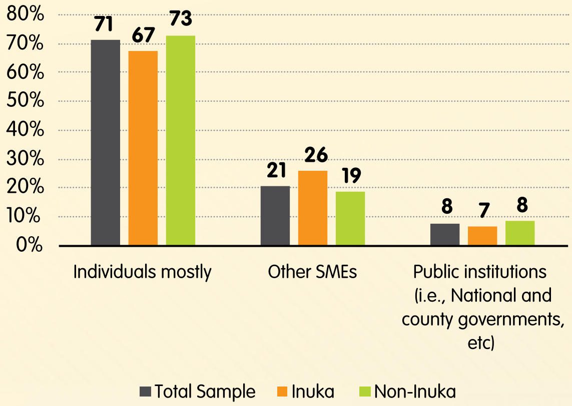
7(c) Do you feel that the quality of the products and/or services has been enhanced by being part of the INUKA enterprise program?



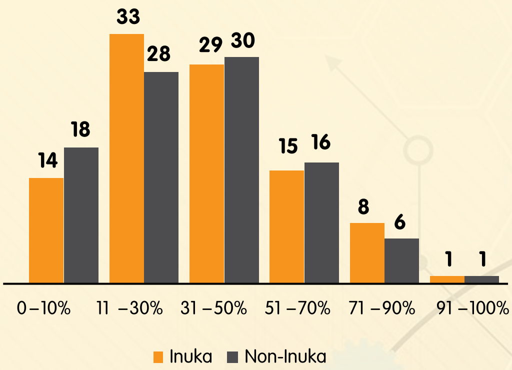
7(d) Do you feel that the quality of the products and/or services has been enhanced by being part of the other capacity-building programs?



7(e) Main type of customers that the enterprise currently serves



7(f) What percentage of total sales do your top 3 customers account for?



3.6 Access to finance and record keeping by MSMEs

Despite the MSME sector in Kenya being recognized for its role in provision of goods and services, enhancing competition, fostering innovation, generating employment and in effect, alleviation of poverty, the sector suffers from lack of access to finance as identified in the *2016 MSME Survey (KNBS, 2016)*. The ease of accessing credit typically correlates with the size and maturity of a business[2]. In this section, we assess the access to finance among and record keeping by MSMEs. It starts with an assessment of the extent to which the enterprises are (un)banked, then looks at record-keeping and finally access to finance. According to the results of the evaluation, the following key findings emerge:

2 The smaller the company or the less mature it is, the more difficult and expensive it is to access funding. This can be due to many reasons, including a higher (perceived or actual) risk profile, business informality, limited collateral, or asymmetries in available credit information, as well as limited creditworthiness and financial management capacity within a firm.

- **Record keeping is predominant among MSMEs, albeit in physical form rather than digitally.** 92% of the Inuka enterprises prepare and keep records compared to 88% of the non-Inuka enterprises (**Figure 8a**), however, the records are predominantly in a physical form rather than in a digital form, with 81 percent of Inuka enterprises and non-Inuka enterprises at 70% prepare and keep records in physical form (**Figure 8b**).

- **Bank account ownership by enterprises is high.** 89 percent of the Inuka enterprises have a bank account, which is significantly higher than the bank account ownership by non-Inuka enterprises by 8 percentage points (**Figure 8c**).

- **Whereas access to credit remains a constraint among enterprises, there is evidence that the Inuka Program has enabled enterprises access to credit.**

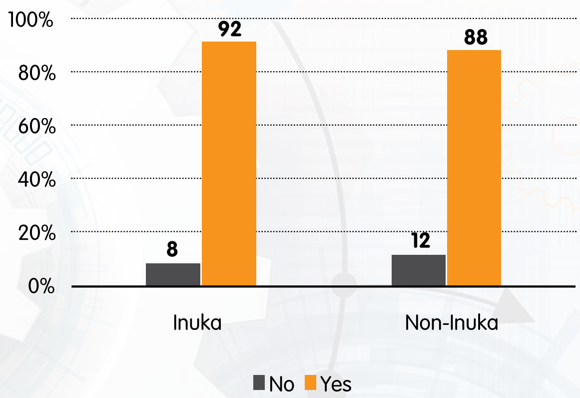
    - Prior to joining the Inuka Enterprise Program, 63% of enterprises did not have access to any credit from a financial institution (**Figure 8d**); however, after joining the program 66% of them have applied for credit with 29% of the applications being rejected either because of the lack of financial statement, insufficient cashflows, and collaterals, 55% having their application approved in full, while 16% of the applications was approved in part (**Figure 8f**).

- Further, the evidence shows that the enterprises not applying for credit, the main reasons for not applying included Complex loan applications (21%), high interest rates (28%), lack of required documentation (21%), No adequate/favourable financial product(s) available in terms of interest rate charged, loan period, etc. (11%), and no need to borrow (16%) (**Figure 8g**).

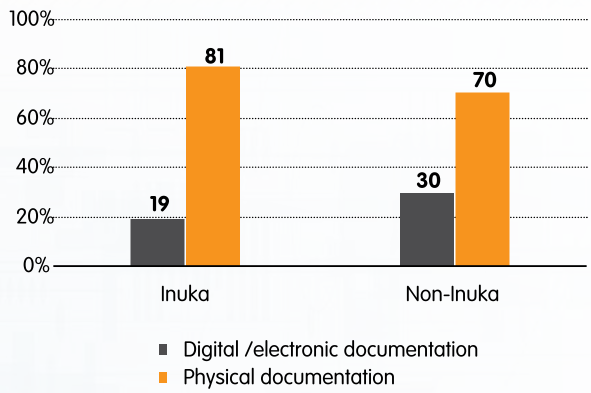
- In addition, the Inuka enterprise has enhanced access to credit products of varied types. For instance, 25% have accessed an overdraft facility, 51% accessed short-term lending of less than one month, 63% accessed short-term lending of less than 3 months, and 34% accessed long-term lending (over 3 months) (**Figure 8h**).

Figure 8: Access to finance among and record keeping by MSMEs.

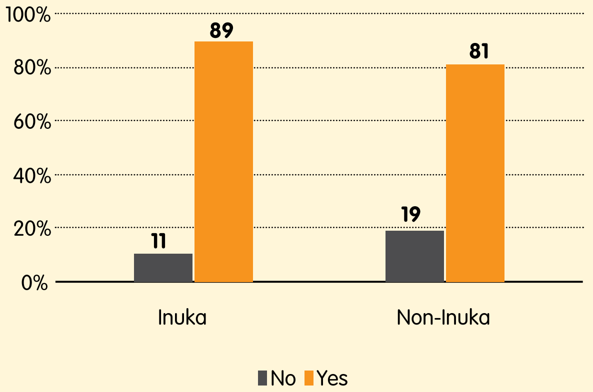
8(a) Does the enterprise prepare and keep financial records?



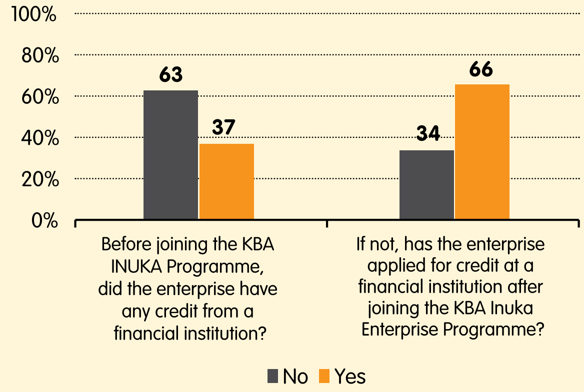
8(b) If YES, in what mode does the enterprise keep financial records?



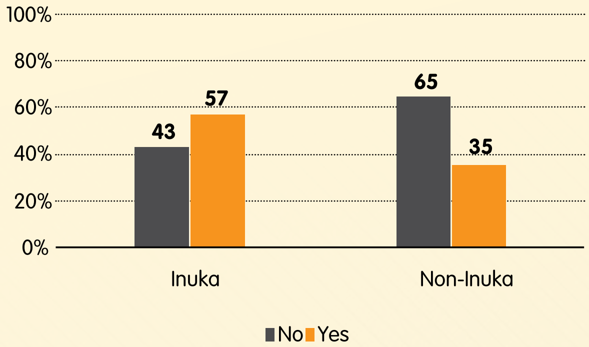
8(c) Does your enterprise currently have a bank account with any commercial bank?



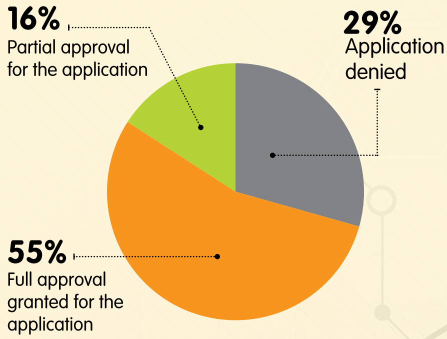
8(d) Prior to joining the INUKA Program, did the enterprise to have any credit from a financial institution?



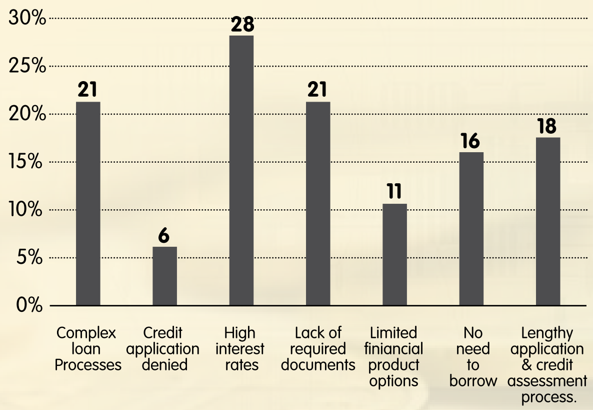
8(e) In the last one year, has the enterprise applied for credit from a financial institution?



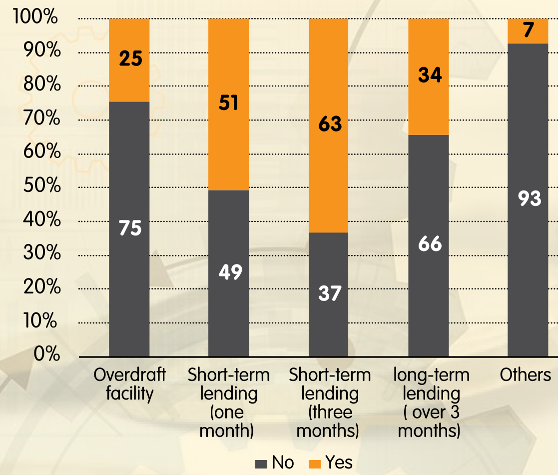
8(f) If YES, what was the outcome of the credit/loan application?



8(g) If NO, what is the reason?



8(h) Credit/Loan disbursed



Chapter 4

INUKA PROGRAM'S EFFECTIVENESS, EFFICIENCY, AND SUSTAINABILITY

The KBA Inuka Enterprise Program represents a significant step towards addressing the financing gap faced by MSMEs in Kenya. Its effectiveness and efficiency demonstrate a robust model for capacity building and access to finance. However, for sustainability, the program must continuously evolve to address the dynamic challenges and opportunities within the MSME financing ecosystem, including technological integration, scalability, and the sustainability of funding models. Continuous evaluation and adaptation are key to ensuring that the program remains relevant, effective, and efficient in fostering the growth and development of MSMEs in Kenya. **Table 3** presents a detailed discussion of the effectiveness, efficiency, and sustainability of initiatives along two dimensions – strengths and weaknesses.

Table 3: Assessment of Inuka Program's Effectiveness, Efficiency, and Sustainability.

	Strengths	Weaknesses
1. Effectiveness	a) **Capacity Building:** The Inuka Program effectively addresses one of the key barriers to MSME financing: the lack of business management skills and financial literacy. By providing training and mentorship, it enhances the ability of businesses to manage finances, plan, and make informed decisions. b) **Partnership Model:** The program leverages the collective strength of member banks within the KBA, which can lead to a more coordinated approach to supporting MSMEs. This collective effort increases the program's reach and impact. c) **Access to Finance:** By preparing MSMEs to meet the lending criteria of banks, the program has effectively facilitated improved access to credit. This is crucial for the growth and scalability of small businesses.	i) **Scope and Reach:** While impactful for participants, the overall effectiveness of the program can be limited by its scale and the reach to the broader MSME sector in Kenya, which is vast and diverse. ii) **Measurement of Impact:** Detailed public data on the program's impact, such as the number of businesses that have successfully obtained financing after participation, is essential for a comprehensive evaluation but can be challenging to ascertain.

	Strengths	Weaknesses
2. Efficiency	a) **Resource Utilization:** The program's model, which involves partnerships with financial institutions and leveraging existing banking networks, can be a cost-effective way of delivering capacity-building services to MSMEs. b) **Focused Interventions:** By targeting specific areas like financial management, business planning, and compliance, the program efficiently addresses critical gaps that hinder MSMEs' ability to access financing.	i) **Administrative Overheads:** The efficiency of the program can be affected by the administrative and coordination costs associated with running a multi-stakeholder initiative. Ensuring that these costs do not outweigh the benefits is crucial. ii **Adaptability and Responsiveness:** The efficiency of response to the changing needs of MSMEs and the evolving financial landscape (e.g., digital finance) is critical for maintaining relevance and minimizing wasted resources.
3. Sustainability	a) **Institutional Support:** The backing of the KBA and its member banks provides a strong institutional foundation, which is favourable for the program's long-term sustainability. b) **Market-Driven Approach:** By focusing on making MSMEs more "bankable," the program aligns with the market-driven need for creditworthy borrowers, which is sustainable as banks are inherently motivated to lend to viable businesses.	i) **Undiversified funding:** If the program relies significantly on limited funding sources, its sustainability could be at risk if such funding diminishes. ii) **Adaptation to Technological Changes:** The rapid pace of technological advancement in finance (e.g., mobile banking, fintech innovations) necessitates continuous adaptation. The program's ability to integrate these advancements is crucial for its long-term viability.

Chapter 5

FEEDBACK FROM BANKS ON THE PROGRAM

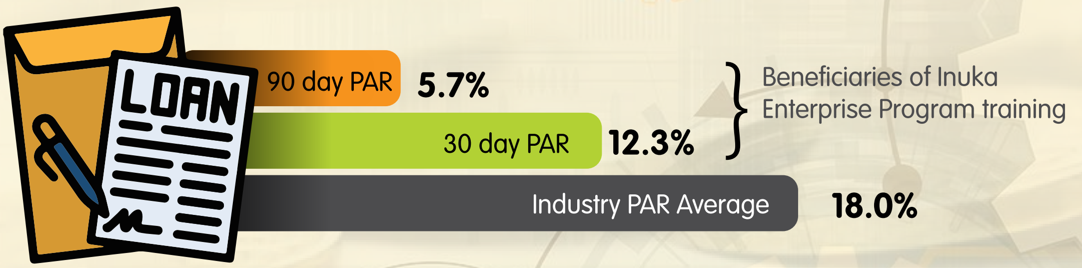
As an industry initiative, banks contributed to the Inuka MSME enterprise program primarily via training and capacity building of their MSME customers and active participation in MSME days, organized by the Kenya Bankers Association (KBA). Banks also utilized the online webinars to engage customers on the existing offerings in products and services. In addition, a number of banks have used the platform to sensitize their customers on the emerging Environmental, Social, and Governance (ESG) considerations in lending, as well as offered training for their MSMEs run by people living with disabilities, reaching slightly over 300 businesses overtime. Below is a summary of the benefits that accrued to the banks as a result of implementing the Inuka Program, the challenges they encountered; their views on how the program supported MSMEs' access to finance and the existing gaps in the program that call for interventions.

5.1 Benefits of Implementing the Inuka Program for Banks

Banks laud the Inuka Program as being unique in the market; with the training materials being hands-on for MSMEs and the trainers approach well-structured to meet the MSMEs at their point of need. To this end, the implementation of the Inuka Program has brought numerous benefits for banks. For instance, it emerged that the implementation of the program has successfully enhanced their brand positioning and community engagement, positioning banks as advocates for MSMEs.

Specific tangible benefits, cited by banks, that the program has brought to the banking sector include positive contributions to introduction of new customers; job creation; business growth through enhanced awareness by MSMEs on the available products in the sector, enhanced digital products propositions and generation of more women accounts; customers' growth in numbers from micro to MSMEs levels; introduction of new training programs (white labelled on Inuka Program) in collaboration with other third party training providers has also enabled to reach to more customers; sustainability and improved loan portfolio quality. In fact, one bank indicated that, ***"The quality of loan book, that is the portfolio at risk (PAR), generally for customers we have trained has improved. Their 90-day PAR is about 5.7 percent and that of 30 days is around 12.3 percent, which is a good performance compared to the Industry average of 18.0 percent….."***

A comparison of Portfolio at risk for Inuka Program beneficiaries and Industry avarage



5.2 Challenges encountered banks in implementing the Inuka Program

Implementing the Inuka Program for MSMEs has encountered various challenges, both from the banking side and from the perspective of the MSMEs themselves:

- From the banking side, budgetary constraints have been a significant hurdle, with insufficient financial resources hindering the program's effectiveness and a wider reach of the MSMEs. It is estimated that there has been a 70% attendance of training by MSMEs, leaving out 30% of the MSMEs. This raises concerns whether the program embodies inclusivity for all MSMEs. In some instances, the cost of training amidst financial constraints is elevated, as banks attempt to deploy special features in the training to ensure PWDs are effectively included, such as interpretations. Other challenges included a very strong expectation by trained MSMEs that the cost of training would decline and that they would be able to access loans, almost upon their receipt of training; an expectation that was not met considering that the cost of credit was not only driven by lack of training by MSMEs;

- On the MSME side, as identified by banks, challenges include a lack of commitment by participants due to the fact that the training is provided free of charge to participants; physical attendance particularly in locations outside the major urban centres. Furthermore, some MSMEs have struggled to resonate with the training content, emphasizing the need for shorter, more targeted sessions tailored to specific clusters within the MSME community. Some MSMEs' attention span is short and thus unable to keep strong participation across the training modules (some requiring 3 hours a week for over 10 weeks in a row). Timing has also been an issue, with conflicts arising from the scheduling of training sessions conflicting with MSMEs' operational hours, and unavailability of Muslim participants on Fridays. For this, some SMEs have suggested that lunch hour training sessions would be more convenient for them. MSMEs also prefer physical engagements more than the virtual training sessions as the former provide room for more engagements that translate to some form of mentorship/relationship sessions;

- Other challenges include difficulties in sustaining participant interest, tapping into the same participant database across different banks leading to cannibalization, and the need to automate functions for a seamless attendee experience. Moreover, ensuring the relevance and practicality of training content to meet the diverse needs of SMEs has been a continual challenge.

5.3 Banks' views on How Inuka Program supported MSMEs' financial access

The Inuka Program has played a significant role in supporting MSMEs' financial access within the banking sector. For instance, banks cited notable growth among customers transitioning from Micro level to MSME status, facilitated by the application of approaches learned through the program.

Additionally, a testimonial by one of the banks on the key takeaways from the Inuka Program, particularly lessons on bookkeeping and taxation offered by a service provider (Grant Thompton) and facilitated across its various branches, shows that the program has empowered MSMEs to improve their financial management practices and understand the requirements for accessing finance. By providing practical insights and knowledge through the program, the bank effectively introduced MSMEs to the concept of financial access and equipped them with the necessary tools to navigate the financial landscape more effectively.

Moreover, attendees of the program perceive it as a direct consideration for accessing finance, highlighting the program's value in enhancing financial literacy and readiness among MSMEs. While specific data on the extent of financial access facilitated by the Inuka Program may be limited, the tangible outcomes observed in terms of customer growth and sustainability underscore its effectiveness in supporting MSMEs' financial access and empowerment within the banking sector.

In terms of volume of loans accessed by MSMEs under the program post training, it is estimated that slightly over seven thousand MSMEs have accessed loans amounting to approximately Ksh 5.84 billion over the last five years of the program's existence.

5.4 Existing gaps that require intervention to enhance the effectiveness of the program

Banks highlight a number of gaps that require intervention to enhance the effectiveness of the program across the participating banks:

i. The predominant use of English as the delivery language presents a barrier for some MSMEs, necessitating the need for language inclusivity. Use of Kiswahili is suggested as an alternative language of delivery;

ii. There is need to optimize the timing of program delivery, considering the preferences of participants and enhanced availability of recording/documentation options for later review, particularly in online sessions;

iii. There is need to ensure enhanced relevance of programs over time to ensure that specific target groups are reached with relevant materials, and avoid use of blanket training materials for all MSMEs;

iv. Providing continuous support to MSMEs beyond program training modules, such as mentorship and specialized sessions, is essential for long-term success. The use of business coaches would also be very supportive to MSMEs that have more personal (sometimes sensitive) questions on their operations (and consider plenary sessions limiting);

v. Consider improving data collection processes in the implementation of the program to make it impact-oriented, thereby enhance monitoring and evaluation activities.

vi. Banks also emphasize the importance of personalized mentorship and online sessions, as well as user-friendly learning management systems to facilitate self-learning among MSMEs. This could include hand-holding the MSMEs beyond training to enable them successfully 'walk the journey' through their operational challenges;

vii. In addition, providing high-end one-on-one trainings tailored to corporate clients' unique challenges may require specialized expertise and careful consideration of timing constraints.

viii. The program needs to structure rewards that have successfully implemented the program ideas, to encourage others to do the same;

ix. Other programs that have sprung up – such as the Inua Biashara day – are too short. They should take a whole week to deliver more impact on the MSMEs;

x. Enhance market awareness of the existence of the Program for MSMEs, as a critical avenue to formalization of businesses;

5.5 Other Insights to support the program better serve MSMEs

To better serve MSMEs, banks highlighted the following insights and recommendations:

- KBA should hold occasional meetings, preferably quarterly, with the heads of MSMEs to provide updates and reenergize the program, ensuring participants appreciate its value.

- Emphasize the need to reaffirm the program's relevance by staying abreast of market developments and communicating how it will continue to serve SMEs in the future.

- Restructure Inuka day (Inua Biashara day) to maximize value, potentially extending it to a week or partnering with city or county governments to host a month-long event. Restructuring the Inuka day will also create a platform that speaks directly to businesses' needs, showcasing what banks can offer in specific sectors and attracting relevant stakeholders including DFIs.

- Highlight the importance of personalized interventions, mentorships, and follow-ups to provide ongoing support to MSMEs beyond the program modules.

Chapter 6

KEY CONCLUSIONS AND LESSONS

- A summary of the main evaluation findings and conclusions.

  - o Training aspect as an enabler of access to finance is essential. It is however not sufficient unless mapped with other constraints that are exogenous to the enterprises such as market access issues and firms' competitiveness limiting. Without these additional dimensions, the program's promotion of access will not translate to enhanced usage of financial services.

- Specific recommendations for program improvements based on the evaluation findings and conclusions.

  - o The design for other program delivery channels (just like for the e-learning platform should build in data templates that will support tracking of progress. This will obviate evaluation data requirements being designed ex-post. Specifically, a pre-condition for effective evaluation is to be able to assess impact against the intended objectives and targets of the program. This should include the identification of the specific groups of entrepreneurs or MSMEs to be affected and a clear justification of how it is expected to lead to the changes anticipated, or the problem it is expected to address. Both are important, since differences in program effectiveness may be expected according to whether or not a program targets important market failure.

  - o The evaluation, considers only the surviving Inuka enterprises, going forward there is need to develop a register of all program participants to allow for evaluations to systematically include the performance of non-surviving Inuka MSMEs in the assessments. Because new and small firms have high exit rates, and exit rates may affect the program's intended objectives, therefore, the program evaluation must consider the impact of non-survival on estimated impacts. As a result, this requires tracking all Inuka enterprises.

- While the program represents a significant step towards addressing the financing gap faced by MSMEs in Kenya, and its effectiveness and efficiency demonstrate a robust model for capacity building and access to finance, there is need to embed sustainability dimensions.

- The program must continuously evolve to address the dynamic challenges and opportunities within the MSME financing ecosystem, including technological integration, scalability, and the sustainability of funding models.

- Continuous evaluation and adaptation are key to ensuring that the program remains relevant, effective, and efficient in fostering the growth and development of MSMEs in Kenya.

- The program going forward should structure more specialized support mechanisms for MSMEs acknowledging their unique and dynamic challenges. Such interventions as advisory services to support hand holding of MSMEs would be instrumental.

KENYA BANKERS
ASSOCIATION

Kenya Bankers Association
13th Floor, International House, Mama Ngina Street
P.O. Box 73100– 00200 NAIROBI
Telephone: 254 20 2221704/2217757/2224014/5
Cell: 0733 812770/ 0711 562910
Fax: 254 20 2221792
Email: research@kba.co.ke
Website: www.kba.co.ke

Design and layout: Conrad Karume