



KENYA BANKERS

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# POLICY BRIEF

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THE CENTRE FOR RESEARCH ON FINANCIAL MARKETS AND POLICY®

## Does MSME Size and Turnover Influence Access To Bank Credit?

### Executive Summary

Despite MSMEs accounting for 98 percent of businesses and contributing over 30 percent to GDP, 70 percent of these enterprises report difficulties accessing credit. Constraints like inadequate documentation, lack of collateral and high interest rates hinder their growth and sustainability.

The Inuka Enterprise capacity-building program has made significant progress in addressing these barriers by training over 70,000 MSMEs and facilitating KES 3.2 billion in loans.

However, financing gap with sectoral biases in access to bank credit remain. Based on a 2024 survey of 886 enterprises by Kenya Bankers Association across the 47 counties, the study finds that size and turnover significantly impact access to credit.

As such, it recommends tailoring programs for mid-tier and higher-turnover MSMEs and developing sector-specific credit policies to ensure equitable access.

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### Context and Importance

**M**icro, Small, and Medium-sized Enterprises (MSMEs) play a pivotal role in driving economic growth. In Kenya, MSMEs account for approximately 98 percent of all businesses and contribute over 30 percent to the GDP. Thus, validating MSMEs role in economic development, job creation, and poverty alleviation.

However, despite their significant contribution to the economy, approximately 70 percent of Kenyan MSMEs report difficulties in accessing credit from formal financial institutions. Key constraints include inadequate documentation, absence of financial records, lack of collateral, and high-interest rates, all of which hinder their ability to secure financing.

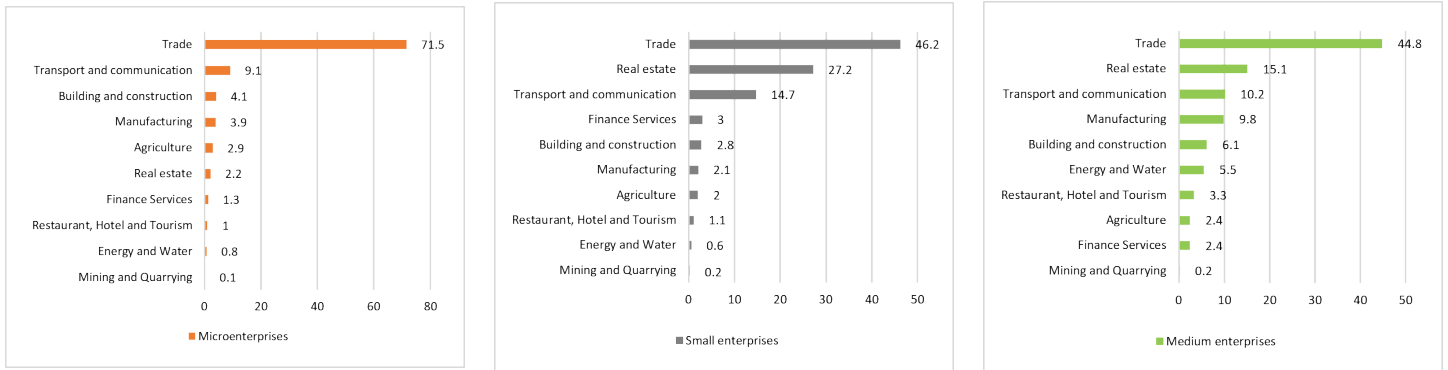
Consequently, this hampers their growth, sustainability, and overall contribution to the national economy. Moreover, more than 75 percent of these enterprises dying within their first 3 years of operations.

The banking sector has taken steps to unlock MSMEs' potential by introducing the Inuka Enterprise capacity-building program (**See Box 1**). This initiative is designed to de-risk MSMEs and improve their access to bank financing.

Notably, the program has achieved significant milestones, including training over 70,000 MSMEs across all 47 counties and facilitating loans exceeding KES 3.2 billion.

However, despite these achievements, the MSME financing gap in Kenya remains a persistent challenge. A wide credit demand-supply gap continues to affect MSMEs, compounded by evident sectoral biases (**Figure 1**). According to a Central Bank of Kenya (2023) survey, only 74% of MSME loan applications were approved by commercial and microfinance banks in 2020, with a modest rise to 83% in 2021 and 2022.

**Figure 1: Sectoral Biases in MSME Credit Supply**



Source: CBK MSME Survey Data, 2022

## About Inuka Program

Launched in October 2018, The Inuka Enterprise Program was established to support micro, small, and medium enterprises (MSMEs) access finance from banks. The program operates through both an e-learning platform and face-to-face engagements, aligning its objectives with Kenya’s national priorities. The latter’s objectives include transitioning informal businesses to formal ones, thereby increasing the number of formal enterprises in the country. Additionally, the program aims to foster business growth and job creation by helping business owners expand their companies, formalize employment practices, and create more employment opportunities.

Moreover, the program also seeks to enhance access to finance and capital by making it easier for viable businesses to secure loans, let alone supporting businesses in value addition, product quality improvement, marketability, and regional or international reach. Lastly, the program is committed to creating equitable opportunities, ensuring that each county in Kenya has a success story stemming from the SME program.

Inuka Enterprise Program has achieved significant milestones—training over 70,000 MSMEs across all 47 counties and facilitating more than KES 3.2 billion in loans (KBA, 2024).

## Methods and Results

This paper utilized data from a survey conducted by the Kenya Bankers Association (KBA) Centre for Research on Financial Markets and Policy in collaboration with the Kenya National Chamber of Commerce and Industries in January 2024. The survey aimed to assess the effectiveness of the KBA Inuka Enterprise Program activities. Targeting 1,000 enterprises, the study achieved an impressive response rate of 88.6 percent, with 886 enterprises interviewed. A stratified sampling strategy was employed, focusing on county and gender of enterprise owners, ensuring the

sample accurately reflected the diversity of MSMEs across sectors and geographical locations.

This study assessed the impact of the Inuka Enterprise program on MSMEs’ access to bank credit by comparing enterprises that participated in the program with those that did not. First, a comparable control group of non-Inuka enterprises was created, matching them with Inuka participants based on key factors like turnover, age, education, industry, and gender. Subsequently, changes in credit access between the two groups were

analyzed to isolate the effect of the Inuka program.

The results shows that size and turnover are critical determinants of MSMEs access to finance:

- This suggests that smaller firms might benefit more from the program, albeit modestly. This point to the fact that financial development and institutional improvements, such as reduced transaction costs and better risk assessment, are critical in enhancing credit access for smaller firms.

- The analysis by turnover reveals that the Inuka program has varying impacts on MSMEs access to finance across different revenue categories.
  - Enterprises with turnover between Ksh 100,000 and 250,000 benefit significantly from the program, while those with higher turnovers of 500,000 to 1 million face constraints. This inverted U-curve relationship suggests that the program is more effective at addressing financial needs of mid-tier MSMEs but becomes less supportive as turnover increases, potentially due to pecking order dynamics.
- Sectoral differences are evident, with trade enterprises receiving less credit at lower turnovers (Ksh 100,00 – 500,000) but gaining more access as turnover rise (Ksh 500,000 – 1 million), likely reflecting the role of cashflow stability in credit allocation.

## Policy Recommendation

The key policy issues arising from the study are:

- a) Tailor programs to mid-tier MSMEs and higher-turnover enterprises:** Revise the Inuka program to address the unique needs of mid-tier and higher-turnover MSMEs. Moreover, there is a need to introduce customized financial products and support mechanisms to ensure equitable credit access across all revenue categories.
- b) Address sectoral disparities in credit allocation:** Develop sector-specific credit policies that account for cash flow stability and unique sector dynamics.

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