

# Micro, Small and Medium Enterprise Competitiveness Project

## Frequently Asked Questions

### **Question 1: What is the MSME Project all about?**

The higher level objective of the project is to increase growth and competitiveness of Micro, Small and Medium sized enterprises in Kenya. The objective is aligned with the Government's focus on MSME development as an important vehicle to raise incomes and employment

This aim will be achieved by strengthening financial and non-financial markets to meet the demand of MSMEs, strengthening institutional support for employable skills and business management, and reducing critical investment climate constraints on MSMEs. The project will focus on key value chains and on both formal small and medium enterprises and informal micro-enterprises that have high potential for dynamic growth, including "graduation" from informal to formal status.

The project is supported by a sector investment loan from the World Bank. This instrument is appropriate as it will provide direct financing for activities which have been identified by a wide range of stakeholders to achieve higher levels of competitiveness.

The project has 3 components as follows:

<b>Component</b>	<b>Subcomponent</b>
<b>1. Access to finance</b>	A. Financial Sector Deepening
	B(i) SME Risk Capital Fund and Technical Assistance
	B(ii) Technical Assistance Fund for Existing Fund Managers
<b>2. Strengthening Enterprise Skills and Market Linkages</b>	A. Pilot value Chain Based Matching Grant Fund
	B. Restructuring Industrial Levy Scheme
	C (i) Global Business School Network
	C (ii). Business Plan Competition
<b>3. Improving Business Environment</b>	Improved compliance with startup regulations and simplified tax system for MSMEs
<b>Programme management/coordination</b>	(A) Institutional Capacity Building for Ministry of Trade and Industry
	(B) Private Project Management Contractor

### **Question 2: What is the role of Micro Finance Institutions (MFIs) in the project?**

The MFIs are key towards increasing access to finance for MSMEs. Under component one, Financial Sector Deepening (FSD), existing MFIs will be supported by the FSD Trust to, among others:

- Develop new products
- Train staff on management and operations
- Prepare manuals
- Develop credit procedures
- Acquire software
- Implementation MIS

The FSD Trust was established in early 2005 to support the development of financial markets in Kenya. The trust works in partnership with the financial services industry to expand access to services among lower income households and small scale enterprises. It is funded by a number of development partners, including the UK's Department for International Development (DFID) and the World Bank.

***Question 3: Does the project support agriculture?***

Yes. It directly supports agriculture through Value Chain Matching Grant in cotton-to-garments, pyrethrum and coffee sectors. The value chain matching grant program helps to strengthen linkages between players along these three value chains and will provide technical assistance (not direct finance) based on pilot project proposal applications from members within the value chain.

***Question 4: How will the project assist in rehabilitation of cotton industry?***

The project will assist in the cotton to garments industries through the value chain matching grant program (see above). Under this subcomponent technical assistance will be provided at various levels of the value chain.

***Question 5: When will the actual financing of SMEs start?***

The primary role of the project is not direct financing to SMEs. Rather it is to build the capacity of existing financial institutions to deepen their services to MSMEs (through the FSD trust). In addition, the project is providing a TA facility to a newly established privately funded Risk Capital Fund that will provide finance (mix of debt and equity) to selected SMEs. However, financing of SMEs is likely to start in the first half (January – June) of 2006.

***Question 6: Where can one find statistics on SMEs?***

The most comprehensive study on SMEs in Kenya is the National Small Enterprise Baseline Survey 1999. Central Bureau of Statistics conducted this survey in collaboration with International Center for Economic Growth, and K-Rep Holdings. The project together with Central Bureau of Statistics is planning for repeat of this survey in 2006 to obtain updated information.

***Question 7: Does the project support preparation of business plans for SMEs? If so, when is the Business Plan Competition likely to commence?***

Yes it does. The subcomponent on Business Plan Competition is being implemented by Kenya Institute of Management in collaboration with TechnoServe and Jomo Kenyatta University of Agriculture and Technology. Activities under the component are likely to begin in April 2006.

***Question 8: What is the interest rate for loans given under the project? Will they require security? What will be the repayment period?***

This project, as mentioned above, is not providing direct financing to SMEs. It is building the capacity of existing financial institutions (MFIs and commercial banks, among others) to better serve MSMEs. Therefore the interest rate will be that of these existing commercially sustainable financial institutions; the project will not play a role in this.

***Question 9: Will the project support business start-ups?***

Business start ups will be supported indirectly through the business plan competition and the financial sector deepening component.

The business plan competition subcomponent will build upon proven models of business plan competitions/entrepreneur mentoring that encourage innovative business models. Additionally, the competition process will result entrepreneurs receiving increasing amounts of training depending on their involvement in the competition.

The FSD Trust will develop the capacity of financial institutions to expand financial services to lower income households and smaller scale enterprises.

The only component that will expressly lend funds to MSMEs is the SME risk capital fund. The fund will support start ups and existing MSMEs that have potential for growth.