

REPUBLIC OF KENYA



REPORT

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 15 MAR 2023	DAY:
TABLED BY:	Hon. Samuel Chepkonga, MP on behalf of Majority Leader
CLERK-AT THE TABLE:	Christine Ndindi

OF

THE AUDITOR-GENERAL

ON

**MICRO AND SMALL ENTERPRISES
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE, 2021**



MICRO AND SMALL ENTERPRISES AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2021**

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

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KEY ENTITY INFORMATION AND MANAGEMENT

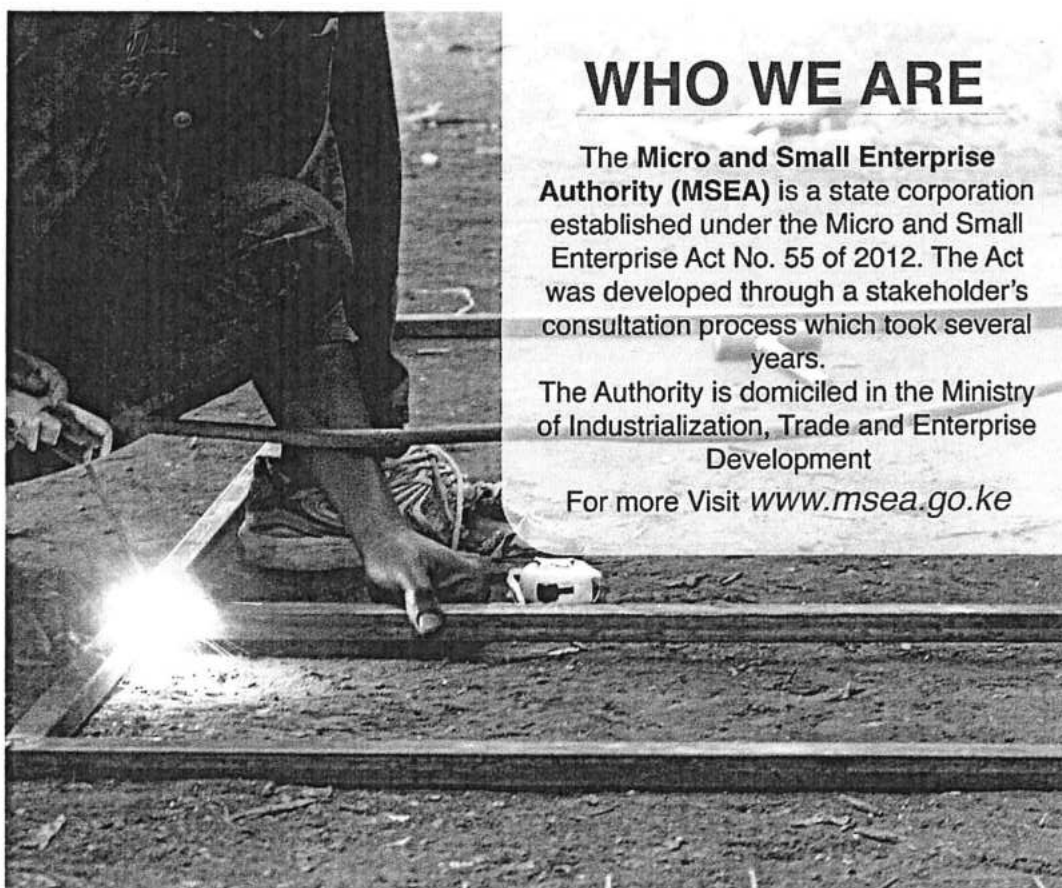
(a) Background information

The Micro and Small Enterprises Authority (MSEA) is a State Corporation established under the Micro and Small Enterprise Act No. 55 of 2012. The Authority is established by law to support development and regulation of Micro and Small Enterprises. The Authority's mandate as indicated by the Micro and Small Enterprise Act No. 55 of 2012 is to Regulate, Promote and Develop the Micro and Small Enterprise Sector.

WHO WE ARE:



**MICRO AND SMALL
ENTERPRISES AUTHORITY**
Entrepreneurship Transforming Kenya



WHO WE ARE

The Micro and Small Enterprise Authority (MSEA) is a state corporation established under the Micro and Small Enterprise Act No. 55 of 2012. The Act was developed through a stakeholder's consultation process which took several years.

The Authority is domiciled in the Ministry of Industrialization, Trade and Enterprise Development

For more Visit www.msea.go.ke

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Annual Reports and Financial Statements
For the year ended June 30, 2021

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ENTERPRISES AUTHORITY**
Empowering the Entrepreneurial Spirit



TAGLINE

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VISION:



**MICRO AND SMALL
ENTERPRISES AUTHORITY**
Empowering the Entrepreneurial Spirit



VISION

**Globally competitive Micro and Small
Enterprises**



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Msea Authority

MISSION:



**MICRO AND SMALL
ENTERPRISES AUTHORITY**
Entrepreneurship Transforming Kenya



MISSION

To promote the development of
competitive and sustainable Micro and
Small Enterprises

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Msea Authority

At Cabinet level, the Authority is represented by the Cabinet Secretary for Industrialization, Trade and Enterprise Development, who is responsible for the general policy and strategic direction of the Authority.

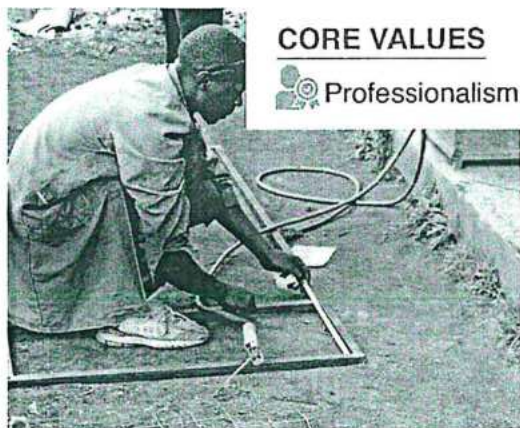
CORE VALUES:

The MSEA shall uphold the following core values:

- 1) **Client Focus:** Micro and Small Enterprises Authority is committed to uphold customer driven and focused serviced delivery.
- 2) **Creativity and Innovation:** MSEA is committed to innovativeness, inventiveness, resourcefulness and visionary planning and service delivery.
- 3) **Integrity and Accountability:** MSEA shall conduct its business and provide services to its stakeholders in an honest and accountable manner.
- 4) **Professionalism:** All staff shall uphold highest moral standards and professional competence in their service delivery.
- 5) **Teamwork and Inclusivity:** MSEA will persistently pursue timely attainment of its Strategic Plan targeted results at all levels through coordination, networking and collaboration within its staff.

Micro and Small Enterprises Authority
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For the year ended June 30, 2021

Professionalism



CORE VALUES

 Professionalism

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Teamwork & Inclusivity

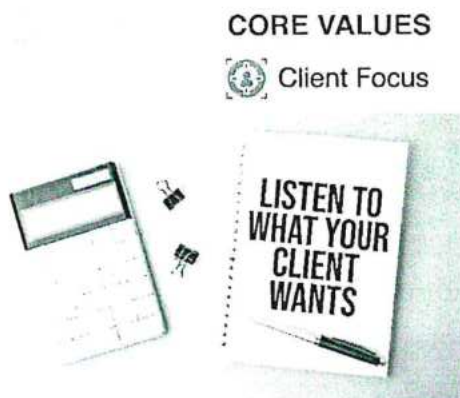


CORE VALUES

 Teamwork & inclusivity

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Client Focus

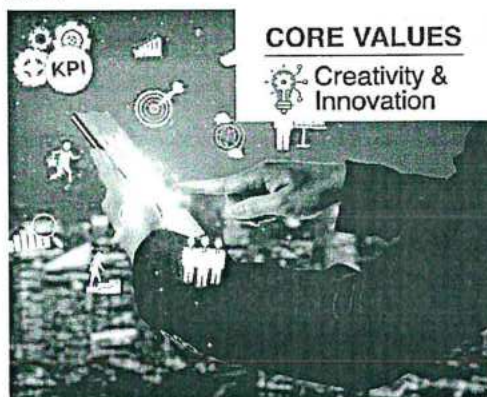


CORE VALUES

 Client Focus

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Creativity & Innovation



CORE VALUES

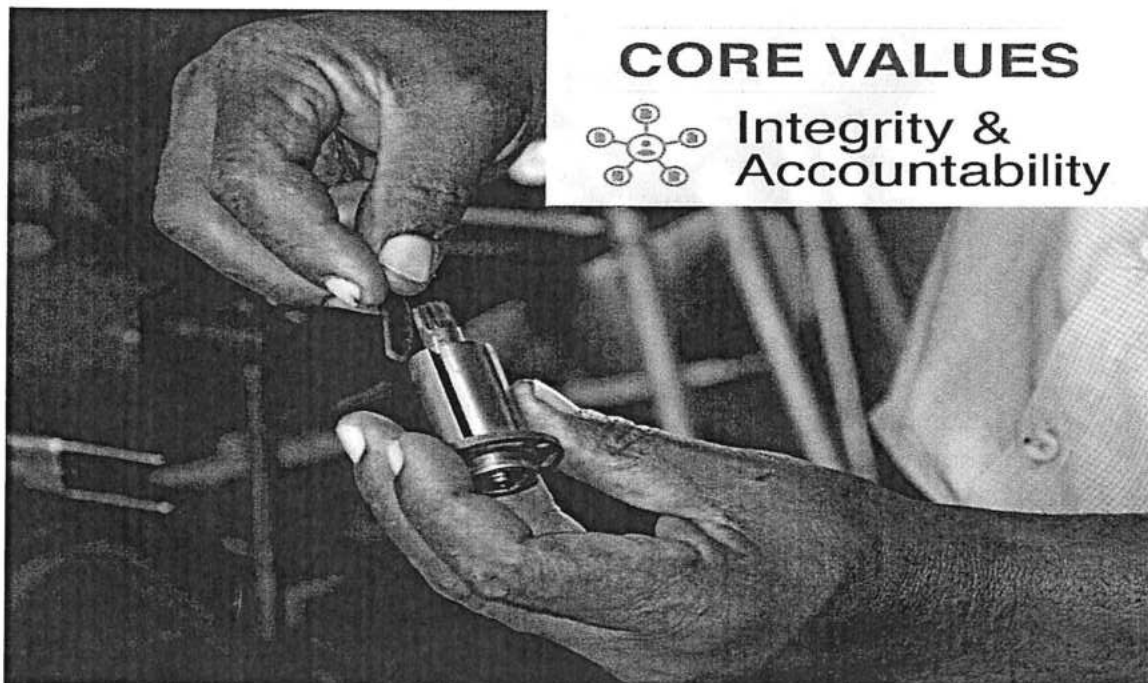
 Creativity & Innovation

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Integrity & Accountability



MICRO AND SMALL
ENTERPRISES AUTHORITY
Empowerment. Transformation. Growth.



CORE VALUES



Integrity &
Accountability

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Msea Authority

(b) Principal Activity and Functions of the Authority

The principal activity of the Authority is to facilitate the Promotion, Development and Regulation of Micro and Small Enterprises Sector with the following functions;

1. Formulate and review policies and programs for Micro and Small Enterprises.
2. Monitor and evaluate the implementation of existing policies and programmes related to, or affecting the micro and small enterprises and advise the Government on appropriate policies and course of action to be taken.
3. Coordinate, harmonize and facilitate the integration of various public and private sector activities, programmes and development plans relating to Micro and Small Enterprises.
4. Promote and facilitate research, product development and patenting in the Micro and Small Enterprises sector.
5. Promote the mainstreaming of youth, gender and persons with disabilities in all micro and small enterprises activities and programs.

6. Mobilise resources for development of the micro and small enterprises sector.
7. Promote access to markets by micro and small enterprises.
8. Promote innovation and development of products by micro and small enterprises.
9. Formulate capacity building programmes for micro and small enterprises.
10. Facilitate technology development, acquisition and transfer by micro and small enterprises
11. Develop mechanism, tools and programs for collection of comprehensive data disaggregated by sex, region and age among others, in collaboration with key stakeholders, to enable proper planning for the micro and small enterprises sector.

(c) Key Management

The Authority's day-to-day management is under the following key organs:

- Board of Directors
- Director General / Chief Executive Officer
- Senior Management Team

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2021 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	Henry Rithaa
2.	Director, Corporate Services	Simon Nyamolo
3.	Head, Finance and Accounts	Festus Musyoki

(e) Fiduciary Oversight Arrangements

The primary organ responsible for fiduciary oversight arrangements is the Board of Directors. Other Government bodies also provide oversight. The Board exercised this oversight through Board Committees. These were the Finance, Human Resource and Administration Committee, Strategy and Business Development Service Committee, Development and Infrastructure Committee, Audit and Risk Management Committee. The key function of the Board is to guide and control the performance and management of the affairs of the Authority.

(f) Headquarters

Micro and Small Enterprises Authority
P.O. Box 48823 - 00100
10th Floor, Utalii House
Nairobi, Kenya

(g) Contacts

Office of the Chief Executive Officer
Telephone: (254)020-3340006/0700-666000
E-mail: msea@mseauthority.go.ke
Website: www.msea.go.ke

(h) Bankers

Kenya Commercial Bank, Kipande House Branch | P.O Box 30012-00100, Nairobi
Kenya Commercial Bank, Milimani Branch | P.O Box 69695-00400, Nairobi
National Bank of Kenya, Harambee Avenue Branch | P.O Box 72866-00200, Nairobi

(i) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser

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

THE BOARD OF DIRECTORS



Mr. James Mureu

Chairperson of the Board (Joined Board on 6th October 2021)

Born in 1960, Mr. James N. Mureu holds a B.Sc degree in Business Management from Hartford University, USA, Australia Melbourne campus. He is the Managing Director of Prolong Kenya Ltd, a firm involved in construction and farming, Chairman of Mastrade Holdings Ltd with interests in telecommunication and Afrinol Holdings Ltd involved in large-scale farming of Sorghum. He is the immediate past National Vice Chairman of the Kenya National Chamber of Commerce & Industry (KNCCI), and Chairman of the Economic Diplomacy committee of KNCCI. He is also the joint Chairman of the Kenya/India Joint Business Council as well as a member of both the Nigeria and South Africa Joint Business Councils. He has interests in telecommunications, real estate and farming.



Mr. Charles Waithaka

Chairperson of the Board (Exited Board on 18th July 2021)

Born on 3rd March 1976, Mr. Charles Waithaka holds a Master of Business Administration from University of Wales, United Kingdom, Bachelor of Arts Degree in Project Management from Kingsbridge University, United States and a Diploma in Information Technology from Kenyatta University. Mr. Waithaka also holds a Bachelor in Business Administration (Entrepreneurship) from Swiss Management Academy. He has over sixteen (16) years' experience in Leadership and Project Management and has worked in simultaneous multi-community mobilization initiatives.

Mr. Waithaka has worked with Government, UN bodies, Civil Societies and Private Sector in various capacities. He has served as a Chairman of KEPCO an Apex body of six coalitions of small-scale producers in the Country. He has served as an Executive Director of International Consortium of Community Based organizations (ICCOBO), served as a Director in the NGO Coordination Board, has been an Executive Committee Member of NCCK, an Executive Member of Anticorruption Civilian Oversight Committee, served as an Executive Member of Regional Youth Forum (RYF) representing 6 Countries. He was the Organizing Secretary for Empowering of Youth & Enterprise Support (EYES AFRICA) and the founder Member of National Youth Council (NYC) that led to formation of the Ministry of Youth. He exited the Board after expiry of his second term on 18th July 2021.



Mr. Henry M. Rithaa

Director General / Chief Executive Officer:

Born in 1977, Mr. Rithaa holds an MBA (Strategic Management), Master of Arts in Regional Integration and Bachelor's degree in Finance.

He is a Certified Risk Professional (GARP) and Certified in Regional Integration and Trade. 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 also trained in Advanced Leadership and Management Development Program from Kenya Institute of Management and has done Strategic Leadership Development Program from Kenya School of Government. He is a member of the Kenya Institute of Management (MKIM) and Secretary to the Board of Directors. Henry has served in various Directorship positions in both Private and Public institutions.



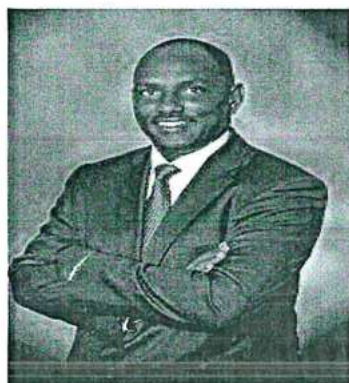
CS. Hon. Betty C. Maina, EGH, CBS

Cabinet Secretary: Ministry of Industrialization, Trade and Enterprise Development:

Hon. Betty C. Maina, EGH brings a wealth of experience and professional capability built over two decades of engagement with top-notch public and private sector organizations. She has more than 27 years' experience in organizational leadership and development, with an ability to prepare and implement strategic business plans and mobilize resources for implementation, traits that place her at a strategic position to effectively lead the coordination of Industrialization, Trade and Enterprise Development in Kenya.

Hon. Maina has served as the Principal Secretary in the Ministry of Environment and Forestry, State Department for industrialization, and State Department of East African Affairs. She has also served as the Chief Executive of the Kenya Association of Manufacturers for 11 years (between June 2004–July 2015), where she not only oversaw the doubling of membership of the association but also established seven satellite offices to complement the services offered at the national office. She attained a Master of Science Degree in Development Administration and Planning from the University College of London in 1998, having studied Land Economics at the University of Nairobi where she attained her undergraduate degree in 1988.

She has also undertaken short courses in several key areas, among them Budgeting and Financial Management (Harvard University), Developing Anti-Corruption Strategies (World Bank, Washington), Gender and Development Planning (University College of London), and the Role of Public Policy in Private Sector Development (Strathmore University College), to name just a few. Prior to joining the State Department, Ms. Maina was the Director of her consultancy firm: BECEM Solutions, and East Africa Regional Representative of Genetics: Analytics, an economic consulting group with offices in Nairobi, New Delhi, and Johannesburg.



CS. Hon. Amb. Ukur Yatani,
EGH

Cabinet Secretary: The National Treasury and Planning:

Hon. Amb. Ukur Yatani has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006-2007 while Member of Parliament for North Horr Constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), United Nations Convention Against Transnational Organized Crime (UNTOC), Convention on Crime Prevention and Criminal Justice (CCPJ), and African Group of Ambassadors among others. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.



Amb. Johnson Weru

Principal Secretary: State Department for Trade and Enterprise Development

Amb. Johnson Weru, is an alumni of Harvard University Kennedy School of Government, University of Nairobi and University of Leeds. He is a career diplomat and public servant with over twenty seven years' experience working in Government and International Development Agencies in Africa and Europe. He is concurrently pursuing a doctorate in International Trade from Brussels University in Belgium. Prior to his appointment as Ambassador to the Kingdom of Belgium, the Grand Duchy of Luxembourg and Mission to the European Union Amb. Weru had a distinguished and long service at the Ministry of Foreign Affairs where he served as Director for Economic Affairs and External Trade. Amb. Weru has wide experience in international finance, international trade negotiations and public sector management and restructuring. He has previously held advisory positions with the World Bank and United Nations Development Programme. Amb. Weru has held several senior positions in the public service including serving as Joint/deputy Secretary for various public sector reform Task Forces among them Technical Committee on Governance Justice, Law and Order Sector Reforms, Legal Sector Reform Secretariat and Task force on Rationalization, Restructuring and Strengthening the Ministry of Foreign

	Affairs. He has also served as adjunct professor and Lecturer in Economics and Finance at Catholic University of East Africa and has served as alternate director to several State Boards including Kenya Vision 2030 Delivery Board, Brand Kenya Board and the National Council for Science and Technology. He joined MSEA Board on 4th June 2020 when the Authority was moved from State Department for Industrialization to State Department for Trade.
 Mr. Humphrey N. Ndung'u	Director: Mr. Ndung'u was born on 23rd September 1962. He is a visionary, delivery and execution leader with over 13 years' progressive responsibility heading teams, providing strategic solutions and large scale projects with companies and organisations. He also has expertise in executive leadership, product management, contract negotiations, and business development. Successful experience building innovative digital businesses. His latest stint was at Mobile Decisioning Holdings Limited where he worked as Group Chief Financial Officer 2011 – 2012, Group Chief Operating Officer 2012 – 2013 and Group Director, Strategy 2013 – 2014. He has also worked for Equity Investment Bank Limited, Renaissance Capital Kenya Limited, K-Rep Bank Limited, Consolidated Bank of Kenya Limited, Standard Chartered Bank PLC - South Africa, Standard Chartered Bank Kenya and Limited First American Bank of Kenya Limited. Mr. Ndung'u is an Independent Director of the Board of MSEA and Chairperson to Finance, Human Resource and Administration Committee of the Board.
 Mr. Anthony Kwache	Director: Mr Anthony Kwache was born on 12th December 1971. Mr Kwache joined the Micro and Small Enterprises sector in the year 1995 after a stint in formal employment as a newspaper vendor and selling merchandise in Nairobi and later moved to Kisumu the same year to continue along Oginga Odinga Street. In the year 1999 he started supplementing his income by venturing into vegetables farming in his rural home. During this period he was elected to be the Chairperson of the traders, shoe shiners and the newspaper vendors in Kisumu to lead in advocating for their recognition and provision of a suitable environment for their businesses. He also joined hands with the Jua Kali Associations to champion for the enactment of laws and regulations that could enhance the governance and growth of the valuable sectors. In the year 2005 when the Institute of Economic Affairs was conducting a research on the organizing and governance of the trade and service sectors, Mr. Kwache was part of the team and was first elected in 2008 as a co-opted member of the management board and national executive member. This gave birth to the Kenya National Association of Street Vendors and Traders (KENASVIT). He is the Chairperson of Kisumu Informal

	Traders and Economic Support which is affiliated to KENASVIT. He has championed for provision of adequate worksites for the members of the Jua Kali and other sectors, the enactment of the MSE Act 2012 and has been leading KENASVIT in sensitizing the sector members on the Act and following up on its full implementation. He is also Chairman of Kisumu County MSE Association. Mr. Kwache is the Chairperson of Development and Infrastructure Committee of the Board of MSEA.
 Ms. Zohra Baraka	Director: Zohra Baraka was born on 26th March, 1963. She is the founder and Executive Director at Mohazo Ex Impo Limited in Kenya that has had milestones in commercial crafts in the global markets for the last 24 years hence giving a platform for Africa to showcase the rich ethnic culture that they bring to the global market place. Zohra also serves in various organizations that promote gender equality, women leadership and cross-cultural exchange in education and business and also supports dialogue between communities. She has also been recognized in the National Jitihada Awards in Kenya where she won first place in the Best Business Plan Competition and also Woman Entrepreneur of the year 2009. In 2011 she was nominated as the African Women Entrepreneurship Programme (AWEP) ambassador for Kenya and now sits as the Board Chairperson for AWEP. She is also a Board member for Federation of Womens Entrepreneur Associations (FEWA), Board of the South South Centre (SSC) and also sits in the Colorado State University and United States International University (USIU) Board. She is the Chairperson of Strategy and Business Development Services Committee of MSEA Board. She exited the Board on 7th August 2021 after passing on.
 Mr. Billy Baltazar	Director: Mr. Baltazar has had diverse experience in different fields including Health Policy, Health Financing and management of teams both in private and public sector. He holds a Bachelor of Commerce degree in Management from Catholic University of Eastern Africa and currently pursuing Master of Science in Human Resource Management from the University of Nairobi. He also has a Diploma in Computer Programming and Human Resource Management. Mr. Baltazar has attended short courses in Leadership and Governance, Quality Management Systems, Statistical Methods among others. Currently he is working with NASCOP CDC under Ministry of Health. Previously he has worked with Kenya Medical Supplies Agency. He is the Chairperson of Audit and Risk Committee of MSEA Board.

 Mr. Isaac Mbingi Okello	Director: Born in 1964, Mr. Okello holds a Master of Commerce Degree (Business Management) with over 20 years' experience in Human Resource and Administration in both the public and private sector. He is an Advocate of the High Court of Kenya and holder of a Post Graduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws Degree from the University of Nairobi. He is currently the Administrative Secretary, Central Organization of Trade Unions, Kenya (COTU-K). He is also a member of the Kenya Institute of Management and the Law Society of Kenya.
 Eng. Charles Kalomba	Director: Eng. Kalomba was born on 18th August, 1962. He is a graduate of industrial instrumentations from Institute of Machine Tools Batala, India and also renewable energy scientist from the Mithradham Energy Institute in Cochin, Kerala Southern India. He has also a Higher National Diploma in Automotive from Kenya National Polytechnic. He is the founder Member and developer of the framework at National Industrial Training Authority. He is also the chief architect, lead Consultant and co-chair to the Vice Chancellor to the "JKUAT Mashinani" Initiative, public-private sector collaboration between the Jomo Kenyatta University of Agriculture and Technology and the indigenous local industry/JuaKali, whose specific objective is to build the capacity of the University's linkages with the MSE/Jua Kalis. In 2017, he was appointed by the Board of National Industrial Training Authority (NITA) as the Chairman of the Commercial, Wholesale, Retail Trade and Allied Agencies (CWR), with a huge Component of Private Security modernizing and standardizing.
 Mr. Yuda Imunya	Director: Born in December 20th 1965. Mr. Imunya holds a Bachelor's degree in Business Administration and Management from Kenya Methodist University. He has also trained on Leadership, Governance and Management at Kenya School of Government. Mr. Imunya also attended a short course in Governance and Management in Johannesburg, South Africa. He has a vast experience in business and management and currently is a Director at Ideal Security Services Limited. Prior to that, he was a Member of County Public Service Board at Meru County. He has previously worked with Kangeta Girls High School, Henneiman Educational Publishers before moving to East African Educational Publishers as Credit Controller in charge of East African Countries Branch Office.

 Ms. Caroline Karanja	Director: Ms. Karanja was born on 25th March 1974. She is a graduate of the United States International University Africa (USIU-A) with a major in International Business Administration - finance option. She has attended short courses in Leaders in Action, Basic Banking Operations, and Performance Management among others. Ms. Karanja has over 15 years of work experience both in the banking and microfinance sectors. Currently she is the Chief Executive Officer at Association of Micro-finance Institutions Kenya (AMFI-K). She has previously held senior positions at Commercial Bank of Africa, Nature Expeditions Africa Limited and Citibank N.A.
 Mr. Joseph Samal Lomwa	Director: Mr. Lomwa is a holder of Bachelor of Arts Degree in Development Studies from Kimmage Development Studies Centre-Dublin, Ireland and Diploma in Community Development from Premise Development Training Institute. He has also a Certificate in Social Development Work. Mr. Lomwa is an initiative driven leader and Public Servant with over 20 years serving the community both in the Non-Governmental Organisation and the Public sector. He has extensive project management, public administration, community empowerment, leadership among others having served as a Member of Parliament (MP) for Isiolo North Constituency between March 2013-2017. Prior to then, he worked as Executive Director (CEO) at PREMAP- a local CBO, based in Isiolo. Previously, he has in senior positions at Catholic Development Office and Modogashe Development Office.
 Ms. Rose Mwongera	Alternate to Principal Secretary State Department for Youth Affairs: Ms. Mwongera sits in MSEA Board as alternate to Principal Secretary, State Department for Youth Affairs. She is a holder of Master of Arts in Project Planning and Management from the University of Nairobi and Bachelor of Education in Home Economics from Kenyatta University. Currently she is a PhD student studying Development Studies at the Jomo Kenyatta University of Agriculture and Technology. Ms. Mwongera has vast experience in public policy, strategy and research currently working as Deputy Director in charge of Youth Development at State Department for Youth Affairs. Prior to that, she worked as Assistant Director coordinating and advising on Youth Mainstreaming from 2013 to 2016 at the Ministry of Health. Previously, she worked as Chief Youth Officer, Principal Youth Officer and then Assistant Director at the Department of Youth Development from 2007 to 2016.

 Ms. Nancy Muya	Alternate to Principal Secretary State Department for Industrialization: Ms. Muya was born on 13th May 1962 and sits in MSEA Board as alternate to Principal Secretary, State for Industrialization effective April 2021. She is a holder of Bachelor of Science with a major in Mathematics and Chemistry from Kenyatta University. Ms. Muya has over 30 years of work experience in public service, policy and governance. She has held various senior position in the Ministry and currently she is the Director of Enterprise Development at the State Department for Industrialization. She has sat as Director in different Boards of State Corporations including National Credit Guarantee Scheme, Kenya Accreditation Service (KENAS), Kenya Industrial Research and Development Institute (KIRDI), Kenya Industrial Training Institute (KITI), Kenya Leather Development Council (KLDC) among others.
 Mr. Richard Gakunya	Alternate to Cabinet Secretary The National Treasury and Planning: Mr. Gakunya is a holder of Masters of Science in Economics and Statistics and Bachelor of Science in Economics and Statistics both from Odessa Institute of National Economy. He has attended short courses in Activity based costing, Fiscal risk reporting, Strategic Leadership Development Program, Public expenditure management and among others. He has extensive experience in budgeting, fiscal planning, public policy and public sector financial management currently working as Deputy Director of Budgets at National Treasury. Previously he has worked for over 20 years as Economist in the Public Service and Office of Controller and Auditor General as Auditor.

MANAGEMENT TEAM

 Mr. Henry M. Rithaa	Director General / Chief Executive Officer Born in 1977, Mr. Rithaa holds an MBA (Strategic Management), Master of Arts in Regional Integration and Bachelor's degree in Finance. He is a Certified Risk Professional (GARP) and Certified in Regional Integration and Trade. 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 also trained in Advanced Leadership and Management Development Program from Kenya Institute of Management and has done Strategic Leadership Development Program from Kenya School of Government. He is a member of the Kenya Institute of Management (MKIM) and Secretary to the Board of Directors. Henry has served in various Directorship positions in both Private and Public institutions.
 Mr. Simon Nyamolo	Director, Corporate Services Born in 1976, Mr. Nyamolo holds a Master's Degree in Strategic Management from Jomo Kenyatta University of Agriculture and Technology, Bachelor of Business Administration (Finance) from Maseno University and is currently pursuing a PhD in Business Administration (Strategic Management) from the Jomo Kenyatta University of Agriculture and Technology. He is a member of the Kenya Institute of Management, Institute of Human Resource Management of Kenya and Institute of Certified Public Secretaries of Kenya. Simon's experience in corporate administration and management spans seventeen years prior to joining the Authority. He previously held senior positions at JKUAT, Kenya Forest Service and Kenya Institute of Mass Communication.
 Ms. Caroline Kioko	Ag. Director, Business Development, Marketing and Trade Born in 1982, Ms. Caroline Kioko holds a Master's of Business Administration Degree in Entrepreneurship and Bachelor's degree in Environmental Studies and Community Development, both from Kenyatta University. She has attended several other courses including Senior Management Course from the Kenya School of Government, Project Planning and Implementation from ESAMI, Small Business Planning and Promotion from NIESBUD, among others. Her experience in Business Development Services in the MSE sector spans over 12 years, within the Kenyan context as well as the EAC region. She is also serving as the Project Coordinator of the Kenya Youth Employment and Opportunities Project (KYEOP) Component 2.

 Eng. Edward Karani	Director, Infrastructure Development, Technology and Innovation Born in 1989, Mr. Karani holds a Masters Degree in Project Management from Jomo Kenyatta University Of Agriculture and Technology. He is also a graduate of Bsc Electrical and Electronic Engineering and a Double degree in Bsc Telecommunication and Information Engineering from the same University. Edward has extensive experience in Project Management both in Private and Public sector. He is a member of Institute of Engineers Kenya and Engineers Board of Kenya in addition he has undergone training on Young leaders SME Development and Promotion.
 Ms. Naomi Kariuki	Director, Human Capital Development Born in 1978, Ms. Kariuki holds a Master of Science in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology and a Bachelor's degree in Business Administration and Management. She is a Certified Human Resource Professional (CHRP) and a full member of the Institute of Human Resource Management. She has attended other courses in Senior Management from Kenya School of Government, Credit Management, Risk Management and Public Relations among others. Currently pursuing MA in Diplomacy and International Relations. Her corporate experience spans over 15 years working in various institutions including the Council of Legal Education/Kenya School of Law, Export Promotion Council prior to joining the Authority.
 Ms. Catherine Mungania	Registrar of Micro and Small Enterprise Born in 1981, Ms. Mungania is an Advocate of the High Court of Kenya with a distinguished law career and vast experience in legal matters spanning over 14 years. She holds a Bachelor of Laws (LL.B.) Degree from Moi University, a Postgraduate Diploma in Law from Kenya School of Law, a Master of Laws (LL.M.) Degree in Public Finance from the University of Nairobi and a Diploma in Human Resource from Kenya Institute of Management. She brings a wealth of experience having worked as an Ag. Corporation Secretary at the Engineers Board of Kenya, A Senior Resident Magistrate at Kericho Law Courts, a Senior Manager at Nyayo Tea Zones Development Corporation, Manager at JKUAT as well as a practicing advocate in various law firms in Kenya.



Mr. Richard Omelu

Director, Strategy, Planning and MSE Coordination

Born in 1982, Mr Omelu holds a Master of Business Administration Degree in Strategic Management from Moi University and Bachelor of Commerce Degree in Finance from the University of Nairobi. He is a Risk Certified Professional examined by the Global Association of Risk Professionals (GARP-UK) and a member of the Kenya Institute of Management (MKIM). Richard has attended various Senior Management courses locally and internationally on Corporate Governance for Directors, Performance Management, Corporate Planning, Credit Management, Fund Raising, Enterprise Risk Management, Pricing Risk Management, Project Management, Value Chains Analysis among others. His corporate experience spans over 14 years working in various institutions including the Commodities Fund, Coffee Development Fund, Agricultural Finance Corporation (AFC), Equity Bank Limited prior to joining the Authority.



Ms. Mary Chege

Chief Legal Officer

Born in 1979, Ms. Mary Chege holds Bachelor of Laws (2nd class upper) Degree from the University of Nairobi, Certified Public Accountant, Certified Public Secretary, Certification in Training of Trainers for Financial Inclusion and Negotiation of Financial Instruments by UNITAR/AGFUND. She is currently writing project papers in pursuit of Masters of Laws and Master of Business Administration studies at the University of Nairobi. She is a certified Governance Auditor, Member of the Law Society of Kenya, Institute of Certified Secretaries of Kenya and Chartered Institute of Arbitrators. She has over fifteen years of legal practice working in senior management positions in the banking, capital markets, IT, conveyance and micro finance sectors. She is passionate about financial inclusion.



Mr. Festus Musyoki

Head, Finance and Accounts

Born in 1984, Mr. Musyoki holds a Master of Business Administration (Finance) and Bachelor of Commerce (Finance) both from the University of Nairobi. He is a Certified Public Accountant of Kenya, Certified Investments and Financial Analyst and a Member of the Institute of Certified Public Accountants of Kenya. Festus has attended short courses in Senior Management, Financial Planning and Modelling, Corporate Governance, Project Management and Legal Audits among others. His experience in accounting and finance spans over thirteen years working in various institutions including National Environment Management Authority, Nursing Council of Kenya and British High Commission prior to joining the Authority on 6th January 2020.



Ms. Elizabeth Mulae

Head, Corporate Communication

Born in 1982, MPRS Elizabeth Mulae is a Communication & Public Relations Professional with over 15 years 360 % experience in the communication field. Her experience has holistically exposed her to Journalism, Reporting, Sales, Marketing and Advertising, Publications management, Public relations and development communication in general. She is currently a full member of Public Relations Society of Kenya where she serves in the Editorial Panel of Experts; also a member of the Partnership & Resource Mobilization committee and the Association of Media women in Kenya where she serves in the publicity committee. She has previously worked in the mainstream media, several publications production companies, The Land management, Surveying and Property sector and The Kenya Export Promotion and Branding Agency. Ms. Mulae Holds a Masters in Development Communication, Bachelor of Arts in Communication & Public Relations and Diplomas in Marketing & Advertising.

CHAIRMAN'S STATEMENT

The Authority has undergone a remarkable evolution over the years as we've pursued our Mission which is to promote the development of competitive and sustainable Micro and Small Enterprises. One of the most profound changes over this time has been the richer understanding and deeper commitment to—serving the MSE sector through the implementation of key projects, programmes, activities and strategic initiatives aligned to the MSE Act, National Priorities and the Big 4 Agenda.

MSEA's leadership vision brings together essential prerequisites for maintaining the long-term health and growth of the Authority through our strong commitment to serving all our stakeholders. It is also worthy to note the critical role played by the Board in providing strategic leadership and direction for the Authority and the dedication and work ethic of staff has led to the successful implementation of these projects and programmes.

As you will see, we have continued to make progress towards key goals of infrastructure development, capacity building, and formalization, access to affordable credit and market access. During the financial year, the Authority refurbished 38 CIDs across the country and is in the process of completing the construction of the 3 cold storage facilities under the presidential directive.

Component 2 of job creation under KYEOP which MSEA is implementing 13,996 youth have benefitted through the issuance of grants while 5,264 youth received business development services.

Another major milestone has been the formulation of MSEA's 2020-2024 Strategic Plan which is awaiting launch. The plan will guide the Authority's priorities, identify important challenges and opportunities, and allocate resources to our initiatives. It will also help us make better informed, strategic decisions and ensure the costs and benefits of our choices are clear and transparent across the various parts of our operations. Significantly, the Authority kicked off country-wide registration of MSEs through the Office of the Registrar of MSEs.

Covid-19 response

The persistent Covid-19 pandemic has made it clearer than ever before that we cannot achieve successful economic recovery of the country if we choose to work independently. Rather, success requires that we consistently work to revive the country's economy, more so the MSE sector which has been adversely affected by the disruptions in business operations and supply chains. The sector's output carries such far-reaching implications for the economy (contributing 3% to the GDP in 2017) the environment and the 0.78M people who rely on it for livelihoods.

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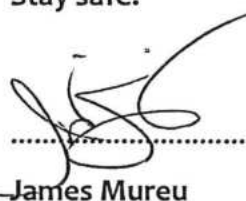
As part of this process, the Authority entered into strategic partnerships with financial institutions and Development partners to support the development of MSE sector through provision of affordable credit facilities, financial literacy training, capacity building, support in research and development of policies affecting Micro and small enterprises during and after the pandemic.

In particular, the Authority signed partnership agreements with Family Bank, Equity Bank, Gulf African Bank and IPA (Innovation for Poverty Action). Our team is excited about these initiatives just as we are proud of the many accomplishments outlined in this year's report and those that we expect will follow in the future, to move us forward simultaneously on multiple fronts and managing our total impact as an enterprise.

We owe credit to many stakeholders who have helped us achieve these results, either through their direct engagement or through the constructive feedback we rely on them to provide us. Meanwhile, MSEA will continue to strive toward its mandate of promoting, regulating and developing Micro and Small Enterprises to become key industries of tomorrow. As we do, you have our commitment that we will be working to extend our performance in areas where results are already strong, while diligently addressing those aspects of our performance in which we see the greatest opportunities for improvement.

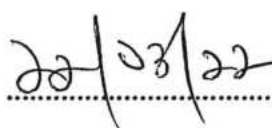
Thank you for your ongoing support and commitment.

Stay safe!



James Mureu

Chairman of the Board



Date

Nairobi

REPORT OF THE CHIEF EXECUTIVE OFFICER

The financial year 2020/2021 was a year like no other. After a promising start, the uncertainty of an unprecedented pandemic presented a new set of problems both – large and small – to be solved. We face a long list of social and environmental challenges in addition to the health and accompanying economic crisis and their impact around the world.

A multi-stakeholder approach is the best way to both build a healthy business environment in the long term and to reshape operating systems to be fairer and ultimately regain trust. The pandemic demonstrated how small but widespread changes in individual behaviour can produce large-scale, positive effects. Increasing need to be innovative as it positions the business as a resilient, forward-looking and sustainable organization with a deliberate inclusive agenda of empowering, partnering and co-creating with society.

Key highlights:

1. Financial Performance

During the financial year ending 30th June 2021, the Authority reported a surplus of Kshs 255.5 million compared to surplus of Kshs 9.3 million in the previous financial year. Total revenue received amounted to Kshs 1.262 billion (Kshs 703.6 million – 2019/20) against total expenditure of Kshs 1.007 billion (Kshs 694.3 million – 2019/20). The value of the total asset increased from Kshs 1.474 million to Kshs 1.816 billion attributable to capital acquisition and development funding during the period.

2. MSE Infrastructure Development:

The Authority committed to operationalizing 38 Constituency Industrial Development Centers within the financial year following an initial allocation of Kshs 281 Million for the Development vote. However, during the supplementary budget estimates, the allocation was revised downwards by Kshs 55.7 Million to Kshs. 225.3 Million. The funds were meant for utilization towards completion of workshops, equipping, and training of machine operators and identification of associations to operate in the CIDs. The Authority has initiated several activities which went towards the realization of operationalizing the targeted CIDs. The activities included; distribution, installation and training on usage of various machines;

procurement of contractors for CIDCs identified for completion; land documentation and verification in collaboration with National Land Commission.

3. Cold Storage Facilities

The Authority received Kshs. 300 Million under a Presidential Directive for construction of three cold storage facilities in Nyandarua, Meru and Kisii Counties in the last financial year 2019/2020. The cold storage facilities are meant to assist the potato and banana farmers in the region by giving them a common user facility to preserve their produce. As at the end of the financial year, the projects were at different stages of construction; Nyandarua at 80%, Meru 90% and Kisii 75%.

4. Refurbishment of Kariobangi Centre of Excellence

The Centre promotes provision of worksites, promotion of research, technology and innovation through strengthening the innovation & entrepreneurship ecosystem of MSEs and improvement of productivity, sustainability and competitiveness of MSEs Products. During the period under review, various refurbishment works were undertaken including; Civil works, purchasing of additional machinery and installation of the standby generator. Once the project is fully complete, the outcome will be to increase the employment and earning levels of MSEs which will contribute to the overall growth of the country's economy. The Centre provides incubation facilities and equipment to MSEs in the Kariobangi Light Industries cluster.

5. Kenya Youth Employment and Opportunities Programme (KYEOP).

The Kenya Youth Employment and Opportunities programme was started in December 2016 and is planned to end in December 2021. The project has been supporting youth in developing their skills and giving them grants to start businesses. The project has benefited 13,996 youth through the issuance of grants and 5,264 youth have received business development services as at the end of the reporting period. The Authority is targeting to reach 34,500 youths by issuing grants amounting to Kshs. 1,380,000,000 by the end of the project. The MbeleNaBiz award ceremony took place on 24th February 2021 and 750 youths were issued with grants worth Kshs 1,360,000,000.

6. Partnerships

MSEA is supporting Equity Group Foundation in their goal of promoting financial inclusion through the creation of 810,000 quality and dignified jobs in 5 years through BDS training and capacity development. The partnership has seen the on boarding of 4,615 MSEs across 27 Counties. The Enrolment targeted 14,100 MSEs by June 2021 in the initial phase of the partnership.

The Authority has also partnered with UNDP to establish the infrastructure and hardware necessary to facilitate the registration and dissemination of information to MSEs. During the financial year under review, UNDP supported MSEA with donations in kind amounting to Kshs 16.4 Million in setting up the MSE operational system. The system will provide the following functions; MSE data management, Customer relationship management and Call Centre Support. The Authority commenced online registration of MSEs on 24th March 2021 and by the end of the financial year, 54 searches had been received, approved and issued with the search certificates. The Authority also received 29 applications for registration.

Through the partnership with Stanbic Foundation, 50,000 MSEs will be trained in digital and entrepreneurship skills based on a Microsoft certification arrangement in the next financial year.

Through the BUSY project with ILO, the project is working with ITCILO, an institution with immense global experience in offering online training to enhance the capacity of MSEA, in developing an online Business Development Training portal that will be used to up-skill MSE's. This is expected to be a sustainable measure to scale up the training in the face of the COVID-19 pandemic now and in the future.

7. MSEA Strategic Plan 2020 – 2024

The MSEA strategic plan 2020-2024 is the second strategic plan for the Authority since its establishment. It builds upon the success, challenges and lessons learnt from the previous plan. The development of the Plan was through a consultative process with stakeholders. The Plan has captured the shared vision, mission, core values, key result areas, strategic objectives and

policy priorities for the Authority. The strategic plan shall focus on four key result areas namely Promotion, Development, Regulation and Institutional Capacity.

8. Covid-19 response:

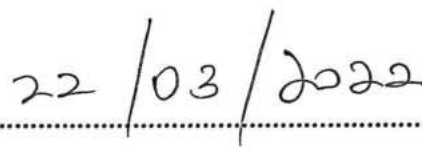
The recent outbreak of the COVID-19 pandemic has dealt a great challenge to the MSE sector in Kenya. While the implemented containment measures to curb the spread of the virus have been necessary, they have implied sharp contractions in the level of output, household spending, corporate investment and international trade. In many instances, this has led to the imminent closure of micro and small enterprises and disruptions in supply chain operations which has undeniably had a knock-on effect on businesses locally. The negative effect of the pandemic on the Kenyan economy cannot be overlooked. The Authority has been working round the clock to guarantee business continuity of the Micro and Small Enterprises through targeted initiatives.

Finally and on behalf of the management, I wish to express my sincere appreciation to the Board of Directors for providing direction and leadership to the Authority and the contribution of the Cabinet Secretary Ms. Betty Maina and Principal Secretary Amb. John Weru who have maintained the efforts of the Board in meeting the expectations of the Public. I also appreciate my fellow staff for their commitment and dedication in improving the operations of the Authority. In addition, I wish to thank our clients and all other stakeholders for continued patronage and support of our programmes and activities.

God Bless.



Henry M. Rithaa
Director General / CEO



Date
Nairobi

CORPORATE GOVERNANCE STATEMENT

The Board of Management of Micro and Small Enterprises Authority is responsible for the governance role of the Authority. Both the Board and senior management of the Authority are committed to the highest levels of corporate governance, which it considers critical in achieving the Authority's mandate. Accordingly, the Authority therefore fosters a culture that values and rewards the highest ethical standards, personal and corporate integrity.

1. The Board

A. Board Composition

The Board of Directors oversee the Authority's Corporate Governance framework by ensuring that the best practices in corporate governance are adhered to.

An effective board must comprise of highly qualified and competent directors capable of exercising objective, independent judgment to guide strategy development and monitor management. The board must have a proper understanding of the role and responsibilities of the board to ensure that the board has appropriate autonomy, authority and accountability in exercising its functions. More over an effective board follows operating practices such as creating board committees and providing specialized training and evaluation for directors that improve board's functioning and decision making.

The Authority's board is headed by a non-executive chairman appointed by the President, the remaining fourteen (14) directors in the board are appointed by the Cabinet Secretary responsible for Industrialization, Trade and Enterprise Development as per the Micro and Small Enterprises Act No. 55 of 2012, four (4) are alternate directors to Principal Secretaries for Industrialization, Trade, Youth and National Treasury respectively, one (1) director who is the Chief Executive Officer sits in the board as the Secretary, while four (4) members sit in the board as independent directors. The rest represent the subsectors of trade, services, and manufacturing.

The Board is composed of directors with a diverse mix of experience in various industries and competencies in various fields such as Insurance, Banking, Law, Accounting and Human resources. The unique experiences provide the Board with a mix of skills in discharging its responsibilities and providing a strategic vision and direction for the Authority by bringing in

the element of independent judgment and risk assessment in the decision-making process.

All directors have a tenure of three years with a provision for re-appointment once subject to a favourable performance evaluation by the appointing authorities.

B. Roles and responsibilities of the Board.

The roles of the board is to provide overall strategic direction of the Authority, monitor the Authority's performance, set policy guidelines for management and ensure that the business of the Authority is conducted in compliance with relevant laws and regulations. To achieve continued prosperity for the Authority, the Board exercises leadership, enterprise, integrity and good judgement and shall always act in the best interest of the Authority.

The roles and responsibilities of the Board broadly include the following;

- i. Establishing the Authority's strategic direction and priorities and adopting business Plans proposed by management for the achievement of strategic objectives
- ii. Monitoring and evaluating the implementation of strategies, policies, management Performance criteria and business plans
- iii. Providing oversight in financial reporting to government agencies and key stakeholders
- iv. Ensuring availability of adequate resources for the achievement of the Authority's Objectives.
- v. Safeguarding the Authority's assets by instituting appropriate internal control systems.
- vi. Reviewing succession planning for management and making senior management Appointments, organizational changes and remuneration issues.
- vii. Overseeing business affairs of the Authority considering emerging risks and Opportunities.
- viii. Ensuring the Authority complies with all relevant laws, regulations and codes of best Business practices.

C. Committees of the Board

The Board has the authority to establish committees and to delegate powers to such committees. The purpose of the committees is to assist the Board in advancing its functions efficiently. The Board, while recognizing that certain powers can be delegated to the

committees, reaffirms that the ultimate accountability for such matters remains with the Board.

Each committee meet at least four times in a year to prepare for Board meetings and file appropriate reports to be considered by the Board. Necessity for additional meetings is considered and if appropriate, approved by the Board with due regard to the mutual responsibility and accountability of the Board.

The Committee elect the Chair from among the Committee member on their first meeting. It is expected that each Board member will serve on at least two Board Committees.

Ad hoc committees of the Board may be appointed from time to time to address particular issues. The Terms of Reference of such a committee shall be determined by the Board.

In furtherance of its mandate, a Committee may propose to the Board for approval the use of external expertise whose work will be directed by the Committee but ultimately submitted to the Board for approval.

The Board may, by resolution either generally or in any particular case, delegate to any Committee of the Board, or to any member thereof, or to any officer, employee or agent of the Authority the exercise of any of the powers or the performance of any of the functions or duties of the Board to the extent permitted by the MSE Act or any other written law.

Currently, there are four (4) committees constituted by the Board: Audit and Risk Management Committee, Finance, Human Resources and Administration Committee, Strategy and Business Development Services Committee and Development and Infrastructure Committee.

Membership to these committees is based on relevant skills, expertise and experience required to handle respective functions. The Committee execute their functions in accordance with terms of reference which defines its mandate, roles and responsibilities.

The roles of the various Board Committees are as below:

i. Audit and Risk management Committee

The committee comprises of five Board members with Head of Internal Audit providing secretarial services as required by the Public Finance Management Act Regulations. The committee assists the Board in fulfilling its corporate governance responsibilities and in particular to strengthen the effectiveness of the internal audit function; maintaining oversight on internal control systems; provision of general oversight in risk and compliance matters; and ensuring implementation of audit reports and recommendations.

The terms of reference for the Committee are highlighted below;

- ✓ Formulating Internal control systems
- ✓ Reviewing the internal control policies and procedures
- ✓ Analysing internal and external Audit reports
- ✓ Ensuring implementation of recommendation of Audit reports
- ✓ Developing/implementation Risk Management policy

The committee held five (5) meetings during the year.

ii. Finance, Human Resources and Administration Committee

The committee comprises of seven Board members and it's responsible for providing advice to the Board on MSEA's financial and human resource management, performance and their financial implications.

The terms of reference for the Committee are highlighted below;

- ✓ Resource mobilization
- ✓ Work planning and Budgeting
- ✓ Reviewing the Authority's ICT policies and systems
- ✓ Overseeing procurement processes and procurement plan
- ✓ Reviewing human resources policies and procedures
- ✓ Performance contracting
- ✓ Performance Appraisal
- ✓ Reviewing financial policy and procedures
- ✓ Ensuring compliance with legal and statutory requirements

The committee held six (6) meetings during the year.

iii. Development and Infrastructure Board Committee

The committee comprises of six board members and it's responsible for the Acquisition and documentation of land for MSE use, Infrastructure Development, MSE Centres of Excellence development and equipping, facilitating access to Markets and Exhibition centres for MSEs and Jua Kali sheds and work sites acquisition and development.

The terms of reference for the Committee are highlighted below;

- ✓ Acquisition and documentation of land for MSE use
- ✓ Infrastructure Development
- ✓ Developing and equipping of MSE Centres of Excellence and CIDCs
- ✓ Markets and Exhibition centres
- ✓ Developing Jua Kali sheds and work sites

The committee held four (4) meetings during the year.

iv. Strategy and Business Development Services Board Committee

The committee comprises of eight board members and deals with Policy formulation and review, Strategy Planning, Research and Product Development, Protection of Intellectual property, Marketing and Access to markets, Technology development, acquisition and transfer, Training and capacity building for MSEs and Monitoring and Evaluation systems.

The terms of reference for the Committee are highlighted below;

- ✓ Policy formulation and review
- ✓ Strategy Planning
- ✓ Research and Product Development
- ✓ Protection of Intellectual property
- ✓ Marketing and Access to markets
- ✓ Technology development, acquisition and transfer
- ✓ Training and capacity building for MSEs
- ✓ Monitoring and Evaluation systems

The committee held four (4) meetings during the year.

D. Board Almanac and Meetings

The Board almanac contains a schedule of meetings of the Board and its committees for the year. The agenda for each Board meeting is prepared and circulated to members in advance. The Board holds its regular meetings at least once every three (3) months and special meetings may be called when necessary. During the year under review, the Board held six (6) meetings.

i. Board and committee membership

Analysed below is the Board and Committee membership during the reporting period.

Name of the Director	Board Position	Board Committees			
		Finance, HR & Admin	Development & Infrastructure	Strategy & BDS	Audit & Risk
Mr. Charles Waithaka	Chairman	-	-	-	-
Mr. Henry Rithaa	Director General/ Chief Executive Officer	√	√	√	-
CS Hon. Betty C. Maina	Cabinet Secretary, Industrialization, Trade and Enterprise Development	-	-	-	-
CS Hon. Amb. Ukur Yatani	Cabinet Secretary, The National Treasury	-	-	-	-
Amb. Johnson Weru	Principal Secretary, State Department for Trade	-	-	-	-
Mr. Humphrey Njoroge	Member	Chair	-	√	-
Mr. Anthony Kwache	Member	-	Chair	√	-
Ms. Zohra Baraka	Member	-	-	Chair	√
Mr. Billy Baltazar	Member	-	√	-	Chair
Ms. Caroline Karanja	Member	√	-	√	-
Mr. Isaac Mbingi	Member	√	-	√	-
Mr. Joseph Samal	Member	√	√	-	-
Mr. Charles Kalomba	Member	-	√	√	-
Mr. Yuda Imunya	Member	-	√	-	√
Ms. Rose Mwongera	Alternate to Principal Secretary, State Department for Youth	√	-	√	-
Ms. Nancy Muya	Alternate to Principal Secretary, State Department for Industrialization	√	√	-	-
Mr. Richard Gakunya	Alternate to Cabinet Secretary, The National Treasury and Planning	√	-	-	√

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Notes

✓ Board Committee membership during the period.

ii. Board and committee meeting attendance

Analysed below is the Board and Committee meeting attendance during the reporting period.

Name of the Director	Board Position	Board Meetings	Board Committee Meetings			
			Finance, HR & Admin	Development & Infrastructure	Strategy & BDS	Audit & Risk
		6*	6*	4*	4*	5*
Mr. Charles Waithaka	Chairman	6/6	-	-	-	-
Mr. Henry Rithaa	Director General/CEO	6/6	6/6	4/4	4/4	-
Mr. Humphrey Njoroge	Member	6/6	6/6	-	4/4	-
Mr. Anthony Kwache	Member	6/6	-	4/4	4/4	-
Ms. Zohra Baraka	Member	6/6	-	-	4/4	5/5
Mr. Billy Baltazar	Member	6/6	-	4/4	-	5/5
Ms. Caroline Karanja	Member	6/6	6/6	-	4/4	-
Mr. Isaac Mbingi	Member	6/6	5/6	-	4/4	-
Mr. Joseph Samal	Member	6/6	6/6	4/4	-	-
Mr. Charles Kalomba	Member	6/6	-	4/4	4/4	-
Mr. Yuda Imunya	Member	6/6	-	4/4	-	5/5
Ms. Rose Mwongera	Alternate to Principal Secretary, State Department for Youth	6/6	6/6	-	4/4	-
Mr. Harun Rashid	Alternate to Principal Secretary, State Department for Industrialization	2/6	2/6	-	-	-
Mr. Richard Gakunya	Alternate to Cabinet Secretary, The National Treasury and Planning	6/6	4/6	-	-	4/5
Ms. Gladys Kinyua	Alternate to Principal Secretary, State Department for Trade	3/6	1/6	-	¼	2/5
Ms. Mary Kinuthia	Alternate to Principal Secretary, State Department for	2/6	-	-	1/4	1/5

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	Trade					
Mr. Samson Wangusi	Alternate to Principal Secretary, State Department for Industrialization	2/6	2/6	2/4	-	-
Dr. Bruno Linyiru	Alternate to Principal Secretary, State Department for Trade	2/6	-	-	-	1/5
Ms. Nancy Muya	Alternate to Principal Secretary, State Department for Industrialization	2/6	1/6	1/4	-	-

Notes

- ✓ * Total number of meetings for the Board and various committee during the period.
- ✓ Mr. Samson Wangusi was appointed Director on 12th October 2020 representing Principal Secretary State Department for Industrialization and exited on 12th March 2021.
- ✓ Ms. Nancy Muya was appointed Director on 29th April 2021 representing Principal Secretary State Department for Industrialization.
- ✓ Ms. Mary Kinuthia was appointed Director on 16th October 2020 representing Principal Secretary State Department for Trade and exited on 12th March 2021.

E. Board Evaluation

The Board undertakes an annual evaluation of its performance facilitated by an independent governance specialist from the State Corporation Advisory Committee (SCAC) which results to a report with recommendations on areas that require improvement. The annual self-assessment is aimed at improving members' individual and collective performance for continuous growth and sustainability of the Authority.

F. Board Charter

The Board has in place a charter which outlines powers and responsibilities of the Board and its members, appointment, remuneration, term of the Board members, conduct of meetings, committee terms of reference, conflict of interest among others. The charter is premised on the Mwongozo Code and best Corporate Governance Practices.

G. Board Capacity Development

The Authority has put in place a formal induction programme for new Board members and continuous training for the directors to acquaint them with their responsibilities as well as keep them abreast of the Authority's strategy and operations.

H. Policies

The Authority has in place the following policies for effective management of the organisation:

- Corporate Governance Policy
- Board Charter
- Declaration of Interest Policy
- Risk Management Policy
- Information Communication Technology Policy
- Procurement Manual and Procedures
- Human Resource Policy
- IT Policy
- Financial Policy and Manual

I. Accountability and Audit

Each financial year, Directors are required to prepare annual financial statements which reflect a true and fair view of the financial position of the Company as per the regulations of Public Finance Management Act 2012. The Board ensure that suitable accounting policies are consistently applied, supported by reasonable and prudent judgments, and estimates. The Board also ensure financial statements are audited each financial year. The Office of the Auditor General is the external auditor of MSEA.

J. Board Effectiveness

The independence of the Board from the MSEA's corporate management is ensured by the separation of the functions of the Chairperson and Director General and a clear definition of their responsibilities.

The Chairperson is a non-executive Director and is primarily responsible for providing leadership to the Board while the Director General is responsible for the day-to-day management of the Authority. This achieves an appropriate balance of power, increased accountability and improved capacity for decision making.

K. Board Appointment and Removal

The Board is headed by the Chairman who is appointed by the President through a gazette notice on a 3 years renewable terms. The rest of the members are appointed by Cabinet Secretary in charge of Industrialization, Trade and Enterprise Development through a gazette notice for a period of 3 years term renewable once. The Board appointment is governed by MSE Act no.55 of 2012.

2. Performance Contract

The Board annually signs a performance contract with the Government as well as setting Corporate Performance Strategies with Management and continues to perform an annual self-evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

3. Training and Development

The Authority recognizes the importance of having a well informed and fully empowered Board and Management. In this regard, relevant training and capacity development opportunities are organized to equip Directors and staff with skills and knowledge necessary to effectively perform their responsibilities.

4. Conflict of Interest

The Directors are required to make written disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered. The board maintains a conflict-of-interest register, where any member with an interest in any matter for discussion during board meetings registers it.

5. Directors Emoluments

The Board of Directors are entitled to a sitting and other allowances (where applicable) for every meeting attended, within the set Government guidelines. The Chairman is also paid a monthly honorarium. The aggregate amount of emoluments paid to the Directors during the financial year for services rendered are disclosed in the financial statements under Board Expenses.

6. Statement of Compliance

The Board of Directors confirms that Micro and Small Enterprises Authority has throughout the 2019/2020 financial year complied with the entire Statutory and Regulatory requirement and that the Authority has been managed in accordance with the principles of Corporate Governance.

7. Internal control and risk management:

i. Internal Control

The Directors are responsible for reviewing the effectiveness of the Authority's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be unforeseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board has put in place an Audit and Risk Committee (ARC) responsible for monitoring and providing effective supervision of the management's financial reporting processes, risk management, compliance and receiving internal and external audit reports on behalf of the board.

The board has overall responsibility for the establishment and oversight of the Authority's risk management. The Board has also set up an Internal Audit Department which reports functionally, to the Audit and Risk Committee and administratively to the CEO. The Audit

Department is responsible for monitoring the Authority's day to day risk management and it carries out an ongoing process of identifying, evaluating and managing significant risks inherent in the Authority.

The Board through the Audit Committee receives quarterly reports of the effectiveness of the system of risk management. The Board has also set out its responsibility for internal control in the Board Charter. There is clear separation of roles and there is an efficient system of internal control.

ii. Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Authority can meet its future management requirements.

iii. Strategic Plan

The business of the Authority is determined by the Strategic Plan. The Strategic Plan sets out the objectives of the Authority, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis. During the period under review, the Authority's corporate plans were guided by Business Plan in absence of strategic plan which was undergoing development by close of reporting period.

iv. Internal Control Framework

The Authority continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an on-going basis. A risk-based audit plan, which provides assurance over key

business processes and operational and financial risks facing the Authority, is approved by the Audit Committee.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action.

v. Risk Management

The Authority has a structure and process to help identify, assess and manage risks. The process was in place for the period up to the time this report was approved. Management reviews all the risks in the Authority and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit Committee to assist the Board in the management of risk.

8. Ethics and Code of Conduct

The Authority continues to promote an ethical culture among staff and key stakeholders to inculcate a value-based approach in corporate operations and decision making. In accordance with the Leadership and Integrity Act, 2012, the Authority has put in place policies, programmes, systems and structures that enhance high standards of ethical behaviour across the Authority. The Code of Conduct and Ethics enables us to consolidate and strengthen a culture of integrity and openness.

9. Management Team

The management team headed by the Chief Executive Officer implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently. The management committee considers policies and strategic measures for optimal business performance, monitors performance and makes recommendations to the Board. The CEO acts as the link between the Management and the Board of Directors.

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

The Micro and Small Enterprises Authority has four (4) strategic pillars and objectives within the current Strategic Plan for the financial year 2020-2021. These strategic pillars are as follows:

Pillar 1: Development of Micro and Small Enterprises

Pillar 2: Promotion of Micro and Small Enterprises

Pillar 3: Regulation of Micro and Small Enterprises

Pillar 4: Building Institutional Capacity

The Authority develops its annual work plans based on the above four pillars. Assessment of the Authority's performance against its annual work plan is done on a quarterly basis. The Authority achieved its performance targets set for the FY 2020/2021 period for its four strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Development of Micro and Small Enterprises	To create conducive working environment for MSEs	No of CIDs refurbished	Construction and refurbishment of CIDs	The authority refurbished 38 constituency Industrial Development Centres.
		No. of equipment installed in Kariobangi Center of excellence and CIDs	Equipping and installing of equipments at Kariobangi Center of Excellence and CIDs.	During the year the Authority equipped and installed 18 common user machines
		No. of Cold storage facilities constructed	Construction and equipment of cold storages.	The Authority continued with construction of three cold storage facilities started in FY2019/20 which are at different stages of completion.
Promotion of Micro	To promote growth from	No. of MSEs facilitated to	Facilitation of MSEs to	The Authority facilitated 1097 MSEs access market through

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and Small Enterprises	Micro to Small, Small to Medium, and Medium to Large enterprises	Markets	markets through local, regional and international shows and exhibitions	locals shows and exhibitions
		No. of youth accessing grants	Provision of grants to youths for job creation	A total of 13,996 youth received grants while 5,264 youth received Business development services. A total of 672 awardees received grants amounting to KShs 1,360,000,000 under the Mbebe na Biz Business Plan Competition
		No. of employment created in MSE sector.		During the financial year, 96,615 jobs were created as a result of success of various project initiatives
Regulation of Micro and Small Enterprises	To initiate and implement formalization of the MSE sector	No. of MSEs, associations and umbrella bodies registered	Registration of MSEs, Associations Umbrella bodies and	The office of registrar was operationalized in the third quarter and registration rolled out in the fourth Quarter where 70 MSEs were registered.
Building Institutional Capacity	To build a strong Institution capable of supporting the growth of MSE sector.	No. of staff recruited	Recruitment of staff	During the financial year, 65 staff were engaged and 35 were absorbed from the Ministry.
		No. of systems Developed	Acquisition and development of systems	The Authority acquired three (3) systems including Registrars systems that is primarily used in registration of MSEs, Customer Relationship Management system and Enterprise Resource Planning system.
		No. of vehicles acquired	Acquisitions of motor vehicles	The Authority acquired two (2) vehicles during the period under review through the Kenya Youth Employment and Opportunities Project.

These achievements were in line with the performance contract signed between the Board and the Ministry of Industrialization in the financial year 2020/21. The programmes under review

included incubation and provision of decent workspaces for MSEs, Enhancement of MSE contribution to employment, facilitation of market access and implementation of Kenya youth employment and opportunities project. Other Included implementations of presidential directives which was to construct cold storage facilities in Kisii, Meru and Nyandarua counties.

PERFORMANCE REVIEW FOR THE FINANCIAL YEAR 2020-2021

Constituency Industrial Development Centers (CIDs)

The Construction of Constituency Industrial Development Centers (CIDs) was an Economic Stimulus project which was initiated in 2009/2010FY. This project aimed at expanding economic opportunities in rural areas for employment creation and regional development. The project targeted to facilitate youth participation as artisans and entrepreneurs in value added activities. It targeted construction and equipping of one CID in each Constituency. The then Ministry in charge of Industrialization handed over 158 CIDs to MSEA on as is basis.

The Authority was allocated Kshs 630 million in the FY 2019/2020 towards the refurbishment of one hundred and seventeen (117) Constituency Industrial Development Centers (CIDs). The Authority refurbished and equipped 117 CIDs. The Authority committed to operationalize 35 Constituency Industrial Development Centres within the FY 2020/2021 following an allocation of Kshs 281 million for the Development vote. However, during the supplementary budget estimates the allocation for the FY 2020/2021 was revised downwards by Kshs 55.7 Million to Kshs. 225.3 million. The funds were meant for utilization towards completion of workshops, equipping, and training of machine operators and identification of associations to operate in the CIDs. As at the end of reporting period, the Authority has initiated several activities which are ongoing towards realization of operationalizing the targeted CIDs. The activities are; distribution, installation and training on usage of various machines; procurement of contractors for CIDs identified for completion; and land documentation and verification in collaboration with National Land Commission. It's worth noting that the Authority did not receive development grant amounting to Kshs 24.5 million out of the approved budget of Kshs 225 million revised printed estimates. This will eventually result to pending bills since the Authority had committed the entire amount as per printed estimates budget.

Cold Storage Facilities

Micro and Small Enterprises Authority received Kshs. 300 Million under a Presidential Directive for construction of three cold storage facilities in Nyandarua, Meru and Kisii Counties. The cold storage facilities are meant to assist the potato and banana farmers in the region by giving them a common user facility to preserve their produce. The facility is the first of its kind with the long-term storage designed to employ a temperature regulation system based on

mechanical ventilation to ensure that the produce is safe from weather variables, pests and rodents. These facilities are projected to serve over 5000 farmers in Kisii, Meru and Nyandarua regions that are among the largest producers of potatoes and bananas in Kenya.

The projects are at different stages of construction as shown in table below. As at the end of reporting period, Kisii Cold Storage Facility was at 75% completion rate, while Meru and Nyandarua were at 90% and 80% respectively.

Table 1: Cold Storage Facilities Completion Rate

	Location /County	Value Chain	Status of completion of construction Works
1	Nyandarua	Potatoes	Main works at 80% Completion
2	Meru	Potatoes	Main works at 90% Completion
3	Kisii	Bananas and fresh vegetables	Main works at 75% Completion

The main challenge under this project is the inability of the cold storage equipment subcontractor to deliver on the project a matter escalated to the Parent Ministry for guidance based on ongoing contract termination process as the end of reporting period.

MSE Registration

The Micro and Small Enterprises Authority operationalized the Office of the Registrar which is established under Section 4 of the Act. The main mandate of the office of the Registrar is to Register MSEs, MSE Associations and MSE Sub-Umbrella and Umbrella Organizations. Since its operationalization, the Authority has carried out the following activities to ensure that the office is operational.

- Recruitment of the Registrar and staff to work in the Office of the Registrar.
- Approving and adopting a Registration Manual
- Reviewed the regulations to the Act and forwarding to the Attorney General for publication
- Development of Registration Management System and training staff.
- Setting up the call centre system to facilitate registration of MSEs.

The Authority, in partnership with UNDP, developed an online registration system that deems to formalize and organize the MSE sector in Kenya. The system was designed in line with MSE policies and nation strategic documents that advocate for the recognition and development of Individual MSEs, MSE associations and Umbrella Organizations.

The MSEs are meant to undertake two processes in order to complete the Registration i.e Name Search Application and Registration Application. The registration system also provides for the modules covering;

- Elections
- Registration Notice
- Change of Particulars
- Annual Returns.

Kenya Youth Employment Opportunities Programme

The Kenya Youth Employment and Opportunities programme was started in December 2016 and planned to end in December 2021. The project has been supporting youth in developing their skills and giving them grants to start the businesses. This project has impacted lives of most youth across the counties it's implemented. The table below shows its performance since its inception to 30.06.2021;

Table 2: Sub-Component 2.1 Implementation Summary

Sub-component 2.1 Implementation Summary				
Start-up grants beneficiaries				Business Development Services (BDS) beneficiaries
Cycle	Orientation 1	Orientation 2	Amount disbursed	
Pilot	29	24	1,060,000	64
1	1,040	752	35,840,000	0
2	2,485	2,272	95,140,000	504
3	4,029	3,518	150,940,000	1,164
4	6,413	6,413	256,520,000	3,532
5	10,561		222,512,965	-
Total	24,557	12,979	762,012,965	5,264

Cumulative Achievements;

- i. The project has benefited **24,557 youth** through issuance of grants and **5,264 youth** through business development services.
- ii. A total of **Kshs 762,012,965** grants has been disbursed to the youth. The Authority is targeting to reach **34,500 youths** by issuing grants amounting to **Kshs. 1,380,000,000** by the end of the project.
- iii. The MbeleNaBiz award ceremony took place on 24th February 2021 and 750 youths were issued with grants worth **Kshs 1,360,000,000.**

MSEs Training

MSEA entered into a partnership with Equity Bank and Equity Group Foundation to support the MSE Sector across Kenya. Implementation of the partnership began with a pilot conducted across seven counties considered to be catchment counties. These included Kisii, Nairobi, Nakuru, Uasin Gishu, Meru and Makueni. After further observations, it became apparent that there was a need to open implementation across all regions to expedite enrollment and support more MSEs in need of capacity building support. As at the end of the period, the partnership had seen the on-boarding of 4,615 MSEs across 27 Counties.

The Ministry of Industrialization Trade and Enterprise Development, (through its agencies: – MSEA, KIRDI and KIE) partnered with Stanbic Foundation and Stanbic Bank Kenya to support the Micro Small and Medium Enterprise (MSME) sector in Kenya in this COVID-19 pandemic.

One of the highlighted areas of support was capacity building of MSMEs through enhancement of digital skills literacy to promote youth employability and economic empowerment.

The Digital Learning and Skills initiative by Microsoft in partnership with Stanbic Kenya Foundation and the Ministry of Industrialization, Trade and Enterprise Development targets jobseekers that have been impacted by Covid-19, unemployed individuals, individuals pursuing career changes and current job holders who want to upskill their digital literacy. The Digital learning platform also affords the Kenyan community an opportunity to get training on entrepreneurial skills and soft skills amongst many other courses.

As at the end of reporting period, the Authority had nominated 55 of its officers across all 47 counties to participate in the Training of Trainers activities and acquire relevant digital skills

which will be passed down to MSMEs countrywide. The program is targeting to reach 50,000 MSMEs by the end of the first half of the next financial year 2021/2022.

Market Access

The Authority has been facilitating MSEs to access local, regional and international markets in an effort to expose their products to market. The chart below shows the distribution of MSEs facilitation to market access for the period 2017/18 to 2020/2021.

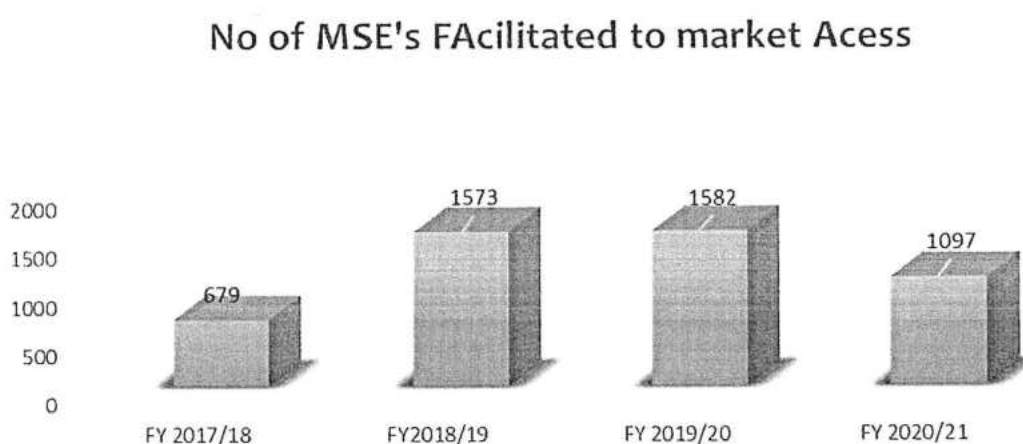


Figure 1: Facilitation to market access performance

In the Financial Year 2020/2021, the Authority facilitated 1097 MSEs to access markets against a target of 1171. The Authority's efforts to facilitate market access have been hampered by the laid down Covid-19 protocols, which has scaled down expos both locally and regionally.

Access to Finance

The MSE Act of 2012 established a fund known as Micro and Small Enterprise Fund whose purpose is to finance the promotion and development of micro and small enterprises, provide affordable and accessible credit to micro and small enterprises and finance research, development, innovation and transfer of technology.

The Ministry of Industrialization in consultation with the Authority developed Regulations to actualize the Fund. As at the end of reporting period, The National Treasury and Planning had duly reviewed the MSE Fund Regulations and reverted to the Ministry with a few proposed

changes that are necessary in order effect the MSE Fund Regulations. The Authority incorporated the proposed changes and forwarded to the Principal Secretary, State Department for Trade for re-submission to the National Treasury for approval. Upon approval, the MSE Fund Regulations will be submitted to Attorney General for drafting.

Strategic Partnerships and Collaborations

i. Equity Bank and Equity Group Foundation

Micro and Small Enterprises Authority in collaboration with Equity Group Foundation has been carrying out capacity building in all the counties in Kenya. The capacity building is geared towards the improvement and growth of MSE's business. As at the end of reporting period, 9,832 MSE's had undergone the training.

ii. Stanbic Foundation and Stanbic Bank Kenya

Stanbic Kenya Foundation in partnership with Ministry of Industrialization, Trade and Enterprise Development (MoITED), Micro and Small Enterprise Authority, Microsoft Kenya and the African Center for Women, Information and Communications Technology (ACWICT) launched an online digital and entrepreneurship skills. The Authority will be training instructors who will then engage with the various MSEs who have been impacted by Covid-19 and up-skill them on how to leverage on online and digital platforms to grow their businesses and make them employment ready. This will be rolled out countrywide in MSEA's CIDCs and worksites for the greater benefit of sector. MSEA has trained around 20 people in June 2021.

iii. ILO – BUSY Project

The Better Utilization of Skills for Youth through Quality Apprenticeship (BUSY Project) is a four-year initiative financed by the U.S. department of Labor and Implemented by International Labor Organization (ILO). The Busy project goal is to increase decent job opportunities and employability to young people, thereby address unemployment, vulnerability and poverty in urban and rural setting. The projects objective is to improve capacity of Kenyan government employers and workers and civil society organizations to establish and expand workplace based programs with a focus on vulnerable and marginalized youth. MSEA in collaboration with ILO is implementing this project in Kilifi, Kitui and Busia.

iv. Family Bank

The Family Bank Partnership started in 2020, with the goal of linking MSEs to bank funding considerations. A total of 1531 MSEs have been linked to the bank for funding considerations for various credit products availed by the bank. The main products provided are the Biashara Boost Reducing Loan and the Chama Investment Reducing Loan. The various MSEs were required to submit various relevant documentation to be able to benefit from the funding program. Some of the documents include bank statement, business/personal registration details, collateral and proof of address to the nearest Family Bank branch from their place of residence/business operation.

v. Innovations For Poverty Action (IPA)

In partnership with Innovations for Poverty Action (IPA), the Authority is working towards the development of a Gender Management Information System. This follows a compliance directive from the State Department of Gender that is keen to ensure that all Government Agencies have mapped out strategic gender mainstreaming activities and efficient monitoring systems to accompany them. The initial stage involves developing a simple reporting tool and eventually building this up to a comprehensive IT system that could encompass data from across all its departments. This will be anchored on an open source system; preferably by use of Kobo Toolbox. This will help the Authority in developing gender responsive programs, activities and Policies.

vi. Gulf African Bank

The goal of this partnership is to provide Access to Affordable Credit to MSEs. The Authority is in the process of developing a Joint Work Plan with the Bank and identifying MSEs that meet funding requirements. A capacity building programme has been developed and county specific outreach plan is in progress of development.

vii. United Nations Development Programme (UNDP)

UNDP in conjunction with MSEA conducted a survey to assess the impact of COVID-19 on MSMEs. The objective of the survey was to inform existing or new areas of support for MSEs and identify gaps and opportunities that would stimulate and accelerate economic growth for

the sector during and beyond COVID-19. UNDP is also supporting operationalization of the Office of Registrar of MSEs through establishing infrastructure and hardware necessary to facilitate registration and dissemination of information to MSEs. The MSE Registration Portal developed with support by UNDP has been deployed and is now live and the registration process begun. The deployment and operationalization of the call Centre as well as the Customer Relationship Management (CRM) system was completed as at the end of reporting period. UNDP is also supporting Lake regional economic block in MSE capacity building and sensitization on MSE registration.

viii. Meru County Government

MSEA partnered with the County Government of Meru to support their post COVID-19 recovery strategy. The strategy highlighted MSME support as a critical component and as a result, an MOU was signed between the MERU County Government and MSEA with the following identified areas of collaboration: Registration of MSE Associations in the County, Provision of infrastructure support through worksites, CIDCs, value addition facilities with common user facilities, MSEA to provide market linkages support for MSEs through various local and international platforms and MSEA to connect MSEs to private sector partnership programs.

As at the end of reporting period, 250 MSEs from Meru County had been registered on the MSEA MSE registration portal and 227 MSEs had been enrolled and trained under the Young Africa Works-Kenya program where MSEA is partnering with Equity Bank/Equity Group Foundation.

ix. United Nation Department of Economic and Social Affairs (UNDESA)

The Authority partnered with United Nations Department of Economic and Social Affairs in the financial year 2020/21 in support of development of second generation strategic plan 2020/2024. The partner engaged a consultant who supported in developing the strategic plan which was validated by stakeholders awaiting its launch in the first quarter of financial year 2021-2022. The strategic plan is a roadmap to promote, develop and regulate the MSE Sector.

The Office of the Registrar of MSMEs

The Office of the Registrar has been conducting online registration for Individual businesses, Umbrella organizations and Association from January 2021 in all the counties. **86 associations** had been registered as at 30th June 2021 with more expected to register in the next financial year. The Office has been sensitizing MSEs on the importance of registration and encouraging them to participate in the process.

The objective of this program is to have an updated, comprehensive and dependable database on MSEs in Kenya. This database will aid in designing programmes to ensure adequate coverage, informed interventions, formalization and upgrading of MSEs in Kenya.

Pre-branding Survey

The Authority continues to grow its visibility and awareness of the activities and programs that it is running. With this in mind, it was important to make sure that the corporate brand is similar all round, from the head office to the regional offices and infrastructure managed by the Authority.

To streamline the branding of the Centres and regional offices, MSEA partnered with the Kenya Export Promotion and Branding Agency to conduct a pre-branding survey that will inform the development of the artwork, signages and signposts. The branding works will be developed as per the Public Service Guidelines to enhance the Ministry of Trade, Industrialization, Trade and Enterprise Development and MSEA'S visibility. The Authority carried out a pre-branding survey in all the regions. CIDCS were selected randomly among the identified regions based on accessibility and location.

Strategic plan

The Authority worked with various stakeholders led by the Board to develop MSEA 2020-2024 Strategic Plan. The plan went through several process which included;

- i. Review of the previous strategic plan,
- ii. Formulation of the new 2020-2024 plan,
- iii. MSEs, MDA and MSE sector players participation in developing the final draft
- iv. Validation forum by all stakeholders

- v. Approval by the Board Members.

The strategic plan will be launched in the first quarter 2021/2022.

Automation

Registrar's System for registration of MSEs and Customer Relationship Management System (CRM) were developed during the year for managing MSEs through UNDP project. Also 3cx Call Center was setup by the project for ease of communication.

The ERP system acquisition process was done during the previous financial year and developed by the consultant in collaboration with ICT and Users to ensure all requirements are incorporated. The system will assist in managing three key support departments in the Authority namely; Finance, Human Resource and Supply Chain Management in their day today operation. The system was still under the developer for maintenance as at the end of reporting period. The system is funded by World Bank through KYEOP.

The Authority's Headquarter has all ICT equipment connected to Local Area Network (LAN) and Wi-Fi for internet connections. Security software were acquired during the Financial including Firewall and Antivirus.

Staff Induction

The Authority undertook induction of 72 staff from 1st to 3rd February 2021 and on 7th and 8th June 2021. The aim of the induction program was to acclimatize the new staff and orient them to the structures, functions and norms in the Authority for ease of their settlement into their respective jobs.

Staff Training

Following an exercise on Job Evaluation for 2020/22 – 2024/25 Remuneration Review Cycle coordinated by Salaries and Remuneration Commission (SRC), a Job Description Analysis Committee (JDAC) was constituted and eight members were subsequently trained on Job Evaluation before they undertook the exercise. During the period, a training on essentials of counselling was also conducted and one mental health champion was trained.

Staff were also taken through the Public Service office etiquette and Grooming alongside handling Public Complaints.

On-boarding and Deployment

Subsequent to the appointments made, the recruited staff were deployed to their respective work stations, some deployed to the head office and majority to the regional offices. This was done after the induction program which was held from 1st to 3rd February 2021 and on 7th and 8th June 2021 completed.

Staffing Levels

MSEA operated with deployed staff from the year 2013 and a recruitment process was initiated from April 2019. Resulting from the recruitment, the Authority has a total workforce of two hundred and eleven (211) employees. This includes thirty-five (35) deployed staff who have since been absorbed in to the Authority after they were interviewed to determine their suitability to remain with the Authority as per the delinking report provisions. The variance as per the establishment is four hundred and forty-seven (447) as at 30th June 2021. During the financial year 2020/2021, a total of hundred (100) staff were engaged thirty-five (35) of which are those seconded from the Parent Ministry.

In the reporting as at 30th June 2021, the Authority has a staff capacity of two hundred and eleven (211) against an authorized establishment of six hundred and fifty-eight (658), comprising of a Chief Executive Officer, six (6) senior managers, thirty (30) middle level Management, one hundred and twenty-seven (127) technical staff and forty-seven (47) support services staff as analysed below;

Staff Establishment

S/No.	Category	Establishment	In Post	Variance
1.	Chief Executive Officer	1	1	0
2.	Senior Management	25	6	19
3.	Middle level Management	56	30	26
4.	Technical Officers	379	127	252
5.	Support Services	197	47	150
Total		658	211	447

Policy Environment

Micro and Small Enterprises Authority is guided by among other policy instruments; MSEA Human Capital and Administration Manual, Delinking Report 2016, MSEA Organizational Structure 2019, MSEA Career Guidelines 2019. There have however been organizational changes which necessitate the review of those Instruments and a process of review is underway.

Mainstreaming of Cross Cutting Issues:

Asset Management

The Authority maintains a record of all assets within the Authority's Headquarter offices and in the regions. Repairs and maintenance on the same is done continuously to meet the staffing needs. However, the Authority still faces challenges in allocation of assets to all staff to enable their productivity, reason being that the Assets are fewer than the staff capacity demands.

Youth Internships/Industrial Attachments/Apprenticeships

The Authority in the financial year 2020/2021 engaged 23 students on attachment and 11 youths on Internship program. This is in a bid to enable employability for the youth by providing work experience exposure and facilitating students to graduate in their respective programs. The Authority through the Centre of excellence in Kariobangi facilitated 28 individuals on apprenticeships.

Disability Mainstreaming

The Authority is committed to mainstreaming Disability. In the Financial year 2020/2021, it engaged one staff with disability. Adverts are also tailored to reflect an encouragement for PWD to apply for vacant positions. The also Authority conducted business start-up training and issued grants to 10,015 beneficiaries which was inclusive of male, female and PWDs youths. A total of 339 PWDS from that lot received the grants. The Authority also set aside in its budget 2% of its total budget provision amounting to Kshs. 1,728,240 for persons with disabilities.

Gender Mainstreaming

MSEA is keen in ensuring that the one third gender rule as per the constitution is promoted. To that effect, it is noted that in the staff establishment the gender representation in the entire establishment is at a ratio of 52% for female employees and 48% male employees. Also the representation of female to male is 47% for female and 53% for male in the minority group within the staff establishment in post. Staff represented from MSEA Grade 6 (JG P) in public service are at 38% female and 62% male.

Prevention of Alcohol and Drug Abuse

The Authority having contracted performance indicators on prevention of Alcohol and Drug abuse implemented some initiatives. Some initiatives undertaken by the Authority are on sensitization and awareness by use of posters to reach out to staff.

Prevention of HIV Infections

The Authority is committed to ensuring that necessary information and mitigation measures are enhanced in prevention of HIV and Aids. In this respect, the Authority facilitated the employees with a Health cover which enables staff to access those services.

Safety and Security Measures

Safety and security is key for employees and the assets for the Authority. In the financial year, the Authority enhanced security measures in the Authority by engaging a security firm to provide for security in the Headquarters and Kariobangi Centre of Excellence.

National Cohesion and Values

The Authority implemented various programs in promotion of National Values and Principles of Public Service and this includes five commitments on the Annual Presidential report. Key to note are prioritization and alignment of projects and activities in realization of the Big Four Agenda. The Authority implemented the Kenya Youth Opportunities Project (KYEOP) and to date a total of 11,619 youth have received start-up business grants amounting to Kshs. 413,300,000.00. The Authority has as well promoted access to markets for MSEs through

operationalization of the registrar's Office and providing a platform for MSEs to market their products using the trade fairs. MSEA commenced construction of cold storages in Nyandarua, Kisii and Meru to support value addition which then will result to enhanced food Security and Nutrition. The Authority completed construction of CIDCs and refurbished existing ones to enable MSEs utilize space for manufacturing and value addition of products.

Road Safety Mainstreaming

The Authority is committed to promotion of Road Safety mainstreaming and implemented activities yielding to that. Activities undertaken are; sensitization of staff and clients on Road Safety, disseminating Information, Education Communication (IECs) to staff. Training for the committee members was also made after constitution of the committee was made.

Corruption Prevention

The Authority endeavors to promote values supportive to the eradication of corruption. In the financial year of reporting MSEA maintained a gift register, undertook a Corruption Risk Assessment and developed a corruption Risk Mitigation. It also implemented the measures emanating from Corruption Risk Mitigation Plan and submitted to EACC the quarter reports on measures taken.

Health and Safety

The World Health Organization (WHO) declared on 11th March 2020 Covid-19 as a pandemic after the Corona Virus outbreak in December 2019. The first case in Kenya was confirmed on 15th March 2020. Subsequent to that the President of the Republic of Kenya declared Covid-19 a public health concern and a pandemic.

The Government has since provided for guidelines from time to time and the Authority has complied with the guidelines. Further the authority embarked on a survey to determine the effects the pandemic has had on the staff fraternity as well as their dependents. This was aimed at assisting the department to be better informed while handling the pandemic internally.

With the new norm, the Authority embraced technology in administration of its functions. In respect to that, the Authority adopted the use of online platforms when having meetings, sensitizations and training.

In the financial year under review, twenty-six (26) zoom meetings were held online. This was done to enable the implementation of social distancing aimed at providing safety for employees from the spread of Covid-19 pandemic.

THE MICRO AND SMALL ENTERPRISES (MSE) SECTOR

Overview of the National and International Scene

The Micro and Small enterprises are the backbone of the Kenyan economy. They employ over 30% of the working population, contribute 33% to the country's GDP and constitute 98% of all businesses in Kenya (KNBS 2016 SME report). For instance, SMEs 79% being informal accounted for 83.6% of the 840.6 thousand new jobs created in 2018.

Despite SMEs prolific contribution to Kenya's socio-economic development; they continue to perform below capacity riddled with high mortality rate of 75% with- in 3 years of inception underpinned on challenges such as access to finance, access to markets, access to information, lack of management skills, access to technology and unsupportive policies among others (KNBS 2016 SME report).

The year 2020 was projected to be turnkey on the back of several initiatives that were espoused to change the fortunes of SME including; repeal of interest rate cap, establishment of credit guarantee scheme, payment of pending bills owed to SMEs, set up of SME fund together with supporting policy and Biashara Centers, SME loaning through STAWI, financing opportunities through African Development Bank among others.

The emergence of COVID-19 has adversely affected MSMEs. A report by the Kenya Association of Manufacturers (KAM) and KPMG revealed that 37% of SMEs scaled down their production since reports of the first COVID-19 case was announced in Kenya. With measures such as cessation of movement in and out of the Nairobi Metropolitan Area and enforcement of a nationwide curfew, normal business cycles of MSMEs have greatly been affected. The Kenyan SME Sector experienced a challenging first year quarter due to factors including locusts invasion and floods. Covid-19 agitated this grim economic outlook set out by partial and total national lockdowns and supply chain shutdown.

The year 2020 was a momentous year for EU and US SMEs, as well as for EU business and citizens more generally. The Covid-19 crisis brought to an abrupt halt or even reversed the gains made by the EU SME sector over the past decade. Many industries, especially in the SME-intensive services sector, experienced large declines in sales as a result of the various lockdowns and other measures introduced by Member States to fight the spread of Covid-19, although conversely, some industries actually saw their sales increase. However, the various

business support measures implemented by Member States during the pandemic limited the employment impact of the decline in economic activity.

Performance by the Key Sectors of the Economy

A sector report published by KIPPRA indicated that Kenya is experiencing a slow pace of industrialization constraining structural economic transformation. In 2020, the services sector was the largest contributor to GDP while the contribution of the industrial sector was dwindling. The contribution of the industry sector, which includes manufacturing, portrayed a downward trend, declining from 18.5 per cent in 2010 to 16.2 per cent in 2019. The decline in the performance of the manufacturing sector was partially attributed to high production costs, competition from imported goods and poor performance of the sugar industry in the recent past. The contribution from the agriculture sector rose by 9.3 percentage points between 2008 and 2018. Structural transformation has implications for employment and poverty reduction; that is, slow or lack of structural transformation can lead to high unemployment rates. The services sector accounted for an average of 51.3 per cent of growth between 2010 and 2019, followed by industry at 19.2 per cent. The agriculture sector, which suffered from weather shocks in 2011 and 2017 hence affecting its productivity, accounted for 17.8 per cent of the growth. The industry sector is the most resilient compared to agriculture and services sector. The contribution by the industry sector to GDP growth deviated from an average 3 percentage points between 2010 and 2019.

MSE Sector Performance

The Micro and Small Enterprises (MSEs) defined as enterprises employing less than 50 persons and account for about 99 per cent of all MSMEs in Kenya. In Nairobi, 96 % of businesses (1 million businesses) are classified as ‘micro’ enterprises (have less than 10 employees), and almost three quarters of businesses operate ‘mostly informally’; often out of temporary premises and with no business registration (FSD Kenya, 2020).

Development of MSEs is guided by the Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. This policy identified various challenges such as access to finance, markets and weak linkages of MSEs to medium and large enterprises. Further, a 2019 KIPPRA study on “County Business Environment

for Micro and Small Enterprises in Kenya' identified five critical areas to unlock the potential of MSEs. The five areas include access to affordable finance; innovation, technology and capacity; worksites and infrastructure; markets; and governance and regulatory framework.

MSE sector with the significance it plays in the economy ranging from job creation and contributing to 24 percent of the economy, the sector in 2020/21 financial year was hurt by the COVID-19 Pandemic. According to the 2019 Kenya Population and Housing Census, 68 per cent of the economically active persons seeking for job are youth. The youth within the age bracket of 15 to 34 years account for 36 per cent of the Kenyan population. Over 36 per cent of persons employed in the MSME sector in Kenya are youth.

Effect of COVID-19 on MSE Sector

The year 2020/2021 was a momentous year for MSEs, as well as for business and citizens more generally. The Covid-19 crisis brought to an abrupt halt or even reversed the gains made by the SME sector over the past years. Many enterprises especially in the SME-intensive services sector, experienced large declines in sales as a result of the various lockdowns and other measures introduced by government to fight the spread of Covid-19.

The FinAccess COVID-19 MSE Tracker Survey conducted by the Financial Sector Deepening Trust (FSD) Kenya in collaboration with the Kenya National Bureau of Statistics (KNBS) and Central Bank of Kenya (CBK) attempts to, specifically by providing data on how MSEs have responded to and coped during the COVID-19 pandemic. The survey indicate that firms have suffered from reduced demand across the economy, compromising their revenue and undermining their resilience. For instance, the percentage of MSE households who missed meals quadrupled during COVID-19 lockdown at 61%, and remained substantially higher than pre-COVID levels of 14% across all MSE households. A further 77% of businesses survived through the Covid-19 lockdown period in 2020. The percentage of MSEs with savings halved from 60 % (pre-Covid) to 37 % by November 2020, with minimal recovery by March 2021, indicating that MSE resilience is a key concern.

During the lockdown, the government put in place a number of measures to support MSMEs including provisions for bank loan restructuring, waivers on VAT and turnover tax and suspension of credit bureau reporting. Recognizing the role that the financial sector can play in

providing solutions, the Government established the MSME Credit Guarantee Scheme (CGS) to support access to finance for MSMEs impacted by the pandemic. However, MSE firms are largely outside the purview of these measures due to their informality and size. While the Government recognizes the importance of MSEs as a distinct business segment, the difficulty of capturing data on these firms makes it challenging to put in place alternative measures that will help them to recover and rebuild. Data from this and other studies can play a valuable role in informing decision-making.

MSE Formalization

Formalization, involving the process of obtaining licenses, registering with registrar of MSE and compliance with statutory requirements such as taxation, social security and labour laws, serves as an important avenue for MSEs to access markets and services. About 21% of MSEs operate with licenses from county governments, out of which only 27% are registered with the registrar of companies. Micro enterprises registered with registrar of companies are only 4% compared to 67% of small enterprises. In 2020/2021, the Authority through the office of registrar of MSEs with support from UNDP initiated the process of registering MSEs into associations.

Financial Access

Since MSEs are particularly considered high risk borrowers due to information asymmetry, performance volatility and insufficient collateral, they face disproportionately high constraints in access to affordable and adequate finance. Compared to large enterprises, a higher proportion of MSEs access credit from microfinance institutions, SACCOs and informal sources such as chamas. With the effects of the COVID-19 pandemic, particularly in trade, food and accommodation services where MSEs are concentrated, this compound borrowing risk premium. Further, the support from informal sources such as chamas is weakened as many households are simultaneously impacted by the pandemic.

The government instituted various measures to address the MSEs financing challenge including affirmative funds such as the Youth Enterprise Development Fund, Women Enterprise Fund and Uwezo Fund. Other measures include licensing of credit reference bureaus to facilitate credit information sharing and enactment of the Movable Property Securities Act, 2017 to

facilitate the use of movable property as collateral for credit facilities. The government is committed to establish a National credit guarantee scheme to serve as a de-risking instrument for lending to MSEs. This included setting aside a Kshs 3 billion seed capital to operationalize the scheme and help in accessing affordable finance, particularly now that MSMEs are seeking finance to realize the recovery trajectory.

Adoption of Modern Technology

MSEs are slow to adopt modern technology. The persistent reliance on old technology means MSEs are unable to reduce production and transaction costs offered by modern technologies. Innovation and technology are critical to cope with the pandemic given the instituted preventive measures such as social distancing and restrictions on movements across geographical boundaries that impact on the operations of MSEs. Low adoption of technology is partly explained by limited capacity of MSEs, both awareness and finance, to invest in innovation activities and intellectual property rights. That said, the ability to produce personal protective equipment with the pandemic demonstrates the significant capability the MSEs possess and which need to be fully exploited.

The MSEs have moderate uptake of financial innovations such as M-pesa and M-shwari which offer alternative sources of financing to the traditional banking sector. Innovation is also low among the MSEs due to high costs of innovation, coupled with lack of incentives to innovate and limited finance to fund innovative ideas, and cumbersome patenting processes. MSEs need to be sensitized on financial innovations that can be used as avenues for accessing external financing to cover both working capital and long-term investment. The use of services such as Credit Reference Bureau are avenues for promoting self-awareness in matters of financial integrity and credibility that MSEs need to embrace. This will support them in accessing credit from the traditional banking sector. On innovation and patenting, MSEs should be encouraged to come out of their comfort zones through exposures such as exhibitions. The national government should subsidize cost of innovation through KIRDI and promote the need to acquire intellectual property rights through patenting with support of KIPI. Further, there is need to initiate a national technical training, apprenticeship and certification programme to ensure standardization of skills development and of products.

Market Access and Linkages

The market access is an intertwined problem of information asymmetry, poor infrastructure and weak value chain linkages in accessing raw materials and stock and reaching the customers. MSEs source raw materials and other inputs largely from each other and the supply-chain concentration magnifies impacts of shocks. Their customer base is largely localized individual consumers which minimizes market flexibility. Moreover, only a few products generated by MSEs undergo standardization and certification. This limits access to national, regional and other international markets. The Covid-19 pandemic has further elevated this obstacle with reduced face to face seller-customer interactions. However, the pandemic provides an opportunity to reduce reliance on importation of some essential products that MSEs have the capability to supply.

Generally, the uptake of AGPO in prequalification is low amongst MSEs due to information asymmetry. There is a huge disparity in distribution of road infrastructure across counties, which is important for MSEs access to inputs and markets. Further, there are challenges on MSEs acquiring certification that allows their access to local, national and international markets, and unhealthy competition and unfair trade practices which impact on ability of MSEs to grow their trade. To improve on market environment for MSEs, the national government through the AGPO Secretariat need to promote and enhance sensitization of MSEs on the affirmative platform. Further, enhancing road infrastructure to facilitate trade, and sensitizing MSEs on how to produce goods of quality and acceptable standards will go a long way in facilitating their competitiveness to both domestic and international markets.

Safe and Affordable Work space

MSEs workplace is a key challenge with limited worksites, appropriate infrastructure and security. Within the worksites, MSEs require adequate and affordable modern common user facilities. A significant proportion of MSEs operate in illegal sites, heightening their vulnerability to demolition by the national and county governments. There is also limited land to construct worksites, in some cases inappropriate locality for the worksites and inability of the existing worksites to meet growing demands. Further, MSEs' workshops are inadequate and lack safety gears, limiting the use of common manufacturing facilities

Further, provision of adequate and affordable utilities such as water, electricity and sanitation services are essential. Over 60% of MSEs operate from rental facilities compared to about 70% large enterprises operating from own premises. This means that MSEs are disproportionately affected by the pandemic since failure to pay rent is a double tragedy as they risk being evicted from the premises. To create an enabling environment for MSEs to operate, the national government through institutions such as Micro and Small Enterprises Authority (MSEA) and Kenya Industrial Estates (KIE), and the county governments need to work closely to facilitate development of adequately equipped worksites designated for MSEs to save them from sporadic disruptions caused by demolitions and save on cost of production. Infrastructure such as centres of excellence like the Kariobangi MSE Centre of Excellence, and Constituency Industrial Development Centres (CIDCs) developed by MSEA for instance provide additional opportunities for incubation, knowledge and skill transfer and exchange, as well as enhancing survival rate.

Governance and regulatory framework

The Kenya Micro and Small Enterprise Policy, 2020 on **“Promoting Micro and Small Enterprises (MSEs) for Wealth and Employment Creation”** outlines the direction that the Ministry of Industrialization, Trade and Enterprise Development is taking to make the MSE sector competitive and productive in realizing the Country’s vision 2030 and the Big Four Agenda.

The Policy goal is to provide an integrated enabling business environment for the growth and development of productive MSEs in Kenya that make significant socio-economic contributions to the economy through provision of decent jobs and source of quality products. The objectives of the Policy are anchored on ten (10) challenges that emerged from critical review of literature and past policies, as well as extensive stakeholder consultations across the country targeting MSEs, policy implementing institutions, development partners and private sector representatives. The ten (10) objectives include: - (i) Entrenchment of entrepreneurial culture; (ii) Skills and capacity development; (iii) Access to domestic and export markets; (iv) Access to a diversified and affordable range of financial products and services; (v) Access to decent and affordable infrastructure; (vi) Facilitation of start-ups; (vii) Promotion of formalization; (viii) Enhanced coordination and implementation of support programmes targeting development of the Sector; (ix) Conducive regulatory environment at the national and county levels; and (x)

Mitigation of business external risks including those that are emerging and cross-cutting in nature.

At the regional level, the East African Community (EAC) Vision 2050 recognizes role of MSEs in regional industrial development agenda, underscoring the need for enhanced competitiveness through innovation and value addition to tap into intra and inter-regional trade opportunities. The AU Agenda 2063 aims to transform and grow the industrial base of the African Continent through value addition of natural resources and sectoral productivity growth, focusing on MSEs and agri-business. At the global level, the SDGs recognize broader socio-economic significance of MSEs and prioritizes development of the Sector through enhanced innovation and competitiveness.

Corruption, governance and security issues tend to increase cost of doing business for MSEs. These and other factors also contribute to a good number of MSEs closing shop before their third anniversary in business. However, service provision initiatives particularly licensing and issuance of permits by the national government through Huduma centres are bearing fruit. The government including county governments should root out corruption traits in revenue collection by adopting digitization on all platforms of revenue collection. Further, there is need for counties to legislate and harmonize the number of licenses or permits obtained by MSEs with an intent of reducing the bureaucracies involved.

Key Recommendations:

Strengthen Partnerships and Co-ordination in the Sector

A large number of public and private stakeholders are involved in the MSE sector, but there is limited coordination between them. There is an urgent need to create an MSE working group to enhance communication and coordination between entities, improve data sharing, and encourage collaboration on key issues facing the sector.

Accelerate Formalization Efforts

Majority of MSEs operate informally, constraining access to finance and markets among other opportunities. Policy measures towards accelerating formalization include creation of awareness on registration procedures and benefits of registration; harmonization and

streamlining of licensing and registration procedures; promotion of creative approaches for licensing and registration; and promotion of incentives towards formalization.

Leverage Business Associations to Engage with MSEs

Business associations interact with a large number of MSEs and so provide a useful channel through which to communicate information on government tenders, financing opportunities, market development plans, and other opportunities. Monitor associations closely to ensure good governance and provide MSEs with safe mechanisms to lodge complaints and grievances against associations without fear of repercussion.

Provide support to MSEs to enhance Full Recovery from the knock-on effects of COVID-19

COVID-19 has had, and continues to have, a significant negative impact on MSEs. To ameliorate these effects, ensure all market areas and worksites are COVID-19 compliant, undertake review of penalties for non-compliance with permits and missed payments for the statutory bodies such as NHIF and provide funding through the proposed MSE fund and other funding sources to affected MSEs.

Better Data and Data Sharing Practices

Data on the sector is fragmented, infrequently updated, often in-accessible and data quality is variable. There is an urgent need to review available data and data collection practices to identify data gaps, develop a data plan to fill gaps and improve data collection, as well as data sharing practices

MANAGEMENT DISCUSSION AND ANALYSIS

The Authority's operational and financial performance

Revenue trend over the last five years

Revenue has increased substantially over the last five years from low of Kshs 191.5 million in 2016/17 to high of Kshs 1.26 billion in the current year under review. This is attributable to grant from Kenya Youth Employment and Opportunities Project which has registered notable increment from one period to another due to improved project absorption rates. Development grant has remained moderately low with 2019/2020 financial year registering the highest funding over the five years period. Recurrent grant has also recorded increment over the last two years following a successful delinking exercise though insufficient to meet the growth in recurrent needs of the Authority.

The figure below shows revenue trend by stream over the last five years;

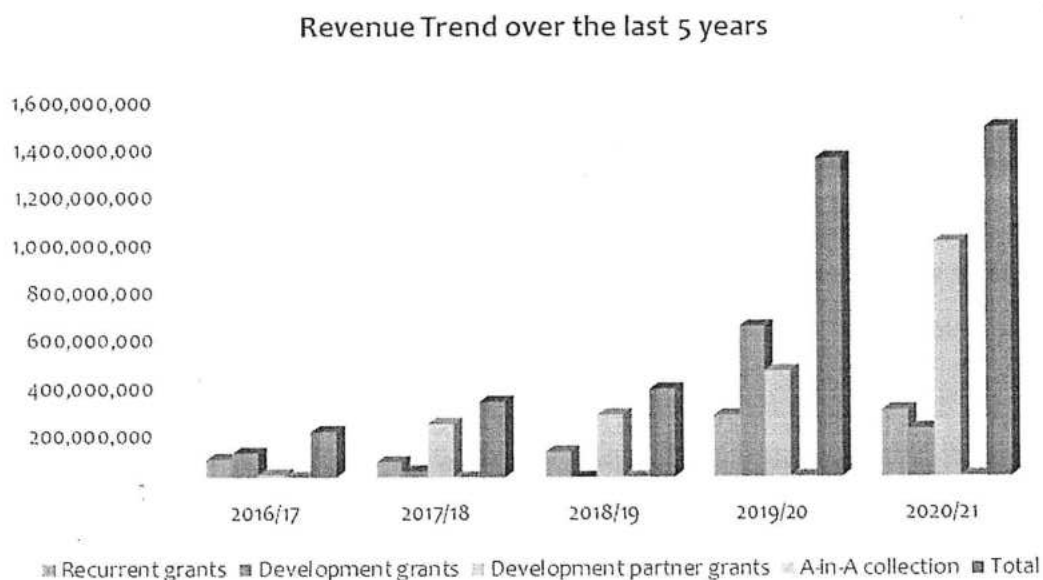


Figure 2: Five year revenue trend

Expenditure trend over the last five years

Over the last five years, the expenditure for the period grew exponentially to the same rate as revenue as the Authority continued to implement the approved Annual Work Plans, Budget and Procurement Plans both for the Government Grants and Kenya Youth Employment and

Opportunities Project. The financial year 2017/18 recorded the lowest expenditure over the last five years with 2020/21 registering the highest.

The figure below shows expenditure trend over the last five years;

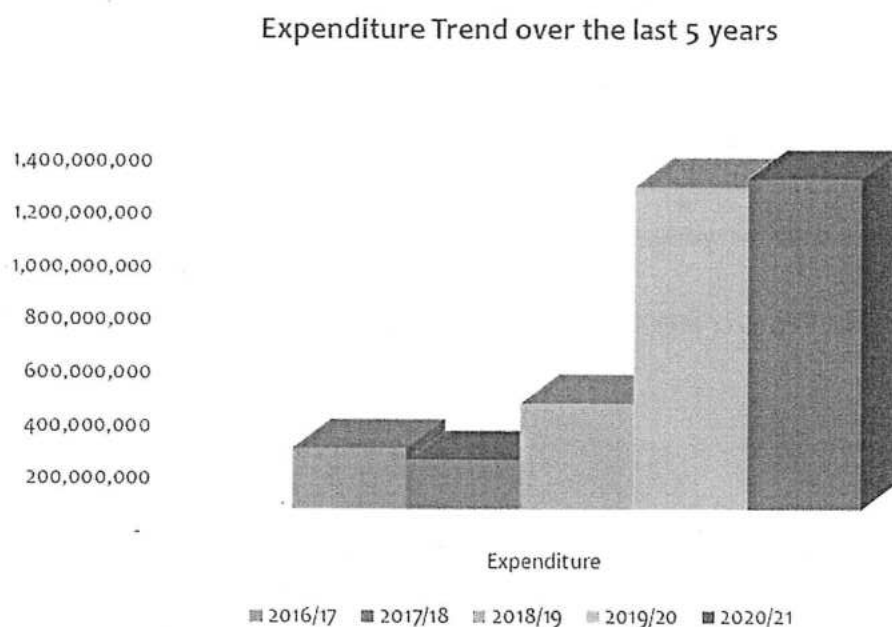


Figure 3: Five year expenditure trend

Current period financial performance review

During the period under review, the Authority received a recurrent grant of Kshs 278.7 million compared to Kshs 258.6 million received in the previous period marking an 8% increment. Out of the total received in the current period, Kshs 266.7 million was in form of grant while Kshs 12 million was AIE issued by State Department of Industrialization for quarter one and two with regard to seconded staff.

The Authority also received development grant amounting to Kshs 200.5 million compared to Kshs 630.7 million received in the last financial year for refurbishment and operationalization of Constituency Industrial Development Centres. It's worth noting that the Authority did **not** receive development grant amounting to Kshs 24.5 million out of the approved budget of Kshs 225 million revised printed estimates. This will eventually result to pending bills since the Authority had committed the entire amount as per printed estimates budget.

Development partners disbursed Kshs 981.2 million which was a 121% increment from previous period (Kshs 442.3 million in 2019/20) through Kenya Youth Employment and Opportunities Project (KYEOP). Internally generated revenue amounted to Kshs 2.8 million compared to Kshs 2.7 million in the previous year.

The Authority experienced delays in disbursement of part of quarter four recurrent grant amounting to Kshs 23 million which remained receivable as at the end of reporting period. However, the Authority was able to carry out its mandate and achieved activities as planned for. The pie chart below shows revenue received by stream;

Revenue Analysis By Stream FY2020/21

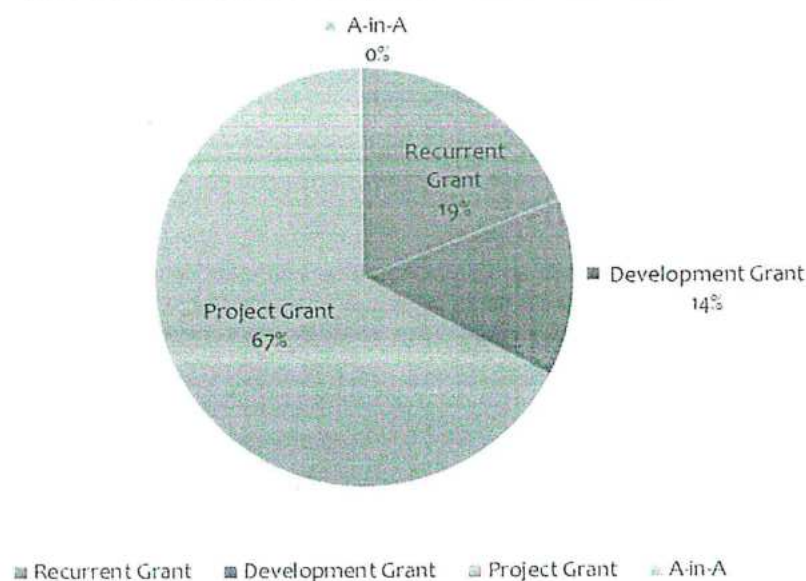


Figure 4: Revenue Analysis by stream FY2020/2021

Operating expenditure accounted for 23% of the total expenditure relating to refurbishment and operationalization of CIDCs and worksites while Project expenses accounted for 49% being the highest spending category during the period relating to grant disbursement to beneficiaries under KYEOP Project. Staff costs accounted for 23%, Board expenses 1% while administrative cost and depreciation expense accounted for 2% each of the total expenditure.

The pie chart below shows expenditure incurred during the period by categorisation;

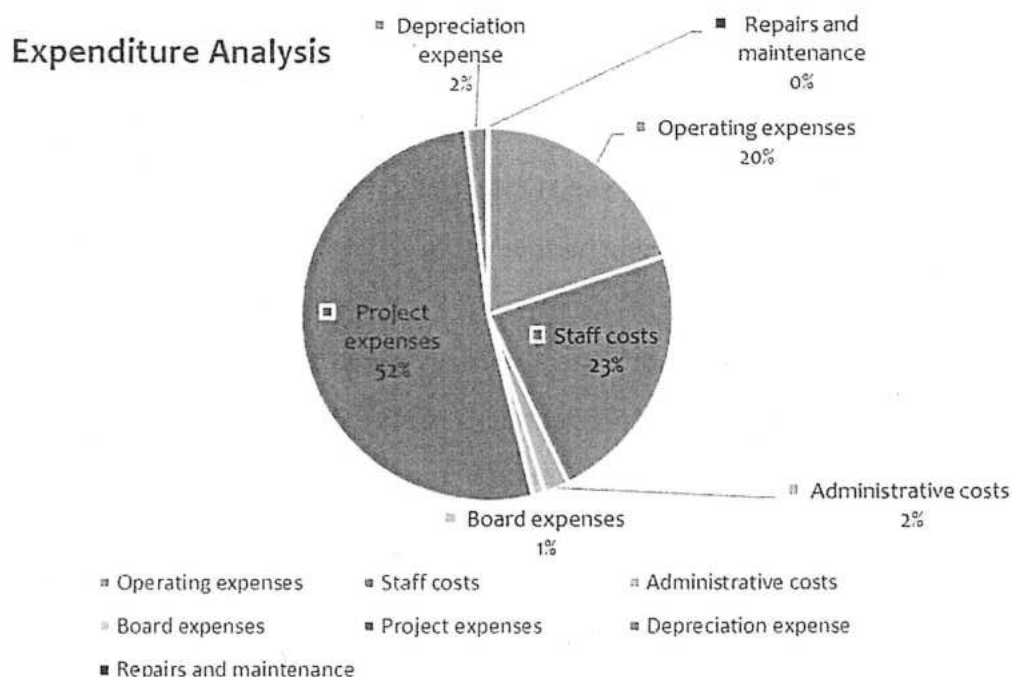


Figure 4: Expenditure Analysis by category FY2020/2021

During the same period, the Authority remained financially constraint in its recurrent budget funding with salary payment for the month of May and June 2021 amounting to Kshs 47.3 million pending settlement as at the end of reporting period in addition to staff pension and gratuity amounting to Kshs 18.4 million . The Authority was also not able to fully meet its contractual obligation on contracted services closing the period with pending bill of Kshs 9.4 million in relation to rent, security and cleaning services. Other pending bills includes Board allowance and supply of services amounting to Kshs 3.1 million.

Authority's compliance with statutory requirements

The Authority has complied with its establishing Act, that is, MSE Act no. 55 of 2012. It has also complied with other legal requirements such as submission of statutory deductions to Kenya Revenue Authority among others and its internal policies and procedures. There are no instances of non-compliance that would lead to financial loss.

Key projects and investment decisions the entity is implementing

The Authority is implementing component II of the KYEOP, a World Bank funded project to be completed in five years whose effective start date was September 1, 2016 with expected

completion date of December 31, 2021. The Project total cost is US\$ 150 million or equivalent Kshs 2.52 Billion with Kshs 1.8 billion already spend and committed as at the end of reporting period (71.4% absorption rate). During the period, the Authority refurbished 38 CIDCs and worksites across the Country at a total budget of Kshs 200 million, most of the works were still on going as at the end of reporting period.

The Authority is also implementing a project on construction of cold storage facilities in Kisii, Nyandarua and Meru through a presidential directive issued on January 2020 at a cost of Kshs 300 million. The project was ongoing at end of reporting period.

Major risks facing the Authority

The Authority has a structure and process to help identify, assess and manage risks. All risks facing the Authority are reviewed, assessed and evaluated for an appropriate action. Some of the major risk facing the Authority as at the end of reporting period include financial risk as the Authority could not pay staff salary for the month of May and June 2021 due to budgetary constraints.

Material arrears in statutory / financial obligations

During the period, there were no material arrears in relation to statutory commitments. During the same period, the authority had an outstanding payable for staff salaries for the month of May and June 2021 amounting to Kshs 47.3 and staff pension/gratuity amounting to Kshs 18.4 million awaiting transfer to fund manager.

The Authority's financial probity and serious governance issues

The Authority has not experienced any major financial improbity or any serious governance issues during the period under review.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Authority recognizes the importance of integrating our corporate values and services to improve the Authority's image and meet the expectations of stakeholders. We are also cognizant of our social, economic and environmental responsibilities to the stakeholders who are integral to our sector.

Environmental Conservation

The world has pushed its natural resources to the point of crisis, resulting in the degradation and loss of critical landscapes, the eradication of many species of plants and animals, and the acceleration of climate change. This growing crisis is impacting life generally, including in the communities where we operate and in the places where MSE products originate.

Without action, this degradation of resources could make certain products too expensive to produce or make them altogether unavailable. Natural services we all rely on like water and air purification, crop pollination and disease control could also be at risk.

His Excellency President Uhuru Kenyatta said his Administration has identified forestry as a key sector of investment in the realization of the country's development agenda and is implementing the national green growth strategy that has set clear restoration targets aimed at achieving the global Sustainable Development Goals (SDGs). In realisation of this agenda, he gave a directive to all government agencies and institutions to join him in achieving this goal by planting trees. All Government Ministries, Departments and Agencies (MDAs) were directed to commit 10% of their Corporate Social Responsibility (CSR) budget to tree growing activities.

In fulfilment of this directive, the Authority is working toward a regenerative approach — one that restores, renews and replenishes the national tree cover — to help reverse negative trends, sustain critical resources for the future and provide around a third of the solution to climate change.

We need to be part of the solution to maintain our social license to operate, support MSEs and continue to access the natural capital we all need to thrive.

Corporate Social Responsibility Activities:

Tree Planting in Londiani

The Authority in collaboration with the Ministry of Industrialization Trade and Enterprise Development, led the community and MSEs of Londiani in observing environmental conservation by planting trees in the landscape surrounding Londiani CIDC during the opening of the launch and commissioning of machines.



Tree planting session with the MSEs at the Londiani CIDC, June 2021

Covid-19 Response

The MSE sector is one of the hardest hit by the pandemic. This is because MSEs work in congested environments as they have to keep close contact with their customers. The Board of Directors worked closely with the Ministry to define and implement measures to ensure immediate relief and long-term recovery of the sector. Firstly, the Authority procured over 50,000 face masks and 150 hand washing stations which were distributed to various Juakali worksites and CIDCs across the country.

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The Authority also received a donation of two hundred and ten (210) hand washing stations from the Stanbic Bank Foundation. The hand washing stations were distributed to MSEs located in Kariobangi and across the 47 counties as a way of encouraging and promoting sanitation.

REPORT OF THE DIRECTORS

The Directors submit their annual report together with the financial statements for the year ended June 30, 2021 which show the state of the Authority's affairs.

Principal activities

The principal activities of the Authority are to Promote, Develop and Regulate Micro and Small Enterprises Sector.

Results

The results of the Authority for the year ended June 30, 2021 are set out on page 1 to page 5.

Directors

The directors who held office during the year and to the date of this report are set out on in earlier sections of the report.

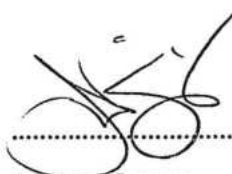
Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. However, the entity did not make any surplus during the financial year (the reported surplus relates to unspent donor funds on KYEOP Project) and hence no remittance to the Consolidated Fund.

Auditors

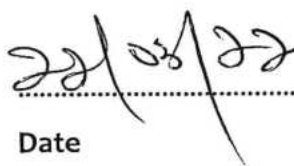
The Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General continues in office in accordance with the constitution of Kenya.

By Order of the Board



James Mureu

Chairman of the Board



Date

Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Micro and Small Enterprises Act, 2012 section 44(1) require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial period and the operating results of the Authority for that period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

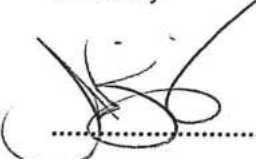
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) maintaining adequate 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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2021, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on 17th September 2021 and signed on its behalf by:



22/03/22

James Mureu

Chairman of the Board

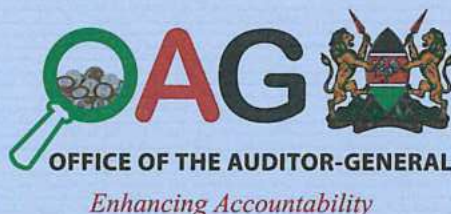


Henry Rithaa

Director General / CEO

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REPORT OF THE AUDITOR-GENERAL ON MICRO AND SMALL ENTERPRISES AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that 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 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.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

Qualified Opinion

I have audited the accompanying financial statements of Micro and Small Enterprises Authority set out on pages 1 to 26, which comprise the statement of financial position as at 30 June, 2021, and statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual

amounts 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Micro and Small Enterprises Authority as at 30 June, 2021 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Micro and Small Enterprises Authority Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Property, Plant and Equipment

The statement of financial position and Note 18 to the financial statements reflect a property, plant and equipment balance of Kshs.923,826,055. As previously reported, excluded in the property, plant and equipment balance of Kshs.923,826,055 as at 30 June, 2021 is undetermined value of land in one hundred and fifty-eight (158) Constituency Industrial Development Centers (CIDCs) owned by the Authority across the Country.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs. 923,826,055 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Micro and Small Enterprises Authority 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, 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 Matter

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided satisfactory reasons for the delay in resolving the prior year audit issues.

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 matter 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

Management of Imprest

The statement of financial position and Note 16 to the financial statements reflects receivables from exchange transactions balance of Kshs.1,556,306 which comprises of the outstanding imprest as at 30 June, 2021. Failure to surrender imprest on time contravenes the requirements of Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which provides that a holder of a temporary imprest shall account for or surrender the imprest within seven (7) working days after returning to duty station.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that 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 Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority 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.

The Board of Directors is responsible for overseeing the Authority's 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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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 addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, 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 accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control 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 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

22 July, 2022

Micro and Small Enterprises Authority
Annual Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2020/2021 Kshs	2019/2020 Kshs
Revenue from non-exchange transactions			Restated*
Government grants	6	278,723,320	258,600,000*
Development partners	7	981,279,333	442,346,058
		<u>1,260,002,653</u>	<u>700,946,058</u>
Revenue from exchange transactions			
Internally generated revenue	8	<u>2,987,121</u>	<u>2,725,470</u>
Total revenue		<u>1,262,989,774</u>	<u>703,671,528</u>
Expenditure			
Operating expenses	9	44,318,865	114,830,369*
Staff costs	10	285,115,831	119,855,716
Board expenses	11	13,792,011	12,869,651
Project expenses	12	642,268,720	424,007,884
Depreciation expense	13	20,011,999	18,319,099
Repairs and Maintenance	14	<u>1,944,557</u>	<u>4,472,439</u>
Total Expenditure		<u>1,007,451,982</u>	<u>694,355,157</u>
Surplus / (deficit) for the period		<u>255,537,792</u>	<u>9,316,371</u>

*The prior year adjustment relates to change in accounting treatment of development grant applied retrospectively for comparative and substance purpose as per IPSAS 3 – Refer Note 25

The notes set out on pages 7 to 23 form an integral part of these Financial Statements

Micro and Small Enterprises Authority
Annual Reports and Financial Statements
For the year ended June 30, 2021

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

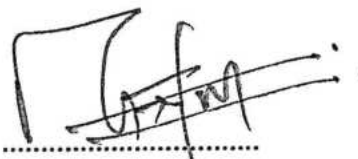
	Notes	2020/2021 Kshs	2019/2020 Kshs
ASSETS			
Current assets			Restated*
Cash and cash equivalents	15	857,046,984	829,097,553
Receivable from exchange transactions	16	1,556,306	22,164,983
Prepayments	16	-	16,700,772
Grants receivable	16	23,001,760	-
Consumable stocks	17	1,943,015	2,575,271
		<u>883,548,065</u>	<u>870,538,579</u>
Non-current assets			
Property, plant and equipment	18	923,826,055	603,576,715*
Intangible Assets	19	8,931,935	-
		<u>932,757,990</u>	<u>603,576,715</u>
Total assets		<u>1,816,306,056</u>	<u>1,474,115,294</u>
LIABILITIES			
Current liabilities			
Payables from exchange transactions	20	87,652,949	35,581,747
Provisions	21	200,050,085	408,871,536
Total liabilities		<u>287,703,034</u>	<u>444,453,284</u>
Net assets		<u>1,528,603,022</u>	<u>1,029,662,010</u>
Equity			
Capital fund		1,326,705,724	1,083,302,505*
Accumulated surplus		201,897,298	(53,640,495)
Total net asset and liabilities		<u>1,528,603,022</u>	<u>1,029,662,010</u>

*The prior year adjustment relates to change in accounting treatment of development grant applied retrospectively for comparative and substance purpose as per IPSAS 3 – Refer Note 25

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:


James Mureu
Chairman of the Board


Henry Rithaa
Director General / CEO


Festus Musyoki
Head of Finance
ICPAK No.9775

Micro and Small Enterprises Authority
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For the year ended June 30, 2021

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Surplus Reserve Kshs	Capital Grants / Reserves Kshs	Total Kshs
At 1st July 2018	(32,741,722)	112,377,073	79,635,351
Surplus/(Deficit) for the period	(30,859,862)	-	(30,859,862)
Capital acquisition		379,060	379,060
Prior period adjustment	644,719		644,719
At 30th June 2019	<u>(62,956,865)</u>	<u>112,756,133</u>	<u>49,799,268</u>
At 1st July 2019	(62,956,865)	112,756,133	49,799,268
Surplus/(Deficit) for the period	9,316,371	-	9,316,371
Capital grant		410,267,266	410,267,266
Capital acquisition		39,778,371	39,778,371
At 30th June 2020	<u>(53,640,494)</u>	<u>562,801,770</u>	<u>509,161,276</u>
At 1st July 2020	(53,640,494)	562,801,770	509,161,276
Surplus/(Deficit) for the period	255,537,792	-	255,537,792
Prior year adjustment (Revenue)*	(520,500,734)	520,500,734	-
Prior year adjustment (Expense)*	520,500,734	-	520,500,734
Development grant received (CIDC)	-	200,546,698	200,546,698
Capital acquisition (KYEOP Project)	-	26,419,388	26,419,388
Capital acquisition (UNDP Donation)	-	16,437,135	16,437,135
At 30th June 2021	<u>201,897,298</u>	<u>1,326,705,724</u>	<u>1,528,603,022</u>

*The prior year adjustment relates to change in accounting treatment of development grant applied retrospectively for comparative and substance purpose as per IPSAS 3 – Refer Note 25

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

		2020/2021	2019/2020
	Notes	Kshs	Kshs
Cash flows from operating activities:			
Surplus for the period		255,537,792	9,316,371
Adjustments for:			
Depreciation expense	18	19,697,232	18,319,099
Amortization expense	19	314,767	-
Operating profit before working capital changes		275,549,791	27,635,469
Changes in operating assets and liabilities:			
(Increase) / decrease in receivable		20,608,678	(10,986,201)
(Increase) / decrease in prepayments		16,700,772	(16,700,772)
Increase / (decrease) in payables		52,071,201	(10,187,582)
Increase / (decrease) in provisions		(208,821,451)	408,421,536
(Increase) / decrease in grants receivable		(23,001,760)	-
Cash generated from operations		133,739,486	395,607,179
Net cash from operating activities		133,739,486	395,607,179
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(339,946,572)	(58,347,303)
Purchase of intangible assets	19	(9,246,702)	-
Net cash used in investing activities		(349,193,274)	(58,347,303)
Cash flows from financing activities			
Capital fund		243,403,221	450,045,637
Net cash used in financing activities		243,403,221	450,045,637
Net increase (decrease) in cash and cash equivalents		27,949,432	787,305,513
Cash and cash equivalents at start of year		829,097,553	41,792,040
Cash and cash equivalents at end of year		857,046,984	829,097,553

Micro and Small Enterprises Authority
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STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021

Category	Budget 2020-2021 Kshs	Actual on comparable basis 2020-2021 Kshs	Performance difference 2020-2021 Kshs	Variance 2020-2021 %
Revenue				
Recurrent grant	535,370,000	278,723,320	256,646,680	48
Development partner	1,007,999,486	981,279,333	26,720,153	3
Fees and charges	2,500,000	2,987,121	(487,121)	-19
Total revenue	1,545,869,486	1,262,989,774	282,879,712	18
Expenditure				
Operating expenditure	137,447,000	13,040,662	124,406,338	91
Staff costs	301,700,000	285,115,831	16,584,169	5
Administrative costs	43,300,000	31,278,203	12,021,797	28
Board expenses	23,847,000	13,792,011	10,054,989	42
Project expenses	1,007,999,486	642,268,720	365,730,766	36
Depreciation expense	25,000,000	20,011,999	4,988,001	0
Repairs & Maintenance	6,576,000	1,944,557	4,631,444	70
Total expenditure	1,545,869,486	1,007,451,982	538,417,504	35
Surplus or (deficit) for the period	-	255,537,792	(255,537,792)	

Budget Notes

1. The Authority was underfunded with 48% of recurrent grant not received as at the end of financial period as initially budgeted which affected execution of core activities. The underfunding resulted to pending bills at the closure of the financial year as disclosed in the financial statement.
2. Revenue collection at the Kariobangi Centre of Excellence was surpassed by 19% attributable to enhanced internal controls and change of revenue collection mode to use of MPESA paybill.
3. The underfunding on operating and administrative expenses of 91% and 28% respectively resulted to pending bills at the end of the period with regard to rent, security, cleaning and other contracted services.
4. The variance of 36% of project expenses was due to slow down on KYEOP activities due to COVID-19 movement restriction. Most of the project activities are field based and this affected the project absorption rate with regard to grant disbursement to beneficiaries.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Micro and Small Enterprises Authority is established by and derives its authority and accountability from Micro and Small Enterprise Act No. 55 of 2012. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is to Regulate, Promote and Develop the Micro and Small Enterprise Sector in Kenya.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION - IPSAS 1

The financial statements have been prepared on a historical cost basis except where stated otherwise. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Notes.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Authority.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

- i. New and amended standards and interpretation in issue effective in the year ended 30 June 2021.

Standard	Impact
Other Improvements to IPSAS	Applicable: 1st January 2021: a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks. b) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2023: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	Applicable: 1st January 2023 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:

Standard	Effective date and impact:
	(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	Applicable: 1st January 2023: a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.

iii. Early adoption of standards

The Authority did not early – adopt any new or amended standards in the year 2020/21.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees, taxes and fines

The authority recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the authority and the fair value of the asset can be measured reliably.

The Authority currently collects revenue from services it renders to MSEs at its Kariobangi Centre of Excellence. This includes service fee on use of common user machine facility, incubation services among other.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the authority and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

Development partner funds

The donor development funds are recognised by the Authority when received.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes – IAS 12

Withholding Tax

Withholding Tax relates to Value Added Tax (VAT) held by the Authority at 6% from the suppliers, and later submitted to Kenya Revenue Authority (KRA) by 20th of every month. The tax is recognized as a liability, and offset in books of accounts when remitted to KRA.

d) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of

the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation

Depreciation is calculated on a reducing balance method to write off property, plant and equipment over their estimated useful lives. The annual rates used are as here below;

Category	Percentage
Land	nil
Building	10
Furniture and fittings	12.5
Computer	33.3
Software	8
Motor vehicle	25
Office equipment	12.5

Apportioned depreciation will apply to assets bought/acquired during the year of acquisition. Full depreciation will be applied to assets disposed in the year of disposal.

e) Intangible assets - IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

f) Research and development costs

The Authority expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Authority can demonstrate:

- i) The technical feasibility of completing the asset so that the asset will be available for use or sale
- ii) Its intention to complete and its ability to use or sell the asset
- iii) How the asset will generate future economic benefits or service potential
- iv) The availability of resources to complete the asset
- v) The ability to measure reliably the expenditure during development.

g) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i) The debtors or a Authority of debtors are experiencing significant financial difficulty
- ii) Default or delinquency in interest or principal payments
- iii) The probability that debtors will enter bankruptcy or other financial reorganization
- iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are

recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

h) Inventories – IPSAS 12

Inventories of consumable nature are stated at the lower of cost and net realizable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of selling the item. Consumable stock balance is disclosed as part of current assets in the financial statements.

i) Provisions – IPSAS 19

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

The Authority has recognized provisions of refurbishment of CIDC's during the period and charged the same to capital work in progress in the Property Plan and Equipment since contractual obligation existed as at the end of reporting period.

Contingent liabilities

The Authority 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.

The Authority discloses contingent liability with relation to disputed historical rent with Tourism Finance Corporation dating back to the periods before the Authority was incorporated when the Authority used to be a department under State Department for Labour.

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that

developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements as disclosed in statement of changes in net assets.

k) Changes in accounting policies and estimates – IPSAS 3

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

During the period under review, the Authority changed treatment of development grant previously recognised in the statement of comprehensive income to recognising it in the statement of financial position in line with Public Sector Accounting Standard Board (PSASB) reporting framework. This will ensure faithful representation of the financial position, financial performance and cash flows of the Authority and enhance relevancy and reliability of the financial statements.

l) Employee benefits – IPSAS 25

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. The Authority contributes to a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The assets of this scheme are held in a separate trustee administered fund. The company's contributions to the defined contribution retirement benefit scheme are charged to the income statement in the year to which they relate. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules.

m) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

n) Related parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

o) Service concession arrangements

The Authority analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Authority recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Authority also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

p) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

q) Comparative figures

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

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions – IPSAS 1.140

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- i) The condition of the asset based on the assessment of experts employed by the Authority
- ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- iii) The nature of the processes in which the asset is deployed
- iv) Availability of funding to replace the asset
- v) Changes in the market in relation to the asset

Provisions

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

	2020/2021	2019/2020
	Kshs	Kshs
6 Government grant		
Government grant - recurrent	266,531,560	258,600,000
AIE from State Department for Industrialization*	12,191,760	-
	<u>278,723,320</u>	<u>258,600,000</u>
*The Authority received Kshs 12.1 million from State Department for Industrialization to cater for staff salary for seconded staff in quarter 1 and quarter 2 of the financial year under review.		
7 Development partner		
IDA-KYEOP World Bank	980,279,847	442,346,058
Grants from ILO	999,486	-
	<u>981,279,333</u>	<u>442,346,058</u>
8 Internally generated revenue		
Fees and charges from services rendered	<u>2,987,121</u>	<u>2,725,470</u>
9 Operating Expenses		
a) Operating costs		
Communication supplies and services	964,140	1,394,244
Domestic travel and subsistence	3,665,741	18,837,360

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Foreign travel and subsistence	916,516	4,355,974
Printing, advertising and information services	96,167	4,252,303
Trade shows and exhibitions	964,140	11,757,322
MSEs regional and international	-	20,376,267
MSE marketing	627,000	150,000
Hospitality supplies and services	3,918,458	10,068,377
MSE coordination and harmonization	-	3,654,021
Training of MSEs	-	289,500
Worksites and CIDC	-	-
Cold storage	0	-
Legal expenses	912,500	-
ILO expenses	976,000	-
	<u>13,040,662</u>	<u>75,135,368</u>
b) Administrative costs		
Utilities (water and electricity)	142,791	53,231
Rent - non residential	18,043,914	13,643,234
Office general supplies and services	2,280,966	3,008,588
Fuel and lubricants	451,596	819,901
Security	1,665,200	13,418,460
Cleaning Services	6,221,817	
Bank charges	384,770	447,890
Provision for audit fee	450,000	450,000
Recruitment expense	343,220	6,392,424
Motor vehicle insurance	1,293,929	754,051
provision for obsolete stock	-	707,222
	<u>31,278,203</u>	<u>39,695,001</u>
	<u>44,318,865</u>	<u>114,830,369</u>
10 Staff costs		
Basic Salary Expense	130,332,811	53,873,400
House Allowance Expense	53,561,174	22,204,823
Commuter Allowance Expense	24,668,135	9,168,279
Entertainment Allowance	718,710	1,280,000
Extraneous Allowance	2,139,919	969,755
Hardship Allowance	217,500	97,800
Airtime Allowance	3,784,225	-
Salary Arrears	291,102	-
Transfer Allowance	1,093,600	-
Leave Allowance	2,993,191	749,481
Other Allowances	528,518	6,549,468
Gratuity Expense	12,849,949	4,535,579
Pension Expense	17,261,351	6,595,367
National Social Security Fund	404,000	135,280
National Industrial Training Authority Levy	81,950	-
Stipend Allowance	-	1,032,519
Medical Insurance Cover	33,296,296	11,701,259
Training expenses	893,400	962,706
	<u>285,115,831</u>	<u>119,855,716</u>

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	2020/2021	2019/2020
	Kshs	Kshs
11 Board Expenses		
Sitting allowance	7,414,259	5,682,809
Subsistence allowance and travel expenses	2,118,539	1,970,474
Honoraria	960,000	960,000
Transport reimbursement/Mileage	1,394,535	1,719,218
Board Training	872,900	617,000
Medical insurance	947,778	1,920,150
Board Airtime	84,000	-
	<u>13,792,011</u>	<u>12,869,651</u>
12 Project expenses		
KYEOP Project expenses	<u>642,268,720</u>	<u>424,007,884</u>
13 Depreciation and amortization expense		
Furniture & fittings	1,015,718	1,116,178
Computer & accessories	7,648,860	7,178,913
Motor vehicles	8,203,173	6,858,811
Office equipment	2,829,481	3,165,197
Intangible assets	314,767	-
	<u>20,011,999</u>	<u>18,319,099</u>
14 Repairs & maintenance		
Motor vehicles	1,144,613	4,173,217
Equipment	769,944	299,222
Computers	30,000	-
	<u>1,944,557</u>	<u>4,472,439</u>
15 Cash and cash equivalent		
National Bank - recurrent account	375,449	7,086,770
KCB - development account	518,565,931	801,174,371
KCB - project account	338,083,106	20,836,412
MPESA	22,499	-
	<u>857,046,984</u>	<u>829,097,553</u>
16 Receivable from non-exchange transactions		
Outstanding Imprest	1,556,306	22,164,983
Prepayments	-	16,700,772
Grants receivable*	23,001,760	-
	<u>24,558,066</u>	<u>38,865,755</u>
*The grants receivable Kshs 23 million relates to recurrent grant allocated during supplementary II budget of 2020/2021 to cater for staff salary. The disbursement of the funds was due as at the end of reporting period thus recognizing grants receivable.		
17 Inventory		
Consumable stocks	<u>1,943,015</u>	<u>2,575,271</u>

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18 Property, Plant and Equipment

	Office Equip	Computers	Motor Vehicle	Fittings	Work in Progress CIDC	Work in Progress Cold Storage	Totals
	Kshs 12.5%	Kshs 33.3%	Kshs 25%	Kshs 12.5%	Kshs 0.0%	Kshs 0.0%	Kshs
COST							
1st July 2018	34,733,131	34,192,900	41,058,514	14,778,864	-	-	124,763,409
Additions	-	379,060	-	-	-	-	379,060
Disposal	-	-	-	-	-	-	-
30th June 2019	34,733,131	34,571,960	41,058,514	14,778,864	-	-	125,142,469
Additions	5,483,056	12,786,775	20,598,900	2,170,000	-	17,308,572	58,347,303
Disposal	-	-	-	-	-	-	-
CIDC/Cold Storage Capitalization 2019/20					513,304,997	7,195,738	520,500,735
30th June 2020	40,216,187	47,358,735	61,657,414	16,948,864	513,304,997	24,504,310	703,990,507
Additions	1,787,282	14,299,852	17,522,686	-	236,932,373	69,404,379	339,946,572
Disposal	-	-	-	-	-	-	-
30th June 2021	42,003,469	61,658,587	79,180,100	16,948,864	750,237,370	93,908,689	1,043,937,079
ACCUMULATED DEPRECIATION							
1st July 2018	11,512,571	21,346,290	31,943,390	6,696,669	-	-	71,498,920
Charge for the Year	2,902,570	4,404,148	2,278,781	1,010,274	-	-	10,595,773
30th June 2019	14,415,141	25,750,438	34,222,171	7,706,944	-	-	82,094,693
Charge for the Year	3,165,197	7,178,913	6,858,811	1,116,178	-	-	18,319,099
30th June 2020	17,580,338	32,929,351	41,080,982	8,823,121	-	-	100,413,792
Charge for the Year	2,829,481	7,648,860	8,203,173	1,015,718	-	-	19,697,232
30th June 2021	20,409,819	40,578,211	49,284,155	9,838,839	-	-	120,111,024
NET BOOK VALUE							
30th June 2020	22,635,849	14,429,384	20,576,432	8,125,743	513,304,997	24,504,310	603,576,715
30th June 2021	21,593,650	21,080,376	29,895,945	7,110,025	750,237,370	93,908,689	923,826,055

Notes to the Property Plant and Equipment

- The Property Plant and Equipment (PPE) does not include valuation for land and Constituency Industrial Development Centres the Authority owns across the Country. The Authority is in the process of valuing its properties to have an updated PPE.
- The PPE includes donated assets from United Nation Development Programme (UNDP) amounting to Kshs 16.4 million out of which Kshs 3.1 relates to Registrar and CRM system recognised under intangible assets. Below is schedule of donated assets.

UNDP Asset Donation Schedule – Kshs

Date of acquisition	Class	Description	Amount
28.09.2020	Computers	Call centre	4,980,000
28.09.2020	Computers	Call centre database and application server	2,288,000
28.09.2020	Computers	Laptop Dell - 10 units	1,980,000
30.06.2021	Computers	Laptop - 14; HP ProBook 430 G6 Notebook	1,988,952
30.06.2021	Computers	Note book Tabs - 14 units	312,900
Sub-total			11,549,852
28.09.2020	Software	CRM system	1,900,000
28.09.2020	Software	Registrar system	1,200,000
Sub-total			3,100,000
30.06.2021	Office equipment	Printers - 14 units; HP laserJet Pro M428	961,282
30.06.2021	Office equipment	Epson Projector - 14 units	826,000
Sub-total			1,787,282
Total			16,437,134

iii. During the period under review, the Authority also acquired three (3) motor vehicles at a Cost of Kshs 17.5 million through Kenya Youth Employment and Opportunities Project to boost the project field operations.

19 Intangible Assets

	Software Kshs 8.0%	Totals Kshs
COST		
1st July 2020	-	-
Additions - Navision ERP System (KYEOP)	4,346,702	4,346,702
Additions - Registrar and CRM system (UNDP)	3,100,000	3,100,000
Additions - Help desk software (KYEOP)	1,800,000	1,800,000
30th June 2021	9,246,702	9,246,702
ACCUMULATED DEPRECIATION		
1st July 2020	-	-
Charge for the Year	104,767	104,767
Charge for the Year	186,000	186,000
Charge for the Year	24,000	24,000
30th June 2021	314,767	314,767
NET BOOK VALUE		
30th June 2020	-	-
30th June 2021	8,931,935	8,931,935

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	Kshs	Kshs
20 Payables from exchange transactions		
Trade payables	15,244,082	32,456,352
Staff payables	47,353,428	-
Gratuity and pension payable	18,251,051	-
Board payable	332,000	-
Retention Payable	5,152,887	-
Unspent donor funds	-	999,486
Accruals	1,319,500	2,125,909
	<u>87,652,949</u>	<u>35,581,747</u>
21 Provisions		
Audit fee	900,000	450,000
Refurbishment of CIDC & Worksites	199,150,085	408,421,536
	<u>200,050,085</u>	<u>408,871,536</u>
Schedule of CIDC provision account movement		
Opening balance	408,421,536	-
Utilization during the period	<u>(304,454,260)</u>	<u>-</u>
	103,967,276	-
New provision during the period	<u>95,182,808</u>	<u>408,421,536</u>
Closing balance	<u>199,150,085</u>	<u>408,421,536</u>

22. Construction of cold storage facility

Through a presidential directive in January 2020, the Authority was allocated Kshs 300 million in supplementary budget II of 2019/2020 financial year to cater for construction and equipping of three cold storage facility in Nyandarua, Kisii and Meru with each facility expected to cost Kshs 100 million. The funds were disbursed to the Authority's KCB development account. As at the end of the period, Kshs 93,908,689 had been cumulatively spent on the project in terms of payments leaving unspent cash balance of Kshs 206,091,311 which is part of the cash and cash equivalent reported as at the end of the financial year.

23. Capital Commitments

The Authority had authorised and contracted capital commitment amounting to Kshs 203,783,587 as at the end of reporting period with relation to construction of cold storage facilities.

24. Financial Risk Management

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The Authority's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

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Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment. The amount that best represents the Authority's maximum exposure to credit risk as at 30th June is made up as follows;

Description	2021 Kshs	2020 Kshs
Bank balances	857,046,984	829,097,553
Receivable from exchange transactions	<u>1,556,306</u>	<u>22,164,983</u>
	<u>858,603,290</u>	<u>851,262,536</u>

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The Authority's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

Currency Risk

The Authority's transactions are denominated in Kenya Shillings and in cases of foreign currency payments, sufficient negotiations are carried out to obtain better foreign currency exchange rates.

Capital Risk Management

The objective of the Authority's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following fund:

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	2021	2020
	Kshs	Kshs
Accumulated fund	201,897,298	(53,640,495)
Capital reserve	1,326,705,724	1,083,302,505
Total funds	<u>1,528,603,022</u>	<u>1,029,662,010</u>
 Total borrowings	 -	 -
Cash and bank balances	857,046,984	829,097,553
Gearing	<u>0%</u>	<u>0%</u>

25. Prior year adjustments – IPSAS 3

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) Was available when financial statements for those periods were authorized for issue; and (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.

There were prior year adjustment with relation to change in accounting treatment of development grants during the period under review necessitated by need in enhancing relevancy and reliability of financial statements as disclosed in note 4 (k).

26. Related Party Disclosure

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The entity is related to;

- i) The National Government
- ii) The Ministry of Trade and Industrialization
- iii) Board Members
- iv) Key management

The Authority has 4 key management personnel. The managers participate in making key management decisions of the Authority and reports to Board of Management for guidance and the Ministry of Trade and Industrialization for policy direction.

27. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

28. Ultimate and Holding Entity

The Authority is a Semi- Autonomous Government Agency under the Ministry of Trade and Industrialization. Its ultimate parent is the Government of Kenya.

29. Currency

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX I: INTER-ENTITY TRANSFERS

	ENTITY NAME:	Micro and Small Enterprises Authority		
	Break down of Transfers from the State Department for Trade and Enterprises Development			
	Financial Year			
	2020/2021			
a.	Recurrent Grants			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
		16.09.2020	57,340,000	2020/2021
	AIE from SDT	12.10.2020	6,095,780	2020/2021
		26.11.2020	57,340,000	2020/2021
	AIE from SDT	11.12.2020	6,095,780	2020/2021
		01.02.2021	58,460,000	2020/2021
		10.05.2021	70,390,000	2020/2021
		05.07.2021	23,001,760	2020/2021
		Total	278,723,320	
b.	Development Grants			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
		22.09.2020	140,546,698	2020/2021
		16.06.2021	60,000,000	2020/2021
		Total	200,546,698	
c.	Direct Payments			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
	No direct payment undertaken during the reporting period			
d.	Donor Receipts			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
		10.09.2020	109,366,954.40	2020/2021
		07.10.2020	106,883,907.10	2020/2021
		17.02.2021	235,611,421.85	2020/2021
		10.05.2021	177,795,025.65	2020/2021
		25.05.2021	319,290,000.00	2020/2021
		10.06.2021	31,332,535.90	2020/2021
		Total	980,279,844.90	

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	ENTITY NAME:	Micro and Small Enterprises Authority		
	Break down of Transfers from the State Department of Industrialization			
	Financial Year			
	2019/2020			
a.	Recurrent Grants			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
		01.08.2019	64,650,000	2019/2020
		18.10.2019	64,650,000	2019/2020
		30.01.2020	64,650,000	2019/2020
		05.05.2020	21,550,000	2019/2020
		02.06.2020	21,550,000	2019/2020
		29.06.2020	21,550,000	2019/2020
		Total	258,600,000	
b.	Development Grants			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
		02.10.2019	176,000,000	2019/2020
		04.02.2020	300,000,000	2019/2020
		31.03.2020	454,768,000	2019/2020
		Total	930,768,000	
	Grants received on 04.02.2020 Kshs 300,000,000 relates to construction of cold storage facility			
c.	Direct Payments			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
	No direct payment undertaken during the reporting period			
d.	Donor Receipts			
		Bank Statement Date	Amount (KShs)	Financial Year to which the amounts relate
		18.09.2019	136,661,441.75	2019/2020
		28.01.2020	108,716,177.60	2019/2020
		31.03.2020	111,776,438.65	2019/2020
		25.06.2020	85,192,000	2019/2020
		Total	442,346,058	

The above amounts have been communicated to and reconciled with the parent Ministry.

APPENDIX II: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
As reported previously, the property, plant and equipment balance of Kshs 83,075,980 as at 30 June 2020 excludes undetermined value of properties in 154 Constituency Industrial Development Centers. Further, some other non-current assets of undetermined value are held by the Authority for transfer to various Constituency Industrial Development Centers (CIDs). Also, the management has not taken stock of all its land, buildings and other properties and valued them to establish their accounting treatment in the Authority's books of account.	Management is in the process of valuing the 154 CIDC handed over by the Ministry in January 2015 in the 2020/21 financial period. With the revalued amounts, the authority will be in a good position to adjust the books and correctly state the figure for property, plant and equipment as required by International Public Sector Accounting Standards.	Accounting Officer	Revaluation process on-going with National Lands Commission.	30 th June 2022

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APPENDIX III: PROJECT IMPLEMENTED BY THE AUTHORITY

Projects implemented by the Authority Funded by development partners and/ or the Government.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Kenya Youth Employment and Opportunities Project	IDA Credit No.5812- KE	World Bank	6 Years	Kshs 4 billion	Yes	Yes

APPENDIX III: PROJECT IMPLEMENTED BY THE AUTHORITY

Projects implemented by the Authority Funded by development partners and/ or the Government.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
Kenya Youth Employment and Opportunities Project	IDA Credit No.5812-KE	World Bank	6 Years	Kshs 4 billion	Yes	Yes

