



# Alternative **SME Financing** in Kenya

Bank lending is the most common source of external finance for many Kenyan **SMEs** and **entrepreneurs**, which are often heavily reliant on traditional debt to fulfill their start-up, cash flow and investment needs. While it is commonly used by small businesses, however, traditional bank finance poses challenges to **SMEs**, in particular to newer, innovative and fast growing companies, with a higher risk-return profile.

Debt financing especially in Kenya appears to be ill-suited for newer, innovative and fast growing companies, with a higher risk-return profile. The “financing gap” that affects these businesses is often a “growth capital gap”. Substantial amounts of funds might be needed to finance projects with high growth prospects, while the associated profit patterns are often difficult to forecast. The financing constraints can be especially severe in the case of start-ups or **SMEs** that

rely on intangibles in their business model, as these are highly firm-specific and difficult to use as collateral in traditional debt relations

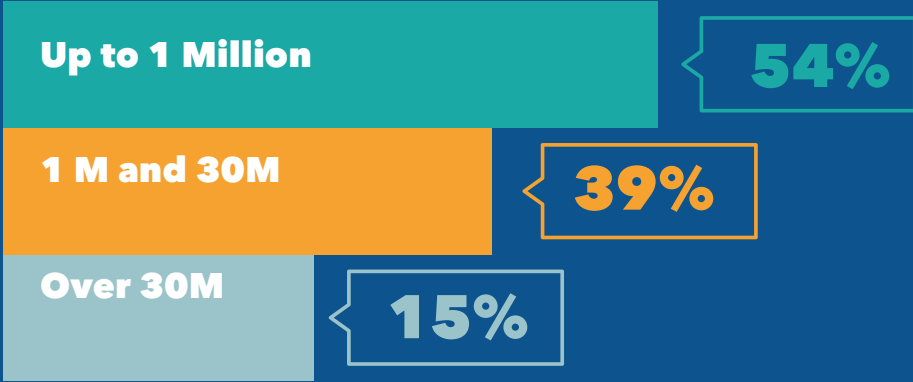
The aftermath of the interest rate cap led to bank credit constraints by **SMEs** in Kenya further highlighting the vulnerability of the **SME** sector to changing conditions in bank lending.

It is therefore necessary to broaden the range of financing instruments available to **SMEs** and entrepreneurs, in order to enable them to continue to play their role in growth, innovation and employment. Financial stability, financial inclusion and financial deepening should be considered as mutually reinforcing objectives in the quest for sustainable recovery and long-term growth.

Although bank financing will continue to be crucial for the **SME** sector, more diversified options for

**SME** financing could support long-term investments and reduce the vulnerability of the sector to changes in the credit market.

**Average annual savings of respondents**



**What Challenges do SMEs and Investors face**

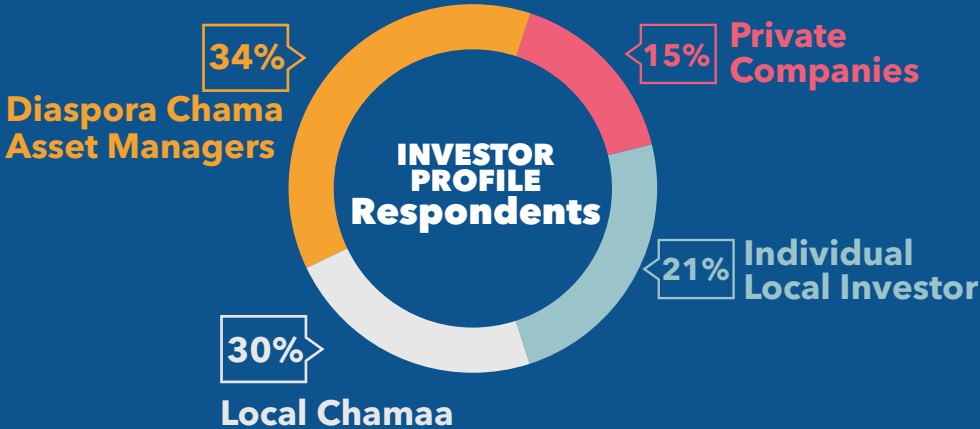


**Viffa Consult** conducted in-depth analysis on the potential and challenges faced by potential **SME** and investors.

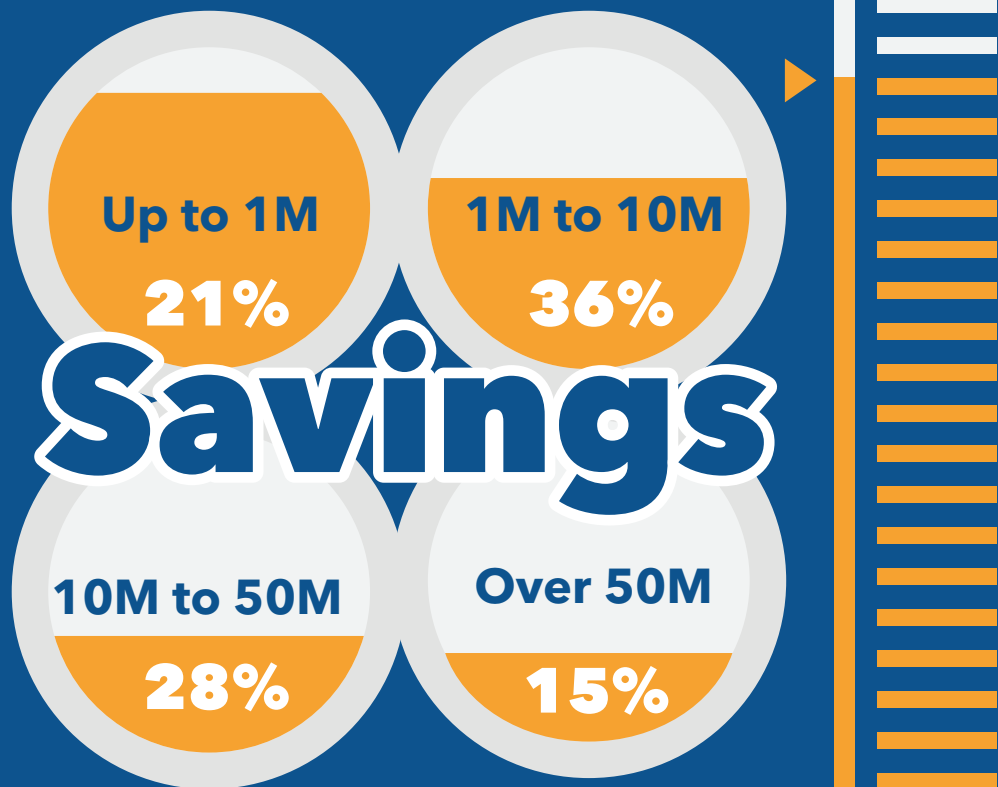
the project objective was to explore alternative financing instruments available to **SMEs** with a special focus on fund managers and other non bank players such as Wealthy private investors (Local and Diaspora) and Chamaas

The results of the survey were as follows;

**1-Investor profile:**



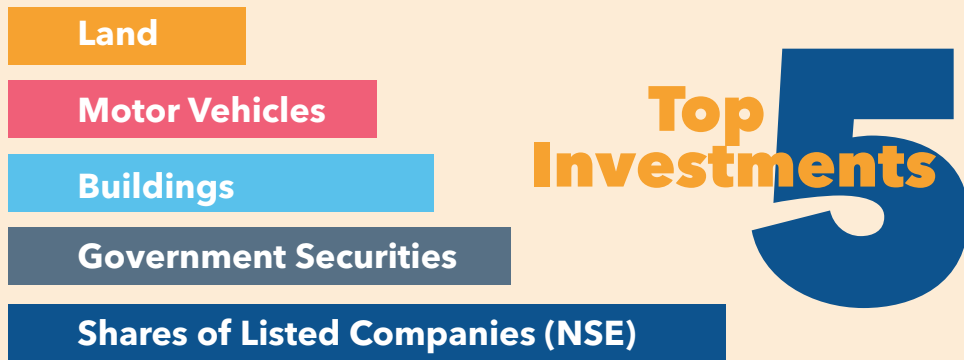
**Value of savings the respondents have to date**



## Value of movable, Immovable, intangible assets owned



## Type of movable, immovable or intangible asset owned

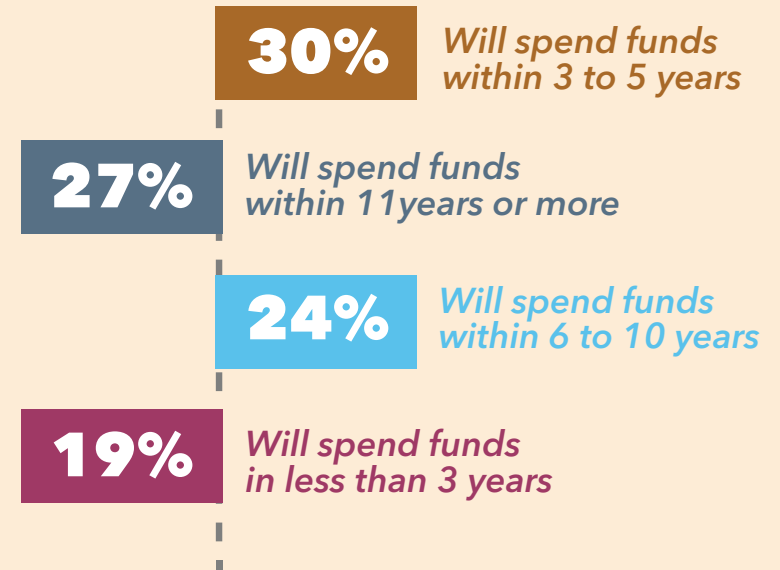


## 2-INVESTOR TIME HORIZON AND RISK PROFILE

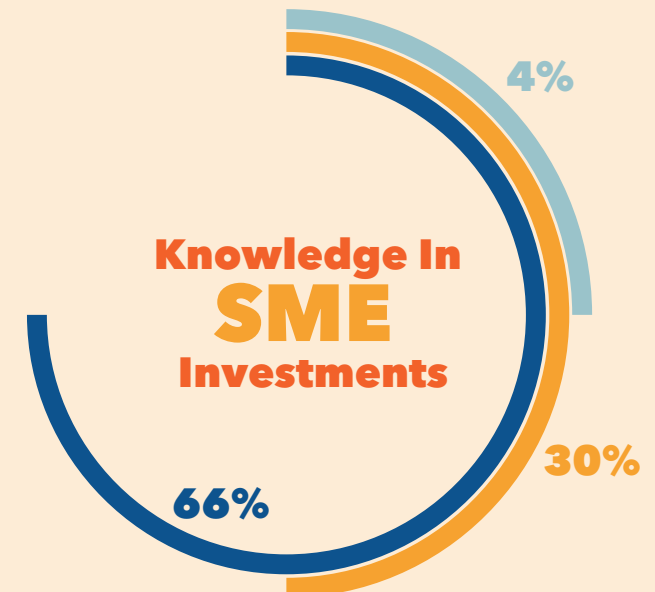
I plan to begin withdrawing money from my investments in



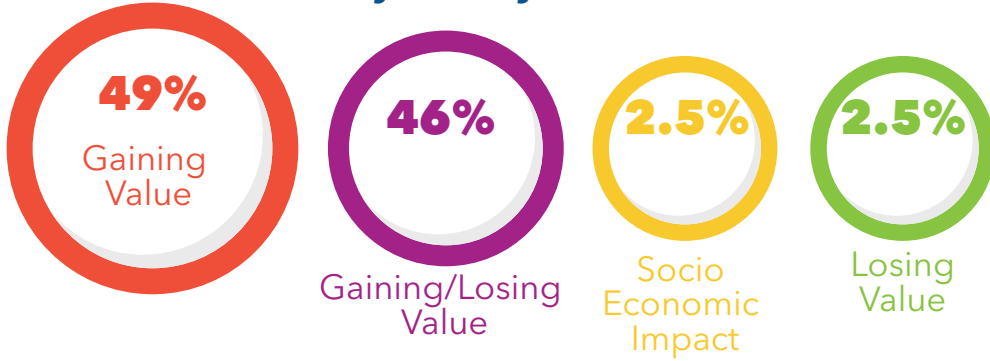
Once I begin withdrawing funds from my investments, I plan to spend all of the funds in



I would describe my knowledge in SME investments as

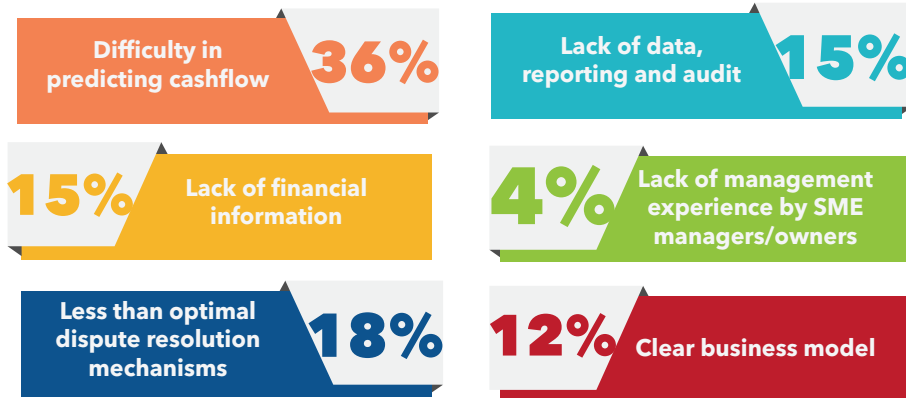


## When I invest my money, I am concerned about



## 3-SME Investment

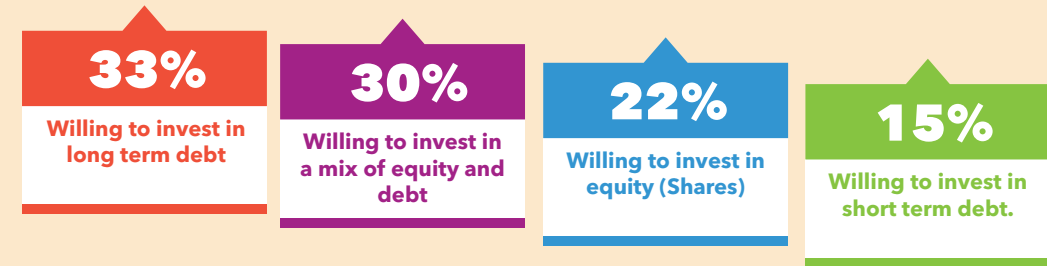
### What factors prevents you from investing in an SME



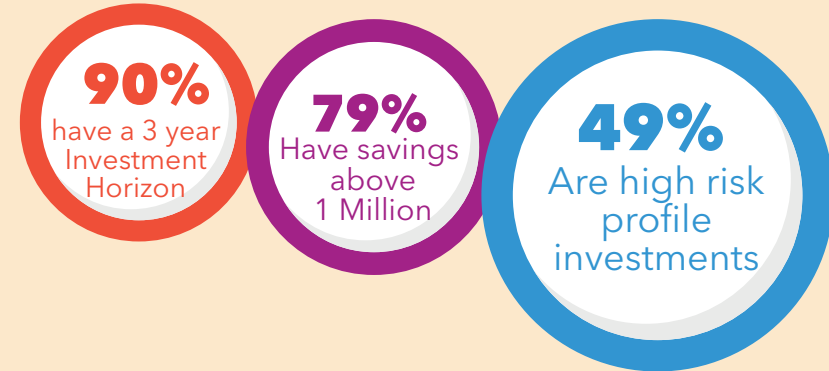
### If an SME were to address the above negative factors, how likely are you to invest in the SME? (1 Means Most Likely while 5 is least likely)

**46%** were most likely, **42%** likely with **12%** least likely to invest in **SMEs**

## What type of investment funding can you be willing to invest on an SME?



## Conclusion on SME Investors



## Recommendations for an enabling SME environment

- Tax and other incentives targeted at encouraging investment in **SMEs**
- Establishment of SME financing instrument market
- Capacity development of **SMEs** by eco system players on importance of developing systems
- Investor education on investment on **SMEs**



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