



Viffa Consult

EXPLORING POST COVID-19 SME LANDSCAPE:

Framework for Supporting Kenyan SME Recovery

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Acronyms

SME	-	Small Medium Enterprises
CGS	-	Credit Guarantee Scheme
KNBS	-	Kenya National Bureau of Statistics

SME State of Play

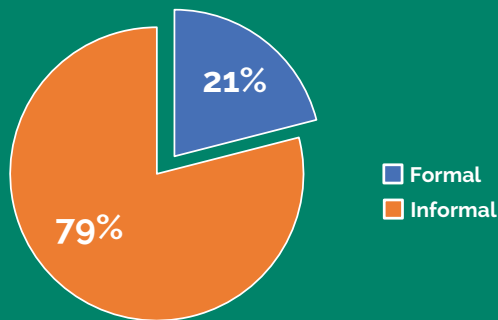
The Kenya government in response to the negative effects of covid-19 to SMEs in Kenya came up with a series of stimulus package that was meant to at least stop the haemorrhage and in best case turn the tide.

The thrust of the stimulus package was to provide cashflow to SMEs through tax and non-tax incentives such as reduced corporate tax to 25 percent, reduced turnover tax to 1 percent, reduced VAT to 14 percent, establishment of an SME credit guarantee scheme, reduction of commercial bank cash reserve ratio requirement to 4.25 percent releasing Ksh 35.2 billion, payment of pending bills owed to SMEs by national and county governments among others.

A Deep Dive of SMEs

The government interventions at a high level seem reasonable but if viewed from the reality of MSME based on data from the Kenya National Bureau of statistics MSME 2016 report which indicates that 79 percent (Table 1) of SMEs are informal in nature meaning they technically don't operate in the formal economic systems hence may not have; a business bank account, books of account hence not filing tax returns among others means that the stimulus intervention may miss the mark.

Chart 1 - SME Status



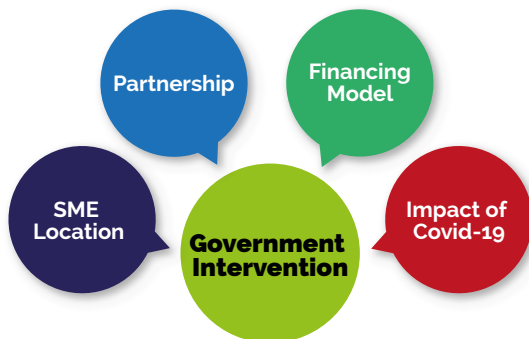
Source: KNBS 2016 MSME Report | Analysis: Viffa Consult

Given that SMEs are the backbone of the economy providing jobs to over 30 percent of Kenya's youthful population, contributing 33 percent to GDP and represents over 90 percent of all businesses in Kenya; concerted efforts must be made to ensure that SMEs are able to withstand the covid 19 shock.

To ensure that future SME interventions are effective, the Kenyan government must have a deep understanding of SMEs in order to effectively and efficiently allocate resources and get a positive outcome.

Government must take into consideration SME; location, partnership, financing model and level of impact of covid-19 as illustrated (Chart 1) as a baseline that will inform SME intervention during and post covid-19.

Illustration 1: Government Intervention Baseline Factors

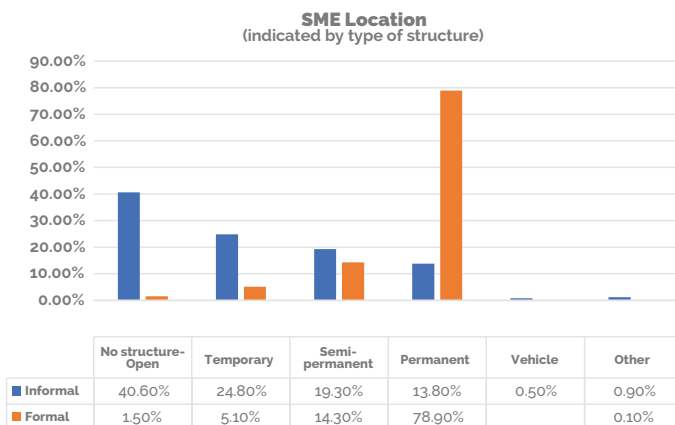


Analysis: Viffa Consult

SME Location

The location of SMEs provides critical information on the nature of business as well as first level point of contact and accountability. Government must take cognizant that 86.2 percent (Table 2) of informal SMEs don't have permanent structures as compared to formal SMEs 78.9 percent of which operate in a permanent structure. Government must therefore seek an alternative point of contact with informal SMEs that is constant which can be found in the other baseline indicators.

Chart 2 - SME Location



Source: KNBS MSME Report 2016 | Analysis: Viffa Consult

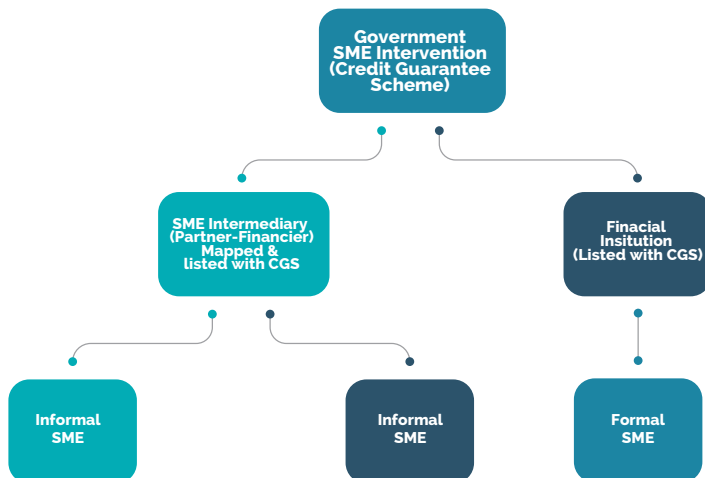
SME Partnership

SME whether formal or informal form partnership with other organizations seeking capacity building and this is very critical for informal SMEs who lack a formal contact tracing and accountability compared to formal SMEs. 47.3 percent and 49.4 percent of Informal SMEs and formal SMEs respectively form capacity building partnerships with institutions such as government department, Sacco, self-help group, religious organizations, private business institutions, NGOs among others (KNBS MSME 2016). Government will need to conduct a robust mapping of these organizations to form a second level of accountability (contact tracing) and potential stimuli channel.

SME Financing Model

Although SMEs finance their businesses majorly through family and friends at 80.6 percent and 71.9 percent for informal and formal respectively there are players that play a dual role as partner as well as source of financing. These include NGOs, Banks, Chama groups, Religious organizations among others. These organizations as indicated in partnership can play a critical role as channel for accountability and stimuli especially for informal SMEs who may not be banked hence not enjoy benefits such as access to credit guarantee scheme (Illustration 2).

Illustration 2: Proposed Government SME intervention model: A case of credit Guarantee Scheme



Analysis: Viffa Consult

Impact of Covid-19

Once accountability and intervention channel has been established and cognizant of finite resources; government must identify and prioritize SME sectors based on their level of contribution to GDP as well as employment creation or risk of job losses, impact of covid-19 and allocate funding based on rank as table per table 3.

Table 1 - SME Intervention Support Matrix

Economic Sector	Contribution to GDP (33%)-Ksh 3371.7 Bn	Employment Contribution (14.9 M)	Covid-19 Impact (Low, Medium, High)	GDP and Employment Rank	Rank
Manufacturing	24.3%	11.8%	Medium	1;3	1
Food & accommodation	2.4%	11.1%	High	5;4	3
Wholesale-Retail	22.8%	27%	Moderate	3;1	2
Repair of motor vehicle-Cycle		27%	Moderate	5;1	5
Education, Financial, Real Estate, Transport & Health	24%	10.9%	Moderate	2;5	4
Other	28.9%	12.2%	NA	NA	

Source: KNBS MSME Report 2016 | Analysis: Viffa Consult

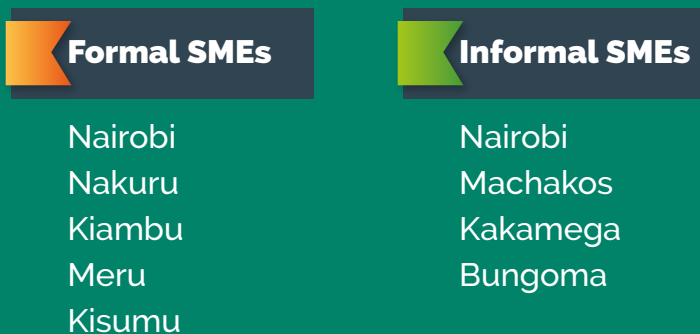
Safeguarding SME

Government intervention to SMEs must consider the 4 baseline factors with location and partnership forming channel of accountability, financial model being conduit of stimuli package and covid-19 impact providing a rationale for efficient use of resource.

Based on the SME intervention matrix (Table 3) government intervention efforts must focus on manufacturing, wholesale retail, food and accommodation, repair of motor vehicle-cycle and the combination of education, financial, real estate, transport and health

Further intervention must also factor locations providing highest employment (Illustration 3).

Illustration 3: SME Employment Distribution by County



Source: KNBS MSME Report 2016 | Analysis: Viffa Consult



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