

A photograph of a man in a red shirt working on a wooden table in a workshop. He is wearing a striped headband and is focused on his work. In the background, other workers in green and blue shirts are visible, working at another table. The scene is set in a cluttered workshop environment with various tools and materials.

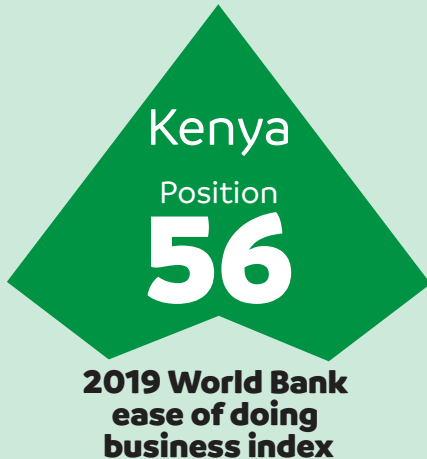
KENYA SME
PERFORMANCE
INDEX 2019

Real Gross Domestic product (GDP) according to 2019 Kenyan National Bureau of Statistics economic survey estimated to have expanded by 6.3% in 2018 as compared to 4.9% in 2017. The report attributes the 1.4% growth to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities.

Further according to the same report the Kenyan economy created 840.6 thousand new jobs in 2018 with SMEs mostly in informal sector accounting for 83.6 per cent of the total employment created.



2019 also saw Kenya move to position 56 among 190 countries on the World Bank Ease of doing business index which ranks countries against each other based on how the regulatory environment is conducive to business operations and stronger protections of property rights.



The Nairobi securities Exchange experienced a bearish trajectory based on 2019 Half-Year Market Review and Outlook indicating market capitalisation contracting 3.4 per cent to Sh2.27 trillion compared to Sh2.36 billion over the same period in 2018.

The performance was reflected at the NSE 20 share widely used as the economic barometer which hit a 10- year low, trading below 2,600 points starting end of June 2019.

The Kenyan private sector in general has experienced a tough business environment in 2019 with at least 15 listed companies issuing profits warning followed by layoffs of over 1700 employees.

Despite the high levels of resilience exhibited by the SME sector as evidenced by job creation abilities in a tough environment as well as significant contribution to GDP at over 30% SME still face serious challenges that impede their growth.



Viffa Consult conducted its annual SME index survey in the month of November 2019 to establish the performance of SMEs in Kenya based on critical success factors of access to finance markets, policies and support services among others.

The objective of the survey is:

- i. Establish revenue performance of SMEs***
- ii. Establish state of SME financing***
- iii. Establish impact of government policies and programs on SMEs***
- iv. Establish SME plans for 2020***

Special thanks to **Kwame Owino**; CEO of Institute of Economic Affairs who helped in reviewing of the survey report.

SURVEY METHODOLOGY

The survey sample size was 200 SMEs across all economic sectors. The study adopted purposive sampling for sectors to ensure representation and random sampling in each sector. Data collection methods used was; online survey distribution, telephone interviews as well as key informant interviews.

STUDY RESULTS

1-SME Turnover



2019 Turnover Performance in (Ksh)

1 - 500,000	(42%)
500,001 - 1,000,000	(17%)
1,000,001 - 5,000,000	(9%)
5,000,001 - 10,000,000	(16%)
10,000,001 - 30,000,000	(8%)
>30M	(8%)

Chart 1 (Analysis by Viffa Consult)

a). Multi - year Turnover analysis

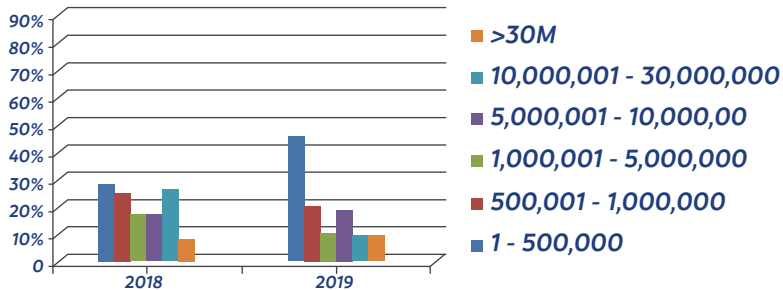


Chart 2 (Analysis by Viffa Consult)

b). Multiyear Turnover Analysis Breakdown

Turnover (Ksh)	2019	2018	% Point Change
1-500,000	42%	24%	18% Increase
500,001 - 1,000,000	17%	21%	4% Decline
1,000,001 - 5,000,000	9%	13%	4% Decline
5,000,001 - 10,000,000	16%	13%	3% Increase
10,000,001 - 30,000,000	8%	23%	15% Decline
Over 30 M	8%	6%	2% Increase

Table 1 (Analysis by Viffa Consult)

Insight

Micro businesses with annual turnover of less than 500,000 Ksh mostly informal in nature recorded an **18% point increase** in annual turnover between financial years 2018-2019. This is corroborated with their job creation credential of **over 80%** according to Kenya National Bureau of Statistics economic survey 2019.

Small businesses experienced an average decline of **4% points** while medium enterprises experienced an average turnover increase of **7% points**.

2-Principal Financial Partner

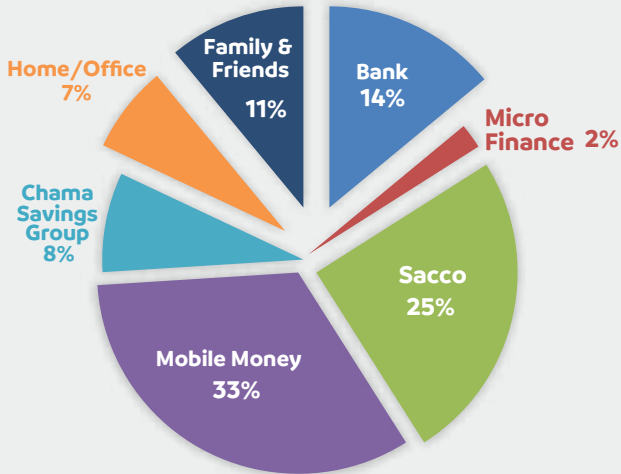


Chart 3 (Analysis by Viffa Consult)

3-Primary Source of Business Financing

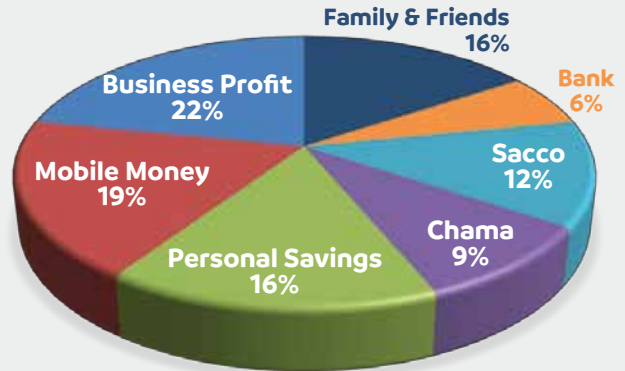


Chart 4 (Analysis by Viffa Consult)

4-Business Financing Trends

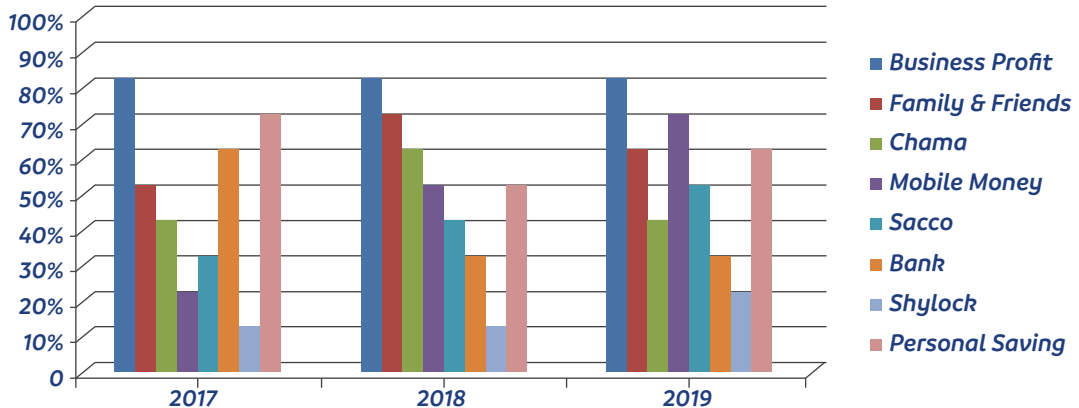


Chart 5 (Analysis by Viffa Consult)

Financing Trends Insight

SMEs have maintained Financing through retained business profits as their number one option the last three years. The rapid increase in use of Chama and Mobile Money as well as sharp decline in Banks as a source of finance can be attributed to the effects of interest rate cap introduced in 2016.

5-Access to New Market Trend

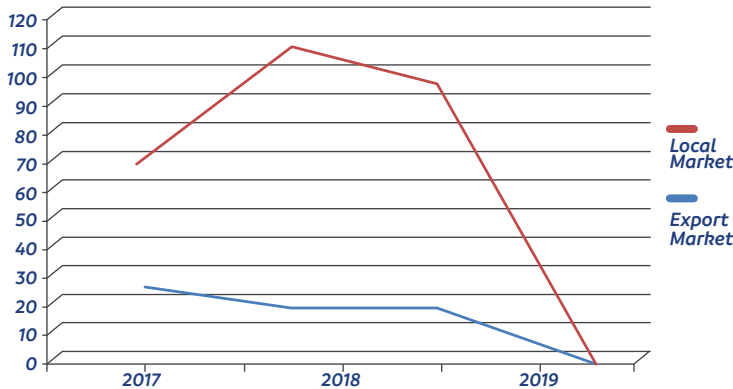


Chart 6 (Analysis by Viffa Consult)

Market Insight

Access to new export market was low and declining with Kenya's export majorly driven by tea, horticulture, coffee, titanium, articles of apparel and clothing accessories (KNBS 2019 Economic survey).

Access to new local market declined for financial year 2018-2019 which can be explained from both demand and supply

factors. From a demand perspective; the purchasing power of consumers has been weak attributed to loss of jobs, credit access challenges due to interest rate cap and competition from cheap imports. Similarly export to east Africa has hit headwinds with manufactured products costing more by 16% on average in Burundi compared to Tanzania, Uganda as well as India and China .

Kenya's exports to DRC declined by Ksh 3.8 Billion between financial years 2017-2018 (Kenya Export Promotion and Branding Agency 2019) further highlighting Kenya's export challenges.

Similarly from the supply side SMEs especially in trade such as electronics and clothes have experienced stiff completion from cheaper goods from China and India underpinned on ease of doing business.

6-Revenue Performance

a). Revenue Performance Trend

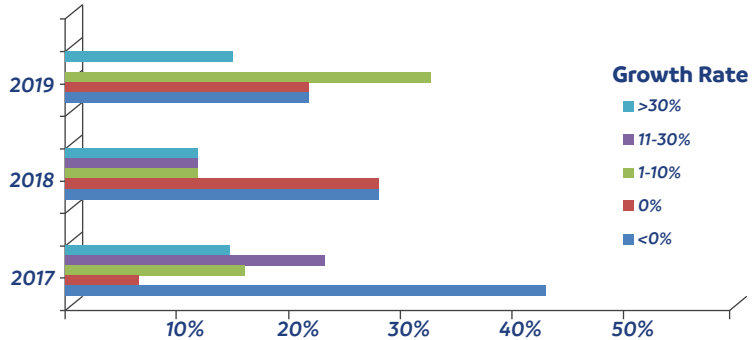


Chart 7 (Analysis by Viffa Consult)

b). Multi-year SME revenue performance

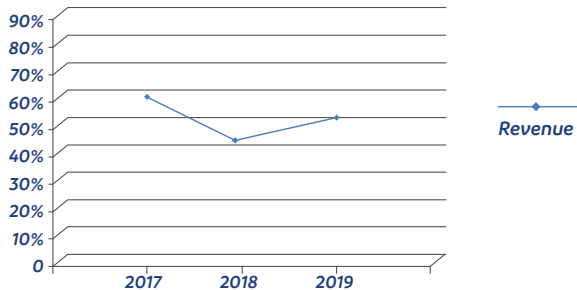
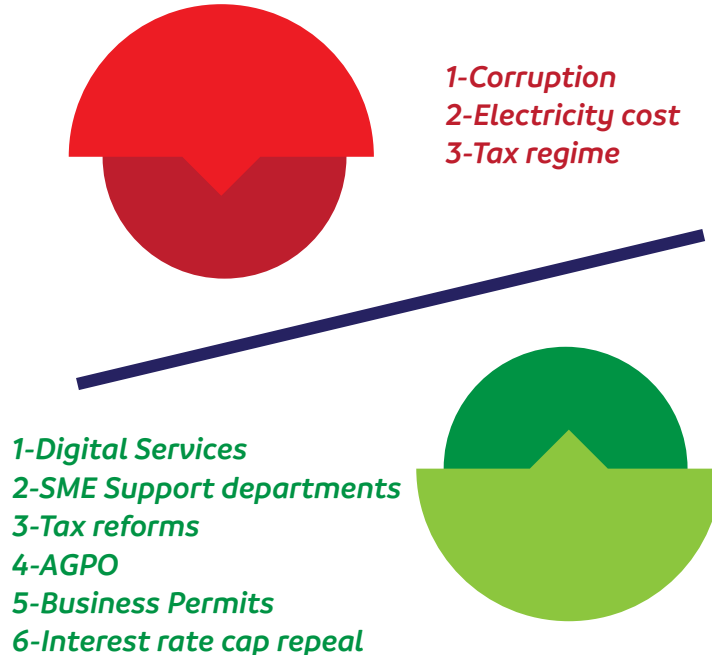


Chart 8 (Analysis by Viffa Consult)

7-Government Policy Program Impact



8- 2020 Business Aspiration

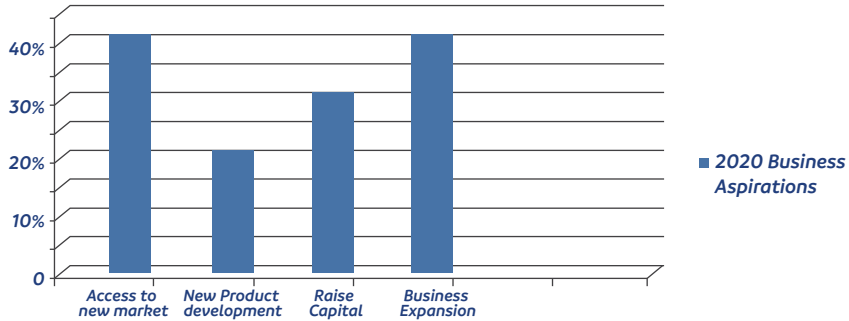


Chart 9 (Analysis by Viffa Consult)

a). Business Aspiration Trend

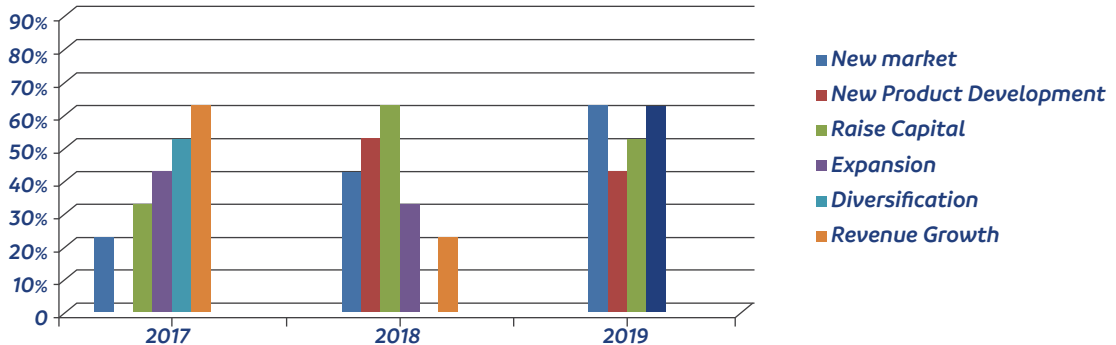


Chart 10 (Analysis by Viffa Consult)

2020 SME BUSINESS OUTLOOK

African Outlook

According to African Development Bank 2019 Economic outlook Africa's general economic performance continues to improve. Gross domestic product reached an estimated 3.5 percent in 2018, about the same as in 2017 and up from 2.1 percent in 2016. Africa's GDP growth is projected to accelerate to 4.0 percent in 2019 and 4.1 percent in 2020.



Despite the rapid growth it's still not enough to cover the astronomically growing current account deficits and unsustainable debt levels by most if not all African states.

The report proposes five trade policy actions could bring Africa's total gains to 4.5 percent of its GDP, or \$134 billion a year.

- 1. Eliminating all of today's applied bilateral tariffs in Africa*
- 2. Keeping rules of origin simple, flexible, and transparent*
- 3. Removing all nontariff barriers on goods and services trade on a most-favored-nation basis*
- 4. Implementing the World Trade Organization's Trade Facilitation Agreement to reduce the time it takes to cross borders and the transaction costs tied to non-tariff measures*
- 5. Negotiating with other developing countries to reduce by half their tariffs and non-tariff barriers on a most-favored-nation basis.*

East Africa Outlook

The planned meeting of East African presidents failed to take place hence was pushed to first quarter 2020 is a cause for concern. The delay means SMEs exporting products to the region will continue to face non-tariff barriers which are yet to be resolved as well as sub optimal trade with Somalia and South Sudan who are yet to join the block due to delayed approvals by the presidents' summit.

Kenya Outlook

Real GDP is projected to grow by 6.1% in 2020 according to Africa development Bank; Africa economic outlook 2019 while world Bank estimates a growth of 5.9%

The Kenya government has proposed fiscal consolidation plans to contain the rising deficit and stabilize public debt by enhancing revenue, rationalizing expenditures through zero base budgeting, and reducing the cost of debt by diversifying funding sources. This is easier said than done due to underlying risks such as expenditure rationalization without affecting productivity of critical services such as justice dispensation and infrastructure , as well economic growth for example nonpayment to SMEs by county governments and ministries due to low or lack of funding. Similarly access to affordable finance in the global market may be a challenge.

The net effect will be continued borrowing in Kenya's local market leading to crowding out effect of private sector.

Below is a summary of government initiatives that have a bearing on SMEs in the financial year 2020.

<i>Ministry/ Department</i>	<i>Action</i>	<i>Action Detail</i>	<i>Implication to SMEs</i>
National Treasury	Proposed Credit Guarantee Scheme (CGS)	The proposed scheme will act as a partial substitute for collateral, where the guarantor promises to pay all or part of the loan if the borrower defaults.	CGSs would ease the financial constraints of SMEs by enabling them to access capital
National Treasury Min of Industry, trade and cooperatives	<ul style="list-style-type: none">• Kenya Industry and Entrepreneurship Project (KIEP)	<ul style="list-style-type: none">• KIEP is a US\$50 million project that will be implemented by the Ministry of Industry, Trade and Cooperatives with support from the World Bank Group over the next six years between 2019-2024	<ul style="list-style-type: none">• KIEP aims to increase innovation and productivity in select private sector firms in Kenya by strengthening the private sector (including startups, SMEs, incubators, accelerators, technology bootcamp providers, etc.) through financial grants and technical assistance.

Ministry/ Department	Action	Action Detail	Implication to SMEs
National Treasury Min of Industry, trade and cooperatives	<ul style="list-style-type: none"> Kenya Youth Employment and Opportunities Project (KYEOP) 	<ul style="list-style-type: none"> The MbeleNaBiz business plan competition is an initiative of the Government of Kenya, under (KYEOP) 	<ul style="list-style-type: none"> MbeleNaBiz aims to expand new and existing youth-led enterprises by providing them with grant funding and/or business plan training.
Kenya Export Promotion and Branding Agency (Keproba)	Proposed establishment of Warehouses in Rwanda, Burundi and The Democratic Republic of Congo	The warehouses in Kigali, Bujumbura and Lumbubashi are expected to drive more exports and ward off competition from neighbouring countries that are threatening Kenya's dominance of the key markets.	The warehouses are expected to smoothen challenges that come with cross-border transportation of goods majorly iron sheets, steel, oils, perfumes, paints, paper, confectionery and cigarettes.
Central Bank of Kenya	Finance Act 2019	<p>The Finance Act 2019, among other provisions, repeals section 33b of the Banking Act that provides for the capping of bank interest rates.</p> <p>The law also introduces tax on income raised from the digital marketplace as a measure of ensuring equity in taxation.</p>	Expected flow of finance to medium sized businesses as well as taxation of start-ups and technology based businesses.

Ministry/ Department	Action	Action Detail	Implication to SMEs
Competition Authority of Kenya (CAK)	Proposed Competition (Amendment) Bill	The Competition Authority of Kenya (CAK) will assume powers to punish big companies for delay or non-payments for goods and services supplied by SMEs	Favorable payment terms to SMEs boosting cash flow
Kenya Ports Authority	Kisumu Inland Port	Kenya Government rehabilitated the Kisumu port at a cost of Ksh 3 Billion with projections of handling 95,000 tonnes of cargo by 2022 Further the Kenya Railways Corporation officially handed over 23 acres of land to Kisumu County government for the construction of a modern market	Export of goods by SMEs to the region Market space for SMEs in hairdressers, retail shops, jua kali artisans

References

Kenya National Bureau of Statistics Economic Survey 2019

Africa Development Bank Africa Economic Outlook 2019

World Bank

Ministry of Industry Trade and Cooperatives

Kenya Export Promotion and Branding Agency



Viffa Consult

For Further Inquiries contact:
Victor Otieno
Managing Director

Viffa Consult Ltd
Mayfair Suites
Off Parklands Road

P.O.Box 35320-00200 Nairobi
Tel: 254 723 98 25 28
victor@viffaconsult.co.ke

WWW.VIFFACONSULT.CO.KE