

SME
ACCESS TO
FINANCE
2 0 2 0

Financing Model Cross Road

Kenya SMEs continue to struggle with accessing business finance. The last four years this was more pronounced due to external factors such as heavy domestic government borrowing, delayed payment by county and national governments and interest rate cap among others.

The year 2020 was projected to be turnkey on the back of several initiatives that were espoused to change the SME access to finance tide 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.

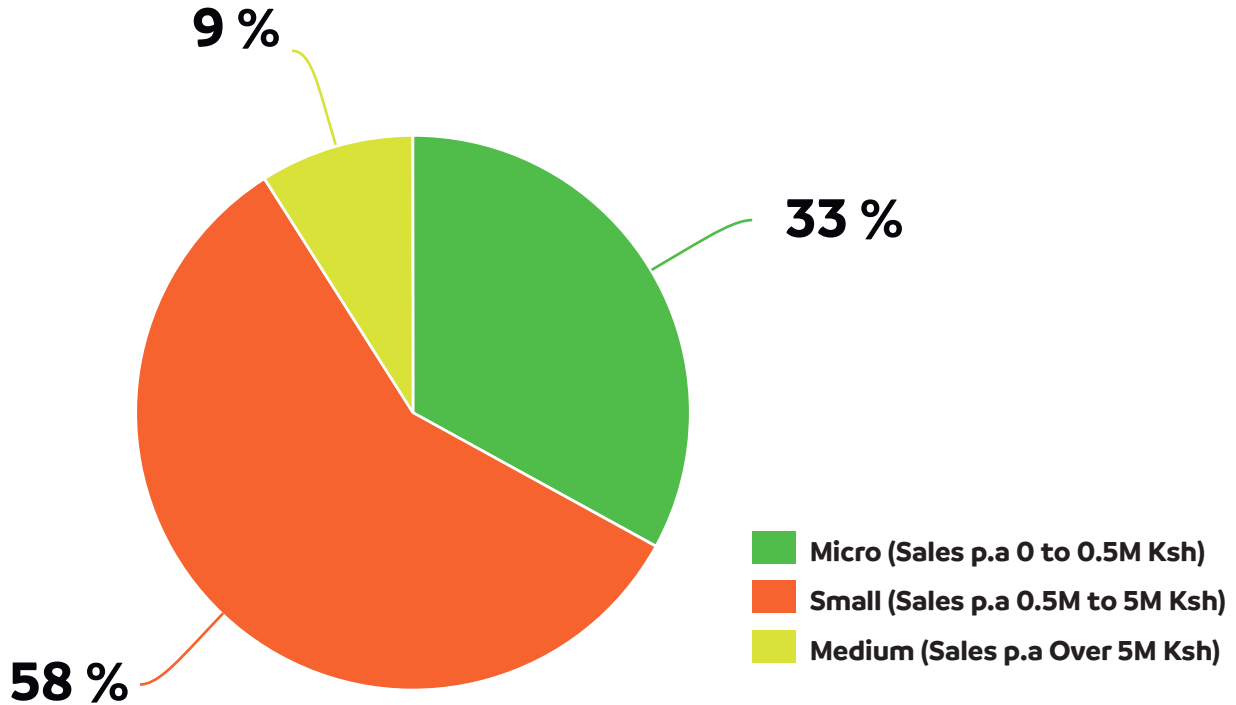
Unfortunately the covid 19 pandemic has caused unprecedented havoc to the Kenyan economy with SME bearing the full brunt. Government has put in measures to backstop SMEs by providing liquidity relief through various tax and non tax intervention as follows; reduced turnover tax from 3 to 1%, reduced corporate tax from 30-25%, reduced VAT from 16-14% among others.

Viffa conducted its 3rd edition survey on SME financing to establish sources of financing by SMEs, challenges experienced in accessing finance and financing needs of SMEs.

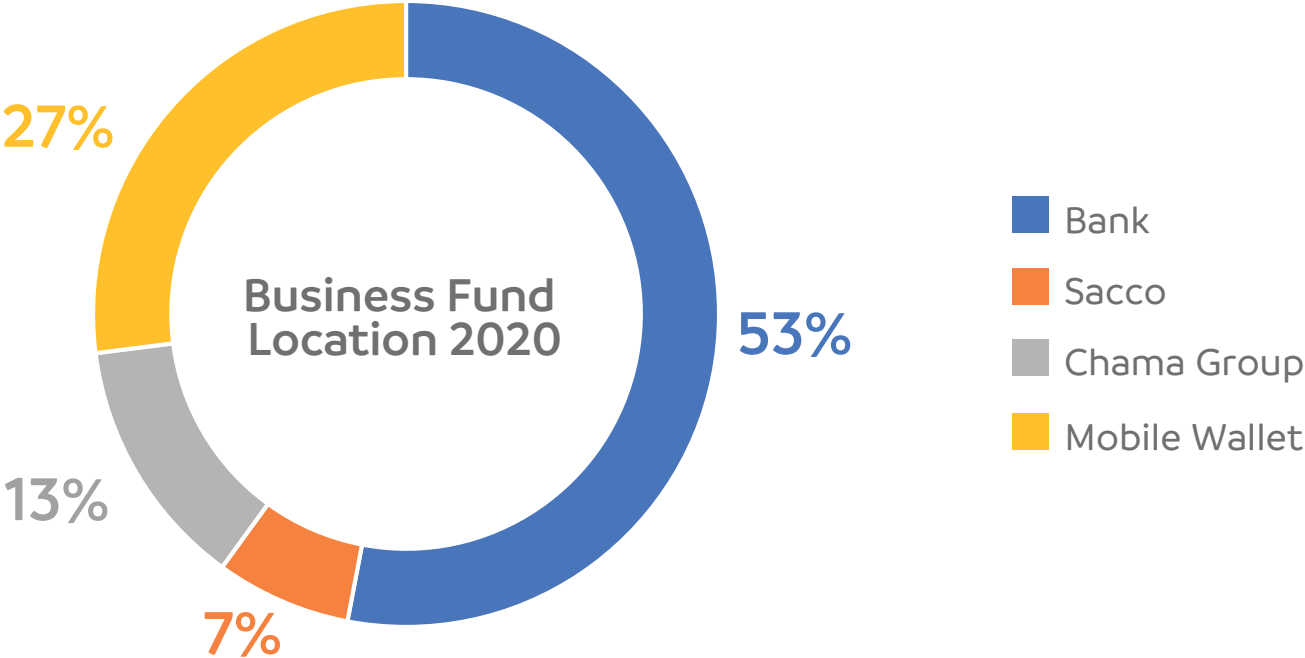


Results

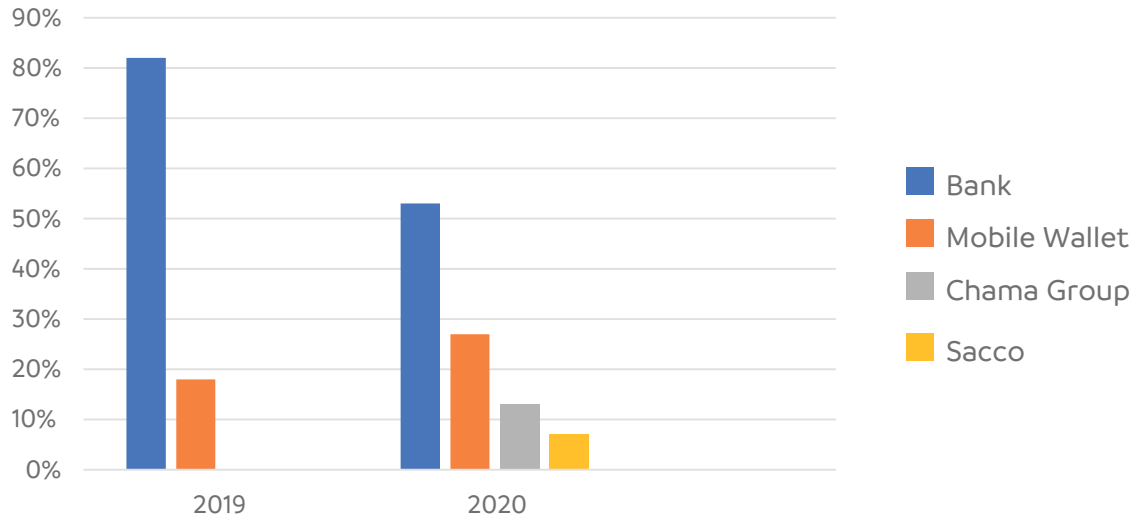
1: Business Size Distribution



2: Location of Business-Related Funds



Business Funds Location Trend



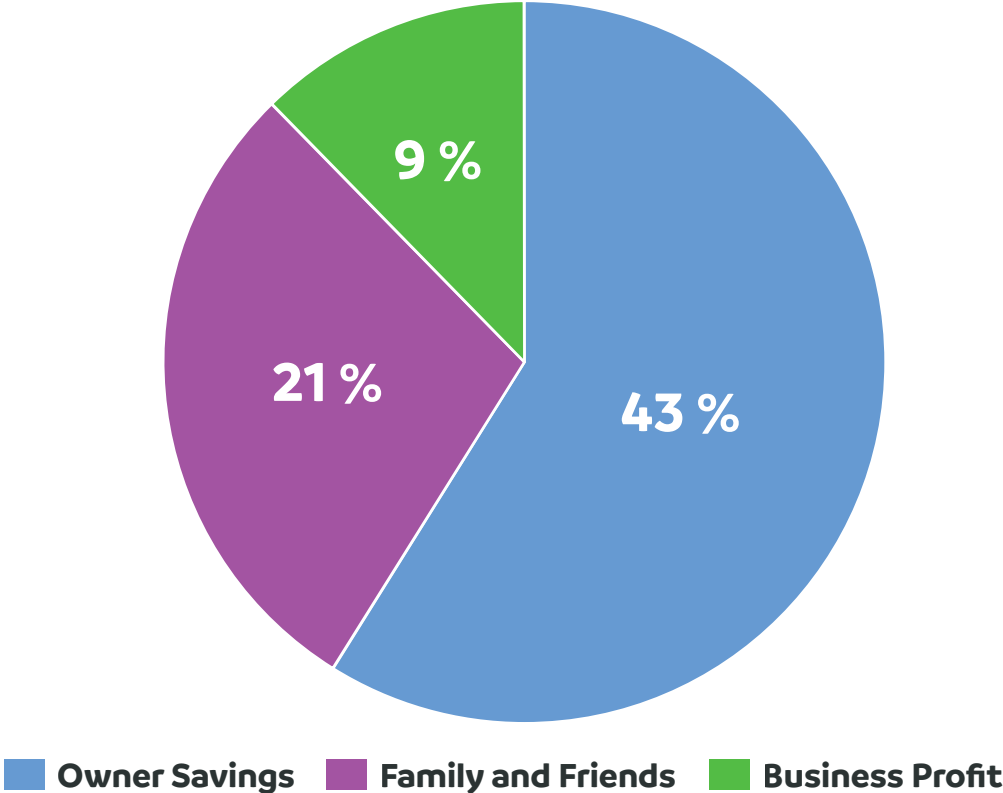
Insight

There is an increased uptake of mobile wallet as indicated by a 9-percent point increase between 2019-2020 indicating a growing preference by SMEs due to its role in promoting financial inclusion with ease of access to loans without collateral requirements as well as convenience as major value proposition.

Although banks have retained top spot as preferred location for business related funds there has been a significant 29 percent point drop between 2019-2020 possibly due to increased uptake of mobile money as well as continued emergence of chama saving groups whose value proposition include; uncollateralised loans, social protection on issues related to death and business interruptions, advocacy, information and mentorship among others

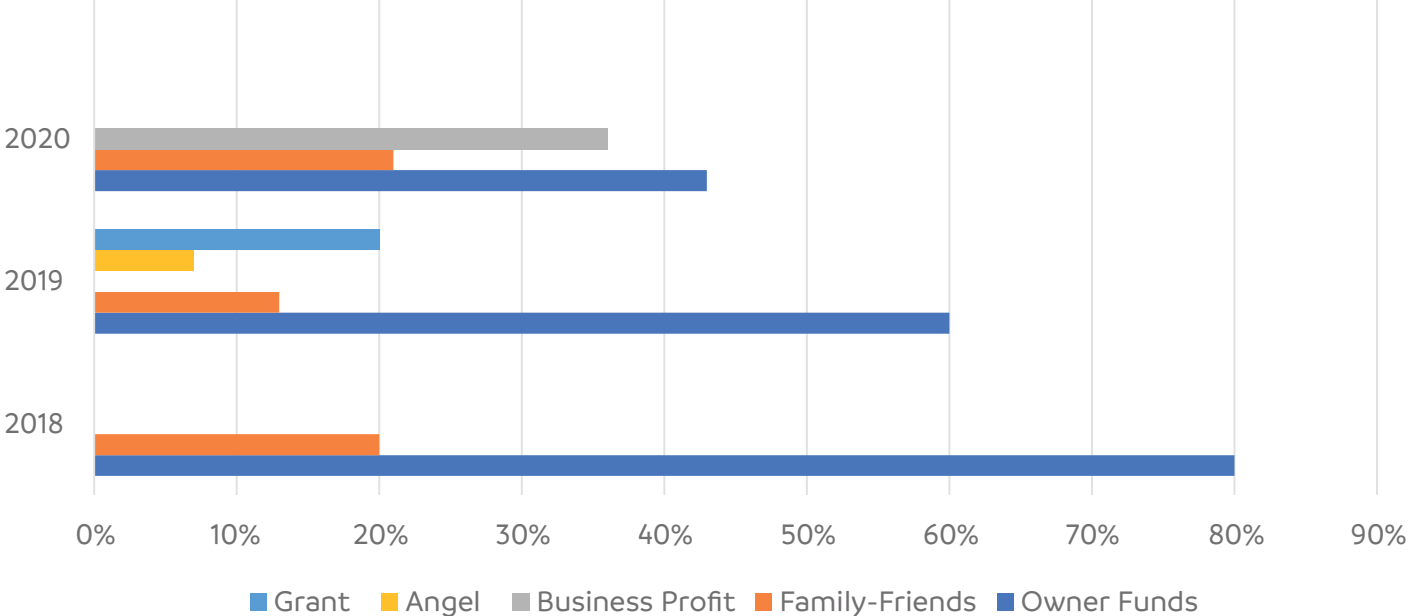
3: Type of financing received in the past one year

2020 Type of Finance Received



2020 Type of Finance Received

Type of Financing Trend



Insight

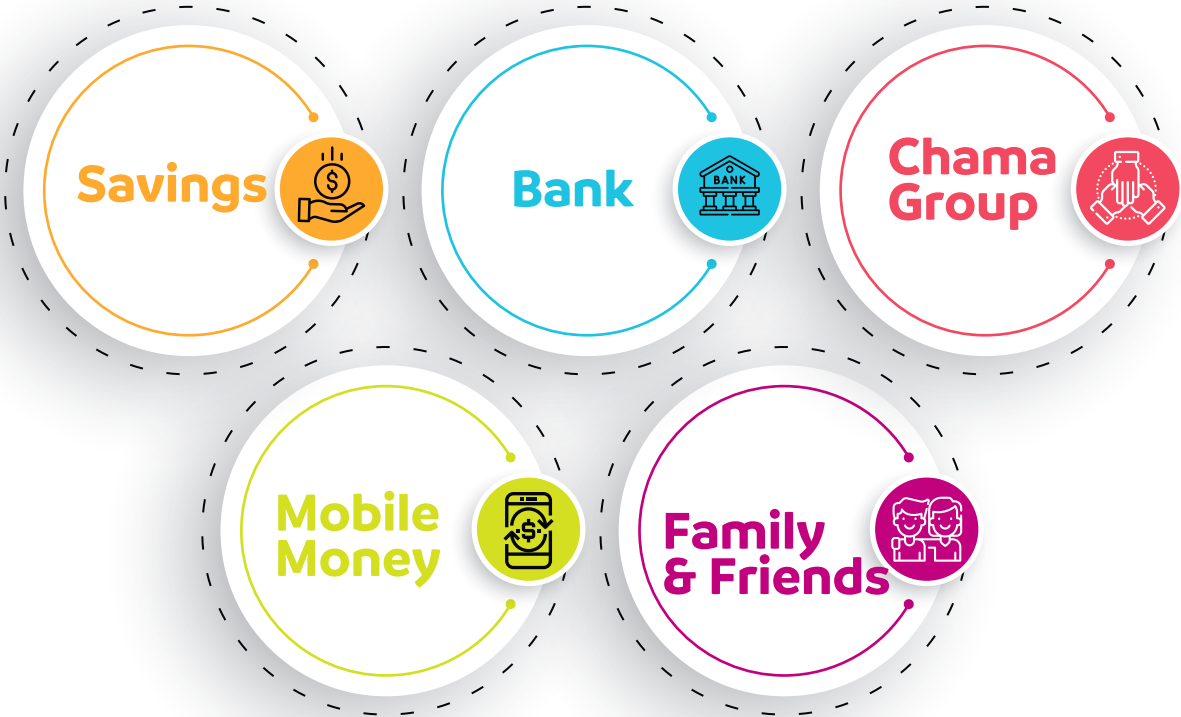
Despite dropping in use of owner funds as well as fluctuating financing through family and friends these two sources still remain the main source of capital for SMEs. Due to almost constant state of business environment instability for SMEs going back from 2016 to 2020 with each year having a major negative event in relation to SMEs as illustrated with list;

- a. *Elections 2017-2018*
- b. *Interest rate cap 2016-2019*
- c. *Heavy Government Local Borrowing*
- d. *Delayed payments*
- e. *Drought 2017-2018*
- f. *Coronavirus Pandemic 2020*

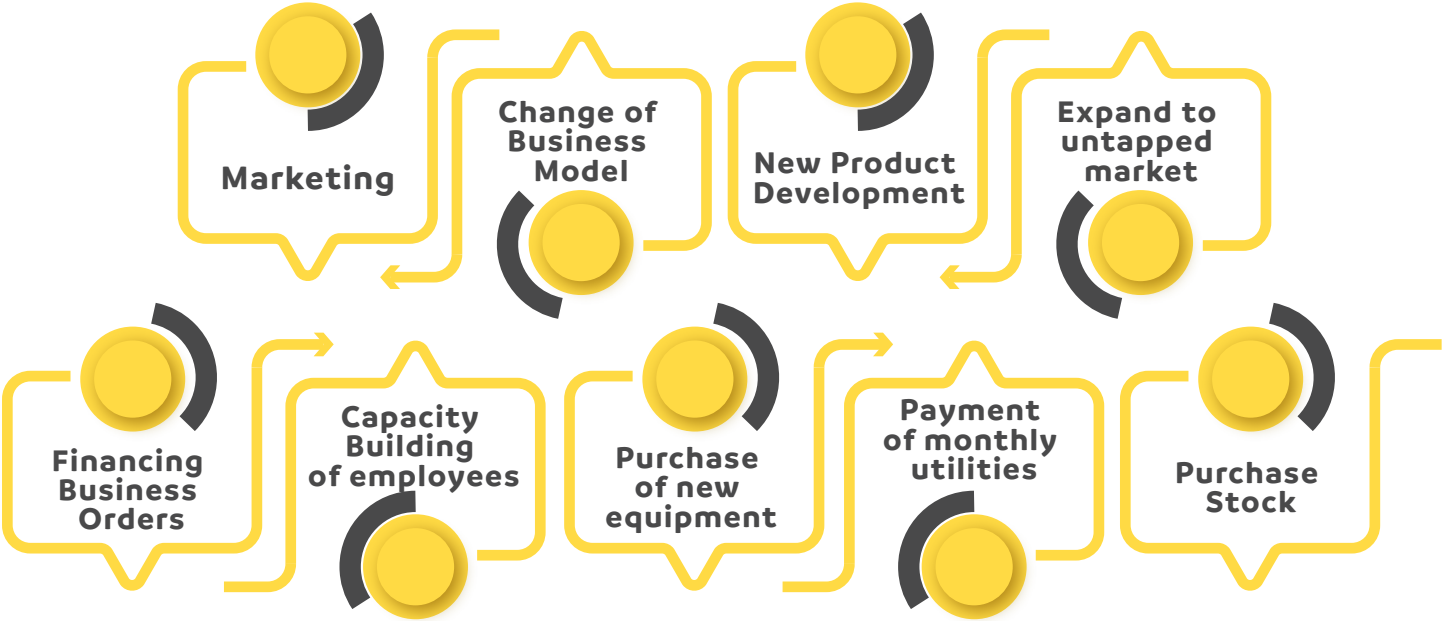
SME growth may continue to stagnate due to overreliance on business financing of savings, profit and family-friends which are not only limited in terms of ticket size but also short term meaning SMEs will miss opportunity to unlock value by investing in innovation and assets which are mostly big ticket and long term in nature.



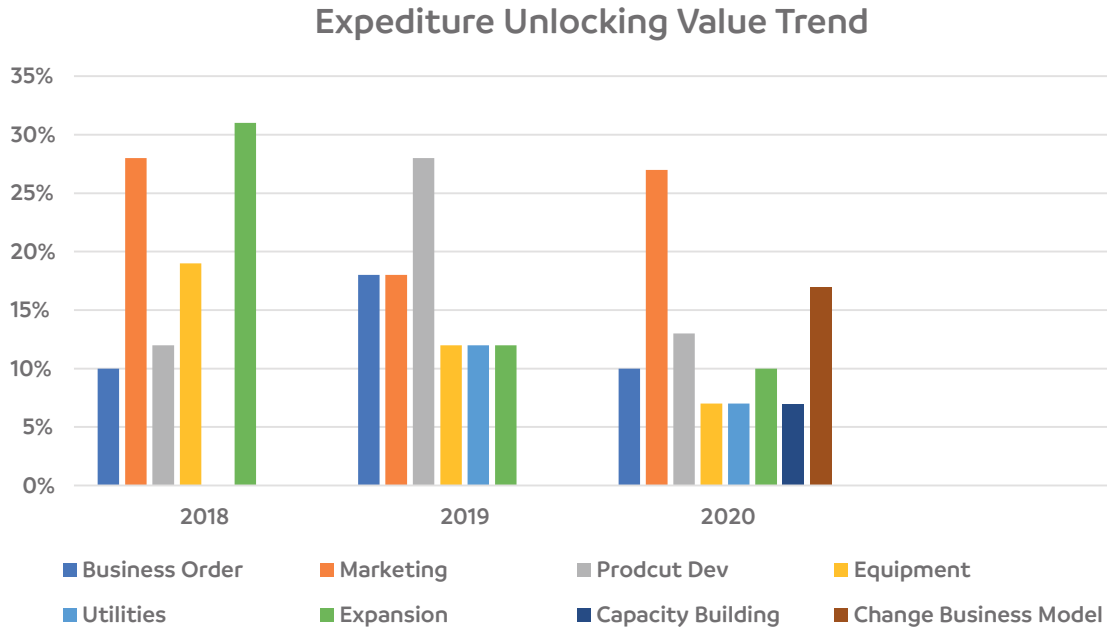
4: Business Financing Most Helpful During Covid-19 period to date



5: Critical 2020 Expenditure projected to unlock value



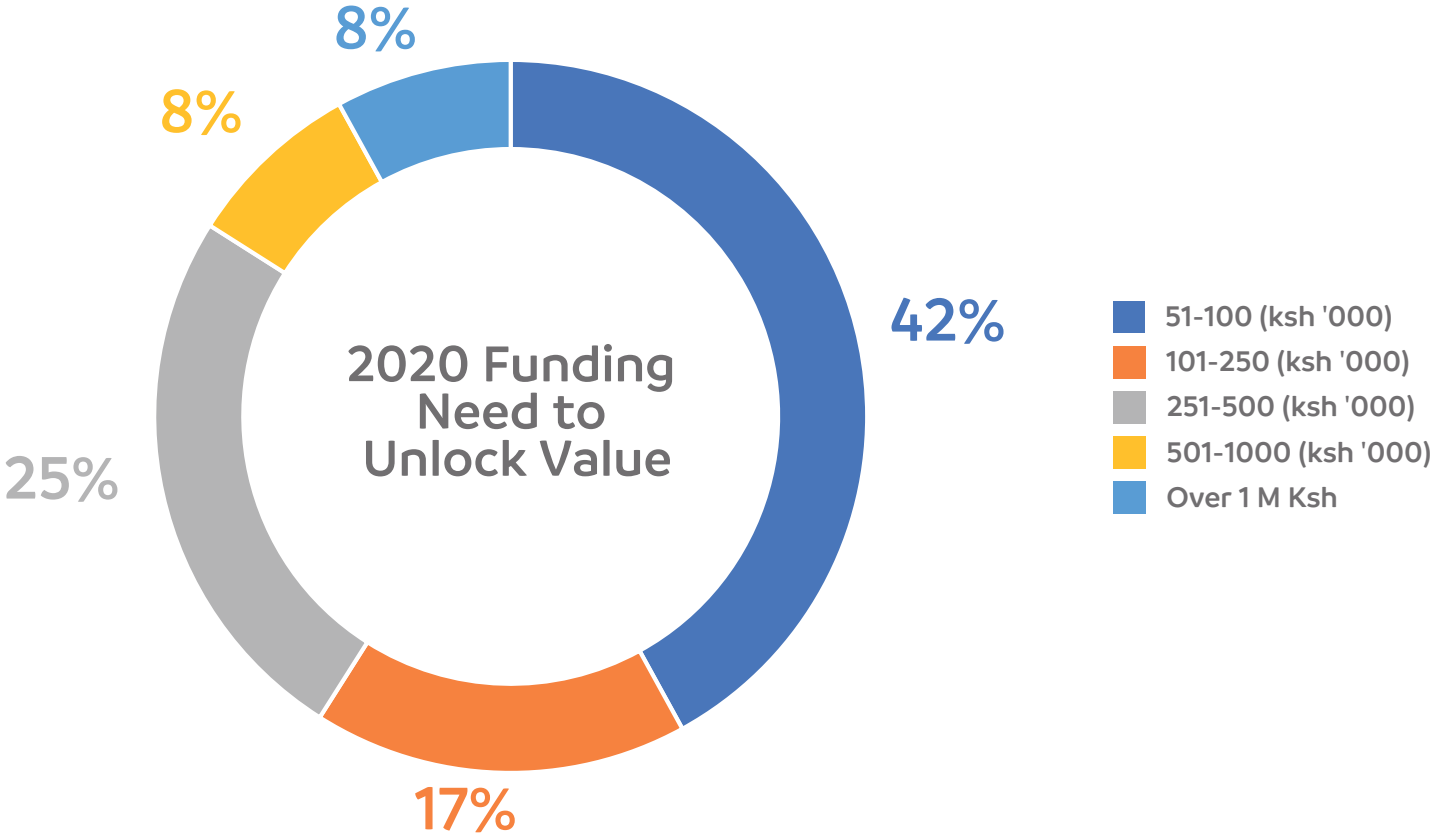
Unlocking Value Expenditure Trend



Insight

Marketing remains top priority as a measure to recover from covid 19 with SMEs projecting to adapt to a new normal driven by changing consumer trends hence the emerging need to invest in; changing business model, capacity building of employees and modern equipment.

6: Financing needed in 2020 to unlock value



7: Government Intervention poised to significantly improve liquidity

- 01** Reduced Turnover Tax from 3% to 1%
- 02** Tax Incentives to alternative SME investors (Angels, VCs, PE)
- 03** Reduced Corporate Tax (30% to 25%)
- 04** Cash Grant
- 03** Reduced VAT from 16% to 14%

- 06** Reduced Import
- 07** Soft Loans
- 08** Reduced cash reserve ratio by CBK
- 09** Payroll support (Full or partial)



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