

SME Access to **Finance** 2021

Prepared By:



Viffa Consult



SME Access to Finance 2021

Riding The Pandemic Wave or Drifting?

Kenya SMEs continue to struggle with accessing business finance. The struggle prevailed in the last four years (2017-2020) attributed due to external factors such as

1. Heavy domestic government borrowing,
2. Delayed payment by county and national governments
3. Interest rate cap among others.

The challenge of access to finance was and continues to persist due to COVID 19 despite efforts by government to inject cash flow to SME operations through stimuli program most of which have been stopped.

The Kenya Government is in the process of developing a post-Covid-19 economic recovery strategy which aims to prioritize renewed growth in MSMEs which have been severely impacted by the measures put in place by the Government to contain the spread of the pandemic such as restrictions on movement and curfews which has led to significant loss of business by MSMEs. Towards this end, the Post-Covid-19 ERS prioritizes implementation of the following programme:

1. MSME Credit Guarantee Scheme;
2. MSMEs Capacity Building Programme;
3. Finance Plus; 5K Initiative;
4. MSME ICT Platforms to improve productivity and competitiveness of MSMEs.

Financial institutions such as KCB and Equity Bank as well as the Kenya Private sector Alliance (KEPSA) and Kenya National Chamber of Commerce and Industry (KNCCI) in partnership with development partners have made tremendous efforts in SME financial access intervention in the period 2020-2021.

Viffa conducted its 4th edition survey on SME financing to establish sources of financing by SMEs, challenges experienced in accessing finance and financing needs of SMEs in light of the difficult pandemic period.

Study Methodology


Study tool


Online & Telephone Survey

Sample Size

211

Sample Design

Purposive {Counties; Nairobi, Kisumu, Machakos, Kiambu, Eldoret, Mombasa, Nakuru}
Random {Within counties}

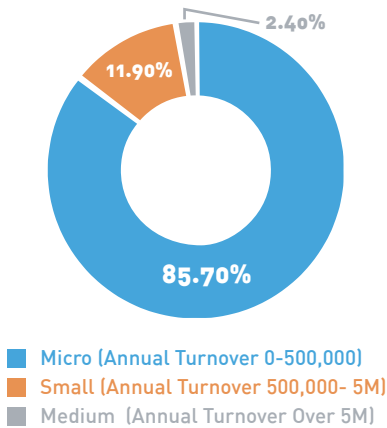
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Results

Business size distribution

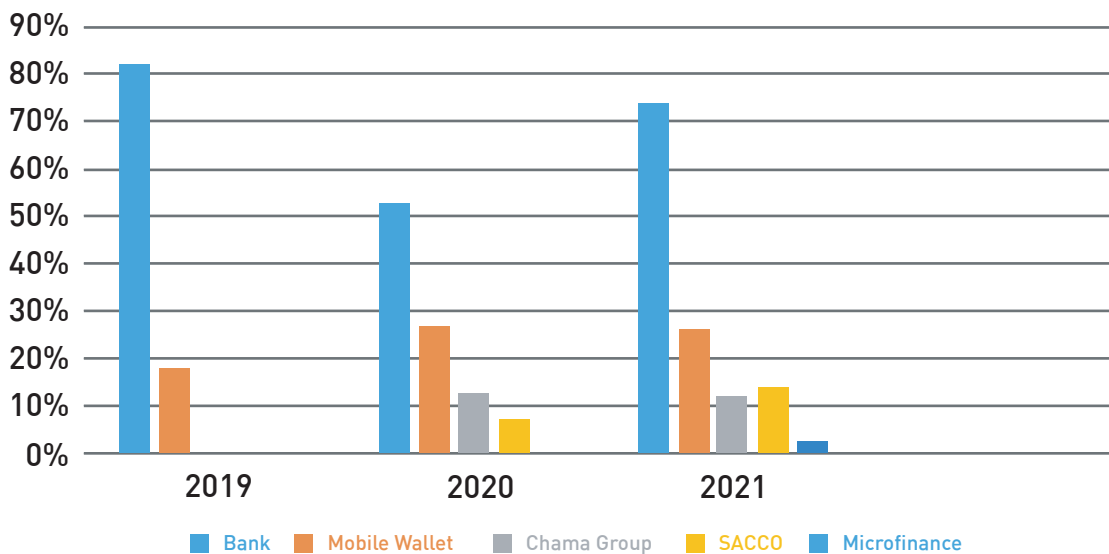
SME Size Distribution



Location of business related funds



Business Funds Location Trend



Insight

Mobile wallet has become a major business funds repository due to its continued role in promoting financial inclusion with ease of access to loans without collateral requirements as well as convenience as major value proposition.

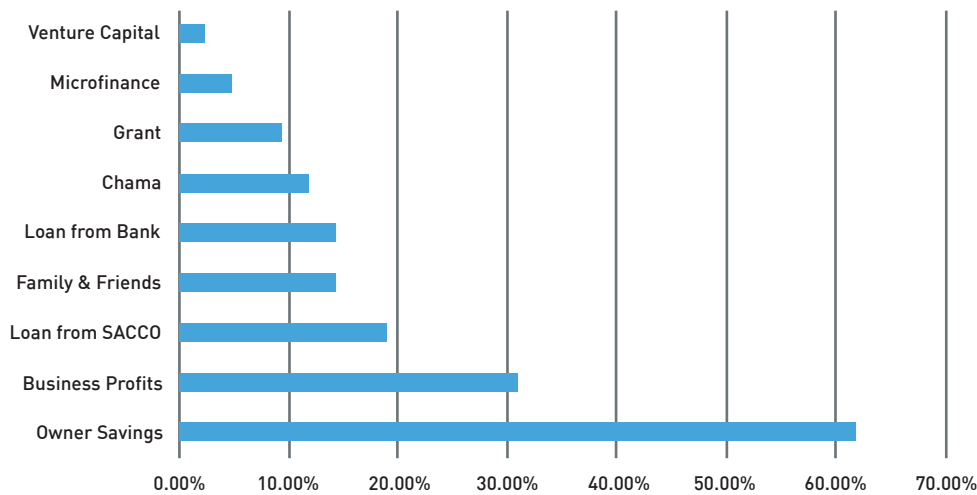
The rise of mobile wallet is further bolstered by uptake by financial institutions as an alternative channel in accessing SMEs as well as teleco based innovations such as Pochi La Biashara.

Banks continue to retain top spot for preferred location for business related funds due to their ability to offer big ticket size credit coupled with increasing reforms taking place in the sectors such as:

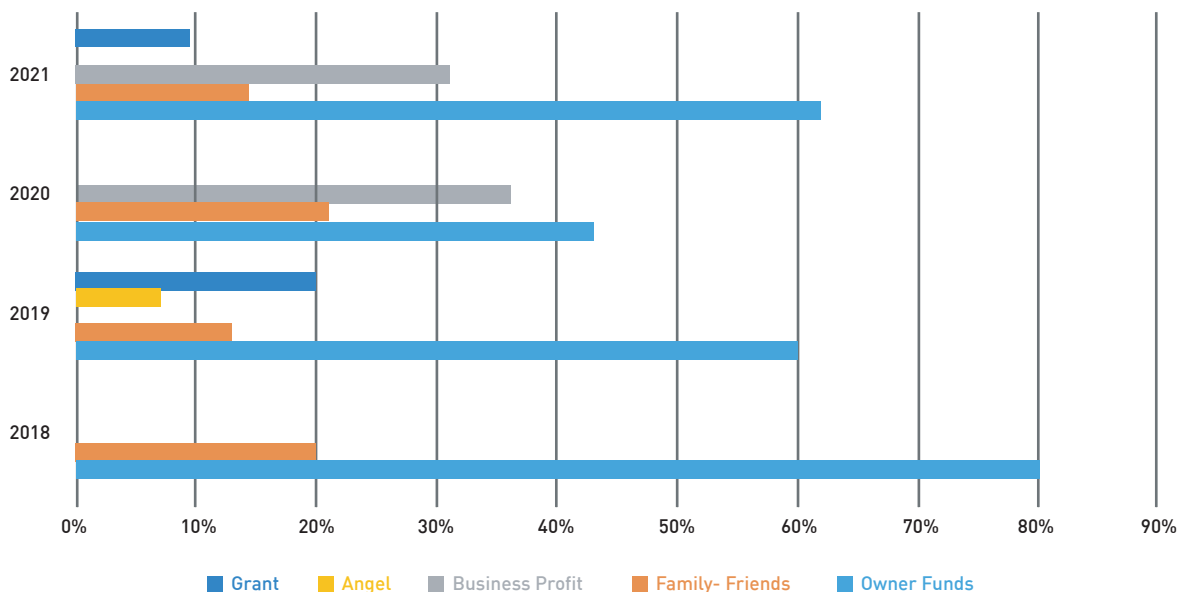
- Credit Guarantee Scheme
- Banks accessing low cost funding for forward lending to SMEs
- Movable property security rights act
- Rate cap repeal

Type of financing received in 2020

Sources of Finance in 2020

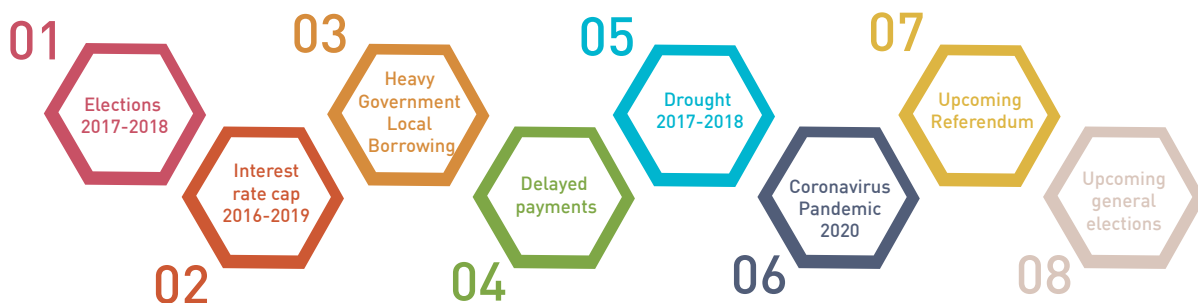


Type of Financing Trend

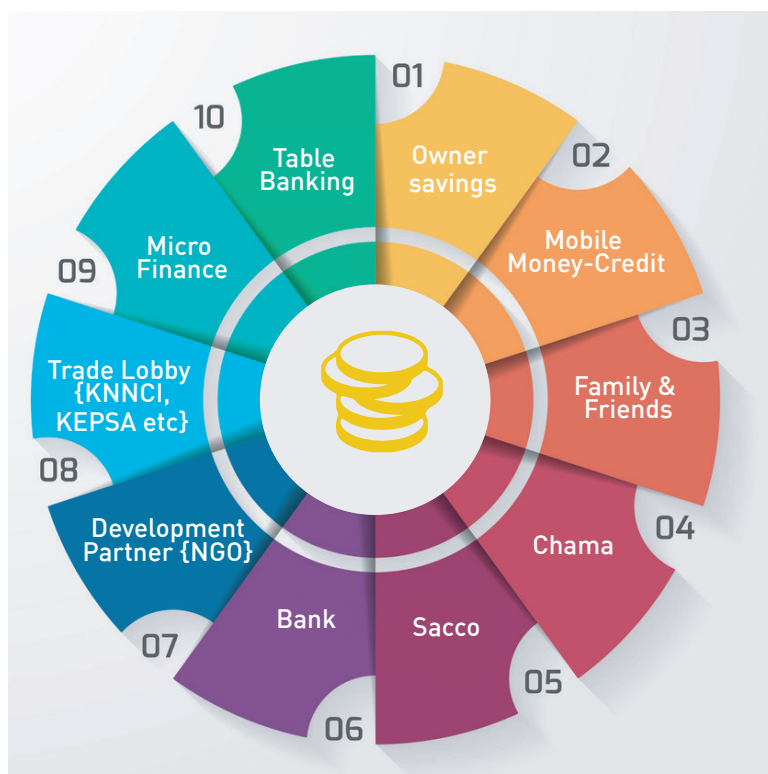


Savings, Business profits and loan from SACCO are the top three SME financing in 2020 with emerging financing coming from grants and venture funding. Despite banks being top location for business related finance, there is still a gap in terms of ease of access of finance.

Savings and business profits remain top financing for SMEs as they are stable, cheap and easy to access due to SMEs experiencing a state of constant business environment instability going back from 2016 to 2022 with each year having a major negative event in relation to SMEs accessing finance from other sources as illustrated with list;



Most helpful type of financing in light of Negative effect of COVID-19



SMEs relied on savings, mobile money and family and friends to finance activities in the period 2020 under the dark cloud of COVID 19.

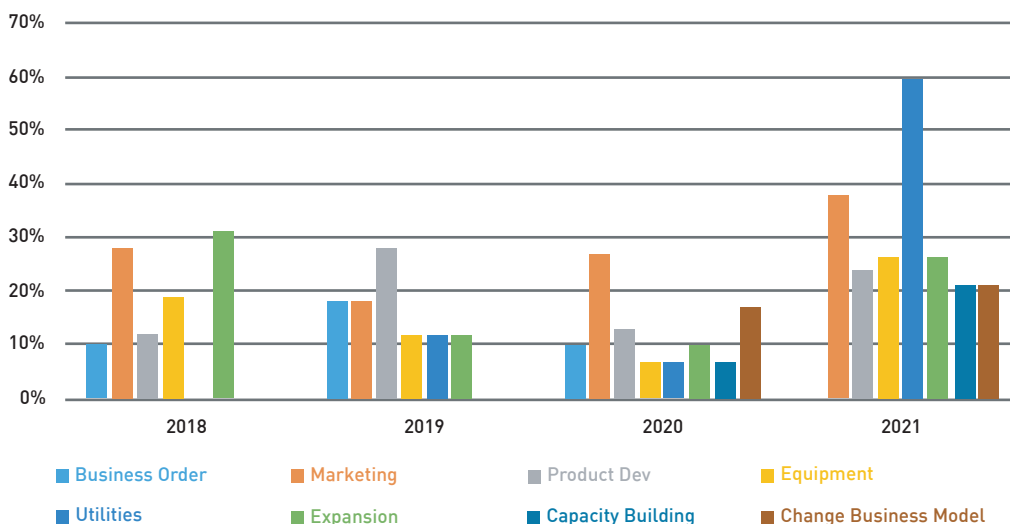
These sources of financing although are crucial are limited in terms of ticket size and are also short term meaning SMEs will miss opportunity to unlock value by investing in innovation and assets which are mostly big ticket and long term in nature.

Expenses that must be incurred in 2021 in order to survive and succeed



Unlocking Value Expenditure Trend

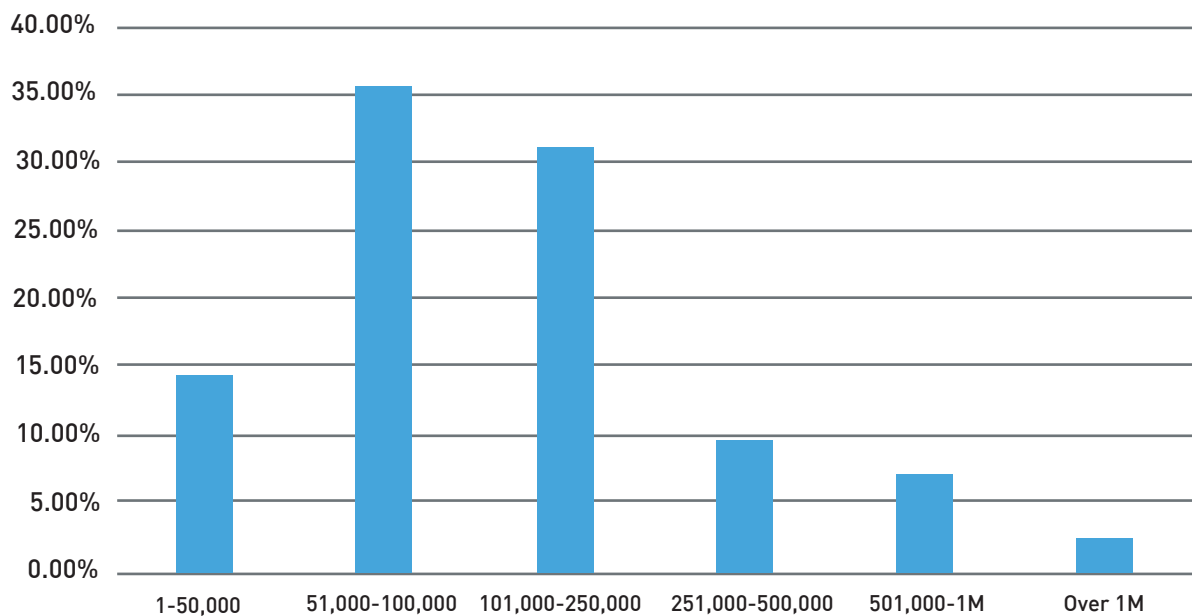
Expenditure Unlocking Value Trend



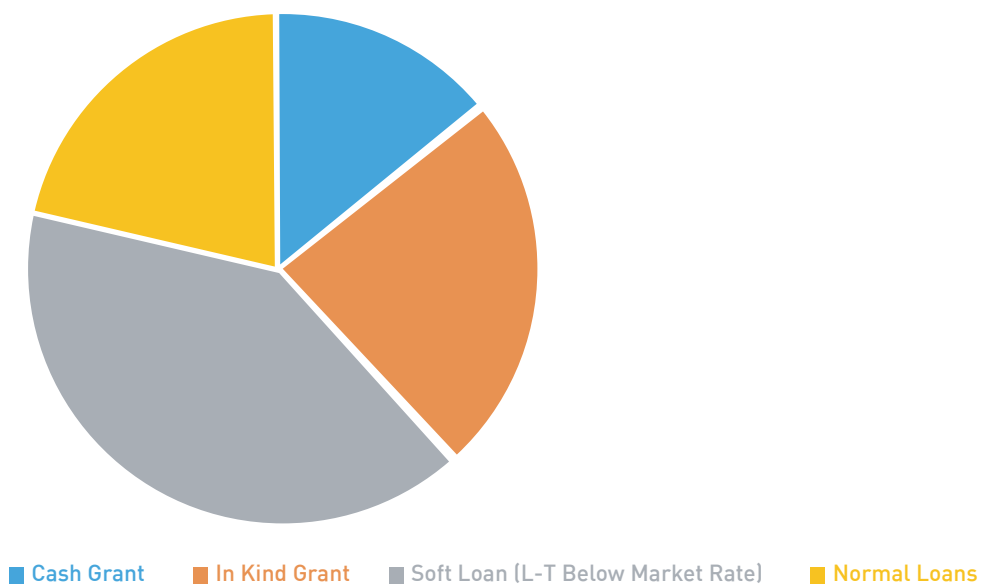
Paying monthly bills followed by marketing remains top priority as a measure to recover from covid 19 with SMEs projecting to adapt to a new normal driven by changing consumer trends hence the emerging need to invest in; changing business model, capacity building of employees and modern equipment.

Financing required to meet the above expenses

2021 Finance Requirments



Form of finance needed to finance operations in 2021



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