



Viffa Consult

SME Access To Finance 2022

Is There light at the end of the tunnel for SMEs?

Introduction

Kenya SMEs continues to struggle with accessing business finance. The struggle prevailed in the last five years (2018-2022) attributed due to external factors such as heavy domestic government borrowing, delayed payment by county and national governments, interest rate cap and COVID 19 among others.

The challenge of access to finance was and continues to persist due to COVID 19 despite efforts by government to inject cashflow to SME operations through stimuli program most of which have either been stopped or were not effective.

The Kenya Government in 2020 put out an economic stimulus program which was followed up with post Covid-19 economic recovery strategy in 2021 as well as a third stimulus program in 2022 whose aim are to prioritize renewed growth in MSMEs which were 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 led to significant loss of business by MSMEs.

The SME strategy included but not limited to access to finance facilitation through; MSME credit Guarantee scheme, tax breaks, bank cash reserve ratio decrease, movable property securities act among others.

The financial sector continues to give the SME sector a wide berth despite interventions to encourage SME lending such as interest rate cap repeal, STAWI, credit guarantee scheme among others. Kenya's financial sector continues to be risk averse preferring government securities, interbank lending, offshore securities and cash holding accounting for 67 percent of use of funds due to improved liquidity in the last quarter of 2021 compared to private sector lending at 21 percent according to Central Bank's credit officer survey September 30th 2021

Viffa conducted its 5th edition survey on SME financing to establish sources of financing by SMEs, challenges experienced in accessing finance and financing needs of SMEs.

Study Methodology

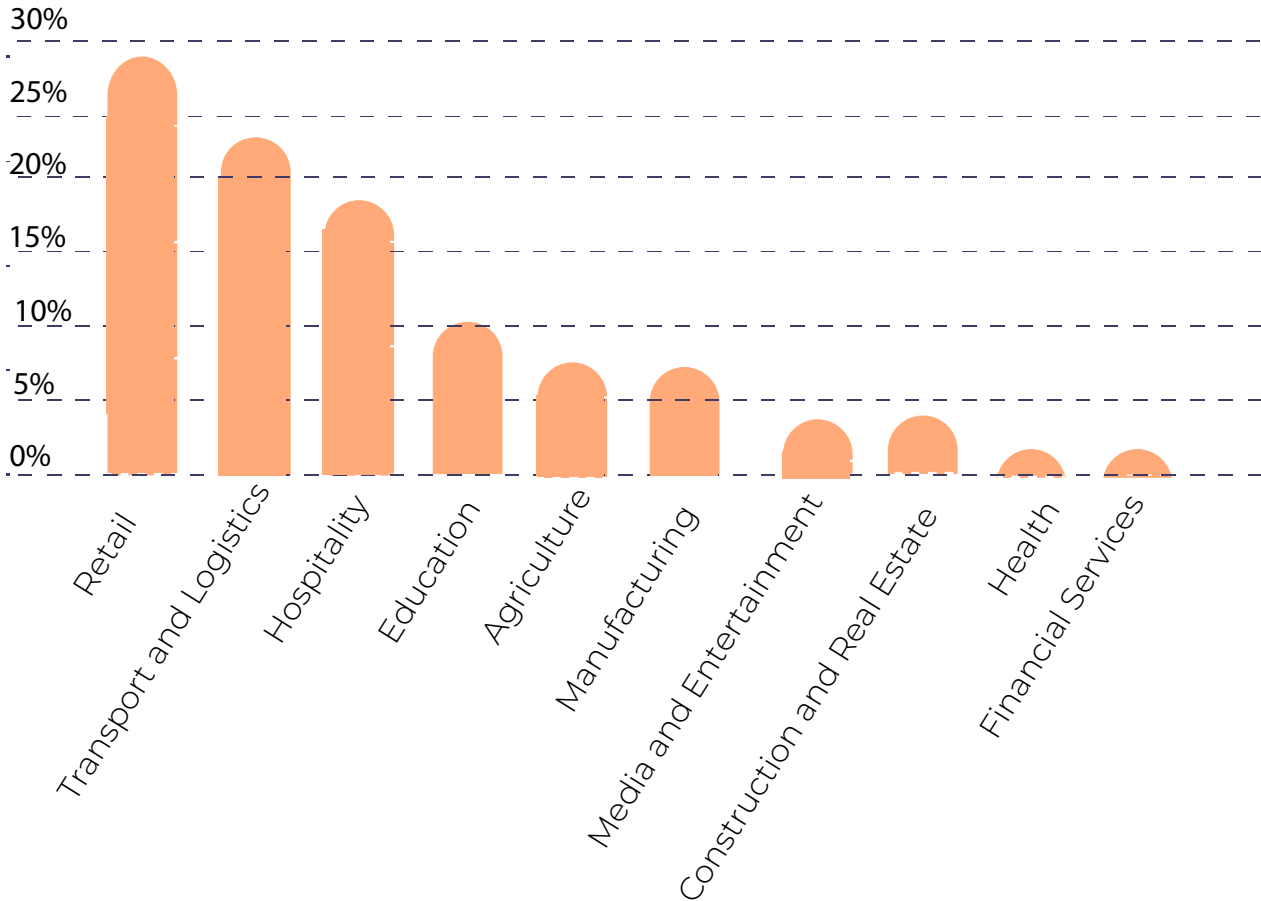
Study tool	Online & Telephone survey
Sample Size	128
Sample Design	Purposive {Counties; Nairobi, Kisumu, Machakos, Kiambu, Eldoret, Mombasa, Nakuru} Random {Within counties}

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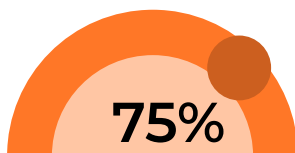
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Results

Sector Distribution

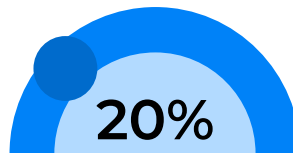


Business size distribution



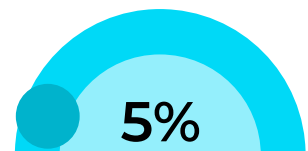
MICRO

(Annual Turnover (0-500,000))



SMALL

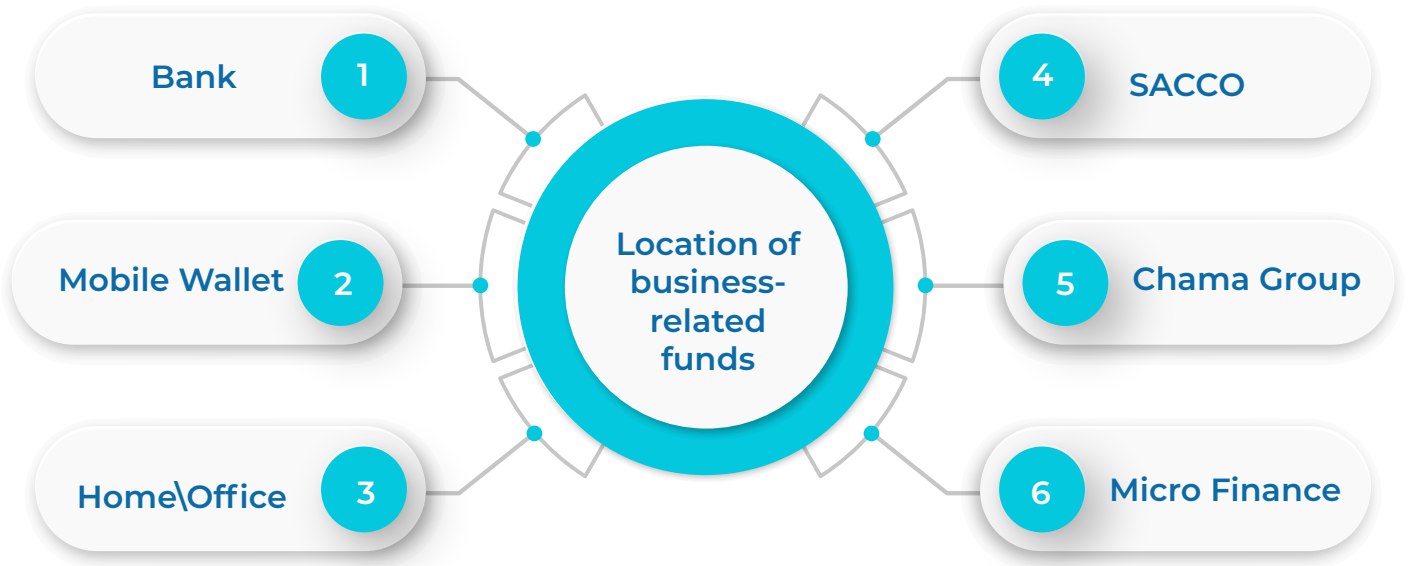
(Annual Turnover 500,001-5M)



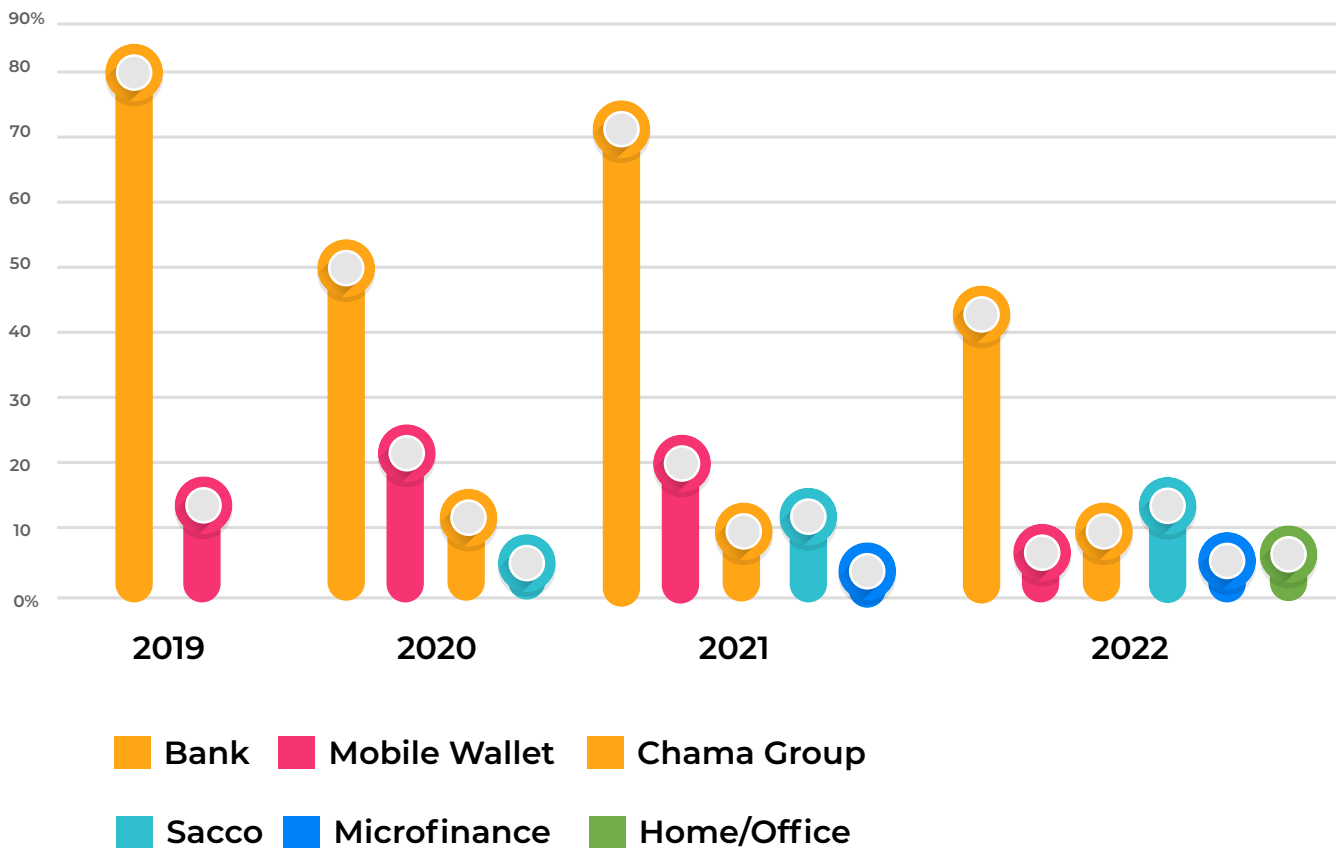
MEDIUM

(Annual Over 5M)

Location of business-related funds



Business Fund Location Trend {2019-2022}



Insight

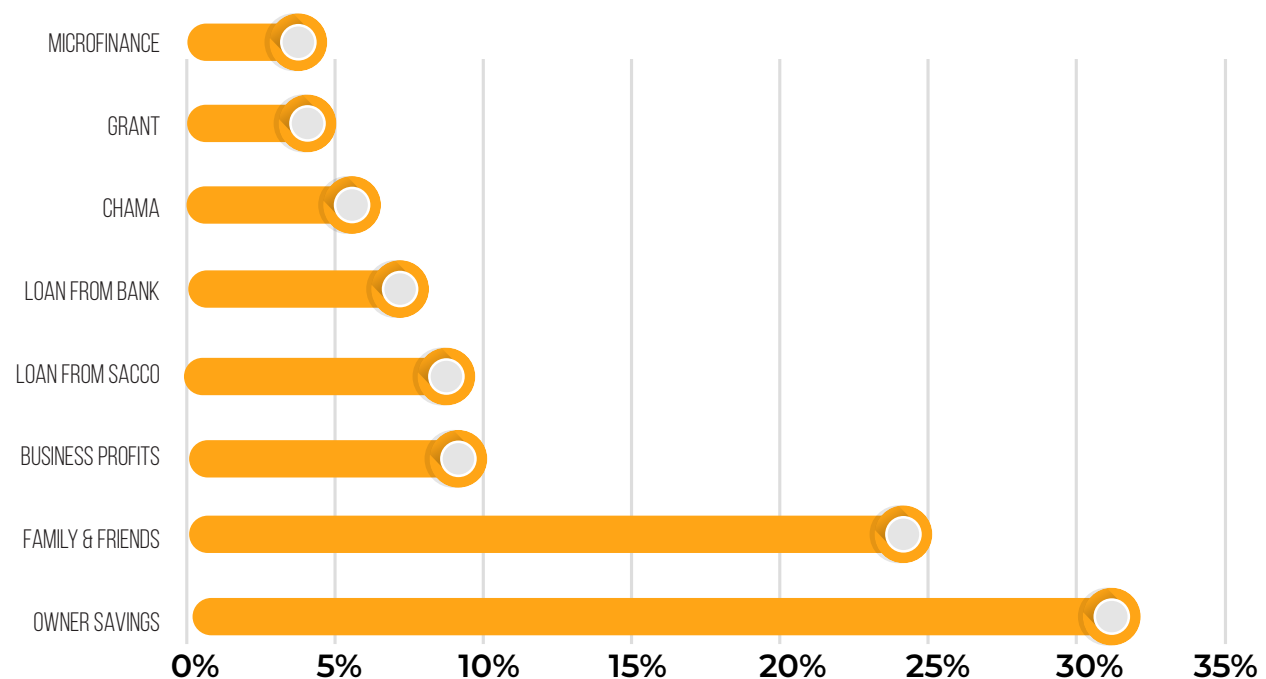
Mobile wallet has become a major business funds repository due to its continued role in promoting financial inclusion with ease of access to loans without collateral requirements as well as convenience as major value proposition. The dip in 2022 may be due to teething challenges the mobile credit players faced in 2020-2021 in form of lack of access to customer credit reference as well as emergence of holding of cash in either house or office premises

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.

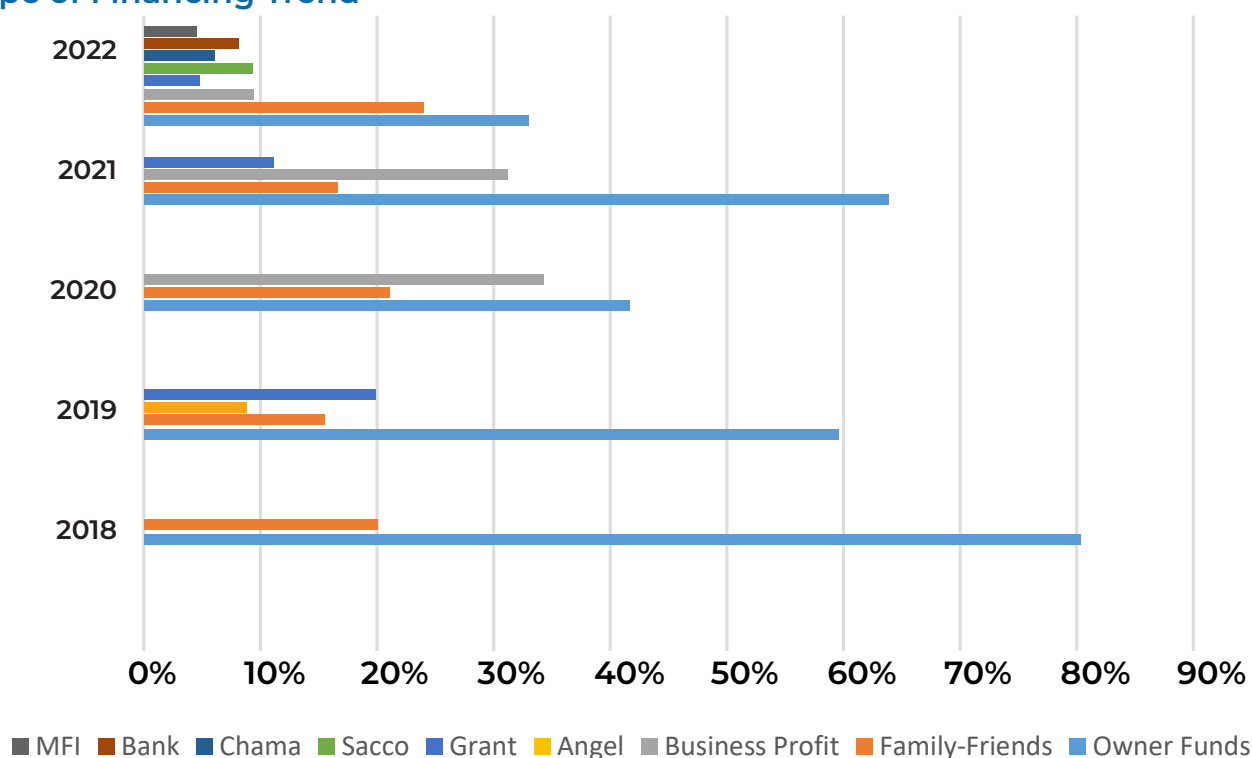
Banks continue to retain top spot for preferred location for business related funds due to their ability to offer big ticket size credit coupled with increasing reforms taking place in the sectors such as:

- 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 last 12 months



Type of Financing Trend

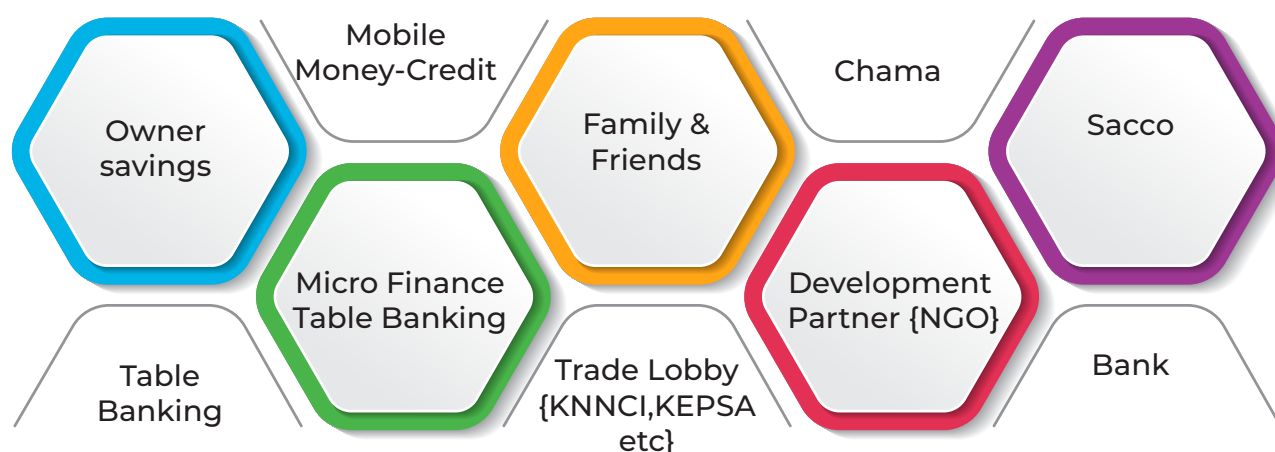


Insight

Savings, Business profits and family and friends are the top three SME financing in 2021 with grants and micro finance being the least accessed form of financing. Despite banks being top location for business related finance, there is still a gap in terms of ease of access of credit.

Business financing trend in last 12 months was more balanced as SMEs in reaction to the effects of COVID 19 sought to access credit from various alternative sources with new sources being family and friends, SACCCOs, Chama and grants featuring more prominently as compared to the last 2 years.

Most helpful type of financing considering Negative effect of COVID-19



Insight

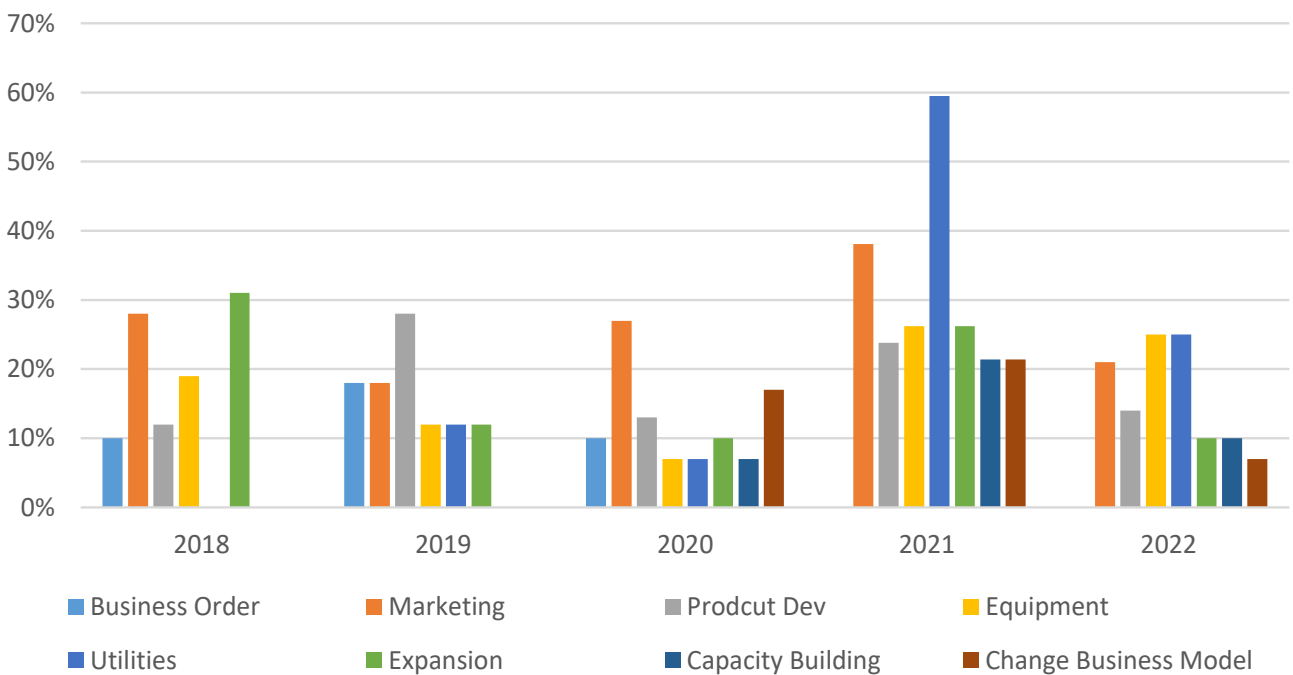
SMEs relied on savings, mobile money and family and friends to finance activities in the period 2021 under the dark cloud of COVID 19.

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 2022 to survive and succeed



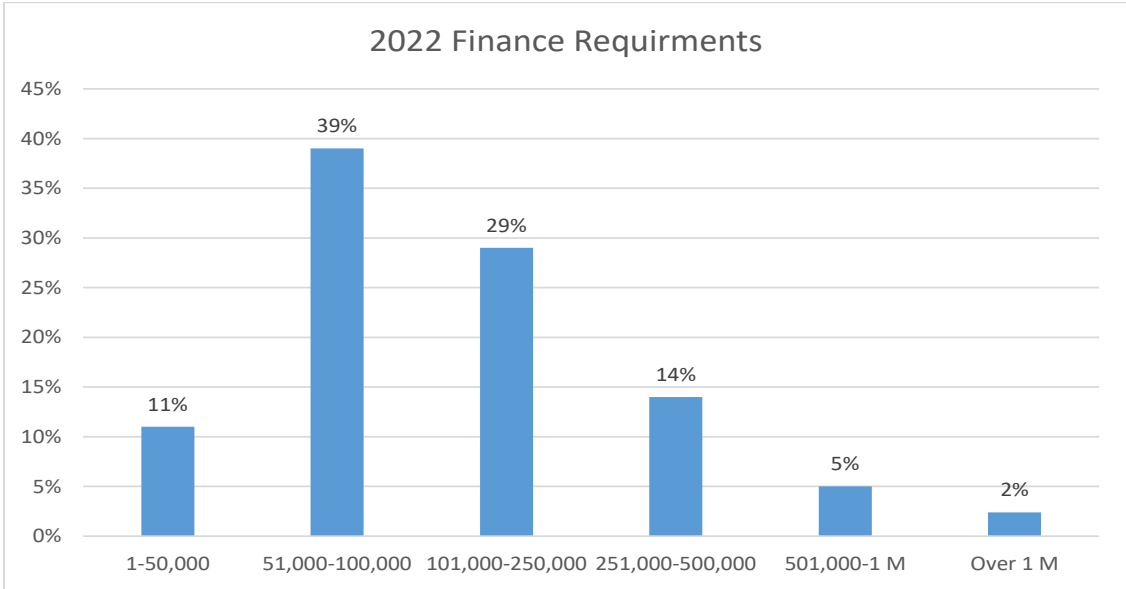
Unlocking Value Expenditure Trend



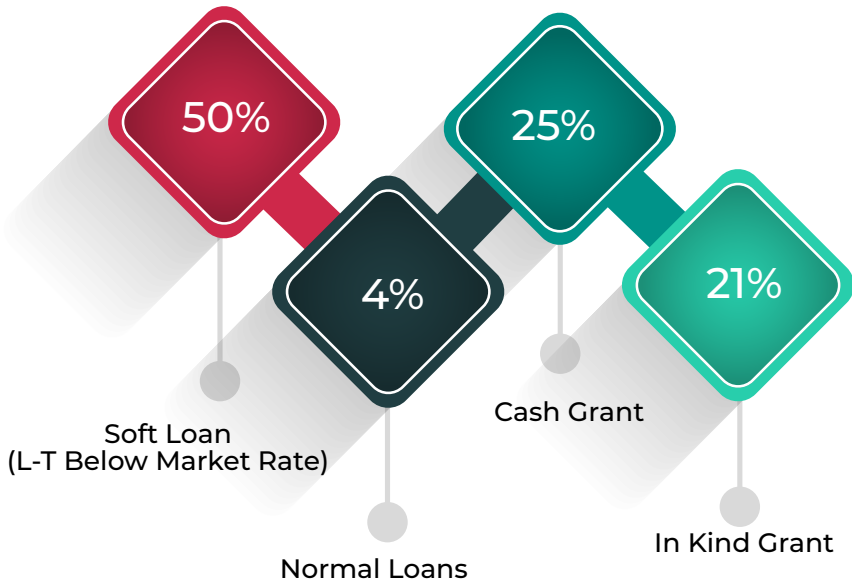
Insight

Paying monthly bills followed by purchase of equipment are top priority as a measure to recover from covid 19 in 2022 followed closely by new product development and marketing. This compared with 2021 where monthly utilities was an overwhelming majority as SMEs struggled for revenue due to slowdown related to negative effects of covid 19

Financing required to meet the above expenses



Form of finance needed to finance operations in 2022



Insight

Cognizant of COVID 19 and the dire need for business recovery; SMEs need soft loans that are priced below market rate, grants in form of cash injection to business to cater for equipment purchase, utilities and new product development, in kind grant and finally normal loans.



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