



Viffa Consult

SME Index 2021

Navigating through turbulence



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ACRONYMS

AFDB	Africa Development Bank
PPP	Public Private partnership
SME	Small Medium Enterprise

ACKNOWLEDGMENT

Deepest gratitude to Viffa team that worked tirelessly to bring the report to fruition. A big thank you to all entrepreneurs who participated in the survey as well as key experts who shared their expertise.

STUDY METHODOLOGY

The survey was conducted between 4th November and 18th November 2021 and covered Nairobi, Kajiado, Kiambu, Machakos, Kisumu, Mombasa and Nakuru.

The study sample was 200 respondents with utilization of 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



INTRODUCTION

The year 2020 was projected to be turnkey on the back of several initiatives that were espoused to change the fortunes of SME 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, covid 19 pandemic caused unprecedented havoc to the Kenyan economy with SME bearing the full brunt. Government put in measures under covid 19 stimulus program 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.

Coming to 2021, the government of Kenya through budget policy statement established a post covid 19 recovery strategy to help in economic recovery driven by private sector and more specifically SMEs. Proposed interventions towards SMEs under the strategy were MSME credit guarantee scheme, capacity building, MSME ICT platforms to improve productivity and competitiveness.

Further other non state actors such as Kenya Private Sector Alliance (KEPSA), Kenya National Chamber of commerce (KNCCI), Mastercard, Google, Financial Institutions have put out interventions to support SMEs in building resilience and recovery with varying degree of success.

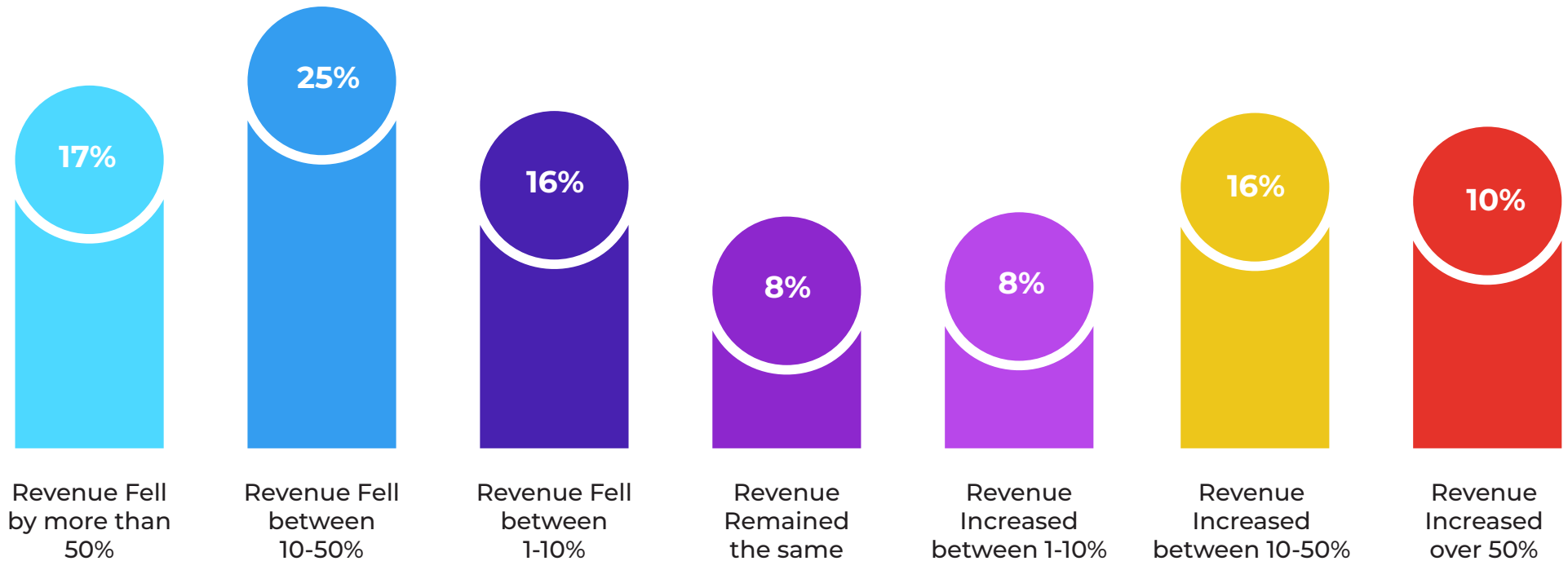
Viffa Consult conducted its 5th annual SME index to establish the performance of SMEs in Kenya based on critical success factors of access to finance markets, policies, support services and effectiveness of SME interventions by Government of Kenya among others.

Specific study objectives are



RESULTS

Revenue performance 2021 compared to 2020



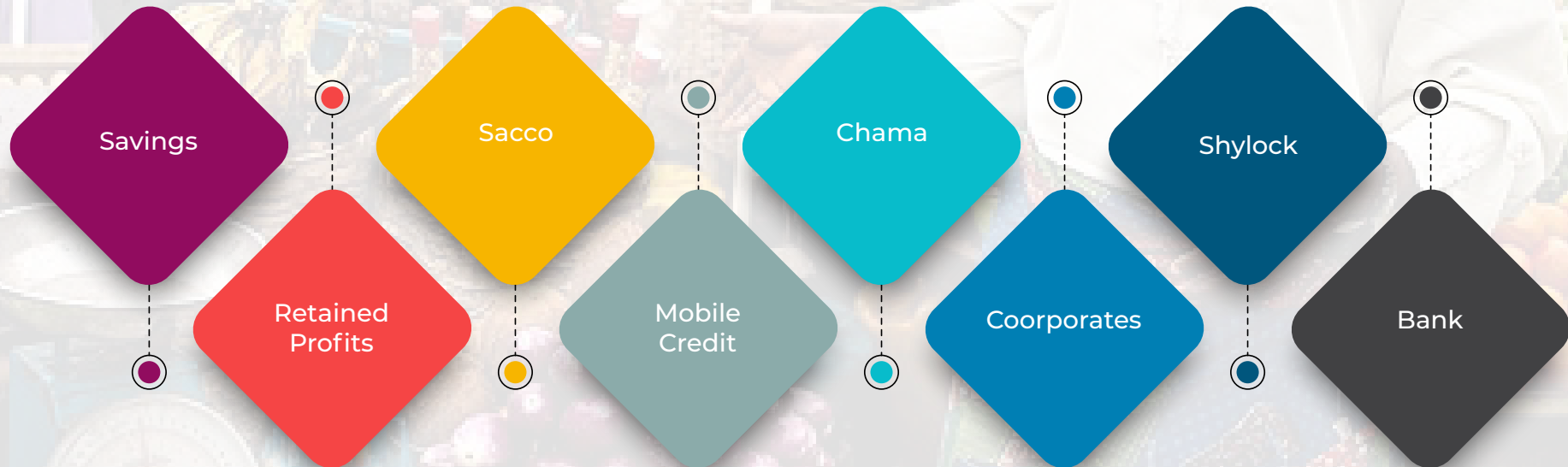
Insight

58 percent of SME respondents indicated a negative revenue performance of below 1 percent to over 50 percent decline in revenue performance 2021 compared to 2020

8 percent indicated revenue remained the same while 34 percent reported positive revenue growth

Despite majority registering negative revenue performance in 2021 compared to 2020 most SME respondents expressed measured optimism of improved revenue performance due to ease of restriction of movement hence reopening of the economy while wary of the economic slowdown instigated by the general elections, drought and increased inflation leading to decrease in consumer disposable income

Primary Source of Financing in 2021

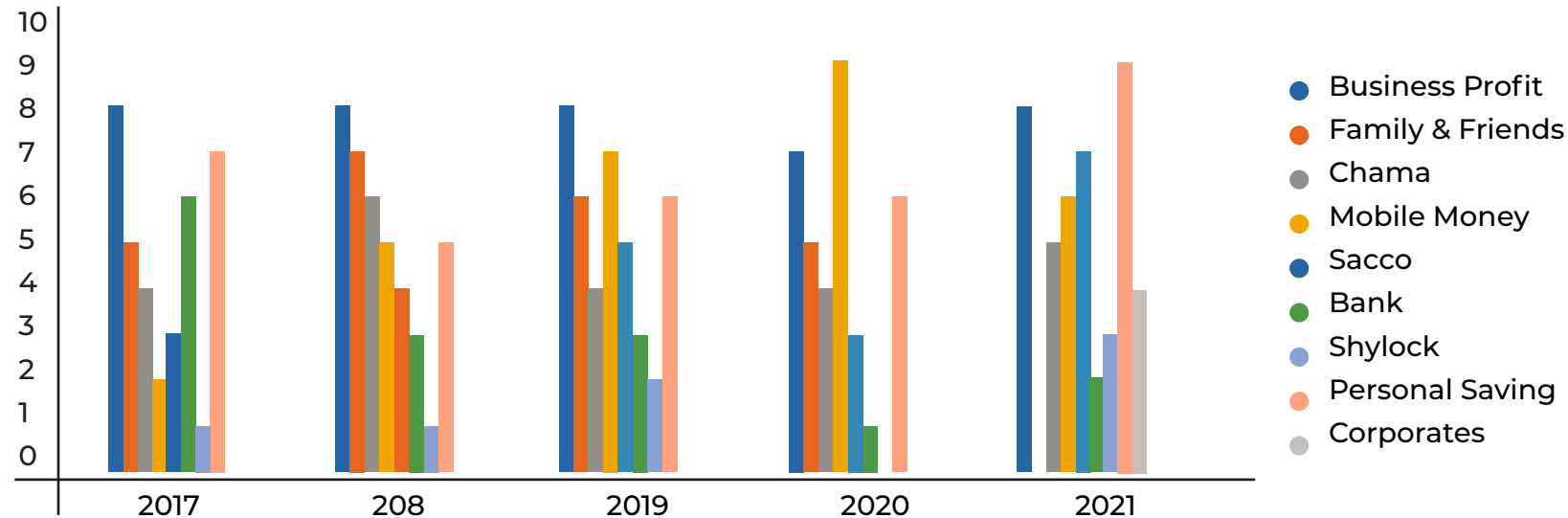


Insight

Despite continued effort by national government to increase access to credit to SMEs through covid 19 stimulus program, STAWI, Credit Guarantee Scheme and movable property securities act among other interventions, uptake by SMEs is still low which is pointing to either product market fit mismatch or sub optimal outreach strategy

Financing from corporates is taking place where SMEs are part of a corporate's supply chain meaning the corporate has visibility on SMEs transactional data hence can evaluate risk and either act as guarantor to third party financial institutions or can offer credit through extended credit periods for products supplied

Financing trend



Insight

Personal savings has taken centre stage in 2021 as main source of financing for SMEs as compared to the last 4 years. Although financing through mobile money has been on the rise the last 4 years there has been a dip in terms of total SME financing with alternative source such as SACCOs and Chama performing well possibly due to lower interests

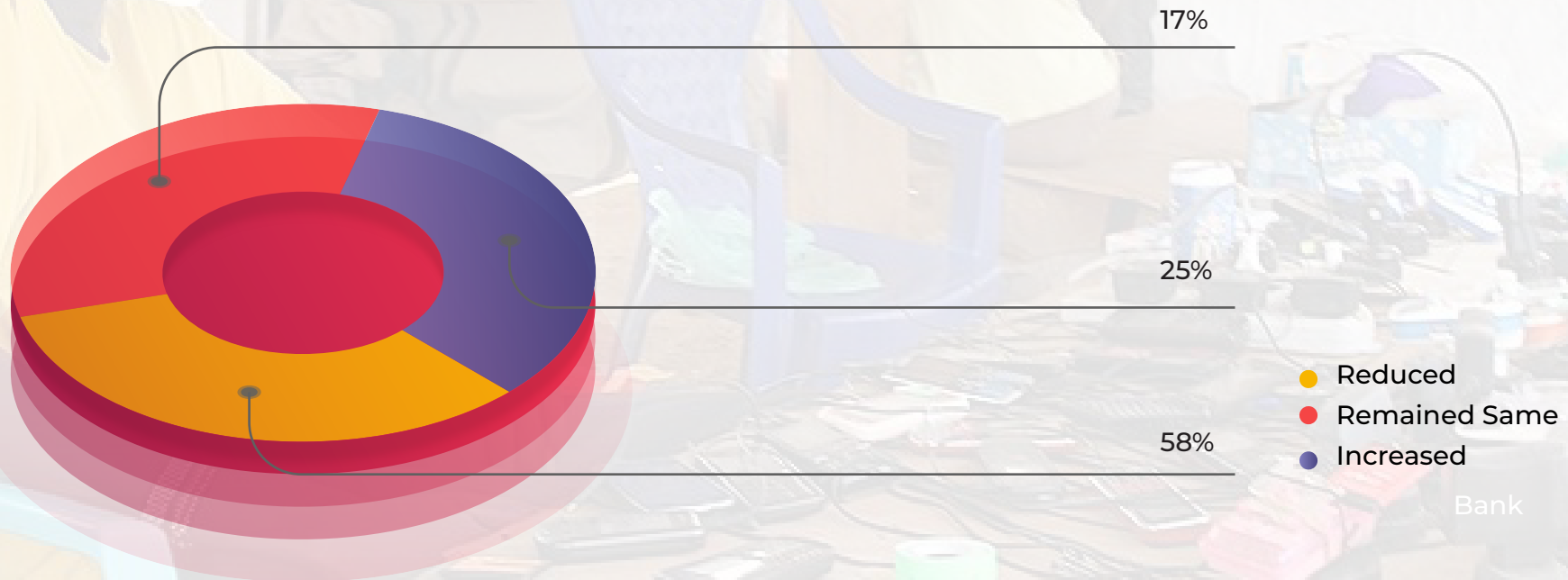
Primary use of financing



Insight

Primary use of financing is indicating the sector preference for SMEs being wholesale-retail but also indicates the lack of long-term financing they need unlock long term value through investment in machine, capacity building etc

Employee numbers 2021 compared to 2020

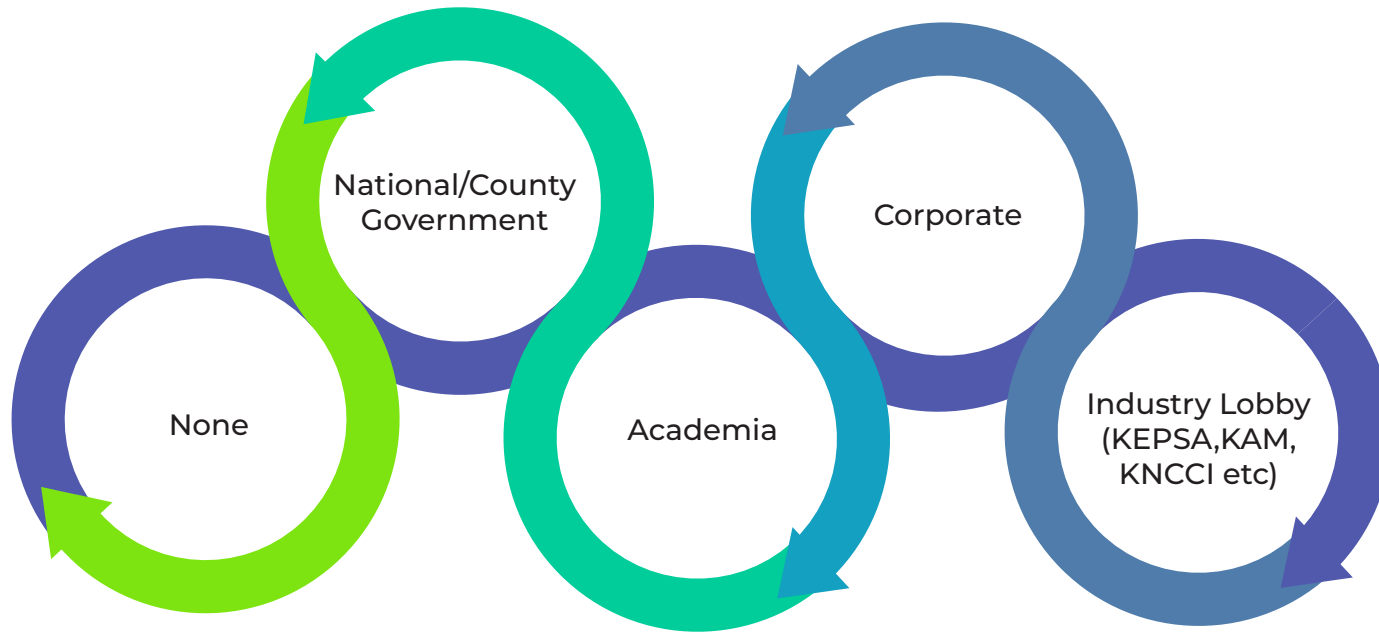


Bank

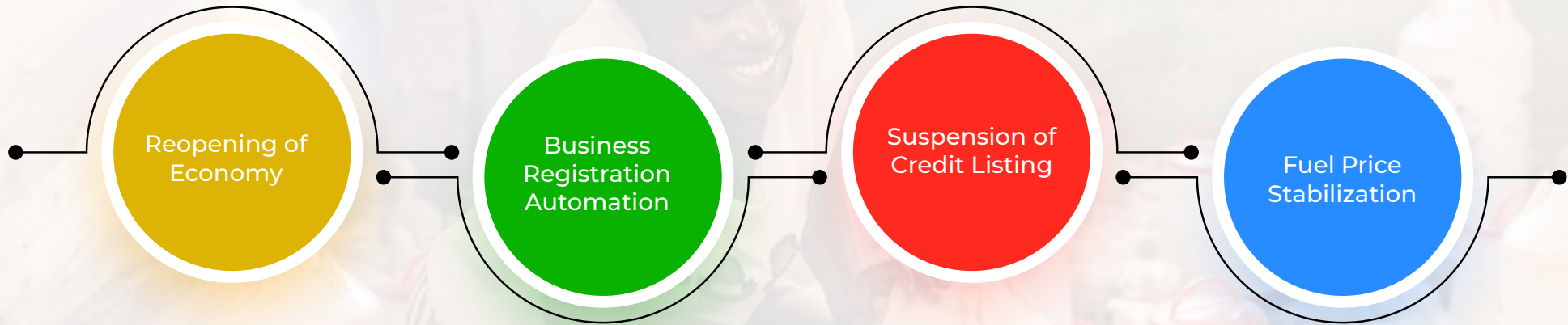
Insight

Majority (58 percent) of SME respondents indicated a reduction in employees to cope with falling revenue
Sectors that experienced either an increase or stable employee numbers were construction, retail-(wines and spirits) and logistics

Stakeholder Training Received in 2021



Government intervention that has had the most positive impact on SMEs



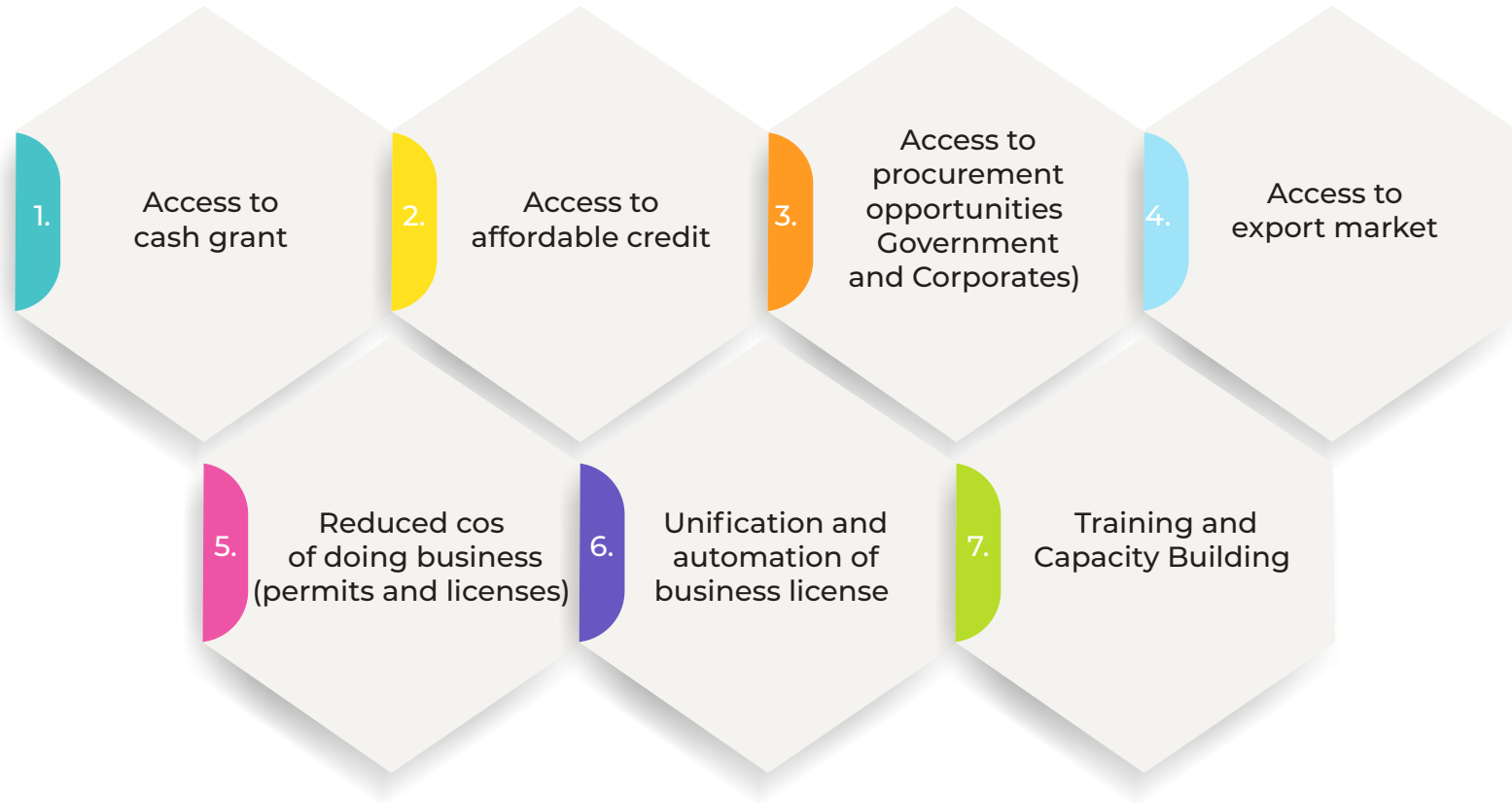
Insight

Government interventions that have had most impact are those that have a direct link to SMEs bottom line either through opportunities to earn revenue or through lower input cost.

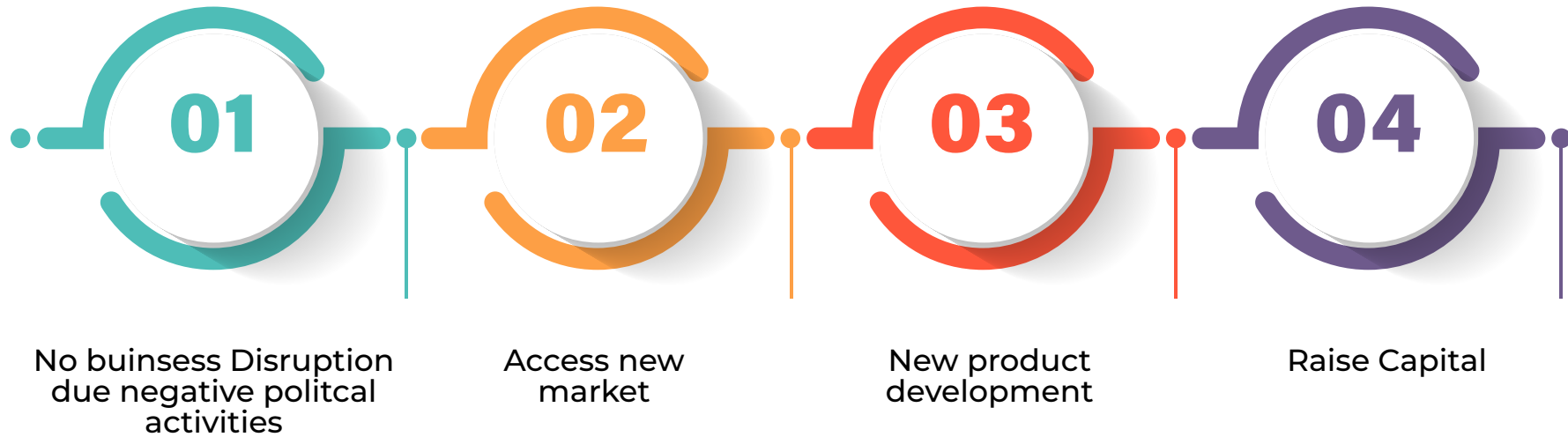
This gives a rare glimpse of the key indicators important to SMEs who are largely informal and the need to structure support that resonates with their reality even as government seeks to transition them towards formal economy.

Government needs to double down on consistent civic education/ communication on key interventions that SMEs can benefit to encourage uptake.

Interventions that will help your business build back better in 2022



Business Aspiration for 2022



2022 Economic Outlook

According to Africa development bank, Kenya's economy is expected to grow 5.9 percent in 2022 assuming the following; full reopening of the economy, successful implementation of post covid 19 economic recovery strategy, favourable weather, prudent debt management and stable economic environment cognizant of 2022 general elections

Credit extension to SMEs will remain at 20 percent of financial sector total loan book unless government action by; borrowing less from local market, aggressive communication of credit guarantee scheme as well as pivot to encourage uptake by SMEs as well as Banks

Government strategy that has a bearing on SME recovery in 2022 are as follows

1. Strengthen Healthcare systems
2. Enhance resource mobilization to ensure sustainable funding of development programmes from diverse sources including PPPs and lease financing.
3. Support the role of the privates sector to enhance its role in economic development by enhancing credit access by MSMEs through the Credit Guarantee Scheme
4. Facilitate the recovery and growth of key economic sectors such as tourism, manufacturing and transport which have been hard hit by the pandemic.
5. Upscale investment in ICT and digital infrastructure to facilitate e commerce and efficient delivery of public services
6. Promote local production processes and domestic supply value chains to increase resilience of the economy to global supply chains shocks
7. Strengthen social protection through targeted policy interventions and programme
8. Implement various policy, legal and institutional reforms and strengthen monitoring and evaluation systems to enhance efficiency of public service delivery.

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