Impact of the COVID-19 pandemic on micro, small, and medium enterprises (MSMEs)

Kenya report (Round 2)

October, 2020

SCBF

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MSC
MicroSave Consulting

MSMEs during COVID-19

Round 2 report

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Kenya report

This report provides a detailed country-level view of the impact of COVID-19 on micro, small, and medium enterprises (MSMEs)*, their coping strategies, and recommendations for policymakers and financial service providers to support them.

*Our study primarily focuses on the micro and small enterprises in Kenya. The research findings may not be entirely valid for medium enterprises.

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About this report

- Kenya's first COVID-19 case was detected on 12th March, 2020. The effect of the COVID-19 pandemic on the micro, small, and medium enterprises (MSME) sector in Kenya has been profound. With limited net worth and savings to fall back upon coupled with a squeeze on access to finance, enterprises have faced severe disruptions in demand and payment cycles. This has led to challenges around business continuity and survival. The sector needed appropriate responses at all levels to support its recovery in the aftermath of the crisis. This need formed the basis of MSC's research, which worked to assess the nature and extent of the effect of the pandemic on enterprises.
- The objective of the research was to assess the economic impact of the COVID-19 pandemic on enterprises in Kenya to develop a better understanding of the extent of impact and identify areas that require short-, medium-, and long-term support. The specific objectives of the research are highlighted below.
  - Understand, assess, and to the extent possible, quantify the impact of COVID-19 pandemic on the entrepreneurs, their family, and their business; assess gender implications for the businesses as well as the household
  - Assess the impact of COVID-19 on the enterprises on revenues and costs (including for inputs), supply chains, business activities and product ranges, and liquidity management
  - Inform policy and regulatory changes to support subsequent efforts to help rebuild the enterprise segment
  - Assess the effectiveness of different business support communication channels (if any) and how these may be utilized effectively to reach out to the enterprises
  - Understand the role of entrepreneurs' networks and trust and the impact of the pandemic on them
  - Gather ideas for additional support services and recovery efforts after the crisis is over
- This report presents the findings, analysis, insights, and recommendations on the impact of the COVID-19 outbreak in Kenya on the MSMEs, and assesses if there have been any changes since the last survey that was conducted in July 2020.
- In round 2, we conducted a quantitative survey with 60 MSMEs and qualitative interviews with 20 MSMEs across Kenya to assess their perspective and response on the COVID-19 situation. We have synthesized the findings to provide recommendations and opportunity areas for policymakers and financial service providers to strengthen their efforts further. Please see Annex 3 for the sample characteristics.

Study sponsor

SCBF and MSC co-funded this joint research proposed by MSC to understand the impact of the COVID-19 pandemic on the needs, attitudes, perceptions, and behavior of micro and small enterprises in Kenya.

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At the time of data collection in September, 2020, the Government of Kenya had lifted the inter-county ban on movement, although night-time curfew remained from 9pm to 4am.

*The curfew has been extended till January 3,2021 with two hours of relaxation in starting time (11pm to 4 am) with effect from 28th September,2020

Recommendations

MSMEs continue to struggle with declining business revenues and increasing expenses; unless supported, many will not survive the crisis

Measures to support the income of MSMEs

Key insights

- MSMEs have struggled with a decline in business revenues despite the gradual reopening of the economy and lifting of some of the restrictions on movement.
- Some MSMEs have utilized digital channels and technology to sell their products and promote their businesses during the pandemic. However, a lack of awareness of the benefits limits the willingness and ability of MSMEs to engage with digital channels and technologies.

Recommendations

01 The government can mobilize funding from multilateral agencies to provide a one-time emergency relief cash support to microenterprises. The government should utilize digital payment channels to disburse relief funds to MSMEs to enable better targeting and reduce leakages.

02 The Government of Kenya has made announcements to promote local production and local procurement by all government agencies. However, it is time to review and suitably modify procurement guidelines to encourage and support local MSMEs, especially women-owned micro-businesses.

03 The government can establish a multi-agency platform and collaborate with the private sector to support MSMEs. This support can enable access to digital technologies and use of e-commerce and social commerce, digital payments, and alternate modes of financing—including those from the private sector.

Measures to reduce the burden of expenses

Key insights

- MSMEs with existing loans continue to struggle to meet recurrent expenses of the business including loan repayments due to a significant drop in revenues.
- MSMEs report a slight improvement in household income. However, they have experienced an overall negative impact because of an increase in their expenses.
- Most MSMEs have exhausted whatever little financial reserves they had to meet expenses during emergencies. They have become more vulnerable to risks due to the shocks caused by the pandemic. Only a few MSMEs have the resilience to recover, post the pandemic.

Recommendations

01 The government should formulate forward-looking policies to revive sectors that were affected most by the restrictions as the economy reopens. Such policies may have a combination of incentives and tax-reliefs. This will reduce the overall operating cost and provide much-needed revenue and liquidity. For example, the Kenya Ports Authority extended the free storage period for import and export containers, which allowed traders to free up cash for use elsewhere.

02 Donor agencies may support the financial industry by promoting concessionary financing modalities, such as guarantee funds for specific MSME sectors that have been affected by the pandemic. This will enable financial institutions to provide loans to facilitate the business continuity of MSMEs and provide moratoriums on loans.

Stimulus packages for MSMEs are yet to benefit them; the formalization of micro and small enterprises is a potential opportunity for the government

Measures to boost access to finance

Key insights

- MSMEs would require access to credit to resume operations. They have limited access to credit due to several constraints. These include stringent terms and conditions, collateral requirements, high costs of credit, and the fact that some already have existing loans. MSMEs also realize the importance of savings and insurance to better prepare for future shocks.
- Public and private sector measures to support MSMEs include the government's credit guarantee scheme to assist struggling start-ups and the Mastercard Foundation's program to revive MSMEs. However, most of the enterprises surveyed are yet to benefit from such stimulus or support packages.

Recommendations

01 Donors have an opportunity to fund technical support to financial service providers to develop innovative products for MSMEs. This can include business interruption solutions, bundled savings, credit, and insurance products. To enhance access to credit for MSMEs, platforms like Stawi can be expanded. Such platforms encourage the formalization of MSMEs and provide entrepreneurs with a digital account for their business operations.

02 The Central Bank of Kenya (CBK) has encouraged financial service providers to restructure non-performing loans in case the borrowers want it. However, MSMEs lack awareness of these facilities. Awareness campaigns will encourage MSMEs to seek refinancing and restructuring options, so that in case of non-repayment, the suspension of listing the negative information* of borrowers would not affect the entrepreneurs' credit scores.

Note*: In April, 2020, the CBK suspended listing of negative information of borrowers on the Credit Reference Bureau by commercial banks. This was to cushion borrowers who were unable to repay their loans due to the effects of the pandemic, such as job loss or disruption in business. The CBK however, lifted the suspension in October, 2020 due to rising loan defaults that affected the financial sector.

Measures to benefit enterprises in the informal sector

Key insights

- 90% of the MSMEs surveyed operate as informal businesses. In general, these businesses operate out of the purview of taxation, they have only benefitted indirectly from the reduction of Value Added Tax (VAT). Most such informal enterprises indicated that they pay only county council fees. As most entrepreneurs do not pay the turnover tax, the reduction of the turnover tax has had a marginal effect on their profitability.
- MSMEs, especially those that operate in the informal sector, lack access to advisory platforms. Hence their awareness of risk mitigation measures in a pandemic situation remains limited, making them even more vulnerable.

Recommendations

01 The government should encourage the formalization of the MSME sector, especially micro and small enterprises. Formalization would enable easier targeting of MSMEs that have been affected by the pandemic and facilitate the design of adequate response packages for them.

02 The Micro and Small Enterprise Authority as the nodal agency can consider providing support for business continuity and recovery. The government could also allocate specific budgetary support to prioritize actions around business continuity and recovery of enterprises. This will be the perfect time to provide these services to encourage informal enterprises to register and formalize.

03 Donors can facilitate FSPs to offer advisory support for MSMEs. FSPs can partner with private organizations or business support providers to help enterprises develop mid- and long-term risk mitigation strategies. This in turn can help financial institutions earn customer loyalty and improve the quality of their loan portfolio by stemming rising defaults.

Impact of COVID-19 on MSMEs

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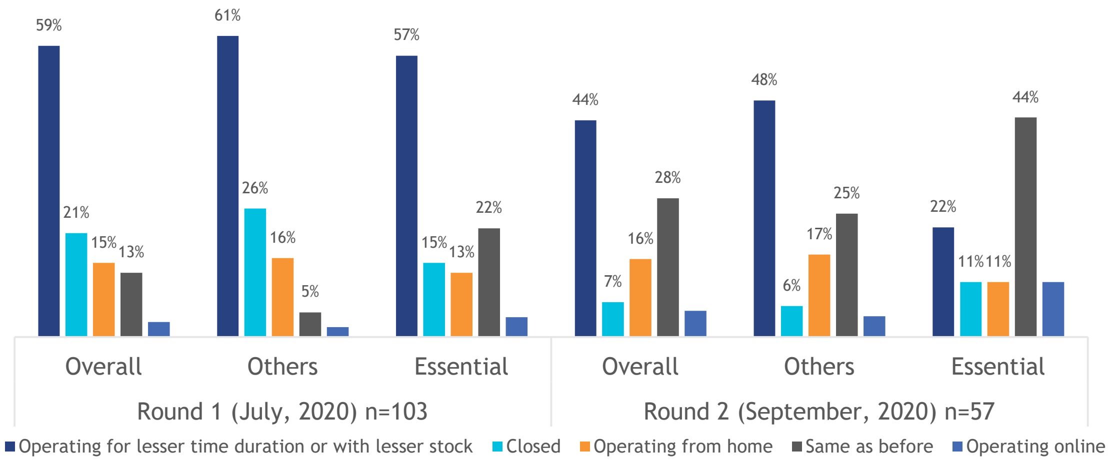
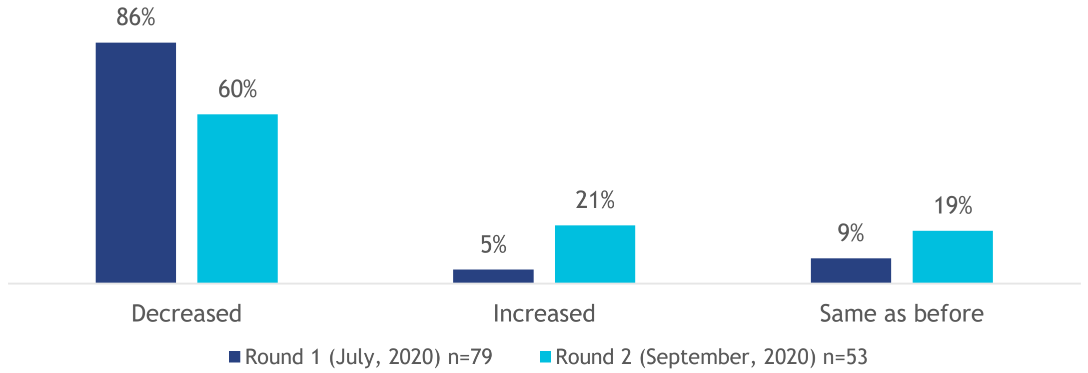
Despite relaxations in restrictions, businesses have been earning less than the pre-COVID situation as customers resort to conservative spending

Businesses are on the path of recovery. However, over 40% of businesses surveyed in September, 2020 still operate for fewer hours or with less stock.



Business has seen a gradual increase in the number of customers with 60% of enterprises surveyed in September, 2020 reporting a decline in customer footfall, compared to 86% of enterprises surveyed in July, 2020



As customers have constrained purchasing power significantly, they have turned to conservative buying

- The economic impact of COVID-19 has been massive. While many people lost their jobs, several businesses, such as restaurants, travel agencies, tourism operators, and educational institutions had to shut down.
- Although economic activities have resumed and restrictions relaxed, the adverse economic impact has reduced the purchasing power of customers significantly, which in turn has forced them to spend more cautiously.
- While customer footfall has increased gradually, the enterprises have experienced a median reduction of 51% in the volume of sales per customer.
- Even as businesses continue to recover gradually, they still operate for fewer hours and face a significant reduction in demand. Therefore, most enterprises have found it difficult to meet business expenses and operate profitably.

"I have a boutique. I sell new shoes and clothes. The business is very low and I can even go for four days without any sale. The main challenge is that people are losing their jobs. My business relies mostly on working-class customers, so their loss of jobs has affected my business heavily"

- A woman boutique-owner from sub-urban Nairobi

"I have a hardware shop that sells plumbing materials and fittings. My stock has been moving slowly because the purchasing power of my customers has reduced drastically. If people do not take up any new construction then there is no business.

- A hardware store owner

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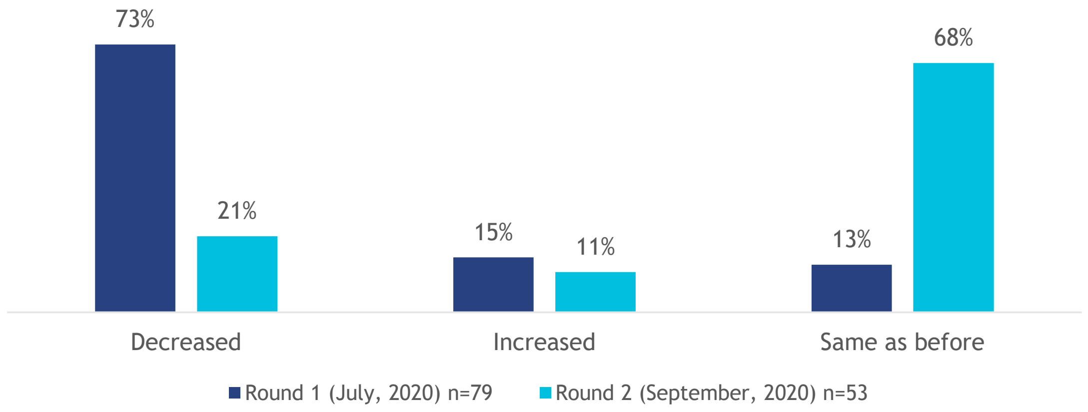
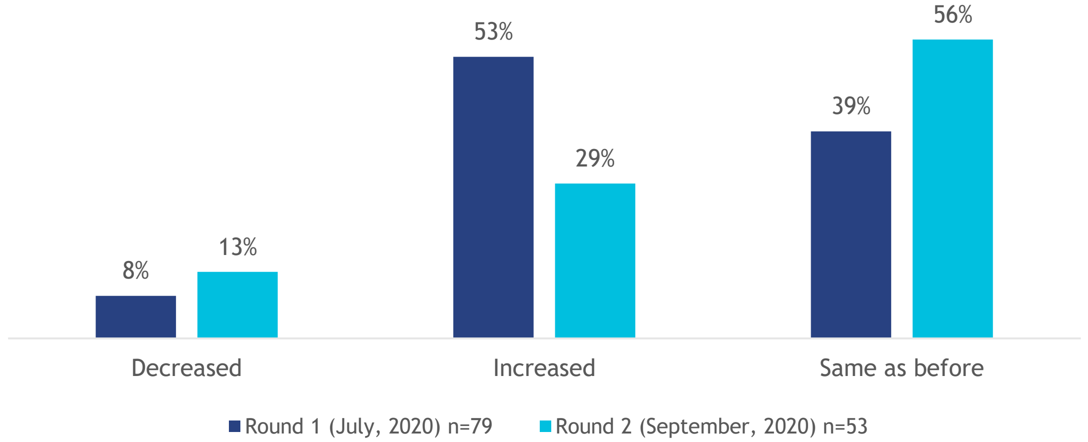
Supply chains have improved significantly and the cost of supplies is gradually stabilizing

68% of enterprises surveyed in September, 2020 reported the same level of supplies as before COVID-19 compared to 13% of enterprises surveyed in July, 2020



59% of enterprises surveyed in September, 2020 reported the same cost of supplies as before COVID-19 compared to the 39% of enterprises surveyed in July, 2020



Relaxation of restrictions have meant restored transportation routes and easier flow of goods across locations

- Easing the flow of goods by relaxing restrictions has resulted in a significant improvement in the supply chains. Moreover, the cost of supplies has been stabilizing as supply chains improve.
- Enterprises have resumed replenishing their stock. However, they were stocking less on account of suppressed demand at the time of writing. This situation is exacerbated by the decline in the availability of working capital for businesses.
- Most entrepreneurs have struggled with suppliers who have stopped delivering goods to their stores. Entrepreneurs have to go to pick up their supplies. In cases where the entrepreneurs stock a variety of products, they end up traveling to several suppliers to source goods.

"I had to close my business as the supplies were scarce and had become very expensive. Now that the supplies are normal, I have reduced the current stock as the demand has reduced. I now sell just the essential goods."

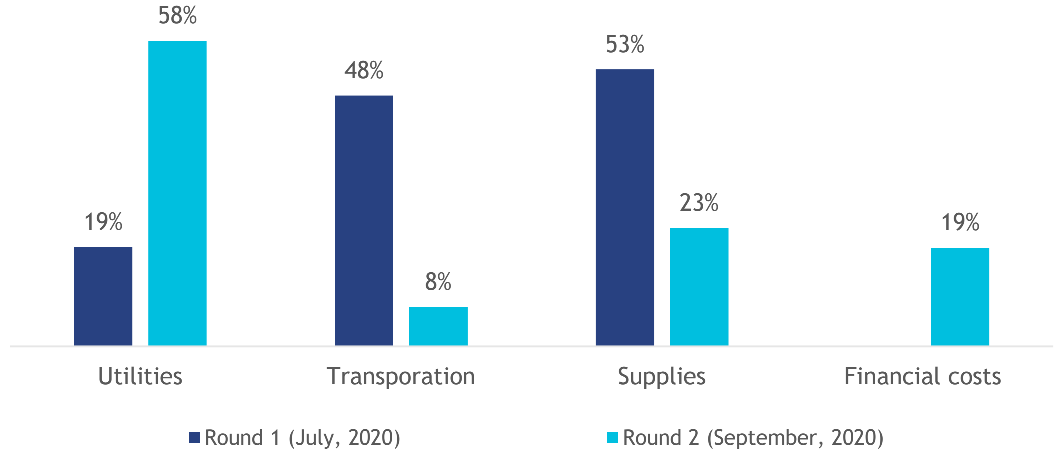
- A women entrepreneur who owns a general goods and vegetable shop in Nairobi

"I deal in rearing local varieties of poultry birds. The biggest problem is that I was mostly supplying to the restaurants that had shut down for some time. Now that they have opened again, they have been buying the supply but at a lower price. They have also been taking less supplies than before. There is no profit in the business anymore."

- A poultry farm owner

Enterprises have struggled with expenses, such as payment of utility bills, rentals, loan installments, and staff salaries

The most common (58%) challenge of entrepreneurs in September, 2020 was to pay for utilities whereas in July, 2020 the costs of transport (48%) and supplies (53%) were the most challenging problems



Ease of supplies results in lower expenses on procurement of goods, however, utility payments have become a bigger source of stress for entrepreneurs

- Most enterprise owners recorded a marginal improvement in business expenses in our survey conducted in September, 2020. As the government lifted the ban on inter-county movement and extended curfew hours, it eased the pressure on the movement of supplies. The cost of transportation also fell.
- The cost of utilities increased for several enterprises, which also reflects in the overall rise in the cost of living in the country since the onset of the pandemic. More than half of the enterprises reported increased cost of utilities. They feel the stress of arranging money to pay for utility bills, rentals, and staff salaries. Managing rent is also one of their major concerns. Many of the entrepreneurs surveyed mentioned that they are trying to re-negotiate rent with the property owner. Another area of concern is the loan repayment. About 20% of entrepreneurs surveyed mentioned that they found it difficult to repay loans as their incomes reduced and expenses increased.

"Coping with the impact of the pandemic has been very difficult. I have reduced the supplies I used to buy for my farm though the prices are still the same. I started farming produce for my family to reduce expenses on food from the market. I had to reduce the number of workers and started doing most of the jobs myself. I have reduced my farming activities due to the low demand for the produce. The demand has been low and people have been buying in smaller quantities than before. For me paying utility bills such as electricity and water, repayment of loans, and paying staff salaries is a heavy burden to manage."

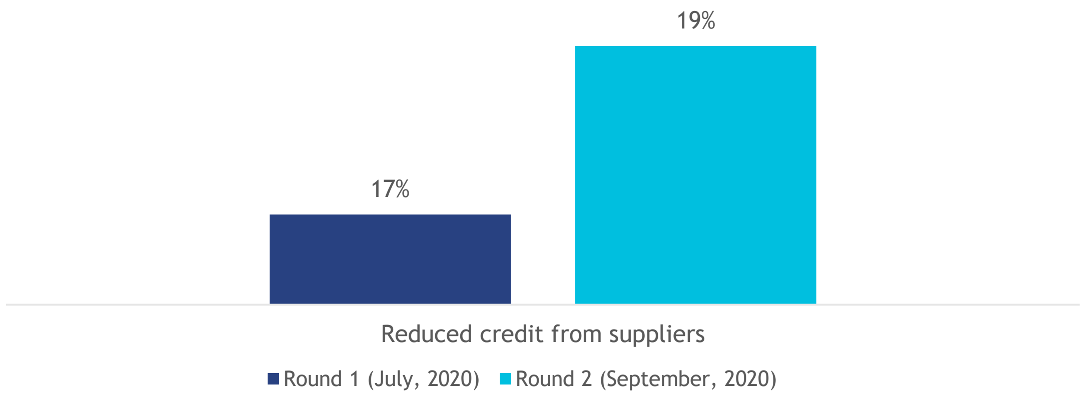
– A dairy farmer

"I started my business of selling second-hand clothes in 2012. Just before the pandemic, I also decided to venture into Uber business and financed it through an asset finance loan of KES 1.2 million (~USD 12,000) from a microfinance institution. After the pandemic, both businesses were adversely affected due to the inter-county lockdown restrictions and curfew. I was unable to sustain the business of second-hand clothes and decided to concentrate on the Uber business since I had to repay the existing loan. I have, however, been struggling to keep up with the loan repayments on time, I used to pay KES 46,200 (˜USD 462) per month toward the loan, but now I am unable to raise even half the loan installment. "

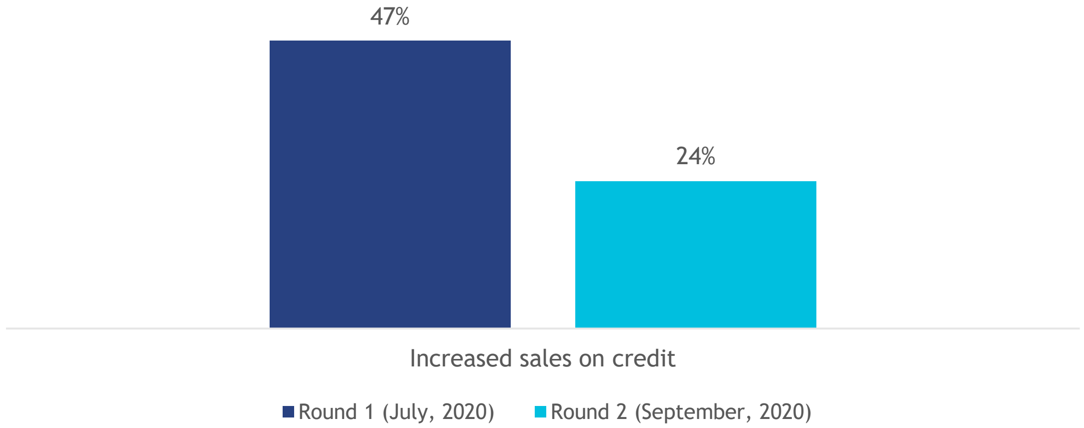
- A male entrepreneur from Nairobi who owns several businesses

Suppliers have further squeezed sale on credit; consequently, retailers have been forced to sell more on cash

19% of enterprises surveyed in September, 2020 reported reduced credit from suppliers compared to the 17% of enterprises surveyed in July, 2020



Only about a quarter of enterprises surveyed in September, 2020 reported an increase in sales on credit compared to 47% of enterprises surveyed in July, 2020

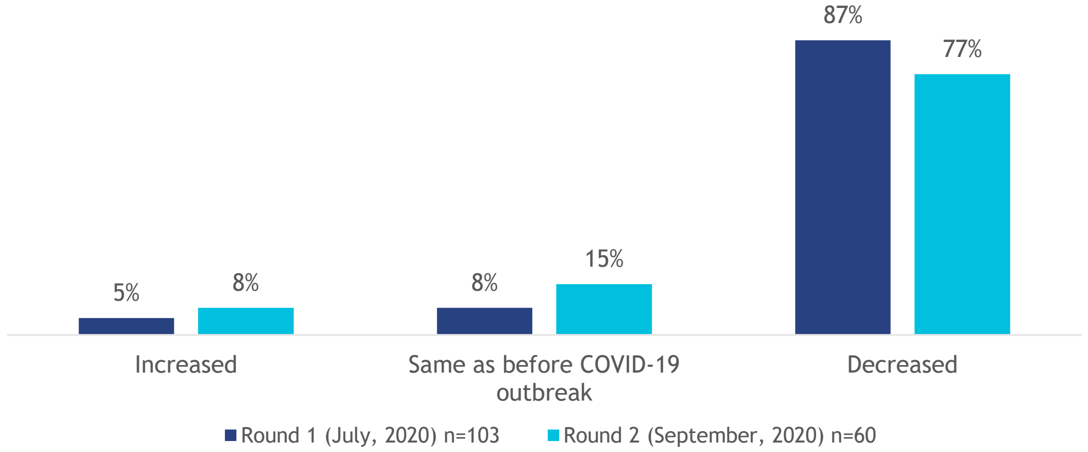


On account of the squeeze in liquidity and lack of working capital, MSMEs have been forced to reduce the quantum of sales on credit. Supplier credit has fallen considerably too, which has made it difficult for retailers to manage liquidity

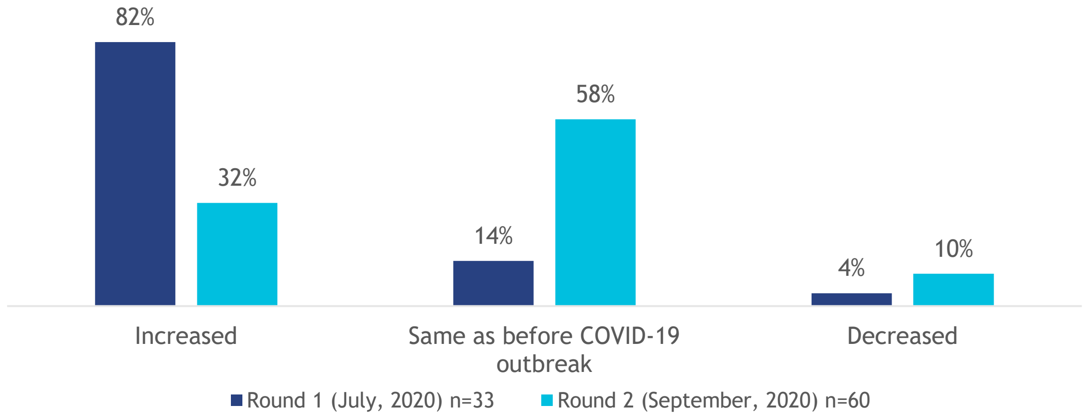
- Enterprises have borne the brunt of lower availability of credit from suppliers. The entire supply chain faces a liquidity crunch and there is a squeeze in working capital. Most of the suppliers now demand cash upfront from entrepreneurs or retailers.
- Enterprises have defaulted on due payments to suppliers, which in turn has had an impact on their credit arrangements.
- Increased expenses and reduced availability of credit poses significant challenges to enterprises to maintain business liquidity. There is a reduced confidence in the ability of financial institutions to lend, given the higher levels of vulnerability and lower resilience of enterprises. Thus, lenders perceive that enterprises pose a high risk and have reduced exposure.
- As a result of the overall liquidity crunch and the need to pay suppliers in cash, most retailers now largely sell in cash. Selling on credit had further dented the liquidity of the enterprises. Hence, they extend credit sales only to their most important customers. This measure has also reduced sales.
- Due to community relationships, more rural enterprises (over 50%) have been forced to sell on credit as compared to their urban and semi-urban counterparts.

MSMEs continue to struggle with a decline in business revenues as well as household income and increase in expenses

77% of enterprises surveyed in September, 2020 reported a decline in household income compared to 87% of enterprises surveyed in July, 2020



32% of enterprises surveyed in September, 2020 reported an increase in household expenses compared to 82% of enterprises surveyed in July, 2020



MSMEs report a minimal improvement in household income however the effect is reduced by an increase in expenses

- Enterprises surveyed in September, 2020 reported an average decline of 34% in household income as against the average decline of 47% reported by enterprises surveyed in July, 2020.
- The slight improvement in September, 2020 can be attributed to the relaxation of restriction measures by the government to ensure business continuity. For example, the relaxation of curfew hours enabled enterprises to operate for longer.
- Female-led enterprises reported an average decline of 35% in household income while male-led enterprises reported an average decline of 32%.
- Household expenses saw a marginal drop as enterprises sought to maintain them at the same level or reduce expenses.

"The intercounty lockdown, curfew, and restrictions on restaurants really affected my business. Restaurants were allowed to offer takeaway meals but this was not feasible for me as my restaurant is on the highway and most of my customers are men who prefer to dine-in than opt for a takeaway. During that time, I took a risk and operated for a few hours every day."

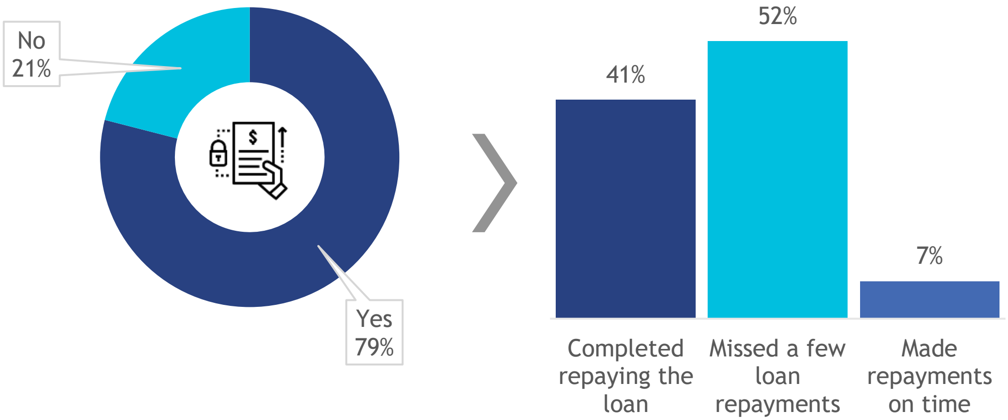
- An restaurant owner from rural Embu

"I own four vehicles and used to get four bookings a week for each vehicle. After COVID-19, I could hardly get even a single booking per week as there were no weddings or funerals for which people hire vehicles. With the relaxations, now it is slightly better and I have been receiving around two bookings per week but still have a long way to go."

- An entrepreneur who runs a car rentals business in Kisumu

Defaults on loan repayments further add to the woes of MSMEs

79% of enterprises had a credit facility before COVID-19, however, 52% of enterprises that had loans missed a few loan repayments



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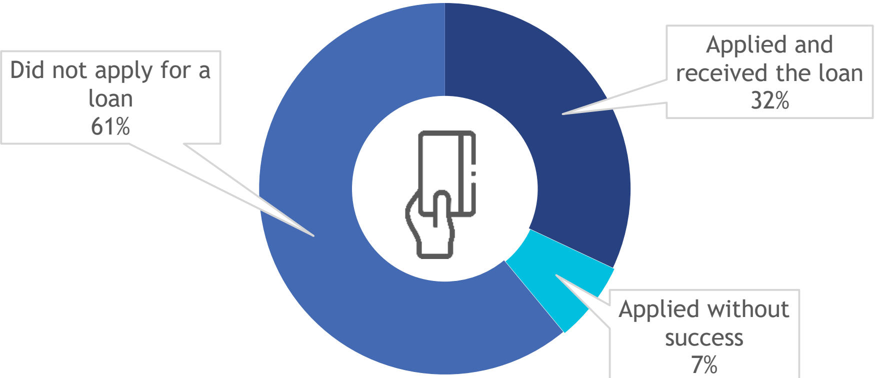
7% of enterprises reported applying for a loan during the COVID-19 period but did not succeed in securing loans



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The burden of loan repayment and reduced avenues for loans have added to liquidity challenges

- MSMEs have been facing challenges in repaying loans. They have found it difficult to balance between operating expenses, current capital requirements for the business, and servicing existing loans.
- Furthermore, of those who applied for credit, 66% reported that they received a loan as per their request, while 17% reported receiving loans with added terms and conditions. These conditions include the requirement for collateral and risk premiums that makes the loan expensive for entrepreneurs.

"I had taken a loan of KES 1 million (˜USD 10,000) for construction. I was paying an installment of KES 45,000 (˜USD 450) per month and had a year to complete the repayment. I defaulted on two payments as my income is affected. The moratorium of three months helped and my loan has been restructured. Instead of one year, now I will have three years to complete the remaining payments. Yet despite the restructuring, I have found it difficult to keep up with repayment with my reduced income. Banks are not willing to extend credit, especially when you have an ongoing loan repayment".

- A residential complex owner

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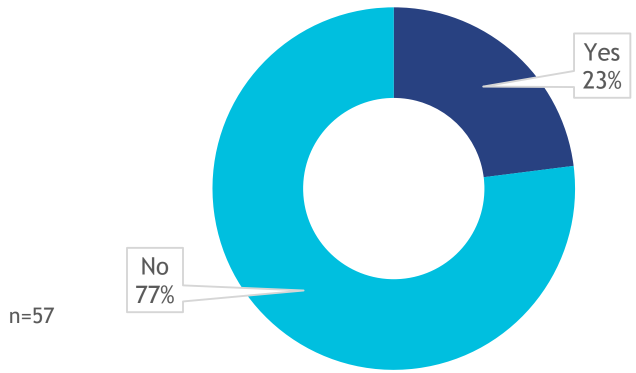
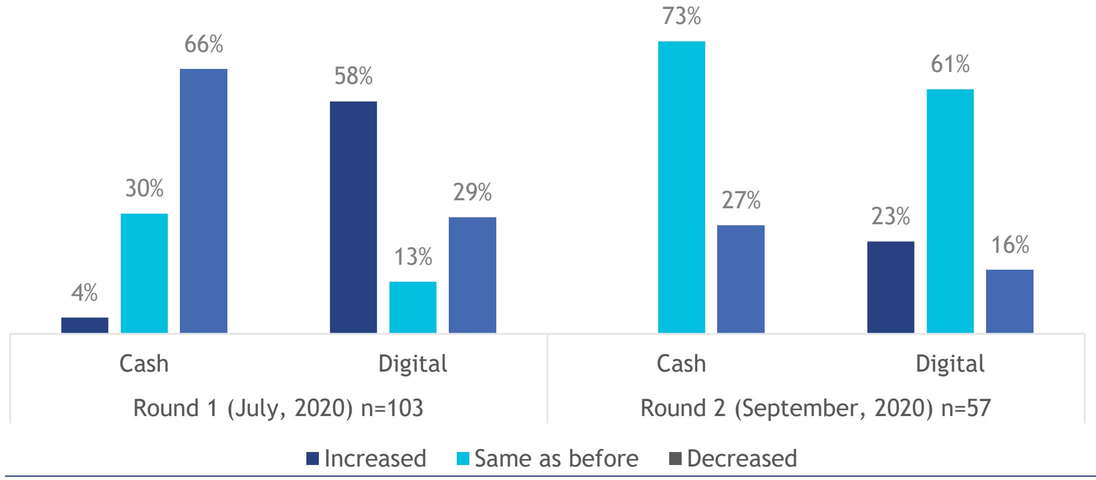
The uptake of digital technologies by enterprises has been limited; however, small and medium enterprises are aware and understand the need to utilize digital channels and technology

Only about a quarter of enterprises surveyed in September, 2020 established partnerships with e-commerce platforms or started their own online portal/social media channels



Respondents spoke about whether enterprises have established any partnerships with e-commerce platforms or started their own online portal or social media

Almost a quarter of the respondents have increased the usage of digital payments



Small and medium enterprises realize that the use of digital media has the potential to revive their business

- Enterprises cite WhatsApp and Facebook as the most preferred social media platforms to run business in the post-COVID-19 time. However, most MSMEs still do not use or benefit from digital technologies. These are plans for the future.
- 77% of enterprises surveyed in September, 2020 reported not having an e-commerce model or partnerships to manage the current business situation. However, with the COVID-19 pandemic outbreak, a few small and medium enterprises reported that they have started developing websites and apps for alternate business channels.
- The pandemic has led to increased adoption of digital payments across urban and rural areas. More than 73% of enterprises surveyed in September, 2020 have reported using digital transactions compared to 60% of enterprises surveyed in July, 2020.

"We started online classes in March, 2020 using Google Classroom. However, less than 50% of students signed up for classes. The reasons varied from connectivity issues (as many have moved to rural areas), the prohibitive cost of internet for parents, and the challenge of not having enough devices in the family for students to learn on."

- A private school administrator in Kitengela

"I tried selling chairs online using Facebook, but I have not used it since COVID-19 started. I use WhatsApp status to post new designs. However, the reach of WhatsApp is limited, since only those who have your number will view the posts. Most who will buy are walk-in customers who come to the workshop."

- A furniture enterprise owner from Ruiru

Coping mechanisms

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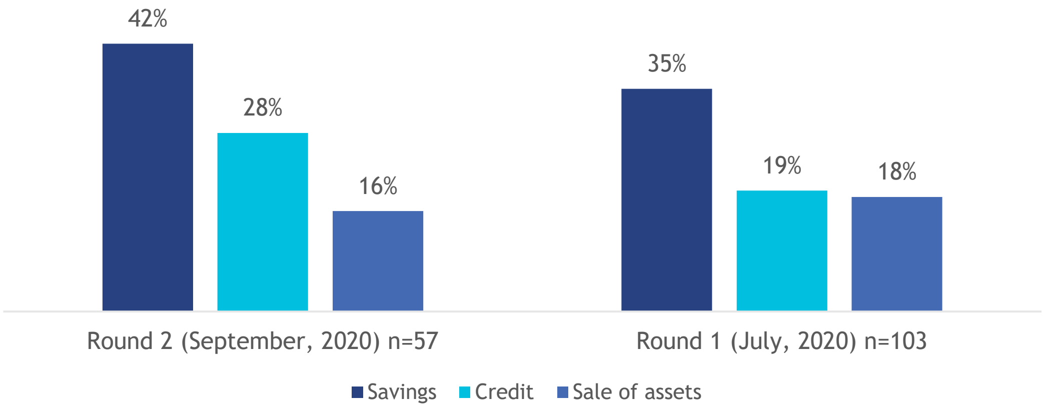
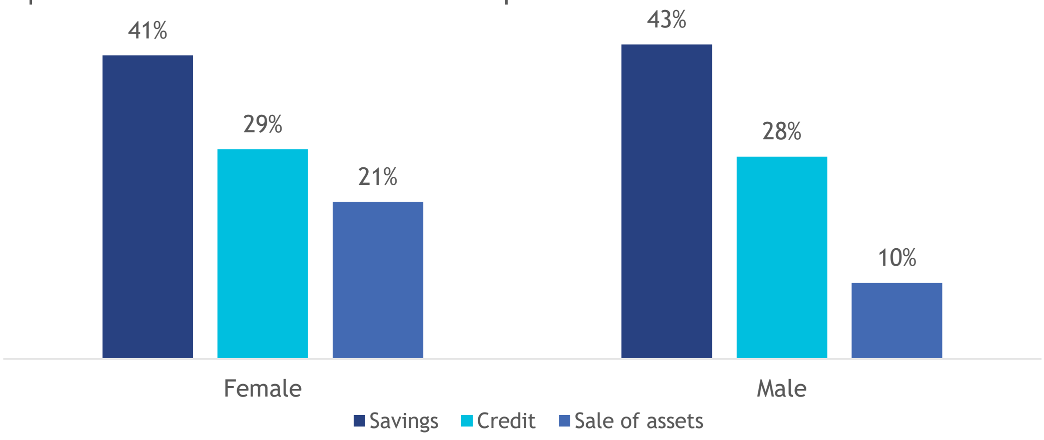
Enterprises seek alternative ways to manage household expenses as savings dwindle

Reliance on savings and borrowings as a coping mechanism has increased since the first round of the survey conducted in July, 2020



More female respondents than the male respondents surveyed in September, 2020 have sold productive assets to meet household expenses



MSMEs have resorted to short-term credit and sale of assets to meet pressing household needs

- More enterprises have been relying on savings to meet their household expenses. 42% of enterprises surveyed in September, 2020 mentioned using savings to cope, compared to 35% of enterprises surveyed in July, 2020. The use of savings has increased (and their subsequent depletion) as many enterprises continue to face a significant decline in income due to the prolonged effects of the pandemic.
- Some entrepreneurs turned to credit and sales of assets to meet household needs, but these provided only temporary relief. Entrepreneurs who resorted to borrowing reported being trapped in a vicious cycle of repetitive borrowing to manage repayments.
- More women resorted to the sale of productive assets compared to men in the survey. This was especially true of those based in rural areas and involved in agricultural enterprises. They viewed productive assets as a form of savings and thus were willing to sell the assets to take care of urgent needs.

“In the initial days of the pandemic, I was laid off from my job. I relied on my savings for the first three months and exhausted everything. With my husband’s support, I started a business. However, it is yet to give me a reliable income. I therefore turned to digital loans. I borrow KES 7,000 (~USD 70) every month, which has helped me to top up for rent payment. ”

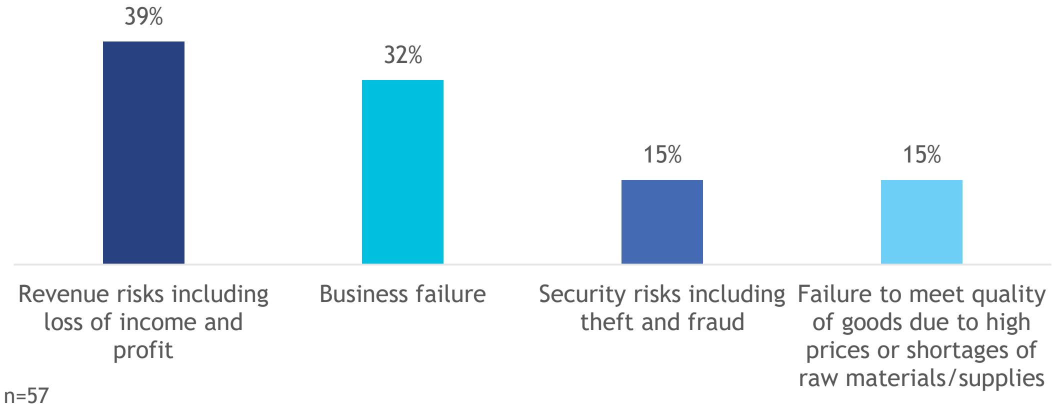
- An owner of a phone accessories shop in Nakuru

“I used to save through M-Shwari and in a SACCO. When things became difficult, I withdrew and used my savings. However, this time, I opted to sell a cow and sheep to raise money to meet some of my needs.”

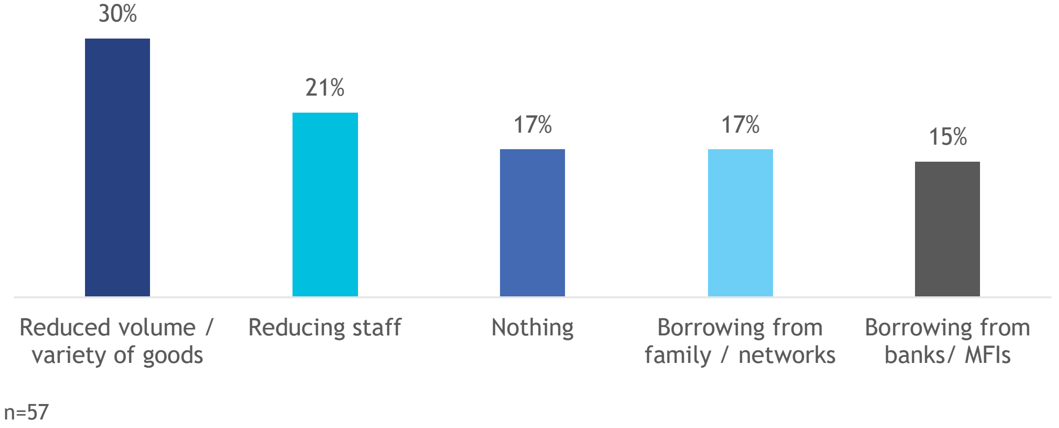
- A trader in Kisii

Enterprises lack enough resilience to cope with risks that stem from the pandemic

Around 40% of the enterprises surveyed in September, 2020 reported that the key risks they face include a decline in revenue and the chance of business failure



Almost a third of the respondents surveyed in September, 2020 have resorted to cut down on the volume and variety of goods and services they offer to deal with the risks in the business



The highest risks to MSMEs are to sustain cash flows and make profit

- Low sales coupled with reduced customer footfall has affected the revenues and profits of enterprises. With constrained cash-flows and reduced profits, more than 30% of enterprises cited the risk of imminent failure and closure of businesses if the situation does not improve in the short-term.
- With minimal options to mitigate against risks to the business, most enterprises relied on short-term strategies, such as reducing the volume and variety of goods for sale and staff layoffs. Credit was also an option. However, only a few enterprises were able to access loans.
- Some enterprises indicated that they had not taken any measures to mitigate the risks that affect their businesses. They attributed this situation to inadequate resources and inability to plan for the future given the uncertainty. They preferred to take a cautionary approach and observe the situation and changes by way of government directives in particular, before reinvesting into the businesses.

"My biggest risk has been a decline in revenues because there is no business and I am worried it will deteriorate further. I have already closed my hardware shop and hope my transport business will stay afloat."

\- A transporter in Kisumu

"I have taken various loans from different lenders, including Musoni microfinance, KCB M-PESA, M-Shwari, and Family Bank. All my loans are to boost my business and managing the cash flow. I pay around KES 15,000 (~USD 150) per month to service all the loans. I save with a group and have also borrowed KES 30,000 (~USD 300) from the group. This is how I can manage my business during this time."

\- An agro-vet dealer in Muranga

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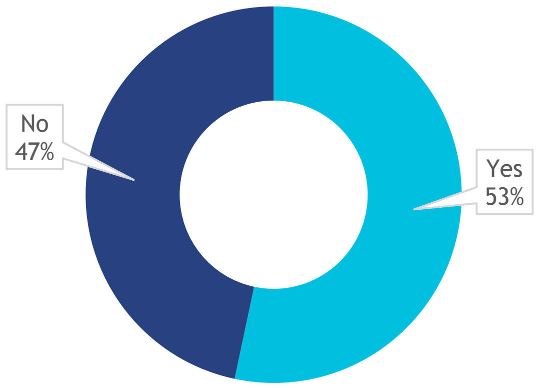
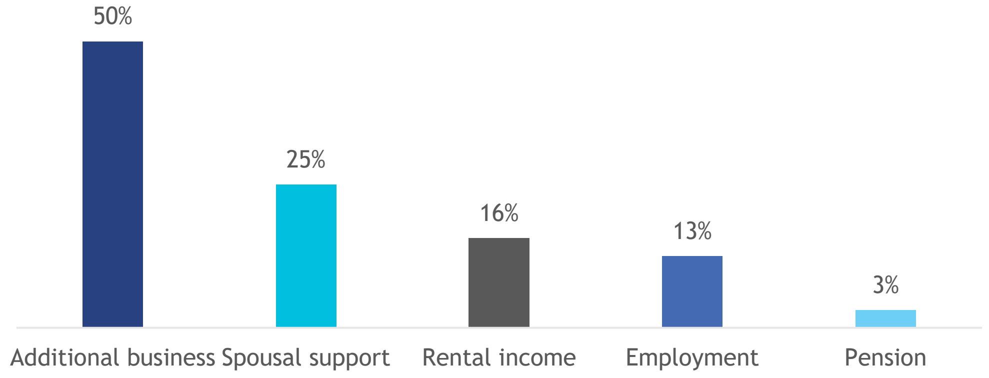
Diversification of income and businesses is a lifeline for some MSME owners to cushion them during the pandemic

Over 53% of MSMEs surveyed in September, 2020 rely on diverse income sources apart from the main business.



n=57

50% of MSMEs surveyed in September, 2020 reported that they relied on more than one business



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Some MSMEs have diversified income streams to cope during the pandemic

- According to the Kenya National Bureau of Statistics (2016), the average lifespan of MSMEs in Kenya is 3.8 years. This is anticipated to worsen during a pandemic. Most MSMEs indicated during the survey that they wished to switch to other businesses rather than sustain their present business operations. It was particularly the case for enterprises in hard-hit sectors, such as hospitality, education, service, and transport. These were the most affected by government measures, such as social distancing and restrictions in serving customers.
- The study indicated that half of the entrepreneurs were running two or three concurrent businesses. Multiple businesses served to cushion entrepreneurs from the impact of reduced revenues and income. However, this also affects their ability to grow their business in the future.
- The survey indicated that more women than men relied on spousal support to seek additional income for the business. This can be attributed to cultural norms.

"I operate three businesses including a barbershop, a gas outlet, and *boda boda* transport. The diversification of business has helped me during this period. If I did not have all these businesses, I would have gone to my rural home for support from my parents."

\- A business owner in Nakuru

"I run a restaurant business that was adversely affected. I have tried to diversify my business to expand my sources of income. I look for my clients through direct selling, especially in the offices and companies in the area. For example, I recently got an order from an NGO to provide food for an event, though the budget was not high. I have also bid to supply food to the county government office."

\- A restaurant owner from Nyeri

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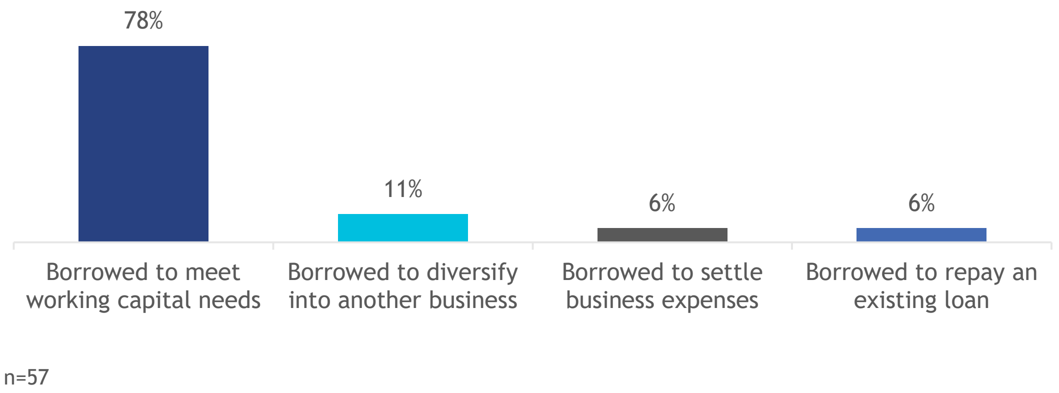
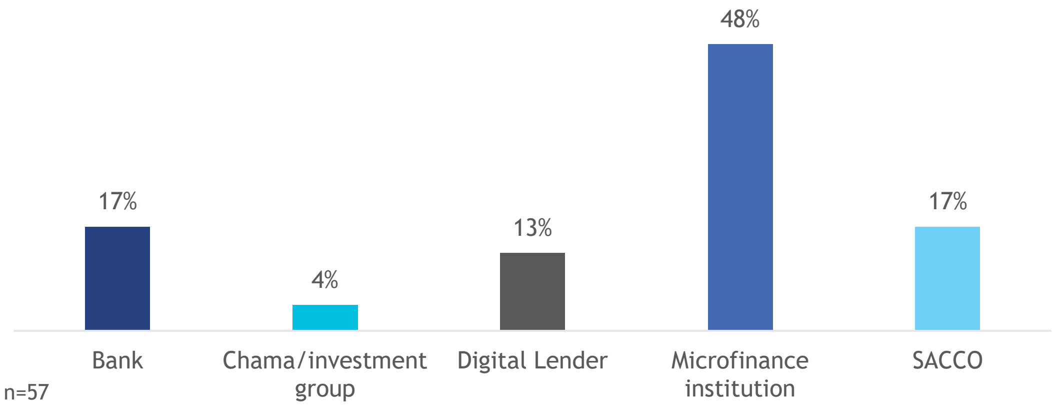
Enterprises seek credit to increase the levels of working capital in a bid to revive their businesses

More than three-fourths of the respondents surveyed in September, 2020 have borrowed to meet the working capital requirements of their business



More than half of the respondents surveyed in September, 2020 have borrowed from formal institutions to sustain their business operations



MSMEs rely on relationships with formal service providers as an avenue to seek credit

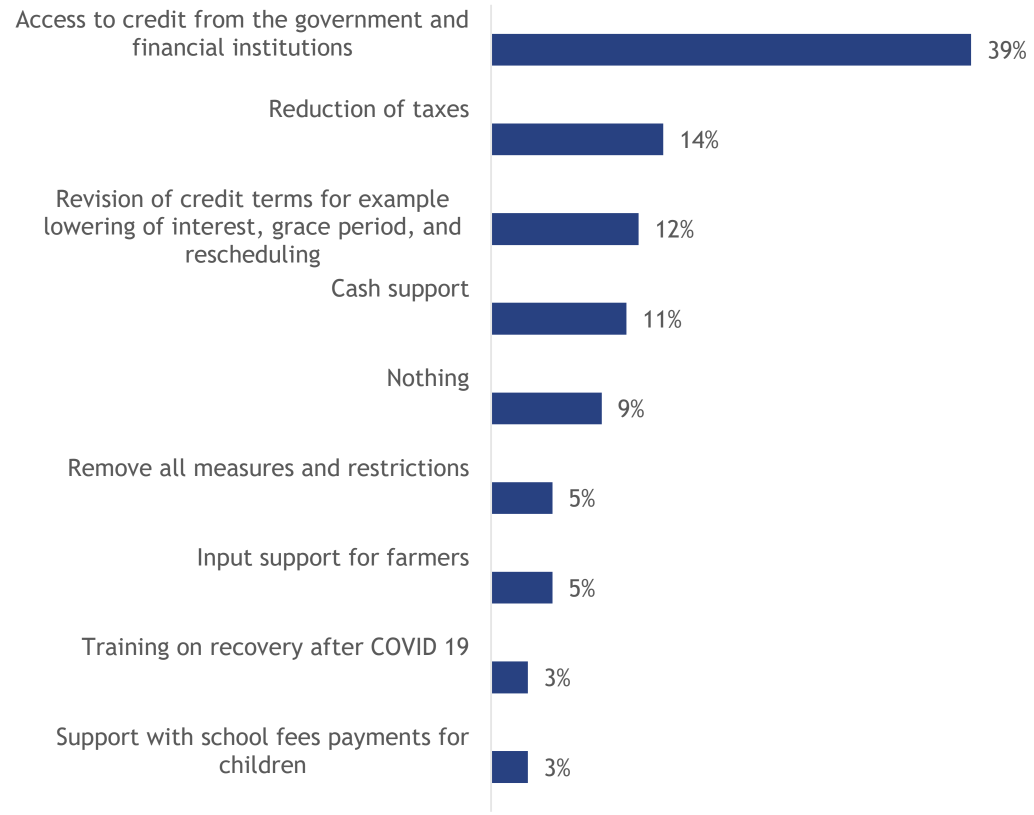
- Overall, most respondents indicated the need for credit to revive their businesses as the economy reopens gradually. Those who had access to loans since the onset of the pandemic took loans for reasons related to working capital and to restock the supplies for the business.
- Half of the enterprises reported borrowing from formal financial service providers in a bid to revive their businesses. However, the entrepreneurs mentioned that they encountered more stringent terms, such as higher costs of credit and requests for hard collateral.
- Some entrepreneurs mentioned that despite their need for access to credit, they were unable to access additional loans because they already had existing loans. A few of these enterprise owners had sought support from formal financial service providers to restructure their loan facilities. This would have enabled them to meet their loan obligations given the reduced cash flows from the business. However, only few of the enterprises received such support.

"After the onset of the pandemic, I requested for a loan of KES 300,000 (~USD 3,000) to boost my business. The loan was approved. However, they reduced the amount and only gave me KES 100,000 (~USD 1,000). Due to other costs, such as insurance and facility fees, I only managed to get KES 90,000 (~USD 900). It was disappointing, and insufficient for the business needs, so I diverted the money and paid off another loan instead of investing it into the business."

- A furniture maker in Ruiru.

Enterprises need support from the public sector and financial service providers for business continuity

More than a third of the respondents surveyed in September, 2020 have reported the need for credit with favorable terms for business continuity



MSMEs need support for business continuity through access to credit on concessionary terms

- MSMEs require support from the government and financial service providers to ensure business continuity.
- In the survey, only 5% of the respondents had received support from the government. Those who had received support indicated that they had benefitted from the reduction in taxes.
- Almost 40% of the MSMEs surveyed, however, indicated the need to access credit to help them meet their working capital needs and cushion their businesses. They also cited the need for revision of credit terms, such as lowering of interest, grace period, and rescheduling of loan repayment to enable them to meet their loan obligations during the crisis period.

"I would like to be given a loan that has no interest. Also, the price of supplies should be regulated."

– A farmer in Nyeri

"Financial service providers should adjust the loan repayment period without increasing the interest."

- Second-hand trader in Gikomba

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Annexes

Annex 1: Status of the MSME sector in Kenya

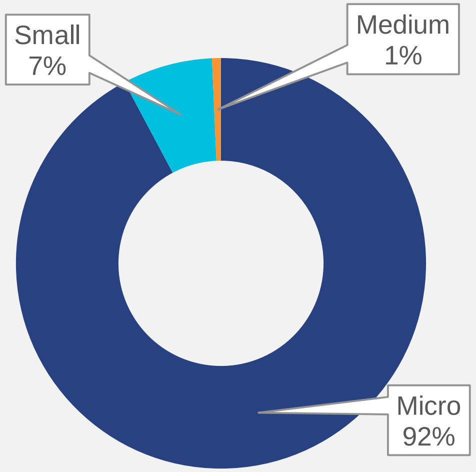
Definition of MSME

Microenterprise: Annual turnover <KES 500,000 (~USD 5,000); employees <10; investment in plant and machinery or registered capital - for manufacturing < KES 10 million; for service sector and farming enterprises <KES 5 million

Small enterprise: Annual turnover KES 500,000 – 5 million (~USD 5,000 – USD 50,000) ; employees 10-49; investment in plant and machinery as well as registered capital- i) manufacturing KES 10 million – 50 million (~USD100,000 –USD 500,000 ii) service and farming enterprises KES 5 million -20 million (~USD 50,000 – USD 200,000)

Medium enterprise 50-99 employees

Proportion of MSMEs (licensed)

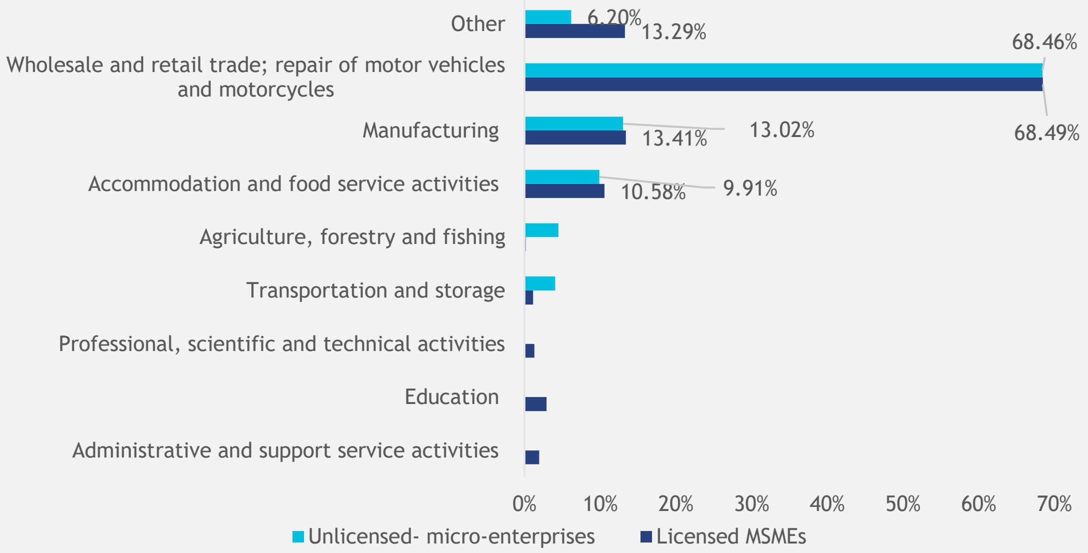


Number of MSMEs in Kenya

7.41 million

1.56 million licensed and
5.85 million unlicensed

Economic activities of MSMEs in Kenya



Socioeconomic significance of MSMEs in Kenya

33.8%
Contribution to GDP

14.9 million
Persons engaged in MSMEs; 84% of the country's workforce

60.7%
Women-owned unlicensed establishments; against ownership of 31.4% licensed to GDP

Annex 2: Measures to support MSMEs* (1)

Government

- SME Turnover Tax reduced from 3% to 1%; increase in the cap for those liable to pay the levy from KES 5 million to KES 50 million/year (~from USD 50,000 to USD 500,000/year); exemption for small-scale businesses with annual sales < KES 500,000 (~USD 5,000).
- 100% tax relief for persons who earn up to KES 24,000/ month (~USD 240).
- Reduction of Personal Income Tax top rate (PAYE) from 30% to 25%.
- Reduction of Resident Corporate Income Tax rate from 30% to 25%.
- Reduction in VAT from 16% to 14%.
- Expediting payment of VAT refunds and pending bills
- Allocation of KES 10 billion to supplement ongoing cash transfers for the elderly, orphans, and other vulnerable members of society.
- Allocation of KES 10 billion (~USD 100 million) to expedite VAT refunds for all verified claims. Ministries and departments directed to pay at least KES 13 billion (~USD 130 million) of the supplier debt within three weeks of 25th March, 2020. The government announced a similar directive for the private sector.

Regulator and financial service providers

- Flexibility to banks on loan classification and provisioning for loans that were performing on March 2, 2020, but restructured due to COVID-19.
- Lowering of the central bank rate to 7% and cash reserve ratio to 4.25%.
- For six months, suspended the listing of negative credit information for borrowers, whose loan repayments were on time previously but have become non-performing from April 1.
- Loans falling in arrears from April 1 to Sep 30, will not lead to "blacklisting" of the borrower
- CBK urged banks to provide relief to personal loans for up to one year as personal loans account for 28% of all loans.
- Banks have been urged to bear the charges for balance inquiry and the cost of restructuring and extending loans to SMEs and corporate borrowers affected by COVID-19.
- Payment service providers and commercial banks eliminated charges for transfers between mobile money wallets and bank accounts.

Private sector commitments

- The National Business Compact Coalition, Kenya has donated KES 70 million (~USD 700,000). The donation was raised by Reckitt and Benckiser, PZ Cussons, Live Ad, Unilever, Menengai, Copia, Rotary International, Johnson & Johnson, Swiss Development Cooperation (SDC), Twiga, Chandaria, Microsoft, and other brands.
- Safaricom committed to fund KES 200 million (~USD 2 million) to provide food and nutrition.
- Devki Group donated KES 20 million (~USD 200,000) cash and oxygen for hospitals valued at KES 100 million (~USD 1 million).
- KCB and The National Treasury, Ecobank Kenya Limited, and Sanlam Investments East Africa Ltd donated KES 150 million (~USD 1.5 million), KES 10 million (~USD 100,000), and KES 8 million (~USD 80,000) to be channeled through the COVID-19 Emergency Response Fund.
- Equity Bank and Mastercard Foundation, which gave KES 300 million (~USD 3 million) and KES 500 million (USD 5 million) respectively.
- Shikilia, a collaboration between the Kenyan private sector and non-profit organizations, came into being to raise funds to provide emergency cash transfers to low-income households.

Note: This is not an exhaustive list of the measures taken to provide relief against COVID-19. The details are based on information available till May, 2020. The following slide provides details on updates after May.
Source: Government of Kenya; Central Bank of Kenya; others

Annex 2: Measures to support MSMEs* (2)

Government

- Approval for the establishment of the "credit guarantee scheme" for micro, small and medium enterprises with an initial seed capital of KES 10 billion (~USD 100 million) to be released in two tranches of KES5 billion (~USD 50 million) in the financial year 2020-21 and 2021-22.
- Financially distressed enterprises could access these funds by mid-October. In the 2020/21 National Budget estimates, the Treasury set aside KES 3.0 Billion (~USD 30 million) seed capital to operationalize this credit guarantee scheme.
- In the 2020-21 budget, the Treasury allocated KES 10.0 billion (~USD 100 million) in addition to KES 23.1 billion (~USD 231 million) approved by the Parliament in April 2020 to clear pending bills.
- The government allocated KES 712 million (~USD 7.12 million) in the 2021 budget to provide credit to MSMEs in the manufacturing sector. This is in addition to KES 800 million (~USD 8 million) for the development of various MSMEs.
- The Kenya Ports Authority extended the free storage period for import and export containers. The extension is valid for 90 days from 18th May, 2020 and is subject to renewal thereafter.

Regulator and financial service providers

- CBK has asked all the commercial banks and mortgage finance companies to re-submit their board-approved Internal Capacity Adequacy Assessment Process (ICAAP) documents by October 31, 2020. These documents should provide:
  - The impact of the pandemic and mitigation measures taken by the institution
  - Measures taken to strengthen the balance sheet and maintain adequate capital and liquidity
  - Any proposed distribution of profit of 2020

Private sector commitments

- The Kenya Private Sector Alliance has launched a 24-hour call center and an information portal for businesses.
- NIC Bank Kenya signed a Loan Portfolio Guarantee agreement amounting to KES 516 million (~USD 5.16 million) with the African Guarantee Fund for SMEs. This facility will see AGF share the risks envisioned by the bank where SMEs are unable to meet collateral threshold requirements.

Note: This is not an exhaustive list of the measures taken to provide relief against COVID-19. The details are based on information available till May, 2020. The following slide provides details on updates after May.
Source: Government of Kenya; Central Bank of Kenya; others

Annex 3: Respondents’ profile

Quantitative research: Sample profile of 60 MSMEs			
Location of business	Rural 33%	Semi-urban 32%	Urban 35%
Gender of ownership	Men 50%	Women 50%	
Nature of business	Trading 47%	Service 30%	Agriculture 23%
Business category	Essential 10%	Non-essential 90%	
Age profile	18-35 25%	Above 35 75%	

Qualitative research: Sample profile of 20 MSMEs			
Location of business	Rural 5	Semi-urban 8	Urban 7
Gender of ownership	Men 10	Women 10	
Nature of business	Trading 10	Agriculture 2	Services 8
Business category	Essential 3	Others 17	
Size of business*	Micro 10	Small & Medium 10	

Note: Please note - The above sample size is not representative of the overall MSME sector in Kenya
* As per the existing definition of MSMEs

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International financial, social & economic inclusion consulting firm with 20+ years of experience

180+ staff in 11 offices around the world

Projects in ~65 developing countries

Our impact so far

550+ clients	>850 publications
Assisted development of digital G2P services used by 875 million+ people	Implemented >850 DFS projects
Developed 275+ FI products and channels now used by 55 million+ people	Trained 9,000+ leading FI specialists globally

Some of our partners and clients

Swiss Capacity Building Facility | SCBF

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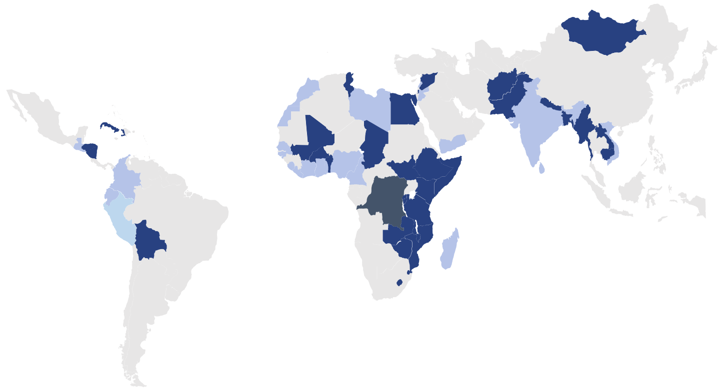
This is SCBF…

- SCBF co-funds technical assistance (TA) grants to develop client-centric financial products, channels and services for the low-income clients in developing countries
- Target end-clients: low-income populations; particularly, women, smallholder farmers, micro, small and medium enterprises (MSMEs) and rural populations
- Goals: Build resilience, economic empowerment, and access to essential services

Outreach

2.1M+ Low-income clients	91+ Partner Financial Institutions	43 Countries
59% Low-income women	36+ Technical Assistance Providers	55% Rural clients

Eligible Countries



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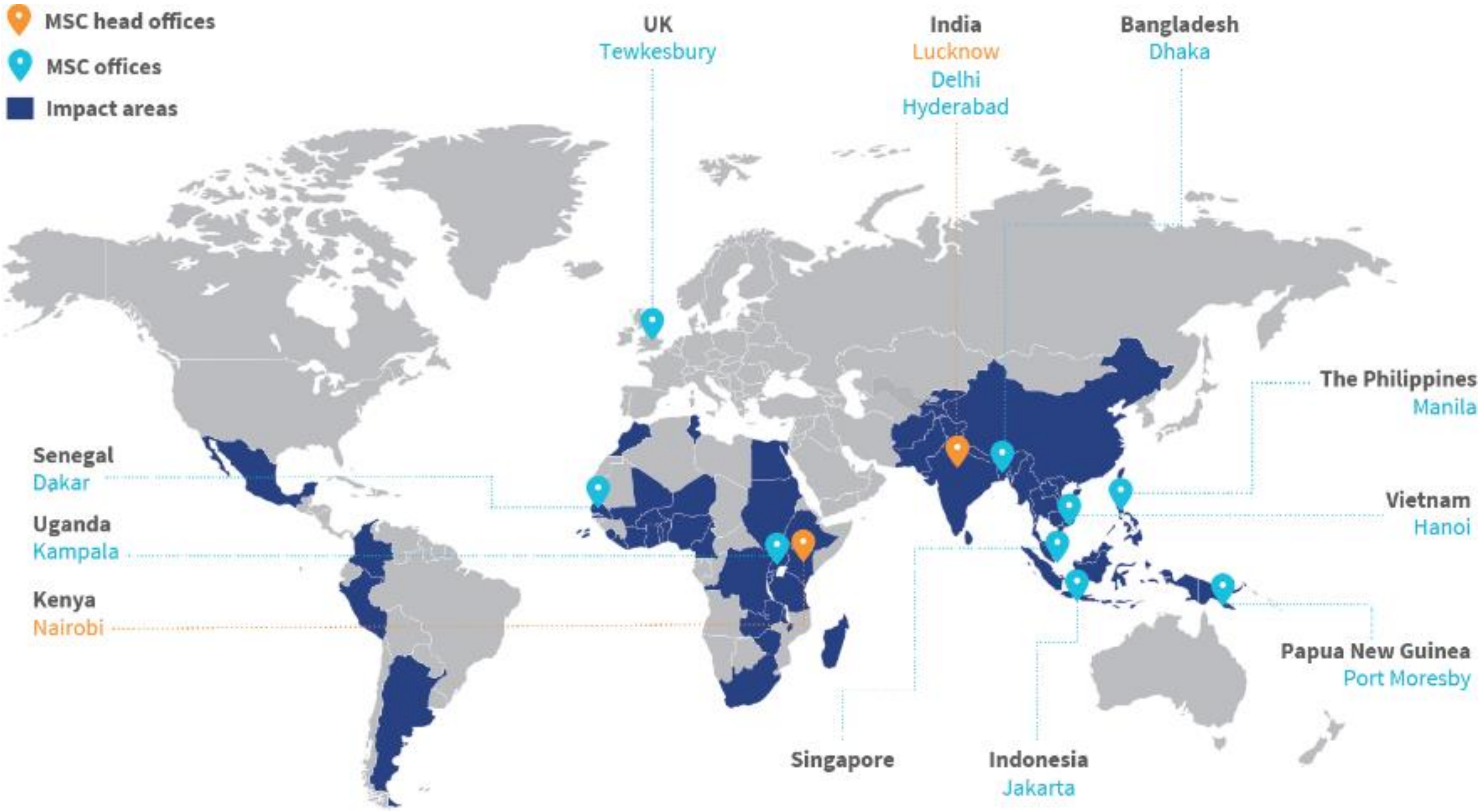

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