FUNDING

Collateral: Why most SMEs are denied credit

Almost eight in 10 small businesses cannot access funding due to lack of collateral, lack of experience as well as poor business plan according to a new report.

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Before joining the field of public relations, Wangeci Kanyeki used to run a bakery. By her own standards, the business was doing well despite being a one woman army affair where she played the role of the baker, server, marketer and accountant.

She wanted the business to grow further and so she opted to get a loan from a bank to buy a professional kitchen oven.

"They (the financier) wanted a Sh6 million turnover and other things. I was just baffled. I was only asking for about Sh200,000 but the requirements included a title deed," she recalled.

Ms Kanyeki says she felt that though the bank had positioned itself as supporting Small and Medium Enterprises (SMEs), they did not understand her needs, so she walked away. "Not helped and discouraged," she said.

Ms Kanyeki's troubles, while being a challenge she experienced a few years ago, is still the case today for many SME owners going by a latest report.The report titled, *SME Access to Financing* says security is the most difficult requirement by small businesses to meet when seeking finance.

The report unveiled last week by WYLDE International, a consulting firm for small business, reports that almost eight in 10 SMEs (76.6 per cent) cannot access funding as loans due to lack of collateral.

The second reason is 'startup hence no experience in running business' affects 34 per cent while low turnover as in the case as well for Kanyeki's bakery business comes third with 31.9 per cent. As a result of this, of the 104 business respondents who participated in the survey, 73.3 per cent said they did not receive funding from financial institutions because they could not submit collateral. "Generally, there is a high level of difficulties in accessing financing by SMEs, especially from existing financial institution like banks," reads the report.

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NUMBER
BUSINESS respondents who participated in the survey, of which 73.3 per cent said they did not receive funding from financial institutions because they could not submit collateral.

The lack of a business plan is the least reason why financing was declined with 8.5 per cent with cost of application affects 10.6 per cent.

WYLDE International Chief Executive Officer Chris Odongo said businesses require three key things to thrive: knowledge, capital and access to market. "Businesses require capital for them to open new markets, have stock and inventory, to produce goods and services; even to start," he said.

According to the report, expansion is the leading purpose (39.2 per cent) for them to look for funding. The other two are working capital (36.1 per cent) and capital assets and investments (23.7 per cent).

"Many businesses choose to apply for external funding to create enough working capital to enable them fulfill their growth ambitions," reads the report.

"Working capital funding can also allow SMEs take advantage of new opportunities that arise, investing in new products or services that propel their expansion." Mercy Githinji, Director Uzuri Institute recalled her predicament when she wanted to start her business where collateral played a major role.

She had started the institute, a private tertiary training institution, with money from family and her then businesses that include outside catering, clothes and stationary.

"In those days, it was pretty hard to get financing. My first attempt to get a sizeable loan which was about Sh15 million, was really headache," she said.

Ms Githinji said she learnt that one way of accessing finance hassle free is to buy collateral early in your business. This should be part of the strategic plan.

"Go to the same banks and let them buy you that collateral – that property – because you are going to need it. Once I did that – at the point where you are buying a property for Sh15 million, that is like 10 or 12 years ago – it has already grown to over Sh100 million in terms of worth," she explained.

"Now, I walk into the bank and they have no issues. They (banks) are my friends. You can make a phone call and get the money – why –collateral," she said.

Ms Githinji said without collateral, when you walk into the bank, they will always offer less than what you want.

"You want Sh20 million they will give you Sh3 million and you are like Sh3 million will not help me where I am at. I still want Sh20 million," she said. "Get the same bank to buy you a piece of land that you will keep taking back for the money you need to do bigger things. That becomes your form of financing from then on for like forever."

Rafiki Bank Head of SME Ken Waititu says while the notion has been that SMEs are not attractable to funding, it could be that they are playing in the wrong field. "You do not go to Citibank, New York to ask for a SME loan. They won't even listen to you," he said.

Waititu said banks and microfinances are limited by the single obligator restriction when it comes to lending.

For example, commercial banks have a cap of 25 per cent while microfinances have it at five per cent. This means a commercial bank cannot lend out more than 25 per cent of its base capital to a single customer. "When it comes to microfinance, if it has Sh60 billion as core capital, then we are allowed to give per individual five per cent," he explained.

Mr Waititu says microfinances exist to complement banks, adding that it is risky as well for a microfinance to lend to an SME. "Our risk acceptance criteria is a little high because we are also dealing with challenges you SME are talking about," he said.

EMPOWERMENT

BAMBURI, IFC TO BOOST PROCUREMENT OPPORTUNITIES FOR WOMEN

Bamburi Cement has partnered with the International Finance Corporation (IFC) on a gender programme that supports the company to increase procurement opportunities for women-owned enterprises in Kenya.

The move is aimed at boosting the participation of women in the supply chain.

IFC Country Manager for Kenya Amena Arif said the World Bank's investment arm is working with Bamburi Cement and the other partners in the Sourcing2Equal (S2E) programme to support women-owned businesses and increase their participation in corporate procurement.

"By helping businesses to work with more women-owned SMEs and supporting women entrepreneurs to be procurement ready, we can break down barriers and support more small businesses to grow."

To boost the programme, the cement manufacturer has made three commitments under the partnership - to develop and implement a gender inclusive sourcing strategy and to collect gender-disaggregated procurement data.

The firm will also invest in a targeted supplier outreach programme that will raise awareness on procurement opportunities at the company among women-owned businesses.

Through the supplier outreach programme, Bamburi Cement will hold business match-making events and pitching lessons to empower women-owned small and medium enterprises (WSMEs) to participate actively in procurement.

It will also conduct awareness and advocacy activities to help promote the business case for sourcing from women-owned businesses.

The partnership will help Bamburi diversify its supply chain and support WSMEs to offer competitive products and services and provide them with the skills to meet procurement requirements in the private sector.

Bamburi Cement Managing Director, Seddiq Hassani said the firm's commitment to gender equity encompasses more than just internal targets. "Our commitment to ensuring Sustainable and Ethical business operations means that gender equity is a key part of our sustainable procurement agenda. This partnership with IFC is a key part of this delivery," he said.

According to a 2021 survey conducted in Kenya by IFC, 33 per cent of SMEs are owned by women and contribute up to 20 per cent of the Gross Domestic Product (GDP).

In addition, 41 per cent of Women-owned Small Medium Enterprises are credit constrained - leading to their poor performance. Most of them even close down due to a lack of information on potential business opportunities in the private sector. [Moses Omusolo]