



# Financial Toolkit

## “Facilitating Debt, Equity and Grant Funding for Kenyan Manufacturing SMEs”

**Bridged Version**

**September 2022**

## 1. About this toolkit

Kenyan Manufacturing SMEs are at a higher risk of buckling under the pressures of low demand, decreased turnover, and rising costs. Considering the contribution of Manufacturing SMEs to the socio-economic development, employment, and livelihoods, it is imperative that cushioning them from the negative effects of Covid-19 pandemic is the most rational action. While the government has instituted many measures towards this objective, the private sector and development partners are equally called to supplement the public sector initiatives to secure the SMEs, incomes, jobs, and employment hence livelihoods.

KAMs has therefore sought to ensure survival of manufacturing SMEs and create preconditions for a robust recovery in business, incomes, jobs and employment. KAM in pursuit of promoting Manufacturing SMEs has collaborated with development partners among them the GIZ to come-up with a tailor made SMEs development programme including development of online digital toolkits for effective delivery of its services.

**This toolkit aims at facilitating interactions and information sharing between Demand side (The SMEs) and the Supply side (Debt, Equity and Grant providers) for mutual benefits. It is a partnership initiative of KAM and the GIZ.**

After this brief introduction, the toolkit looks into [SMEs financing Landscape](#) which is informed by various reports and surveys done on the subject prior to, during and post Covid-19 period. The toolkit has a section for information about the different [types of funding for SMEs](#) covering Debt, Equity and Grants including guidelines for choosing one over others. It also includes a section profiling [KAM Manufacturing SMEs](#) by sector and membership, Information on [KAM SME development](#) and listed possible [Debt, Equity and Grant funding institutions](#) accessible to Kenyan SMEs like Commercial Banks, Microfinance Banks, SACCOS, Stock Markets, Guarantee Funds and Venture Capital firms. The toolkit provides [Useful Links and resources](#) for Business registration, taxation, regulatory and government agencies that support enterprises in the country.

Tools and guidelines for [Business Planning](#) and [financial planning](#) as requisites for fund raising are also provided. You are encouraged to take a tour of the respective sections of the toolkit and leave your comments in the [feedback](#) area.

## 2. KAM and SME Development

Established in 1959, Kenya Association of Manufacturers (KAM) is a representative of manufacturing and value-add industries in Kenya. The Association has grown into a dynamic, vibrant, credible Association that unites industrialists and offers a common voice for businesses.

**Vision;** To be a World Class BMO that effectively delivers services to its members

**Mission;** To promote competitive and sustainable local manufacturing

**Goal;** To transform KAM into a sustainable member-focused association delivering relevant, quality, timely and effective services to its members.

### KAM SME Development Hub

KAM SME development offers value added services to growth oriented and market ready manufacturing SMEs. It is geared towards preparing, nurturing and growing businesses to take full advantage of new emerging market frontiers both locally and in the international space.

It is geared towards preparing, nurturing and growing businesses to take full advantage of new emerging market frontiers both locally and in the international space. The mission is to foster the development of flourishing entrepreneurial culture and competitive small and medium manufacturers in Kenya and in the region

#### Products & Services Offering

- **Access to Finance** e.g. Business planning, financial literacy programs and linkages to financiers
- **Access to Markets** e.g. value chain linkages, trade missions and expos, export market linkages, trade related seminars and conferences
- **Business Advisory Services (firm level support)** eg SME Focused research, studies and surveys, Business diagnosis, Business Mentorship and Coaching
- **Tailored technical, operational and management training** e.g. Strategy and Business Planning, Financial Management, Product and Market Development, Customer Management, Factory exchange and learning visits

See more information on [KAMs SME Development](#) , and Our [SME Development Newsletter](#).

Visit KAMs Website for more Information on [KAM Sectors](#) and [membership](#) , [KAMs Manufacturing Manifesto 2022-2027](#) and the [Manufacturing Priority Agenda \(MPA- 2022\)](#)

## 3. SMEs Financing Landscape in Kenya.

### Recovering from Covid-19 Effects.

According to the Central Bank of Kenya (CBK), 2021 was a year of recovery coming after “the year like no other” that was 2020, dominated by the COVID-19 pandemic. The domestic economy rebounded strongly in 2021, supported by recovery in non-agricultural activity following easing of COVID-19 restrictions. The economy

grew by 7.5 percent, compared to a contraction of 0.3 percent in 2020. The banking sector’s asset base grew by 11 percent to approximately Ksh.6.0 trillion in 2021 from Ksh.5.4 trillion in 2020. The increase in total assets was mainly attributed to the growth in investments in government securities and loans and advances.

### MSMEs Contribute; 98% of Businesses; 14m Jobs; 30% of Jobs ; 80% Employ up to 10 people

An earlier Economic Survey report (CBK 2014) indicated that MSMEs constitute 98 percent of all business in Kenya, create 30 percent of the jobs annually as well as contributing 3 percent of the GDP and; Around 80 percent of the 800,000 jobs created in the year came from the informal sector, which is dominated by the MSMEs. About 80% of MSMEs employ between 1 and 10 Employees.

According to a report by Deloitte Kenya Economic Outlook (2016), SMEs are hindered by inadequate capital, limited market access, poor infrastructure, inadequate knowledge, skills, and rapid changes in technology. Corruption and other unfavorable regulatory environments present other bottlenecks to this vital Sector of the economy

### Credit Absorbed increased to Ksh 464B

Credit Absorbed in the Manufacturing sector was KSh 366.9 billion in 2019, KSh 410.3 billion in 2020 and KSh 464.0 billion in 2021 ( KNBS 2022). This indicates that Manufacturing MSMEs have increasingly relied on available credit facilities from commercial banks and industrial

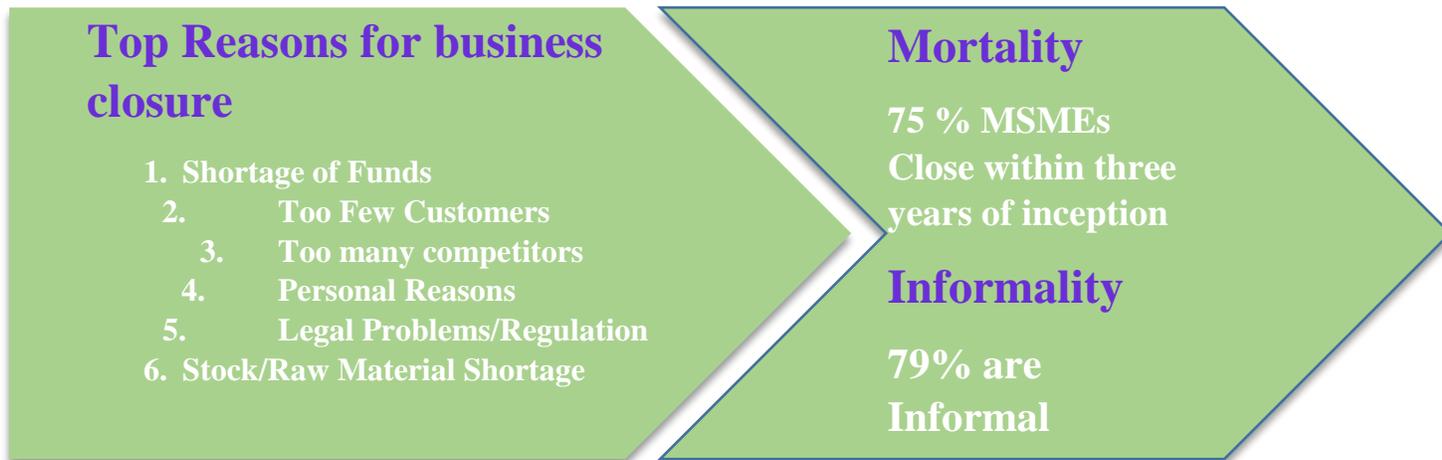
financial institutions to meet their financial needs. Hence, this has remained a critical service for SMEs survival and sustainability. It also implies how important the sector is to financial institutions.

### Interest Rates increased to 12.16% by Dec 2021

Interest Rates by Commercial banks stood at 12.24 per cent in December 2019. The same was 12.02% in Dec 2020 and 12.16% in Dec 2021. The cost of credit has generally more or less remained the same, thus motivating SMEs to borrow. However to promote manufacturing, special facilities for SMEs should be developed. Comparatively the interest rates are still high and do not give Kenyan SMEs leverage in production based on borrowed funds. Information on [Total Cost of Credit \(TCC\)](#) and tool for calculating the TCC for different financiers is available at [The Kenya Bankers Association](#)

**Informality;** One of the characteristic of the Kenyan MSMEs sector is a high informality rate at 79 percent (KNBS MSME Report 2016). This impedes SMEs from becoming globally competitive.

**Mortality;** Kenyan MSMEs have a mortality rate of 75 percent within three years of inception (3 out of 5 SMEs dying). While this implies risk to financiers, lack of funding is the biggest cause, leaving MSMEs in a vicious cycle.



**Access to finance** is ranked as the highest hindrance in starting and running a business. This is followed by access to markets, pricing of products/services, obtaining payment for outstanding invoices, dealing with legal/government/administrative matters (Taxes etc), Obtaining and paying for business permits, finding suppliers and being alone as an entrepreneur respectively.

**Equity financing;** 80% raised from Owners fund & internal revenue while 20% is raised from Family & friends, Angel investors, Venture Capitalist and others.

**Over-Reliance on Overdraft Facilities-** ODs are easily callable, short-term, facilities that suit banks, rather than MSME's longer-term investment funding needs. The overreliance on overdrafts limits MSME longer-term investment and increases cost of credit.

**On Purpose for required Funding;** 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

**Business recovery Needs;** 50% of SMEs need soft loans that are priced below market rate, 25% needs grants in form of cash injection to business to cater for equipment purchase, utilities and new product development, 21% needs in kind grant and finally 4% needs normal loans.

**On amounts required,** about 79% of MSMEs require up to Ksh 0.25m, 19% between 0.25m and 0.5m while 2% requires over Ksh 1m



## 4. Debt, Equity and Grant funding options.

Debt, Equity and Grants are the commonest means for financing a business whether a start-up or growth stage enterprise. We look at what these terms means and their implications for Enterprise funding.

**Debt financing** applies where you are borrowing money from an outside source and promising to pay it back with interest by a set date in the future.

**Equity financing** applies where someone is putting money or assets into the business in exchange for some percentage of ownership or shareholding.

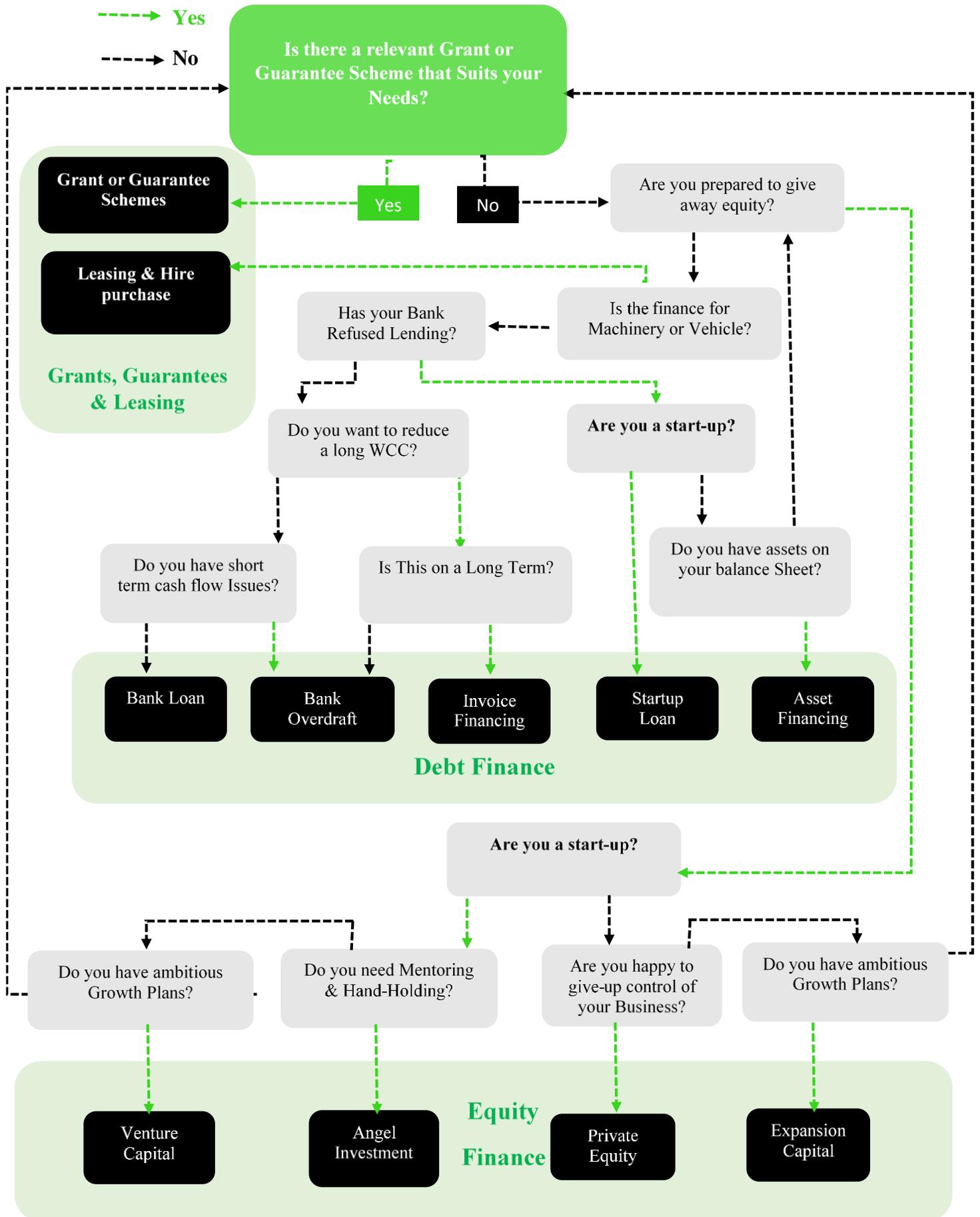
**Grant funding-** This is a fund given by an end entity, often a public body, charitable foundation, or a specialized grant-making institution to an individual or another entity (usually a non-profit organization, sometimes a business, Social enterprise or a local government body) for a specific purpose linked to public benefit. ***Unlike loans, or equity financing, grants are not to be paid back.***

Each of the above instruments has its pros and cons or limitations depending on your funding needs.

Most Commonly, Debt and equity financing are ways that businesses acquire necessary funding. Which one you need depends on your business goals, tolerance for risk, and need for control.

Many businesses in the startup stage will pursue Grant or equity financing, while those already established and those who have no problem with debt and possess a strong credit score might pursue traditional debt financing types like business loans. Enterprises in social projects such as climate adaptation, and unique innovations will attract Grant funding.

***Figure 1: Choosing source of finance***



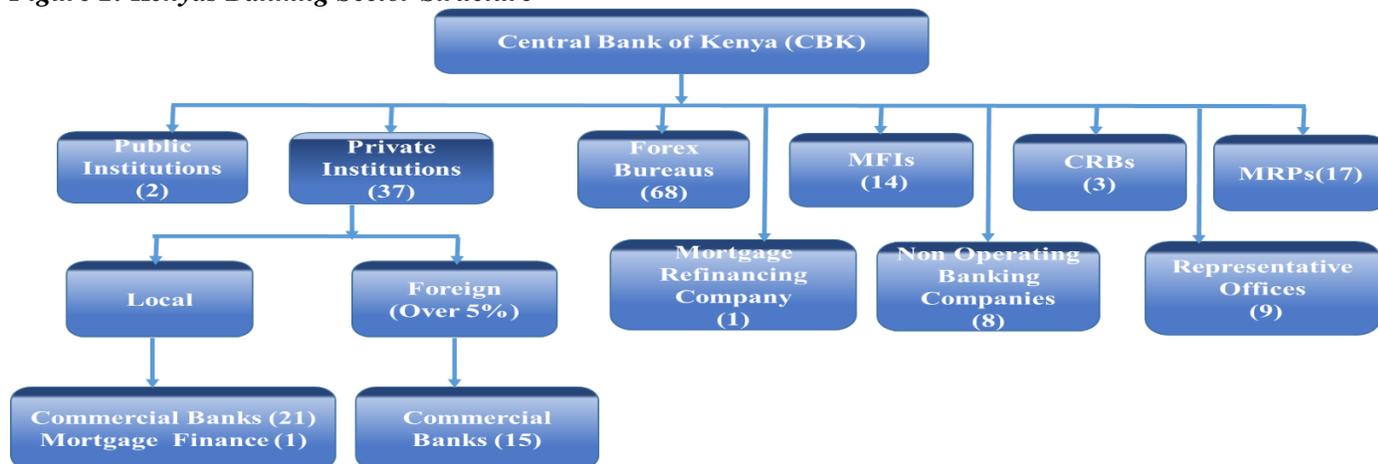
## 5. Financial Institutions and Market Players in Kenya

A financial institution is an organization that **deals with monetary and financial transactions** such as exchanging currency, deposit, investment and issuance of loans. The following are various financial institutions; each distinctly offering value add to MSMEs in Kenya. This toolkit introduces the Banking sector comprising of The Central Bank, Commercial Banks, Kenya Bankers association, Mortgage financing, Forex Exchange and Credit reference Bureaus. It has also briefly introduced Savings and Credit Societies (SACCOs) and The Capital Markets as well as Credit Guarantee Schemes as alternative Sources and means of financing MSMEs activities.

### The Kenyan Banking Sector

As at December 31, 2021, the Kenyan banking sector comprised of the following

**Figure 2: Kenyas Banking Sector Structure**



Other than, the banking sector and related institutions, alternative financiers for MSMEs includes Savings and credit cooperative societies (SACCOs), The Capital Markets, Government Funds and Credit Guarantee schemes.

SMEs should engage with institutions that meet their specific business financial needs.

## Government funds

The Kenya Government established Youth Enterprise Development Fund (2006), Women Enterprise Fund (2007) and UWEZO Fund (2013) as vehicles for **special groups** (Youth, women, disabled persons and small enterprises) to access cheap business loans from the Government. These funds are being re-organized into a **Biashara Kenya Fund** that will give loans directly to the special groups for as low as **6% interest**. This is way below the commercial banks' lending at a Weighted Rate of 12.15% (CBK, March 2022) and is desirable for MSMEs growth. Youth and Women owned enterprises are allocated 35% each while 17% is allocated to other MSMEs, leaving 10% for people with disabilities and 3% as an administration cost.

## Credit Guarantee Schemes (CGSs).

Credit Guarantee Schemes (CGSs) are specialized institutions or programs set up by the government and development partners, which pledge to repay some, or the entire loan amount to the lender in case of default of the SME borrower. This reduces the lender's expected credit losses, acting as a form of insurance against default (WB 2022). A CGS can lower the amount of collateral that the SME needs to pledge to receive a loan, because it effectively provides a substitute for collateral.

In addition to improving access to finance for SMEs, CGSs can potentially play a more important role, especially in countries with weak institutional environments, by improving the information available on SME borrowers in coordination with credit registries and bureaus, and by building the credit origination and risk management capacity of participating lenders, for example through **technical assistance** for the setup of SME units. Moreover, CGSs can also play an important countercyclical role, providing support to small businesses during a downward economic cycle.

## The Kenya Governments CGS

In the 2020/21 financial year, the state set aside Ksh 3.0 billion to the scheme, allowing lenders to disburse at least KSh 12 billion to business entities that meet the set requirements. The Kenyan government through amendment of the Public Finance Management (PFM) Act 2012 provided for the establishment of a MSMEs Credit Guarantee scheme and development of Public Finance Management (Credit Guarantee Scheme) Regulations 2020.

The National Treasury signed an agreement with seven (7) commercial banks ([ABSA](#), [Cooperative Bank](#), [Credit Bank](#), [Diamond Trust Bank](#), [Kenya Commercial Bank](#), [NCBA](#) and [Stanbic bank](#)) who act as financial intermediaries in provision of credit to MSMEs. The banks are expected to lend out their money and follow the normal bank procedures for lending to minimize default risk. The funds in the scheme will be used as compensation to banks in the event of default.

## The African Guarantee Fund (AGF)

The African Guarantee Fund (AGF); AGF was incorporated in the Republic of Mauritius on 28<sup>th</sup> March 2011 as a private company limited by shares. It has been granted a Category 1 Global Business License by the Financial Services Commission. AGF is duly registered under the Companies Act of Kenya and has a place of business in Nairobi.

Funding Under the AGF is available at [Family Bank Kenya](#), [Stanbic Kenya](#), [ABSA Bank Kenya](#), [Cooperative Bank](#), [Sidian Bank Kenya](#) and [Equity Bank Group](#)

## 6. Planning to raise finance

MSMEs seeking finance need to be ready with basics including the following: -

**Sufficient information -on available financial services;** While seeking finance, you need information on available financial services and products, including [Debt, Equity and grant funding](#) so that you will be able to choose the best suitable for you. This toolkit seeks to facilitate awareness by providing information for the demand side (MSMES) and the Supply side (Debt, Equity and Grant) of financial services.

### What you need to prepare to apply for funding

1. The first stage is to evaluate the business and to have a clear understanding of what the requirements are for the business.
2. You will need a business plan to clearly outline your strategy for growth and how you will use the required funding.
3. You will also need to consider if your plan is realistic and achievable, and you will need to be able to back this up with research. It is essential to know your business, the market and your figures inside out.
4. Get advice on the application process, especially if you are seeking equity investment. Speak to an adviser who can help you prepare your plan and give you advice on how to apply and pitch.

### Standard requirements to access finance for a business

Depending on the specific funding sources requirements, the basics for accessing finances includes;

- **Business Registration;** This is a basic requirement to proof legal existence of the entity. Learn more on [How to register a local business entity and Foreign Company Incorporation](#)
- Valid business permit or trade license from the county government.
- Tax Pin and Tax compliance certificates From the [Kenya Revenue Authority \(KRA\)](#)
- A [business plan with clear financial projections](#) is usually a requirement depending on the level of funding.
- **Statement of Purpose of Loan/Funds** - financiers usually approve of businesses funding for the following reasons: -
  - ✓ Improving Cash Flow
  - ✓ Purchasing Equipment
  - ✓ Paying for Expansion Projects
  - ✓ Purchasing Inventory
  - ✓ Payroll financing
- **Business Experience** – based on the number of years in business and how the finances were managed, financiers will approve applications for funding if they are confident that the business will remain successful after receiving the funds.
- **Personal Information. Some financiers may require personal information** including the following:
  - ✓ Addresses
  - ✓ Criminal record if any
  - ✓ Information on your education
  - ✓ Personal Loan/Debt Balances
  - ✓ Tax returns and compliance
  - ✓ Financial statements
  - ✓ Assets owned

- **Financial Statements** - financiers will mostly require a balance sheet, income statements, profit and loss statement, cash flow statement, other financial projections and your business's bank account statements.
- **Loan/Credit Guarantee** –in some cases, the business owner is required to sign a written promise to repay the business loan/debt using personal assets in the event that the business cannot pay the loan/debt balance. This is a **personal Guarantee**. However, **institutional guarantees** where provided subject to terms and conditions of the facility may be sufficient cover for the credit/loan. **Individual guarantors** can guarantee relatively small loans, as it happens in SACCOs and various micro-finance institutions.

*Additionally, financiers will require the following depending on the type and level of funding;*

**Demonstration of consistent cash flow;** financial institutions tend to favor MSMEs that have a steady revenue stream and consistent cash flow every month. This can be demonstrated through past financial records. Sometimes Lenders and investors will require **bank statements** or **Audited Accounts** for a period of 1-5 years.

**Collateral;** Financiers will require sufficient collateral for **secured loans**. This however depends on the specific institutions terms for the loan required. Acceptable collateral includes such items as title deeds, Logbook, listed Stocks at NSE, Life insurance policies and cash in a bank or at hand. This may not apply for **unsecured loans**.

**Debt-to-income ratio;** Some MSME owners seek credit from multiple lenders, especially during the start-up phase. Fanciers will want to check the debt levels against the businesses income.

**Customer concentrations;** Financiers generally like dealing with businesses that demonstrate diversity in their clientele as opposed to dealing with the same customers year in year out. They are skeptical of businesses that report a significant bulk of their sales from only a select few customers as this may indicate risk should these customers stop doing business with you.

**Operating history,** Lenders give preferential treatment to businesses with lengthy and significant records of accomplishment and with sustained amount of success and credibility.

**Management team;** Lenders, investors and grant providers will prefer businesses that have strong top-level leadership with a noticeable chain of command because they are concerned about the organizational integrity and long-term success of the business

**Credit rating;** Good rating by Credit Reference Bureaus (CRBs) qualifies one for debt financing as well as attracting investors.

Most of this information will come from the enterprises management or audited accounts and business plans.

## 7. Useful Links and Resources

### Business registration Services (BRS)

Website: <https://brs.go.ke/contact.php> email [eo@brs.go.ke](mailto:eo@brs.go.ke) Telephone +254 700 072 929 / +254 732 529 995

#### BRS Services Offered and email Addresses for enquiries

- General Correspondence [correspondence@brs.go.ke](mailto:correspondence@brs.go.ke)
- Registration [registration@brs.go.ke](mailto:registration@brs.go.ke)
- Changes of particulars [changes@brs.go.ke](mailto:changes@brs.go.ke)
- Business Name Changes [bnchanges@brs.go.ke](mailto:bnchanges@brs.go.ke)
- Charges and Debentures [debentures@brs.go.ke](mailto:debentures@brs.go.ke)
- Link a business [linking@brs.go.ke](mailto:linking@brs.go.ke)
- Strike-off [strikeoff@brs.go.ke](mailto:strikeoff@brs.go.ke)
- Official Search and CR 13 [officialsearch@brs.go.ke](mailto:officialsearch@brs.go.ke)
- Records [records@brs.go.ke](mailto:records@brs.go.ke)
- Customer Care [customercare@brs.go.ke](mailto:customercare@brs.go.ke)
- MPSR [mps@brs.go.ke](mailto:mpsr@brs.go.ke)
- Hire Purchase [hirepurchase@brs.go.ke](mailto:hirepurchase@brs.go.ke)
- Official Receiver [officialreceiver@brs.go.ke](mailto:officialreceiver@brs.go.ke)

#### Business and Company Registry services links; <https://brs.go.ke/companies-registry.php>

- [Business Name Search and Reservation/Registration guidelines](#)
- [Business Name search and reservations manual Download](#)
- [How to register a local business entity](#)
- [Foreign Company Incorporation](#)
- [Companies Registry Fee Schedule](#)
- [Filing annual returns and changes Guidelines](#)
- [Ongoing Business Compliance Requirements](#)
- [Compliance obligations for quoted/listed companies](#)
- [CR12 List guidelines](#)

### KRA and Taxation

Kenya Revenue Authority (KRA) [www.kra.go.ke](http://www.kra.go.ke) Telephone +254 711 099 999; Email [callcentre@kra.go.ke](mailto:callcentre@kra.go.ke)

- [KRA PIN for a limited company](#)
- [KRA Tax Compliance Certificate for a limited company](#)
- [Small traders Turnover Tax \(TOT\)](#)
- [Taxation for Not-For-Profit](#)
- [Taxation for Societies](#)
- [Imports and Exports](#)
- [Authorized Economic Operators \(AEOs\)](#)
- [EAC Authorized Economic Operator Programme](#)

## Financial Services Regulatory Institutions

- [The National Treasury](#)
- [Central Bank of Kenya \(CBK\)](#)
- [Nairobi Securities Exchange \(NSE\)](#)
- [Central Depository & Settlement Corporation \(CDSC\)](#)
- [International Organization of Securities Commissions \(OICV - IOSCO\)](#)
- [Retirement Benefits Authority \(RBA\)](#)
- [Insurance Regulatory Authority \(IRA\)](#)
- [Financial Reporting Centre \(FRC\)](#)
- [East African Securities Regulatory Authority \(EASRA\)](#)
- [Capital Markets Authority of Kenya](#)
- [Savings and Credit Societies Regulatory Authority\(SASRA\)](#)
- [Kenya Bankers Association \(KBA\)](#)
- [The Competition Authority of Kenya \(CAK\)](#)
- [National Construction Authority \(NCA\)](#)
- [Kenya Industrial Property Institute \(KIPI\)](#)
- [Kenya Industrial Research Development Institute \(KIRDI\)](#)
- [Kenya Investments Authority](#)
- [Kenya Bureau of Standards](#)
- [Kenya Export Promotion and Branding Agency](#)
- [Anti-Counterfeit Authority](#)
- [Micro and Small Enterprises Authority \(MSEA\)](#)
- [Kenya Copyright Board \(KECOBO\)](#)

**A list of Kenyan banking sector institutions (Commercial & Microfinance Banks, insurance, forex bureaus and CRBs) is appended. In addition, mapping of relevant Databases, networking portals and profiled sources of funding with contacts and links are appended to this toolkit.**

About The toolkit	KAMs SME Development	SMEs Financing Landscape	Debt, Equity and Grants	Financial Institutions & Market Players	Planning to Raise Finance	Resources and Links	Feedback & Comments
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## 8. Feed Back and Comments

**Contact Us for comments and feedback on the following addresses;**

15 Mwanzi Road opp West Gate Mall, Westlands,  
Nairobi, Kenya

**E:** [info@kam.co.ke](mailto:info@kam.co.ke)

**M:** +254 (0) 722201368, 734646004/5

**T:** +254 (020) 2324817

**W:** <https://kam.co.ke/>

**Write To Us**

Full Name\* (This field is required)

Email Address\* (This field is required)

Organization

Position

Subject

Message/Comments\* (This field is required)

# This toolkit is a product of the Kenya Association of Manufactures

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