

SME finance low in Kenya due to lack of market data

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28 Oct 2015

Kenya still lacks rigorous analysis on the size and evolution of the small and medium enterprise finance market, which has resulted in a lack of appropriate financial services for SMEs, according to the FinAccess Business - Supply September 2015.

The report shows there is no systematic market-wide analysis of the trends, recent developments, drivers, and obstacles in SME finance, to further engagement in the segment and its future prospects. "The problem exists on both the demand-side and supply-side. On the demand-side, there is no systematic analysis on the numbers, characteristics, and challenges to access to finance for SMEs. Kenya lacks a comprehensive list of active business establishments and therefore it is not possible to measure the number of new entrants in different segments of the economy and the survival rate of young firms, or their capacity to create employment, to grow, and to use credit for productive investments," the report states.



Image via Pxabay

The report was commissioned by Financial Sector Deepening Kenya, the World Bank, and the Central Bank of Kenya. It shows banks do not report data specifically on their SME finance portfolios, making it difficult for the government, regulatory authorities and credit bureaus to inform strategic intervention in the SME sector. According to the report, a large number of SMEs continues to use overdrafts to finance their working capital needs despite the introduction of several trade finance and asset finance products by banks.

"The development of other important SME finance products, such as factoring and financial leasing, has made some progress over the last few years but is still very limited. Developing such products is expected to lower transaction as well as borrowing costs for SMEs and reduce reliance on collateral by drawing on a more diverse set of information."

The cost of credit for SMEs also remains high due the limited use and sharing of positive information about borrowers, inefficiencies in the collateral registration process, the cost of the judicial process, and high overhead costs. However, the report projects that the move towards positive information sharing by banks, payment service providers, and utilities companies will make some progress in addressing these problems, provided that data quality is ensured.

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