

# SME Trade financing gap and the credit crunch: Learning from the Past, the present, preparing for the future

Presentation by:

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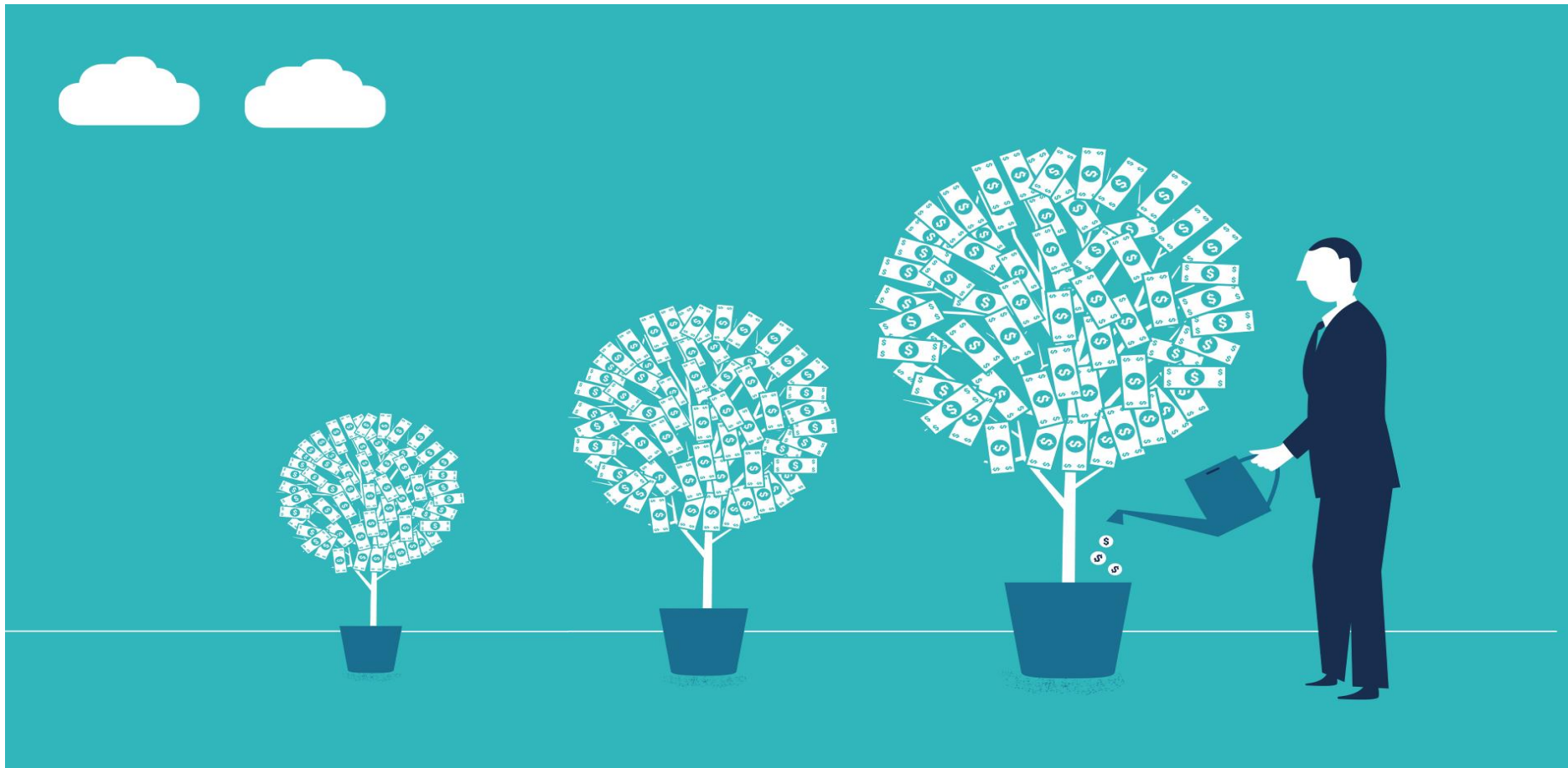
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# Presentation agenda



- Understanding SME
- SME Sources of Funding
- Trade and Trade Financing
- Trade Financing in Kenya
- Risk management in SME-Overview
- Existing Channels of Trade Finance in Kenya
- Challenges
- Trade Financing in the Credit Crunch
- Closing the Gap

# What is SME



# What is SME



- Small and Medium-sized Enterprises or Small and Medium-sized Businesses (SMBs)
- Personnel numbers <250 employees or 2-5 employees
- Other criteria-Assets or sales (turnover) and loan portfolios
- **SME** finance -funding of small and medium-sized enterprises, capital for different types of firms are supplied, acquired, and costed or priced

# What is SME



Firm Size	Empl.	Assets	Annual Sales	Loan Size
Micro	<10	<\$100,000	<\$100,000	<\$10,000
Small	<50	<\$3m	<\$3m	<\$100,000
Medium	<300	<\$15m	<\$15m	<\$1m (\$2m for some advanced countries)

# Sources of Funding for SME



- ❑ IFC's Africa MSME Finance Program supporting SDGs. Partners in Kenya: Equity Bank, Gulf African Bank, DTB, BOA and KCB
- ❑ Other Local Banks
- ❑ Micro Finance institutions
- ❑ Government through YEDF, WEF

# Trade and Trade Financing



- Globally-Multilateral trade Finance facilitation programmes facilitated over \$30b in trade in 2014
- In Africa-AfDB financed between \$1b to \$10b from 2013 \*WTO
- Access to trade finance- key obstacle to low income countries participating in global value chains \*WTO
- TF- engine of an estimated \$14tr in annual global commerce, fundamental to the movement of goods at all stages of the supply chain, especially in emerging markets \*IFC

# Trade Financing-Kenya



Kenyan economy Q1 of 2016 grew 5.9%

Contributors:

- Accommodation and restaurant-12.1%
- Information and communication-9.7%
- Electricity and water supply-8.5%
- Transport and storage-8.4%
- **Wholesale and trade 7.3%**
- Mining and quarrying-6.9%
- Forestry and fishing-4.8%

# Risk Management in SME



# Existing Channels in Trade Finance



- Working capital loans, overdrafts and term loans
- Bank guarantees
- Letters of credit-Accepting and Issuing
- Managing Currency Risks
  - Spot Markets
  - Future Markets
  - Options
  - Swap

# Challenges in Trade Finance



- Collateral requirements
- Regulation on Limits to lending on core capital
- Associated Risk
- Cost of administration
- Contract Enforcement
- Cultural behavior
- Inefficient legal framework
- Informal way of operations

# Financing in the credit crunch



- Credit Crunch-Economic condition in which investment capital is difficult to obtain.
- Result-Flight to quality
- Consequences:
  - Prolonged recession
  - Inability to borrow funds
  - Declined productivity
  - Unemployment,
  - Repercussions on growth abroad
  - Undermined monetary and fiscal stability

# Bridging the Gap



# Closing the gap



- ❖ Supply chain financing
  - Increased access to warehouse financing through warehouse finance programs -IFC
- ❖ Receivables financing or Invoice discounting for weak credit ratings
- ❖ Partnerships for cash guarantee fund e.g.
  - AGRA, Equity, IFAD and Ministry of Agriculture- \$50m to fund 2.5m farmers and 15,000 agricultural value chain members at 10% p.a

# Closing the Gap



- Fanikisha Initiative – UNDP Kenya and Equity promoting women entrepreneurs in Kenya in 2007
- ❖ Improve training programs
- ❖ Dialogue with regulators around SDG
- ❖ Set targets for coordinating and mobilizing efforts towards closing the gap

# Interactive Session



## Light at the End of Tunnel

