Moving the Cog: Economic Transformation Through Export Promotion

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Banking Sector and the Economy

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Access to Finance and Value Addition for Export Promotion

- The significance of micro, small, and medium enterprises (MSMEs) in the achievement of **Kenya's Vision 2030 strategic blueprint** cannot be overstated.
- The small businesses **provide employment opportunities** to **over 14 Million people in Kenya** across sectors.
- The enterprises also play a crucial role in the supply of goods and services, promoting competition and innovation.
- The SME sector is, therefore, important in the actualization of the Vision 2030 plan particularly with regard to elevating Kenya to a middle-income industrialized nation.

Access to Finance Challenges

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- The banking industry **recognizes the challenge of limited access to finance** by MSMEs.

- A study conducted by the AFDB on "Trade finance demand and supply in Africa: Evidence from Kenya and Tanzania " indicates that:

i. One in every four exporters in Kenya fail to meet some export sales **due to lack of access to trade finance.**

ii. However, **16.5 percent** of enterprises that need credit **fail apply for it on account of fear** of rejection or defaulting.

iii. The **unmet demand for trade finance remains sizeable** — estimates show it stands at about **USD 3 billion, representing 14 percent** of the total value of trade.

Banking Industry Interventions

- The banking sector continues to **support access to finance** and value addition for export promotion notwithstanding the **constraints SMEs face.**

- The constraints include **limited extent of formalisation**, **diversification**, and **information asymmetry.**

- Various initiatives and programmes continue to be considered by the industry **to deepen their access to finance** and enhance **value addition capabilities.**

- They include the KBA Inuka Enterprise Program — a special purpose vehicle to empower micro enterprises to formalize —**professionalize management, optimize operations** and **increase their economic productivity** and enhance ability to **access finance from banks.**

Objectives of Banking Industry Interventions

- Under the KBA Inuka Enterprise Program, the industry pursues **five key objectives:**

a. Formalization of the businesses

b. Promotion of business growth and job creation— program seeks to enable MSMEs to keep good financial records, put in place risk mitigation mechanism/structures, and position their businesses to grow into diverse markets.

c. Enhanced access to finance through enhanced partnerships and linking MSMEs with various formal SME products in the banking industry.

d. Value addition in business— Inuka program has a marketplace online feature, where MSMEs can showcase their products and services to expand their market reach.

e. Equitable opportunities.

Innovative Solutions

- Considering that access to finance has been **constrained by information asymmetry** and **lack of collateral,** the banking industry continues to **explore innovative approaches** to addressing the challenges.

- Through **immovable collateral,** the industry has progressively considered the use of **movable collateral to facilitate access to credit** for both personal and business-related credit needs.

- The industry continues to explore the **use of alternative data for credit scoring.**

- The use of alternative data such as the use of transactional data Point of Sale (POS) data and other alternative non-credit data is also gaining traction and offers an avenue towards narrowing the information asymmetry, which has been a key constraint to access to finance.

Research-based Advocacy

- Cognizant that a strong and **sustainable economic recovery** in Kenya will be underpinned by a **vibrant MSMEs sector**, the need to characterize **the environment MSMEs operate** in is important to **facilitate appropriate interventions**, including **enhancing credit to MSMEs.**

- The KBA has been at the forefront, of research-based advocacy and towards that end, we have undertaken studies with a view to helping the industry better understand the MSME ecosystem which continues to be plagued by substantial information asymmetry hence impeding their effective access to finance.

SMEs' Participation in Export Promotion

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- Trade finance services often include unfunded trade finance instruments such as letters of credit which are the most common form of bank-intermediated trade finance for international trade.

- The letter of credit is a commitment by the bank on behalf of the exporter guaranteeing payments to the importer subject to fulfilment of terms and conditions.

- While letter of credit is the most common, evidence suggests approximately 6 percent of exporters rely on letters of credit for trade finance in Africa.

- Other instruments, commonly provided by the banking sector to support trade finance include:

  - Bills of exchange, which involves the bank endorsing bills of exchange, especially when the exporter requires payment guarantees.

  - Pre-export financing loan that seeks to locally finance working capital requirements which are linked to a particular export order, either in local or foreign currency, albeit for a short-term period.

  - Evidence suggests that approximately 44 percent of exporters use short-term revolving credit, while 32 percent rely on pre-export finance.

Thank you

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