



Small and Medium Enterprises (SMEs) continue to create numerous jobs and boost economies of the East Africa countries. In Kenya alone, SMEs constitute 98 per cent of all business creating 30 per cent of the jobs annually as well as contribute three percent to the GDP. However, they face a myriad of challenges that hamper their growth. The Exchange spoke to Philip Sigwart, Director SME at Equity Bank on how the lender is supporting the growth of SMEs including its partnership with Invest In Africa.

1. First of all who are SMEs?

There is always confusion on how SME is defined. Most of the time when people think about SMEs, they think about very small businesses but that is not the reality. Usually we apply the World Bank definition for SMEs that is companies which have total assets of USD250 million, total volume of annual sales up to USD15 million and up to 300 employees. So you can see already with that definition even large businesses can be defined as SMEs. At the lower end of the spectrum, you have the micro entrepreneurs who sometimes are SMEs with small businesses. So it covers from micro-entrepreneurs up to companies in the Export Processing Zones. This is the biggest part of the economy in Kenya and other countries such as Tanzania, Uganda and so on.

2. What are the challenges facing SMEs?

If you ask me one of the main challenges facing SMEs in Kenya for instance and I am talking as someone who spends a lot of time talking to SMEs, the big problem is payment. There are a lot of large organizations who don't pay their suppliers on time and this is the reality on the ground. SMEs also find it very difficult to do business with the government or county governments because they delay their payments. This is making the lives of SMEs difficult. A lot of them suffer because they supply goods but they are not getting paid.

3. What is Equity Bank's role in supporting SMEs?

Well, the most important part of our work is to provide banking services especially financing. However, we also have other products such as Equitel which provides tools and features that enables one to perform all their financial transactions as well as make calls, send SMS and browse the internet. Equity Bank has also provided Eazzy Pay which is a complete payment solution. This allows people to pay for goods and services. On the other hand, Equity Group foundation does entrepreneurship training. So far, we have provided training to over 25,000 SMEs and this is quite a comprehensive programme where we teach them all the basic business skills which include accounting, marketing, digital tools such as online tools and resource management. Most of them are involved in trade. They include shop owners, restaurants, small scale manufacturers, hotels and transport companies. We serve a total of 600,000 SMEs in Kenya alone, and the volume of financing that we have with SMEs in Kenya is about Ksh150 billion. We are by far the biggest bank to serve SMEs in the entire region with 70 per cent of our loan book being to SMEs. Equity operates in six countries including Uganda, Tanzania, Rwanda, DR Congo and South Sudan. We provide these services in all the countries we operate in.

4. You have a partnership with Invest In Africa. How can you define your partnership and why did you decide to go that way?

The reason why we joined Invest In Africa is because they have a very strong focus on helping and supporting the development and growth of SMEs. Since we are a big player in the SME sector, we thought the partnership will be very important to grow the small and medium businesses.

5. How long have you partnered with IIA and what are the achievements so far?

The partnership started about two years ago. I would say the most important project for IIA is the African Partner Pool (APP) which is helping SMEs scale up by providing access to finance, skills and markets. APP platform focuses on tenders for large companies where SMEs can get information on tenders, participate in tenders and so on. We want to make sure that SMEs have the opportunity to participate in tenders announced by big companies. The platform was launched at the beginning of this year and it is developing very well. It presents a real opportunity for SMEs to participate in the value chain of these big corporates and multi nationals. It is only a start but we see a lot of potential going forwards.

6. Have you made any inroads so far since you began the partnership?

Yes of course. SMEs have been able to find information about banking services on the platform and it is also directly integrated with our Eazzy Pay which is the equivalent of Lipa Na Mpesa but for Equity Bank customers, which allow them to pay directly or process all their payments through the platform.

7. Any plans to increase the number of SMEs you are supporting?

Of course we would like to increase the number of SMEs we serve and this will happen automatically as the number of SMEs in Kenya and the region increase. I don't remember the exact total number of registered SMEs in Kenya but it is around 1.6 million so you can see we already have a large portion of these SMEs who are customers of Equity Bank. As the number increases, we expect the number at Equity to increase.

8. Any benefits cutting across Equity and IIA especially on the partnership?

There are linkages between the APP platform and the bank. For example if an SME gets information about a tender on the APP, participates and wins, we can provide financing for the SME to be able to execute the

tender. We can also provide bank guarantee which is normally a critical thing in tenders where one has to provide performance guarantee.

9. What should governments in the region do to support SMEs?

It is important that governments have policies which are supportive of the SME sector. This means having regulations in place and at the same time making sure the regulations are simple to understand and easy to apply. Most of the countries are not doing very well on the ease of doing business according to the World Bank Index. The only country in the region which has made quite a lot of progress is Rwanda. They need to keep things simple and easy to understand. Issues such as business registration and licensing are important for SMEs. The East African Community member states have done a lot but there is always room for improvement.

10. Large companies involved in similar businesses with SMEs tend to look at them as competitors. Which is the best way to go to ensure a fair playing field?

Competition is good in general because it makes one improve the quality of goods and services they are offering so there is nothing wrong with competition. Many SMEs fail but there is nothing wrong with that because many other SMEs are coming up. I would say competition is good for the economy. For SMEs I would say they have to be careful and make sure they manage their businesses well because otherwise they will disappear.

11. Should we have more cooperates and big institutions support SMEs?

Yes, I would say more corporates and institutions should come out and also buy goods and services from the SMEs.

12. Some governments policies tend to suppress regional trade. What is your take?

Yes. There have been cases where Kenyan SMEs cannot sell certain goods to Tanzania. This creates difficulties and in the end is not good for anyone. Cross border trade inside the region is good for SMEs, that's the general message. Also making cross border trade easy. The integration of the East African Community is something that is very important for businesses.

This will provide a lot of SMEs with business opportunities where they can sell goods across either borders. Governments need to support cross border trade.

13. What are some of the best practices SMEs can adapt to ensure they grow?

I would say recommendation number one: keep track of your finances. Two don't spend more money than you have. I see very often where SMEs fail because they have a business which works well but then they start taking out money to invest in property. They end up without stock in their shops. The two are the very simple recommendations.

14. The capping of interest rates in Kenya has locked out millions of SMEs from accessing credit, what is you take?

That is true. The most affected are the small players like the micro-entrepreneurs. It has become more difficult for them to get loans from banks because the truth is that, this type of lending is more risky for banks. The risk is covered by the interest margin but when there is an interest cap where the margin is limited, then why should the banks lend to these SMEs especially when the return on treasury bills is almost on the same level.

15. What do you think needs to be done to ensure they are not locked out?

I can tell you one thing. Many countries have interest cap including the UK but they find certain credit products where the cap is flexible. We can try this for example we can say for unsecured consumer lending, you cannot charge more than this. A lot of people in government and the Central Bank know very well how this works.

16. What is your parting shot to SMEs in the region?

What I would say is that they need to know starting a business is difficult not here alone but in the whole world. Even in the United States SMEs complain. SMEs and managers of these businesses need to be more cautious about how they manage their finances. They need to make sure they have proper accounting in place, they keep track of their finances and that they don't overspend. If they do that, then they will be in good business. I am very positive about SME development and they will play a very important role in the economic development of the region.

