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**Intergovernmental Working Group of Experts on  
International  
Standards of Accounting and Reporting  
(ISAR)**

**34th SESSION**

1 - 3 November 2017

Room XVII, Palais des Nations, Geneva

Friday, 3 November 2017

Afternoon Session

**Agenda item 5 (b). Accounting and Reporting by MSMEs as  
a means towards financial inclusion**

**Feedback on ISAR Regional Workshops**

Presented by

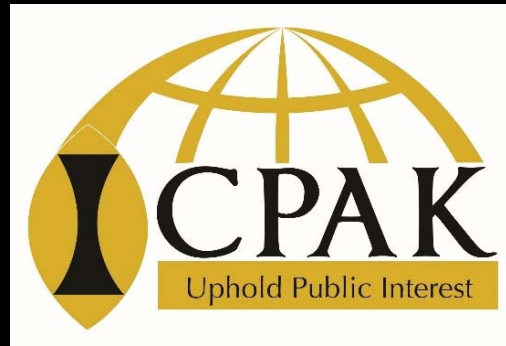
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# **Feedback from ISAR Regional Workshop in Nairobi Kenya.**

*ISAR 34, Palais des Nations - Geneva*

# The Tone



Accounting is the language of business. At any sphere of exchange is accounting – including barter trade (traditional form of exchange). In this respect, you cannot separate accounting from life.

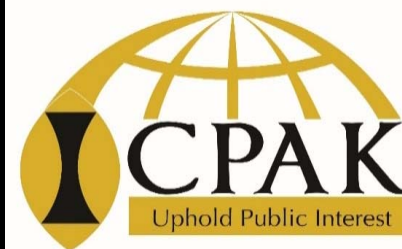
Accounting and reporting are critical success in businesses – being able to determine the cost and mark-up; identifying profitable lines of business, innovations around cost management/savings/cheaper suppliers

# Introduction



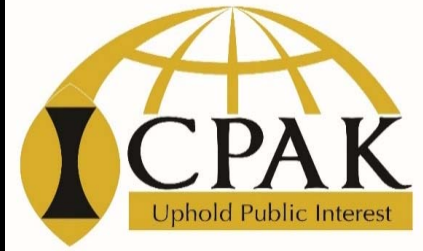
- 50% of start-ups fail within five years (*OECD, Entrepreneurship at a Glance, 2015*)
- 36% of business failures are caused by inadequate financial management (*Turnaround Management Society 2014*)
- 8-14% of companies go out of business each year (*ACCA, Financial Education for Entrepreneurs: What Next? 2013*)

# Background – Macro Economic Environment for Kenya



Macro Economic Variables	2012	2013	2014	2015	2016
Population (million)	40.7	41.8	43.0	44.2	45.5
GDP per capita (USD)	1,243	1,322	1,433	1,427	1,558
GDP (USD Bn)	50.6	55.3	61.6	63.1	70.8
Economic Growth (GDP, annual variation in %)	4.5	5.9	5.4	5.7	5.8
Consumption (annual variation in %)	5.7	8.5	4.6	5.1	4.8
Investment (annual variation in %)	12.7	1.2	14.8	6.7	-9.3
Industrial Production (annual variation in %)	4.1	5.4	5.3	6.1	6.0
Fiscal Balance (% of GDP)	-6.0	-6.8	-7.0	-9.6	-8.1
Public Debt (% of GDP)	42.1	44.5	45.9	50.4	53.5

# MSME Factor in Kenya's Economic Statistics



Kenya's 2017 overall GDP growth is projected at 6.4 percent with MSMEs accounting for about 50% of the growth projection.



According to the 2017 Economic Survey for Kenya, 80 percent of the 800,000 jobs created in the year came from the informal sector which is dominated by the MSMEs

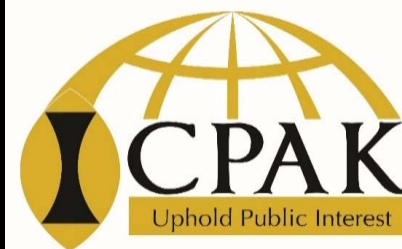


A recent National Economic Survey report by the Central Bank of Kenya (CBK) indicate that MSMEs constitute 98 percent of all business in Kenya



**When MSME sector ails, the entire economy suffers.**

# ISAR Regional Workshop in Nairobi



Hosted by UNCTAD, ICPAK and ACCA

Participants drawn from - policy makers from Governments across Africa, private sector players, professional accountancy bodies and academia.

**Themed :**  
**Best Policy Practice and Guidelines on Accounting and Insurance regulation for Micro, Small and Medium-sized Enterprises (MSMEs)**

The workshop was organized to sensitize players on the role of insurance and accounting in facilitating financial inclusion, with the final expectation to develop a stock of issues both at policy and operational levels to support access to finance by MSMEs and hence foster development of the sector.

Coincided with the launch of Empretech Kenya and graduation of the first batch of women entrepreneurs a process overseen by SG UNCTAD and Mr Jack Ma – the Alibaba Chairman

# Role of Accounting and Insurance Policies



- MSMEs play a key role in economic growth across Africa – the sector accounts for a significant portion of economic activity across the continent.
- Whilst the inherent capacity is huge, MSMEs still suffer the constraints of limited capacities to access finance and financial services – pointing to documentation challenges/lack of basic financial records.
- There is not an appropriate framework geared towards MSMEs financial reporting.... IFRS for SMEs not appropriate as it has been evaluated to be fairly complex to meet the reporting needs of the sector.



# Capacity Building Challenges



- Traditional sources of financing for MSMEs have revolved around personal savings, loans from friends and family, and other informal sources.....unreliable
- Highly priced loan products from financial institutions – before capping of interest rates in Kenya...cost of finance was as high as 45% per annum.
- Strenuous regulatory environment such as – lengthy procedures in registration of businesses; multiple compliance requirements mostly around licenses.

# Private Sector Perspective



Perspectives from Kenya Commercial Bank and Safaricom Limited – two leading corporate brands in East and Central Africa region. Hindrances to private sector support to MSMEs revolved around:

Demand-side bottlenecks –

- Low financial literacy skills to put in place basic systems;
- Thin line between the business and the owners
- Lack of records which then culminates in lack of financial statements.

Supply-side bottlenecks

- High cost of hiring qualified accountants and or accessing professional services
- Complex accounting procedure required as per the market standards
- Costly accounting systems/ softwares - basic accounting systems basice.g. quick books

# Identified Challenges



## SKILLS

Own skills  
Employees' skills  
Training  
Accountant / bookkeeper  
Other advisers



## INFORMATION

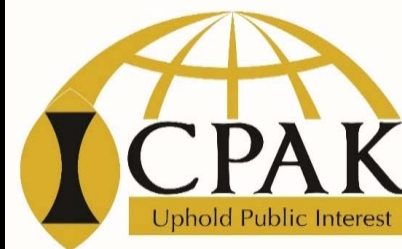
Business plan  
Accounting processes  
IT systems  
Management information



## FUNDING

Personal savings  
Friends and family  
Supplier and customer funding  
Retained profits  
External financing

# Way forward - Accounting



- Relaxed regulatory regime - consolidate reporting requirements – general reporting against compliance
- Robust capacity building initiatives for players within small and micro business sector
- Highlighting success stories of good accounting and financial reporting among MSMEs
- Pooled funds to drive better accounting among MSMEs
- Simplified frameworks that guide record keeping and reporting
- Develop pricing guidelines to ensure access to professional services

# Way forward – Insurance



- Undertake a needs assessment first in developing insurance products for MSMEs
- Players to embrace technology to driving market access
- Adopt tax incentives that support the growth insurance products targering the MSMEs
- Insurance sector players should simplify their systems and processes to the level appropriate for MSMEs



**In conclusion** – MSMEs from Africa sounded a clear warning to the accounting profession.... Make it SIMPLE.

Thank You...Je vous remercie...谢谢...  
Gracias...شكرا...Спасибо