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THE NATIONAL TREASURY AND ECONOMIC PLANNING

ANNUAL PERFORMANCE REPORT FOR THE MSMEs CREDIT
GUARANTEE SCHEME

2024/25 FINANCIAL YEAR


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A. BACKGROUND

The Government recognizes the vital role Micro, Small and Medium Enterprises (MSMEs) play in the country's economic development. The Fourth Medium Term Plan (MTP) 2023-2027 aligned to the Bottom-Up Economic Transformation Agenda prioritizes promotion of MSMEs as one of the six pillars to drive the country's economic transformation. According to the Kenya National Bureau of Statistics (KNBS) 2016 MSME Survey, the country has over 7.4 million MSMEs, employing over 14.9 million Kenyans across all sectors of the economy. MSMEs contribute about 40% of the country's GDP and are significant driver of inclusive economic growth by operating in nearly all sectors of the economy.

Despite their significance, MSMEs continue to face numerous challenges that hinder their growth and sustainability. Most of the start-ups do not survive beyond their 4th year largely due to constrained access to finance for capital and operational demands, constrained market challenges, and weak business strategies. Further, MSMEs that access credit face unfavorable loan conditions due to lack of sufficient collateral, high collateralization requirements, short repayment periods, informal markets, inaccurate data, and high interest rates. These conditions are driven by the perceived high risk associated with MSMEs, stemming from information asymmetries, lack of formal credit histories, and informal management practices. Consequently, financial institutions find it difficult to assess the creditworthiness of MSMEs, further exacerbating their financing challenges.

The Covid-19 Pandemic had a disproportionate impact on MSMEs exacerbating their existing vulnerabilities. With lower turnover and interruptions in the market and supply chains, many MSMEs were affected and continue to be unlikely to obtain affordable and high-quality loans under traditional arrangements.

Considering the above, the National Treasury rolled out the Credit Guarantee Scheme (CGS) in 2020, to support MSMEs to access quality and affordable credit. This was aimed at helping MSMEs stay afloat and safeguard employment during and after the Covid-19 pandemic. The Credit Guarantee Scheme is anchored under the Public Finance Management Act (Cap. 412 A) and the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020. In the 2020/21 financial year, Parliament allocated KSh.3 billion as an initial seed capital for CGS.

The Credit Guarantee Scheme for MSMEs is currently being delivered through a risk sharing agreement between the Government and seven (7) participating banks. The seven banks are Absa, Cooperative, Credit, DTB, KCB, NCBA and Stanbic. The banks act as the intermediaries in

provision of credit to qualifying MSMEs borrowers based on a pre-agreed Scheme Qualifying Criteria. Lending is done by the banks with due diligence in line with the Central Bank of Kenya's Prudential Guidelines.

The maximum loan amount under the Scheme is KSh.5 million with a tenor of 36 months and up to 5 months' grace period and discounted interest rate based on the MSMEs risk profile. The Scheme guarantees to pay the banks 50% of the outstanding principal amount, subject to a maximum of 25% of the principal amount, in case of default on qualifying credit facilities advanced to MSMEs. This provides an incentive for the banks to offer better credit terms for the qualifying MSMEs.

B. STATUTORY REPORTING REQUIREMENT ON CGS FOR MSMEs

Sections 32 and 59A of the Public Finance Management Act (Cap 412A), requires the Cabinet Secretary to prepare, on request from parliament and at least once every year, a statement of the credit guarantees granted to qualifying MSMEs, together with a report of:

- (a) the total value of credit guarantees given during that period;
- (b) the total value of credit guarantees liquidated during that period;
- (c) the total value of outstanding credit guarantees on the date of the report;
- (d) the risk assessment of the credit guarantees or classes of guarantees;
- (e) information on the total value of credit guarantees, disaggregated into the number of enterprises owned by women, youth and persons living with disabilities which have been guaranteed;
- (f) information on the total value of credit guarantees, disaggregated into the number of micro, small and medium enterprises guaranteed and by the respective regions; and
- (g) any other relevant information prescribed by regulations for the purposes of this section.

The Public Finance Management (Credit Guarantee Scheme) Regulations, 2020 expounds on the reporting requirements outlined in the PFM Act (Cap 412 A). Regulation 20 states that the Scheme Manager shall prepare and submit to the Scheme Administrator regular reports on the credit guarantees given under the Scheme including financial and technical reports on guarantees made during the period together with information on:

- i. the products and sectors for which guarantees have been issued;

- ii. the number of beneficiary micro, small and medium enterprises;
- iii. the value of credit guaranteed;
- iv. the repayment periods;
- v. the guarantees which have been liquidated;
- vi. reports on repayments made on outstanding credit facilities and details of any outstanding payments;
- vii. reports on delinquent guarantees and the stage of recovery;
- viii. reports on the size and quality of the guaranteed portfolio;
- ix. reports on the liquidity position of the Scheme; and
- x. the risk assessment of the credit guaranteed.

This Annual Performance Report is prepared pursuant to Section 59A of the Public Finance Management Act (Cap 412 A) and covers a summary of cumulative performance of the Scheme as at 30th June 2025 and a detailed performance of the Scheme in the Financial Year 2024/25. The report is based on monthly returns submitted by Participating Financial Intermediaries (PFIs) through the Central Bank of Kenya.

C. CGS PERFORMANCE REPORT AS AT 30TH JUNE 2025

As at 30th June 2025, CGS disbursed a cumulative value of approximately KSh.6.6 billion to 4,315 MSMEs, across 46 Counties and 12 sectors of the economy as reported by the PFIs through the Central Bank of Kenya. Mandera County is yet to record beneficiaries under the CGS.

Out of the 4,315 beneficiary MSMEs, 2,912 are new borrowers translating to 68% of the portfolio, indicating that the CGS is enabling access to credit by otherwise marginalized groups. All the three sizes of enterprises (Micro, Small, and Medium) have benefitted from CGS facilities issued. Micro enterprises have received 1,230 (29%), Small enterprises have received 2,463 (57%) while Medium enterprises have received 622 (14%). Enterprises owned by women, youth and persons with disabilities (PWDs) have received 20% of the total number of guaranteed facilities that have been disbursed, with women beneficiaries receiving 586 (13.7%), youth beneficiaries 264 (6.4%), and PwDs 11 (0.3%). Beneficiaries of CGS guarantee have so far supported a minimum of 27,441 jobs.

The outstanding credit guarantee is Ksh.332.7 million as at 30th June 2025. Further, a total of 3,537 facilities amounting to KSh.5.3 billion have been fully repaid, releasing a guarantee value of KSh.1.3 billion. This amount can be released for lending to additional qualifying MSMEs. This is

the unique advantage of credit guarantees since funds can be reallocated among more qualifying beneficiaries, upon repayment, thereby increasing the impact in the economy. The CGS has so far achieved a leverage ratio of 2.4 indicating that for every one shilling committed by the Government, KSh.2.4 private sector credit has been unlocked to MSMEs.

D. CGS PERFORMANCE REPORT FOR THE FINANCIAL YEAR 2024/25

The CGS Annual Performance Report for the Financial Year 2024/25 is as follows:

(a) the total value of credit guarantees given in the FY 2024/25

During the FY 2024/25, KSh.308,239,994 was disbursed to 194 MSMEs under the CGS. This disbursement represents credit guarantee value of KSh.77,059,998 advanced to eligible MSMEs in the financial year.

(b) the total value of credit guarantees liquidated in the FY 2024/25

During the reporting period, the National Treasury paid seven (7) claims amounting to KSh.1.3 million.

(c) the risk assessment of the credit guarantees or classes of guarantees

The Credit Guarantee Scheme uses the Central Bank of Kenya risk classification of assets and provisioning outlined in the Central Bank of Kenya Prudential Guidelines (CBK/PG/04). For purposes of risk classification, the facilities are classified as either Normal, Watch, Substandard, Doubtful or Loss.

“**Normal**” facilities are well-documented facilities granted to financially sound customers where no weaknesses exist, and are performing, and are expected to continue to perform, in accordance with contractual terms.

“**Watch**” facilities may not be past due but exhibit potential weaknesses which may weaken the asset or inadequately protect the institution’s position at some future date. Facilities whose installments have become due and remain unpaid for a period between 30 and 90 days are classified under “Watch”.

“**Substandard**” facilities are not adequately protected by the current net worth and paying capacity of the borrower and, therefore, the institution must look to secondary sources such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment. Facilities

whose installments have become due and remain unpaid for a period longer than 90 days are classified under “Substandard.” PFIs can lodge claims once facilities are “Substandard”.

“**Doubtful**” facilities have all the weaknesses inherent in a substandard loan plus the added characteristic that the loan is not well secured. These weaknesses make collection in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. Facilities whose installments have become due and remain unpaid for a period longer than 180 days are classified under “Doubtful”.

“**Loss**” facilities are considered uncollectible or if the collections are of such little value that their continuance recognition as bankable assets is not warranted. These facilities must have been due and unpaid for over 360 days.

Out of the 778 active facilities reported as at 30th June 2025, 328 facilities are categorized as impaired (Watch, Substandard, Doubtful or Loss). The total outstanding principal amount for the impaired facilities is KSh.184,448,475 million with a corresponding CGS liability of KSh.71,902,289 million. A summary of impaired facilities is as illustrated in table 1 below.

Table 1: CGS impaired Facilities

Loan Classification	Number of facilities	Outstanding Principal Amount (KSh.)	Sum of CGS Liability (KSh.)
Watch	30	10,607,276	4,362,040
Substandard	145	58,539,633	23,551,357
Doubtful	60	49,108,769	18,944,126
Loss	93	66,192,797	25,044,766
Total	328	184,448,475	71,902,289

(d) information on the total value of credit guaranteed, disaggregated into the number of enterprises owned by women, youth and persons with disabilities;

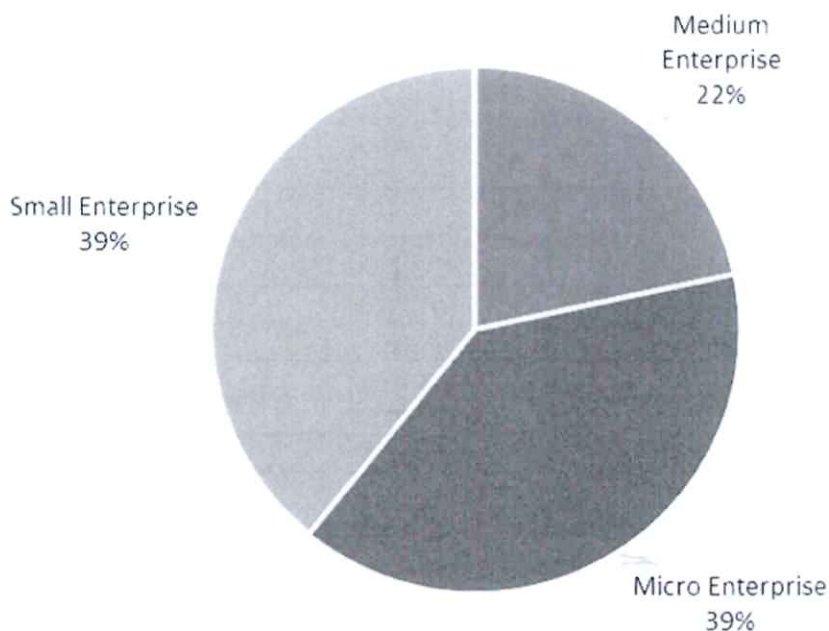
In line with the Constitution and CGS legal framework, the Government targets to have at least 30% of guaranteed facilities extended to businesses owned by women, youth and Persons living With Disabilities (PWDs). In the FY 2024/25, the enterprises owned by women, youth and PWDs received 22 (11.5%) of the total number of guaranteed facilities disbursed, with women beneficiaries receiving 21(11%) and youth beneficiaries 1(0.5%). However, in terms of value, this category received 8.8% of the total value of credit guarantees. This may be attributed to smaller volumes of credit facilities that this category borrows on average. In the FY 2023/24, this category of borrowers received 22.9% of guaranteed facilities. The National Treasury will continue working with PFIs, relevant stakeholders and MSME groups to increase the number of

beneficiaries in these categories to at least 30%. Further the National Treasury will continue with its efforts in collaboration with relevant agencies to undertake capacity building initiatives with this category of beneficiaries.

e) information on the total value of credit guarantees, disaggregated into the number of micro, small and medium enterprises guaranteed and by the respective regions;

During the reporting period, all the three sizes of enterprises (Micro, Small, and Medium) have benefitted from CGS facilities issued during the reporting period. Micro enterprises received 76 (39%), Small enterprises 76 (39%) while Medium enterprises received 42 (22%) as is illustrated in **Figure 1**. In terms of value of facilities, Micro enterprises received KSh.73 million, Small enterprises received KSh.131.6 million, while Medium enterprises received KSh.103.6 million.

Figure 1: Share of beneficiaries of credit guarantees by enterprise size of FY 2024/25



f) information on the total value of credit guarantees, disaggregated by Counties;

CGS has benefitted MSMEs across 46 Counties since inception. In FY 2024/25, CGS recorded beneficiaries in 30 counties accounting for 64% of the total 47 counties in the country, with high concentration in Nairobi (83), Mombasa (18), and Kiambu (9). This could be explained by the concentration of MSMEs in urban centres and PFIs branches across the counties implying high demand of credit in these regions. Mandera County is yet to record beneficiaries under the CGS. This could be attributed to the fact that only one of the seven PFIs has presence in Mandera

County. The National Treasury continues to work with PFIs that have presence in northern counties, including Mandera, to increase uptake of facilities in those areas. The National Treasury and stakeholders are also undertaking targeted outreach and awareness campaigns to increase uptake across all the Counties. The CGS county coverage by number of beneficiaries and value of facilities is shown in **Figures 2 & 3** respectively.

Figure 2: Distribution of number of guaranteed facilities by county in the FY 2024/25

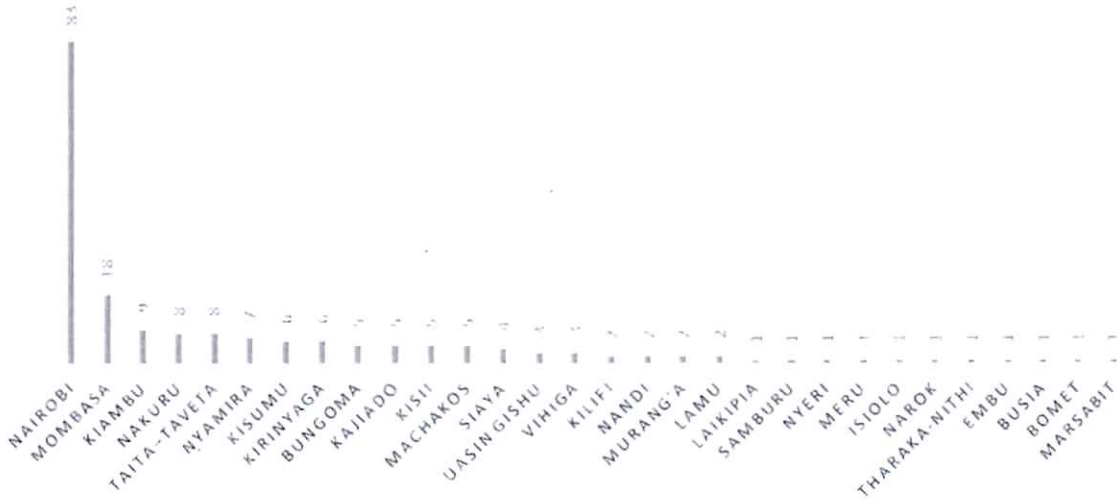
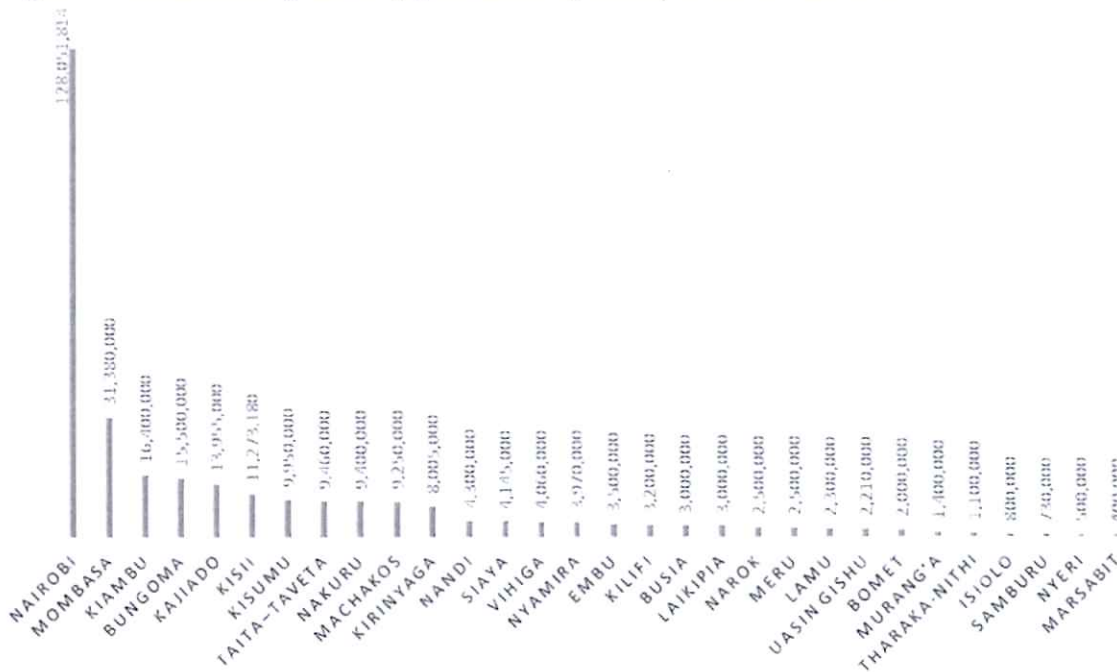


Figure 3: Distribution of value of guarantees by county in the FY 2024/25

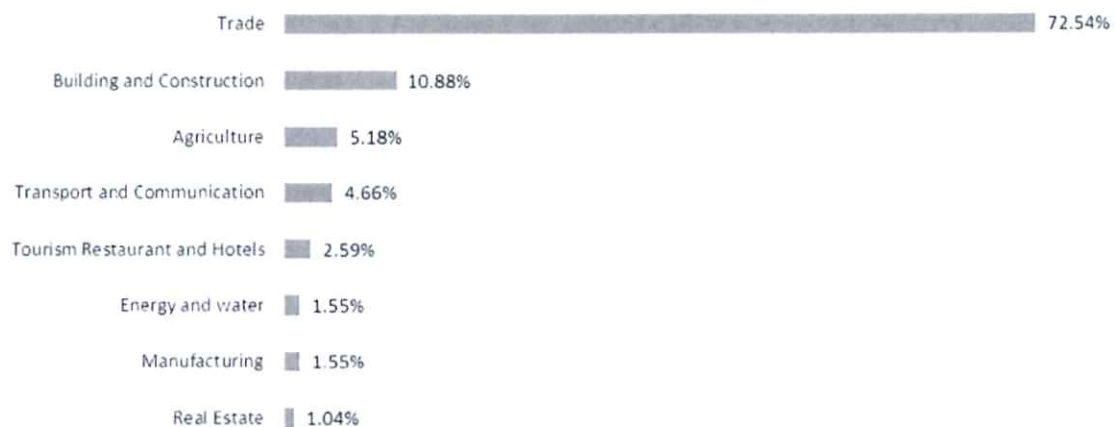


(g) Other relevant information

i. Allocation of credit guarantees by economic sector

During the reporting period, facilities booked under the Scheme were distributed to eight (8) sectors of the economy as illustrated in **Figure 4**. Trade sector received 73% of CGS facilities continuing to show dominance in the sector distribution.

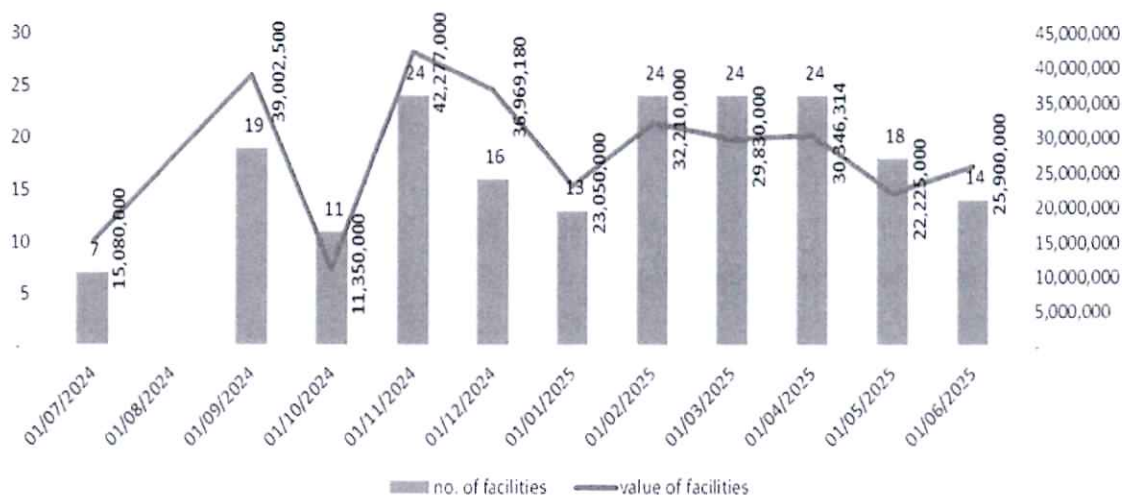
Figure 4: Share of credit guarantees by economic sector in the FY 2024/25



ii. Trend of number and value of guaranteed facilities by month in the FY 2024/25

The FY 2024/25 recorded a declining trend in loan disbursements under the Scheme as compared to the FY 2023/24. A total of 194 facilities with a value of KSh.308.2 million were booked under the Scheme. Generally, there is a slowing trend of booked facilities under the Scheme. This could be attributed to the narrow eligibility criteria for borrowers and prevailing macro-economic environment. The trend of number and value of facilities by month is shown below in **Figure 5**.

Figure 5: Trend of number and value of facilities by month in the FY 2024/25



iii. Guarantee Utilization as at 30th June 2025 (Liquidity Position of the Scheme)

Guarantee utilization is an indicator of the amount that the Scheme will pay in the event of a default, which is a maximum of 25% of the principal amount disbursed. As at 30th June 2025, utilization of guarantees stood at KSh.1,647,047,821 representing a cumulative utilization rate of 60.8%. Of these guarantees, KSh.77,059,998 was utilized in the FY 2024/25, compared to KSh.133,952,920 utilized in the FY 2023/24.

E. OTHER ACTIVITIES

i. Conversion of the CGS into a Company

The National Treasury is finalizing the process of converting the current Credit Guarantee Scheme (CGS) into a Company to enhance its sustainability and impact in the economy. It is expected that the Company will unlock more private sector lending through partnerships and sector specific guarantee products. This framework has already been approved by the Cabinet and an accompanying legislation for supervision of the Company by the CBK enacted through Business Laws Amendment Act, 2024.

ii. Development Partner Support

The National Treasury is working in collaboration with development partners to enhance access to guaranteed credit by various economic sectors and marginalized groups. The National Treasury is working with the Supporting Access to Finance and Enterprise Recovery (SAFER) Project Implementation Unit, jointly with the World Bank, to transition the Scheme to a Company. The

Rural Kenya Financial Inclusion Facility (RK-FINFA) project implemented jointly with the International Fund for Agriculture Development (IFAD) is supporting a special guarantee window for the rural agricultural sector. Further, Financial Sector Deepening Kenya (FSD-K) has continued to provide technical and operational assistance on implementation of the Scheme activities.

iii. Stakeholder engagement

The National Treasury continues to engage the PFIs and other stakeholders to discuss various aspects of implementation of the Scheme including uptake of guarantees and the ongoing process to establish the Company.

F. CHALLENGES AND ACTION TAKEN ON IMPLEMENTATION OF CGS

The following are among the challenges faced by the Scheme:

No	Challenges	Action Taken
1.	Unsustainable model: As the Scheme expands and the number of claims increases, there is a risk of capital depletion unless deliberate strategies are implemented to grow or replenish the fund. Additionally, the Scheme currently relies on staff who are also engaged in other competing assignments, which may affect its efficiency. To ensure long-term sustainability, transitioning the Scheme into a company is necessary.	The Cabinet approved the formation of the Kenya Credit Guarantee Company, in which the government will hold minority shares. The process of transitioning the Scheme to the company is ongoing.
2.	Informality of MSMEs: Most MSMEs are not registered and do not have tax compliance certificates as required by Regulation 10 of the CGS Regulations. This reduces the uptake of credit guarantees by banks.	The proposed Company with other stakeholders will explore mechanisms of moderating the effect of informality on accessibility of credit guarantees.
3.	Definition of Micro, Small and Medium Enterprises: Most of the enterprises do not fully fulfill the definition criteria set out in the PFM Act, 2012 and the MSEA Act, 2012. Consequently, an enterprise could be micro by	The Ministry of MSMEs is undertaking legal amendments to MSE Act, 2012 and the National Treasury is supporting the process.

number of employees while according to turnover it could be classified as small or medium enterprise hence affecting reporting.

4. **Sector classification:** The definition of economic sectors in the banking industry may be contributing to misclassification of some MSMEs and the difficulty of the CGS to track impact in certain sectors of interest e.g. creative arts and ICT. For instance, some enterprises involved in health care services, education and agricultural value chains are being classified as trade. The NT is exploring mechanisms to solve the problem including discussion with the CBK and the PFIs.
5. **Moral hazard:** The challenge to create awareness on the credit guarantee while safeguarding the CGS from the risk of moral hazard. Management of information and creation of awareness is being undertaken through the development and implementation of communication strategies.

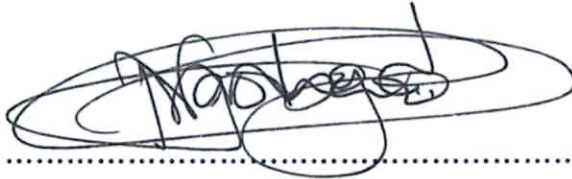
G. CONCLUSION AND NEXT ACTIONS

The CGS performance report highlights how the Government has leveraged on private sector resources to improve access to credit for MSMEs while advancing the objectives of the Bottom-Up Economic Transformation Agenda. Through the Scheme, the seven PFIs have extended loans totaling to **KSh. 6.6 billion** to MSMEs. Further, participating banks are implementing the Scheme through their existing branch networks and infrastructure allowing them reach out to MSMEs across the country. This is evidenced by the Scheme's outreach to 46 counties, targeting women, youth, and persons with disabilities, as well as micro, small, and medium enterprises.

To ensure the Scheme meets its core objective of enhancing access to finance for Micro, Small, and Medium Enterprises (MSMEs), the Government, through the National Treasury, is implementing the following key initiatives:

1. Establishment and operationalization of the Kenya Credit Guarantee Company (KCGC) by transitioning the Scheme to a company to enhance its sustainability and impact in the economy.

2. Onboarding Participating Financial Institutions (PFIs) for the implementation of the Rural Credit Guarantee Scheme (RCGS), aimed at increasing financial inclusion and expanding credit access to smallholder farmers and MSMEs in rural and underserved areas.



Signed:

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