

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

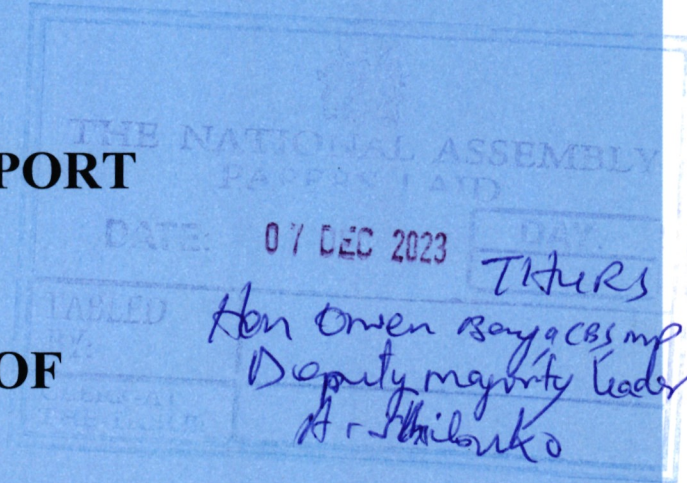
ON

**MICRO FINANCE SECTOR SUPPORT CREDIT
PROJECT (CREDIT NO. CKE 3004 01E AND
CKE 6010 01E)**

**FOR THE YEAR ENDED
30 JUNE, 2023**

THE NATIONAL TREASURY

PARLIAMENT
OF KENYA
LIBRARY







MICRO FINANCE SECTOR SUPPORT CREDIT

**Implemented by
Budget Fiscal and Economic Affairs Department
The National Treasury**

PROJECT GRANT/CREDIT NUMBER: CKE 3004 01E, CKE 6010 01E

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

**Prepared in accordance with the Cash Basis of Accounting Method under the International Public
Sector Accounting Standards (IPSAS)**

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2. Acronyms and Glossary of Terms

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
Comparative FY	Financial year preceding the current financial year.
MFSSC	Micro Finance Sector Support Credit
BEFA	Budget Fiscal and Economic Affairs
AFD	Agence francaise de Development
RMD	Recourse Mobilization Department
OAG	Office of the Auditor General
WIBA	Work Insurance Benefit Act
RK-FINFA	Rural Kenya Financial Inclusion Facility
SACCO'S	Savings And Credit Cooperative Organisations

3. Project Information and Overall Performance

3.1 Name and registered office

Name

Micro Finance Sector Support Credit

Objective

The key objective of the project is to contribute to reduction of poverty in Kenya

Address

The project headquarters offices are at The National Treasury Building along Harambee Avenue. The address of its registered office is:

P.O.Box 30007-00100

The National Treasury Building

NAIROBI,KENYA

Entity Contacts: The following are the project contacts

P.O. Box:

Telephone: (254) 20 2252299

E-mail: pstreasury01@gmail.go.ke

Website: www.treasury.go.ke

Project information and overall performance (continued)

3.2 Project Information

Project Start Date:	25/05/2005
Project End Date:	31/12/2014(as per amendment no 002) the project has requested the office the OAG to perform the final audit with view of winding up.
Project Manager:	Mr Albert K Mwenda, HCS, Director General, Directorate of Budget, Fiscal and Economic Affairs
Project Sponsor:	Agence Francaise de Development (AFD)

3.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Directorate of Budget ,Fiscal and Economic affairs ,The National Treasury.
Project number	CREDIT NO. CKE 3004 OIE; CKE 6010 OIE
Strategic goals of the project	The strategic goals of the project are as follows: (i) To contribute to the reduction of poverty in the rural areas of Kenya.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Access to credit. (ii) Creating a vibrant and globally competitive financial sector that creates jobs and promote savings.
Other important background information of the project	None
Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: (i) Financial inclusion (ii) Access to credit
Project duration	The project started on 25/05/2005 and was expected to run until 31/12/2014.

Project Information and Overall Performance (Continued)

3.4 Bankers

The following are the bankers for the project:

- (i) Central bank of Kenya
Haile Selassie Avenue
P.O Box 60000-00200
City Square
NAIROBI, KENYA

3.5 Independent Auditor

Office of the Auditor-General
Anniversary towers, university way
P.O Box 30084-0100
NAIROBI, KENYA

3.6 Roles and Responsibilities

List the different people who are working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Key qualification	Responsibilities
Dr.Chris Kiptoo,CBS	Principal Secretary, The National Treasury	Accounting officer	Accounting officer
Mr.Albert Mwenda, MBS	Director General Budget, fiscal and Economic Affairs	Director General Budget, fiscal and Economic Affairs	Project Coordinator
Mr Hezbourne Mackobongo	Ag. .Director Financial and Sectoral affairs	Ag. .Director Financial and Sectoral affairs	Project focal person

3.7 Funding summary

The summarized funding summary for overall MFSSC is as follows:

Table 1: Project Components and costs:

Cost of project	Amount in 000 EU	%	AFD Financing	W/Saler Financing	2 nd Tier financing
Refinancing Credit by wholesalers to 2 nd Tier Institutions	6.8	64.9	6.8		
Capacity building for wholesalers	0.85		0.6	0.25	
Capacity Building for 2 nd Tier Institutions	2.53		2.3		0.23
Audit And Impact assessment	0.2		0.2		
Capacity Building for MoF for developing and implementing strategies in MFI area	0.1		0.1		
Total	10.48	100	10	0.25	0.23

The capacity building (MOF) component of the Project was for duration of 9 years from 2005 to 2014 the MOF with a budget of Kshs. 153,569,700

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Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date – (30 th June 2023)		Undrawn balance to date	
	Euro	Kshs	Euro	Kshs	Euro	Kshs
(i) Grant	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
AFD	1,323,219	153,569,700	1,323,219	153,569,700	-	-
(ii) Miscellaneous receipt						
Forex gain				8,752,689		
Total	1,323,219	153,569,700	1,323,219	162,322,389	-	-

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2023)		Cumulative amount paid to date – (30 th June 2023)		Unutilised balance to date (30 th June 2023)	
	EURO	Kshs	EURO	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
AFD	1,323,218	153,569,700	618,920	71,830,390	-	-
(i) Miscellaneous						
Forex gain	75,417	8,752,689			-	-
Total	1,398,635	1,62,322,389	618,920	71,830,390	-	-

3.8 Summary of Overall Project Performance:

3.8.1 Disbursement and Recovery by the National Treasury

Table 2 below shows the recovery performance under the MFSSC project as at December 31 2014 as reported by the wholesalers in their last quarterly reports submitted to the National Treasury. During the period under review, all the funds for the wholesalers were already fully disbursed except the 10,000 Euro that was left in special account. The recovery to the national Treasury was on schedule for each of the participating wholesalers. It was later noted by Cooperative bank that the repayment made at the end of December 2014 was returned as the Government had closed the designated account. They subsequently wrote a letter to National Treasury to give them the correct account to remit the returned funds.

Table 2: Loan disbursement and recoveries by NT as at end of December 2014 in Kshs

	Disbursement	Disbursed To Wholesalers	cumulative Interest paid	Principle Recoveries	Outstanding Balance to NT
Coop Bank	Sub Total	241,000,000	40,686,429	241,000,000	0
Equity Bank	Sub Total	212,000,000	27,837,435	212,000,000	0
K-Rep Bank	Sub Total	241,000,000	31,253,417	241,000,000	0
	Grand Total	694,000,000	99,777,281	694,000,000	0

Source: Data from quarterly report from Wholesalers Dec 2014

3.8.2 Wholesaler Financing of Second Tier Institutions

Table 3 below highlight the loan disbursements to the second tier institutions from the wholesalers for on-lending to the final beneficiaries of the programme. Equity Bank has disbursed Kshs 410,942,364 to SACCOs and MFIs that qualify for funding under the programme. K-Rep Bank has picked up and managed to disburse a total of Kshs 267, 316,000 to 23 second tier institutions making its percentage disbursement to 119%. K-Rep Bank has now fulfilled the conditions of the extended contract by fully utilizing the total loan extended to it by the Government of Kenya. Cooperative Bank however has disbursed 100% of funds to the final second tier clients which is their core business. The overall disbursement by the three wholesalers to the target group stands at 132% which means the Government funds have leveraged commercial funding from the wholesalers to benefit the target group. The programme therefore stands a good chance of achieving its development objective.

Table 3: Disbursements to Second Tier institutions

	Disbursement From GoK to Wholesaler	Disbursed to date to ultimate clients	Undisbursed Funds	Usage On-lent	Balance Undisbursed
Bank	Amount	Amount	Amount	%age	%age
Coop Bank	241,000,000	241,000,000	0	100%	0.0%

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Equity Bank SACCOs	212,000,000	409,379,290	0	192%	0.0%
Equity Bank MFI lending	-	1,563,074	0	>100%	0%
K-Rep bank	241,000,000	287,027,000	0	119%	0%
Total	694,000,000	919,258,364	0	132%	0%

Source: Extracted from Quarterly Wholesaler reports--Dec 2014.

3.8.3 Capacity Building for Wholesalers

Table 4 below shows the utilization of the capacity building funds for the three wholesalers. Equity Bank contributed a matching of 149 % of the total funds received from the Government of Kenya and AFD for wholesaler capacity building. This is followed by K-Rep Bank that contributed 69% of the total funds utilized for capacity building above the agreed target of 30%. K-Rep identified the following areas as priority for training, project appraisal, planning, risk underwriting and secure effective marketing. Cooperative bank contributed a matching fund of exactly 30% of the total sum received from AFD/GoK as per stipulated agreement. Cooperative Bank staff were trained on project management, credit skills, Sacco management, and applied Microfinance courses offered by the School of applied microfinance. The remaining grant on this sub component was cancelled due to the delay in audit for verification of expenditures.

Table 4: Capacity Building for wholesalers

Capacity Building for Wholesalers	EQUITY BANK	COOP BANK	K-REP BANK
	KES	KES	KES
Amount received	11,500,000.00	9,790,000	9,920,000
Amount spent up to Dec 2014 cumulative. (Including 30% from wholesalers)	28,685,000	12,727,000	16,777,653
Balance of CB funds unutilized	0	0	0
Wholesaler Contribution as% of AFD funds	149%	30%	69%
Number of staff Trained	260	189	289

4 Source: From Quarterly reports Dec 2013.

3.8.4 Capacity Building for second tier organizations by FSD

The Government entered into a subsidiary grant agreement with FSD Kenya on 4th December 2007 to make available a Grant equivalent to two million three hundred thousand Euros (€ 2,300,000) to FSD to implement the second tier MFIs and Sacco's capacity building component of the Microfinance Sector Support Credit programme.

Following the two amendments of the CFA, the Parties agreed to enter into an amendment to reduce the funds under the PMU Grant contract to Euro 1,150,000 for capacity building of SACCO sector. The eligible expenditure by December 31, 2014 is stated in table 4.4 below.

Table 5: FSD Kenya capacity building funds expenditures by year and category.

SACCO	2009	2010	2011	2012	2013	2014	Total Disb in US \$	Expense in Euro
Sukari SACCO	9,973	0	0	0	0	0	9,973	9,235
Kirinyaga SACCO	0	11,053	172,043	0	0	0	183,096	169,534
Meru SACCO	0	6,635	50,698	0	0	0	57,333	53,086
Kilifi SACCO	0	0	0	0	13,593	0	13,593	12,586
Reforms	0	0	46,386	199,295	152,802	323,267	721,751	668,288
FSD Admin	0	0	0	56,953	14,194	3,374	74,520	69,000
Total	9,973	17,688	269,128	256,248	180,589	326,641	1,060,267	981,729

Source: FSD Kenya Report Dec 2014

Table 6: Summary of AFD Funds Expenses and Balances

Item Description	Euros
Total AFD Grant (Euros)	1,150,000
Add back Interest earned	85,283
Exchange gain	81,146
Total AFD Funds available	1,316,429
Total spent	981,729
Expected funds balance - Euros	334,700
Exchange rate 1 US\$ = Kshs	92.1861
Exchange rate 1 Euro = US \$	1.0800

Source FSD Kenya report Dec 2014

Progress: All the SACCO reforms project activities were concluded by December 2014. A total of 184 out of the 215 DTSs had been licensed by deadline (June 2014) for the Deposit-taking SACCOs to transition to full regulatory compliance as provided for under the SACCO Societies the Act. However based on preliminary findings of the SACCO sector analysis commissioned by FSD, only 35% of the 110 licensed in 2012 were consistently reporting to SASRA by end of 2013 and had met the capital adequacy requirements.

Following the expiry of the transition period, SASRA issued a public notice to DTS not meeting the regulatory requirements to cease deposit-taking and two SACCOs have since complied. However lobbying continues for extension of the transition period but SASRA has so far held on to its position. To address the challenges in the implementation of the regulatory framework, SASRA proposed amendments to the SACCO Act in close consultation with stakeholders and parent Ministry to look at policy options that would balance the interests of stakeholders and ensure systemic stability.

Preliminary findings from the SACCO sector analysis commissioned by FSD Kenya indicate the need for further support to SASRA in addressing the challenges. The suggested support includes both help in policy formulation and strengthening the capacity of SASRA. Initially these areas were expected to be supported under the DFD/GoK/World Bank Financial Sector Legal Support Technical Assistance Programme (FLSTAP). However, this was not accomplished due to slow implementation of the SACCO reforms project until FLSTAP was closed.

The AFD project extension ended in December 2014. As per table above the total budget expenditure allocated to SACCO Reforms programme from AFD funds amounts to Euro 981,729 leaving a balance of Euro 334,700 to be refunded back to AFD at the end of the programme.

3.8.5 Second Capacity Building operator (Microde Consult) Implementation

The Government of Kenya entered into an agreement with MICRODE CONSULT on the 16th January 2014, to provide technical assistance to the Microfinance Unit (MFU) under the Department of Economic Affairs within the National Treasury in the implementation of the capacity building component for the smaller second tier MFIs and SACCOs to enhance their absorptive capacity for credit and develop their ability to handle other financial products for the poor.

The assignment was implemented in three phases which include an inception phase, the capacity and training needs assessment phase and the actual delivery of capacity building phase. These were to be done in collaboration with the Wholesales under the supervision of the MFU. In Phase 1 an Inception Report was produced outlining all activities to be undertaken, Phase 2 a Capacity and Training Needs Assessment (CTNA) of SACCOs, MFIs and Investment Groups report was produced which detailed the capacity gaps identified and the intended solutions to address the capacity and /or training gaps with proposed detailed activities and Phase 3 dealt with Delivery of Training as well as Monitoring and Evaluation of the Training. Below is a summary of the achievements of this component.

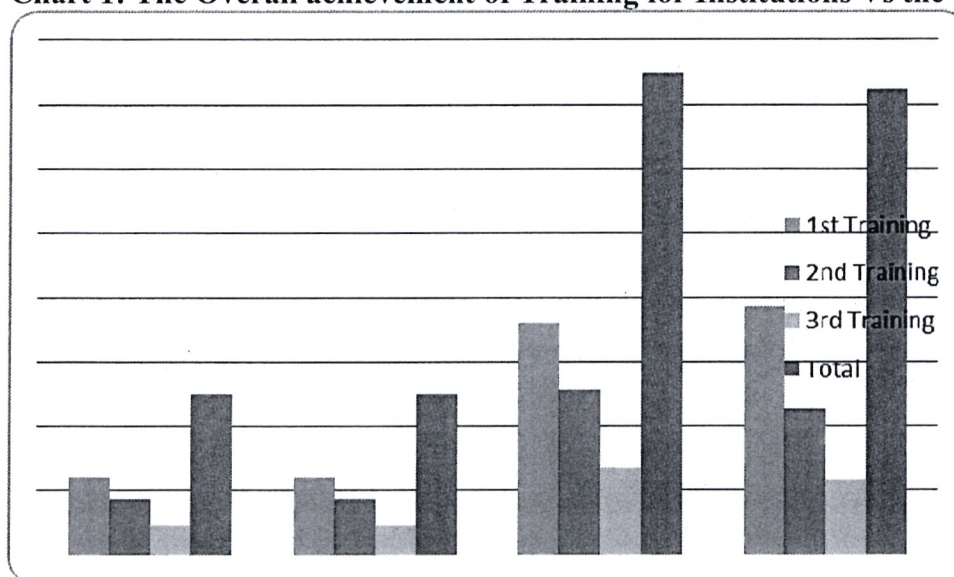
3.8.6 Summary of Institutions and participants Trained

Table 7: The Overall achievement of Training for Institutions vs the Target

TRAINING	GROUPS		PARTICIPANTS		DATE
	Target	Achieved	Target	Achieved	
1 st Training	24	24	72	77	8 th Sep to 10 th Oct 2014
2 nd Training	17	17	51	45	27 th October to 14 th November 2014
3 rd Training	9	9	27	23	15 th to 19 th Dec 2014
Total	50	50	150	145	

Table 7 above and **Chart 1** below present the targets and overall achievement of the capacity building programme for institutions and participants against the plans. The capacity building programme planned to reach 50 institutions and 150 participants with capacity building training in areas that had been identified in CTNA. The target for institutions was fully achieved resulting into contract target achievement of **100%** under this category while the number of participants achieved was **97%** which is excellent. This achievement is attributable to the active consultation and collaboration with the wholesale banks that benefited from the refinancing scheme and close monitoring and technical support from the TA of Microfinance Unit under the National Treasury. The programme also succeeded because of the interest and the willingness of the target institutions due to close matching of their needs to the training offered.

Chart 1: The Overall achievement of Training for Institutions Vs the Target



Summary of Institutions and participants Trained by wholesalers

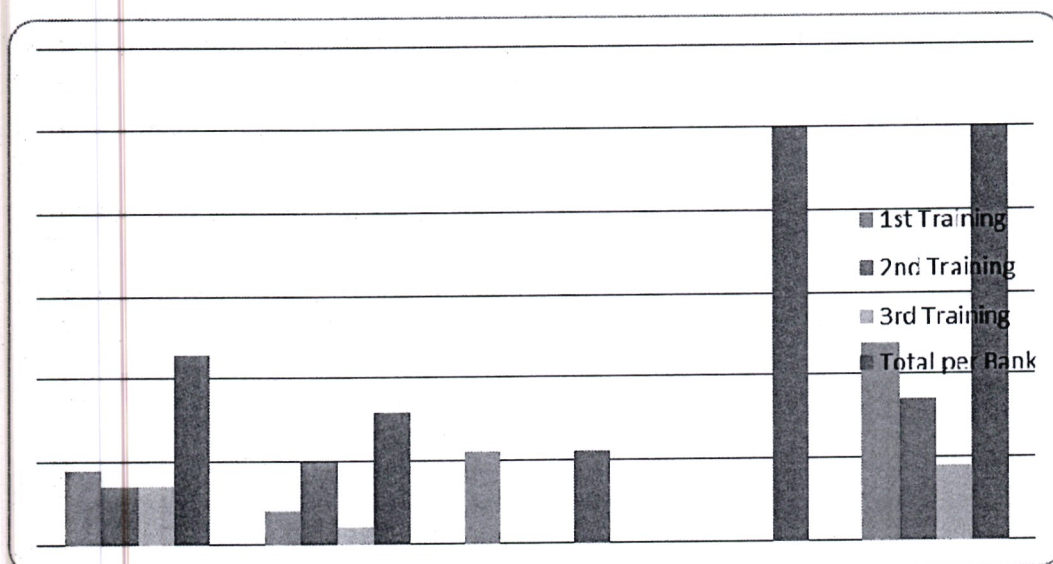
The table 8 below presents the results of the capacity building programme by clients of the respective wholesaler banks. Cooperative Bank had the highest number of participating institutions trained, followed by Equity Bank and K-Rep Bank. This is because Cooperative Bank has had a long time relationship with SACCOs as they form the basis of their core business strategy. This explains why it had the highest number of participating institutions trained. K-Rep Bank on the other hand is youngest bank of the three participating banks and with a comparatively smaller SACCO customer base which explains why it had the least number of participating institutions trained.

Table 8: The trained groups were distributed among the participating banks as follows:

Training	Co-operative Bank	Equity Bank	K-Rep Bank	Target number	TOTAL Trained
1 st Training	9	4	11		24
2 nd Training	7	10	0		17
3 rd Training	7	2	0		9
Total per Bank	23	16	11	50	50

In overall terms as depicted in chart 2 below, the capacity building programme of the second tier institutions focusing on the smaller organizations achieved its intended objective of enhancing the capacity of at least 50 intuitions as targeted by the programme. This was achieved through participatory needs assessment and training of a critical mass of SACCOs/Cooperative, MFI and Investment Group (IG) officials to improve on their service delivery to their members who are the final programme target groups.

Chart No 2 of trained participants - clients of Wholesaler Banks



Overall Budget achievements for the MFSSC Project

Absorption of the AFD Funds as at December 2014(MFSSC CKE 3004)

Table 4.1 Expenditure Vs Budget

Cost of project	Amount in 000 Euro	%	Amount spent in Euro	Balances in Euro	% absorbed
Refinancing Credit to Wholesaler	6,800,000	65%	6,790,000 ¹	10,000	99.85%

¹ Forex gain of Kshs 8, 752,689 was transferred to the refinancing Revolving Fund account by the NT.

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Cost of project	Amount in 000 Euro	%	Amount spent in Euro	Balances in Euro	% absorbed
Capacity building for wholesalers	600,000	8%	300,000	300,000 ²	50%
Capacity Building for SACCO Sector FSD K	1,150,000	12%	815,300³	334,700	71%
Capacity building Smaller SACCOs (Microde) ⁴	1,150,000	12%			
Audit And Impact assessment ⁵	200,000	2%			
Capacity Building for MoF	100,000	1%	0	0 ⁶	0%
Total	10,000	100%		644,700	

Expenditures and Balances in shillings through the National Treasury

Table 4.2 Expenditure in Kenya shillings and account balances

Cost of project	Amount in Kshs	Amount spent in KShs	Balances in Kshs	% absorbed
1.Financed through Exchequer				
1. Refinancing Credit to Wholesaler	702,772,689	694,000,000	8,752,689	99%
2.Financed Through AFD				
1. Capacity building for wholesalers	31,210,000	31,210,000	0	100%
2. CB Through FSD K ⁷	-	-	-	
3.Financed through	153,569,700			

² Euro 300,000 Already cancelled by AFD and was not disbursed to GoK

³ Net balance expenditure from AFD excluding expenditures from Interest and Forex Gains made by AFD funds

⁴ See Kshs expenditure Table 4.2

⁵ See Kshs expenditures 4.2 number 5

⁶ This was folded into the Revolving Fund account in shillings for capacity building.

⁷ See Table 4.1 above. All expenses were incurred in Euro and US dollars from AFD to FSD.

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Cost of project	Amount in Kshs	Amount spent in KShs	Balances in Kshs	% absorbed
Revolving Fund Ac No 1000187506 CB				
1. 2 nd Tier CB through Microde		65,700,350		
2. Audit Fees and impact assesment		6,130,040	71,830,390	47%
Capacity Building Fund Ac 2 No.	11,426,300	0	11,426,300	0%
Financed Through RF Ac No. 1000187492 (Refinancing)	0	0	0	0%
Total	898,978,689	792,359,650	106,619,039	

3.8.7 Refinancing Component

As presented in table 4.1 above the refinancing component was the most successful with a 99% absorption rate. The budget allocation for the refinancing component was **Euro 6.8 Million** of which **Euro 6.79 Million** was disbursed to the exchequer from the special account. This amount was converted into Kenya shillings at various exchanges rates for a total sum of **Kshs 702,772,689**. From this total amount available in Kshs, a total of **Kshs 694,000,000** was disbursed to three wholesalers as presented in table 3.2 above leaving a balance of Kshs **8,752,689.00** with the exchequer due to exchange rate differences between the actual transfer date of funds to the exchequer and disbursement date to the wholesalers⁸. This balance is to be transferred to the Refinancing Revolving Fund account together with the proceeds of the repayment of loans including the accrued interest amounting to **Kshs 793,777,281**. The total balance to be transferred to the Refinancing Revolving Fund account from the exchequer is therefore **Kshs 802,549,970.00** which can be on-lent to the wholesalers under the second round of refinancing.

3.8.8 Wholesaler capacity Building

As presented in Table 4.1 above, the funds allocated to wholesaler capacity building was Euro 600,000. This was expected to be disbursed in two tranches. The first tranche was disbursed to the wholesalers and was utilized as stated in table 3.4 above. It is noted that due to the delay in accounting for the first tranche by the Wholesalers until the deadline of disbursement was passed, the second tranche was cancelled by AFD and removed from the extended agreement. This component therefore achieved 50% absorption rate of the funds

⁸ Note that the disbursement to the wholesalers was made on confirmation of the Transfer of funds from AFD before the funds hit the account at CBK. When the funds were finally received by the exchquer, there was an exchange gain.

that were allocated (table 4.1) but fully utilized 100% the funds that were disbursed to them as presented in (Table 4.8.2.)

3.8.9 Second Tier Capacity building component under FSD Kenya.

Table 4.1 presents the absorption of 71% of the funds that were allocated to second tier Capacity building under FSDK. The details of the expenditure under this sub component are covered in section 3.5 above.

3.8.10 Second Tier Capacity building component under Microde Consult.

Table 4.2 presents the absorption rate of 44% under the Revolving funds available for capacity building of smaller second tier organizations for which Microde Consult was contracted to deliver capacity building. In addition the Revolving Funds were to cater for Impact Assessment and Audit fees. It is noted that these figures exclude the outstanding amount due to PKF for Impact Assessment and one outstanding Audit Fee note still under reconciliation with the National Treasury. These will be taken care of as soon as AFD has given No- Objection for Impact Assessment and the Auditor and NT have reconciled the Audit account and statements.

3.9 Conclusions

The support from AFD to the National Treasury to deepen financial inclusion through technical assistance, capacity building and refinancing under the Microfinance Sector Support Credit (MFSSC) project has contributed to significant innovation and growth in the financial sector over the last decade. During the period of the MFSSC project, The National Treasury together with other players in the financial sector have contributed to policies that have enabled the sector to record unprecedented growth in financial inclusion that has been recognized worldwide. The coordination of policy development in the financial sector by the National Treasury through Central Bank of Kenya has led to the introduction of Mobile Money transfer, Agent banking services, development of regulations for Deposit taking MFIs, and wholesale lending of banks to other forms of organizations such as SACCOs etc. The National Treasury has also facilitated the development of a policy framework for regulating deposit taking SACCOs to increase outreach of financial services to the rural areas.

These policies have enabled the development of Technology to create a platform for efficiency and lowering costs of customer acquisition by the financial service providers. This fact is attested by the results of FinAccess Survey of 2013 which shows that the overall exclusion from financial services reduced from 38.4 % in 2006 to 25.4% in 2013 for adults. Notable is the fact that the percentage inclusion from formal sources increased from 26.4 per cent in 2006 to 65% in 2013.

Specific to the MFSSC project, there has been expansion of space in linking commercial banks to lend to SACCOs and Investment groups a phenomenon that hither to the project was not common. Other than Cooperative Bank whose target was already SACCOs, Equity Bank and K-

Rep Bank were newly introduced to lending to the SACCOs as noted in the impact assessment report. This has increased the focus and pool of resources allocated by the two Banks to reach out to a segment of the market they would not have considered before. Notable success is the fact 99% of wholesale funds from AFD was lent out to the three banks and in turn they lent out more than 100% of the funds that were made available to them through the project.

It was found that Capacity building especially for SACCOs is still in dire need and need to be continued both at national and county levels.

The role of TA was instrumental to invigorating the programme implementation adding value to the National Treasury beyond the initial mandate within the scope of the MFSSC programme. This is noted in the facilitation of new projects development within the NT and coordination of sector activities, representing the Ministry in various forums and creating awareness of policy development in the sector. It is during the presence of the ITE that Kenya organized the Microfinance Summit attended by heads of state and other dignitaries putting Kenya in the global map of Microfinance.

The Microfinance Unit was developed within the National Treasury to carry out its mandate. However key challenge to the Unit is skilled manpower turnover. By virtue of the fact that these are Civil servants subject to transfers some of the initially trained staff moved on to better terms elsewhere through promotions, resignation and transfers. This challenge needs to be institutionally addressed by the NT to ensure retention of skilled and experienced manpower.

3.10 Summary of Project Compliance

The programme was implemented in compliance with applicable laws and regulations, and essential external financing agreements/covenants:

4. Statement of Performance against Project's Predetermined Objectives**Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the Micro Finance Sector Support Credit was to:

Eradicate poverty in Kenya by supporting the financial deepening in the banking sector in order to ensure access to credit by the non-banking population of Kenya and to establish a micro finance unit within the National treasury, to integrate Microfinance issues within the broader financial sector. Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Micro Finance Sector Support Credit	Was to contribute to support financial deepening in order to reduce poverty in Kenya	Wholesalers and second tier SACCO's were successfully lent money and in turn the number of SME'S who accessed finance grew beyond the planned limit	Number of Institutions were lent money which in turn trickled down to common man	In FY 22/23 activities of the project had already come to an end as per the financing agreement

5. Environmental and Sustainability reporting

1. Environmental performance

Not applicable as in the financial year 2022/2023 the project's activities had already come to an end.

2. Employee welfare

Not applicable, in the financial year 2022/2023 the project's activities had already come to an end.

3. Market place practices-

In the financial year 2022/2023 the project's activities had already come to an end.

4. Community Engagements

In the financial year 2022/2023 the project's activities had already come to an end.

6. Statement of Project Management responsibilities

The Principal Secretary for The National Treasury and the Project Coordinator for Micro Finance Sector Support Credit project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2023

This responsibility includes (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period, (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the project, (v) Selecting and applying appropriate accounting policies and (v) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for The National Treasury and the Project Coordinator for Micro Finance Sector Support Credit project accept the responsibility for the financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

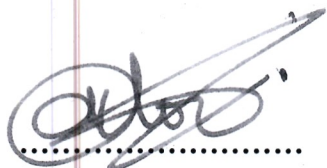
The **Principal Secretary** for the National Treasury the **Project Coordinator** for **Micro Finance Sector Support Credit project** are of the opinion that the financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2023, and of the Project's financial position as at that date. **The Principal Secretary for National Treasury and the Project Coordinator for Micro Finance Sector Support Credit project** further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The **Principal Secretary** for the National Treasury and the **Project Coordinator** for **Micro Finance Sector Support Credit project** confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were

used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project Financial Statements

The Micro finance Sector Support Credit financial statements were approved by **the Principal Secretary for The National Treasury and the Project Coordinator** for **Micro Finance Sector Support Credit** project on 13/10/ 2023 and signed by:



.....

**Dr. Chris Kiptoo, CBS
Principal Secretary**



.....

**Mr. Albert Mwenda, MBS
Project Coordinator**



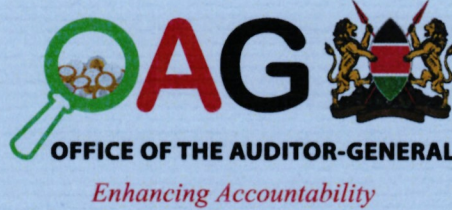
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**George K. Gichuru
Head of Accounting Unit
ICPAK Member No. 9262**



REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT (CREDIT NO. CKE 3004 01E AND CKE 6010 01E) FOR THE YEAR ENDED 30 JUNE, 2023 – THE NATIONAL TREASURY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Micro Finance Sector Support Credit Project (Credit No. CKE 3004 01E and CKE 6010 01E) set out on pages 1 to 38 which comprise of the statement of financial assets as at 30 June, 2023, and the

Report of the Auditor-General on Micro Finance Sector Support Credit Project (Credit No. CKE 3004 01E and CKE 6010 01E) for the year ended 30 June, 2023 – The National Treasury

statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Micro Finance Sector Support Credit Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Credit Facility Agreement No. CKE 3004 01E and Financing Agreement No. CKE 6010 01E dated 25 May, 2005 and 21 September, 2007 respectively between the Republic of Kenya and Agence Francaise Development (AFD), and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Micro Finance Sector Support Credit Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Failure to Close the Project

According to Clause 10 of the Financing Agreement, the Project was to end on 31 October, 2010 but the closing date was later extended to 31 December, 2014. However, and as previously reported, the Project closure report has not been submitted

for audit. Although Management indicated that AFD issued a No Objection for transfer of the Project's surplus funds to the Rural Kenya Finance Inclusion Facility (RK FINFA), also funded by AFD, the transfer process has not been completed to enable formal closure of the Project. No explanation was provided on why it has taken over eight (8) years to conclude the process of closing the dormant Project.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Agence Francaise de Development (AFD), I report based on my audit that: -

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material

misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit

the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

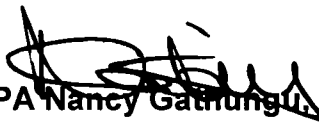
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi


06 October, 2023


8. Statement of Receipts and Payments for the year ended 30th June 2023.

Note	Receipts and payments controlled by the entity		Payments made by third parties		Total	Receipts and payment controlled by the entity		Payments made by third parties		Total	Cumulative to-date (From inception)
	Kshs.	Kshs.	Kshs.	Kshs.		Kshs.	Kshs.	Kshs.	Kshs.		
Receipts											
1	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-	-	153,569,700
3	-	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-	-	8,752,689
Total receipts											162,322,389
Payments											
5	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	71,830,390
7	-	-	-	-	-	-	-	-	-	-	-
8	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-	-	-
Total payments											71,830,390
Surplus/ (deficit)											90,491,999

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

.....

 Dr. Chris Kiptoo, CBS
 Principal Secretary

.....

 Mr. Albert Mwenda, MBS
 Project Coordinator

.....

 George K. Gichuru
 Head of Accounting Unit
 ICPAK Member No.9262



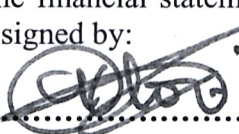
Micro Finance Sector Support Credit

Annual Report and Financial Statements for the financial year ended June 30, 2023

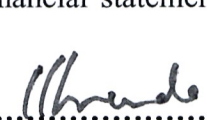
9. Statement of Financial Assets as at 30th June 2023

Description	Note	2022-2023	2021-2022
		Kshs	Kshs
Financial Assets			
Cash and Cash equivalents			
Bank Balances	11.A	90,491,999	90,491,999
Cash Balances	11. B		
Cash equivalents (Short-term deposits)	11.C		
Total Cash and Cash equivalents		90,491,999	90,491,999
Imprests and Advances	12		
Total Financial Assets		90,491,999	90,491,999
Financial Liabilities			
Third party Deposits and Retention	13		
Net Assets		90,491,999	90,491,999
Represented By			
Fund Balance B/fwd.	14	90,491,999	90,491,999
Prior Year adjustments	15		
Surplus/(Deficit) for the Year			
Net Financial Position		90,491,999	90,491,999

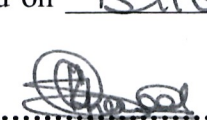
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 13/10/2023 and signed by:


.....

Dr. Chris Kiptoo, CBS
Principal Secretary


.....

Mr. Albert Mwenda, MBS
Project Coordinator


.....

George K. Gichuru
Head of Accounting Unit
ICPAK Member No.9262

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

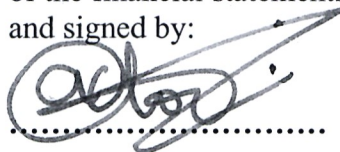
10. Statement of Cashflow for the year ended 30th June 2023

Description	Notes	2022-2023	2021-2022
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
Transfer from government entities	1	-	-
Proceeds from domestic and foreign grants	2	-	-
Miscellaneous receipts	4	-	-
Total receipts		-	-
Payments			
Compensation of employees	5	-	-
Purchase of goods and services	6	-	-
Social security benefits	7	-	-
Transfers to other government entities	9	-	-
Other grants and transfers	10	-	-
Total Payments		-	-
Net receipts/(payments)		-	-
Adjustments during the year			
Prior year adjustments	15	-	-
Decrease/(increase) in accounts receivable	16	-	-
Increase/(decrease) in accounts payable:	17	-	-
Net cash flow from operating activities		-	-
Cashflow from investing activities			
Acquisition of non-financial assets	8	-	-
Net cash flows from investing activities		-	-
Cash flow from financing activities			
Proceeds from foreign borrowings	3	-	-

Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023

Description	Notes	2022-2023	2021-2022
		Kshs	Kshs
Net cash flow from financing activities		-	-
Net increase in cash and cash equivalents		-	-
Cash and cash equivalent at beginning of the year	11	90,491,999	90,491,999
Cash and cash equivalent at end of the year	11	90,491,999	90,491,999

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 13/10/2023 and signed by:



Dr. Chris Kiptoo, CBS
Principal Secretary



Mr. Albert Mwenda, MBS
Project Coordinator



George K. Gichuru
Head of Accounting Unit
ICPAK Member No. 9262

Annual Report and Financial Statements for the financial year ended June 30, 20203

II. Statement of Comparison of Budget and Actual amounts for year ended 30th June 2023

Receipts/Payments Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
Receipts						
Transfer from Government entities	-	-	-	-	-	-
Proceeds from domestic and foreign grants	-	-	-	-	-	-
Proceeds from borrowings	-	-	-	-	-	-
Miscellaneous receipts	-	-	-	-	-	-
Total Receipts						
Payments						
Compensation to employees	-	-	-	-	-	-
Purchase of goods and services	-	-	-	-	-	-
Social security benefits	-	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-	-
Transfers to other government entities	-	-	-	-	-	-
Other grants and transfers	-	-	-	-	-	-
Total Payments						
Surplus or Deficit						

The project had no budget during the financial year under review.


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Dr. Chris Kiptoo, CBS
Principal Secretary


.....

Mr. Albert Mwenda, MBS
Project Coordinator


.....

George K. Gichuru
Head of Accounting Unit
ICPAK Member No. 9262

13/06/23

12. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

b) Reporting entity

The financial statements are for Micro Finance Sector Support Credit which is implemented by Budget Fiscal and Economic Affairs Department at The National Treasury. The financial statements are for Micro Finance Sector Support Credit as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

d) Recognition of receipts

Micro Finance Sector Support Credit recognises all receipts from the various sources when the event occurs, and the related cash has been received.

i) Transfers from the Exchequer

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

ii) External Assistance

External assistance is monies received through grants and loans from multilateral and bilateral development partners.

iii) Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements at the time associated cash is received.

iv) Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

v) Proceeds from borrowing.

Borrowing includes external loans acquired by the Project or any other debt the Project may take and will be treated on cash basis and recognized as a receipt during the year they were received.

vi) Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to

continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary.

e) Recognition of payments

The Project recognises all payments when the event occurs, and the related cash has been paid out by the Project.

i) Compensation to employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

ii) Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

iii) Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incur and paid for.

iv) Repayment of borrowing (principal amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

v) Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is

maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

f) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

h) Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

Significant Accounting Policies (Continued)

i) Imprests and Advances

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

j) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

k) Contingent Assets

Micro Finance Sector Support Credit does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Micro Finance Sector Support Credit in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits

or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's had no budget during the financial year under review.

n) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments. and are disclosed in the payment to third parties' column in the statement of receipts and payments The project had no third party payments

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-

***Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023***

end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

p) Comparative figures

Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

q) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2023.

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s).

Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023

13. Notes to the Financial Statements

1. Transfers from Government entities

These represent counterpart funding and other receipts from government as follows:

Description	2022-2023	2021-2022	Cumulative to-date (from inception)
	Kshs	Kshs	Kshs
Counterpart funds Quarter 1	-	-	-
Counterpart funds Quarter 2	-	-	-
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	-	-
Total	-	-	-
Appropriations-in-Aid	-	-	-
Total	≡	≡	≡

The project had no activities during the financial year under review therefore there were no transfers from Government entities.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

2. Proceeds From Domestic and Foreign Grants

During the financial period to 30 June 2023 we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in Donor currency Euro	2022-2023				2021-2022		Cumulative to date Kshs
			Grants received in cash Kshs	Grants received as direct payment Kshs	Grants received in kind Kshs	Total amount Kshs	Total Amount Kshs		
Grants Received from Bilateral Donors (Foreign Governments)	-	-	-	-	-	-	-	-	
None	-	-	-	-	-	-	-	-	
Grants Received from Multilateral Donors	-	-	-	-	-	-	-	-	
AFD	-	-	-	-	-	-	-	153,569,700	
Total	-	-	-	-	-	-	-	153,569,700	

During the year under review there were no proceeds from domestic or foreign Grants.

*Micro Finance Sector Support Credit
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Notes to the Financial Statements (Continued)

3. Loan from External Development Partners

During the financial period to 30 June 2023, we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Description	Date received	2022-2023			Loans received as direct payment*	Total amount in Kshs	2021-2022 Total amount in Kshs	Cumulative to date Kshs
		Amount in loan currency Euro	Loans received in actual amount Kshs	Kshs				
Loans received from bilateral Donors (Foreign Governments)								
None	-	-	-	-	-	-	-	
Loans received from Multilateral Donors (International Organizations)								
None	-	-	-	-	-	-	-	
Total	-	-	-	-	-	-	-	

During the financial year under review there were no loan from external Development Partners.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

4. Miscellaneous receipts

Description	2022-2023		2021-2022		Cumulative to-date (from inception)
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total receipts	Total receipts	
	Kshs	Kshs	Kshs	Kshs	Kshs
Property income	-	-	-	-	-
Sales of goods and services	-	-	-	-	-
Administrative fees and charges	-	-	-	-	-
Fines, penalties, and forfeitures	-	-	-	-	-
Voluntary transfers other than grants	-	-	-	-	-
Other receipts not classified elsewhere*	-	-	-	-	8,752,689
Total	-	-	-	-	8,752,689

During the Financial year under review there were no Miscellaneous receipts.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

5. Compensation to Employees

Description	2022-2023		2021-2022		Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
-	-	-	-	-	-
Basic salaries of permanent employees	-	-	-	-	-
Basic wages of temporary employees	-	-	-	-	-
Personal allowances paid as part of salary	-	-	-	-	-
Personal allowances provided in kind	-	-	-	-	-
Pension and other social security contributions	-	-	-	-	-
Compulsory national social security schemes	-	-	-	-	-
Compulsory national health insurance schemes	-	-	-	-	-
Social benefit schemes outside government	-	-	-	-	-
Total	=	=	=	=	=

During the financial year there were no expenditure on compensation to employees.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

6. Purchase of Goods and Services

Description	2022-2023			2021-2022	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Utilities, supplies and services	-	-	-	-	-
Communication, supplies and services	-	-	-	-	-
Domestic travel and subsistence	-	-	-	-	-
Foreign travel and subsistence	-	-	-	-	-
Printing, advertising, and information supplies	-	-	-	-	-
Rentals of produced assets	-	-	-	-	-
Training payments	-	-	-	-	-
Hospitality supplies and services	-	-	-	-	-
Insurance costs	-	-	-	-	-
Specialized materials and services	-	-	-	-	-
Other operating payments	-	-	-	-	71,830,390
Routine maintenance – vehicles and other transport equipment	-	-	-	-	-
Routine maintenance- other assets	-	-	-	-	-
Exchange rate losses/gains (net)	-	-	-	-	-
Total	=	=	=	=	<u>71,830,390</u>

During the financial year there were no expenditure on purchase of goods and services

Notes to the Financial Statements (Continued)

7. Social Security Benefits

Description	2022-2023			2021-2022		Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Government pension and retirement benefits	-	-	-	-	-	-
Social security benefits in cash and in kind	-	-	-	-	-	-
Employer social benefits in cash and in kind	-	-	-	-	-	-
Total	-	-	-	-	-	-

During the financial year there were no expenditure on social security benefits

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

8. Acquisition of Non-Financial Assets

Description	2022-2023			2021-2022		Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments		
	Kshs.	Kshs.	Kshs	Kshs	Kshs	
Purchase of buildings	-	-	-	-	-	-
Construction of buildings	-	-	-	-	-	-
Refurbishment of buildings	-	-	-	-	-	-
Construction of roads	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-
Overhaul & refurbishment of construction and civil works	-	-	-	-	-	-
Purchase of vehicles & other transport equipment	-	-	-	-	-	-
Overhaul of vehicles & other transport equipment	-	-	-	-	-	-
Purchase of household furniture & institutional equipment	-	-	-	-	-	-
Purchase of office furniture & general equipment	-	-	-	-	-	-
Purchase of specialised plant, equipment and machinery	-	-	-	-	-	-
Rehabilitation & renovation of plant, equipment & machinery	-	-	-	-	-	-

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Description	2022-2023			2021-2022		Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments		
Purchase of certified seeds, breeding stock and live animals	-	-	-	-	-	-
Research, studies, project preparation, design & supervision	-	-	-	-	-	-
Rehabilitation of civil works	-	-	-	-	-	-
Acquisition of strategic stocks	-	-	-	-	-	-
Acquisition of land	-	-	-	-	-	-
Acquisition of other intangible assets	-	-	-	-	-	-
Total	=	=	=	=	=	=

No acquisition of non-financial assets has ever been procured.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

9. Transfers to other Government Entities

During the financial period to 30 June 2023, we transferred funds to reporting government entities as shown below:

Description	2022-2023			2021-2022		Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Transfers to National Government entities						
Ministry-None	-	-	-	-	-	-
Project-None	-	-	-	-	-	-
Transfers to County Governments						
None	-	-	-	-	-	-
Total	≡	≡	≡	≡	≡	≡

There were no transfers to other government entities during the financial year.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

10. Other Grants, Transfers and Payments

Description	2022-2023			2021-2022	Cumulative to-date
	Payments made in Cash	Payments made by third parties	Total payments	Total payments	
	Kshs	Kshs	Kshs	Kshs	Kshs
Grants for scholarships	-	-	-	-	-
Transfers to lower levels of government e.g. schools	-	-	-	-	-
Miscellaneous payments	-	-	-	-	-
Total	=	=	=	=	=

There were no other grants, transfers and payments made during the financial year

Notes to the Financial Statements (Continued)

11. Cash And Cash equivalents

Description	2022-2023	2021-2022
	Kshs	Kshs
Bank accounts (Bank A/C No 1000187506)	90,491,999	90,491,999
Cash in hand	-	-
Cash equivalents	-	-
Total	<u>90,491,999</u>	<u>90,491,999</u>

The project has one account at Central Bank of Kenya

11. A Bank Accounts

Project Bank Accounts

Details	2022-2023	2021-20
	Kshs	Kshs
<u>Foreign Currency Accounts</u>		
None	-	-
Total Foreign Currency balances	=	=
<u>Local Currency Accounts</u>		
Central Bank of Kenya [A/c no 1000187506]	90,491,999	90,491,999
Total local currency balances	<u>90,491,999</u>	<u>90,491,999</u>
Total bank account balances	<u>90,491,999</u>	<u>90,491,999</u>

Notes to the Financial Statements (Continued)

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2023 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

Description	2022-2023	2021-2022
	Euro	Euro
(i)		
Opening balance	1,152,653.73	1,152,653.73
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	=	=
Closing balance	<u>1,152,653.73</u>	<u>1,152,653.73</u>

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Notes to the Financial Statements (Continued)

11 B Cash in hand

Description	2022-2023	2021-2022
	KShs	KShs
Location 1	-	-
Location 2	-	-
Location 3	-	-
Other locations (None)	-	-
Total cash in hand balances	=	=

There were no cash in hand

11 C Cash equivalents (short-term deposits)

Description	2022-2023	2021-2022
	Kshs	Kshs
Kenya Commercial Bank	-	-
Co-Operative Bank of Kenya	-	-
Others	-	-
Total	=	=

There were no short term deposits

12. Imprests and Advances

Description	2022-2023	2021-2022
	Kshs	Kshs
Government Imprests	-	-
Salary advances	-	-
Total	=	=

There were no Imprest or advances during the current year under review

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Notes to the Financial Statements (Continued)

12A: Breakdown of Imprests and Advances

Name of Officer or Institution	Amount Taken	Due Date of Surrender	Amount Surrendered	Balance 2022-2023	Balance 2021-2022
	Kshs	Kshs	Kshs	Kshs	Kshs
None	-	-	-	-	-
Total	=	=	=	=	=

There were no imprest issued during the financial year.

13. Deposits and Retention Monies

Description	2022-2023		2021-2022	
	Kshs		Kshs	
Retention	-		-	
Deposits	-		-	
Total	-		-	
Ageing analysis:	Current FY	% of the Total	Comparative FY	% of the Total
Under one year	-	-	-	-
1-2 years	-	-	-	-
2-3 years	-	-	-	-
Over 3 years	-	-	-	-
Total	=	=	=	=

There were no deposits and retention monies received by the project during the financial year

Micro Finance Sector Support Credit
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14. Fund Balance Brought Forward

Description	2022-2023	2021-2022
	Kshs	Kshs
Bank accounts	90,491,999	90,491,999
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Deposits and retention	-	-
Total	<u>90,491,999</u>	<u>90,491,999</u>

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Notes to the Financial Statements (Continued)

15. Prior Year adjustment

	Balance b/f 2021-2022 (audited financial statements)	Adjustments	Adjusted balance 2021-2022
Description of the error	Kshs	Kshs	Kshs
Bank account Balances	-	-	-
Cash in hand	-	-	-
Imprests and advances	-	-	-
Deposits and retentions	-	-	-
Others	-	-	-
Total	=	=	=

There were no prior year adjustments

16. Changes in Imprests and Advances

Description	2022-2023	2021-2022
	Kshs	Kshs
Opening Receivables as at 1 st July 2022	-	-
Closing account receivables as at 30 th June 2023	-	-
Change in Imprests and advances	=	=

There were no changes in imprests and advances during the financial year

17. Changes in Accounts Deposits and Retention

Description	2022-2023	2021-2022
	Kshs	Kshs
Deposit and Retentions as at 1 st July 2022	-	-
Closing accounts payables as at 30 th June 2023	-	-
Changes in deposit and retention	=	=

There were no changes in accounts deposits and retention during the financial year.

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Other Important Disclosures

1. Pending Accounts Payable (See Annex 4a)

Description	Balance b/f from 2021-2022 Kshs	Additions for the year Kshs	Paid during the year Kshs	Balance c/f For 2022-2023 Kshs
Construction of buildings	-	-	-	-
Construction of civil works	-	-	-	-
Supply of goods	-	-	-	-
Supply of services	-	-	-	-
Total	-	-	-	-

There were no pending accounts payable during the financial year

2. Pending Staff Payables (See Annex 4b)

Description	Balance b/f 2021- 2022 Kshs	Additions for the year Kshs	Paid during the year Kshs	Balance c/f for 2022- 2023 Kshs
Senior management	-	-	-	-
Middle management	-	-	-	-
Union employees	-	-	-	-
Others	-	-	-	-
Total	-	-	-	-

There were no staff payables during the financial year

Micro Finance Sector Support Credit

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3. Other Pending Payables (See Annex 4c)

Description	Balance b/f from 2021-2022 Kshs	Additions for the year Kshs	Paid during the year Kshs	Balance c/f for 2022-2023 Kshs
Amounts due to National Government entities	-	-	-	-
Amounts due to County Government entities	-	-	-	-
Amounts due to third parties	-	-	-	-
Total	-	-	-	-

There were no pending payables during the year.

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Other Important Disclosures (Continued)

4. External Assistance

	2022-2023	2021-2022
Description	Kshs	Kshs
External assistance received as grants	-	-
External assistance received as loans	-	-
External assistance received in kind- as payment by third parties	-	-
Total	-	-

There were no external assistance during the year

a). External assistance relating loans and grants

	2022-2023	2021-2022
Description	Kshs	Kshs
External assistance received as loans	-	-
External assistance received as grants	-	-
Total	-	-

There were no external assistance relating to loans and grants

b) Undrawn external assistance

	Purpose for which the undrawn external assistance may be used	2022-2023	2021-2022
Description		Kshs	Kshs
Undrawn external assistance - loans		-	-
Undrawn external assistance - grants		-	-
Total		-	-

There were no undrawn external assistance

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Other Important Disclosures (Continued)

c) Classes of providers of external assistance

	2022-2023	2021-2022
Description	Kshs	Kshs
Multilateral donors	-	-
Bilateral donors	-	-
International assistance organization	-	-
NGOs	-	-
National Assistance Organization	-	-
Total	-	-

There were no providers of external assistance

d. Non-monetary external assistance

	2022-2023	2021-2022
Description	Kshs	Kshs
Goods	-	-
Services	-	-
Total	-	-

There were no non monetary external assistance

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Other Important Disclosures (Continued)

e Purpose and use of external assistance

Payments made by third parties	2022-2023	2021-2022
Description	Kshs	Kshs
Compensation to employees	-	-
Use of goods and services	-	-
Subsidies	-	-
Transfers to other Government entities	-	-
Other grants and transfers	-	-
Social Security benefits	-	-
Acquisition of assets	-	-
Finance Costs including loan interest	-	-
Repayment of principal on domestic and foreign borrowing	-	-
Other payments	-	-
Total	-	-

There were no external assistance during the year

f. External Assistance paid by third parties on behalf of Micro Finance Sector Support by Source

	2022-2023	2021-2022
Description	Kshs	Kshs
National government	-	-
Multilateral donors	-	-
Bilateral donors	-	-
International assistance organization	-	-
NGOs	-	-
National Assistance Organization	-	-
Total	-	-

There were no external assistance during the year

Micro Finance Sector Support Credit

Annual Report and Financial Statements for the financial year ended June 30, 2023

Other Important Disclosures (Continued)

5. Payments By Third Party on Behalf of The Project

This relates to payments done directly to supplier on behalf of the project such as; national government may fund the operation of health or education program; a donor may pay directly for construction of a given activity

5.1 Classification by Source

	2022-2023	2021-2022
Description	Kshs	Kshs
National government	-	-
Multilateral donors	-	-
Bilateral donors	-	-
International assistance organization	-	-
NGOs	-	-
National Assistance Organization	-	-
Total	-	-

During the year under review there were no payments by third party on behalf of the project

5.2 Classification of payments made by Third Parties by Nature of expenses

Payments made by third parties	2022-2023	2021-2022
Description	Kshs	Kshs
Compensation of employees	-	-
Use of goods and services	-	-
Subsidies	-	-
Transfers to other government units	-	-
Other grants and transfers	-	-
Social security benefits	-	-
Acquisition of assets	-	-
Finance costs, including loan interest	-	-
Other payments	-	-
Total	-	-

During the year under review there were no payment by third parties on behalf of the project

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Other Important Disclosures (Continued)

6. Related Party Disclosures

Related party transactions:

	2022-2023	2021-2022
	Kshs	Kshs
Compensation to Key Management		
Compensation to the program manager/ director	-	-
Key Management Compensation others (specify)	-	-
Total Compensation to Key Management	-	-
Transfers to related parties		
Transfers to other government entities	-	-
Total Transfers to related parties	-	-
Transfers from related parties		
Transfers from the Ministry/ department	-	-
Payments made on behalf of the project by other govt. entities	-	-
(Insert any other transfers received)	-	-
Total Transfers from related parties	-	-

There were no related third party transactions during the financial; year

7. Contingent Liabilities

Contingent liabilities	2022-2023	2021-2022
	Kshs	Kshs
Court case against the project	-	-
Bank guarantees in favour of other govt. entities	-	-
Contingent liabilities arising from PPPs/ donor agreements	-	-
Total	-	-

There were no contingent liabilities

Micro Finance Sector Support Credit

Annual Report and Financial Statements for the financial year ended June 30, 2023

13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
Emphasis of Matter	Euro 1,152,653.73 equivalent of kshs 142,952,115.59 at the then exchange rate of 124.02 withdrawn but not claimed	This was responded to vide letter to OAG Ref TNT/ZZ 307/03/09 /"A"(72)	Partly resolved	30 June 2024
Report on Lawfulness and Effectiveness in the use of public resources.	Failure to close the project	The project is in the final stages of closure, AFD has issued a no-objection the project wrote to the office of the Attorney General Submitting draft Amendment letter to credit facility	Partly resolved	30 June 2024

**Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
		agreement for review before they can to transfer the surplus fund to RK-FINFA and close the Project		


.....

Dr. Chris Kiptoo, CBS
Principal Secretary


.....

Albert Mwenda, MBS
Project Coordinator

Micro Finance Sector Support Credit

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Annex 2: Variance explanations - Comparative Budget and Actual amounts for 2022-2023

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance (below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	-	-	-	-	-
Proceeds from domestic and foreign grants	-	-	-	-	-
Proceeds from borrowings	-	-	-	-	-
Miscellaneous receipts	-	-	-	-	-
Total Receipts	-	-	-	-	-
Payments					
Compensation of employees	-	-	-	-	-
Purchase of goods and services	-	-	-	-	-
Social security benefits	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-
Transfers to other government entities	-	-	-	-	-
Other grants and transfers	-	-	-	-	-
Total payments	=	=	=	=	=

The project had no budget as it was not active during the financial year under review

Micro Finance Sector Support Credit

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Annex 3: Reconciliation of inter-entity transfers

Project Name:			
a. Government Counterpart funding	Bank Statement Date	Amount (Kshs)	
		-	
	Total	-	
B. Direct payments	Bank Statement Date	Amount (Kshs)	
		-	
	Total	-	
C. Others	Bank Statement Date	Amount (Kshs)	
		-	
	Total (A+B+C)	-	

The were no inter entity transfers during the financial year under review

Project Coordinator
MFSSC

Sign *llhanda* 23/06/2023

George K. Gichuru 13/06/2023
Head of Accounting Unit
The National Treasury

Sign *[Signature]*
13/06/2023

Micro Finance Sector Support Credit

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Annex 4a: Analysis of Pending Bills

Supplier of Goods or Services	Date Contracted/ invoiced.	Original Amount	Amount Paid To-Date	Outstanding Balance 2022-2023	Outstanding Balance 2021-2022	Comments
		a	b	c=a-b		
Construction of buildings						
1.						
2.						
Sub-Total						
Construction of civil works						
3.						
4.						
Sub-Total						
Supply of goods						
5.						
6.						
Sub-Total						
Supply of services						
7.						
8.						
Sub-Total						
Grand Total						

There were no external assistance during the year

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Annex 4b: Analysis of Pending: Staff Bills

Name of Staff	Job Group	Date Payable Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance 2022-2023	Outstanding Balance 2021-2022	Comments
Permanent Employees - Management							
1.							
2.							
Sub-Total							
Permanent Employees - Others							
3.							
4.							
Sub-Total							
Temporary employees							
5.							
6.							
Sub-Total							
Others (<i>specify</i>)							
7.							
8.							
Sub-Total							
Grand Total							

There were no external assistance during the year

Micro Finance Sector Support Credit

Annual Report and Financial Statements for the financial year ended June 30, 2023

Annex 4c: Analysis of other Pending Payables

Name	Brief Description	Date Payable Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance 2022-2023	Outstanding Balance 2021-2022	Comments
Amounts due to National Govt Entities							
1.							
2.							
Sub-Total							
Amounts due to County Govt Entities							
3.							
4.							
Sub-Total							
Amounts due to Third Parties							
5.							
6.							
Sub-Total							
Others (specify)							
7.							
Sub-Total							
Grand Total							

There were no pending payables during the year

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Annex 5: Summary of Fixed Assets Register

Asset class	Opening Cost (KShs) 2021/2022 (a)	Donations in form of assets (KShs) 2022/2023 (b)	*Purchases/ Additions in the Year (KShs) 2022/2023 (c)	** Disposals in the Year (KShs) 2022/2023 (d)	Transfers in/ (out) Kshs 2022/2023 (d)	Closing Cost (KShs) 2022/2023 (e)= (a)+ (b)+c)- (d)+(-)d
Land						
Buildings and structures						
Transport equipment						
Office equipment, furniture and fittings						
ICT Equipment,						
Other Machinery and Equipment						
Heritage and cultural assets						
Biological assets						
Infrastructure assets roads, rails						
Intangible assets						
Work in Progress						
Total						

Notes

No fixed asset has ever been acquired by the project

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Annex 6: Contingent Liabilities Register

	Nature of contingent liability	Remarks
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

There were no contingent liabilities during the year

*Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023*

Annex 7: Reporting of Climate Relevant Expenditures

Project Name	Project Description	Project Objectives	Project Activities	Source Of Funds				Implementing Partners
				Q1	Q2	Q3	Q4	

There were no relevant climate expenditures

Annex 8: Reporting Disaster Management Expenditure

Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments

There were no disaster management expenditures

***Micro Finance Sector Support Credit
Annual Report and Financial Statements for the financial year ended June 30, 2023***

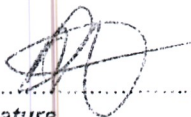
Annex 9: Other Supporting Documents

- i. Bank reconciliation Statement as at 30th June 2023.
- ii. Copy of Board of Survey report as at 30th June 2023
- iii. Copy of Certificate of bank balance.
- iv. Copy of letter from Country Director AFD issuing no objection to transfer the balance of kshs.90,491,999 from MFSSC to RK FINFA Project.
- v. Copy of letter to Office of the Attorney & Department of justice requesting review of amendment to the original Credit Facility and to give legal clearance to transfer funds from Micro Finance sector Support Credit to RK FINFA Project.

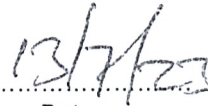
THE NATIONAL TREASURY
BANK RECONCILIATION
MICRO FINANCE SECTOR SUPPORT CREDIT
 As at 30th JUNE 2023 STATION NAIROBI

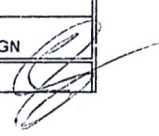
	Sh.	Sh.	Sh.
Balance as per Bank Certificate			90,491,999.30
Less -----			
1. Payments in Cash Book not yet recorded in Bank Statement (Unpresented Cheques)		-	
2. Receipts in Bank Statement not yet recorded in Cash book		-	
Add -----			
3. Payment in Bank Statement not yet recorded in Cash Book		-	
4 Receipts in Cash Book not yet Recorded in Bank Statement		-	
Balance as per cash Book			90,491,999.30

I certify I have verified the bank balance in the cash book with the bank statement and that the above reconciliation is correct


 Signature

HAU THE NATIONAL
 TREASURY


 Date

PREPARED BY		
S G MATIBA	SIGN	
DATE	13/07/2023	

- COPY TO
- 1 INTERNAL AUDITOR
 - 2 AUDITOR GENERAL
 - 3 D.G.A.S & Q.A



REPUBLIC OF KENYA

Date 3/7/2023

Report of the Board of Survey on the Cash and Bank Balances of THE NATIONAL TREASURY as at the close of business on 30/6/2023.

•The Board, consisting of (Names and official titles)—

Mr.GODFREY BUSOLO -CHAIRMAN

Mr.CHARLES N KISSINGU -MEMBER

Mr.JOSEPH M KOTHYA -MEMBER

assembled at the office of THE NATIONAL TREASURY(CASH OFFICE) at 9;30 AM (time) on 3/7/2023

and the following cash was produced:

Notes	Sh..NIL
Silver	Sh. NIL
Copper	Sh. NIL
Cheques (as per details On reverse)	Sh. NIL

It was observed that cheques amounting Sh. NIL Ctshad been on hand for more than 14 days prior to the date of the survey.

The cash consists of East African currency and does not contain any demonetized coin or notes.

The Cash Book reflected the following balances as at the close of business on the 30/6/2023

Cash on hand	Sh.
Bank Balance	Sh.90,491,999.30
	Sh. 90,491,999.30

The Bank Certificate of Balance showed a sum of Sh. 90,491,999.30

..... cts. (Sh. Cts.)

standing to the credit of the account

on 19

The difference between this figure and the Bank Balance as shown by the Cash Book is accounted for in the Bank Reconciliation Statement (F.O. 30) attached.


Chairman

Date

3/7/23


Members of the Board



Noted
18/7/23

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA

Haile Selassie Avenue
P.O. Box 60000 - 00200 Nairobi, Kenya
Telephone: 2860000, Fax: 3340192

July 18, 2023

CERTIFICATE OF BALANCES

Customer : 100094
Balance
Date: 30-Jun-23

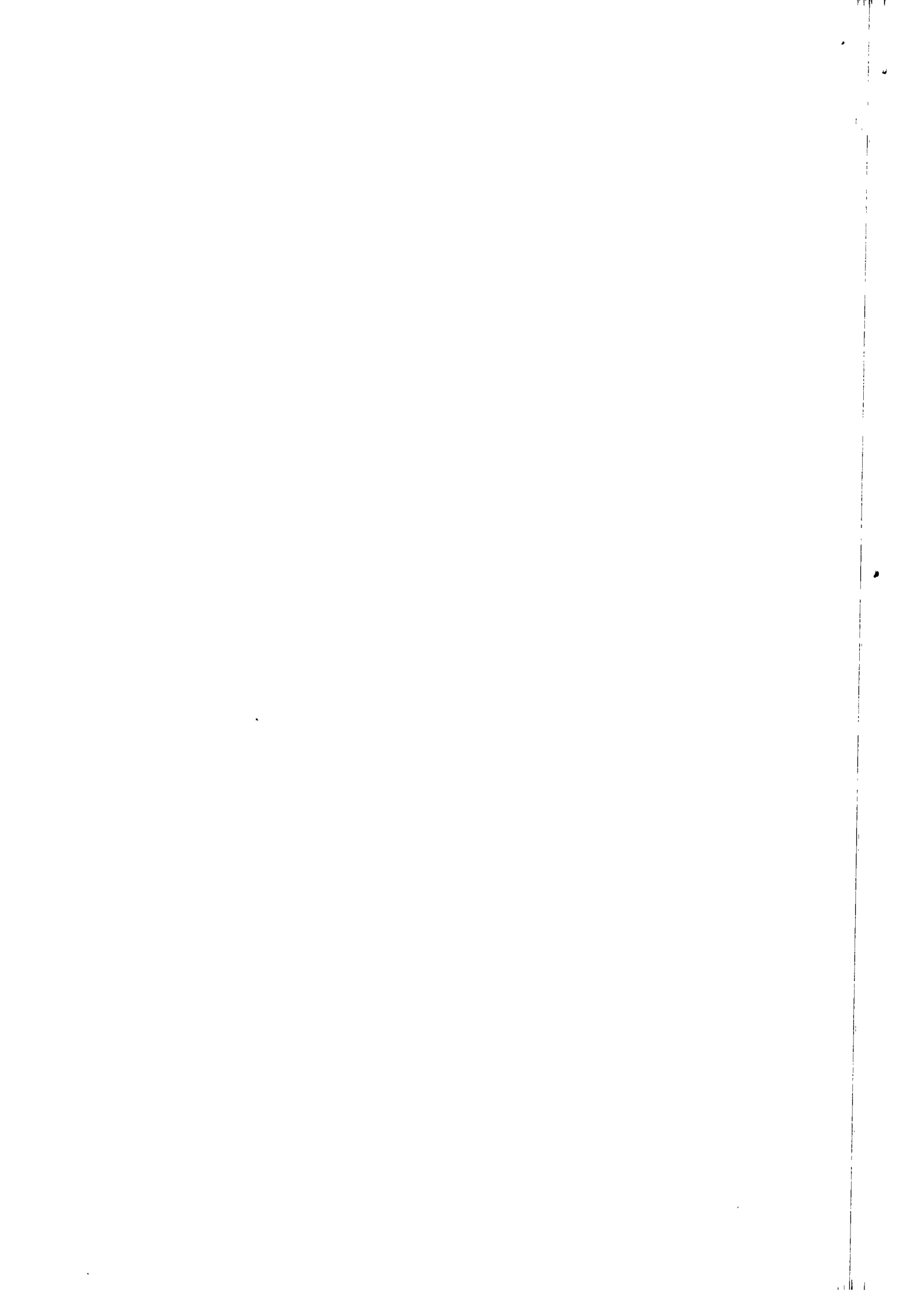
MINISTRY OF FINANCE

Account No	Account Name	Currency	Balance
1000000977	TREASURY BILLS ACCOUNT	KES	0.00
1000000988	TREASURY BONDS ACCOUNT	KES	1,829,198,744.80
1000000996	REVENUE DEPOSIT ACCOUNT	KES	8,669,542,680.36
1000004053	TREASURY BONDS REDEMPTION	KES	138,700,000.00
1000004061	TREASURY BONDS INTEREST	KES	30.68
1000181457	REC-THE NATIONAL TREASURY	KES	1,141,462,368.67
1000181564	DEV-THE NATIONAL TREASURY	KES	17,321,113.65
1000182137	DEP-THE NATIONAL TREASURY	KES	205,577,249.15
1000004038	TREASURY BILLS REDEMPTION SUSP.	KES	0.00
1000187536	MICRO FINANCE SEC SUP CR-CAP BLDG	KES	90,491,999.30
1000201924	VOLUNTARY PAY CUT	KES	2,019,245.00
1000237872	FINANCIAL SEC.SUPP.PRJ-IDA 56270-KE	KES	0.00

Customer : 100133
Balance
Date: 30-Jun-23

ACCOUNTANT GENERAL -
TREASURY

Account No	Account Name	Currency	Balance
1000122501	GOVERNMENT OVERDRAFT ACCOUNT.	KES	-76,456,927,038.09





73

REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

Telegraphic Address: 22921
Finance - Nairobi
FAX NO: 310833
Telephone: 2252299

THE NATIONAL TREASURY
P.O. Box 30007 - 00100
NAIROBI

When replying please quote:

Ref: TNT/ZZ 307/03/09 "A" (73)

31st October, 2022

Mr DE VALON Ghislain
The Director
French Development Agency
Top Plaza Building, 4th Floor
Kindaruma Road, Off Ngong Road
NAIROBI

Dear

Mr De Valon Ghislain

RE: TRANSFER OF MICROFINANCE SECTOR SUPPORT CREDIT PROJECT
BALANCE FUNDS OF KSH. 145 MILLION TO RURAL KENYA FINANCE
INCLUSION FACILITY

I refer to our letter Ref: TNT/ZZ 307/03/09 "A" (65) dated 5th May, 2022 on the above captioned subject matter.

As you are aware, the Government of Kenya (GOK) entered into a Credit Facility Agreement (CFA) with the French Development Agency (AFD) on 25th May, 2005 for a facility of Euro 10,000,000 (Ten million Euros) to support the Micro-Finance Sector Support Credit Project (MFSSC).

The Project was implemented by the National Treasury (NT) through partnerships with Wholesaler Banks including Cooperative Bank, Equity Bank and K-Rep Bank (now Sidian Bank).

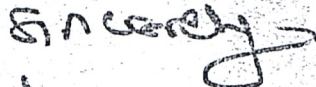
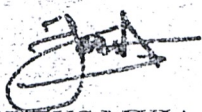
The agreement to support the Micro-Finance Sector Support Credit Project was for Euro 10,000,000.00. Out of this amount, Euro 300,000.00 meant for wholesalers capacity building was cancelled by AFD and hence was not disbursed to the Government of Kenya.

As part of the project closure process, the National Treasury contracted Kigathi & Associates to undertake the final audit of the project. The Auditor submitted his report to the National Treasury in December 2021. Subsequently, the National Treasury organized a meeting on March 17, 2022 for stakeholders including AFD to review the

report and chart the way forward. In the meeting, the report was unanimously adopted and a recommendation made that project balance of KSh. 145 million be used in offsetting the project liabilities and the remaining amount be channeled to Rural Kenya Financial Inclusion Facility (RK FINFA) project the successor of PROFIT (Programme for Rural Outreach of Financial Innovations and Technologies) project. To this end, we propose to transfer the entire balance of KSh. 145 million to Rural Kenya Financial Inclusion Facility.

The purpose of this letter, therefore, is to seek AFD No-Objection to the proposed transfer of the MFSSC project balance to RK-FINFA project.

Yours

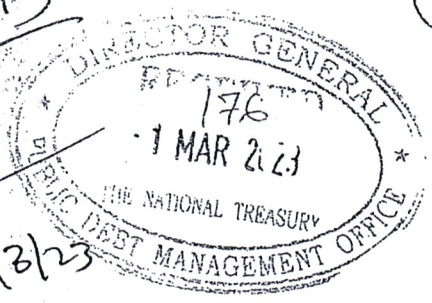
JULIUS MUIA, PhD. CBS

PRINCIPAL SECRETARY/THE NATIONAL TREASURY

Copy to: Ms. Tamara Cook
Chief Executive Officer
FSD Kenya
Green Suites, Palm Suite
Riverside Drive
NAIROBI

84 28 FEB 2023
RECEIVED
P.O. BOX 304 AFD
AGENCE FRANÇAISE DE DÉVELOPPEMENT
00100, NAIROBI

(2) D/KMP
H.S.
4/3/23



ANO/AFD/NAI/2023/GP/149
Nairobi, 27 February 2023

AGENCE FRANÇAISE DE DÉVELOPPEMENT
#WorldInCommon

Dr. Chris KIPTOO
Principal Secretary
National Treasury & Planning
Nairobi

① DG PDM
FINA
B. S. S. S. S.

Dear Dr. Kiptoo,

RE: TRANSFER OF MICROFINANCE SECTOR SUPPORT CREDIT PROJECT BALANCE FUNDS OF KSH 146 MILLION TO RURAL KENYA FINANCE INCLUSION FACILITY (RK FINFA)

NAIROBI AGENCY
Top Plaza building
Kindaruma road, off Ngong road
P.O. BOX 43955 - 00100 Nairobi
Kenya
t. + 254 20 259 29 14
c. + 254 722 20 77 27
c. + 254 734 33 33 31

kenya.afd.fr

HEAD QUARTER
5 rue Roland Barthes
75598 Paris Cedex 12 France
t. + 33 1 53 44 31 31
f. + 33 1 44 87 99 39

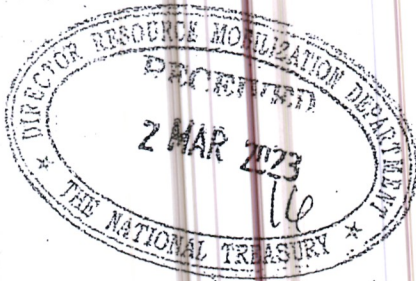
afd.fr

From the Microfinance sector support credit project (MFSSC - CKE 3004 project according to AFD's numbering), which was completed in 2014, 146,428,317.30 KES are remaining. This is amount is split between KES 55,936,318 still held by the FSD Kenya and KES 90,491,999.30 held by the Government of Kenya at the National Treasury. On 31/10/2022, National Treasury asked AFD to reallocate the totality of these funds to the RK-FINFA Project (financed by IFAD).

Following your formal request in the letter TNT/ZZ 307/03/09 "A" (73) dated 31st October, 2022 and after AFD held a mission on 10th February, 2023, we are pleased to confirm AFD no-objection to the reallocation of these funds.

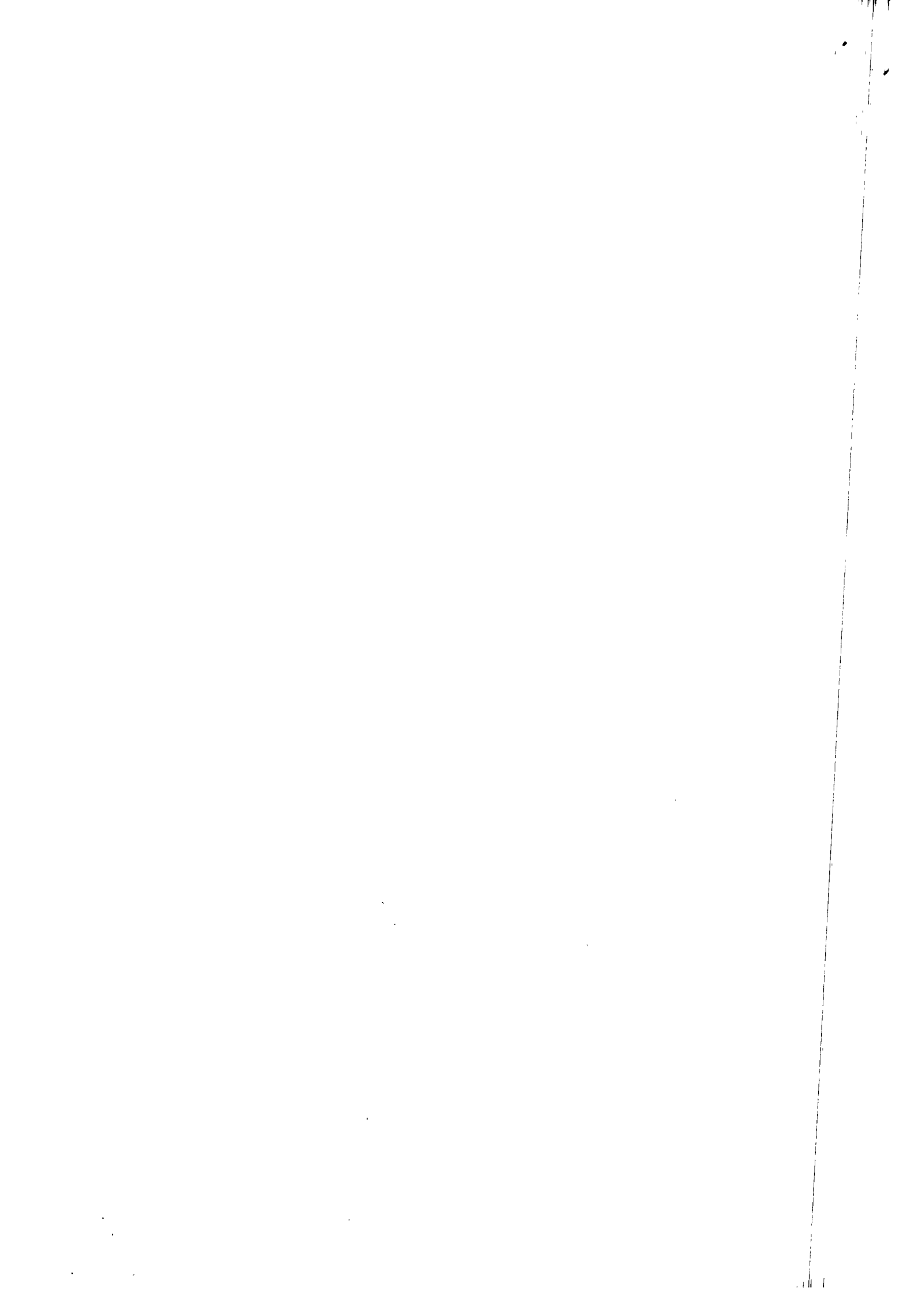
To formalise the reallocation of these funds, AFD will send an amendment letter to the credit facility agreement CKE 3004 01 E, signed on 25th May 2005, by the Republic of Kenya and AFD, which National Treasury shall countersign. National Treasury shall indicate if it prefers to keep hosting part of the funds or if it prefers that the whole amount be transferred to FSD Kenya for matter of accountability or efficiency.

AFD having enlarged its strategy to the agriculture and rural development sector, it is pleased to support to the RK FINFA project. At first, AFD would like that its financing focus on a diagnosis of the Agricultural Finance Corporation (AFC) and the definition of an action plan. It will aim to support the institution to be the host financial institution of the project, including the supervision and regulatory aspects. Depending on the outputs of this diagnosis, AFD support could then include a technical assistance program to AFC so that the organization, team, tools be adequately developed to foster a sustainable growth of the agriculture financing.



144 02 MAR 2023

Établissement public
Dotation de 2 807 998 856 euros
Na TVA intracommunautaire
FR 80 77 5 665 599
RCS Paris 8 775 665 599





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c. + 254 722 20 77 27
c. + 254 734 33 33 31

kenya.afd.fr

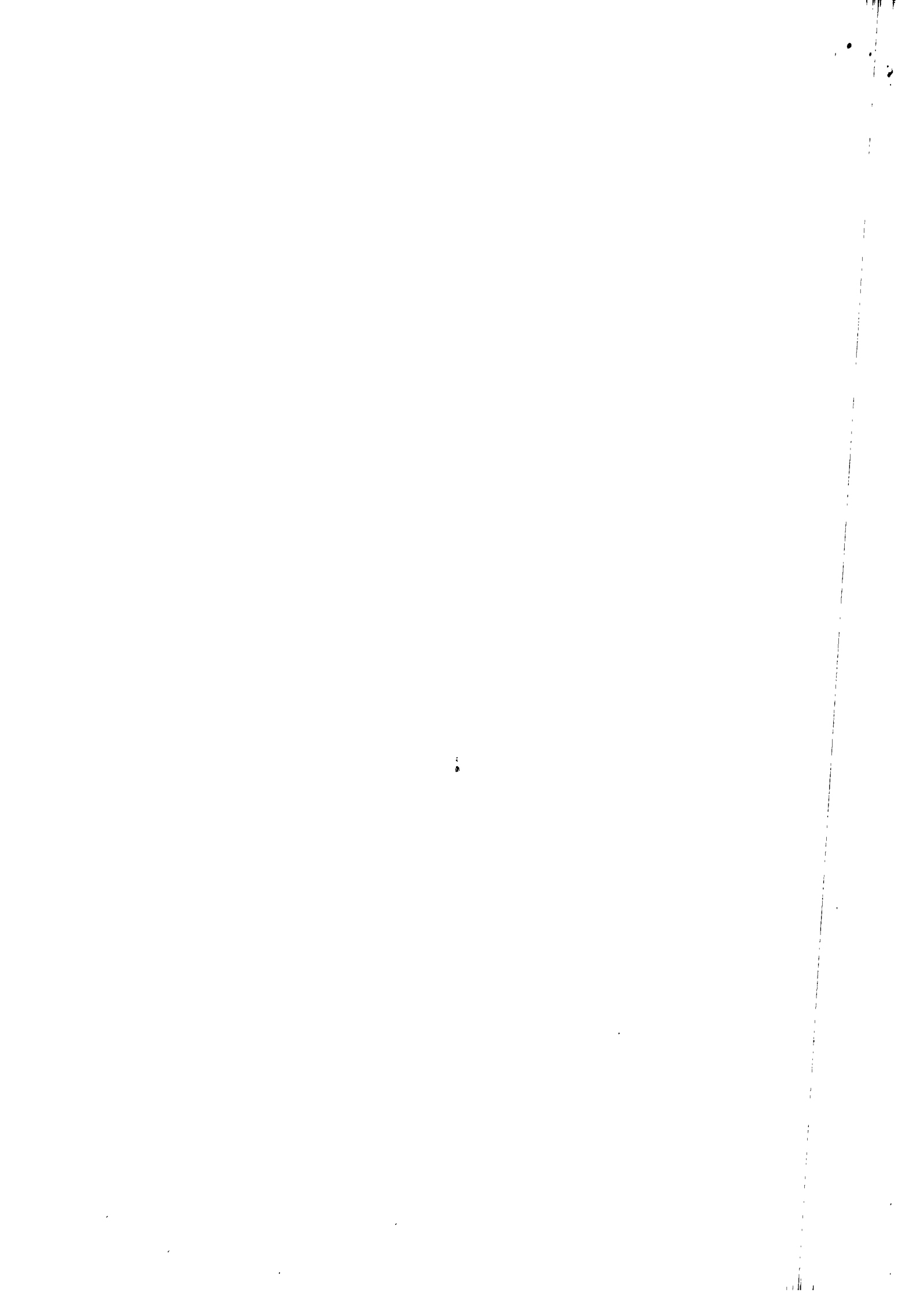
HEAD QUARTER
5 rue Roland Barthes
75598 Paris Cedex 12 France
t. + 33 1 53 44 31 31
f. + 33 1 44 87 99 39

afd.fr

As already indicated by FSD Kenya, AFD and IFAD will also formalise the contribution of AFD to RK-FINFA so that IFAD monitors the technical aspects of the project (as AFD will have a remote position). If agreeable, the financial flows and fiduciary aspects will be managed by National Treasury and FSD Kenya, under AFD supervision.

Yours sincerely,

Bertrand WILLOCQUET
Country Director
AFD Kenya





REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

Telegraphic Address: 22921
FINANCE – NAIROBI
Fax No. 315779
Telephone: 2252299

THE NATIONAL TREASURY
P.O. Box 30007 - 00100
NAIROBI
KENYA

When replying please quote:
MOF/ERD/20/154/78/01 (35)

4th August, 2023

Hon. Shadrack J. Mose
Solicitor General
Office of the Attorney General & Department of Justice
Sheria House
NAIROBI

Dear *SG*

RE: DRAFT AMENDMENT LETTER TO FACILITATE REALLOCATION OF FUNDS FROM MICROFINANCE SECTOR SUPPORT CREDIT PROJECT TO RURAL KENYA FINANCE INCLUSION FACILITY PROJECT

The Government of Kenya and French Development Agency (AFD) signed a Credit Facility Agreement of Euro 10 million to support the Micro Finance Sector Support Credit (MFSSC) Project. The project commenced on 25/05/2005 and came to an end on 31/12/2014.

Following the completion of MFSSC Project in 2014, a balance of KES. 146,428,317.30 remained unutilized in the Credit Facility Agreement. The National Treasury (NT) requested AFD to relocate the balance to Rural Kenya Inclusion Facility Project which is financed by IFAD.

The AFD accepted our request and has provided a **no-objection** for re-allocation of these funds. In order to actualize the transfer, there is need to amend the original Credit Facility Agreement. To this end, the AFD has submitted a draft Amendment Letter for Government review and clearance. The NT has reviewed the contents of the draft Amendment letter and found to be okay.

The purpose of this letter is to submit the draft Amendment letter to the Credit Facility Agreement together with previous Amendments for your review and legal clearance.

Yours

Shadrack J. Mose
Chris Kiptoo

Dr. Chris Kiptoo, CBS
Principal Secretary/The National Treasury

