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REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

**ANNUAL PERFORMANCE REPORT FOR THE MSMEs CREDIT
GUARANTEE SCHEME**

2022/23 FINANCIAL YEAR

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A. BACKGROUND

Micro, Small and Medium Enterprises (MSMEs) are vital to Kenya's economic development and job generation, as stated in Vision 2030 and the Third Medium Term Plan (2018–2022). According to the KNBS 2016 MSME Survey, Kenya has over 7.4 million MSMEs, which employ over 14.9 million Kenyans across all sectors of the economy and account for roughly 40% of the country's GDP. Furthermore, MSMEs are a significant driver of inclusive economic growth since they cover a wide variety of activities in nearly all sectors of the economy.

Despite the critical role they play, MSMEs continue to face a variety of challenges. Most of the start-up companies do not survive their 4th birthday owing to constrained access to finance for capital and operational demands, market challenges, and weak business strategies. Further, MSMEs that access credit face unfavorable loan conditions due to lack of sufficient collateral, high collateralization requirements, short payback periods, informal markets, inaccurate data and high interest rates since they are viewed as risky by financial institutions. This is majorly due to information asymmetries and informal management techniques, both of which make them unappealing to lenders.

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

In light of the above, The National Treasury rolled out the Credit Guarantee Scheme (CGS) by entering into risk-sharing agreements with participating financial institutions (PFIs) on 8th December, 2020, to support MSMEs to access quality and affordable credit. The Credit Guarantee Scheme is anchored on the Public Finance Management Act, 2012 and the Public Finance (Credit Guarantee Scheme) Regulations, 2020. In the 2020/21 financial year, the Parliament allocated KSh.3 billion as an initial seed capital for CGS.

The Credit Guarantee Scheme for MSMEs is currently being delivered through a risk sharing agreement between the Government and 7 participating banks. The seven banks are Absa, Cooperative, Credit, DTB, KCB, NCBA and Stanbic. The banks act as the intermediaries in provision of credit to qualifying MSMEs borrowers based on a pre-agreed Scheme Qualifying Criteria. Lending is done by the banks with due diligence in line with the Central Bank of Kenya Prudential Guidelines.

The maximum loan amount under the Scheme is KSh.5 million with a tenure of 3 years and up to 5 months' grace period and discounted interest rate based on the MSMEs risk profile. The Scheme guarantees to pay the banks 50% of the outstanding principal amount, subject to a maximum of 25% of the principal amount, in case of default on qualifying credit facilities advanced to MSMEs. This provides an incentive for the banks to offer better credit terms for the qualifying MSMEs.

The Scheme is a vital component of the Government's Bottom-up Economic Transformation Agenda (BETA Plan). The BETA plan is built around five priority economic pillars, namely Agriculture; MSMEs Economy; Affordable Housing and Settlement; Healthcare; and Digital Superhighway and Creative Economy. The Government has pledged to implement policies and structural reforms that promote investments in these areas, recognizing their potential to drive economic growth and development. By aligning with the MSMEs pillar of this agenda, the CGS plays a crucial role in supporting the growth and development of small businesses across the country. Through the Scheme, MSMEs can access affordable credit and other financial services, enabling them to expand their operations, create jobs, and contribute to the country's economic transformation.

B. STATUTORY REPORTING REQUIREMENT ON CGS FOR MSMEs

Section 59A of the Public Finance Management Act, 2012, requires the Cabinet Secretary to prepare, at least once every year, a statement of the credit guarantees granted to qualifying MSMEs, together with a report of:

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

(g) any other relevant information prescribed by regulations for the purposes of this section.

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

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

This report is prepared pursuant to Section 59 A of the Public Finance Management Act, 2012 and it covers the period from 1st July 2022 to 30th June 2023. The basis of the report is data submitted by PFIs through CBK.

C. CGS PERFORMANCE REPORT AS AT 30TH JUNE 2023

From inception to 30th June 2023, CGS disbursed a cumulative value of approximately KSh.5,751,289,611 billion to 3,846 MSMEs, across 46 Counties and 12 sectors of the economy as reported by the PFIs through the Central Bank of Kenya. All the three sizes of enterprises (micro, small, and medium) have benefitted from CGS facilities issued. Small enterprises received 2,240(58%), Micro enterprises received 1,047(27%) while Medium enterprises received 559(15%). The enterprises owned by women, youth and Persons with Disabilities (PwDs) received 20% of the total number of guaranteed facilities that had been disbursed. Women beneficiaries were 512(13%), youth beneficiaries were 254(6.7%), while PwDs were 10(0.3%). The beneficiaries of the CGS have so far supported a minimum of 23,631 jobs.

A total of 1,361 facilities have been fully repaid, representing credit amounting to KSh.1.58 billion. A guaranteed commitment of KSh.396.3 million has been released for additional qualifying MSMEs. This is the unique advantage of credit guarantees since funds can be revolved among more beneficiaries, upon repayment, thereby increasing the impact in the economy. The CGS has so far achieved a leverage ratio of 2.12 from KSh.2.71 billion committed to PFIs. This indicates that every one shilling committed by the Government has unlocked private sector credit of KSh.2.12 to MSMEs.

D. CGS PERFORMANCE REPORT FOR FINANCIAL YEAR 2022/23

In accordance with Section 59A of the Public Finance Management Act, 2012, the CGS Annual Performance Report for the Financial Year 2022/2023 is as follows:

(a) the total value of credit guarantees given in the financial year

During the FY 2022/23, approximately KSh.1,854,821,297 was disbursed to 1,356 MSMEs under the CGS. This disbursement represents credit guarantee value of KSh.463.7 million advanced to eligible MSMEs in the financial year.

(b) the total value of credit guarantees liquidated in the financial year

During the FY 2022/23, no credit guarantees were liquidated under the CGS. PFIs have lodged a total of 37 claims for consideration by the National Treasury in line with the legal framework. The claims represent an outstanding principal amount of KSh.51,389,583 and CGS obligation of up to KSh.16,979,584. In addition, appropriate provisioning has been made based on risk assessment of the portfolio for facilities under “Watch”, “Substandard” and “Doubtful”. PFIs may lodge claims for guaranteed facilities once classified under “Substandard.”

(c) the total value of outstanding credit guarantees on 30th June 2023

The outstanding credit guarantee is KSh.864.3 million as at 30th June 2023. Further, a guarantee value of KSh.396.3 million has been released as a result of full repayment of guarantees. The repaid guarantee value can be reallocated to additional qualifying enterprises, implying that the credit guarantee achieves a higher leverage ratio in unlocking private sector credit for enterprises. This presents a unique advantage of using credit guarantee schemes to support MSMEs access to credit.

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

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

As at 30th June 2023, CGS had 2,485 active facilities with a total outstanding principal amount of KSh.2,638,244,894. A total of 2,081 facilities were classified as “Normal” while 404 facilities were delinquent, that is, classified as “Watch,” or “Substandard” or “Doubtful” or “Loss”. The 404 delinquent facilities together represent an outstanding principal amount of KSh.365,404,467 representing potential claims up to a maximum of KSh.129,087,219.

One hundred and twenty-one (121) of the facilities were classified under “Watch” with an outstanding principal amount of KSh.109,748,313 million representing a potential claim amount of KSh.43,661,545. In addition, ninety-five (95) guaranteed credit facilities were classified as “Substandard” with an outstanding principal amount of KSh.75,761,280 and CGS’s liability of KSh.28,051,832. One hundred and fifty-one (151) facilities were classified as “Doubtful” with an outstanding principal amount of KSh.140,294,320 and CGS liability in case of a claim is KSh.44,769,768. In addition, thirty-seven (37) facilities were classified as “Loss” with an outstanding principal amount of KSh.39,602,553 and a potential claim amount of KSh.12,604,074.

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

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

“Substandard” facilities are not adequately protected by the current net worth and paying capacity of the borrower and, therefore, the institution must look to secondary sources such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment. Facilities whose installments have become due and remain unpaid for a period longer than 90