

1.1 Background

Establishment of the Credit Guarantee Scheme (CGS) to enhance access to credit by Micro, Small and Medium Enterprises (MSMEs) is a longstanding policy objective of the Government. Kenya Vision 2030, in the Third Medium Term (2018-2022) Plan for the Financial Services Sector, identified credit guarantee as a key programme to enhance the performance of MSMEs in the country.

The focus on MSMEs is informed by the critical role the enterprises play in Kenya's economy through the creation of employment opportunities and wealth for a large number of people. The MSME sector employs approximately 15 million people directly and contributes about 34% to the country's Gross Domestic Product (GDP). The sector also contributes about 91% of the total new jobs generated annually.

MSMEs face a number of challenges despite the significant role they play in the economy. Most of the start-up enterprises do not survive their 4th birthday due to limited access to credit for capital and operational needs, market challenges, and poor business models. Further, MSMEs that access credit are compounded by unfavorable terms of credit due to lack of sufficient collateral, high collateralization requirements, short repayment periods, and high-interest rates as they are perceived risky by financial institutions.

On 8th December 2020, the Government of Kenya (GoK), through the National Treasury, rolled out the CGS to respond to the identified challenges, in order to enhance access by MSMEs to quality and affordable credit. The CGS is anchored in the Public Finance Management (Amendment) (No.2) Act, 2020, and the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020.

The implementation of the CGS is through a Credit Guarantee Agreement executed jointly with Participating Financial Intermediaries (PFIs). Through the CGS, the Government commits to pay PFIs a portion of the outstanding principal amount in the event of default on qualifying credit facilities advanced to MSMEs.

The CGS organizational structure comprises the Steering Committee which oversees the administration of the CGS, the Administrator who supervises and controls the administration of the CGS and the Scheme Manager and staff to run the day-to-day operations of the CGS. The Cabinet Secretary appointed a secretariat on 9th December 2020, to among other things,

monitor, evaluate, and report the performance of the CGS. For the successful implementation of the secretariat's functions, the development of a monitoring and evaluation manual was deemed necessary. This manual will provide for the monitoring, reporting, and evaluation of the activities of the Scheme.

1.2 Vision, Mission, and Core Values

Vision: to be a world-class credit guarantor for the growth of MSMEs

Mission: To enhance MSMEs' access to finance through innovations and partnerships in the provision of credit guarantees for sustainable growth.

Core Values

Integrity
Accountability
Diligence
Resilience
Discipline
Professionalism
Teamwork

1.3 Objectives of CGS

The CGS is one of the strategies in Vision 2030 and has three key objectives aimed at promoting high levels of savings to finance Kenya's investment needs. These are-

- i. To improve and stimulate the economy by encouraging additional lending to MSMEs, increasing investment opportunities for MSMEs, and strengthening the skills and capacities of proprietors of MSMEs.
- ii. To create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantees for MSMEs and other related activities.
- iii. To facilitate the financing of MSMEs, increasing investment opportunities for MSMEs by partially guaranteeing credit advanced to the enterprises.