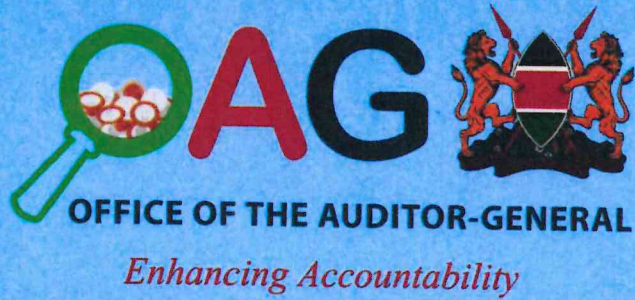


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

CREDIT GUARANTEE SCHEME

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

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30044 - 01003, NAIROBI
REGISTRY

08 MAR 2024

RECEIVED



THE NATIONAL TREASURY AND ECONOMIC PLANNING
CREDIT GUARANTEE SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

30 JUNE, 2023

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

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1. ACRONYMS, ABBREVIATIONS AND GLOSSARY OF TERMS

A: Acronyms and Abbreviations

NT	National Treasury
CGS	Credit Guarantee Scheme
CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
MSMEs	Micro, Small and Medium Enterprises
PFI	Participating Financial Intermediary
OAG	Office of the Auditor General
PROFIT	Programme for Rural Outreach in Financial Innovations and Technology
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
WB	World Bank
USAID-KIM	United States Agency for International Development- Kenya Mechanism
RK-FINFA	Rural Kenya Financial Inclusion Facility
M & E	Monitoring and Evaluation
OSHA	Occupational Safety and Health Act of 2007
KCB	Kenya Commercial Bank
COOP BANK	Cooperative Bank
DTB	Diamond Trust Bank
NCBA	National Commercial Bank of Africa
MDAs	Ministries, Departments and Agencies
IFAD	International Fund for Agricultural Development
KFW	Kreditanstalt für Wiederaufbau-"Credit Institute for Reconstruction" Germany
FSD_K	Financial Sector Deepening Kenya
PwDs	Persons With Disability

B: Glossary of Terms

Fiduciary Management- Members of Management directly entrusted with the responsibility of financial resources of the organisation

Comparative Year- Means the prior period.

Scheme: - Means the Credit Guarantee Scheme

2. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Credit Guarantee Scheme (CGS) is anchored on the Public Finance Management (Amendment) Act (No. 2) 2020 and the Public Finance Management (Credit Guarantee Scheme) Regulations 2020.

The National Treasury executed bilateral credit guarantee agreements with seven Participating Financial Institutions (PFIs) for the implementation of the CGS. The PFIs include Absa Bank, The Cooperative Bank of Kenya, Credit Bank, Diamond Trust Bank, KCB Bank, NCBA Bank and Stanbic Bank. The role of the PFIs in the implementation framework involves appraisal of credit applications from eligible Micro, Small and Medium Enterprises (MSMEs), issuance of credit and management of credit accounts in line with prudent lending criteria anchored on the Central Bank of Kenya (CBK) Prudential Guidelines. The PFI credit appraisal is informed by the institutions' internal processes. Upon satisfaction of internal lending conditions, the MSMEs profile is then checked against the Scheme Qualifying Criteria which is shared with the PFI in the credit guarantee agreement.

Whereas the PFI's decision to advance credit is made based on internal lending criteria, the decision to book the facility under the CGS is based the Scheme Qualifying Criteria. The loan repayment and recovery processes for loans booked under the CGS proceeds guided by prudent lending procedures and the CGS is only called upon in case of default by the beneficiary MSME. A claim submitted by a PFI to the CGS is subjected to an objective validation process and only successful claims are paid. Payment of any individual validated claim is made on terms and conditions stipulated in the executed credit guarantee agreement between the National Treasury and the PFI.

(b) Principal Activities

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 Provision of Credit Guarantees

Core Values

1. Integrity
2. Accountability
3. Diligence
4. Resilience
5. Discipline
6. Professionalism
7. Team work

CREDIT GUARANTEE SCHEME

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The CGS principal activities are as follows: -

- i. Improve and stimulate the national economy by encouraging additional lending to micro, small and medium enterprises, increasing investment opportunities for micro, small and medium enterprises and strengthening skills and capacities of proprietors of micro, small and medium enterprises;
- ii. Facilitate the financing of micro, small and medium enterprises by partially guaranteeing credit advanced to the enterprises; and
- iii. Create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantees for micro, small and medium enterprises and other related activities.

(c) Key Management

The Credit Guarantee Scheme is oversighted by a Steering Committee which seeks to ensure efficiency and effectiveness in delivering the mandate of the Scheme. The Steering Committee comprises of:

- i. Principal Secretary for the National Treasury (Chairperson)
- ii. Governor, Central Bank of Kenya;
- iii. Representative of the Principal Secretary, State Department for Industrialization;
- iv. Representative of the Attorney General; and
- v. Three independent members appointed by the Cabinet Secretary for the National Treasury and Planning.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Scheme Manager	Ronald Inyangala
2.	Head of Finance	Esther Kitonyi
3.	Head of Risk	Jackson Echoka
4.	Head Legal Counsel	Winnie Molonko
5.	Head Monitoring and Evaluation	Joseph Mburu
6.	Scheme Claims Management and Technical Capacity Building	Geoffrey Momanyi
7	Senior Claims Officer	Joyce Sanga

(e) Fiduciary Oversight Arrangements

The fiduciary function of the Scheme is delineated between the Scheme Steering Committee, the Scheme Administrator and the Scheme Secretariat. The Office of the Auditor General provides a fiduciary oversight role. The Scheme reports annually to the National Assembly in line with the enabling legal provision. Where applicable, the Scheme is subject to the fiduciary oversight of a Development Partner or Donor.

(f) Entity Headquarters

The National Treasury
P.O. BOX 30007 – 00100
Harambee Avenue
Nairobi, KENYA

(g) Entity Contacts

Telephone: (254) 20 2252299
E-mail: ps@treasury.go.ke

(h) Entity Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

(i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

3. THE SCHEME STEERING COMMITTEE

The Scheme Steering Committee is composed of four members drawn from key government institutions and three independent members appointed by the Cabinet Secretary for the National Treasury and Economic Planning. The following was the key membership during the reporting period:

Dr. Chris K. Kiptoo, CBS

The Principal Secretary



Dr. Chris Kiptoo is the Principal Secretary, National Treasury. He was appointed Principal Secretary by President William Samoei Ruto on 1st December 2022. Dr. Kiptoo is the immediate former Principal Secretary, Ministry of Environment and Forestry. Before that, he also served as a Principal Secretary at the State Department of Trade, Ministry of Industry, Trade & Cooperatives.

In his working career, Dr. Kiptoo has acquired a rich wealth of experience in economic policy analysis, mainly gained at the Central Bank of Kenya, Capital Market Authority and the International Monetary Fund, where he has served in various capacities. His expertise especially relates to the design and implementation of monetary policy; balance of payments and exchange rates; fiscal operations and policy; financial sector matters including capital markets; national accounts/real sector and macroeconomic accounting, and modelling and forecasting.

Additionally, Dr. Kiptoo has proven experience in environment and climate change policies, trade policy and regional integration, private sector development and advocacy, infrastructure development, institutional development of Government institutions and organisational management, all mainly gained at the Ministry of Environment and Forestry, State Department of Trade as well as Trade Mark East Africa. Noteworthy, he also has four years of experience in economic policy coordination gained while working at the then Office of the Prime Minister.

Dr. Chris Kiptoo holds a Doctor of Philosophy Degree (PhD) in Finance (International Macroeconomics Finance specialization) from The Nairobi University, as well as a Master of Science (Ag. Economics) and Bachelor of Science (Ag. Economics) degree from Egerton University. He is also an Accredited Fellow in Macroeconomic Management Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI).

MS. Susan Mang'eni

PS State Department for Micro, Small and Medium Enterprises (MSMES)

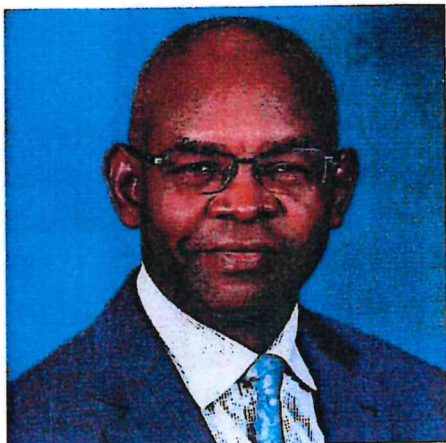


Susan Mang'eni is the Principal Secretary of the newly established State Department for Micro, Small and Medium Enterprises (MSMEs) Development under the Ministry of Cooperatives and MSMEs. She is a governance and development expert with close to 15 years' experience in both the private and public sectors, in areas of strategic leadership, public policy formulation, analysis and implementation, enterprise development, institutional building, oversight, youth and women empowerment.

Prior to her current appointment, Susan served on the Boards of the Youth Enterprise Development Fund (YEDF), Kenya Institute of Public Policy Research and Analysis (KIPPRA) and The Competition Tribunal of Kenya. She was also a member of the Working Group on the Socio-economic Audit of the constitution of Kenya 2010, under the office of the Auditor General where she handled the assessment of the impact of the Constitution of Kenya 2010 on governance and public institutions. The findings were tabled to the National Assembly in 2016 to help shape the government policies and programmes.

In the Private Sector, Susan has engaged in consultancies and discourses focused on socio-economic and political transformation across the country, region and beyond, gaining global perspectives and insights that continue to impact on her contributions in the public policy arena. PS Susan holds an MA in Entrepreneurship Development and a BA in Political Science and Public Administration both from the University of Nairobi. She is also an alumnus of the 2011 International Visitors Leadership Programme (IVLP) a US State department Exchange programme. She is a network member of the Mandela Institute for Development Studies (MINDS), the Women Democracy Network (WDN) and the Women Waging Peace International, among others.

Dr. Kamau Thugge, CBS
Governor, Central Bank of Kenya



Dr. Kamau Thugge C.B.S., is the tenth Governor of the Central Bank of Kenya (CBK) and has been in office since June 19, 2023.

Dr. Thugge joined CBK after a long and distinguished career in the international and Kenyan public service. He worked in the International Monetary Fund (IMF) in both policymaking and non-policymaking departments. These include the Policy Review and Development Department and the Trade Policy Division. In these roles, he helped to design the Highly Indebted Poor Countries Initiative (HIPC) as well as other policy initiatives. He also worked on various Article IV missions. He also served as Mission Chief to Botswana and Lesotho in the wake of the Global Financial Crisis.

Dr. Thugge has held various senior roles in Kenya, including as the Head of the Fiscal and Monetary Affairs Department at the National Treasury, as Economic Secretary and as Senior Economic Advisor. He also served as Principal Secretary at the National Treasury, and lately as Senior Advisor to the President and Head of Fiscal and Budget Affairs. He helped to design and implement various laws including the Public Finance Management Act, the Commission on Revenue Allocation Act, the Independent Officers (Appointment) Act, the Public Procurement and Disposal of Assets Act, and many more. In these roles, he also served on various boards including that of the Central Bank of Kenya, the Monetary Policy Advisory Committee (and later the Monetary Policy Committee), the Kenya Revenue Authority and the Capital Markets Authority.

The Governor holds a Bachelor's Degree from the Colorado College, and Master's and PhD Degrees in Economics from Johns Hopkins University in the United States.

Ms. Nancy Muya – Director of Industries

Representative, Principal Secretary, State Department for Industrialization



Ms. Nancy Muya has over 30 years of experience in civil service, offering expertise in industrial development while working in the Ministry of Industrialization, Trade and Enterprise Development. She has risen through the ranks over the years from an Industrial Development Officer to Director of Industries. She holds a degree in Mathematics and Chemistry from Kenyatta University and a Masters degree in Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology.

Ms. Sharon Irungu-Asiyo, HSC

Representative, Attorney General



Ms. Sharon Irungu-Asiyo, HSC is the representative of the Attorney General in the Steering Committee of the Credit Guarantee Scheme. She has a Bachelor of Laws (LLB) Degree and a Post-Graduate Diploma in Legal Studies from the Kenya School of Law. With fifteen post-admission to the roll of advocates, Ms. Irungu-Asiyo has both private and public sector experience majoring in commercial and corporate law, international business and international financial transactions. As a public sector legal practitioner, Ms. Irungu-Asiyo is currently based at the Government Transactions Division at the Office of the Attorney General where her primary duties entails drafting, vetting and reviewing Government Contracts, negotiating commercial and financial agreements on behalf of the Government and issuing advisory opinions on emerging issues and areas of law that have an impact on Government Contracts. As a member of the Steering Committee of the Credit Guarantee Scheme, Ms. Irungu-Asiyo provides strategic leadership on emerging issues of law that affect the implementation of the Credit Guarantee Scheme.

4. INTERIM MANAGEMENT TEAM

The following staff have been appointed on an interim basis by the Cabinet Secretary in order to assist in the management of the Scheme.

Name	Qualification	Key Responsibility
<p>Mr. Ronald Inyangala, OGW</p> 	<p>Mr Ronald Inyangala is a Senior Deputy Director in the department of Financial Sectoral Affairs at the National Treasury. He is currently the interim Scheme Manager of the Credit Guarantee Scheme for the Micro Small and Medium Enterprises (MSMEs). He is an innovative development economist and a public sector policy expert with 20+ years' experience. Previously, he worked with Ministry of East African Community on Regional & Economic Integration matters and the Ministry of Trade in the area of business development and capacity building of MSMEs. Ronald holds an M.A. in International Development Studies (Comparative Development) from Hankuk University of Foreign Studies, Republic of South Korea, a Master of Business Administration from Moi University and a Bachelors degree -Mathematics and Economics from Egerton University. He is currently pursuing a Doctor of Philosophy in Development Studies at Jomo Kenyatta University of Agriculture and Technology. Skilled in planning, organizing and implementing economic development functions from conception to completion, including economic development programs, budgeting, cross departmental project management, regional integration programs and capacity development. He has pursued various leading-edge leadership and professional short courses including the Strategic Leadership Development Course (SLDP), the Global Leadership in Financial Supervision in Times of FinTech from Toronto centre, Canada, Financial Sector Regulatory Compliance Course from London Corporate Training-UK, Public Private Partnership Project Management and Implementation from The Institute for Public-Private Partnership (IP3) United States of America & Certificate in Effective Negotiation Skills: Negotiation Techniques, Tools and Procedures from the Institute for Regional Integration and Development- Catholic University of Eastern Africa.</p>	<p>Strategic operations of the scheme and Team leadership</p>

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CPA Esther Kitonyi



Ms. Esther Kitonyi a Deputy Accountant General, deployed in the department of Financial Sectoral Affairs at the National Treasury. She is currently the Head of Finance and Financial Reporting of the Credit Guarantee Scheme for the Micro Small and Medium Enterprises (MSMEs) a newly established Government programme aimed at facilitating financial flows to the Micro, Small and Medium Enterprises in Kenya. Previously, she has been part of the setting up of the Accounting Unit in the Ministry for Development of Northern Kenya, Arid and Semi-Arid Lands, as Head of Accounting Unit, set up the Accounting Units of the Interim Independent Boundaries Review Commission (IIBRC) and that of the National Police Service Commission. She has over 30 years' experience in the areas of Public Finance, Financial Accounting and Reporting and Strategic Management. Her wealth of experience has been gained through working in various roles with the National Treasury and other Ministries. She has a Bachelor of Science degree in International Business Administration in Finance and Accounting from the United States International University and is currently pursuing a Masters degree in Finance and Accounting. She is a Certified Public Accountant of Kenya, CPA(K). She has also pursued various leadership and management courses including Strategic Leadership Development Program-(SLDP) and Senior Management Course -(SMC) programmes at the Kenya School of Government (KSG), and has also undertaken related professional training with the MEFMI.

Scheme financial technical advice, and Reporting

Mr. Jackson Achoka



Leading the Risk & Compliance function at Agricultural Finance Corporation (AFAC), Jackson is an agribusiness specialist with 30 years' experience working with farmers in the agricultural sector; AFC Project Manager for Risk Sharing Facility for Programme for Rural Outreach & Financial Innovations & Technologies(PROFIT); Experienced trainer on agriculture finance; Project Manager in a pilot implementation of an innovative Farmer Information Technology Network Enterprise System (FITNES) a loan for farmer registration and loan origination in AFC; Holds a Master of Science degree in Agricultural and Applied Economics from the University of Nairobi in collaboration with University of Pretoria.

Scheme risk management aspects

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CS Winnie Molonko



Winnie is an Advocate of the High Court of Kenya with an accomplished legal and compliance career reflecting 18+ years' drafting and reviewing of organizational policies and procedures, providing legal support and advice to various organizations including currently National Treasury and Planning. She has undergone innovative training and development with extensive experience in drafting legal instruments including contracts and other legislative instruments, supporting Boards on Governance and other statutory compliance requirements and introduction of innovative products through legislative support.

Legal counsel to the Scheme

She has previously worked as a State Counsel Office of the Attorney-General as a Parliamentary Counsel, Capital Markets Authority as a Senior Regulatory Officer and the Central Bank of Kenya, Legal Services Division. Winnie is a holder of a Masters Degree in Law, LLM,(UON), Degree in Law, (LLB,)Advocate of the High Court of Kenya, Certified Secretary and a member of the Law Society of Kenya and the Institute of Certified Secretaries.

Mr. Joseph Mburu



Mr. Joseph Mburu is a Principal ICT Officer at the National Treasury and Economic Planning, in the Financial and Sectoral Affairs Department. Mr. Mburu has over fifteen years' experience in Information and communications technology (ICT). He is also an expert in project management, monitoring and evaluation. Mburu has participated in projects including the Re-engineering of the Public Service Commission online recruitment system, e-briefcase repository and workflow system at the Ministry of East African Community (EAC), Decision Monitoring system at the Ministry of EAC, and Gender policy implementation and monitoring system at the Ministry of Energy. He has also undergone Senior Management Course (SMC) at the Kenya School of Government (KSG). He holds a Masters degree in Information and Technology Management at Korea Advanced Institute of Science & Technology and a Bachelors of Science (Physics) from University of Nairobi.

Scheme Monitoring and evaluation aspects

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Geoffrey Otungu Momanyi



Mr. Momanyi is a Senior State Counsel at the National Treasury and Economic Planning. He has over 10 years' experience having worked as a Legal Counsel at Kisii County Assembly and Senior State Counsel at Advocates Complaints Commission.

Mr. Momanyi holds a Master's Degree in Public Management and Public Sector Reforms from Seoul National University, the Republic of South Korea, a Post Graduate Diploma in Law from Kenya School of Law, a Bachelor's Degree in Law (LLB) from University of Nairobi and is currently pursuing a Certified Secretary Course with KASNEB. He has also undertaken various leadership and technical trainings on governance, finance and diplomacy. He is interested in Commercial, Technology and International Law.

Scheme Claims
Management and
Technical
Capacity
Building

He is a transformative advocate and public policy practitioner with outstanding career in commercial law and public sector reforms. He advises the Ministry on legal and policy matters. He was appointed the Head of Claims and Capacity Development of the Credit Guarantee Scheme on 9th December, 2022.

He also serves as an Alternate Director to the Cabinet Secretary for the National treasury and Economic Planning at the Victim Protection Board.

Joyce Sanga



Ms Joyce Chemutai Sanga is a Senior *Economist* at the National Treasury and Planning, in the Department Financial and Sectoral Affairs. Ms. Sanga has experience in Planning, budgeting, monitoring and evaluation of the activities of the Public Sector. Among key achievement is playing a key role in development of the Second, Third and Fourth Medium Term Plans of the Kenya Vision 2030. Ms. Sanga has also played a coordinating role as a District Development Officer in former Eldoret North Constituency and played a key role in developing the Annual District Development Plans. She has also undergone Senior Management Course (SMC) at the Kenya School of Government (KSG). She is currently undertaking Masters degrees in Economic Policy and Management at Kenyatta University and has Bachelors of Arts (Economics) degree from Kenyatta University.

Senior Claims
Officer

5. SCHEME ADMINISTRATOR'S STATEMENT

Micro, Small and Medium Enterprises (MSMEs) play critical roles in the world economy, however, most of the MSMEs, especially in developing countries, have difficulty in accessing credit. Credit guarantees have been used by governments to enable MSMEs access credit. Credit guarantees aim to redress situations where borrowers with an equal probability of default have an unequal probability of obtaining credit where they have insufficient collateral. As a result, credit guarantees act as a lever and stimulate financial institutions to channel more funds to micro, small and medium-sized enterprises.

The government Kenya through the National Treasury established the Credit Guarantee Scheme (CGS) in December, 2020 with the main objective of achieving financial, social and economic additionality. Credit Guarantee is a key policy tool that the National Treasury intends to leverage in order to enhance access to finance for Micro, Small and Medium-sized Enterprises, while limiting the burden on public finances. The National Treasury is keen on ensuring that micro, small and medium-sized enterprises are adequately funded to enhance growth and sustainability of the sector.

This Financial Report outlines the financial performance of the Credit Guarantee Scheme established by the National Treasury to support Micro, Small and Medium-sized Enterprises access to credit. The financial report is prepared on the basis of data submitted by the PFIs through CBK as at 30th June 2023.

Since inception, CGS has directly enabled 3,846 MSMEs access credit of a cumulative value of KSh.5.75 billion. The MSMEs are distributed across 46 Counties and operate in twelve sectors of 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. To-date, no credit guarantee has been liquidated. However, a total of KShs.129,087,219 has been provisioned for the 404 delinquent facilities as at 30th June 2023.

The National Treasury continues to monitor the performance of the Scheme to identify areas for improvement in the delivery of credit guarantee. This will be through diversifying products, sensitization of the PFIs and collaboration with relevant Ministries, Departments and Agencies MDAs and Development Partners. We will also work towards transitioning CGS to a more sustainable model in the coming financial year.



Dr. Chris Kiptoo, CBS
Principal Secretary / National Treasury

6. SCHEME MANAGER'S STATEMENT

The National Treasury established a Credit Guarantee Scheme aimed at enhancing micro, small and medium-sized enterprises (MSMEs) access to credit. The Credit Guarantee is being delivered through a risk sharing agreement between the Government and seven participating banks. The seven banks are KCB Bank, Cooperative Bank, Absa Bank, DTB Bank, NCBA Bank, Stanbic Bank and Credit Bank. The banks act as the intermediaries in provision of credit to qualifying MSMEs borrowers. Lending is done by the commercial banks with due diligence in line with the Central Bank of Kenya Prudential Guidelines. The participating banks were identified through a competitive process. The current participating intermediaries were identified based on among other criteria, their ability to extend credit to many MSMEs from diverse regions and sectors.

The Scheme covers a portion of the potential default risk associated with MSMEs credit facilities by providing a guarantee to pay the banks 50% of the outstanding amount, subject to a maximum of 25% of the principal amount pari-passu, in case of default on qualifying credit facilities to MSMEs. Once a claim has been approved by the Scheme, the amount is payable in two tranches. This provides an incentive for the banks to continue to pursue recovery of the defaulted credit facilities. The participating financial intermediaries are expected to submit monthly reports on all guaranteed credit facilities extended to MSMEs in the reporting period. These reports will be important for the Scheme to fulfil its reporting obligations to the Administrator and Parliament as envisaged in the Public Finance Management Act, 2012.

The CGS has an initial seed capital of KSh. 3 billion appropriated in the fiscal year 2020/21 for guaranteeing credit facilities extended to MSME borrowers. The government is committed to grow the capital through future allocations and investments. The participating commercial banks are expected to leverage this amount four times, implying that the current KShs. 3 billion will unlock at least KShs. 12 billion in the short run as credit extended to MSMEs.

Product description

Currently, there is one approved product for the CGS. Below are the characteristics of the approved product.

- i. Maximum loan amount under the scheme is KShs. 5 million
- ii. Repayment period of up to 3 years
- iii. Repayment grace period of up to 5 months

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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. 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.

During the FY 2022/2023, PFIs disbursed credit under CGS worth KShs. 1.86 billion with a guarantee value of KShs. 463.7 million to eligible MSMEs at an average interest rate of 10.6%. The average tenure is 17 months. In the same period, CGS recorded beneficiaries in 39 counties accounting for 83% of the total 47 counties in the country with high concentration in Nairobi (702), Mombasa (112), Nakuru (84), and Kiambu (67). This may be explained by the concentration of MSMEs in urban centres and PFIs branch network across the counties implying high demand of credit in these regions. Mandera County is yet to record beneficiaries under CGS. The NT and Development Partners are undertaking targeted outreach and awareness campaigns in order to increase uptake across all the Counties.

Of the total 1,356 facilities during the year, 20.35% of the total number of guaranteed facilities were disbursed to businesses owned by women, youth and Persons with Disabilities (PwDs). Women beneficiaries were 185, youth beneficiaries were 90 while PwDs was 1.

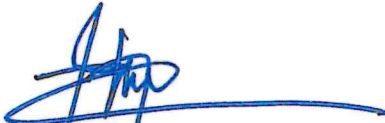
As at 30th June 2023, CGS had 2,485 active facilities with a total outstanding principal amount of KSh.2,638,244,894. A total of 2,081 facilities were classified as "Normal" while 404 facilities were delinquent, that is, classified as "Watch," or "Substandard" or "Doubtful" or "Loss". The 404 delinquent facilities together represent an outstanding principal amount of KSh.365,406,467 representing potential claims up to a maximum of KSh.129,087,219.

To date, no credit guarantees have been liquidated under the CGS. Nonetheless, appropriate provisioning has been made based on risk assessment of the portfolio for facilities under "Watch," "Substandard" "Doubtful" and "Loss".

CREDIT GUARANTEE SCHEME

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The National Treasury is closely monitoring the performance of the Scheme and is keen on increasing the Guarantee utilization by onboarding additional participating financial institutions, improving the design of the product and diversification. This will enable more MSMEs to benefit from this Government intervention.



Ronald Inyangala, OGW

Scheme Manager

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR THE FINANCIAL YEAR 2022-2023

The Scheme concentrated on implementation of the Scheme activities in order to achieve its intended objectives. Among the main activities were to monitor the reports from the Participating Financial Institutions to check for compliance to the legal framework as they allocate the guarantees to the intended beneficiaries. Further, the Scheme continued to build capacity to the PFIs staff in order to improve their efficiency. The Scheme has been reporting to the relevant authorities in line with the PFM Act, 2012 and the CGS Regulations. The pillars of the Scheme include: -

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Legal and operational framework for the Scheme	To ensure compliance with the PFM Act, 2012 and the CGS Regulations; and the Credit Guarantee Scheme Agreements with PFIs	No of manuals developed; Report on review of PFIs returns; Letters to Central Bank of Kenya; Letters to PFIs; and Communication with the Attorney General	Develop CGS operational manuals; Review of PFIs returns; Raise concerns to PFIs; Hold meetings with PFIs on compliance issues where applicable	5 CGS Manuals approved by CGS Steering Committee namely: CGS Operational Manual; Risk Management and Compliance Manual; CGS Claims Manual; Financial and Accounting Procedure Manual; and CGS Monitoring and Evaluation Manual and; Developed the Rural Kenya – Financial Inclusion Facility (RK-FINFA) Addendum to the Credit Guarantee Scheme Operations Manual
Pillar 2: Improve access to credit by MSMEs	To facilitate the financing of MSMEs by partially guaranteeing credit	No. of MSMEs accessing CGS;	Hold meetings with Key stakeholders to discuss possible	An increasing trend in the number of MSMEs accessing credit through the Scheme.

CREDIT GUARANTEE SCHEME
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through credit guarantee	advanced to the enterprises	No of Counties benefiting from CGS;	actions for increase in uptake;	CGS disbursed a cumulative value of
		No. of Women, Youth and Persons With Disabilities accessing the Guarantee;	Prepare monthly reports to track the performance of CGS and implement possible recommendations;	KSh.5.75 billion to 3,846 MSMEs, across 46 Counties and 12 sectors of the economy, an increase from 2,490 facilities amounting to KSh.3.9 billion reported by June 30 2022.;
		No. of PFIs staff trained on CGS;	Train PFI staff on CGS product; Onboard additional participating financial institutions;	Held training three meetings with PFIs on CGS product;
		No. of meetings held with Key stakeholders	Diversify and improve the design of the product.	Enterprises owned by women, youth and persons with disabilities (PwDs) received 20% of the total number of facilities that have been disbursed.
	Stakeholders Engagement and awareness creation	No. of stakeholders engagements forums held; Stakeholders engagement reports;	To engage the stakeholders based on their interests in supporting the Scheme	Engaged the Government and Private Sector on the status of CGS; The Scheme held meetings with the 7 PFIs; Held stakeholder meeting with DPs, MSMEs and banks.
Pillar 3 Reporting and Monitoring of the Scheme	To Track the performance of the CGS on a monthly and quarterly basis	No. of reports on the status and performance of CGS	Analysing the monthly returns from PFIs;	Monthly, Quarterly and annual Performance reports prepared

CREDIT GUARANTEE SCHEME

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				Prepare the monthly and quarterly CGS performance reports
Pillar 4: Stakeholder's engagement	To mobilize resources to fund the Scheme	Stakeholders Matrix Stakeholders' engagement reports	To engage the stakeholders based on their interests	Engaged Development Partners (World bank, USAID, IFAD, KFW, FSD_K among others on possible areas of support and collaboration.
Pillar 5: Risk assessment of the portfolio	To assess risk of the CGS portfolio periodically	Number of risk reports	To conduct a risk assessment from the monthly PFI returns To prepare monthly/quarterly risk assessment reports	Monthly/quarterly/annual risk assessment reports prepared

8. CORPORATE GOVERNANCE STATEMENT

A. Steering Committee

The oversight of the Credit Guarantee Scheme is vested on the Steering Committee.

The Committee consists of—

- (a) The Principal Secretary in the Ministry responsible for matters relating to finance, who shall be the chairperson, or the Principal Secretary's representative;
- (b) The Principal Secretary in the Ministry responsible for matters relating to micro, small and medium enterprises or the Principal Secretary's representative;
- (c) The Attorney-General or the Attorney-General's representative;
- (d) The Governor of the Central Bank of Kenya or the Governor's representative;
- (e) Three independent members, not being public officers, appointed by the Cabinet Secretary for a period not exceeding three years, renewable once, who shall comprise of—
 - (i) One person with experience in banking or finance;
 - (ii) One person with experience in insurance; and
 - (iii) One person with experience as an entrepreneur in a micro, small or medium enterprise.

The Steering Committee was fully constituted in April, 2021. The Committee meets quarterly or as and when necessary. The Committee held three meetings during the financial year. The succession plan for the independent Board members will be managed during their tenure.

The functions of the Steering Committee are—

- (a) Oversee the administration of the Scheme;
- (b) Advise the Cabinet Secretary generally on the administration of the Scheme;
- (c) Develop policy guidelines relating to guarantees by the Scheme;
- (d) Monitor the uptake of guarantees for credit facilities extended to micro, small and medium enterprises and make recommendations for improvement thereof;
- (e) Review applications for participation in the Scheme from institutions and advise the Cabinet Secretary on the suitability of the applicants to participate in the Scheme;
- (f) Advise the Cabinet Secretary on the designation of other entities as participating financial intermediaries;
- (g) Receive reports on the performance of the Scheme;

- (h) Review the criteria for the issuance of credit guarantees under the Scheme including guarantee fees, maximum loan sizes, guarantee coverage rates and credit standards defining eligible borrowers to be included in the scheme;
- (i) Monitor and evaluate the activities of the Scheme; and
- (j) Perform such other functions that, in the opinion of the Cabinet Secretary, shall promote the objects of the Scheme

B. Administrator of the Scheme

The control and supervision of the Scheme is vested in the Administrator of the Scheme who is the Principal Secretary for the National Treasury. The Administrator is mandated, amongst others, to;

- (i) Determine the maximum amounts of guarantees that the Scheme may extend to a participating financial intermediary;
- (ii) Cause to be kept books of accounts and other books and records in relation to the Scheme; and
- (iii) Enter into and sign agreements with financial intermediaries to offer guarantees.

C. Scheme Manager and Staff

An interim Scheme Manager and Staff have been appointed to undertake the day-to-day operations of the Scheme.

D. Other Governance Matters

Board charter

Since the Scheme is a Government Scheme within the National Treasury, there is no Board Charter in place. The Steering Committee is not a Board per se, however, good practice regarding procedure of meeting and oversight is adhered to.

Conflict of interest

A register of conflict of interest in place.

Committee remuneration

The Steering Committee remuneration is guided by the Salaries and Remuneration Commission circulars.

Ethics and conduct

Scheme members are state officers for all intents and purposes and therefore required to adhere to ethics and good conduct.

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Governance audit

Governance Audit is conducted by the internal audit department on the operations of the Scheme from time to time.

9. MANAGEMENT DISCUSSION AND ANALYSIS**Operational Performance**

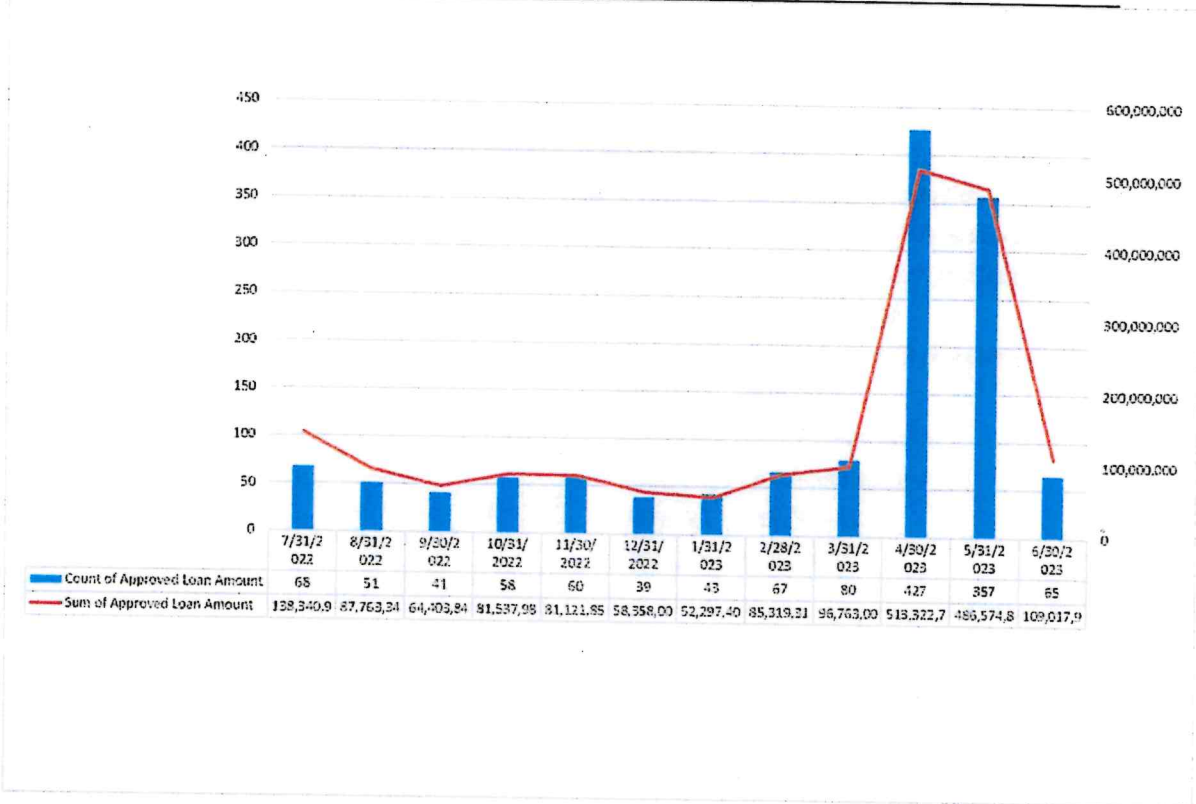
From inception to 30th June 2023, CGS disbursed a cumulative value of approximately KSh.5.75 billion to 3,846 MSMEs, across 46 Counties and 12 sectors of the economy as reported by the PFIs through the Central Bank of Kenya. During the FY 2022/23, approximately KSh.1,854,821,297 was disbursed to 1,356 MSMEs under the CGS. This disbursement represents credit guarantee value of KSh.463.7 million advanced to eligible MSMEs in the financial year.

a) Trend of number of guaranteed facilities

The number of guaranteed facilities stagnated below 100 for Quarter 1, 2 and 3 of the FY 2022/23. This slowdown in CGS performance in the first three quarters may be explained by the electioneering period and the related uncertainties which contract demand and supply of credit. Disbursements picked up in Quarter 4, with the month of April 2023 recording 427 facilities amounting to KSh.513 million in guaranteed credit to MSMEs, the highest CGS performance in terms of number of facilities since inception. This was continued over May 2023 with 357 facilities amounting to KSh.486 million of guaranteed credit. The trend of number and value of facilities by month is shown below in Figure 1.

Figure 1: Trend of number and value of facilities by month in the FY 2022/23

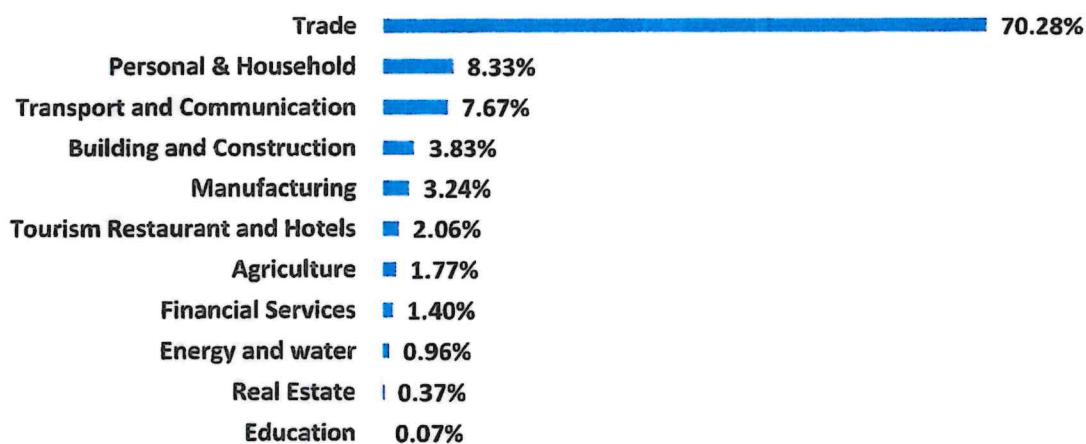
CREDIT GUARANTEE SCHEME
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b) Sectoral Performance

The facilities placed under the scheme have been distributed across twelve (12) sectors of the economy. During the FY 2022/23, trade Sector received a share of CGS facilities at 70.3%. This is followed by Personal & Household (8.3%), Transport and Communication (7.7%), and Building and Construction (3.8%). Agriculture sector received a much lower proportion of facilities at 1.7%. This could be attributed to the definition of sectors in the banking industry. For instance, agriculture is restricted to on-farm activities and excludes MSMEs in the value chain. The National Treasury is working with the relevant Government agencies to improve uptake in agriculture, including designing sector specific products. The share of credit guarantee across various sectors is shown in Figure 2 below.

Figure 2: Share of credit guarantees by economy sector in the FY 2022/23



c) County Distribution

Since inception, CGS has benefited MSMEs across 46 Counties. During the FY 2022/23, CGS recorded beneficiaries in 39 counties accounting for 83% of the total 47 counties in the country with high concentration in Nairobi (702), Mombasa (112), Nakuru (84) and Kiambu (67). This could be explained by the concentration of MSMEs in urban centres and PFIs branches across the counties, implying there is high demand of credit in these regions. Mandera County is yet to record beneficiaries under the CGS. This could be attributed to the fact that only one of the seven PFIs has presence in Mandera County. The National Treasury continues to engage with PFIs that have presence in northern counties, including Mandera, in order to increase uptake of facilities in those areas. The National Treasury and Development Partners are also undertaking targeted outreach and awareness campaigns in order to increase uptake across all the Counties. The CGS county coverage by number of beneficiaries and value of facilities is shown in Figures 3 & 4 respectively.

Figure 3: Distribution of number of guaranteed facilities by county in the FY 2022/23

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

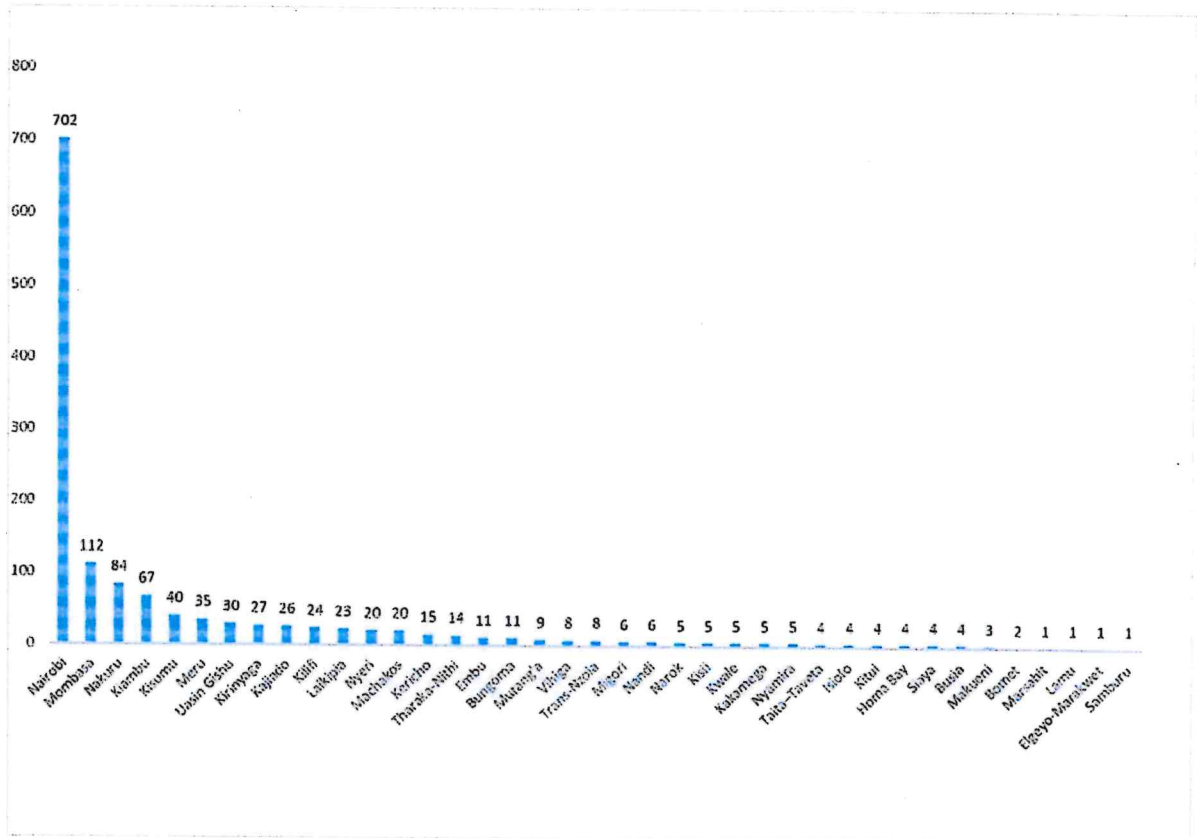
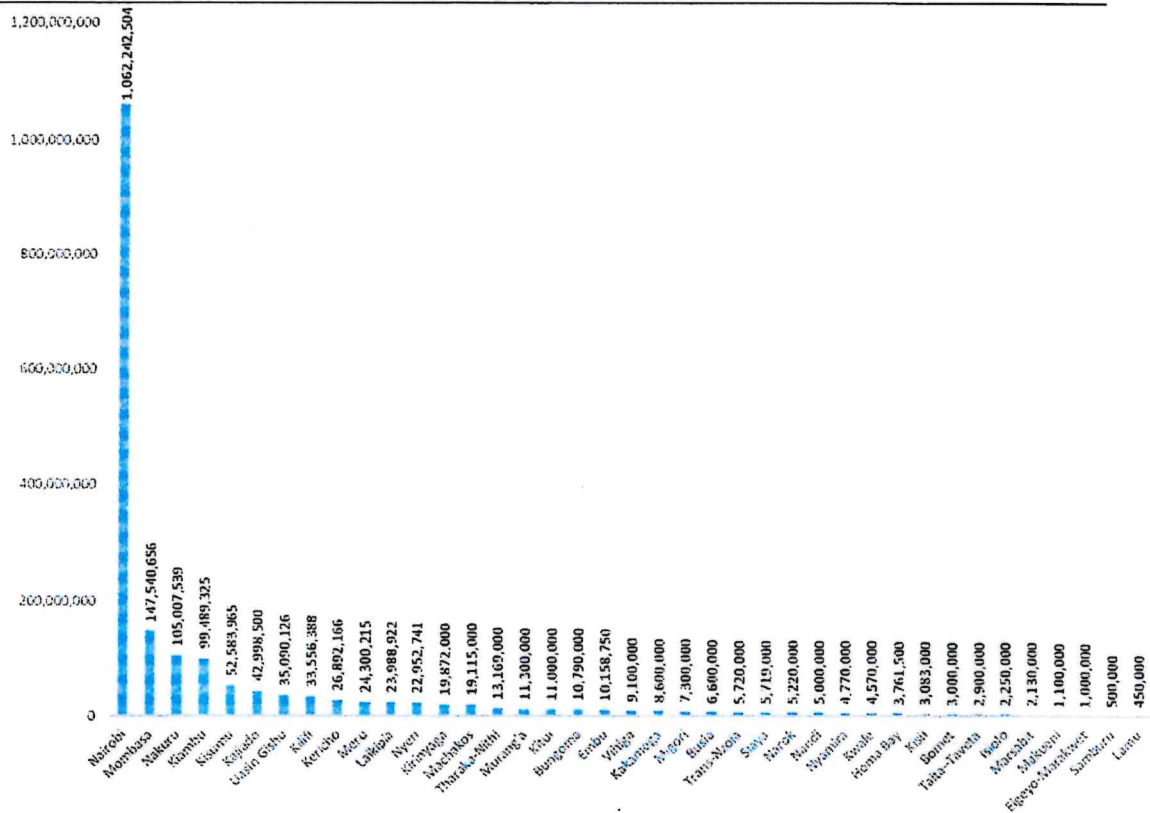


Figure 4: Distribution of value of guarantees by county in the FY 2022/23

CREDIT GUARANTEE SCHEME
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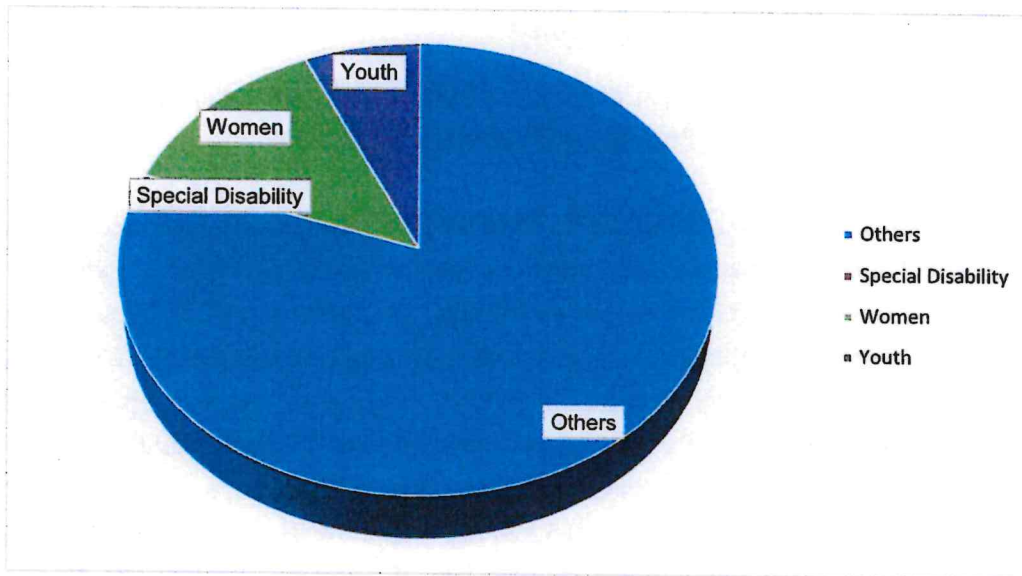


d) Gender Mainstreaming

During the FY 2022/23, 20.35% of the total number of guaranteed facilities were disbursed to businesses owned by women, youth and persons with disabilities (PwDs). Women beneficiaries were 185, youth beneficiaries were 90 while PwDs was 1. Out of the CGS credit guarantees extended to MSMEs during the financial year, Women enterprises received KSh.194,827,699, youth enterprises received KSh.93,253,019 while enterprises owned by PwDs received KSh.150,000. The share of access by women, youth and PwDs has remained fairly constant over the period of CGS implementation. This can be explained by the fact that most enterprises owned by this group of population are informal and would not be eligible for support under CGS in the current legal framework.

The National Treasury will continue working with PFIs in order to increase the number of beneficiaries from these categories. Further, The National Treasury continues with its efforts in collaboration with relevant Agencies to build capacity with this category of beneficiaries, focusing on formalization of enterprises. Share of number of beneficiaries of credit guarantees by women, youth, PwDs and others is shown in Figure 5 below.

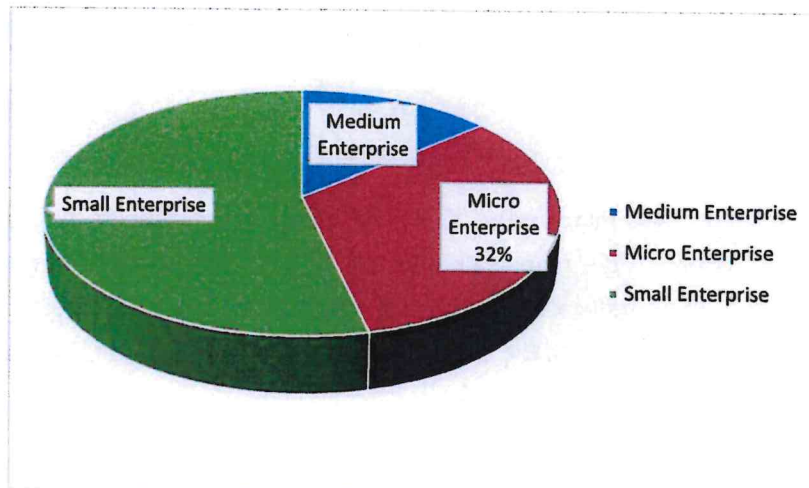
Figure 5: Share of number of beneficiaries of credit guarantees by women, youth, PwDs and others in the FY 2022/23



e) MSMEs Distribution

The CGS has benefited all the three sizes of MSMEs, that is, micro, small, and medium enterprises as reported by the banks through CBK. Of the 1,356 facilities issued under the CGS in FY 2022/23, small enterprises received 739, micro enterprises received 440 while medium enterprises received 179. In terms of value, Small enterprises received KSh.1,109,016,372, Micro enterprises received KSh.429,788,560 while Medium enterprises received KSh.316,016,365. Small enterprises received the largest share of guaranteed facilities at 54%, followed by micro and medium enterprises at 32% and 14% respectively. The share of the facilities by enterprise size is illustrated in Figure 6 below.

Figure 6: Share of beneficiaries of credit guarantees by enterprise size in the FY 2022/23



f) Risk assessment of the credit guarantees

The Scheme uses the Central Bank of Kenya (CBK) risk classification of assets and provisioning outlined in the CBK Prudential Guidelines (CBK/PG/04).

As at June 30, 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 impaired facilities have an outstanding principal amount of KSh.365,406,467 representing potential claims up to KSh.129,087,219. During the reporting period, Ksh 83,701,290 was held as provision for the expected credit loss for 404 credit facilities that have become impaired, and may occasion a claim under the Scheme. The Scheme also recognizes a long term risk sharing provision of Ksh. 45,385,928 as per the PSASB reporting guidelines and therefore the cumulative risk sharing provision as at June 30, 2023 was 129,087,218. This is a contingent liability which may occasion a claim by the PFIs under the Scheme. The analysis of the provision is as tabulated below.

Summary of Impaired facilities as at June 30, 2023

Classification	Number of facilities	Outstanding Principal	CGS Liability
Type	No	Kshs.	Kshs.
Watch	121	109,748,313	43,661,545
Substandard	95	75,761,280	28,051,832
Doubtful	151	140,294,320	44,769,768
Loss	37	39,602,553	12,604,074
Total	404	365,406,467	129,087,219

The expected credit loss provision has increased to Ksh. 129,087,219 from Ksh 45,385,928 reported in the comparative period. This represents a potential of 4.30% capital dilution compared to 1.51% dilution in the comparative period. The capital amount of KSh 3bn is retained in a non-interest earning account with the Central Bank of Kenya. There has not been cash movement in the bank account during the period.

g) Value of credit guarantees liquidated as at June 30, 2023

During the reporting period, no credit guarantees had been liquidated. However, the Scheme is reviewing 37 claims, representing an outstanding principal amount of KShs. 51.4 million and a potential GoK liability of KShs. 16.9 million. However, appropriate provisioning has been made based on risk assessment of the portfolio for facilities under “Watch,” “Substandard,” “Doubtful” and “Loss”.

h) Major risks facing the entity

(i) The Global Macroeconomic Shocks

Global supply chain disruptions especially due to the Russia - Ukraine war which have led to surging energy costs and worsened business outcomes. The Kenya shilling has depreciated against the US dollar from Ksh.117.93 on June 30, 2022 to Ksh.140.62 on June 30, 2023 which has affected businesses that depend on imported supplies. Subsequently, the CBR rate has been revised upwards from 7.50% in June, 2022 to 10.5% in June, 2023 thereby increasing interest rates which affect demand for credit. These macroeconomic shocks may have a combined negative impact on the utilization of CGS during the FY 2022-23.

(ii) Drought

The country has been experiencing adverse drought conditions resulting in food shortages in various regions. This may be affecting the performance of businesses as well as their short term to medium term forecast. However, the country is expecting rains in the near future which is expected to cause a reduction in food shortages. This will effectively avail more money for investment hence boosting business performance.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

CGS exists to transform lives of Kenyans through provision of incentives for financial institutions to extend quality and affordable credit to MSMEs for business growth and operational needs. This is our purpose and the driving force behind everything we do. Following is an outline of the Scheme policies and activities that promote sustainability.

i) Sustainability strategy and profile

The current structure of CGS is an interim arrangement and was mainly focused on supporting recovery of enterprises affected by the COVID-19 Pandemic in the short term. Initiatives are ongoing to transition CGS into a perpetual corporate entity with both government and private ownership. The prospected design will include charging a guarantee premium on PFIs, managed investments including insurance options, term deposits and security investments to support the growth and sustainability of the Scheme.

ii) Environmental performance

The Scheme is in the process of partnering with government climate finance related initiatives. Identified initiatives will be mainstreamed with the implementing partners.

iii) Employee welfare

The Scheme being a 100% government Scheme, is guided by the Human Resource Procedure Manual 2016, and other guidelines issued from time to time in the administration of the employee welfare. The NT ensures safety of staff and complies with Occupational Safety and Health Act of 2007, (OSHA.)

iv) Market place practices-

The Scheme's role being a National Government initiative is to complement the financial market as detailed below:

a. Responsible competition practice

The Scheme endeavors to collaborate with the other institutions on ensuring that competition is not undermined in ways that are harmful to the economy.

b. Responsible supply chain and supplier relations

The Scheme shall compliment National Government efforts of ensuring sustainable supply chain by implementing supply chain policies that protect the public interest.

c. Responsible marketing and advertisement

The Scheme aims at offering incentives through the credit guarantee and creating a business-friendly environment to enable MSMEs to thrive in their businesses.

d. Product stewardship

The credit guarantee is a product steward aimed at facilitating the financing of micro, small and medium enterprises.

v) Corporate Social Responsibility

The Scheme's sole mandate as a government function is on social responsibility. The Scheme exist to help government with financial outreach to otherwise market disadvantaged MSMEs.

11. REPORT OF THE SCHEME STEERING COMMITTEE

The Steering Committee Members submit their report together with the audited financial statements for the year ended June 30, 2023, which show the state of the Credit Guarantee Scheme affairs.

i) Principal activities

The principal activities of the Scheme are:

- i. Improve and stimulate the national economy by encouraging additional lending to micro, small and medium enterprises, increasing investment opportunities for micro, small and medium enterprises and strengthening skills and capacities of proprietors of micro, small and medium enterprises;
- ii. Facilitate the financing of micro, small and medium enterprises by partially guaranteeing credit advanced to the enterprises; and
- iii. Create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantees for micro, small and medium enterprises and other related activities

ii) Results

The performance of CGS for the year ended June 30, 2023, are set out on page 22 to 26.

iii) Steering Committee Members

The key Steering Committee Members who served during the year are shown on pages vi to ix.

iv) Surplus remission

The Scheme as constituted is a market intervention by the government and therefore no surplus to the Exchequer is envisaged in the foreseeable future. The Scheme is expected to contribute to the Exchequer indirectly through broadening and the deepening of the financial outreach to the formal MSMEs.

v) Auditors

The Auditor General is responsible for the statutory audit of CGS in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

12. STATEMENT OF CREDIT GUARANTEE SCHEME MANAGEMENT

RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Accounting Officer to prepare financial statements in respect of Credit Guarantee Scheme (CGS), which give a true and fair view of the state of affairs of CGS at the end of the financial year and the operating results of CGS for that year. The Accounting Officer is also required to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy the financial position of CGS. The Accounting Officer is also responsible for safeguarding the assets of the Scheme.

The Accounting Officer and the Scheme Manager are responsible for the preparation and presentation of CGS financial statements, which give a true and fair view of the state of affairs of CGS as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that this 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 Scheme; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the entity; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Accounting Officer and the Scheme Manager accept responsibility for CGS financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Accounting Officer and the Scheme Manager are of the opinion that the Scheme's financial statements give a true and fair view of the state of CGS transactions during the financial year ended June 30, 2023, and of the CGS's financial position as at that date.

The Accounting Officer and the Scheme Manager further confirm the completeness of the accounting records maintained for the Scheme, which have been relied upon in the preparation of the CGS's financial statements as well as the adequacy of the systems of internal financial control.

CREDIT GUARANTEE SCHEME

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

Nothing has come to the attention of the Accounting Officer and the Scheme Manager to indicate that the Scheme will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

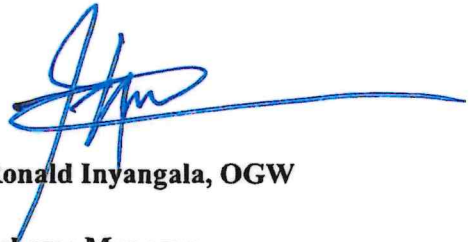
The Scheme's financial statements were approved by the Steering Committee on September 25, 2023 and signed on its behalf by:



Dr. Chris Kiptoo, CBS

Principal Secretary / National Treasury

Scheme Administrator



Ronald Inyangala, OGW

Scheme Manager

14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30
JUNE 2023

	Notes	2022-2023 Ksh.	2021-2022 Ksh.
Revenue from exchange transactions			
Investment income		-	-
Finance income		-	-
Total revenue		-	-
Expenses			
Risk Sharing Provision	8 (iii)	83,701,290	45,385,928
Total Expenses		83,701,290	45,385,928
Net Surplus (Deficit) for the year		(83,701,290)	(45,385,928)

The notes set out on part 19 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 5 were signed on behalf of the Steering Committee by:


Dr. Chris Kiptob, CBS

Principal Secretary

National Treasury

Date 26-09-2025


Ronald Inyangala, OGW
Scheme Manager

Date 26-09-2023


CPA Esther Kitonyi

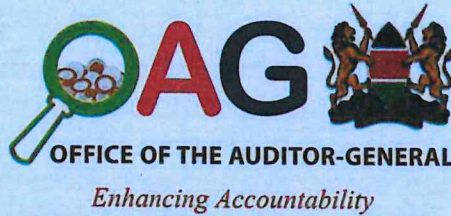
Head of Finance

ICPAK M/No: 5133

Date 26-09-2023

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CREDIT GUARANTEE SCHEME 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 that the 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, risk management environment and 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 Credit Guarantee Scheme set out on pages 1 to 21, which comprise the statement of financial position as at

30 June, 2023 and the statement of financial performance, statement of cash flows, statement of changes in net assets and the 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 Credit Guarantee Scheme, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Credit Guarantee Scheme 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 the 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, I confirm that, nothing 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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 the International Standards for Supreme Audit Institutions (ISSAIs) 2315 and 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 overall 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.

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 (Accrual Basis) and for maintaining effective internal controls 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Scheme'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 Scheme or to 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 Scheme'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 overall 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 controls 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 controls may not prevent or detect misstatements and instances of non-compliance. 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 controls.

- 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 Scheme'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 Scheme 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 Scheme 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 controls 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.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 March, 2024

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15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Notes	2022-2023	2021-2022
		Ksh.	Ksh.
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents	8 (i)	3,000,000,000	3,000,000,000
Total Assets		3,000,000,000	3,000,000,000
<i>Current Liabilities</i>			
Risk Sharing Provision- Short Term	8 (iii)	83,701,290	45,385,928
Total Current Liabilities		83,701,290	45,385,928
<i>Non- Current Liabilities</i>			
Risk Sharing Provision- Long Term	8 (iv)	45,385,928	-
Total Non- Current Liabilities		45,385,928	-
Total Liabilities		129,087,218	45,385,928
Net Assets		2,870,912,782	2,954,614,072
Reserves			
Capital Fund		3,000,000,000	3,000,000,000
Accumulated Deficit		(129,087,218)	(45,385,928)
Net Assets		2,870,912,782	2,954,614,072

The notes set out on part 19 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 5 were signed on behalf of the Steering Committee by:

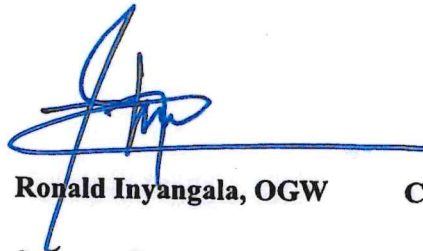


Dr. Chris Kiptoo, CBS

Principal Secretary

National Treasury

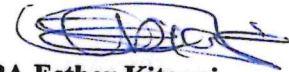
Date 26-09-2023



Ronald Inyangala, OGW

Scheme Manager

Date 26-09-2023



CPA Esther Kitonyi

Head of Finance

ICPAK M/No: 5133

Date 26-09-2023

16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30

JUNE 2023

Description	Capital fund	Retained earning	Total
	Kshs	Kshs	Kshs
As at July 1, 2021	3,000,000,000	0	3,000,000,000
Surplus/ deficit for the year	-	(45,385,928)	(45,385,928)
As at June 30, 2022	3,000,000,000	(45,385,928)	2,954,614,072
As at July 1, 2022	3,000,000,000	(45,385,928)	2,954,614,072
Surplus/ deficit for the period	-	(83,701,290)	(83,701,290)
As at June 30, 2023	3,000,000,000	(129,087,218)	2,870,912,782

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17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

		2022-2023	2021-2022
	Notes	Ksh.	Ksh.
Cash flows from operating activities			
Receipts			
Transfers from other governments entities		-	-
Total Receipts		-	-
Payments			
Payment of liquidated claims		-	-
Total Payments		-	-
Net Cash flows from operating activities		-	-
Cash flows from Investing Activities			
Receipts from Investments		-	-
Net cash flows from Investing activities		-	-
Cash flows from Financing Activities			
Increase in Deposits		-	3,000,000,000
Net Cash flow from Financing Activities		-	3,000,000,000
Net increase/(decrease) in cash and cash equivalents		-	3,000,000,000
Cash and cash equivalents as at 1 July		3,000,000,000	-
Cash and cash equivalents as at 30 June	8 (i)	3,000,000,000	3,000,000,000

**18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR
THE YEAR ENDED 30 JUNE 2023**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	Kshs "000"	Kshs "000"	Kshs "000"	Kshs "000"	Kshs "000"	
	a	b	C=(a+b)	d	e=(c-d)	f=d/c *100
Revenue						
Transfers from Other Governments entities	1,000,000	(1,000,000)	-	-	-	-
Total Income	1,000,000	(1,000,000)	-	-	-	-
Expenses	1,000,000	(1,000,000)	-	-	-	-
Total Expenditure	1,000,000	(1,000,000)	-	-	-	-
Surplus for the period	-	-	-	-	-	-

Budget notes

- (i) The Scheme was appropriated an additional budget of Khs. 1,000,000,000 during the reporting period. However, during the supplementary budget review, the entire amount was revised downwards. Nonetheless, the Parliament had appropriated Ksh. 3,000,000,000 in the FY 2020-2021 and these funds are held in the Scheme's Central Bank Account No. 1000476858. The unspent funds are rolled over to subsequent years to meet the Schemes obligations as and when they may fall due. Once a claim crystalizes, the Steering Committee will approve the budget for such expenditure for payment.
- (ii) During the reporting period, no claim was liquidation and therefore, there was no expenditure by the Scheme.
- (iii) The Recurrent budget of the Scheme is appropriated, expended and reported under the National Treasury main Vote.

19. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Credit Guarantee Scheme is established by Public Finance Management (Amendment) (No. 2) Act 2020, and Public Finance Management (Credit Guarantee Scheme) Regulation, 2020 and derives its authority and accountability from the Act and Regulations. The Scheme is wholly owned by the Government of Kenya and is domiciled in Kenya.

The entity's principal activities are:

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

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Credit Guarantee Scheme accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed as a separate note to these financial statements.

The financial statements have been prepared and presented in Kenya Shillings (Ksh), which is the functional and reporting currency of the Credit Guarantee Scheme.

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and Revised Standards

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2023

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>The Scheme is using this standard in making provisions for the expected credit risk.</p>
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p>

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Standard	Effective date and impact:
	<p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p> <p>The Standard is not relevant to the Scheme</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guaranteed contracts which were inadvertently omitted when IPSAS 41 was issued. d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued. <p>The Scheme has factored the changes when making provision for expected credit loss for the financial guaranteed contracts.</p>
<p>Other improvements to IPSAS</p>	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • IPSAS 22 Disclosure of Financial Information about the General Government Sector. Amendments to refer to the latest System of National Accounts (SNA 2008). • IPSAS 39: Employee Benefits. Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • IPSAS 29: Financial instruments: Recognition and Measurement. Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023. <p>The Scheme has implemented IPSAS 41</p>

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p>The Standard is not relevant to the Scheme since it does not have any lease agreement.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The standard is not relevant currently. The position might change in the future, and the Scheme will report appropriately.</p>

iii. Early adoption of standards

The Credit Guarantee Scheme adopted the following standards early in the financial statements: IPSAS 41; IPSAS 30 and IPSAS 33 which are relevant to the Scheme in terms of the expected credit loss provisions and contract guarantees.

4. Summary of Significant Accounting Policies

i. Revenue recognition

Revenue shall be classified in two major classes namely revenue from non-exchange transactions and revenue from exchange transactions. Revenue from non-exchange transactions shall be accounted for in line with IPSAS 23 whereas revenue from exchange transactions shall be accounted for in line with IPSAS 9. During the year, CGS did not earn income from non-exchange and exchange transactions.

ii. Transfers from other government entities

Government grants

Credit guarantee Scheme recognizes grants when received or when the government has given a binding arrangement to transfer the funds. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Scheme and the fair value of the asset can be measured reliably. The Scheme was appropriated an additional budget of Khs. 1,000,000,000 during the reporting period. However, during the supplementary budget review, the entire amount was revised downwards.

The Scheme received Ksh 3billion in the FY 2020-2021 being Scheme Capitation and business start-up. The following is a detailed analysis of the transfers;

Transfers from Ministries, Departments and Agencies (MDAs)					
Name of the Entity	Amount recognised in the Statement of Financial Performance	Amount deferred under Income	Amount recognised in Capital Fund	Total Transfers 2020-2021	Prio Year
	Ksh. Million	Ksh. Million	Ksh. Million	Ksh. Million	Ksh. Million
National Treasury	-	3,000	3,000	3,000	-
Total	-	3,000	3,000	3,000	-

A schedule of the inter-entity transfer is given as appendix II.

iii. Donations and gifts

The Scheme recognizes donations and gifts as assets and revenue when it is probable that the future economic benefits or service potential will flow to the scheme and the fair value of the asset can be measured reliably. Donations and gifts are measured at fair value at the date of acquisition.

iv. Goods in kind

The Scheme recognizes goods in kind as assets when goods are received or there is a binding arrangement to receive the goods. If goods in kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a

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liability is recognized, which is reduced, and revenue recognized as conditions are satisfied. Goods in kind are measured at fair value at the date of acquisition. Where the donations are capital in nature, revenue shall be recognized over the useful life of the asset.

v. **Services in kind**

The Scheme recognizes services in kind as revenue once consumed and a transaction of equal value is also recognized to reflect the consumption of these services in kind as an expense. In the event that the services in kind cannot be reliably measured they shall not be recognized as revenue but shall be disclosed by way of notes in the financial statements.

Revenue from other fees and charges are measured at fair value and recognized on obtaining control of the asset if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the scheme and can be measured reliably.

vi. **Interest income**

The Scheme accrues interest income using effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. This method applies to the principal outstanding to determine interest income each period.

vii. **Guarantee fee**

The Scheme recognizes guarantee fees as revenue upon receipt of funds.

viii. **Other income**

The Scheme recognizes other income when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to the scheme.

ix. **Budget information**

The scheme budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements are recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the basis difference, adjustments to amounts in the financial statements are also made for difference in the formats and classification adopted for the presentation of the financial statements the approved budget.

The Scheme was appropriated an additional budget of Khs. 1,000,000,000 during the reporting period. However, during the supplementary budget review, the entire amount was revised downwards. However, the Parliament had appropriated Ksh. 3,000,000,000 in the FY 2020-2021 and these funds are held in the Scheme's Central Bank Account No. 1000476858. The unspent funds are rolled over to subsequent years to meet the

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Schemes obligations as and when they may fall due. Once a claim crystalizes, the Steering Committee will approve the budget for such expenditure for payment.

Nonetheless, during the reporting period the Scheme was allocated a recurrent budget of Ksh.34million under the National Treasury main vote. This budget is expended and reported under the same vote.

x. **Property, Plant and Equipment**

All the property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, credit guarantee scheme recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

xi. **Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction shall be at their fair value at the date of the exchange. Following initial recognition, intangible assets shall be carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, shall not be capitalized but expensed in the statement of financial performance. The useful life of the intangible assets shall be assessed as either finite or indefinite.

xii. **Inventory**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions the cost of the inventory is its fair value at the date of acquisition. After initial recognition, inventory is measured at the lower of cost and replacement cost. Inventories shall be recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the scheme.

xiii. **Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the entity. Operating lease payments are

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recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term. The deferred lease payments are recognized as deferred rent liability to be utilized in later years as rent escalates.

xiv. Provisions

Provisions shall be recognized when the Scheme has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits or service potential that require to be settled and a reliable estimate can be made of the amount of the obligation.

xv. Contingent assets

The Scheme does not recognise 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 the scheme 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 outflow 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.

xvi. Nature and purpose of reserves

Reserves are created and maintained in terms of specific requirements. The scheme may from time to time establish a specific or general reserve fund to cater for current and future needs of the scheme. The Credit Guarantee Scheme fund shall be managed as a separate reserve from other reserves.

xvii. Changes in accounting policies and estimates

The Scheme shall recognize the effects of changes in accounting policies retrospectively. However, the effects of changes in accounting policy shall be applied prospectively if the retrospective application is impractical.

xviii. Transaction in foreign currencies

Transaction in foreign currencies is initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors/debtors, or from the reporting of creditors/debtors at rate different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

xix. Related parties

The scheme regards a related party as a person or an entity with the ability to exert control individually or jointly or to exercise significant influence over the scheme or vice versa. Members of key management are regarded as related parties.

xx. 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.

xxi. Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

xxii. Held-to-maturity investments

Held to maturity investments of the Scheme include treasury bills and fixed deposits. Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the scheme has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

5. Significant judgments and sources of estimation uncertainty

Provision for depreciation

Depreciation is the systematic allocation of the depreciable amount of a non-current asset over its useful life. The following rates are applied for the purposes of providing for the usage of the assets over their life and have been harmonized to the National Assets and Liabilities management policy. Depreciation will be done using the straight-line method.

Land	Nil
Buildings	2%
Saloon Vehicles	16.67%
Heavy duty Vehicles	12.5%
Computer and Other ICT equipment	30%
Furniture fittings and Equipment	12.5%

Provision for expected credit loss

The Schemes makes provision for expected credit loss for facilities under Watch, Substandard, Doubtful and Loss as guided by the CBK Prudential guidelines. The CGS Steering Committee approved a paper on provisioning, where no provision is made for normal facilities since they do not attract any government liability.

6. Amortization of intangible assets

Amortization is the systematic write-off of initial cost of an intangible asset. The following rates are applied for the purposes of amortization of intangible assets:

Computer software 20%

7. Impairment of financial assets and financial guarantee contracts

The scheme shall recognize a loss allowance on expected credit losses of the financial guarantee contracts in line with provisions of IPSAS 41 and the Prudential Guidelines from the Central Bank of Kenya. Information obtained from the PFIs on a regular basis

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will be reviewed and impairment losses assessed for each financial guarantee contract entered into by the Scheme. The Scheme assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

8. Notes to the Financial Statements

i. Cash and Cash Equivalents

The Scheme received Ksh 3bn from the National Treasury on 06 July 2021. This was funded under the 2020/21 National budget appropriation. The following is the detailed analysis of the cash and cash equivalents at the end of the year.

Detailed Analysis of the Cash and Cash Equivalents			
Financial Institution	Account Number	2022-2023	2021-2022
		Ksh. Million	Ksh. Million
Current Account	1000476858	3,000	3,000
Central Bank of Kenya			
Total		3,000	3,000

ii. Risk sharing provision

The Scheme recognizes and maintains a provision on expected credit losses of the financial guarantee contracts in line with provisions of IPSAS 41 and the Central Bank of Kenya Prudential Guidelines. The Scheme's liability on each credit facility is 50:50 pari-passu on the outstanding principal amount, subject to a maximum of 25% of the initial principal amount of the credit facility. The provision is also guided by the Steering Committee's approval which allows for a provision for facilities categorised under 'Watch', 'Substandard', 'Doubtful' and 'Loss'. The risk sharing provision for the year was Ksh. 83,701,290. The Scheme has a long term risk sharing provision of Ksh. 45,385,928 with a cumulative risk sharing provision of Ksh. 129,087,218 as at 30th June, 2023. The provision is as tabulated below;

(iii) Risk sharing provision- Short Term		
Description	June 30, 2023	June 30, 2022
	KShs	KShs
Absa Bank	41,448,134	20,453,063
Diamond Trust	(1,778,883)	8,925,274
KCB Bank	1,610,373	8,057,091
NCBA Bank	22,896,776	4,694,341
The Co-operative	19,524,891	3,256,160
Total	83,701,290	45,385,928

(iv) Risk sharing provision- Long Term		
Description	June 30, 2023	June 30, 2022
	KShs	KShs
Absa Bank	20,453,063	-
Diamond Trust	8,925,274	-
KCB Bank	8,057,091	-
NCBA Bank	4,694,341	-
The Co-operative	3,256,160	-
Total	45,385,928	-

9. Scheme Risk Management and Other Disclosures

i. Financial Risk Management

The Scheme activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Scheme does not hedge any risks and has in place policies to ensure that credit is only extended to customers in line with PFIs all due diligence and CBK prudential guidelines.

The Scheme's financial risk management objectives and policies are detailed below:

ii. Credit risk

The entity has exposure to credit risk, which is the risk that a guaranteed or counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as other receivables. PFIs assesses the credit quality of each

customer with all due diligence and in line with CBK prudential guidelines. Individual risk limits are set based on PFI internal or external assessment in accordance with limits set by the entity. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Scheme's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements represent the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is as follows;

CREDIT GUARANTEE SCHEME

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

Description	Total Amount	Performing	Impaired
	Kshs	Kshs	Kshs
At 30th June 2023			
Receivables from exchange transactions	-	-	-
Bank Balance	3,000,000,000	3,000,000,000	-
Total	3,000,000,000	3,000,000,000	-
At 30th June 2022			
Receivables from exchange transactions	-	-	-
Bank Balance	3,000,000,000	3,000,000,000	-
Total	3,000,000,000	3,000,000,000	-

iii. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's Steering Committee Members, who have built an appropriate liquidity risk management framework for the management of the Scheme's short, medium and long-term funding and liquidity management requirements. The Scheme manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

iv. Market risk

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Scheme has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

CREDIT GUARANTEE SCHEME
Annual Report and Financial Statements for the year ended June 30, 2023

	2022-2023
	Kshs
Financial assets	
Cash and cash equivalents	3,000,000,000
Loans and advances to banks	-
Securities available for sale	-
Total financial assets	3,000,000,000
Financial liabilities	
Other borrowed funds	-
Total financial liabilities	-
Book currency position	3,000,000,000

v. Foreign currency risk

The Scheme has transactional currency exposures. Such exposure arises through borrowing and purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The entity manages foreign exchange risk from future exchange transactions and recognised assets and liabilities by projecting for expected revenue proceeds and matching the same with expected payments. All the transactions of the Scheme are denominated in Kenya shillings and therefore not affected by foreign exchange risk.

vi. Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The entity's interest rate risk arises from bank deposits. This exposes the entity to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the entity's deposits.

vii. Management of interest rate risk

The Scheme 's fund is held in a non-interest bearing account at the Central Bank of Kenya as currently constituted. When the Scheme will be a legal entity, the management will endeavour to bank with institutions that offer favourable interest rates to manage interest rate risk.

viii. Capital Risk Management

The objective of the Scheme's capital risk management is to safeguard its ability to continue as a going concern. The Entity capital structure comprises of the following funds which is all equity with zero gearing as tabulated below:

	2022-2023
	Kshs
Borrowings	-
Less: Cash at Bank	3,000,000,000
Net Debt/(Excess Cash And Cash Equivalentents)	(3,000,000,000)
Gearing	0%

ix. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the Entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the Scheme, holding 100% of the Entity's equity interest.

Other related parties include:

- i) The Parent Ministry
- ii) County Governments
- iii) Other MDAs
- iv) CBK
- v) Key management
- vi) Members of the Steering Committee

In the course of its operations the Scheme did not enter into transactions with related parties.

x. Contingent Liabilities

	2022-2023	2021-2022
	Kshs	Kshs
Total value of credit facilities approved under the Scheme	5,751,289,611	3,896,468,314
Total exposure to the Scheme	1,437,822,403	974,117,079
Credit risk sharing provision (Recognized in the statement of financial position)	(129,087,218)	(45,385,928)

xi. Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

Conversely, during the reporting period there were changes in the status of impaired facilities. Some facilities improved or were fully repaid, while some other facilities became impaired. The total impairment is Ksh.129, 129,087,218 as reported in the financial statements.

Ultimate and Holding Entity

The entity is a National Guarantee Scheme under the National Treasury.

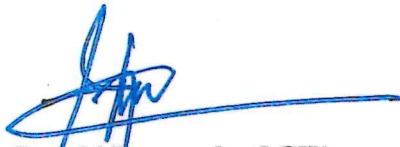
1. Currency

The financial statements are presented in Kenya Shillings (Ksh).

20. APPENDICES

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The Scheme had an unqualified audit report and therefore no Audit issues to address.



Ronald Inyangala, OGW
Scheme Manager

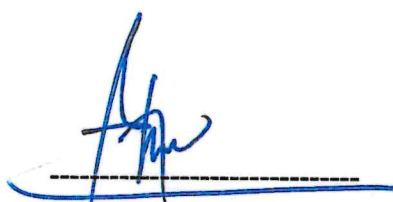
Date: 26-09-2023

APPENDIX II: INTER-ENTITY TRANSFERS

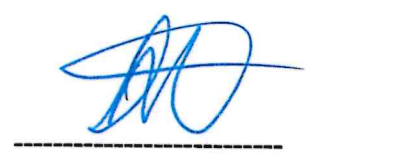
Breakdown of Transfers from the National Treasury			
FY 2021/2022			
Development Grants			
	Bank Statement Date	Amount (KSh)	Financial Year
Credit Guarantee Scheme – CBK Account	30.06.2021	3,000,000,000	FY2020/2021
	Total	3,000,000,000	

Name of the MDA/Donor Transferring the funds	Date received (as per bank statement)	Nature:	Total Amount KSh.	Where Recorded/recognized		Total Transfers during the Year Ksh.
				Statement of Financial Performance	Capital Fund Ksh.	
The National Treasury	06.07.2021	Development	3,000,000,000	-	3,000,000,000	3,000,000,000
Total			3,000,000,000	-	3,000,000,000	3,000,000,000

There were no inter-entity transfers during the financial year 2022-2023.



Ronald Inyangala, OGW
Scheme Manager



CPA George K. Gichuru
Head of Accounting Unit/TNT
ICPAK No. 9262

APPENDIX III: BANK RECONCILIATION STATEMENT

REPUBLIC OF KENYA		F.O 30	
BANK RECONCILIATION STATEMENT			
A/C NO 1000476858 CREDIT GUARANTEE SCHEME.		30th June 2023	
	Sh	Sh	
Balance as per bank certificate		3,000,000,000	
<i>Less</i>			
1. Payments in cash book not in bank statement			
2. Receipts in Bank statement not in cash book		-	
<i>Add</i>			
3. Payment in Bank statement not in cashbook			
4. Receipts in cash book not in bank statement		-	
Balance as per cash book		3,000,000,000	
1. Payments in Cashbook not Yet Recorded in Bank Statement			
NO.	DATE	PAYEE	AMOUNT
TOTAL			-
2. Receipts in Bank Statement not in cash book			
NO.	DATE	PAYEE	AMOUNT
TOTAL			-
3. Payment in Bank statement not in cashbook			
NO.	DATE	PAYEE	AMOUNT
TOTAL			-
4. Receipts in cash book not in bank statement			
NO.	DATE	PAYEE	AMOUNT
TOTAL			-
Prepared by:			
CPA Deborah Muricho			
Checked by:			
CPA Esther Kitonyi			
Approved by:			
Ronald Inyangala, OGW /Scheme Manager			