



DRAFT KENYA CREDIT GUARANTEE SCHEME POLICY

(AS OF FEBRUARY 2020)

An Overview

Outline of the Presentation

- 1. Purpose of the CGS Policy**
- 2. Guiding Principles**
- 3. Policy Framework**
- 4. Institutional Framework for the KCGS**
- 5. Company organizational structure**
- 6. Conclusion**

1. Purposes of the CGS policy

- To significant leverage of CGS to unlock surplus liquidity available in financial sector for MSME credit
- Enhance participation of MSMEs in the economy by facilitating their access to finance
- Support achievement of V-2030 through a strong and vibrant financial sector
- Guide involvement of the Government in risk sharing initiatives to avoid market distortion
- Promote a positive business culture including: honouring financial obligations by businesses, prompt debt payment, good business management practices and use of business devt services by MSMEs
- Formalization of businesses
- Foster graduation of businesses from micro to small, small to medium and medium to large enterprises
- Ensures that women and youth-owned MSMEs businesses shall be able to access credit

2. Guiding Principles

- Optimizing financial liquidity through leveraging and targeting
- Enhance economic growth through access to quality and affordable credit
- Balance outreach, additionality and financial sustainability
- Institute appropriate corporate Governance framework that ensures adequate risk management and internal controls
- Leverage on use of emerging technologies and data management for efficiency
- Facilitate adoption of credit referencing as an integral part of the credit appraisal process.
- Foster partnerships, collaboration and linkages across all participating institutions

3. Policy Framework

The proposed policy framework includes the following:

- a) Legal and regulatory framework
- b) Corporate governance and risk management
- c) Funding and the management of the Fund
- d) Operational framework, and
- e) Monitoring and evaluation

a. Legal and Regulatory Framework

The legal and regulatory framework will be guided by the following policy strategies:

- Establishment of the Kenya Credit Guarantee Company Limited (KCGC) Ltd
- Appointment of Central Bank of Kenya as a supervisor of KCG Company
- Development of regulations/guidelines to operationalize the company
- Promotion and development of CGS framework in the country

3. Policy Framework cont'd

b. Corporate Governance and Risk Management

The policy strategies proposed include:

- KCG Company Ltd mandate shall be supported by clear strategies and operational goals
- KCG Company Ltd shall have a corporate governance recruited under a clearly defined criteria
- The Board of KCG Company Ltd shall operate on a fixed rotational term
- The KCG Company Ltd Chief Executive Officer shall be competitively recruited
- Sound internal control framework to safeguard the integrity and efficiency of its governance and operations
- KCGC Ltd shall employ an effective and comprehensive enterprise risk management framework to identify, assess and manage risks in its operations
- KCGC Ltd shall be audited by a Certified Auditor in accordance with International Accounting Standards

3. Policy Framework cont'd

c. Funding and Management of the Fund

Proposed **sources of funds** include:

National Government (20% equity shares)

Participating Financial institutions

Bilateral/Multilateral agencies

Development Partners

Safety, sustainability, growth and liquidity of the KCGF will be achieved through:

- Diversification and clear sources of the fund
- Provision of adequate funding to the KCG Company to enable it achieve its policy objectives
- Prudent management, investment and adequate protection of Company resources
- Utilization of insurance/reinsurance
- Utilization of artificial intelligence to carry out its functions
- Investments to be limited to Government securities

3. Policy Framework cont'd

d. Operational Framework

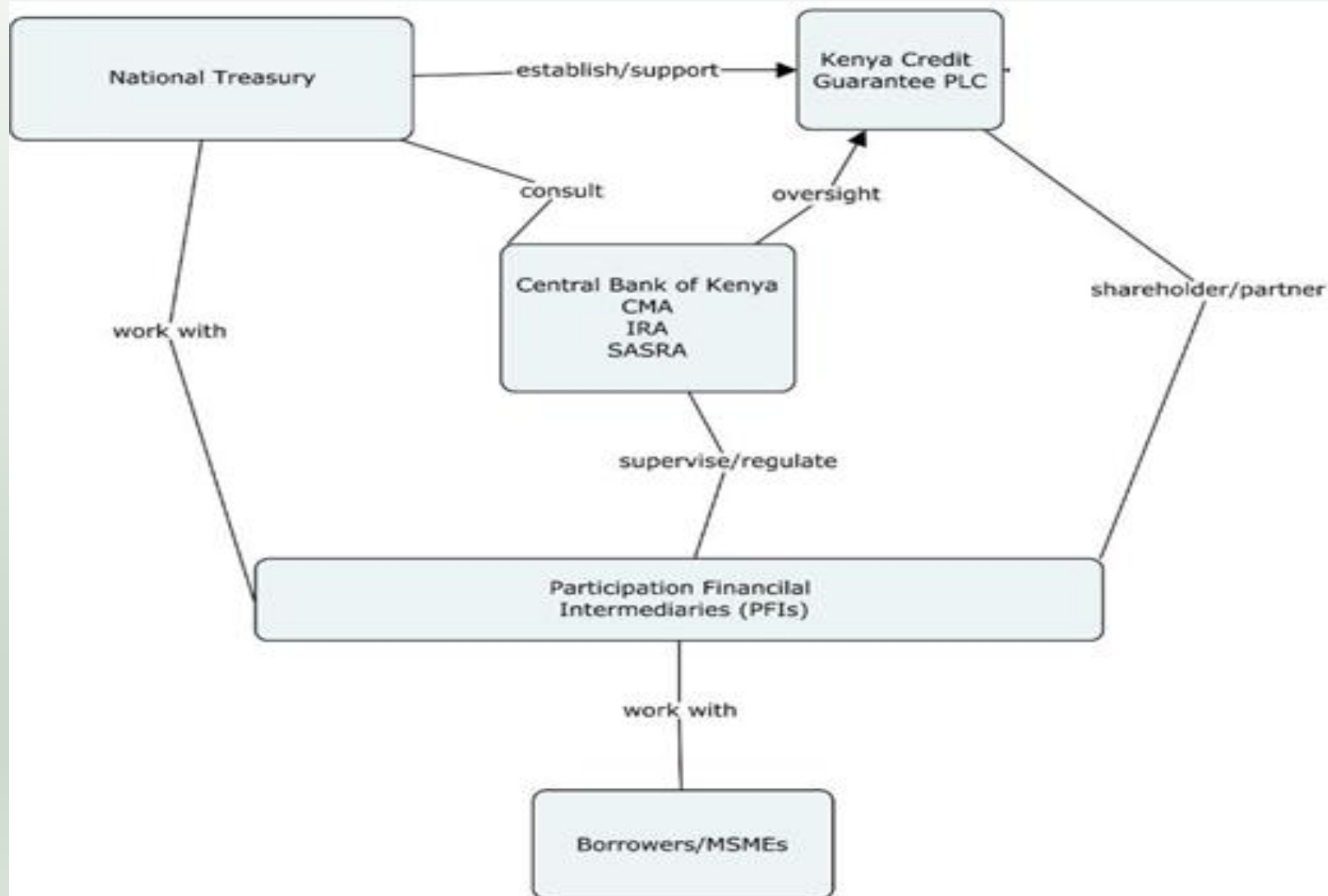
- The Company shall adopt clearly defined and transparent eligibility and qualification criteria for MSMEs, PFIs and credit instruments
- KCGC shall apply portfolio approach as the primary credit guarantee delivery method
- Guarantee offered by KCGC shall be partial to incentivize PFIs and compliance with relevant prudential guidelines regarding credit risk
- Fees levied by the KCGC shall be paid into the KCG Fund
- The Company may set up difference schemes to cater for specific needs
- KCGC shall adopt transparent and consistent risk based pricing policy
- The claim management process shall be efficient, clearly documented and transparent, providing incentive for loan loss recovery

3. Policy Framework cont'd

e. Monitoring and Evaluation

- KCGC shall be **subject to quarterly and annual reporting mechanism** and shall publicly disclose nonfinancial information related to its operations
- A detailed M&E framework for the Company shall be developed to implement its strategies
- Predictive early warning systems utilizing machine learning will be adopted by the Fund
- The Performance of the Company shall be independently evaluated at least every 3-5yrs with regard to its outreach, additionality and financial sustainability. The findings shall be publicly disclosed.

4. Institutional Framework for the KCGC



5. Conclusion

- The National Treasury proposes establishment of the Kenya Credit Guarantee Fund under a PPP arrangement which is incorporated as a Company Limited by liability where the National Government will have a **minority** shareholding while Participating Commercial Banks will be **majority** shareholders