# REPUBLIC OF KENYA

# THE NATIONAL TREASURY AND ECONOMIC PLANNING

# DRAFT CREDIT GUARANTEE POLICY



**2024**

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## FOREWORD

The main thrust of the economic pillar of Kenya Vision 2030 is improving the prosperity of Kenyans through a comprehensive economic development program that covers all regions and sectors. Achievement of this goal requires a sustained annual Gross Domestic Product (GDP) growth rate of 10 percent based on the contribution of six (6) high potential business-oriented priority sectors namely Tourism and Mining, Agriculture, Manufacturing, Wholesale and Retail, Business Process outsourcing and Financial Services.

Micro Small and Medium Enterprises (MSMEs) therefore, play a critical role as key drivers of business and economic growth, employment creation, poverty alleviation, innovation and competitiveness. According to the Economic survey of 2023, approximately 16 million persons were employed in the MSMEs sector. Large number and wide distribution of MSMEs at the bottom of the pyramid implies that, if well harnessed, this sector has a high potential for favorable socio-economic impact.

Notwithstanding the central role played by MSMEs, the businesses face many constraints that stifle their growth. One of these is lack of access to quality and affordable credit occasioned by lack of bankable collateral which makes financial intermediaries unwilling to extend credit to MSMEs as they consider them high risk borrowers. In addition, MSMEs experience delayed payments for supplies to both the public and private sector that erodes their working capital base and accentuates their cash flow needs.

To deal with the funding challenge, many countries have successfully used credit guarantee as a policy tool to promote MSMEs by providing them access to quality and affordable credit. This strategy has support from several development organizations and multilateral agencies. Under this framework, Governments, development agencies or private sector organizations provide guarantees to financial intermediaries that, if borrowers default, the guarantors will reimburse an agreed percentage of the unpaid loan to the lenders. By transferring part of the credit risk from the lender to the guarantor through a risk mitigation mechanism, credit guarantee encourages and enables financial intermediaries to lend to MSMEs.

The Government of Kenya established a Credit Guarantee Scheme in 2020. The Scheme has facilitated private sector lending to 4,078 MSMEs amounting to approximately Kshs. 6.18 billion in all sectors of the economy as at 31st December 2023. All categories of MSMEs have been able to access credit under the Scheme. In addition, credit has also been extended to marginalized segments of the population, namely; women, youth and PwDs.

This notwithstanding, the Scheme as currently established is not sustainable since it operates as a unit at the National Treasury and relies on annual budgetary allocation from the exchequer. The pilot Credit Guarantee Scheme (CGS) provides the experience necessary to develop a sustainable credit guarantee delivering model in accordance with global best practices and principles of operating public credit guarantee schemes.

Credit Guarantee (CG) Policy intends to address access to quality and affordable credit in a sustainable manner. This Policy provides a sound mechanism to offer MSMEs credit guarantee informed by international best practices and anchored on an enabling legal and institutional framework. The Policy aims at fostering the development, implementation and growth of both public and private credit guarantee facilities.

**Prof. Njuguna Ndung'u, CBS**

**CABINET SECRETARY**

## PREAMBLE

Credit Guarantees (CGs) have increasingly been used as a mechanism for directing credit to MSMEs in various sectors and regions. Globally, most CGs are designed to target MSMEs which have growth potential but are constrained by lack of affordable credit due to inadequate security market failures. Also targeted are profit and growth-oriented micro small and medium-sized enterprises (MSMEs) at various stages of development. Kenya, like many other countries in Sub-Saharan Africa, does not have a suitably structured national framework to establish, regulate and supervise the provision of credit guarantee facilities. This situation persists despite several initiatives by the Government and development agencies which target specific sectors.

Micro and small enterprises are largely unserved by lenders because of their size, informality and high risk perception among lenders. Credit Guarantees are a key policy tool that many countries use to enhance MSMEs access to finance, while limiting the burden on public finances. Credit guarantee facilities aim to address a situation in which a borrower who would ordinarily be perceived as risky due to insufficient collateral.is facilitated to access credit through partial coverage of their default risk by a guarantor. One of the main attractions of the credit guarantees is that they could encourage financial intermediaries to channel more funds to MSMEs than they would normally have done without such guarantee.

The overall purpose of this Credit Guarantee Policy is to fill the existing policy gap in relation to the establishment, provision and oversight of credit guarantees for MSMEs. This Policy spells out the complementary role of Credit Guarantee in the financial sector in ensuring that MSMEs are facilitated to access affordable credit which enhances their growth, sustainability and contribution to job and wealth creation.

I wish to thank all stakeholders who contributed towards the preparation of this policy and look forward to their support and partnerships during the implementation of the same. I would like to thank the Cabinet Secretary for the overall guidance and support in preparation of this policy. I also want to thank the Cabinet Secretary/Ministry of Cooperatives and MSME Development, Office of The Attorney General, The Central Bank of Kenya, the Steering Committee and the Inter-Agency Task Force that contributed to this policy by participating in the drafting and the review of information on policy initiatives, existing documentation and drafting all chapters of this policy. Special thanks goes to the World Bank (SAFER),FSD-Kenya and IFAD. In conclusion, I hope this policy will lay a solid foundation for the provision and oversight of credit guarantees by public and private institutions in Kenya.

**Dr. Chris Kiptoo, CBS**

**Principal Secretary for The National Treasury**

**ACRONYMS**

| | |
|---|---|
| CBK | Central Bank of Kenya |
| CGS | Credit Guarantee Scheme |
| CGs | Credit Guarantees |
| DFI | Development Finance Institutions |
| EU | European Union |
| GDP | Gross Domestic Product |
| ICDC | Industrial and Commercial Development Corporation |
| IDB | IDB Capital Limited |
| IFC | International Finance Corporation |
| KIE | Kenya Industrial Estates |
| KIRDI | Kenya Industrial Development Institute |
| KNBS | Kenya National Bureau of Statistics |
| MDAs | Ministries, Departments and Agencies |
| MSMEs | Micro, Small and Medium Enterprises |
| MSEA | Micro and Small Enterprises Authority |
| MTP | Medium Term Plan |
| NESC | National Economic and Social Council |
| OECD | Organization for Economic Cooperation and Development |
| PROFIT | Programme for Rural Outreach of Financial Innovations and Technologies |
| SACCO | Saving and Credit Co-operatives |
| SHoMaP | Small Holder Horticulture Marketing Program |
| USAID | United States Agency for International Development |

**Definition of terms**

Financial Intermediaries - these are Commercial Banks, SACCOs, Micro-Finance Institutions, DFIs that provide credit facilities to MSMEs

Micro, Small Medium Enterprises -they are business enterprises as defined under the Micro and Small Enterprises Act, 2012.

## EXECUTIVE SUMMARY

According to the United Nations Conference on Trade and Development (UNCTAD, Micro-, small and medium-sized enterprises (MSMEs) account for 90% of businesses, 60-70% of employment, and 50% of GDP worldwide.

In Kenya, MSMEs constitute an important economic segment that accounts for a significant proportion of overall economic activity, as well as being a critical source of livelihoods for a significant proportion of the population. Data indicates that there are about 7.41 million MSMEs, of which 1.56 million and 5.85 million are licensed and unlicensed, respectively. According to the Economic Survey 2023, MSMEs provided employment opportunities for 16 million people, with over 700 thousand jobs created in the year 2022 constituting 86.1 percent of all new jobs in the market.

In terms of GDP contribution, MSMEs continue to make a significant contribution to overall economic output. Despite this, MSMEs face numerous impediments in accessing credit, among them: lack of sufficient collateral; informality, information asymmetry, stringent loan requirements, capacity challenges on business management and the relatively high cost of credit.

Credit guarantees are among the policy tools that have been used in various parts of the world to address the lack of access to debt finance by MSMEs, start-ups and targeted economic sectors. Credit guarantees mitigate the risk of default by borrowers through guaranteeing an agreed portion of the loan advance. By providing this partial guarantee, CGs help reduce the risk of loss to the lender arising from default by the borrower making lenders more willing to lend to borrowers that would otherwise have been denied credit.

Previous attempts by the Government to support CGs have not yielded the expected results mainly because of lack of a legal framework and institutional structure for CGs in Kenya. In 2020, the National Treasury set up a Credit Guarantee Scheme targeting the MSMEs in the country. To enhance the Scheme's long-term sustainability, the National Treasury proposes to convert the CGS into an independent legal entity. In Kenya, existing credit guarantees have been operating without a comprehensive guiding policy and regulatory framework. It is against this backdrop that this policy has been developed as a structured guide for the implementation of a vibrant CGs in Kenya. The overall purpose of the Credit Guarantee Policy is to fill the existing policy gap in relation to credit guarantee. Additionally, the Policy will catalyze the growth of MSMEs by enhancing their access to quality and affordable credit facilities in an efficient and sustainable manner. This Policy further seeks to ensure significant leverage is achieved in terms of using the guarantee mechanism to unlock the surplus liquidity available in the financial sector for the benefit of MSMEs. The policy also supports the achievement of Vision 2030 in relation to promoting the development of a strong and competitive financial sector as a key component of an enabling environment for business.

The policy framework will cover different types of credit guarantees that may be established for MSMEs. The policy will guide the action of credit guarantee providers, beneficiaries, policy implementers and regulators, Financial Intermediaries, and other stakeholders in the credit guarantee business.

The policy interventions will address the following: Policy, Legal and Regulatory Framework; Credit guarantees eligibility criteria; Access to quality and affordable credit; Financial Sustainability; Development of Targeted & Sector specific guarantees; Collaborations and Partnerships; and Credit guarantee communication framework.

The policy proposes a framework to facilitate establishment and improve the performance of the credit guarantees, Provide the necessary incentives to encourage guarantee institutions to comply with the regulatory framework; Provide a window to allow existing CGs to transition to the new regulatory requirements by the regulator.

The National government will lead and facilitate the implementation of this Policy together with credit guarantee institution Central Bank of Kenya (CBK), financial intermediaries, County Government, development partners and private sector and other relevant agencies. Capacity development for relevant stakeholders will be a critical element of implementation. A continuous programme for monitoring and evaluation will be developed. This Policy shall be reviewed within five years to assess its effectiveness and relevance.

# CHAPTER 1: INTRODUCTION

## 1.1 Background

Internationally, Micro, Small and Medium Enterprises (MSMEs) play an important role in economic growth and development. The United Nations General Assembly designated 27 June as "Micro-, Small, and Medium-sized Enterprises Day" (A/RES/71/279) to create awareness of the tremendous contributions of MSMEs towards achievement of the 2030 Agenda and the Sustainable Development Goals. It is recognized by the United Nations Conference on Trade and Development (UNCTAD) that Micro-, small and medium-sized enterprises (MSMEs) account for 90% of businesses, 60-70% of employment, and 50% of GDP worldwide.

In Kenya, available data indicates that there are about 7.41 million MSMEs, of which 1.56 million and 5.85 million are licensed and unlicensed, respectively. According to the Economic survey 2023, the sector employed about 16.0 million Kenyans with over 700 thousand jobs created in the year 2022 constituting 86.1 percent of all new jobs in the market. The MSMEs constitute about 98 percent of all businesses in the country and contribute about 304 percent of the GDP The statistics indicate that MSMEs play an important role in the economy by contributing to economic prosperity and improving the social well-being of a majority of the population.

Despite the contribution of the MSME sector to the Kenyan economy in terms of creating employment opportunities, alleviation of poverty, promoting linkages for producers and consumers, enhancing competition and fostering innovation; the sector suffers from lack of access to affordable finance as identified in several studies and surveys.

Studies have cited lack of collateral, informality and information asymmetry as major factors constraining MSMEs' access to finance. MSMEs, a majority of whom are in the informal sector, are therefore viewed by lenders as extremely risky and thus credit unworthy. Majority of the MSMEs, for instance, are unable to provide information on their creditworthiness as they tend to lack appropriate accounting records and collateral. This leads to uncertainty on their business' expected rates of return and cash flow positions. In an environment lacking a risk sharing mechanism, this has resulted in exclusion of a majority of the MSMEs from the credit market; thereby necessitating the Government to put in place interventions seeking to promote their financial inclusion.

The Government of Kenya, Development Partners, Business Member Organizations and entrepreneurs have been pursuing appropriate financing mechanisms to support businesses that are at the early/informal stage. Kenya's long term development blueprint, Vision 2030, identifies the need to develop a strong and competitive financial sector that will transform the largely informal MSME sector to promote robust formal enterprises. The Second and Third Medium-Term Plans (MTP II) identified CGS as an initiative to foster development of the Financial Services Sector.

The MTP IV recognizes the pivotal role the financial services sector plays in supporting and significantly contributing to the enhancement of access to affordable credit, transactional efficiency, and overall stability across all levels of the value chains. The Financial Inclusion Fund (FIF) is one of the initiatives under MTP IV which aims to "credit repair" MSMEs who could not access credit from FIs. The objective of the fund is to ensure that the beneficiaries of the fund are ultimately transited to formal financial institutions for credit.

To unlock credit lending from the financial intermediaries to MSMEs who are generally perceived risky, an innovative approach is needed. The Government therefore proposes to use credit guarantees (CGs) which have been used globally as a key policy tool to foster greater access to affordable credit by previously excluded MSMEs. This would be undertaken through provision of partial coverage of the risk of default on loans, providing lenders the comfort to provide credit to MSMEs.

## 1.2 Credit Guarantees as a Policy Tool for Directing Credit to MSMEs

Credit Guarantees are used as a mechanism of risk transfer and diversification. By covering part of the default risk, it guarantees secure repayment of all or part of the loan in case of default and therefore lowers the lender's risk. In essence, CGs absorb an important share of borrower's risk. The credit guarantees may be defined by: the fund capitalization structure; the ownership structure; and a delivery model.

The European Union (EU) has successfully used credit guarantees to support MSMEs access financing. The guarantees are provided to financial intermediaries, which are encouraged to increase their lending to viable businesses that would otherwise experience difficulties in obtaining formal loans. This has contributed to growth of the MSME sector in terms of increase of total assets, sales, employee numbers and productivity.

Credit Guarantees (CGs) mitigate situations where borrowers with an equal probability of default have an unequal probability of obtaining credit since some have insufficient collateral. The main objective of CGs, therefore, is to enhance access to affordable credit by MSMEs that were previously unserved or underserved by the formal financial institutions. CGs should be designed with a goal of achieving financial, social and economic additionality, as well as building a supportive business environment that corrects market failures. In the absence of CGs, competent lending institutions would typically guard their reputation for strong loan-portfolio performance and strive to avoid loan defaults by excluding the segments of borrowers deemed to be risky. A well-structured CG provides an incentive for the lending institutions to lend to MSMEs through a risk sharing arrangement.

One of the studies undertaken by the Organization for Economic Cooperation Development (OECD) postulates that a CG facilitates access to external financial resources without diminishing the financial responsibilities of the borrower. Financial intermediaries that are supported by guarantees are governed by their strict standards and only issue loans based on a sound and comprehensive analysis of quantitative and qualitative risks. The guarantee supplements the requirement for collateral and therefore helps reduce regulatory capital that would have otherwise been required. The process of issuing guaranteed loans augments the analysis of the risks with the knowledge obtained from banks ‘proximity to the MSMEs. This knowledge includes information about local competition, foreseeable developments in technology, or marketing.

The CGs are expected to stimulate entrepreneurship and contribute to job creation, build a more inclusive financial structure and promote attractive credit conditions. Credit guarantees therefore present a key policy tool that many economies use to ease MSME access to credit, while limiting the burden on public and private finances. By reducing the risk to financial institutions associated with small-scale lending, credit guarantees incentivize lenders in this market segment to initiate a learning process through which banks develop the knowledge and technology to make small-scale lending profitable.

### 1.3 Rationale for the Credit Guarantee Policy

The challenges in accessing affordable credit remains a persistent problem for MSMEs in Kenya. Majority of the MSMEs heavily depend on loans from informal sources such as chamas, family and friends, with very low reliance on formal sources such as commercial banks, Savings and Credit Cooperatives (SACCOs), and microfinance institutions. In an environment of unstructured business operations, high levels of informality, limited information and weak collateral base, MSMEs continue to face significant constraints in accessing formal credit despite the critical role they play in the economy.

Cognizant of this, the Government sought various ways of supporting the MSMEs. Past attempts by the Government to lend directly to MSMEs through development funds have not yielded the desired outcome. This is mainly because the development funds are a form of pass-through facilities with less than (or equal to) one leverage on the capital invested by the Government and therefore, are not sustainable due to moral hazard.

The International Finance Corporation (IFC) estimates the financing gap in developing countries to be approximately 30% of the GDP, which according to the Economic Survey 2023 is estimated at KShs. 4 trillion. Out of this, banks lent only KShs. 783.3billion to this sector in 2022, leaving out a significant portion to be met by non-bank and informal lenders. In recent years, there have been considerable efforts by micro-financiers and Sacco societies to bridge the existing gap through affordable loans. However, this has not fully met the existing needs and a significant gap still remains.  This gap highlights the need for a multi-pronged approach to boost the establishment and development of credit guarantees to close the gap by addressing the perception by mainstream lenders that MSMEs are a risky segment. These findings underscore the importance of scaling up credit guarantees in the country to bridge the gap and ensure that these financially excluded sectors receive adequate support and opportunities through affordable credit for growth.

Although credit guarantees provide partial coverage to borrowers, there is no framework for recognition of capital relief benefits passed to the Financial Intermediaries lending under guarantees in the country. The Central Bank of Kenya Prudential Guideline 3 on Capital Adequacy (CBK/PG/03) recognizes zero weight credit risk on loans and advances on credit facilities that are fully guaranteed by the Government. A framework for recognition of the value of a partial guarantee is therefore key as this will provide an incentive to the Financial Intermediaries to pass concessionary benefits in terms of reduced interest and collateral requirements to end MSMEs borrowers.

It is therefore imperative that the Government develops a policy that will address market failures in the financial sector to facilitate a conducive business environment that ensures financial institutions are incentivized to bridge the financing gap by providing credit to sectors that are perceived risky. The Credit Guarantee Policy will provide interventions that will accelerate growth of the sectors that have been neglected by financial institutions by increasing access to affordable credit. The CGS policy will serve as a guidance in the recognition of the capital adequacy relief offered by partial guarantees in the market, and foster knowledge-sharing among the credit guarantees in the market.

### 1.4 Objectives of the Policy

The overall objective of the Credit Guarantee Policy is to provide a clear policy framework that will support the establishment and sustainability of credit guarantees to facilitate credit access to MSMEs:

This policy therefore seeks to provide a framework that:

(i) Provides a conducive policy, legal and regulatory environment for credit guarantees;

(ii) Promote the development of a strong, competitive and inclusive financial sector as a key component of an enabling environment for MSMEs;

(iii) Encourage sustainable financing to key sectors of the economy and support initiatives geared towards climate change adaptation and mitigation;

(iv) Promote establishment and financial sustainability of Credit Guarantees operating in Kenya;

(v) Promote credit/financial additionality by incentivizing financial institutions to unlock quality and affordable credit to MSMEs and enhance their participation in economic activities;

(vi) Enable the recognition of credit guarantees on credit risk weighting. This will further provide an incentive for lenders to pass concessionary benefits to MSMEs;

(vii) Promotes financial inclusion of specific target MSMEs (including those owned by women, youth and PwDs);

(viii) Catalyzes formalization of businesses by incentivizing transition of those currently in the informal sector to the formal sector;

(ix) Prescribe guiding principles for credit guarantees in Kenya;

(x) To promote investment and growth of credit guarantees as a risk sharing mechanism in Kenya; and

(xi) Facilitate collaborations and partnerships among credit guarantees and other institutions.

## 1.5 Scope of the Policy

The policy framework will cover different types of credit guarantees that may be established for MSMEs. The policy will guide the action of credit guarantee providers, beneficiaries, policy implementers and regulators, Financial Intermediaries, and other stakeholders in the credit guarantee business.

## 1.6 Guiding Principles for the Policy

The guiding principles for the Policy are aligned to global best practices for public guarantee schemes as well as government priorities for MSMEs as follows:

(i) Legal and Regulatory framework- The government policy and legal framework will provide for creation of (independent) legal entities for effective implementation of credit guarantees operations;

(ii) Adequate funding to achieve policy objectives: - Credit guarantee funds will leverage and unlock financing for targeted MSMEs;

(iii) Credit guarantees will incentivize lenders to provide access to quality and affordable credit by MSMEs;

(iv) Credit guarantees will be independently and effectively supervised based on risk proportionate regulation scaled by the products and services;

(v) Credit guarantees will have a sound corporate governance structure;

(vi) Credit guarantees will promote balanced outreach, additionality and financial sustainability;

(vii) Credit guarantees will clearly define eligibility criteria for MSMEs lenders and credit instruments;

(viii) The Credit guarantees will adopt an effective and comprehensive enterprise risk management framework, transparent and consistent risk-based pricing policy;

(ix) Transparent and effective claim management process: Credit guarantees will design effective, clearly documented, and transparent claim management processes; and

(x) Reporting Requirements: Credit guarantee will set rigorous financial reporting requirements, externally audit financial statements and publicly disclose non-financial information periodically evaluate credit guarantee performance and disclose the findings.

## 1.7 Policy Development Process

The concept of CGS was initiated in 2010 through an inter-ministerial committee that recommended among other things, the development of a Credit Guarantee policy. Formulation of the Credit Guarantee policy began in 2013 under the National Economic and Social Council (NESC). The NESC prepared a draft policy, subjected it to stakeholders and submitted the policy to the National Treasury for processing.

In 2019, an inter-ministerial CGS task force was established to coordinate the establishment of CGS. The inter-ministerial task force drew membership from the key industry players with regard to MSMEs and the relevant financial sector players. The taskforce proposed that a study be undertaken to assess the feasibility of CGS in Kenya.  The inter-ministerial task force improved the draft CGS policy and subjected it to the necessary processes, including stakeholder engagement and public participation.

On December 8, 2020, the Government of Kenya (GoK), through the National Treasury, rolled out a pilot Credit Guarantee Scheme to respond to challenges facing MSMEs, and in particular access to quality and affordable credit. As currently established, the Credit Guarantee Scheme is not a sustainable model hence the need to establish a legal entity in line with global best practices that needs a policy directive.

This necessitated an initiative to develop a comprehensive credit guarantee policy that will guide establishment and sustainability of credit guarantees in Kenya.

## CHAPTER 2: SITUATIONAL ANALYSIS

This section highlights the importance of the MSME Sector in the country looking at the historical performance of the sector taking into consideration the challenges faced by the MSMEs. The chapter has also analyzed the obstacles of MSMEs access to credit and the interventions that have been implemented by the Government to facilitate credit access by the sector.

### 2.1 Historical MSME access to credit in Kenya

MSMEs play a critical role in Kenya's economic development and employment creation. The Kenya National Bureau of Statistics (KNBS) indicates that there are over 7.4 million MSMEs in the country contributing approximately 40% of overall GDP. Most of these MSMEs are mainly in the informal economy. According to the Economic survey 2023, the sector employed about 16.0 million Kenyans, creating more than 700,000 jobs in the year 2022, constituting approximately 86.1 percent of all new jobs in the market in the said year.

Despite the importance of the sector to the economy, MSMEs continue to experience many constraints in accessing finance which limits them from realizing their full potential. Access to finance is the second most cited obstacle facing MSMEs to grow their businesses in emerging markets and developing countries. This is due to lack of adequate collateral which is a major consideration for lenders in extending credit to MSMEs. Majority of MSMEs do not possess the types of assets that are typically accepted by lenders as collateral.

Collateral requirements therefore continue to be a major barrier for MSMEs in accessing formal credit. MSMEs are forced to rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. Also, the credit extended by commercial banks to this sector remains at a relatively low due to the perception among the lenders that MSMEs are a risky segment. According to Fin Access MSE Survey tracker 2023, most of the MSMEs were advanced with credit from mobile banking due to ease of access.

Previous attempts to support MSMEs access to finance have not resulted in financial inclusion of the unserved MSME sector players. The attempts include improvements on financial infrastructure through such initiatives as the credit information sharing mechanism and frameworks for innovative commercial banking models; the rollout of partial guarantee schemes; acceptance of movable property and assets as collateral, and instituted public and private sector initiatives directly targeting MSMEs. Some of these initiatives include: the Kenya Youth Employment and Opportunities Project (KYEOP); the Stawisha SME Mashinani initiative; County Governments enterprise funds; incubation, innovation and common user facilities through organizations like Kenya Industrial, Research and Development Institute (KIRDI), Kenya Industrial Estates (KIE), Kenya Bureau of Standards (KEBS); and Micro Small Enterprises Authority (MSEA).

In the past, the Government has provided partial guarantees mainly to the agricultural sector, through entities such as the Agricultural Finance Corporation (AFC), Coffee Board of Kenya and Coffee Development Fund (CoDF). However, there have been limited credit guarantees targeting MSMEs in other sectors.

## 2.2 MSMEs access to Credit Constraints

According to KNBS, most of the start-up companies do not survive their 4th birthday owing to constrained access to finance for capital and operational demands, market challenges, and weak business strategies. Further, MSMEs that access credit faces unfavorable loan conditions due to a lack of sufficient collateral, high collateralization requirements, short payback periods, and high interest rates since they are viewed as risky by financial institutions. This is majorly due to their informal management techniques and information asymmetry on their creditworthiness, both of which make them unappealing to lenders.

### 2.2.1 Stringent loan requirements

MSMEs are perceived to be risky by lenders due to their informality, lack of permanent business location, high mortality, and high default rates. The negative perception necessitates the financial institutions to advance credit facilities with short repayment period and higher interest rates to ensure the FIs recoup their principal and interest amounts in the shortest time possible. These unfavorable loan terms lock out the majority of the MSMEs particularly in Agriculture and Manufacturing sectors who require longer repayment tenor to grow their business.

### 2.2.2 Collateral Requirement

The lack of adequate collateral presents a major barrier for MSMEs seeking financing from banks. Commercial banks in Kenya often demand collateral that exceeds the value of the loan, rendering many MSMEs ineligible for loans or only eligible for insufficient amounts. This limitation restricts MSMEs from expanding their businesses, acquiring necessary equipment, or investing in opportunities for growth, contributing to a cycle of constrained development within the sector.

### 2.2.3 Formalization Requirement

Financial institutions typically require MSMEs to have formalized business structures, including legal registration and financial documentation. However, barriers such as high registration costs, bureaucratic procedures, and limited awareness among MSMEs about the benefits of formalization impede this process. Operating informally restricts access to financial services and credibility with institutions, further limiting MSMEs' ability to access affordable credit facilities.

### 2.2.4 Information Asymmetry

Mistrust and uncertainty in the lending process arise from information asymmetry between MSMEs and financial institutions. Insufficient knowledge about the creditworthiness and performance of MSMEs on the part of financial institutions, coupled with MSMEs' limited understanding of financial products and loan default implications, which hampers the flow of credit. Additionally, inadequate awareness of alternative forms of collateral and loan products further exacerbates this challenge; constraining MSMEs' ability to invest and expand.

### 2.2.5 Capacity Challenges on Business Management

Many MSMEs in Kenya face capacity challenges in business management, including financial planning, accounting, and strategic decision-making. Limited access to training and mentorship programs exacerbates these challenges, leading to poor financial management practices and higher perceived risk among lenders.

## 2.3 Interventions to address access to credit

Interventions to address access to credit in Kenya were initiated in the 1960s when the Government implemented the Guaranteed Minimum Returns Scheme (GMRs) for selected cash crop farmers. The system was institutionalized when the Government set up development finance institutions (DFIs) such as ICDC, KIE and IDB (later renamed IDB Capital) to provide credit guarantees to the manufacturing sector, targeting small start-up manufacturers. The Government played a key role in guaranteeing loans to farmers through entities such as the Agricultural Finance Corporation (AFC), Coffee Board of Kenya (CBK) and Coffee Development Fund (CoDF). Between the 1970s and the mid-1990s, most of the long-term credit extended by DFIs was guaranteed by the Government.

This situation changed substantially in the late 1990s following various liberalization initiatives, including reforms to the banking sector, and effecting legal and regulatory framework to facilitate greater participation by new market players. Notably, commercial banks entered the long-term credit space that was previously a preserve of DFIs. Development partners also partnered with commercial banks and the Government to offer credit guarantees to lenders and borrowers in targeted sectors.

Several credit guarantees schemes have been launched in Kenya, involving partnerships between DFIs, multi-lateral agencies, commercial banks and to a limited extent, the Government. These include United States Agency for International Development's (USAID), International Development Finance Corporation, Small Holder Horticulture Marketing Program (SHoMaP), Growth Oriented Women Enterprises (GOWE) under the Enhancing Agriculture Productivity Project (EAPP), Kenya Incentive Based Risk Sharing Agricultural Lending (KIRSAL), Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT), among others. The Government, in a bid to encourage the economic participation of marginalized sections of society, established the Women Enterprise Development Fund and the Youth Enterprise Development Fund which offer implicit guarantees on the credit these extend to women and youth, respectively.

These past attempts to provide guarantees and lend directly to MSMEs through development funds have not yielded the desired outcome in promoting access to finance and unlocking additional private sector lending. The challenges experienced by the initiatives in promoting access to credit include weak institutional and legal framework, limited or no use of leverage, failure to capitalize on excess liquidity in the banking system, moral hazard by borrowers which leads to high loan delinquency, duplication of roles among the Funds and low awareness by the targeted beneficiaries.

### 2.3.1 International Credit Guarantees

Globally credit guarantees exist as interventions targeting priority sectors, regions or market segments which are thought to be underserved. Credit guarantee systems have been established in Europe, US, Latin America, Asia, Australia and Africa, mainly to expand availability of credit to MSMEs.

Credit guarantees act as an inducement to financial intermediaries to channel more funds to targeted beneficiaries than they would normally have done without such guarantee. Among the measures used to assess the performance of credit guarantee facilities is the leverage ratio, which is the ratio of total outstanding guarantee commitments to the original size of the guarantee fund. According to a study by Greene (2003), credit guarantees in mature economies achieve a leverage of up to 26 times of the fund's original value. For developing countries, a leverage of between 5 and 10 times of the fund's original value within the first five years is considered appropriate. Leverage ratios below 5 appear to restrict the fund's impact and objective of increasing MSMEs access to credit.

Other critical credit guarantee features that promote higher leverages include the coverage ratio (more than 25 percent), specified period for settling claims, inclusion of guarantee fees and the longer guarantee tenor. It has also been demonstrated elsewhere that a mixed ownership guarantee arrangement can deliver increased lending to MSMEs. For instance, in Korea, the government was able to catalyze the release of funding to MSMEs equivalent to 20 (twenty) times the amount of the capital in the country's guarantee Fund, the Korea Credit Guarantee Fund. The government contributed USD 100 million to the scheme with an additional USD 700 million from commercial banks. The financial involvement of the private sector has enabled the fund to remain financially stable over time.

Table 1 below presents a sample of leverage ratios reported by selected credit guarantee facilities in selected countries worldwide.

**Table 1: Leverage Ratios Reported by Guarantee Schemes in Selected Countries Worldwide**

| Country | Scheme Name | Date Scheme Established | Leverage | Date reported |
|---|---|---|---|---|
| Germany | Burgschaftsbanken | 1954 | 26:1 | 1994 |
| France | SOFARIS | 1971 | 22:1 | 1995 |
| Croatia | HGA | 1995 | 20:1 | 2001 |
| Japan | CIC & NFCGC | 1937 | 15:1 | 1995 |
| Mexico | Nacional Financiera | 1997 | 5:1 | 20001 |
| Colombia | FNG | 1982 | 1.4:1 | 1995 |
| Argentina | FOGABA | 1995 | 0.5:1 | 2001 |

*Source: Adapted from Green (2003)*

The multiplier potential of guarantee funds has also been demonstrated in Kenya involving partnerships with the Government, Development Partners and Commercial Banks. For instance, the National Treasury implemented a Pilot risk sharing facility under the PROFIT Programme financed by IFAD. This facility achieved five (5) times leverage within the programme implementation period of six (6) years that ended in 2019. Further, USAID through its Development Credit Authority (DCA) [now the International Development Finance Corporation], has operated several credit guarantee schemes targeting MSMEs in partnership with commercial banks and other partner financial institutions. Over the nine years from 2012 to 2021, the DCA initiated more than ten (10) loan guarantee schemes with an aggregate credit limit exceeding USD 100 million, and which were fully utilized. These schemes targeted MSMEs in various economic sectors, including the agriculture, energy, water and health sectors. Overall, the schemes achieved an average leverage ratio of 2:1 and facilitated credit to many MSME beneficiaries who would otherwise not have had access to loans, majority of whom were first time borrowers.

### 2.3.2 Status of Credit Guarantees in Kenya

The National Economic Social Council (NESC) report 2014, estimated the total value of all credit guarantee schemes in Kenya's banking sector to be approximately KSh 30 billion. In proportion to total reported net loans and advances of KSh 1,152 billion in 2011, credit guarantee facilities constituted only 2.6% of the total and about 3.5% of the KSh 870 billion in gross loans advanced to the business sector. The guarantee facilities totaling KSh 30 billion are relatively low (below 1% of Kenya's GDP).

The findings from the NESC study highlighted the following shortcomings on various guarantee schemes in Kenya: -

(i) Limited aggregated and disaggregated data on the size of the guarantee funds, the volume of outstanding amounts of guaranteed facilities, utilization rates and other performance statistics is not available;

(ii) Limited sector coverage where 80 percent of the guarantees available in Kenya are geared towards encouraging lending to small holder farmers and a few micro-enterprises;

(iii) Limited guarantee capital to bridge the substantial MSME financing gap of KSh. 2.3 trillion in Kenya;

(iv) Few financial intermediaries offering guaranteed facilities via any form of CGS;

(v) Low awareness of the existence of CGS, how it operates and its immense potential among policy makers, intermediaries and target beneficiaries;

(vi) Moral hazard resulting from misconception by borrowers and other stakeholders on credit guarantee, perceiving it as a government or Development partner grant rather than a loan to be repaid result in borrowers defaulting on the loans; and

(vii) The overall level of guaranteed credit provided by commercial banks in Kenya in proportion to overall GDP is lower in comparison to other jurisdictions.

Previous attempts by the Government and other private actors to address access to affordable credit by borrowers have seen the establishment of sector-based credit guarantees with a narrow and restricted scope, covering specific marginalized groups and sectors such as agriculture, trade and those that focus on women and youth.

In an attempt to address the above challenges and borrowing from global best practices, the Government recommended establishment of Credit Guarantee Company. Subsequently, a CGC feasibility study was conducted in 2019 which supported the Government proposal.

In the wake of covid -19 pandemic, the government rolled out the Credit Guarantee Scheme (CGS) for MSMEs in 2020 as part of the Economic Stimulus Program to support MSMEs access quality and affordable credit. The objective of the scheme was to support MSME businesses stay afloat and safeguard employment during and after the Covid-19 pandemic. The pilot Scheme is anchored on the Public Finance Management Act 2012, and is implemented in partnership with seven Financial Intermediaries (Financial Intermediaries)/banks. The Scheme covers part of the risk associated with lending to MSMEs, which provides an incentive for the banks to offer better credit terms for the qualifying MSMEs.

As at 31st December 2023, the Scheme facilitated private sector lending to the twelve (12) sectors of the economy, as designated by CBK. MSMEs across forty-six (46) counties benefited from credit facilities guaranteed under the Scheme. All categories of MSMEs have been able to access credit under the Scheme. In addition, 20.3% of the guaranteed facilities was extended to vulnerable segments of the population namely women, youth and persons with disabilities. During the same period, approximately Kshs. 6.18 billion was lent out to target beneficiaries using Financial Intermediaries own resources. Approximately 71% of the guaranteed facilities was extended to new borrowers who had not previously accessed facilities from participating banks. This signifies that credit has been extended to otherwise excluded MSMEs. About 87% of the outstanding credit facilities were performing as per CBK's risk classification. During the same period a total of Kshs. 2.4 billion facilities have been fully repaid releasing a guarantee value of KSh 600 million that can be allocated to additional qualifying MSMEs.

Despite the above achievements, it was noted that the trade sector received a majority of the facilities at 76% with notably low allocations to agriculture (2%) and manufacturing (2.6%), despite their significant contribution to the economy. In addition, the Scheme is yet to achieve the targeted 30 percent outreach to enterprises owned by women, youth and persons with disabilities. In order to address these challenges and enhance the Scheme's effectiveness, sector specific initiatives may be necessary.

The current CGS design, operated under the National Treasury, is not sustainable and does not charge guarantee fees necessitating the establishment of an independent legal entity through development of a sound and clearly defined legal and regulatory framework. The establishment of a company to issue guarantees will enable achievement of financial sustainability and reduce reliance on annual budgetary allocation from the National Treasury. In addition, for the guarantees to be sustainable, there is a need for a policy framework to strengthen the institutional arrangement for delivering credit guarantees.

### 2.4 Policy and Regulatory Framework

In Kenya, existing credit guarantees have been operating without a comprehensive guiding policy and regulatory framework, which affects their overall impact in the economy in channeling credit to priority economic activities. The lack of a formal mechanism for administering and promoting credit guarantees as a credit risk mitigation tool, especially through capital relief for Financial Intermediaries with guaranteed facilities, limits the incentive for utilization of credit guarantees in the market. The envisioned policy and regulatory framework is aimed at promoting the establishment, and operation of credit guarantees in a way that supports directing of private sector credit towards critical sectors and economic activities for greater and sustainable impact.

## CHAPTER 3: POLICY STATEMENT

This chapter provides specific policy interventions that will address challenges facing MSMEs in accessing quality and affordable credit. The chapter provides policy objectives, strategies and interventions aimed at strengthening the regulatory regime for credit guarantees in Kenya. The policy interventions will address the following: Policy, Legal and Regulatory Framework; Credit guarantees eligibility criteria; Access to quality and affordable credit; Financial Sustainability.; Development of Targeted & Sector specific guarantees; Collaborations and Partnerships; and Credit guarantee communication framework.

### 3.1 Policy, Legal and Regulatory Framework

Credit Guarantees are not new in the Country, with several public and private schemes currently operating in Kenya. However, the guarantees have been operating without a guiding policy that would promote their growth. The Government is committed to providing a conducive policy, legal, regulatory environment that will promote investment into the credit guarantee space, promote their outreach and sustainability by undertaking the following:

(i) Strengthen the legal and regulatory framework to facilitate establishment and improve the performance of the credit guarantees;

(ii) Define the scope of governance, regulation and supervision of guarantee institutions and other players who may venture in the market;

(iii) Require the players to provide a clear eligibility criterion for Financial Intermediaries and MSMEs, Financial Intermediaries reporting requirements, and the legal framework for settlement of valid claims;

(iv) Provide the necessary incentives to encourage guarantee institutions to comply with the regulatory framework;

(v) Provide a framework for documenting, evaluating and sharing of knowledge on the impact of various credit guarantees in the economy; and

(vi) Provide a window to allow existing CGs to transition to the new regulatory requirements by the regulator.

### 3.2 Credit guarantee eligibility criteria

The objective of credit guarantee is to facilitate MSMEs access credit from financial institutions. Acknowledging that stringent requirements and long processes act as barriers to credit access for the intended beneficiaries, the need to clearly define an optimal eligibility criterion is important to ensure the guarantee funds are protected while lenders are encouraged to lend to MSMEs. To ease access to credit by MSMEs, the Government will:

(i) Provide for credit guarantees to come up with clear and transparent operational processes and conditions, including but not limited to eligibility criteria for beneficiary enterprises, claims validation, etc;

(ii) Provide frameworks to ensure that financial intermediaries are credible institutions in good standing with their industry regulators, if any;

(iii) Provide for assessment of institutions interested in participating in credit guarantee schemes with respect to lending to MSMEs; and

(iv) Provide frameworks to ensure financial intermediaries have both the liquidity and capacity to extend credit facilities to micro, small and medium enterprise.

## 3.3 Interventions to Address Information Asymmetry

To address information asymmetry between lenders and MSMEs for ease of access to credit, the Government will:

(i) Establishment of MSME outreach centres;

(ii) Support in building capacity of MSMEs to encourage their formalization;

(iii) Create a database for all MSMEs;

(iv) Strengthen credit information sharing mechanisms;

(v) Support harmonization of business registration requirements in all Counties; and

(vi) Support digitization of MSME business registration services and integration with FIs.

## 3.4 Access to quality and affordable credit

Majority of the financial institutions tend to offer credit services to formally registered businesses which meet minimum set criteria such as proper maintenance of books of accounts, a viable asset base, and availability of collateral and borrowers credit information. Majority of the enterprises in the informal sector cannot meet the conditions set by the FIs and are therefore deemed risky. As a result, MSMEs are either denied loans or receive loans at unfavourable terms. To facilitate access to quality and affordable credit for MSMEs, the Government will:

(i) Support the establishment and operationalization of a company or a special purpose vehicle with a minority Government shareholding to lead effective and efficient delivery of Government-linked credit guarantees to MSMEs;

(ii) Develop a transparent and consistent risk-based pricing policy to enhance the attractiveness of the guarantee program to lenders and MSMEs;

(iii) Support in building capacity of micro and small enterprises to promote formalization of their operations and enable them harness growth opportunities;

(iv) Promote use of credit score for credit appraisal;

(v) Provide incentives to promote registration/formalization of MSMEs; and

(vi) Sensitize MSMEs to improve their credit worthiness to benefit from lower interest rates and use of alternative forms of collateral.

### 3.5 Financial Sustainability

For guarantees to be able to cover administrative expenses, credit losses and opportunity costs, there is a need to use guarantee fees as a way to discourage moral hazard, reduce dead weight, promote good business practices and limit the risk to the fund. However, there is a need to ensure that the interests of the borrower, lender and guarantor are also protected. This may necessitate charging different fees in accordance with the level of credit risk for each MSME. The policy measures to be undertaken by the Government in addressing financial sustainability will include:

(i) Develop a clearly defined and transparent eligibility and qualification criteria for MSMEs, Financial Intermediaries and Credit Instruments;

(ii) Develop a framework to foster equitable risk sharing between the credit guarantee and FIs:

(iii) Develop a claim management process which is efficient, clearly documented, and transparent for adoption by CGs:

(iv) Provide for guarantees to raise revenue through guarantee fees and other eligible interest-bearing assets;

(v) Regulate the guarantee fees ratio; and

### 3.6 Development of Targeted & Sector Specific Guarantees

Financial Institutions have been advancing credit to sectors that are perceived to be less risky while neglecting sectors that are perceived as risky. This has resulted in exclusion of a majority of MSMEs from credit access from commercial banks. To ensure financial inclusion for all sectors, the Government will support guarantees in developing targeted products for strategic economic sectors, Government initiatives and identified marginalized groups. The targeted sectors will include the following:

(i) Agriculture and rural economy;

(ii) Blue economy;

(iii) Creative economy;

(iv) Export sector;

(v) Green economy; and

(vi) Women, Youth and PwDs inclusive investments.

The policy measures to be undertaken by the Government in ensuring underserved sectors access credit include:

(i) Invest in suitable credit guarantees to promote access to credit for targeted sectors;

(ii) Work with relevant institutions in developing targeted products to meet the different needs of MSMEs in key economic sectors, underserved counties, businesses owned by women, youth and PwDs, and high potential start-ups;

(iii) Collaborate with relevant counties and MDAs to enable more MSMEs to access the available credit guarantees; and

(iv) Develop a green strategy for Integrating Climate Change Mitigation and Adaptation into its operations and in enhancing access to credit to finance green projects.

(v) Liaise with CGs to identify sector specific guarantee products to increase access to credit by MSMEs in underserved segments and significant sectors of the economy.

### 3.7 Collaborations and Partnerships

The MSME financing gap is estimated at 30% of the GDP which approximately Kshs.4.9 trillion as of 2021. In order to address the existing gap, there is need for collaboration and partnerships between the Government, FIs, development partners and Credit Guarantees. The partnerships will address areas of mutual interest and increase investment into the credit guarantee space. These will include but not limited to investment, technical capacity building, business development, general outreach and any other strategic objectives.

Some of the key partners to be engaged include but are not limited to the National Government, County Governments, Development Partners, Financial Institutions, Private Sector, Business communities and other Credit Guarantee Institutions. To facilitate these collaborations, the Government will:

(i) Partner with development agencies and lenders to provide credit guarantees for MSMEs;

(ii) Develop a framework for credit guarantees to co-guarantee, re- guarantee and re-insurance of credit facilities for MSMEs;

(iii) Provide incentives for Partners to invest in credit Guarantees;

(iv) Provide a framework for joint investment in credit guarantees with private sector players; Leverage the expertise, resources and networks of development partners and private sector players to build capacity of MSMEs in standardized product designs for local and international markets to enhance the impact of credit guarantees; and

(v) Provide an enabling environment for credit guarantee providers to offer the necessary technical assistance to financial intermediaries for better utilization of credit guarantee facilities.

### 3.8 Credit Guarantee Communication Strategy

Government objective is to increase targeted awareness of credit guarantees. However inadequate communication strategy to broadcast credit guarantees leaves potential MSMEs beneficiaries unaware of the advantages of credit guarantees. It is also imperative to increase utilization of the credit guarantees and manage moral hazard. In order to address inadequate communication on credit guarantees the Government will:

(i) Support the development of an effective communication strategy to enhance awareness of the benefits of credit guarantees to relevant stakeholders;

(ii) Support in disseminating targeted awareness on credit guarantees; and

(iii) Leverage on existing communication channels to reach MSMEs.

## CHAPTER 4: IMPLEMENTATION FRAMEWORK

This policy will be implemented by both the private and public sector to enable MSMEs access affordable credit. The following key stakeholders will implement the policy.

### 4.1 National Government

(i) Development of necessary legislation and policy for credit guarantees;

(ii) Incentivize the potential credit guarantee investors;

(iii) Incentivize credit guarantees to lend to MSMEs in excluded but key economic sectors;

(iv) Provide conducive environment for the growth and development of the credit guarantees;

(v) Monitor the growth of MSMEs;

(vi) Promote formalization of MSMEs;

(vii) Promote ease of doing business for MSMEs;

(viii) Enhance capacity building of MSMEs;

(ix) Encourage Credit Guarantees to promote access to finance for business start-ups; and

(x) Create a database for MSMEs for integration with the relevant sector players.

(xi) Support MSMEs to participate in the value chain by promoting market access.

### 4.2 Credit Guarantee Institutions

(i) Facilitate the financing of MSMEs by guaranteeing credit facilities advanced to their enterprises;

(ii) Provide the adequate funding for credit guarantee institutions;

(iii) Design appropriate credit guarantee products for the market;

(iv) Collaborate with financial intermediaries in the provision of credit guarantees to MSMEs;

(v) Collaborate with relevant institutions to build capacity for MSMEs and financial intermediaries;

(vi) Provide feedback on challenges facing credit guarantees; and

(vii) Implement risk sharing arrangement with financial Intermediaries for credit facilities extended to MSMEs.

## 4.3 Central Bank of Kenya

(i) Supervise Financial Intermediaries that are within CBK's regulatory purview on the implementation of the credit guarantees;

(ii) Regulate the business of issuing credit guarantees;

(iii) Oversee the integrity of the credit guarantee business including Anti- Money Laundering AML/Combating the Financing of Terrorism CFT/Counter Proliferation Financing CPF.

(iv) Explore options on the prudential treatment of the guarantees by Credit guarantee institutions for purposes of capital relief and risk weighting, to make them more attractive to Financial Intermediaries; and

(v) Public reporting on the performance of the credit guarantees.

## 4.4 Financial Intermediaries

(i) Work with credit guarantees to establish and execute service level agreements;

(ii) Appraise credit application from MSMEs for consideration of advancing credit under credit guarantee;

(iii) Ensure that the MSMEs fulfill their contractual obligations;

(iv) Submit performance reports on guaranteed facilities to the relevant institutions;

(v) Enhance the use of alternative forms of collateral during credit appraisal processes;

(vi) Invest in the credit guarantee as shareholders; and

(vii) Build capacity of MSMEs.

## 4.5 Micro, Small and Medium Enterprises

(i) Formalize their businesses with the relevant authorities;

(ii) Fulfill their loan repayment obligations to improve their credit scores;

(iii) Explore other alternative collateral options besides tangible assets such as proper book keeping and use of movable assets; and

(iv) MSMEs associations to collaborate with relevant stakeholders in building capacity for members.

## 4.6 County Governments

(i) Support capacity building of MSMEs within their jurisdiction; and

(ii) Support formalization of MSMEs to enable them access guaranteed facilities.

### 4.7 Development Partners/ private investors

(i) Support the government in enhancing credit guarantee initiatives;

(ii) Invest in credit guarantees; and

(iii) Build capacity of MSMEs.

## CHAPTER 5: MONITORING, EVALUATION AND REVIEW OF THE POLICY

This policy will be implemented through a comprehensive implementation matrix to be developed upon approval of this policy. The matrix will include objectives, expected outputs, timelines and the responsible implementing entities and an estimated budget.

Monitoring and evaluation of the policy will entail assessing its implementation to ensure that the intended strategies are executed to achieve set objectives effectively. This will ensure that results of each policy recommendation detailing outputs, outcomes and impacts are tracked and documented.

The M&E framework will provide for regular and periodic updates to track progress of policy implementation. The M&E framework will establish a comprehensive feedback mechanism from all the stakeholders to facilitate appropriate decision making. to. The framework will also provide M&E tools and performance indicators that will be integrated in annual and Strategic plans to support the achievement of the policy objectives.

Periodic studies and documentation will be embedded as part of the M&E framework to gather information on credit guarantees to inform future policy interventions.

This policy will be reviewed after every five (5) years or any such other period as may be determined by the changes in the credit guarantee business environment.