OFFICE OF THE DEPUTY PRIME MINISTER AND MINISTRY OF FINANCE

STATEMENT ON THE MSE FUND (FUND FOR FINANCIAL INCLUSION OF THE INFORMAL SECTOR)

Our attention has been drawn to several enquiries about the KSh.3.8 billion MSE Fund (Fund for Financial Inclusion of the Informal Sector) established under the Fiscal Year 2010/2011 Budget. The Fund was launched by the **Deputy Prime Minister & Minister for Finance on Monday 14th March, 2011.** We would like to make the following clarifications in the interests of those concerned and the public.

Objectives of the Fund

The Fund was established to address youth unemployment and encourage growth of Micro and Small Enterprises (MSEs) as key drivers of economic growth and development. Through the Fund, the Government seeks to empower an estimated 8.3 million Kenyans working in the informal sector, including 2 million in the ***Jua Kali*** industry and 5 million **kiosk owners, hawkers and *mama mbogas***; with the rest in the **informal transport sector** and small manufacturers. The Fund is expected to allow them to access credit, expand their businesses and increase savings, which will help to reduce the Nation's twin problems of unemployment and poverty.

The Fund addresses the Financial Sector's policy goals under Vision 2030 that includes increasing financial **access**. It will also widen and deepen financial inclusion for the under banked and unbanked in Kenya and increase the use of innovative delivery channels like m-banking. The Fund will support the **transition** of informal sector enterprises into the formal sector through access to formal providers of financial services.

Who is Eligible

All Kenyans involved in economic activities within the informal sector including non-banked or under-banked businesses in rural and urban areas of Kenya are eligible.

How the Fund Works

The Fund is a revolving fund through which the Government enters into Credit Facility Agreements with select banks for on-lending to MSEs through branches, authorized banking agents and other channels, particularly mobile banking.

Benefits of the Fund

The main benefit expected from the Fund is increased access to affordable credit by the MSEs. In addition, the Office of the Deputy Prime Minister and Ministry of Finance expects significant reductions in transaction costs through economies of scale and leveraging of ICT and mobile banking as channels of loan disbursements and repayments.

We expect this to translate to more affordable interest rates; higher productivity of informal sector businesses; increased formalization of the informal sector; improved turnover and profits for MSEs. Ultimately, these will lower costs of doing business and generate employment opportunities, particularly for the youth.

Other Related Services

The Fund includes a capacity-building component for banks and their agents to improve their effectiveness in outreach to the MSEs and the final beneficiaries to increase their knowledge on business management and available banking products and services. These will be channeled through the participating banks.

Participating Banks

The Fund is implemented through select banks; namely, Co-operative Bank of Kenya Limited, Equity Bank Limited and K-Rep Bank Limited. These banks were selected through competitive tender based on public procurement procedures.

National Coverage

The Fund is accessible in all Counties through the participating banks. The select banks will use their own internal criteria to avail funds to qualified applicants. The banks are required to match the Fund at a minimum of KSh.5 for every KSh.1 invested by the Government. This will leverage the Fund five-fold to a minimum of KSh.15 billion.

Disclaimer

It has come to our attention that a group of people claiming to be officials of the "Financial Inclusion Committee of Nairobi" have been going round various constituencies claiming to have mandate from the Treasury to recruit members for purposes of accessing the Fund. This group is reported to be charging registration fees of between KSh.200.00 and KSh.1,000.00 per person.

We wish to advise members of the public that the Office of the Deputy Prime Minister and Ministry of Finance has not authorized any person or organization to recruit members or charge registration fees to access the Fund. Any person purporting to be registering members for the purposes of accessing funds from the select banks is acting illegally.

I encourage all informal sector players and especially the unbanked and under-banked members of our society to be vigilant and to seek information or any clarifications from the select banks on how they can access the funds. The contact persons at the select banks are Mrs. Catherine Munyiri (Co-operative Bank of Kenya Ltd.); Mr. Mbaabu Muchiri (Equity Bank Ltd.); and Mr. Elly Aguko (K-Rep Bank Ltd.).

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/TREASURY

12th April, 2011