



REPUBLIC OF KENYA
THE NATIONAL TREASURY AND PLANNING

**IN THE MATTER OF PUBLIC PARTICIPATION ON THE DRAFT REGULATORY
IMPACT STATEMENT ON THE DRAFT PUBLIC FINANCE MANAGEMENT
(CREDIT GUARANTEE SCHEME) REGULATIONS, 2020**

1. The objective and reasons for the proposed Credit Guarantee Scheme Regulations are mainly the following:

- i. To promote enterprise development through access to quality and affordable credit to Micro, Small and Medium Enterprises (MSMEs). Targeted credit support to MSMEs businesses would lead to growth in output with the potential to uplift the lives of many Kenyans through job creation.
- ii. Alleviate the challenges faced by MSMEs seeking credit by offsetting situations in which borrowers with an equal probability of default have an unequal probability of obtaining credit due to insufficient collateral.
- iii. To achieve financial, social and economic additionality by providing a legal framework for the government to issue partial guarantees as an incentive to lenders to extend credit to MSMEs.

2. The effect of the proposed Credit Guarantee Regulations includes the following:

- i. Implementation of the 8-Point Economic Stimulus Package unveiled by H.E The President on enhancing access to credit to MSMEs through a credit guarantee scheme.
- ii. The Regulations establish the MSMEs Credit Guarantee Scheme that enable the government to give its undertaking to participating financial institutions that in the

event of default on loans to advance to MSMEs, the government will pay part of the loan in default. This arrangement enables the financial institutions to extend credit to MSMEs who are otherwise perceived to be risky, thereby supporting the socio-economic development of a country.

- iii. The Regulations provide for Participating Financial Institutions to charge an affordable and sustainable interest rate on loans due to the reduction of risk as a result of the sovereign guarantee. The effect of the charge will be affordable credit to MSMEs to enhance growth and sustainability of their enterprises.
- iv. The Regulations enable the Government of Kenya to enhance enterprise development of Micro, Small and medium enterprise in creation of jobs and general economic development.

3. Possible alternative and practicable means of achieving the foregoing objectives, including other regulatory as well as non-regulatory options:

An alternative to supporting, financing and developing MSMEs is direct lending to MSMEs through development funds. This is the approach that the government has used over years but has yielded minimal results in supporting MSMEs enterprises. Some of the challenges experienced with this approach is moral hazard, leading to high repayment defaults, duplication of roles among the Funds, low uptake of the Funds by the targeted groups and governance challenges. It is against this backdrop that the credit guarantee framework was developed.

Therefore, the alternative option implies retention of the status quo with regard to the use of development Funds to support MSMEs.

4. Assessment of the costs and benefits of the proposed Credit Guarantee Regulations and of any other practicable means of achieving the same objectives

- i. The benefit that arises from this regulatory instrument is that the guarantee scheme enables the government to leverage on private sector resources while advancing its development objectives. A larger leverage multiple of the guarantee funds by the

participating financial institutions will enable more MSMEs to access affordable credit.

- ii. The participating financial institutions will implement the credit guarantee scheme through their existing branch networks and infrastructure. Therefore, the government will not incur additional administrative costs.
- iii. The participating financial institutions will assess borrowers under their standard credit policies and due diligence procedures. This will ensure the guarantees are provided to viable MSMEs and thus reduce the likelihood of moral hazard and risk exposure of government.

5. Any other matters specified by the guidelines

Overall, the net impact of the proposed regulatory instrument is positive on MSMEs and the Kenya economic growth.

6. Draft copy of the proposed statutory rule.

A draft copy of the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020 can be downloaded from www.treasury.go.ke.

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