



NATIONAL TREASURY & ECONOMIC PLANNING

**SUPPORTING ACCESS TO FINANCE AND ENTERPRISE RECOVERY
(SAFER)**

PROJECT IMPLEMENTATION UNIT

**COMPONENT 3: TECHNICAL ASSISTANCE AND PROJECT
MANAGEMENT**

BENEFICIARY - THE NATIONAL TREASURY

TERMS OF REFERENCE

**“TRANSACTION ADVISOR-TA” FOR THE ESTABLISHMENT OF THE
KENYA CREDIT GUARANTEE COMPANY (KCGC)**

February 2024

1. INTRODUCTION

1.1 Project

Supporting Access to Finance and Enterprise Recovery (SAFER) project development objective is to increase access to financial services and support COVID-19 recovery of Micro, Small, and Medium Enterprises (MSMEs) in Kenya.

SAFER is a five-year \$100 million IDA Credit effective in May 2022 that seeks to address market failures in access to finance by MSMEs that have been exacerbated by the negative impact of the COVID-19 pandemic.

1.2 Project Components

The SAFER Project comprises 3 components (with sub-components) as listed below:

- a) **Component 1 – Innovation and Liquidity support to MSMEs (US\$55 million)**
 - i. Liquidity support to microenterprises through digital channels (US\$30m)
 - ii. Liquidity support to MSMEs through SACCOs and MFBs (US\$25m)

- b) **Component 2 – De-risking lending to MSMEs (US\$30 million)**

De-risking through support to the Partial Credit Guarantee Scheme (CGS) and company (CGC) through:

 - (i) provision of financing to capitalize the Credit Guarantee Scheme (CGS) to enable the provision of partial credit guarantees to PFIs on their Sub-Loans to Eligible MSMEs; and
 - (ii) supporting the establishment, capitalization and operationalization of the Credit Guarantee Company (CGC).

- c) **Component 3 – Technical Assistance and Project Management (US\$15 million)**
 - (i) TA to the National Treasury to set up the Credit Guarantee Company (CGC)
 - (ii) TA to Participating Financial Institutions (PFIs)
 - (iii) TA to financial sector regulators
 - (iv) Project Management

Component 3 of the SAFER focuses on providing technical assistance to build the resilient capacity of the MSME finance ecosystem beyond the lifecycle of SAFER.

1.3 Overview of the Credit Guarantee Scheme

The National Treasury established a Credit Guarantee Scheme (CGS) in December 2020 under Section 58 of the PFM Act 2012 and the PFM (Credit Guarantee Scheme) Regulations, 2020. The Scheme executed contracts with seven Participating Financial Intermediaries (PFIs), which have to date disbursed 4,006 facilities amounting to Ksh. 6.02 billion to MSMEs, against the initial seed capital of Ksh. 3 billion from the Government. Out of the 4,006 facilities guaranteed by the CGS, about 73% went to new borrowers i.e. borrowers that had not received loans from the PFIs before. This implies that the CGS provided comfort to PFIs to lend to MSMEs previously perceived to be risky.

The CGS is currently operated as a Unit incubated within the National Treasury with staff having other assignments. The Scheme does not charge guarantee fees and is fully reliant on the exchequer for budgetary provisions. The CGS is currently unable to invest its funds that are not allocated for immediate use, and generally is not aligned to international best practices, including the World Bank Principles for Public Credit Guarantees.

Conversion or transition of the current CGS into a more sustainable entity is therefore necessary and urgent. The entity so established is proposed as an independent legal entity, the Kenya Credit Guarantee Company (KCGC), under the Company's Act 2015. It is envisaged the KCGC will have mixed ownership including a relevant minority government shareholding.

1.4 Kenya Credit Guarantee Company (KCGC)

Component 2 of the SAFER project (US\$30 million) aims to unlock lending to MSMEs to support financial access and growth of enterprises. This Component would ramp up support to the existing CGS as an emergency COVID-19 response measure and support the establishment and capitalization of the Kenya Credit Guarantee Company (KCGC). The Scheme is expected to mobilize additional capital from the private sector, but this would not be possible especially with the current framework of the CGS, housed as a project within the NT. The proposed KCGC is to be established and to operate according to the Principles for Public Credit Guarantee Schemes as a sustainable mechanism of de-risking MSMEs.

Consequently, quickly moving the CGS to the KCGC, set up as a private company with risk capital from the public sector with contribution from multilaterals, DFIs and international players/partners)) that would be critical for the KCGC success. The Component's US\$ 30 million allocation is to facilitate the setting up and capitalization of the proposed KCGC with the appropriate governance structure. The disbursement of the US\$30 million will be subject to NT meeting the following performance-based indicators (PBCs): (a) Establishment of the KCGC, including, (i) due incorporation and licensing of the KCGC; (ii) KCGC Board has been duly constituted; (iii) appointment of the relevant officers, and (b) Operational readiness of the KCGC, including, (i) hiring of key operational staff, and (ii) development and adoption of key operational policies, manuals and systems, including the ESMS. SAFER will also support the company in identifying potential private investors and fundraising activities.

The design of the KCGC and the operational policies and manuals will follow best practice and will also be informed by market feedback based on the performance of the CGS. It is expected that the KCGC once established, shall encourage banks to: (a) lend to both existing and new MSMEs, (b) reach out to non-typical borrowers, such as women-owned businesses, and (c) provide favourable terms (longer tenors and grace periods). In addition, KCGC management shall also monitor the pricing offered by PFIs to MSMEs to ascertain the application of risk-based pricing of credit and facilitate burden-sharing between the KCGC and PFIs. The KCGC is further expected to track performance indicators of the PFIs designed to reflect the PFIs track-record of monitoring and controlling the risks associated with its MSME portfolio. Pricing the guarantees, to assure a certain level of self-sustainability, if not at the beginning at least in the near future is also one of the key aspects of the expected implementation process.

These Terms of Reference are for the determination and establishment of the KCGC's business and operational model, legal and regulatory framework, and institutional set-up, including establishment of KCGS structure, functions, responsibilities, and staffing. This will include KCGC's capitalization and financing options.

2. SERVICES TO BE RENDERED

2.1 Objective

The primary objective of this assignment is to support the establishment of the Kenya Credit Guarantee Company.

The Transaction Advisor-TA will be a firm or consortium of consultants firms who will support National Treasury in the determination and establishment of the KCGC including its: financial and operational viability, legal and regulatory framework, and institutional set-up including establishment of KCGC's structure, functions, responsibilities, and staffing, as well as outline for the risk-management model, IT infrastructure, workflow of operations and future reporting and performance structure.

The assignment will include reviewing transition options from CGS to KCGC, developing a five-year strategy, capitalization and financing options for KCGC, and where appropriate, raising the necessary

initial capital to capitalize KCGC, preparing an offering memorandum, securing shareholders' contributions, and preparing shareholders' agreements and any required documentation to capitalise the company.

Since the shareholders of KCGC are expected to include multilaterals and international DFIs, commercial banks, microfinance banks and SACCOs, the Transaction Advisor will provide support in seeking the most appropriate capital structure to ensure broad participation into KCGC.

2.2 Scope of Work

The TA will receive as inputs: (i) the main strategic orientations defining the business model of the new company (including mission, purpose and strategic/political objectives, scope, profitability and sustainability); (ii) Office of the Attorney General's opinion on the establishment of KCGC, its legal structure, elaboration of regulatory framework; and (iii) the basic operational conditions (business plan, licensing, main eligibility criteria for Participating Financing Institutions (PFIs) and MSMEs as beneficiaries).

The Transaction Advisor will be expected to perform the following tasks:

1. Undertake and prepare a feasibility assessment of establishment of KCGC as independent legal entity with Government as a minority shareholder. The report will include the KCGC financial and operational viability; value proposition for prospective investors, possible legal and regulatory framework, and proposals for its institutional set-up including establishment of its structure, functions, responsibilities, and staffing;
2. Develop a comprehensive five-year strategic plan for the Kenya Credit Guarantee Company, including objectives, action plans, and key performance indicators (KPIs);
3. Prepare a business model and financial plan for operationalizing KCGS;
4. Advise on the policy, regulatory and operational requirements necessary for a successful enactment and implementation of a legal and regulatory framework for the KCGC;
5. In consultation with the National Treasury and the Central Bank of Kenya, support drafting of legal and regulatory amendments to relevant legal and regulatory provisions to facilitate establishment, and operationalization of the KCGC;
6. Support the preparation of the Memorandum and Articles of Association for incorporation of KCGC, under the Company's Act 2015 and the Central Bank of Kenya relevant guidelines and regulations;
7. Design and document KCGC operational processes and manuals;
8. Outline the main IT support systems needed and their main features;
9. Reviewing transition options from CGS to KCGC capitalization and financing options for KCGC, and where appropriate, raising the necessary initial capital to capitalize KCGC, preparing an offering memorandum, securing shareholders' contributions and preparing shareholders' agreements and any required documentation to capitalise the company;
10. Prepare an appropriate investor policy to be used by KCGC to mobilize investor capital;
11. Prepare an Offering Memorandum for raising KCGC capital in line with the Capital Market Authority legal and regulatory requirements and best practices in the market;
12. Engage with all the financial institutions which have expressed an interest in investing in KCGC with the goal to mobilize the minimum capital required. This will include assisting the National Treasury hold Stakeholder/Investors forum(s) for prospective shareholders;

13. Finalize KCGC capital structure, and provide advice to the National Treasury, to ensure broad participation of financial institutions and international DFIs into KCGC capital, and prepare subscription agreement/shareholder agreements and all necessary documentation for execution by prospective shareholders for subscription to initial shareholder equity;
14. Any other steps or actions necessary towards completing the initial capitalization of KCGC as mutually agreed between the Transaction Advisor and the NT.
15. Any other steps or actions necessary towards completing the internal regulations, operational framework, HR and support infrastructure to assure the “go operational” of KCGC.

2.3 Deliverables

- i) Feasibility assessment of KCGC proposed capital structure of minority Government shareholding and majority private sector shareholding and value proposition for investors, both Government and private sector;
- ii) Comprehensive five-year strategic plan to guide the conversion of the Scheme into a sustainable model;
- iii) Advisory on policy, regulatory and operational requirements of KCGC;
- iv) Advisory on the legislation (amendments to relevant rules and statutes) to facilitate its establishment and operations;
- v) Transition options from CGS to KCGC, with options for raising the necessary initial capital to capitalize KCGC for consideration and approval by NT;
- vi) Advisory on appropriate Articles of Association and proposed Shareholding and capital structure for KCGC;
- vii) Detailed business model and financial plan for KCGC;
- viii) KCGC Investor Policy
- ix) Detailed Offering Memorandum and Presentations for investors forum and for individual engagements with prospective investors into KCGC;
- x) KCGC subscription agreements and shareholder agreement;
- xi) Other tasks to complete the initial capitalisation of KCGC as agreed amongst the parties.
- xii) Other tasks necessary towards completing the internal regulations, operational framework, HR and support infrastructure to assure the “go operational” of KCGC.
- xiii) Mobilized private investment into KCGC capital (including the one raised from DFIs).

2.4 Estimation of the effort

It is expected that the assignment will be completed within a period of five months.

2.5 Counterpart resources

The National Treasury will avail resources including staff to provide the needed support in providing logistical arrangements where necessary.

3. QUALIFICATIONS AND EXPERIENCE OF THE FIRM / CONSULTANTS

The consultant will be a firm [or consortium of consultant firms] specialized in credit guarantees, banking or financial companies start-ups, strategic planning and financial and legal services with very good knowledge and experience of the financing services sector, including guarantees and capital markets:

The firm(s) or consortium should have (or include) a local presence with good contacts and knowledge of Kenya's financial system:

- Expertise in Kenya financial and contract law;
- Should have the necessary regulatory approvals for providing transaction advisory services, as the case may be;
- Should have minimum 10 years' experience in setting up or developing credit guarantees, in serving as consultants to the banking sector and/or in capital markets;
- Knowledge of the Kenyan SACCO sector would be a plus;
- International experience in financial sector advisory and/or credit guarantees would have an added advantage.

Key personnel of the Team task force should consist of the following:

- Team Leader – Investment Banker/Credit Guarantee Top Level Manager
- Financial Analyst and/or Credit Guarantee Expert
- Legal Consultant – Laws, Regulations, Statutes and Contracts
- Strategic planning consultant
- IT and software development consultant

The tables below summarize the competencies required for each of the Key Experts:

K1- TEAM LEADER (INVESTMENT BANKER or Credit Guarantee Top Level Manager)	
Criterion	Description
General qualifications	<ul style="list-style-type: none"> ● At least 10 years of experience in consultancy services and related job assignment or as top level manager of a successful/proven credit guarantee institution ● Track record of success (prior assignments in this area)
Specific Qualifications <ul style="list-style-type: none"> ● Formal education and training ● Experience ● Relevant Positions held 	<ul style="list-style-type: none"> ● The Team Leader should possess at least a degree in economics, finance, engineering, law or accounting ● Professional qualification in financial/investment analysis ● Minimum 10 years' experience in banking, guarantees and capital markets; knowledge of the SACCO sector would be a plus; ● Preferably with at least 10 (ten) years' experience in both developed and emerging markets and Teams' management.
Professional experience relevant to the assignment	<ul style="list-style-type: none"> ● Specialization in financial services with good knowledge of SME and micro financing, retail credit markets and capital markets;

K1- TEAM LEADER (INVESTMENT BANKER or Credit Guarantee Top Level Manager)	
Criterion	Description
<ul style="list-style-type: none"> ● Experience in delivering similar solutions in similar jurisdictions ● Recently completed assignment 	<ul style="list-style-type: none"> ● Experience in undertaking transaction advisories within the capital markets and banking and credit guarantee sectors on assignments of comparable magnitude ● Experience in facilitating stakeholder engagements on capital raising of financial companies, with preference with experience in raising capital for CGCs.
<p>Experience in the region:</p> <ul style="list-style-type: none"> ● Knowledge of the local language, culture, administrative system, government organization 	<ul style="list-style-type: none"> ● Must be fluent in written and spoken English ● Strong communication and writing skills and ability to interact at all levels with internal and external stakeholders of the National Treasury, Commercial Banks and SACCOS'.

K2- FINANCIAL ANALYST and / or Credit Guarantee Expert	
Criterion	Description
General qualifications	<ul style="list-style-type: none"> ● Years of experience in successful credit guarantees, consultancy services and related job assignments undertaken in the last 10 years ● Track record of success (prior assignments in this area)
<p>Specific Qualifications</p> <ul style="list-style-type: none"> ● Formal education and training ● Experience ● Relevant Positions held 	<ul style="list-style-type: none"> ● The Financial Analyst should possess at least a degree in finance, economics or accounting ● Professional qualification in financial/investment analysis; ● At least 10 (ten) years in financial services preferably with experience in both developed and emerging markets
<p>Professional experience relevant to the assignment</p> <ul style="list-style-type: none"> ● Experience in delivering similar solutions in similar jurisdictions ● Recently completed assignment 	<ul style="list-style-type: none"> ● Specialized in financial services with good knowledge of guarantees; ● Experience in undertaking transaction advisories within financial services sector on assignments of comparable magnitude; ● Experience in preparing financial plans and financial and economic forecasts; ● Experience in facilitating stakeholder engagements on capital raising.
<p>Experience in the region:</p> <ul style="list-style-type: none"> ● Knowledge of the local language, culture, administrative system, government organization 	<ul style="list-style-type: none"> ● Must be fluent in written and spoken English ● Strong communication and writing skills and ability to interact at all levels with internal and external stakeholders.

K3- LEGAL CONSULTANT (CONTRACTS)	
Criterion	Description
General qualifications	<ul style="list-style-type: none"> ● Years of experience in consultancy services and related job assignment undertaken in the last 10 years ● Track record of success (prior assignments in this area)
Specific Qualifications <ul style="list-style-type: none"> ● Formal education and training ● Experience ● Relevant Positions held 	<ul style="list-style-type: none"> ● The Legal Consultant should possess at least a degree in Law ● Admitted as an Advocate of the High Court and in good standing with a professional body ● Minimum 10 years' experience in commercial, banking and financial markets laws. ● Preferably with experience in Credit Guarantees Rules, Regulation and Statutes
Professional experience relevant to the assignment <ul style="list-style-type: none"> ● Experience in delivering similar solutions in similar jurisdictions ● Recently completed assignment 	<ul style="list-style-type: none"> ● Specializing in Kenyan financial and contract and corporate law with good knowledge of guarantees, MSME financing ● Experience in developing projects comprising the design of Statutes, Internal Rules and Regulations, as well as law and legal revisions of financial companies. ● Experience in undertaking transaction advisories within the financial services sector, capital markets and banking sectors on assignments of comparable magnitude; ● Experience in facilitating stakeholder engagements on capital raising.
Experience in the region: <ul style="list-style-type: none"> ● Knowledge of the local language, culture, administrative system, government organization 	<ul style="list-style-type: none"> ● Must be fluent in written and spoken English ● Strong communication and writing skills and ability to interact at all levels with internal and external stakeholders

K4- STRATEGIC PLANNING CONSULTANT	
Criterion	Description
General qualifications	<ul style="list-style-type: none"> ● At least ten (10) years of experience in strategic planning services and related job assignment ● Track record of success (prior assignments in this area)
Specific Qualifications <ul style="list-style-type: none"> ● Formal education and training ● Experience ● Relevant Positions held 	<ul style="list-style-type: none"> ● The Strategic consultant should possess at least a degree in finance, economics or engineering. ● Professional qualification in strategic analysis and forecasting sales and future revenue, costs and spending provisions, investment needs, losses, cash flow and growth. ● Minimum 10 years' experience in strategy consulting, or a related field;
Professional experience relevant to the assignment <ul style="list-style-type: none"> ● Experience in delivering similar solutions in similar jurisdictions ● Recently completed assignment 	<ul style="list-style-type: none"> ● Specializes in market analysis tools and techniques with good knowledge of credit markets and guarantees; ● Experience in data analysis and project management; ● Experience in preparing financial plans and financial and economic forecasts; ● Experience in information and data management, as well as in reporting;

K4- STRATEGIC PLANNING CONSULTANT	
Criterion	Description
	<ul style="list-style-type: none"> ● Experience in facilitating stakeholder engagements on capital raising.
Experience in the region: <ul style="list-style-type: none"> ● Knowledge of the local language, culture, administrative system, government organization 	<ul style="list-style-type: none"> ● Must be fluent in written and spoken English ● Strong communication and writing skills and ability to interact at all levels with internal and external stakeholders

K5 - IT AND SOFTWARE DEVELOPMENT CONSULTANT	
Criterion	Description
General qualifications	<ul style="list-style-type: none"> ● At least 10 years of experience in consultancy services and related job assignment ● Track record of success (prior assignments in this area)
Specific Qualifications <ul style="list-style-type: none"> ● Formal education and training ● Experience ● Relevant Positions held 	<ul style="list-style-type: none"> ● Software programming and development, Informatics, Engineering; ● At least 5 (Five) years' experience in financial services, preferably with experience in both developed and emerging markets; ● Knowledge of the SACCO sector would be a plus;
Professional experience relevant to the assignment <ul style="list-style-type: none"> ● Experience in delivering similar solutions in similar jurisdictions ● Recently completed assignment 	<ul style="list-style-type: none"> ● Minimum 5 years' experience in finding and/or developing, implementing and monitoring workflows and software for banks, guarantee companies and related financial companies; ● Experience in Kenyan Market is a plus.
Experience in the region: <ul style="list-style-type: none"> ● Knowledge of the local language, culture, administrative system, government organization 	<ul style="list-style-type: none"> ● Must be fluent in written and spoken English ● Strong communication and writing skills and ability to interact at all levels with internal and external stakeholders of the National Treasury, Commercial Banks and SACCOs'.