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REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

CREDIT GUARANTEE SCHEME

FOR THE YEAR ENDED 30 JUNE, 2022

THE NATIONAL TREASURY

THE NATIONAL TREASURY

CREDIT GUARANTEE SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

30 JUNE 2022

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

CREDIT GUARANTEE SCHEME

Annual Report and Financial Statements

For the year ended June 30, 2022

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Credit Guarantee Scheme (CGS) is anchored on the Public Finance Management (Amendment) Act (No. 2) 2020 and the Public Finance Management (Credit Guarantee Scheme) Regulations 2020.

The National Treasury executed bilateral credit guarantee agreements with seven Participating Financial Institutions (PFIs) for the implementation of the CGS. The PFIs include Absa Bank, The Cooperative Bank of Kenya, Credit Bank, Diamond Trust Bank, KCB Bank, NCBA Bank and Stanbic Bank. The role of the PFIs in the implementation framework involves appraisal of credit applications from eligible Micro, Small and Medium Enterprises (MSMEs), issuance of credit and management of credit accounts in line with prudent lending criteria anchored on the Central Bank of Kenya (CBK) Prudential Guidelines. The PFI credit appraisal is informed by the institutions' internal processes. Upon satisfaction of internal lending conditions, the MSMEs profile is then checked against the Scheme Qualifying Criteria which is shared with the PFI in the credit guarantee agreement.

Whereas the PFI's decision to advance credit is made based on internal lending criteria, the decision to book the facility under the CGS is based the Scheme Qualifying Criteria. The loan repayment and recovery processes for loans booked under the CGS proceeds guided by prudent lending procedures and the CGS is only called upon in case of default by the beneficiary MSME. A claim submitted by a PFI to the CGS is subjected to an objective validation process and only successful claims are paid. Payment of any individual validated claim is made on terms and conditions stipulated in the executed credit guarantee agreement between the National Treasury and the PFI.

(b) Principal Activities

The CGS principal activities are as follows;

i. Improve and stimulate the national economy by encouraging additional lending to micro, small and medium enterprises, increasing investment opportunities for micro, small and medium enterprises and strengthening skills and capacities of proprietors of micro, small and medium enterprises;

ii. Facilitate the financing of micro, small and medium enterprises by partially guaranteeing credit advanced to the enterprises; and

iii. Create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantees for micro, small and medium enterprises and other related activities.

(c) Key Management

The Credit Guarantee Scheme is oversighted by a Steering Committee which seeks to ensure efficiency and effectiveness in delivering the mandate of the Scheme. The Steering Committee comprises of:

i. Principal Secretary for the National Treasury (Chairperson)

ii. Governor, Central Bank of Kenya;

iii. Representative of the Principal Secretary, State Department for Industrialization;

iv. Representative of the Attorney General; and

v. Three independent members appointed by the Cabinet Secretary for the National Treasury and Planning.

(d) Fiduciary Management

The Credit Guarantee Scheme Administrator is the Principal Secretary for the National Treasury. The day-to-day operations of the Scheme are undertaken by a Scheme Manager and staff appointed by the Cabinet Secretary responsible for matters relating to finance. Below are the key fiduciary management staff during the year;

No.	Designation	Name
1.	Scheme Manager	Ronald Inyangala
2.	Head of Finance	Njeru Michael
3.	Head of Risk	Jackson Echoka
4.	Head Legal Counsel	Winnie Molonko
5.	Head Monitoring and Evaluation	Mercy Ngacha
6.	Head – Scheme Claims Management and Technical Capacity Building	Justus Bundi

(e) Fiduciary Oversight Arrangements

The fiduciary function of the Scheme is delineated between the Scheme Steering Committee, the Administrator and the Scheme Secretariat. The Office of the Auditor General provides a fiduciary oversight role. The Scheme reports annually to the National Assembly in line with the enabling legal provision. Where applicable, the Scheme is subject to the fiduciary oversight of a Development Partner or Donor.

(f) **Entity Headquarters**

The National Treasury

P.O. BOX 30007 – 00100

Harambee Avenue

Nairobi, KENYA

(g) **Entity Contacts**

Telephone: (254) 20 2252299

E-mail: ps@treasury.go.ke

(h) **Entity Bankers**

Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000

City Square 00200

NAIROBI, KENYA

(i) **Independent Auditors**

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

(j) **Principal Legal Adviser**

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

2. THE SCHEME STEERING COMMITTEE

The Scheme Steering Committee is composed of four members drawn from key government institutions and three independent members appointed by the Cabinet Secretary for the National Treasury and Planning. The following was the key membership during the year:

Dr. Julius Muia, Phd, CBS

Principal Secretary, National Treasury

Dr. Julius Muia is the Principal Secretary at The National Treasury. Prior to this, he was the Principal Secretary at the State Department for Planning - The National Treasury and Planning. Before his appointment as PS Planning, he was the Director General, Vision 2030 Delivery Secretariat which operated under the Office of the President, to facilitate the implementation of Vision 2030. This is Kenya's long-term policy framework that is premised on making Kenya a globally competitive, rapidly industrializing and upper middle-income economy by 2030.

Between April 2008 and October 2016, Dr. Muia served as the Secretary, National Economic and Social Council (NESC), Office of the President. This is a top advisory government think tank whose flagship project was formulating Vision 2030.

An alumnus of the University of Nairobi's School of Business, Dr Julius Muia graduated with a First-Class Honours Degree in Accounting; Masters Degree and PhD in Finance from the same university. His professional qualifications include: Certified Public Accountant (CPA-K); Certified Public Secretary (CPS-K), Associate Kenya Institute of Bankers; Associate Chartered Institute of Arbitrators; and Certified Coach.

Dr. Muia has over 25 years' experience in leadership in the private sector in Kenya and UK. He started his career as an auditor with PricewaterhouseCoopers in mid-1980's, and later worked as Head of Finance and Company Secretary in the hotel, manufacturing and banking sector. His other engagements include an adjunct faculty at Strathmore University Business School; adviser on strategy and trainer on leadership.

Dr. Julius Muia serves as a non-executive board member in several companies and a number of not-for profit organizations.

Dr. Patrick Njoroge, CBS
Governor, Central Bank of Kenya

Dr. Patrick Njoroge is the 9th Governor of the Central Bank of Kenya, and has been in office since June 19, 2015. He has overseen a significant overhaul of the banking system in Kenya, including the launch of the first Kenya Banking Sector Charter. He also led the country in the launch of the new generation currency banknotes and coins, thus fulfilling a much-anticipated constitutional requirement. Dr. Njoroge has been keen on facilitating the growth of the Micro, Small and Medium Sized Enterprise sector, which has been the engine of growth of the Kenyan economy.

Dr. Njoroge joined CBK after a twenty-year career at the International Monetary Fund (IMF) in Washington, DC. Prior to his appointment as Governor, Dr. Njoroge was Advisor to the IMF Deputy Managing Director from December 2012, where his responsibilities included assisting in overseeing the IMF's engagement with a large swath of IMF members. He also served as Deputy Division Chief in the IMF's Finance Department (2006-2012), IMF's Mission Chief for the Commonwealth of Dominica (2005-2006) and in other capacities since 1995. Prior to joining the IMF, Dr. Njoroge worked as an Economist at the Ministry of Finance (1993-1994) and as a Planning Officer at the Ministry of Planning (1985-1987).

He holds a PhD degree in Economics from Yale University (1993), a Master of Arts degree in Economics (1985) and a Bachelor of Arts degree in Economics (1983) from the University of Nairobi. Dr. Njoroge's professional and research interests lie in Macroeconomics, Economic Policy, International Finance, Development Economics, Econometrics and Monetary Policy.

Dr. Njoroge began his second four-year term in June 2019. He was appointed to the UN Task Force on Digital Financing by Secretary General Antonio Guterres in November 2018.

Ms. Nancy Muya – Director of Industries

Representative, Principal Secretary, State Department for Industrialization

Ms. Nancy Muya has over 30 years of experience in civil service, offering expertise in industrial development while working in the Ministry of Industrialization, Trade and Enterprise Development. She has risen through the ranks over the years from an Industrial Development Officer to Director of Industries. She holds a degree in Mathematics and Chemistry from Kenyatta University and a Masters degree in Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology.

Mr. Ashley Toywa

Representative, Attorney General

Mr. Ashley Toywa is an experienced lawyer with proven practical knowledge in the legal services industry. He is skilled in international trade and investment, commercial contracts and financing agreements including infrastructure projects and project finance. He holds a Master of Laws from the University of Nairobi, a postgraduate diploma in law from the Kenya School of Law and a Bachelor of Laws from Moi University.

3. INTERIM MANAGEMENT TEAM

The following staff have been appointed on an interim basis by the Cabinet Secretary in order to assist in the management of the Scheme.

Name	Qualification	Key Responsibility
Mr. Ronald Inyangala, OGW 	Mr Ronald Inyangala is a Senior Deputy Director in the department of Financial Sectoral Affairs at the National Treasury. He is currently the interim Scheme Manager of the Credit Guarantee Scheme for the Micro Small and Medium Enterprises (MSMEs). He is an innovative development economist and a public sector policy expert with 20+ years' experience. Previously, he worked with Ministry of East African Community on Regional & Economic Integration mattes and the Ministry of Trade in the area of business development and capacity building of MSMEs. Ronald holds an M.A. in International Development Studies (Comparative Development) from Hankuk University of Foreign Studies, Republic of South Korea, a Master of Business Administration from Moi University and a Bachelors degree -Mathematics and Economics from Egerton University. He is currently pursuing a Doctor of Philosophy in Development Studies at Jomo Kenyatta University of Agriculture and Technology. Skilled in planning, organizing and implementing economic development functions from conception to completion, including economic development programs, budgeting, cross departmental project management, regional integration programs and capacity development. He has pursued various leading-edge leadership and professional short courses including the Strategic Leadership Development Course (SLDP), the Global Leadership in Financial Supervision in Times of FinTech from Toronto centre, Canada, Financial Sector Regulatory Compliance Course from London Corporate Training-UK, Public Private Partnership Project Management and Implementation from The Institute for Public-Private Partnership (IP3) United States of America & Certificate in Effective Negotiation Skills: Negotiation Techniques, Tools and Procedures from the Institute for Regional Integration and Development- Catholic University of Eastern Africa.	Strategic operations of the scheme and Team leadership

CPA Njeru Michael

Mr. Njeru Michael has over 20 years' experience in the areas of Public Finance, International Development, Public Policy and Management. He is currently involved in the design and start-up of a new rural finance programme that is expected to offer a permanent facility for the Development Partners and the Government in addressing financing flows asymmetry in the rural Kenya. Mr. Njeru is also involved in offering technical advice to the Credit Guarantee Scheme, a newly established Government programme aimed at facilitating financial flows to the Micro, Small and Medium Enterprises in Kenya. He has led the establishment of the National Treasury Cash Management Unit, a Unit whose objective is to build upon synergies of relevant National Treasury Departments and the Central Bank of Kenya in Government Cash Planning for efficient and effective Fiscal framework execution. As the Head of Cash Management Secretariat, he offered representation of the National Treasury to the Central Bank of Kenya weekly reviews on Domestic Government Borrowing Programme, an advisory role aimed at informing the Central Bank monetary policies in facilitating Government Fiscal Framework. His wealth of experience has been gained through working in various roles with the National Treasury and Development partners. He is a post graduate with Masters in International Development from the University of Manchester (2005) and Masters in Public Policy and Management from the Strathmore University Business School. He is a Certified Public Accountant and a Bachelor of Commerce (hons) degree graduate. He has participated in Exchange Programme at the New York University - Wagner in areas of Public Policy and has mastery of several courses administered by the United Nations Institute of Training and Research, including Trade & Development and Negotiation of Financial Transactions. He has also undertaken related professional trainings with the IMF East Afritac. Mr. Njeru is an Executive Alumni in Public Finance for the Harvard Kennedy School of Government. He had stint at the World Bank desk at the National Treasury where he was engaged with programme appraisals, negotiations, budgeting and programme disbursements. He has been involved and trained in the PEFA assessment, a World Bank/IMF Public Financial Management assessment tool and represented the National Treasury on loans & grants negotiations.

Scheme
financial
technical advice,
and Reporting.

Mr. Jackson Achoka

Leading the Risk & Compliance function at Agricultural Finance Corporation (AFAC), Jackson is an agribusiness specialist with 30 years' experience working with farmers in the agricultural sector; AFC Project Manager for Risk Sharing Facility for Programme for Rural Outreach & Financial Innovations & Technologies(PROFIT); Experienced trainer on agriculture finance; Project Manager in a pilot implementation of an innovative Farmer Information Technology Network Enterprise System (FITNES) a loan for farmer registration and loan origination in AFC; Holds a Master of Science degree in Agricultural and Applied Economics from the University of Nairobi in collaboration with University of Pretoria.

Scheme risk management aspects

CS Winnie Molonko

Winnie is an Advocate of the High Court of Kenya with an accomplished legal and compliance career reflecting 18+ years' drafting and reviewing of organizational policies and procedures, providing legal support and advice to various organizations including currently National Treasury and Planning. She has undergone innovative training and development with extensive experience in drafting legal instruments including contracts and other legislative instruments, supporting Boards on Governance and other statutory compliance requirements and introduction of innovative products through legislative support. She has previously worked as a State Counsel Office of the Attorney-General as a Parliamentary Counsel, Capital Markets Authority as a Senior Regulatory Officer and the Central Bank of Kenya, Legal Services Division. Winnie is a holder of a Masters Degree in Law, LLM,(UON), Degree in Law, (LLB,)Advocate of the High Court of Kenya, Certified Secretary and a member of the Law Society of Kenya and the Institute of Certified Secretaries.

Legal counsel to the Scheme

Ms Mercy Ngacha 	Ms Mercy Ngacha is a Senior ***Economist*** at the National Treasury and Planning, in the Department Financial and Sectoral Affairs. Ms. Ngacha has seven years' experience in Public Policy formulation mainly in Financial Services Sector; She is also an expert in Planning, budgeting, monitoring and evaluation of the activities of the Public Financial Services Sector. Among key achievement is playing a key role in development of the Second, Third and Fourth Medium Term Plans of the Kenya Vision 2030. Ms. Ngacha has also played a coordinating role as a District Development Officer in Ndia Constituency and played a key role in developing the Annual District Development Plans. She has also undergone Senior Management Course (SMC) at the Kenya School of Government (KSG). She holds a Masters degrees in Economic Policy and Management at Makerere University and a Bachelors of Arts (Economics) from Egerton University.	Scheme Monitoring and evaluation aspects
Mr. Justus Bundi 	Mr. Justus Bundi is a Senior Economist in the Financial and Sectoral Affairs Department at the National Treasury. Mr. Bundi has experience in financial policy formulation and analysis, economic policy formulation and analysis and regional economic integration policy gained from the National Economic and Social Council (NESC) in the Office of The President (September 2010 to August 2011), Ministry of Finance-African Economic Research Consortium (AERC) (September 2011 to September 2013) and The National Treasury (October 2013 to date). Mr. Bundi has attended various trainings by among others, the International Monetary Fund; the World Bank Group; the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI); the IMF East Afritac; Strathmore Business School; and London School of Economics and Political Science. He has also undergone leadership (Strategic Leadership Development Program-SLDP) and Management (Senior Management Course-SMC) programmes at the Kenya School of Government (KSG). He holds both Masters and Bachelor degrees (Economics) from the University of Nairobi and Egerton University respectively.	Scheme Claims Management and Technical Capacity Building

4. SCHEME ADMINISTRATOR'S STATEMENT

Credit guarantee schemes have recently emerged as widely used and highly-preferred mechanisms for directing private credit to targeted enterprises, sectors and regions. Globally, most credit guarantee schemes are designed to target enterprises, including micro, small and medium-sized enterprises which have growth potential and in various stages of development but are constrained by inaccessibility to private credit due to various circumstances.

Guarantee schemes are generally designed to alleviate the problems faced by micro, small and medium-sized enterprises seeking credit. Credit guarantees aim to offset situations in which borrowers with an equal probability of default have an unequal probability of obtaining credit since some have insufficient collateral. One of the main attractions of a credit guarantee scheme is that it can act as a lever and stimulate financial institutions to channel more funds to micro, small and medium-sized enterprises than they would normally have done.

It is against this background that the Kenya Credit Guarantee Scheme was established. The main objective is to achieve financial, social and economic additionality. Credit Guarantee is a key policy tool that the National Treasury intend to leverage in order to enhance micro, small and medium-sized enterprises access to finance, while limiting the burden on public finances. The National Treasury is keen on ensuring that micro, small and medium-sized enterprises are adequately funded to enhance growth and sustainability of the sector.

This financial report outlines the financial performance of the Credit Guarantee Scheme established by the National Treasury to support micro, small and medium-sized enterprises access to credit.

Since inception, CGS has directly enabled 2,490 MSMEs access credit of a cumulative value of KSh. 3.9 billion. The MSMEs are distributed across 46 Counties and operate in eleven sectors of the economy. During the FY 2021/2022, credit facilities of KShs. 3.321 billion had been disbursed to 2,190 MSMEs under CGS. To-date, no credit guarantee has been liquidated. However, a total of KShs. 45,385,928 has been provisioned for the 131 delinquent facilities as at 30th June 2022.

The National Treasury will continue to monitor the performance and identify areas for improvement in the delivery of CGS. This will be through diversifying products, sensitization of the PFIs and collaboration with relevant MDAs and development partners. We will also work towards transitioning CGS to a more sustainable model in the coming financial year.

Julius Muia, PhD, CBS;

<u>Principal Secretary / National Treasury</u>

5. SCHEME MANAGER'S STATEMENT

The National Treasury established a Credit Guarantee Scheme aimed at enhancing micro, small and medium-sized enterprises (MSMEs) access to credit. The Credit Guarantee is being delivered through a risk sharing agreement between the Government and seven participating banks. The seven banks are KCB Bank, Cooperative Bank, Absa Bank, DTB Bank, NCBA Bank, Stanbic Bank and Credit Bank. The banks act as the intermediaries in provision of credit to qualifying MSMEs borrowers. Lending is done by the commercial banks with due diligence in line with the Central Bank of Kenya Prudential Guidelines.

The participating banks were identified through a competitive process. The current participating intermediaries were identified based on among other criteria, their ability to extend credit to many MSMEs from diverse regions and sectors.

The Scheme covers a portion of the potential default risk associated with MSMEs credit facilities by providing a guarantee to pay the banks 50% of the outstanding amount, subject to a maximum of 25% of the principal amount pari-passu, in case of default on qualifying credit facilities to MSMEs. Once a claim has been approved by the scheme, the amount is payable in two tranches. This provides an incentive for the banks to continue to pursue recovery of the defaulted credit facilities.

The participating financial intermediaries are expected to submit monthly reports on all guaranteed credit facilities extended to MSMEs in the reporting period. These reports will be important for the Scheme to fulfill its reporting obligations to the Administrator and Parliament as envisaged in the Public Finance Management Act, 2012.

The CGS has an initial seed capital of KSh. 3 billion appropriated in the fiscal year 2020/21 for guaranteeing credit facilities extended to MSME borrowers. The government is committed to grow the capital through future allocations and investments. The participating commercial banks are expected to leverage this amount four times, implying that the current KShs. 3 billion will unlock at least KShs. 12 billion in the short run as credit extended to MSMEs.

Product description

Currently, there is one approved product for the CGS. Below are the characteristics of the approved product.

i. Maximum loan amount under the scheme is KShs. 5 million

ii. Repayment period of up to 3 years

iii. Repayment grace period of up to 5 months

The CGS is mandated to approve new products from time to time.

During the FY 2021/2022, PFIs disbursed credit under CGS worth KShs. 3.321 billion with a guarantee value of KShs. 830.3 million to eligible MSMEs at an average interest rate of 13.3%. The average tenure is 24.8 months. In the same period, CGS recorded beneficiaries in 43 counties accounting for 91.5% of the total 47 counties in the country with high concentration in Nairobi (1,033), Kiambu (157), Mombasa (123), and Nakuru (84). This may be explained by the concentration of MSMEs in urban centres and PFIs branch network across the counties implying high demand of credit in these regions. Mandera County is yet to record beneficiaries under CGS. The NT and Development Partners are undertaking targeted outreach and stakeholder engagement in order to increase uptake across all the Counties.

Of the total 2190 facilities during the year, 283 facilities were extended to enterprises owned by women, 150 by youth and 8 to persons with disability which represent 20.1% of the total number of guaranteed facilities disbursed during the reporting period.

As at 30th June 2022, CGS had 2,215 active facilities with a total outstanding principal amount of KShs 2,978,102,958. A total of 2,084 facilities were classified as "Normal" while 131 facilities were delinquent, that is, classified as "Watch," or "Substandard" or "Doubtful" or "Loss". The 131 delinquent facilities together represent an outstanding principal amount of KShs 158,982,996 representing potential claims of up to a maximum of KShs. 45,385,928. To date, no credit guarantees have been liquidated under the CGS. Nonetheless, appropriate provisioning has been made based on risk assessment of the portfolio for facilities under "Watch," "Substandard" "Doubtful" and "Loss".

The National Treasury is closely monitoring the performance of the Scheme and is keen on increasing the Guarantee utilization by on boarding additional participating financial institutions, improving the design of the product and diversification. This will enable more MSMEs to benefit from this Government intervention.

Ronald Inyangala

Scheme Manager

6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The Scheme concentrated on implementation of the scheme activities in order to achieve its intended objectives. Among the main activities were to monitor the reports from the Participating Financial Institutions to check for compliance to the legal framework as they allocate the guarantees to the intended beneficiaries. Further, the scheme continued to build capacity to the PFIs staff to improve their efficiency. The scheme has been reporting to the relevant authorities in line with the PFM Act, 2012 and the CGS Regulations.

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: **Legal and operational framework for the Scheme**	To ensure compliance with the PFM Act, 2012 and the CGS Regulations; and the Credit Guarantee Scheme Agreement	No of manuals developed; Report on review of PFIs returns; Letters to Central Bank of Kenya; Letters to PFIs	Develop CGS operational manuals: Review of PFIs returns; Raise concerns to PFIs on the findings through CBK; Raise concerns to PFIs Hold meetings with PFIs on compliance issues where applicable	5 CGS Manuals approved by CGS Steering Committee namely: CGS operational manual; Risk management and compliance Manual; CGS claims manual; Financial and accounting procedure manual; and CGS Monitoring and evaluation manual
Pillar 2: **Improve access to credit by**	Facilitate the financing of MSMEs by partially guaranteeing	No. of MSMEs accessing CGS;	Hold meetings with Key stakeholders to discuss possible	An increasing trend in the number of MSMEs accessing credit through the scheme. CGS disbursed a

MSMEs through credit guarantee	credit advanced to the enterprises	No of Counties benefitting from CGS; No. of Women, Youth and Persons With Disabilities accessing the Guarantee; No. of PFIs staff trained on CGS; No. of meetings held with Key stakeholders	actions for increase in uptake; Prepare monthly reports to track the performance of CGS and implement possible recommendations	cumulative value of KSh. 3.9 billion to 2,490 MSMEs, across 46 Counties and 11 sectors of economy. Enterprises owned by women, youth and persons with disabilities (PwDs) received 20.1% of the total number of facilities that had been disbursed. This is an increase from 334 credit facilities amounting to KSh 634.5 million disbursed to MSMEs across 36 Counties reported by June 30 2021.
	Stakeholders Engagement and awareness creation	No. of stakeholders engagements forums held; Stakeholders engagement reports;	To engage the stakeholders based on their interests in supporting the Scheme	Engaged the Government and Private Sector on the status of CGS.

Pillar 3 **Reporting and Monitoring of the Scheme**	To Track the performance of the CGS on a monthly and quarterly basis	No. of reports on the status and performance of CGS	Analysing the monthly returns from PFIs; Prepare the monthly and quarterly CGS performance reports	Monthly, Quarterly and annual Performance reports prepared
Pillar 4: **Stakeholder's engagement**	To mobilize resources to fund the Scheme	Stakeholders Matrix Stakeholders' engagement reports	To engage the stakeholders based on their interests	Engaged Development Partners (World bank, USAID, IFAD, KFW, FSD_K among others on possible areas of support and collaboration.
Pillar 5: Risk assessment of the portfolio	To assess risk of the CGS portfolio periodically	Number of risk reports	To conduct a risk assessment from the monthly PFI returns To prepare monthly/quarterly risk assessment reports	Monthly/quarterly/annual risk assessment returns prepared

7. CORPORATE GOVERNANCE STATEMENT

A. Steering Committee

The oversight of the Credit Guarantee Scheme is vested on the Steering Committee.

The Committee consists of—

(a) The Principal Secretary in the Ministry responsible for matters relating to finance, who shall be the chairperson, or the Principal Secretary's representative;
(b) The Principal Secretary in the Ministry responsible for matters relating to micro, small and medium enterprises or the Principal Secretary's representative;
(c) The Attorney-General or the Attorney-General's representative;
(d) The Governor of the Central Bank of Kenya or the Governor's representative;
(e) Three independent members, not being public officers, appointed by the Cabinet Secretary for a period not exceeding three years, renewable once, who shall comprise of—
  (i) One person with experience in banking or finance;
  (ii) One person with experience in insurance; and
  (iii) One person with experience as an entrepreneur in a micro, small or medium enterprise.

The Steering Committee was fully constituted in April, 2021. The Committee meets quarterly or as and when necessary. The Committee held three meetings during the financial year. The succession plan for the independent Board members will be managed during their tenure.

The functions of the Steering Committee are—

(a) Oversee the administration of the Scheme;
(b) Advise the Cabinet Secretary generally on the administration of the Scheme;
(c) Develop policy guidelines relating to guarantees by the Scheme;
(d) Monitor the uptake of guarantees for credit facilities extended to micro, small and medium enterprises and make recommendations for improvement thereof;
(e) Review applications for participation in the Scheme from institutions and advise the Cabinet Secretary on the suitability of the applicants to participate in the Scheme;
(f) Advise the Cabinet Secretary on the designation of other entities as participating financial intermediaries;
(g) Receive reports on the performance of the Scheme;
(h) Review the criteria for the issuance of credit guarantees under the Scheme including guarantee fees, maximum loan sizes, guarantee coverage rates and credit standards defining eligible borrowers to be included in the scheme;
(i) Monitor and evaluate the activities of the Scheme; and
(j) Perform such other functions that, in the opinion of the Cabinet Secretary, shall promote the objects of the Scheme

B. Administrator of the Scheme

The control and supervision of the Scheme is vested in the Administrator of the Scheme who is the Principal Secretary for the National Treasury. The Administrator is mandated, amongst others, to;

(i) Determine the maximum amounts of guarantees that the Scheme may extend to a participating financial intermediary;

(ii) Cause to be kept books of accounts and other books and records in relation to the Scheme; and

(iii) Enter into and sign agreements with financial intermediaries to offer guarantees.

C. Scheme Manager and Staff

An interim Scheme Manager and Staff have been appointed to undertake the day-to-day operations of the Scheme.

D. Other Governance Matters

Board charter

Since the Scheme is a Government Scheme within the National Treasury, there is no Board Charter in place. The Steering Committee is not a Board *per se* but good practice regarding procedure of meeting is adhered to.

Conflict of interest

A register of conflict of interest in place.

Committee remuneration

The Steering Committee remuneration is guided by the Salaries and Remuneration Commission circulars.

Ethics and conduct

Scheme members are state officers for all intents and purposes and therefore required to adhere to ethics and good conduct.

Governance audit

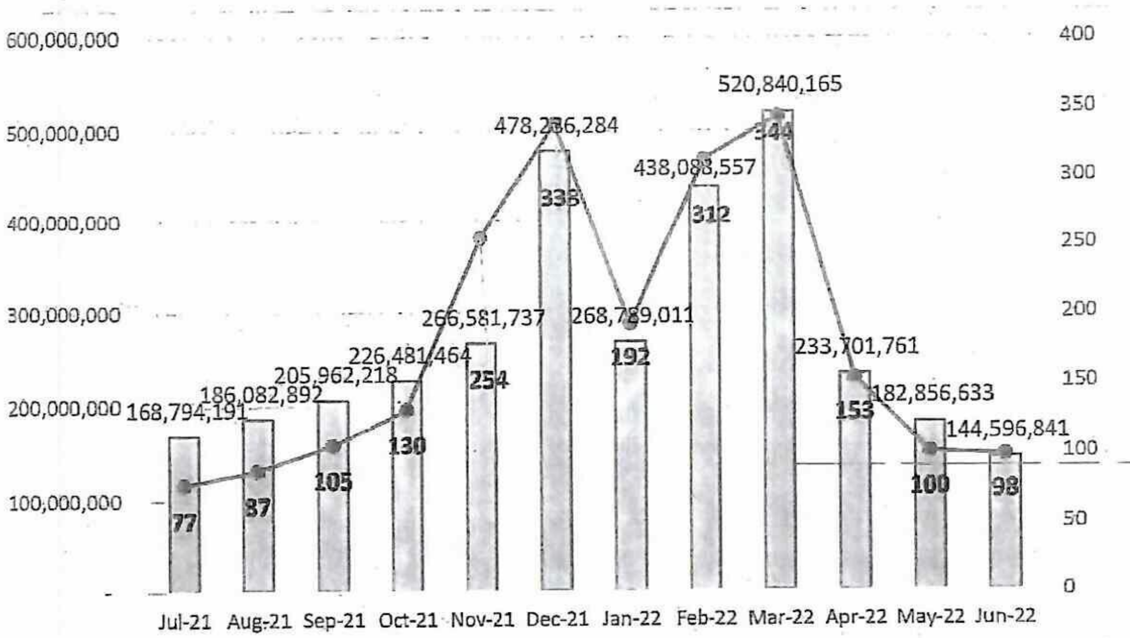
Governance Audit is conducted by the internal audit department from time to time. This being the Scheme first year of operation, there was no Governance audit conducted.

8. SCHEME PERFORMANCE - MANAGEMENT DISCUSSION AND ANALYSIS

Operational Performance

CGS has disbursed a cumulative value of KSh. 3.9 billion to 2,490 MSMEs across 46 Counties and 11 sectors of economy to date. The PFIs report through the Central Bank of Kenya. During the FY 2021/2022, a total amount of KShs. 3.321 billion was disbursed to 2,190 MSMEs under CGS. This disbursement represents credit guarantee value of KShs. 830.3 million given for credit advanced to eligible MSMEs in the financial year. The trend of number and value of credit facilities advanced by months is shown in Figure 1 below.

Figure 1: Trend of number and value of facilities by month



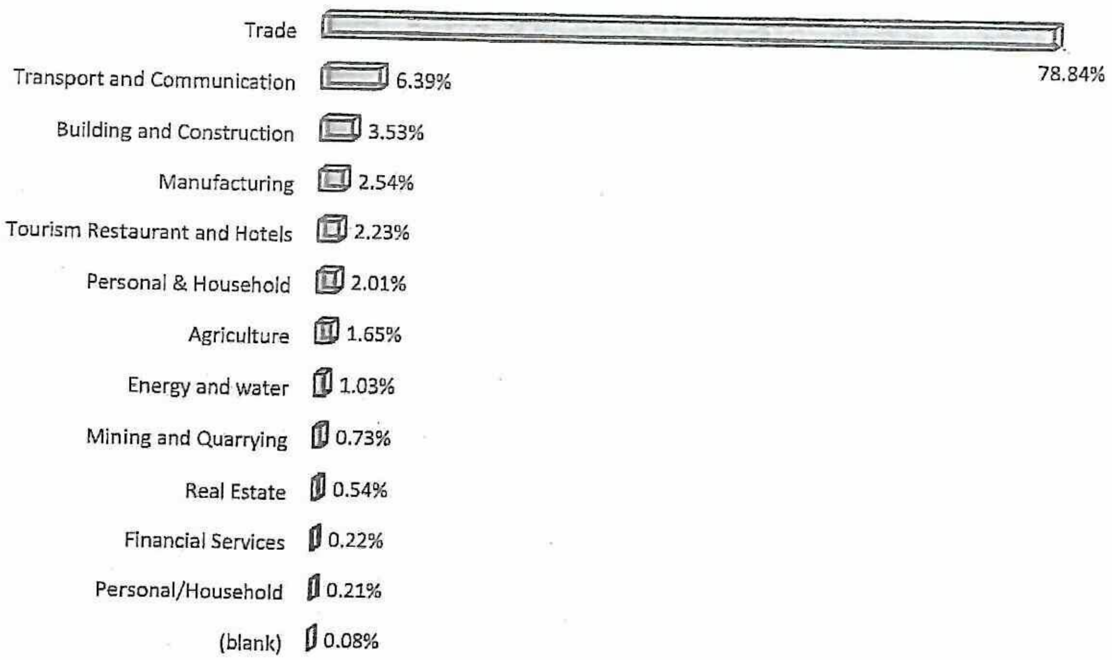
Sectoral Performance

The facilities placed under the scheme have been distributed across all eleven (11) sectors. In FY 2021/22, trade sector continued to receive a high share of CGS facilities at 78.8%. This is followed by Transport and Communication 6.4%, Building and Construction 3.5%. A disproportionally small number of credit facilities was allocated to Agriculture 1.7% and Financial Services 0.2% sectors. Considering that the agriculture sector contributes about 30% of the country's GDP, the Scheme will be seeking to further reach out to the agriculture sector by incentivizing the PFIs using the IFAD PROFIT[1] window and other relevant windows from the Development Partners.

This will require mainstreaming an agriculture product aligned to the sector characteristics. PROFIT is a rural agriculture dedicated programme whose objective is to facilitate the rural agriculture reach out with formal financial products. This is conducted through implementation of de-risking instruments under PROFIT.

The share of credit guarantee across various sectors is shown in Figure 2 below.

Figure 2: Share of credit guarantees by economy sector



County Distribution

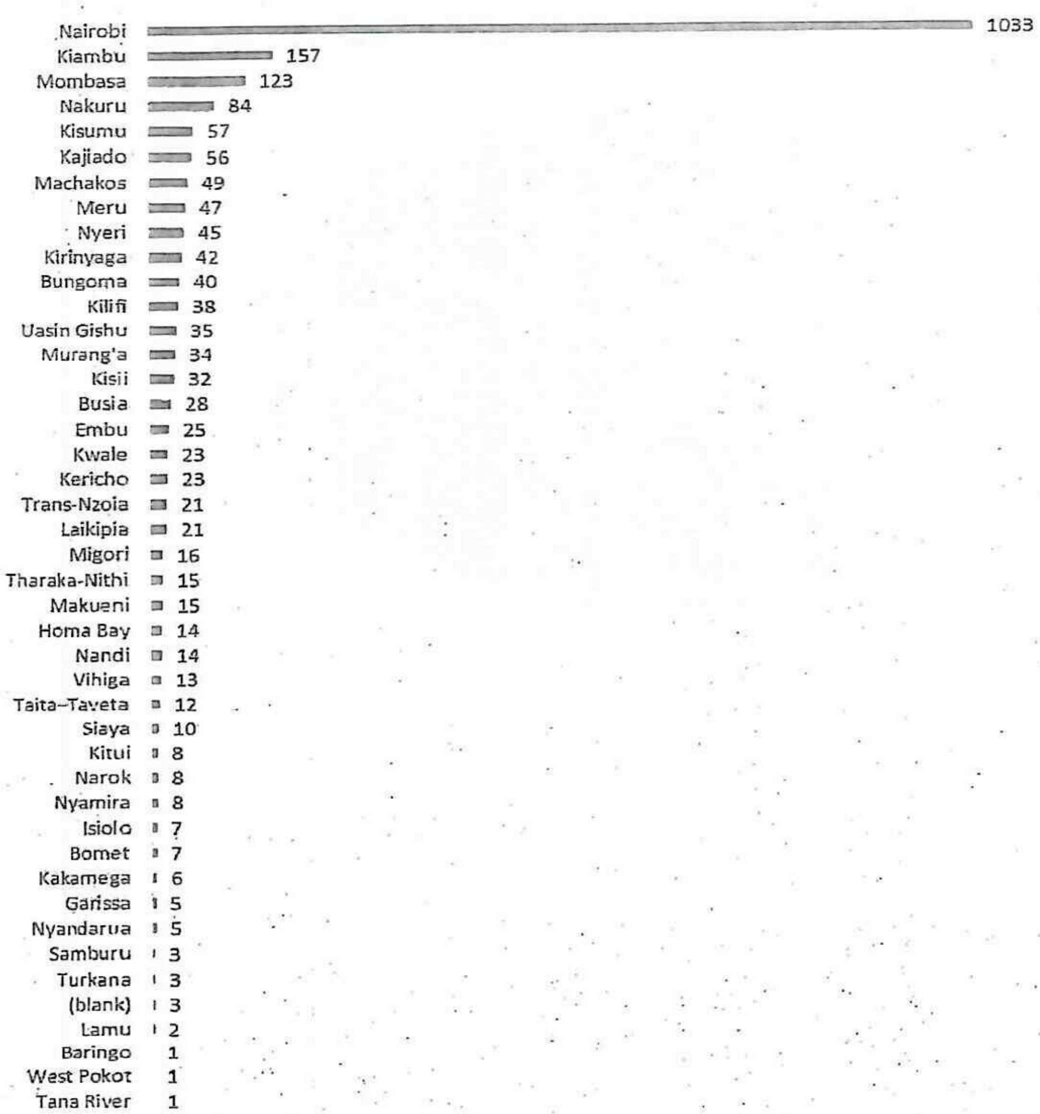
During the reporting period, CGS recorded beneficiaries in 43 counties accounting for 91.5% of the total 47 counties in the country with high concentration in Nairobi (1,033), Kiambu (157), Mombasa (123), and Nakuru (84). This may be explained by the concentration of MSMEs in urban centres and

[1] Programme for Rural Outreach of Financial Innovations and Technologies – RK FINFA window

PFIs branch network across the counties implying high demand of credit in these regions. Mandera County is yet to record beneficiaries under CGS. This performance is shown in figure 3 below.

The Scheme has had an outreach of 46 Counties since inception. The CGS is constantly engaging the PFIs to understand the distribution of the facilities and make any necessary interventions to ensure MSMEs across the 47 counties are able to access the guaranteed credit.

Figure 3: Distribution of number of guaranteed facilities by county

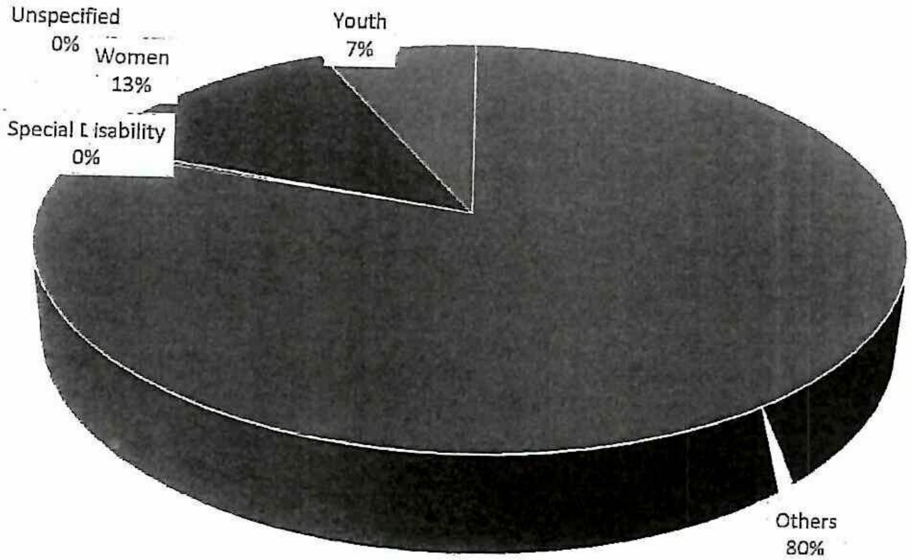


Gender Mainstreaming

During the reporting period, 20.1% of the total number of guaranteed facilities were disbursed to businesses owned by women, youth and persons with disabilities (PwDs). Women beneficiaries were 283, youth beneficiaries were 150 while PwDs were 8.

Women received KShs.319,819,747.60 of the credit guarantees extended in the financial year, youth received KShs.142,153,601 while PwDs received KShs.10,190,000. This information is shown in Figure 4 below in percentage.

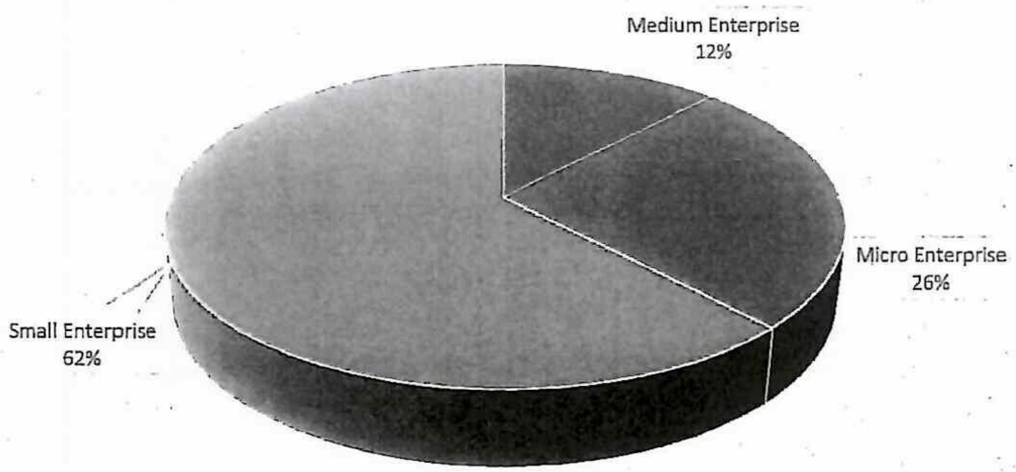
Figure 4: Share of number of beneficiaries of credit guarantees by women, youth, PwDs and others in FY 2021/22



MSMEs Distribution

The CGS has benefitted MSMEs of all sizes, including micro, small and medium sized enterprises. Of the 2,190 facilities issued under CGS in FY 2021/22, small enterprises received 1361, medium enterprises received 268 while micro enterprises received 561. Small enterprises received the largest share of guaranteed facilities at 62%, followed by medium and micro enterprises at 12% and 26% respectively. This information is illustrated in Figure 5 below.

Figure 5: Share of beneficiaries of credit guarantees by enterprise size in FY 2021/22



9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

CGS exists to transform lives of Kenyans through provision of incentives for financial institutions to extend quality and affordable credit to MSMEs for business growth and operational needs. This is our purpose and the driving force behind everything we do. Following is an outline of the Scheme policies and activities that promote sustainability.

i) Sustainability strategy and profile

The current structure of CGS is an interim arrangement and was mainly focused on supporting recovery of enterprises affected by the COVID-19 Pandemic in the short term. Initiatives are ongoing to transition CGS into a perpetual corporate entity with both government and private ownership. The prospected design will include charging a guarantee premium on PFIs, managed investments including insurance options, term deposits and security investments to support the growth and sustainability of the Scheme.

ii) Environmental performance

This being the second year of implementation, the Scheme is in the process of partnering with government climate finance related initiatives. Identified initiatives will be mainstreamed with the implementing partners.

iii) Employee welfare

The Scheme being a 100% government Scheme, is guided by the Human Resource Procedure Manual 2016, and other guidelines issued from time to time in the administration of the employee welfare.

iv) Market place practices-

The Scheme role being a National Government initiative is to complement the financial market as detailed below:

a. Responsible competition practice

The Scheme endeavours to collaborate with the other institutions on ensuring that competition is not undermined in ways that are harmful to the economy.

b. Responsible supply chain and supplier relations

The Scheme shall compliment National Government efforts of ensuring sustainable supply chain by implementing supply chain policies that protect the public interest.

c. Responsible marketing and advertisement

The Scheme aims at offering incentives through the credit guarantee and creating a business-friendly environment to enable MSMEs to thrive in their businesses.

d. Product stewardship

The credit guarantee is a product steward aimed at facilitating the financing of micro, small and medium enterprises.

v) Corporate Social Responsibility

The Scheme's sole mandate as a government function is on social responsibility. The Scheme exist to help government with financial outreach to otherwise market disadvantaged MSMEs.

10. REPORT OF THE SCHEME STEERING COMMITTEE

The Steering Committee Members submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the **Credit Guarantee Scheme** affairs.

i) Principal activities

The principal activities of the Scheme are:

i. Improve and stimulate the national economy by encouraging additional lending to micro, small and medium enterprises, increasing investment opportunities for micro, small and medium enterprises and strengthening skills and capacities of proprietors of micro, small and medium enterprises;
ii. Facilitate the financing of micro, small and medium enterprises by partially guaranteeing credit advanced to the enterprises; and
iii. Create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantees for micro, small and medium enterprises and other related activities

ii) Results

The performance of CGS for the year ended June 30, 2022, are set out on page 27 to 30.

iii) Steering Committee Members

The key Steering Committee Members who served during the year are shown on pages 5 to 7.

iv) Surplus remission

The Scheme as constituted is a market intervention by the government and therefore no surplus to the Exchequer is envisaged in the foreseeable future. The Scheme is expected to contribute to the Exchequer indirectly through broadening and the deepening of the financial outreach to the formal MSMEs.

v) Auditors

The Auditor General is responsible for the statutory audit of CGS in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

11. STATEMENT OF CREDIT GUARANTEE SCHEME MANAGEMENT RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Accounting Officer to prepare financial statements in respect of Credit Guarantee Scheme (CGS), which give a true and fair view of the state of affairs of CGS at the end of the financial year and the operating results of CGS for that year. The Accounting Officer is also required to ensure that the Scheme keeps proper accounting records which disclose with reasonable accuracy the financial position of CGS. The Accounting Officer is also responsible for safeguarding the assets of the Scheme.

The Accounting Officer and the Scheme Manager are responsible for the preparation and presentation of CGS financial statements, which give a true and fair view of the state of affairs of CGS as at the end of the financial year ended on June 30, 2022. This responsibility includes: (i)Maintaining adequate financial management arrangements and ensuring that this continue to be effective throughout the reporting period; (ii)Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Scheme; (iii)Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv)Safeguarding the assets of the entity; (v)Selecting and applying appropriate accounting policies; and (vi)Making accounting estimates that are reasonable in the circumstances.

The Accounting Officer and the Scheme Manager accept responsibility for CGS financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Accounting Officer and the Scheme Manager are of the opinion that the Scheme's financial statements give a true and fair view of the state of CGS transactions during the financial year ended June 30, 2022, and of the CGS's financial position as at that date.

The Accounting Officer and the Scheme Manager further confirm the completeness of the accounting records maintained for the Scheme, which have been relied upon in the preparation of the CGS's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting Officer and the Scheme Manager to indicate that the Scheme will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Scheme's financial statements were approved on 29th July, 2022 and signed on its behalf by:

Julius Muia, PhD, CBS	**Ronald Inyangala**	**CPA NJERU Michael**
Principal Secretary/ NT	**Scheme Manager**	**ICPAK no. 3125**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CREDIT GUARANTEE SCHEME FOR THE YEAR ENDED 30 JUNE, 2022 – THE NATIONAL TREASURY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Credit Guarantee Scheme set out on pages 1 to 13, which comprise the statement of financial position as at 30 June, 2022, and the statement of financial performance, statement of cash flows and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations, which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Guarantee Scheme, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020 dated 13 October, 2020.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Credit Guarantee Scheme Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Scheme's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Scheme or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Scheme to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Scheme to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 October, 2022

13. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2021-2022 Ksh.
Income		
Revenue from non-exchange transactions	3(i)	-
Revenue from exchange transactions	3(i)	-
Total revenue		-
Expenditure		
Risk Sharing Provision	4(ii)	45,385,928
Total Expenses		**45,385,928**
Deficit for the period		**(45,385,928)**

The notes set out on part 17 form an integral part of these Financial Statements.

These Financial Statements were signed for the Scheme on 29th July, 2022 by:

Julius Muia, PhD, CBS	**Ronald Inyangala**	**CPA NJERU Michael**
Principal Secretary/ NT	**Scheme Manager**	**ICPAK no. 3125**

14 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Notes	2021-2022 Ksh.
Assets		
Current Assets		
Cash and Cash Equivalents	4(i)	3,000,000,000
Current Liabilities		
Risk Sharing Provision	4(ii)	(45,385,928)
Total Assets		**2,954,614,072**
Reserves		
Capital Fund		3,000,000,000
Surplus/Deficit		(45,385,928)
Total		**2,954,614,072**

The notes set out on part 17 form an integral part of these Financial Statements.

These Financial Statements were signed for the Scheme on 29th July, 2022 by:

Julius Muia, PhD, CBS
Principal Secretary/ NT

Ronald Inyangala
Scheme Manager

CPA NJERU Michael
ICPAK no. 3125

15 STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	Capital Fund Ksh.	Total Ksh.
As at July 1, 2021		-	-
Capital grants received during the year	3(ii)	3,000,000,000	3,000,000,000
Risk Sharing Provision during the year	4(ii)	45,385,928	45,385,928
As at June 30, 2022		**2,954,614,072**	**2,954,614,072**

The notes set out on part 17 form an integral part of these Financial Statements.

These Financial Statements were signed for the Scheme 29th July, 2022 by:

Julius Muia, PhD, CBS	**Ronald Inyangala**	**CPA NJERU Michael**
Principal Secretary/ NT	**Scheme Manager**	**ICPAK no. 3125**

16. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2021-2022 Ksh.
Cash flows from Financing Activities		
Increase in Deposits		3,000,000,000
Net Cash flow from Financing Activities		3,000,000,000
Cash flows from Investing Activities		-
Receipts from Investments		-
Net cash flows from Investing activities		-
Net increase/(decrease) in cash and cash equivalents		3,000,000,000
Cash and cash equivalents as at 1 July 2021		-
Cash and cash equivalents as at 30 June 2022	4(i)	**3,000,000,000**

The notes set out on part 17 form an integral part of these Financial Statements.

These Financial Statements were signed for the Scheme on 29th July, 2022 by:

Julius Muia, PhD, CBS	**Ronald Inyangala**	**CPA NJERU Michael**
Principal Secretary/ NT	**Scheme Manager**	**ICPAK no. 3125**

17. NOTES TO THE FINANCIAL STATEMENTS

1. **General Information**

Credit Guarantee Scheme is established by Public Finance Management (Amendment) (No. 2) Act 2020, and Public Finance Management (Credit Guarantee Scheme) Regulation, 2020 and derives its authority and accountability from the Act and Regulations. The Scheme is wholly owned by the Government of Kenya and is domiciled in Kenya.

The entity's principal activities are:

i. improve and stimulate the national economy by encouraging additional lending to micro, small and medium enterprises, increasing investment opportunities for micro, small and medium enterprises and strengthening skills and capacities of proprietors of micro, small and medium enterprises;

ii. facilitate the financing of micro, small and medium enterprises by partially guaranteeing credit advanced to the enterprises; and

iii. create a conducive business environment and promote partnerships between the government and financial intermediaries with respect to credit guarantees for micro, small and medium enterprises and other related activities

2. **Statement of Compliance and Basis of Preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Credit Guarantee Scheme accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed as a separate note to these financial statements.

The financial statements have been prepared and presented in Kenya Shillings (Ksh), which is the functional and reporting currency of the Credit Guarantee Scheme.

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. **Summary of Significant Accounting Policies**

i. **Revenue recognition**

Revenue shall be classified in two major classes namely revenue from non-exchange transactions and revenue from exchange transactions. Revenue from non-exchange transactions shall be accounted for in line with IPSAS 23 whereas revenue from exchange transactions shall be accounted for in line with IPSAS 9. During the year, CGS did not earn income from non-exchange and exchange transactions.

ii. **Government grants**

Credit guarantee scheme recognizes grants when received or when the government has given a binding arrangement to transfer the funds. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the scheme and the fair value of the asset can be measured reliably.

During the year, the Scheme received Ksh 3billion being in respect of the Scheme Capitation and business start-up. The following is a detailed analysis of the transfers;

Transfers from Ministries, Departments and Agencies (MDAs)					
Name of the Entity	Amount recognized in Statement of Financial Performance	Amount deferred under deferred Income	Amount recognised in Capital Fund	Total Transfers 2021-22	Prior Year 2020-21
	Ksh million	Ksh million	Ksh million	Ksh million	Ksh million
National Treasury	3,000	3,000	3,000	3,000	
Total	3,000	3,000	3,000	3,000	-

A schedule of the inter-entity transfer is given as appendix II.

iii. **Donations and gifts**

The Scheme recognizes donations and gifts as assets and revenue when it is probable that the future economic benefits or service potential will flow to the scheme and the fair value of the asset can be measured reliably. Donations and gifts are measured at fair value at the date of acquisition.

iv. **Goods in kind**

The Scheme recognizes goods in kind as assets when goods are received or there is a binding arrangement to receive the goods. If goods in kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced, and revenue recognized as conditions are satisfied. Goods in kind are measured at fair value at the date of acquisition. Where the donations are capital in nature, revenue shall be recognized over the useful life of the asset.

v. **Services in kind**

The Scheme recognizes services in kind as revenue once consumed and a transaction of equal value is also recognized to reflect the consumption of these services in kind as an expense.in the event that the services in kind cannot be reliably measured they shall not be recognized as revenue but shall be disclosed by way of notes in the financial statements.

Revenue from other fees and charges are measured at fair value and recognized on obtaining control of the asset if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the scheme and can be measured reliably.

vi. **Interest income**

The Scheme accrues interest income using effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that assets net carrying amount. This method applies to the principal outstanding to determine interest income each period.

vii. **Guarantee fee.**

The Scheme recognizes guarantee fees as revenue upon receipt of funds.

viii. Other income

The Scheme recognizes other income when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to the scheme.

ix. Budget information

The scheme budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements are recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the basis difference, adjustments to amounts in the financial statements are also made for difference in the formats and classification adopted for the presentation of the financial statements the approved budget.

During the year under review, the Scheme did not have a budget line in the printed estimates and therefore no additional financing was received from the National Treasury. Similarly, there was no expenditure during the year. The budget statement is therefore not provided in the 2022/23 financial statements.

x. Property, Plant and Equipment

All the property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, credit guarantee scheme recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

xi. Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction shall be at their fair value at the date of the exchange. Following initial recognition, intangible assets shall be carried at cost less any accumulated amortization and accumulated impairment losses. internally generated intangible assets, excluding capitalized development costs, shall not be capitalized but expensed in the statement of financial performance. The useful life of the intangible assets shall be assessed as either finite or indefinite.

xii. Inventory

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions the cost of the inventory is its fair value at the date of acquisition. After initial recognition, inventory is measured at the lower of cost and replacement cost. Inventories shall be recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the scheme.

xiii. Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term. The deferred lease payments are recognized as deferred rent liability to be utilized in later years as rent escalates.

xiv. Provisions

Provisions shall be recognized when the scheme has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits or service potential that require to be settled and a reliable estimate can be made of the amount of the obligation.

xv. Contingent assets

The Scheme does not recognise a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the scheme in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an outflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

xvi. Nature and purpose of reserves

Reserves are created and maintained in terms of specific requirements. The scheme may from time to time establish a specific or general reserve fund to cater for current and future needs of the scheme. The Credit Guarantee Scheme fund shall be managed as a separate reserve from other reserves.

xvii. Changes in accounting policies and estimates

The scheme shall recognize the effects of changes in accounting policies retrospectively. However, the effects of changes in accounting policy shall be applied prospectively if the retrospective application is impractical.

xviii. Transaction in foreign currencies

Transaction in foreign currencies is initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors/debtors, or from the reporting of creditors/debtors at rate different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

xix. Related parties

The scheme regards a related party as a person or an entity with the ability to exert control individually or jointly or to exercise significant influence over the scheme or vice versa. Members of key management are regarded as related parties.

xx. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

xxi. Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

xxii. Held-to-maturity investments

Held to maturity investments of the scheme include treasury bills and fixed deposits. Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the scheme has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

xxiii. Significant judgments and sources of estimation uncertainty

i. Provision for depreciation

Depreciation is the systematic allocation of the depreciable amount of a non-current asset over its useful life. The following rates are applied for the purposes of providing for the usage of the assets over their life and have been harmonized to the National Assets and Liabilities management policy. Depreciation will be done using the straight-line method.

Land	Nil
Buildings	2%
Saloon Vehicles	16.67%
Heavy duty Vehicles	12.5%
Computer and Other ICT equipment	30%
Furniture fittings and Equipment	12.5%

ii. Amortization of intangible assets

Amortization is the systematic write-off of initial cost of an intangible asset. The following rates are applied for the purposes of amortization of intangible assets:

Computer software 20%

iii. Impairment of financial assets and financial guarantee contracts

The scheme shall recognize a loss allowance on expected credit losses of the financial guarantee contracts in line with provisions of IPSAS 41 and the Prudential Guidelines from the Central Bank of Kenya. Information obtained from the PFIs on a regular basis will be reviewed and impairment losses assessed for each financial guarantee contract entered into by the Scheme. The Scheme assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

4. Notes to the Financial Statements

i. Cash and Cash Equivalents

The Scheme received Ksh 3bn from the National Treasury on 06 July 2021. This was funded under the 2020/21 national budget appropriation. The following is the detailed analysis of the cash and cash equivalents at the end of the year.

Detailed Analysis of the Cash and Cash Equivalents			
Financial Institution	Account number	2021-2022	2020-2021
		Ksh Million	Ksh Million
Current Account			
Central Bank of Kenya	1000476858	3,000	-
Total		3,000	-

ii. Risk sharing provision

The scheme recognizes and maintains a provision on expected credit losses of the financial guarantee contracts in line with provisions of IPSAS 41 and the Central Bank of Kenya Prudential Guidelines. The Scheme's liability on each credit facility is 50:50 pari-passu on the outstanding principal amount, subject to a maximum of 25% of the initial principal amount of the credit facility. The risk sharing provision for the year was Ksh. 45,385,928.

5. Scheme Risk Management and Other Disclosures

i. Financial Risk Management

The Scheme activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers in line with PFIs all due diligence and CBK prudential guidelines.

The entity's financial risk management objectives and policies are detailed below:

ii. Credit risk

The entity has exposure to credit risk, which is the risk that a guaranteed or counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as other receivables. PFIs assesses the credit quality of each customer with all due diligence and in line with CBK prudential guidelines. Individual risk limits are set based on PFI internal or external assessment in accordance with limits set by the entity. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Scheme's management based on prior experience and their assessment of the current economic environment.

iii. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's Steering Committee Members, who have built an appropriate liquidity risk management framework for the management of the Scheme's short, medium and long-term funding and liquidity management requirements. The Scheme manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

iv. Market risk

The Scheme has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

v. Foreign currency risk

The Scheme has transactional currency exposures. Such exposure arises through borrowing and purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The entity manages foreign exchange risk form future exchange transactions and recognised assets and liabilities by projecting for expected revenue proceeds and matching the same with expected payments.

vi. Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The entity's interest rate risk arises from bank deposits. This exposes the entity to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the entity's deposits.

vii. Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

viii. Related Party Disclosures

In the course of its operations the Scheme did not enter into transactions with related parties.

ix. Events after the Reporting Period

There were no material adjusting and non-adjusting events after the reporting period.

6. Ultimate and Holding Entity

The entity is a National Guarantee Scheme under the National Treasury.

7. Currency

The financial statements are presented in Kenya Shillings (Ksh).

18. APPENDICES

APPENDIX i: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

This being the first period of reporting, there were no Audit issues to address.

Scheme Manager

Date....29 | 7 | 2022

APPENDIX II: INTER-ENTITY TRANSFERS

Breakdown of Transfers from the National Treasury

FY 2021/2022
Development Grants

	Bank Statement Date	Amount (KSh)	Financial Year
Credit Guarantee Scheme – CBK Account	30.06.2021	3,000,000,000	FY2020/2021
	Total	**3,000,000,000**	

Name of the MDA/Donor Transferring the funds	Date received (as per bank statement)	Nature:	Total Amount KSh.	Where Recorded/recognized: Statement of Financial Performance	Capital Fund Ksh.	Total Transfers during the Year Ksh.
The National Treasury	06.07.2021	Development	3,000,000,000	-	3,000,000,000	3,000,000,000
Total			**3,000,000,000**	**-**	**3,000,000,000**	**3,000,000,000**

Ronald Inyangala

Scheme Manager

CPA NJERU Michael

ICPAK no. 3125

REPUBLIC OF KENYA **F.O 30**

BANK RECONCILIATION STATEMENT

A/C NO 1000476858 CREDIT GUARANTEE SCHEME. 30th June

		Sh	Sh	Sh
Balance as per bank certificate				3,000,000,000
Less				
	1. Payments in cash book not in bank statement			
	2.Receipts in Bank statement not in cash book		-	
Add			-	-
	3. Payment in Bank statement not in cashbook			
	4. Receipts in cash book not in bank statement		-	
			-	-
Balance as per cash book				3,000,000,000

1.Payments in Cashbook not Yet Recorded in Bank Statement

NO.	DATE	PAYEE	AMOUNT
		TOTAL	-

2. Receipts in Bank Statement not in cash book

NO.	DATE	PAYEE	AMOUNT
		TOTAL	-

3. Payment in Bank statement not in cashbook

NO.	DATE	PAYEE	AMOUNT
		TOTAL	-

4. Receipts in cash book not in bank statement

NO.	DATE	PAYEE	AMOUNT
		TOTAL	-

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Approved by:
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