



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 FOR THE ESTABLISHMENT OF THE
KENYA CREDIT GUARANTEE COMPANY (KCGC)**

February 2025

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). As at 30th June 2024, the PFIs had disbursed 4,121 facilities amounting to Ksh. 6.29 billion to MSMEs, against the initial seed capital of Ksh. 3 billion from the Government. Out of the 4,121 facilities guaranteed by the CGS, about 70% 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. About 87% of the outstanding credit facilities were performing as CBK's risk classification. During the same period, a total of Ksh. 3.62 billion facilities have been fully repaid, releasing a guarantee value of Ksh. 905.2 million that can be allocated to additional qualifying MSMEs.

The CGS is currently operated as a Unit within the National Treasury. The Cabinet Secretary, National Treasury appointed technical staff to oversee the day to day running of the Scheme. The technical staff have developed manuals to guide the risk management, monitoring and evaluation, claims, investment, finance, and accounting processes as required by the law. These include the Operations Manual, Risk Management and Compliance Manual, Monitoring and Evaluation Manual, Claims Procedure Manual, Finance and Accounting Procedures Manual and Investment Policy.

In order to scale the gains of the Credit Guarantee Scheme (CGS) and further enhance access to credit for MSMEs, the National Treasury began the requisite process of converting the publicly owned Scheme into a private Credit Guarantee Company.

The entity to be established is proposed as an independent legal entity, the Kenya Credit Guarantee Company (KCGC), under the Company's Act 2015. It is envisaged that KCGC will have mixed ownership including a relevant minority government shareholding.

In view of the foregoing, the National Treasury constituted an interagency taskforce / committee to lead process of establishing the KCGC. The National Treasury, through the inter-agency committee prepared:

- i. Draft Credit Guarantee Policy;
- ii. Amendments to the Central Bank of Kenya (CBK) Act;
- iii. Articles of Association for the KCGC;
- iv. A business model for KCGC;
- v. A Cabinet Memorandum forwarding the KCGC constitutive documents to Cabinet for consideration.

The draft Policy and CBK Amendment Bill were subjected to nationwide stakeholder consultations and public participation in April and May 2024. Comments were incorporated and a Cabinet Memorandum prepared for submission to the Cabinet for consideration and approval. Some of the key proposals in the Cabinet Memorandum included: (i) establishing the Kenya Credit Guarantee Company Limited with minority Government shareholding; (ii) Government's initial capital investment to comprise the Ksh. 3 billion appropriated for and deposited in the CGS Account at the CBK; and (iii) anchoring oversight and supervision of credit guarantee companies under the CBK to ensure achievement of the country's development goals. The Cabinet Memorandum together with the constitutive documents were forwarded for consideration and approval by Cabinet.

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 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, transitioning the CGS to the KCGC, set up as a private company with risk capital from the public sector and contributions from multilaterals, DFIs and international players/partners, would be critical for the success of the KCGC. The SAFER Component B allocation of US\$ 30 million is expected 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 and to develop the requisite documents, operation manuals and standard operating procedures for the Company.

The Transaction Advisor-TA will be a firm or consortium of consultants firms who will support the National Treasury in the determination and establishment of the KCGC including its financial and operational viability, operational strategies, engage prospective investors, mobilize shareholder capital 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.

2.2 Scope of Work

The Transaction Advisor is expected to perform the following tasks:

1. Review and update the feasibility study report on establishment of KCGC as an independent legal entity with Government as a minority shareholder. The feasibility report was prepared in 2020 by the National Treasury;
2. Develop Business Plan, Standard Operating Procedures for KCGC including outlining the guarantee products to be offered by KCGC, eligibility criteria for the different targeted guarantee products for MSMEs and the eligibility criteria for PFI's;
3. Prepare the Credit Guarantee business model, Risk Management Policy, Investment Policy and Financial Plan to ensure sustainable operation of KCGS;
4. Develop a high-level financial model for the CGC incorporating relevant macroeconomic assumptions to be used as input in the model and provide available financial market data;
5. Design and document KCGC Internal operations manuals and Standard operational templates;
6. Review the five-year strategic plan guided by the feasibility study for the Kenya Credit Guarantee Company;
7. Advise on the corporate governance framework including terms of reference and functions of the shareholders' board and board of directors as well as key personnel, Chief Executive "C" and senior management level functions, in line with international good practices
8. Advise the regulatory, oversight and operational requirements necessary for establishment of a globally competitive credit guarantee regime in Kenya;
9. Design and document key IT infrastructure to support business operations, enhance efficiency, and ensure interoperability and scalability;
10. In collaboration with the National Treasury, engage with all the prospective investors with the National Treasury with the goal to mobilize the capital required for KCGC. This will include assisting the National Treasury to convene Stakeholder/Investors forum(s) for prospective shareholders;
11. 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;

12. Any other steps or actions necessary towards completing the initial capitalization of KCGC as mutually agreed between the Transaction Advisor and the National Treasury (including participation in investor roadshows and preparation of the necessary investor material such as a briefing memorandum and financial model);
13. 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) Report on the review of the feasibility study report;
- ii) Standard operational procedures for KCGC including outlining the guarantee products to be offered by KCGC, eligibility criteria for the different targeted guarantee products for MSMEs and the eligibility criteria for PFI’s;
- iii) Operational manuals and operations templates for KCGC. The manuals include but not limited to: Risk, Claims, Finance, Operational, Monitoring and Evaluation, Procurement, and Human Resource manuals;
- iv) Financial model (with assumptions outlined)
- v) Governance structure note including TORs and proposed composition of Board of Directors, key committees, as well as TORs for key “C” level functions.
- vi) Reviewed / Revised Five-year strategic plan for KCGC;
- vii) Detailed Credit Guarantee business model, Investment Strategy, investment policy and financial plan for KCGC;
- viii) Transition modalities from CGS to KCGC, with options for raising the necessary initial capital to capitalize KCGC for consideration and approval by NT;
- ix) Mobilized private investment as KCGC capital;
- x) Kenya Credit Guarantee Investor Policy;
- xi) KCGC Credit Guarantee Revised Company Charter;
- xii) KCGC subscription agreements and shareholder agreement;
- xiii) Other deliverables necessary to complete incorporation and the initial capitalization of KCGC as agreed amongst the parties (and as necessary for the investor roadshows);
- xiv) Other deliverables necessary towards completing the internal regulations, operational framework, HR and support infrastructure to assure the “go operational” of KCGC.

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 with good knowledge and experience of the financing services sector.

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

- Should have minimum 10 years’ experience in setting up or developing credit guarantees
- Experience in the financial services sector especially on matters of financial inclusion
- Experience in strategy formulation
- Experience in provision of legal services
- International experience in financial sector advisory and/or credit guarantees would have an added advantage.
- Experience working with relevant public and private stakeholders and understanding of how the various stakeholders work together

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

- Team Leader – Credit Guarantee expert
- Financial Analyst and / investment banker
- Legal Consultant – Laws, Regulations, Statutes and Contracts
- IT and software development consultant

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

K1- TEAM LEADER - CREDIT GUARANTEE EXPERT	
Criterion	Description
General qualifications	<ul style="list-style-type: none"> • At least 10 years of experience in consultancy services and related assignment or as top level manager of a successful/proven credit guarantee institution • Track record of success (prior assignments in this area) in setting up credit guarantees
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

K2 - FINANCIAL ANALYST / INVESTMENT BANKER	
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)

K2 - FINANCIAL ANALYST / INVESTMENT BANKER

Criterion	Description
<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 / Investment Banker 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 preparing financial plans and financial and economic forecasts; ● 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.

K3 - LEGAL CONSULTANT

Criterion	Description
<p>General qualifications</p>	<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)
<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 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
<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"> ● 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.

K3 - LEGAL CONSULTANT	
Criterion	Description
	<ul style="list-style-type: none"> • 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 - 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'.