

Credit Guarantee Scheme Ignites Hope for Business Survival

By Joshua Oigara

The volatility of the COVID-19 pandemic has adversely changed the global economic landscape. The widespread lockdown owing to the health crisis is estimated to cost the Continent over USD 65 Billion, according to Brookings Institute. Right here in Kenya, Micro, Small and Medium-sized Enterprises (MSMEs) have felt the brunt of these harsh economic conditions. A massive surge in their mortality rate has been witnessed and as such, the unrelenting effects of the pandemic has eroded the gains made in advancing financial inclusion.

The hardest hit sectors, mainly manufacturing, trade, real estate, agriculture, education and transportation, even after the easing of restrictions by the Government, are still reeling from the impact of the pandemic. The grim economic outlook has necessitated the development of bold policies to support MSMEs to survive. As much as the banking sector has proven its resilience and key role in anchoring the economy, the need for sound and effective policies has never been more imperative. Among the several timely responses by the National Treasury and Central Bank of Kenya to bolster the economy is the recently launched Credit Guarantee Scheme for SMEs.

The Government through the Public Finance Management Regulations (2020) has set up a KES. 3 Billion stabilization facility to enable the participating banks (Absa, Co-Op, Credit Bank, DTB, KCB, NCBA and Stanbic) extend credit to MSMEs that meet the requirements, including compliance with tax obligations and business permits and having a good credit standing. The finance will be utilised for working capital, acquisition of assets and recovery from COVID-19 impacts.

A Credit Guarantee is effectively an insurance that gives lenders the confidence to extend loans to high-risk borrowers at flexible terms and often faster than under

ordinary circumstances. Therefore, this move by Government is a tremendous show of confidence in our local enterprises, which have soldiered through what is clearly the worst global crisis unlike anything we have experienced in our lifetimes.

For many years, MSMEs faced difficulty in accessing affordable finance from banks. This is because of the very apparent high-risk perception at play, asymmetric information, and micro and small enterprises' lack of collateral. With the advent of the pandemic, this obstacle was greatly exacerbated. However, the Scheme will be instrumental to encourage banks to extend credit to enterprises and reduce collateral requirements.

It is our hope that the participating lenders and borrowers will utilise this opportunity in the most responsible way to ensure that the objective of stimulating our economy and preserving and creating employment is realized. If all goes well with this first phase— and non-performing loans are kept to a minimum— in the next three-years, we anticipate the National Treasury may make available an additional KES. 10 Billion to the Scheme.

The Scheme creates a conducive enabling environment that fosters partnership between the Government and financial intermediaries. Unquestionably, the partnership is crucial in scaling efforts to support the MSME sector, especially during this very difficult season. In due time, additional banks will also be encouraged to participate in the program, which is also backed by The World Bank, African Development Bank, United States Agency for International Development (USAID), and FSD Kenya.

Besides the Credit Guarantee Scheme, between March and October 2020, banks had restructured loans worth KES. 1.1 trillion or 38 percent of their total loan book to help relieve the strain experienced widely by households and businesses. Banks have also gone a step further and initiated special capacity building programs

designed to help MSMEs run their businesses effectively during these unprecedented times. One such program is the Inuka Enterprise Program, which is sponsored by the banking industry through the Kenya Bankers Association. More than 10,000 entrepreneurs have been reached with training designed to de-risk them in order to enhance their ability to access bank credit.

As the country continues to navigate this pandemic, innovative collaborative measures and effective policies will be the defining approach to help countless businesses to pivot, rebuild and emerge stronger.

The writer is the Chairman of Kenya Bankers Association and KCB Group CEO &MD.