CIS Kenya
Towards a more open credit market

Study on **MSME Loan** Performance

ANALYSIS OF CREDIT DATA ON MSMEs REPORTED TO CREDITINFO CRB BETWEEN 2019-2023

JICA

CREDITINFO

www.ciskenya.co.ke

ANALYSIS OF CREDIT DATA ON MSMEs REPORTED TO CREDITINFO CRB BETWEEN 2019-2023

CONTENTS

LIST OF FIGURES

List of Tables

ABBREVIATIONS

BRS:	Business Registration Services
CBK:	Central Bank of Kenya
CGS:	Credit Guarantee Scheme
CIK:	Creditinfo CRB Kenya
CIP SCORE:	Creditinfo Predictor Score
CIS:	Credit Information Sharing Mechanism
CIS Kenya:	Credit Information Sharing Association of Kenya
CRB:	Credit Reference Bureau
DPD:	Days Past Due
DST:	Data Specification Template
FSD Kenya:	Financial Sector Deepening Kenya
JICA:	Japan International Cooperation Agency
KAM:	Kenya Association of Manufacturers
KBA:	Kenya Bankers Association
KNCCI:	Kenya National Chamber of Commerce and Industry
MFI:	Micro finance institution
MPSR:	Movable Property Security Rights Registry
MPESA:	Mobile wallet service provided by Safaricom Telco
MSME:	Micro Small and Medium Enterprises
MSHWARI:	Digital Loan Product based on MPESA wallet

ACKNOWLEDGEMENT

The Credit Information Sharing Association of Kenya (CIS Kenya) that undertook this study appreciates Japan International Cooperation Agency (JICA) for their financial support that was instrumental to the success of the project. We are highly indebted to Mr. Wachira Ndege whose expertise was relied upon in the drafting this report. Special thanks are extended to Jared Getenga and Lemuel Mangla of CIS Kenya; George Oduor and Mercy Nehema of Creditinfo and Shibata Satoko and Misako Uehara of Deloitte Japan and JICA respectively for their insights in helping conceptualize the study and reviewing the report.

Every effort has been made to ensure the accuracy of the information presented in this report. However, CIS Kenya cannot be held responsible for any consequences arising from its use for purposes or contexts beyond its intended scope.

About **CIS Kenya**

CIS Kenya is a voluntary members Association whose broad mandate is to promote best practices in credit provision. More specifically, the Association plays a leading role in fostering the growth of the credit market through implementation of an effective credit information sharing (CIS) mechanism.

About **Creditinfo**

Creditinfo Kenya is a licensed and regulated entity by the Central Bank of Kenya (CBK). Under CBK's legal framework, Creditinfo's core business is the provision of information related to credit. We offer services that cover every stage of the customer life cycle, helping banks and other credit providers evaluate prospective customers, monitor the performance of existing ones, and manage any debts they may have incurred. Our approach involves collecting data from a wide array of sources, transforming it to risk management reports and solutions.

About **JICA**

Japan International Cooperation Agency (JICA) is an implementing agency of Japanese official development aid (ODA) for the purpose of supporting the socioeconomic development, recovery or economic stability of developing regions. It is chartered with assisting economic and social growth in developing countries and promoting international cooperation.

1 INTRODUCTION

1.1 CREDIT INFORMATION SHARING INITIATIVE

Since the rollout of Credit Information Sharing (CIS) in Kenya in July 2010, changes in the legal environment have led to the evolution of the CIS mechanism from a negative, bank-only data sharing framework to a full-file comprehensive one where commercial and microfinance banks participate together with a wide range of non-banks through three licensed credit reference bureaus (CRBs).

The CIS mechanism in Kenya has grown to largely capture credit data from the licensed and regulated financial sector and is recognised as a fundamental part of the credit system as it reduces information asymmetry between suppliers and consumers of credit, thus promoting access to credit by Micro Small and Medium Enterprises (MSMEs). The mechanism continues to grow with the inclusion of other non-regulated credit providers though significant opportunity remains to incorporate transaction and trade credit data that would enhance the available data for lending purposes to MSMEs.

MSMEs play a vital role in the economic growth and development of Kenya, contributing significantly to employment creation and growth of the economy. However, access to affordable credit remains a persistent challenge for these businesses, often impeding their growth and sustainability. CRBs have become instrumental in addressing this gap by providing lenders with critical data to assess the creditworthiness of MSMEs.

This report, 'Analysis of MSME Loan Performance Data held by Creditinfo CRB Kenya', examines the trends, patterns, and key insights derived from loan performance data of MSMEs by sector, demographics, formalisation, collateral, product type, loan performance, credit scores as well as geographical distribution of MSMEs. The findings from this analysis provide valuable input for policymakers, lenders, and stakeholders seeking to enhance financial inclusion and support the growth of MSMEs in Kenya.

1.2 KENYA'S CREDIT MARKET[1]

Kenya's banking landscape is marked by robust adoption of digital technology, which has transformed the delivery of banking services. **Mobile banking, online platforms, and fintech partnerships have expanded access to banking services to a larger portion of the population,** particularly in remote areas where traditional brick-and-mortar branches are sparse.

Banks have rapidly adopted new technologies, which have not only aided financial inclusion but also paved the way for innovative financial products. The sector's **robust mobile banking penetration is one of the highest in Africa,** making financial transactions and services more convenient and accessible.

High interest rates and transaction fees continue to be a significant hurdle, often making banking services less accessible for low-income individuals. This economic segment remains underbanked and faces difficulties in accessing credit, which is essential for personal and entrepreneurial growth.

While urban centers enjoy relatively sophisticated banking services, **rural areas are often left with limited access to financial services.** This disparity is further exacerbated by a lack of financial literacy, which limits the potential for banking services to make a more significant impact on the economic health of these communities.

1.3 MSMES IN KENYA[2]

Micro, Small and Medium Enterprises play a critical role in Kenya's economic development and employment creation. The Kenya National Bureau of Statistics (KNBS) indicates that there are over 7.4 million MSMEs in the country, which employ approximately 14.9 million Kenyans in various sectors of the economy contributing approximately 40% of the Gross Domestic Product (GDP).

This notwithstanding, MSMEs are deemed to be particularly risky to lenders since they encounter multiple challenges namely: management skills, access to capital and financing, product market fit, climate change, macro-economic environment and geopolitical factors that drive up the cost of doing business.

Out of the estimated 7.4 million MSMEs in Kenya, only about 1.4 million are formally registered with the Business Registration Services (BRS). This implies that the majority of MSMEs in Kenya are informally set up and may not have a legal persona.

Data from the BRS shows that as of 2023 there were 1.4 million registered Business Names and just over seven hundred thousand registered as limited liability companies[3].

1.3.1 Definition of MSMEs in Kenya:

Going by the definition in the Micro and Small Enterprises Act, 2012, MSMEs are categorised based on the number of employees, annual turnover, total assets or capital employed, and the sector they operate in.

The specific definitions for each category are as follows:

Micro enterprise– firms with annual turnover not exceeding Ksh.500,000; employing 1-9 people; total assets or registered capital not exceeding Ksh.10 million for manufacturing sector, or not exceeding Ksh.5 million in the service and agricultural sector.

Small enterprises – firms with Ksh.500,000 - Ksh.5 million annual turnover and with 10-49 employees with capital of between Ksh.10 million and Ksh.50 million in the manufacturing sector, and between Ksh.5 million and Ksh.25 million in the service and agricultural sector.

Medium enterprises – firms with Ksh.5 – 100 million annual turnover, with between 50-250 employees; in the manufacturing sector, total assets. investment in plant and machinery or the registered capital not exceeding Ksh.125 million; in the service and agricultural sectors, investment in equipment or registered capital not exceeding Ksh.250 million.

1.3.2 Credit Access for MSMEs

MSMEs require efficient access to credit and financial services to play their role effectively as significant drivers of employment and economic growth. However, access to formal credit channels for MSMEs is hampered by their level of informality, lack of registration, failure to update their business information, lack of a legal persona, and inability to separate them from the promoter (as evidenced by the number of sole proprietorships).

Noted interventions by Government and its partners have been the setting up of the Micro and Small Enterprises Authority, MSEA, with its proposed SME Fund, the Credit Guarantee Scheme and activation of the Collateral Registry.

However, the impact of these interventions is still muted given the reported low number of enterprises that have benefited, and the amount of credit recorded.

1.3.2.1 Credit Guarantee Scheme[4]:

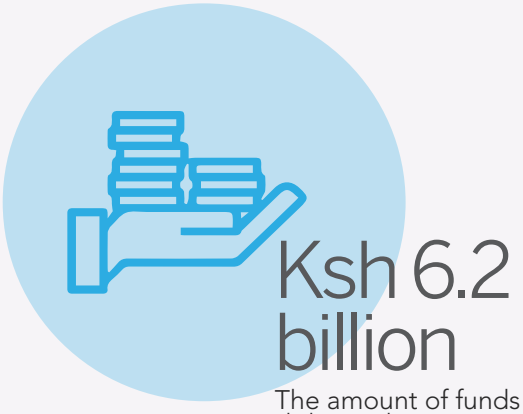
The Credit Guarantee Scheme, CGS, was launched in December 2020 to provide a means to facilitate credit to MSMEs by reducing the risk to lenders through provision of a guarantee by the Kenyan Government.

- A credit guarantee scheme is a **risk sharing mechanism** that enables the Government to bridge this credit gap by leveraging private sector liquidity and expertise to **minimize pressure on the exchequer** while **managing the moral hazard associated with direct lending**
- Lenders extend credit out of their own funds to eligible MSMEs and are compensated only a portion of outstanding amount in case of default

To date there are 7 participating financial institutions (PFIs) with about 6.2 billion shillings in disbursements. These institutions are: Absa Bank Kenya PLC, Credit Bank, Diamond Trust Bank, KCB Bank, NCBA Bank, Stanbic Bank, and Co-operative Bank.

The CGS has demonstrated its ability to support access to credit for MSMEs that had previously not been able to access credit:

- Since its inception, there are 4108 MSMEs that have benefited from the scheme.
- **Ksh. 6.3 billion** mobilized to qualifying MSMEs against Govt commitment of **Ksh. 1.57 billion** representing a **leverage ratio of 4,** i.e. for every Ksh.1 committed under CGS, Ksh.4 are unlocked in terms of credit to MSMEs.
- **71%** went to enterprises that had not received loans from PFIs before, indicating that CGS is enabling access to credit by **otherwise underserved groups.**

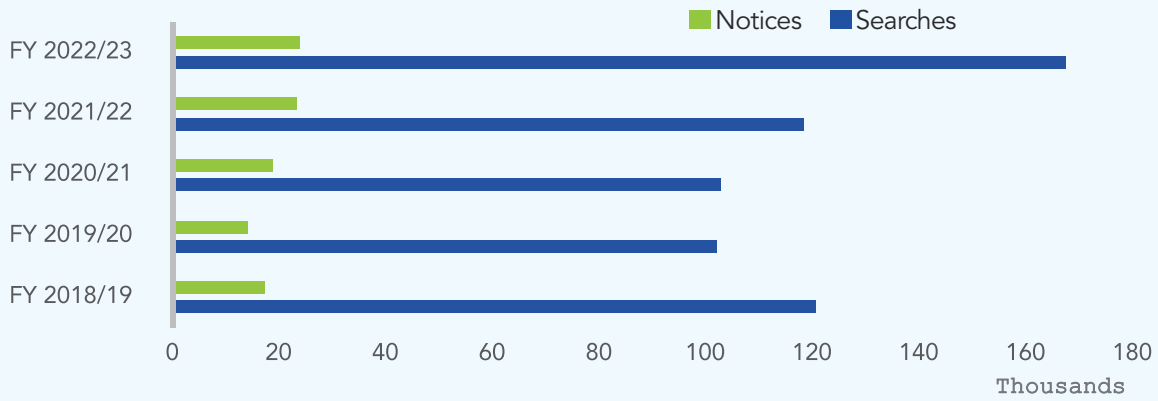


1.3.2.2 Collateral Registry[9]:
The Movable Property Security Rights Registry (MPSR), also known as the Collateral Registry, is the official government register of security rights in movable property. It is digitized and notice-based, established in 2017 to replace the previous Chattels Registry.

The MPSR Registry is domiciled at the BRS and facilitates granting by borrowers of a security right over assets in favor of lenders to secure loan repayment. The MPSR register facilitates notification to lenders that the movable assets have a lien over them.

The chart below gives a snapshot of the number of notices issued and searches carried out over a five-year period.

Figure 1-1 MPSR Notices & Searches



The use of the registry has gradually grown after a dip in 2020 probably as an effect of Covid-19 on business activity.

1.3.2.3 Government Loan Funds:
The Government has established several loan funds under various ministries or departments aimed at availing credit to MSMEs. These include the Youth Fund[6], the Women's Fund[7] and the Hustlers Fund[8] . Data relating to the effectiveness of these Funds as alternate sources of credit is not readily available. However, there are proposals to merge these funds to reduce their duplication and maximize their impact and effectiveness as sources of credit to MSMEs.

1.3.2.4 Private Sector Sources of Credit :
MSMEs have access to private sources of credit that are either formal or informal ranging from micro credit institutions, digital credit providers (now required to be regulated by CBK) and non-deposit taking savings and credit cooperatives. These institutions are currently outside of the formal credit information sharing initiative as they are not mandated to participate in the mechanism.

2

OBJECTIVES AND SCOPE OF THE STUDY

2.1 OBJECTIVES OF THE STUDY

With JICA's support, CIS Kenya set out to analyse MSME credit trends using CRB data to better understand the sector's challenges and opportunities. The study outcomes were designed to inform strategies to improve MSME access to credit.

By focusing exclusively on MSMEs, the study aimed at identifying key drivers of successful lending to this vital economic sector and provide unique insights into the specific challenges and opportunities within the MSME lending landscape.

The objectives of this study were to:

- **enhance the understanding** of MSMEs by examining loan performance data, enabling lenders to make informed decisions and provide targeted credit support.
- **establish approaches** for future utilization of CRB data analysis for improved understanding MSMEs, including identifying opportunities for additional data points and enhanced standardization of the data template.
- **provide empirical evidence** for policy reforms in the Kenyan credit market.
- **identify patterns, trends, and risk factors** associated with MSMEs to better inform risk premiums of the credit guarantee fund in Kenya.

2.2 SCOPE OF DATA ANALYSIS

Credit bureau data reported on MSME loans over the five-year period 2019-2023 was anonymised, aggregated and analysed over the following areas:

- **Industry of the borrower** - loan performance data across different industry sectors
- **Loan type-** performance of different loan types
- **Collateral use-** correlation between types of assets financed and loan performance
- **Demographic–** gender distribution
- **Geographical distribution -** loan performance data across different regions

From the analysis descriptive statistics for key variables were identified to:

Visualize trends and patterns using graphs and charts.

Generate insights and commentaries for publication in the final report.

Organize a dissemination seminar for relevant stakeholders.

2.2.1 Credit Data Reporting to CRBs - Data Specification Template

Credit data is submitted to the bureaus via a standard Data Specification Template (DST). The DST contains both mandatory and non-mandatory fields to help identify the data subject and the relevant credit information.

The range of reporting institutions include the regulated entities by the CBK including all licensed commercial banks and microfinance banks (MFBs) that are mandated to report at least once a month all their credit data. Other sources include third party credit providers that have been approved to submit data to the bureaus by the CBK. This data is then processed by the bureaus to generate credit report profiles of the borrowers.

The DST's 17 files are shown in the table below. The highlighted files are the ones that were used in the analysis for MSMEs that is in this report:

DST FILES	
CE	**Individual Consumer Employment Information**
CI	**Non-Individual Consumer Information file**
GI	**Guarantor Information File**
BC	Bounced Cheque Information File
CA	Credit application Information File
SI	**Stake Holder Information file**
FA	Fraudulent Activity file
CR	**Collateral Register Information File**
GG	Group Guarantee File
DP	Daily Payment Information
MF	New Mobile Facilities File
FC	Historical Credit Information Update File
CU	Contact Upload File
DI	Delink-IDs File
LI	Link-Delink Accounts File
ME	Merging Accounts
DE	Deletion File

This data that has been aggregated to generate the research and analysis for this report.

2.2.2 Available Data Resources at Creditinfo CRB

Creditinfo, as the credit bureau providing the analysis, has accumulated significant amounts of data as reported by the 73 data providers both mandated and other institutions. This data has been accumulated over the study period of 2019-2023 and beyond since the advent of the CIS mechanism in 2010.

A summary of this data is shown in the table below:

Table 1: *Number of unique borrowers & Loans Issued*

TOTAL UNIQUE BORROWERS	**19.5 million**
Of which corporate entities	500,000
Of which individuals and micro enterprises	19 million
TOTAL NO. OF LOANS ISSUED	360 million
TOTAL AMOUNT DISBURSED	KSHS. 17.5 trillion

2.2.3 Data Extraction and Preprocessing

Data extraction from the CRB database was conducted using Structured Query Language (SQL) focusing on data from January 2019 to end of 2023 and specifically on MSMEs.

The identification of MSMEs within the bureau's data, as submitted by financial institutions followed a dual approach:

- Loans to MSMEs were identified using the company registration number.

- However, recognizing that micro and small enterprises are not always registered, they were also identified based on the loan products they utilize, such as business working capital and trade finance.

2.2.4 Data Analysis and Visualization

Cross tabulations, bar charts, and trend plots were used to analyze and interpret the extracted data and uncover relationships and patterns between different variables, highlighting relationships within the dataset.

Bar charts were used to visually represent the analyzed data, allowing for comparisons of trends and proportions across distinct categories over the five-year period.

Together, these analytical methods allowed for a comprehensive exploration of the dataset, facilitating meaningful insights and robust conclusions in the subsequent results and presentations.

3 MSME LOAN PERFORMANCE

3.1 CHAPTER SUMMARY

This chapter provides a comprehensive and detailed analysis of credit data reported between 2019 and 2023 on MSME loans.

The analysis focuses on five main study areas:

- Sector of the MSME
- Type of loan given to MSME
- Collateral used for the loans
- Gender of the MSME owners
- Geographical location of the MSME

To determine and arrive at credit to MSMEs certain assumptions have been made on the credit data reported by lenders specifically based on the purpose designated for the loan.

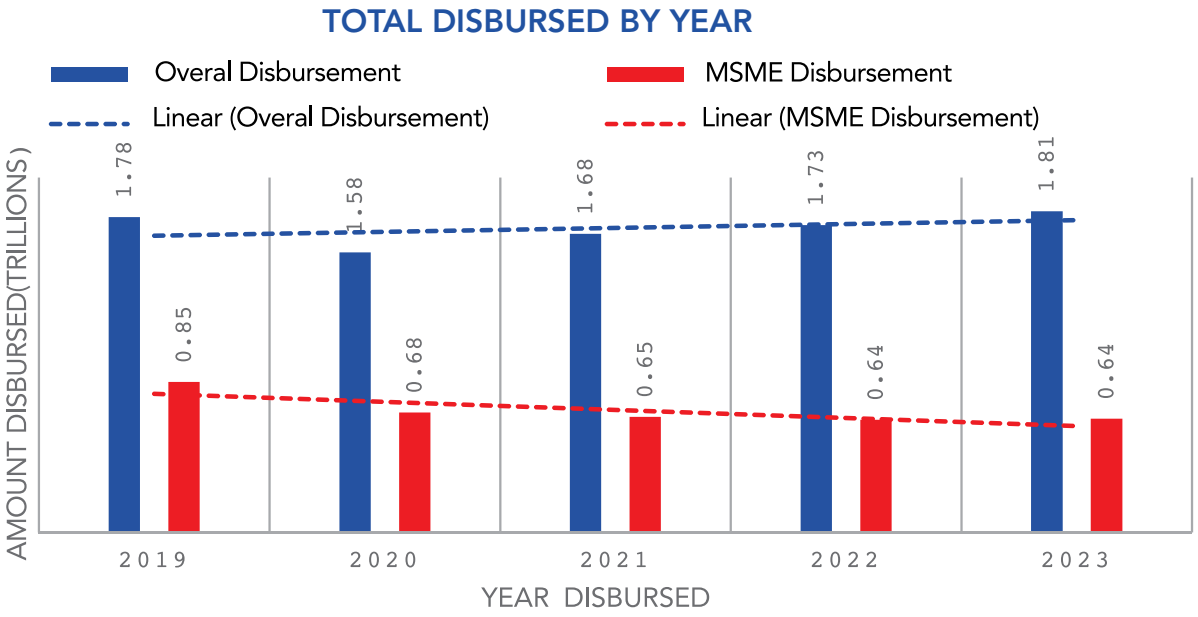
Where the loan purpose has been given for **business purposes for instance asset finance, working capital,** etc., that loan has been classified as **an MSME loan** for the purposes of this analysis.

3.2 TOTAL CREDIT TO MSMES

This analysis provides a snapshot of credit to MSMEs over a five-year period between 2019 and 2023 for the commercial and microfinance banks.

The chart below gives the total credit given to MSMEs on a year-on-year basis compared to the entire credit for that year.

Figure 3 1: Total Disbursements by Year



Credit to MSMEs as a proportion of total loans has remained low over the years at less than fifty percent of total amounts disbursed. There has been a gradual decline in total credit issued to MSMEs from a high in 2019 with the value remaining relatively the same in subsequent years.

Key insight:
The average lending to MSMEs is consistently less than half of total credit despite efforts to grow lending to this segment. This points at continuing challenges for lenders to extend loans to MSMEs and for MSMEs to access credit.

0.85 Trillion

The total credit issued to MSMEs in 2019

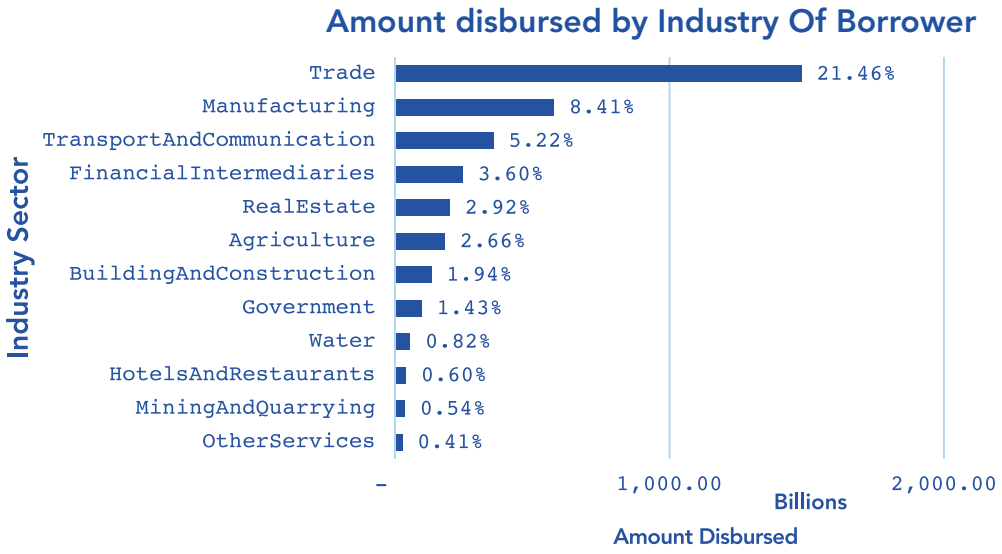
3.3 SECTORAL ANALYSIS

This analysis provides a snapshot of how different sectors compare in terms of loan disbursement and performance over the period. The sectors are based on the reported industry of borrower. The appropriateness and accuracy of some of the designated sectors in the DST (such as 'Government') have been the subject of discussion. However, for the purposes of this analysis they have been retained as reported.

3.3.1 Disbursement Trends by Industry of MSME

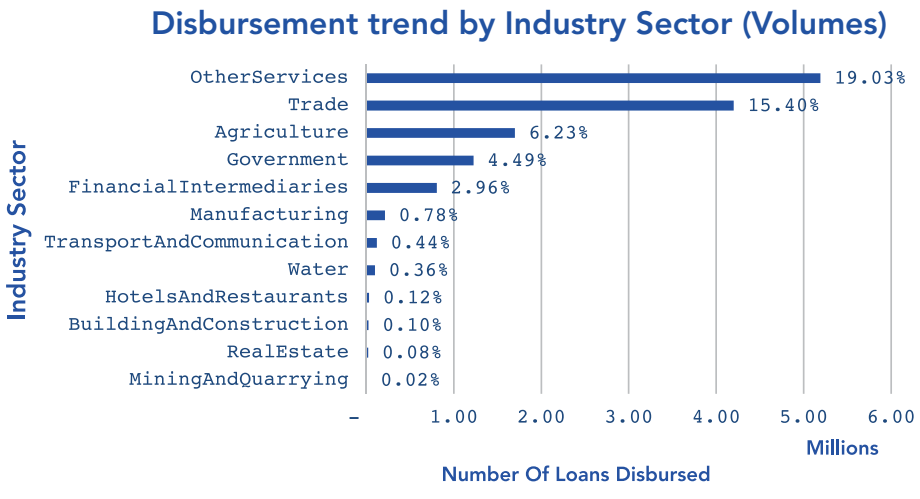
The chart below represents the total amount of credit extended to various sectors over the period 2019-2023.

Figure 3-2: Amount Disbursed by Industry of Borrower



The **Trade sector** is by far the largest recipient of credit by value at 21% followed by Manufacturing at 8% and Transport and Communication at 5%. This suggests that most small businesses are in the Trade sector.

Figure 3-3: Disbursement Trend by Industry Sector (Volumes)

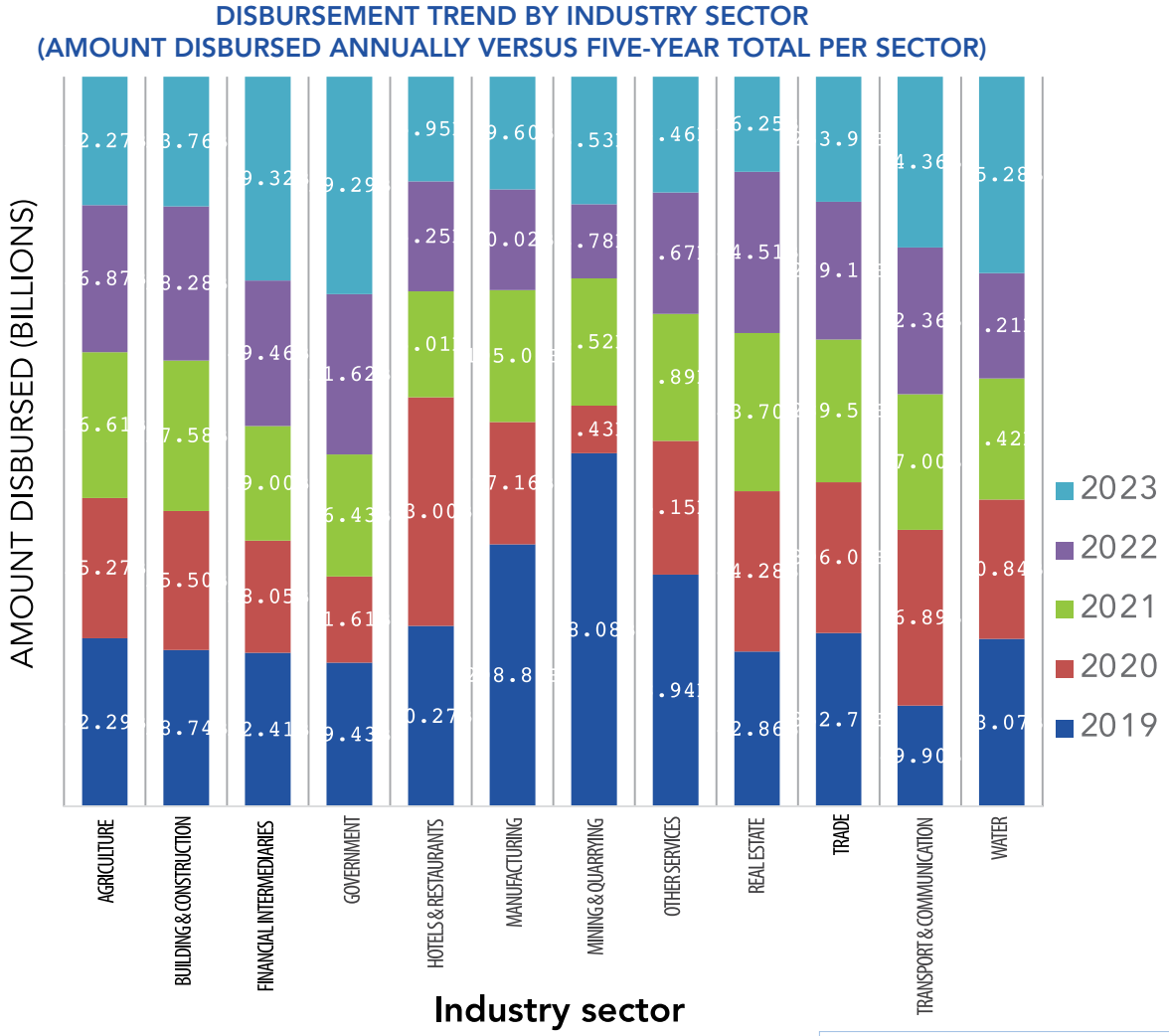


Key insight:
the majority of MSME loans are given to the Trade and Services sector where the value and volume are largest. This may suggest that most MSMEs that are able to access credit from banks and MFBs are in these two sectors.

When looked at from the number of loans issued the **Trade and Other Services** have the highest volume of loans issued accounting for over **32% of loans** to MSMEs.

3.3.2 Yearly Disbursement Trends by Industry of MSME

Figure 3 4: 3.3.2 Yearly Disbursement Trends by Industry of MSME



The chart above shows the amount of credit disbursed to various sectors over the five-year total for the sector to demonstrate the trends over the period. The total change for each sector implies the value of credit extended to that sector changed from year to year.

Overall Trends:

- **2019 to 2020:** Many sectors experienced volatility, which could be attributed to pre-pandemic and pandemic-related disruptions with most sectors seeing spikes in 2019 before declining.
- **2021 to 2022:** The data reflects the gradual recovery from the pandemic, but certain sectors, particularly other services, hospitality sectors like Hotels and Restaurants, continued to struggle.
- **2023:** Financial Intermediaries, Government[10], Transport, and Communication saw growth, reflecting a shift toward rebuilding infrastructure and financial activity, while other sectors like Agriculture, Trade, and Real Estate saw a decline in lending.

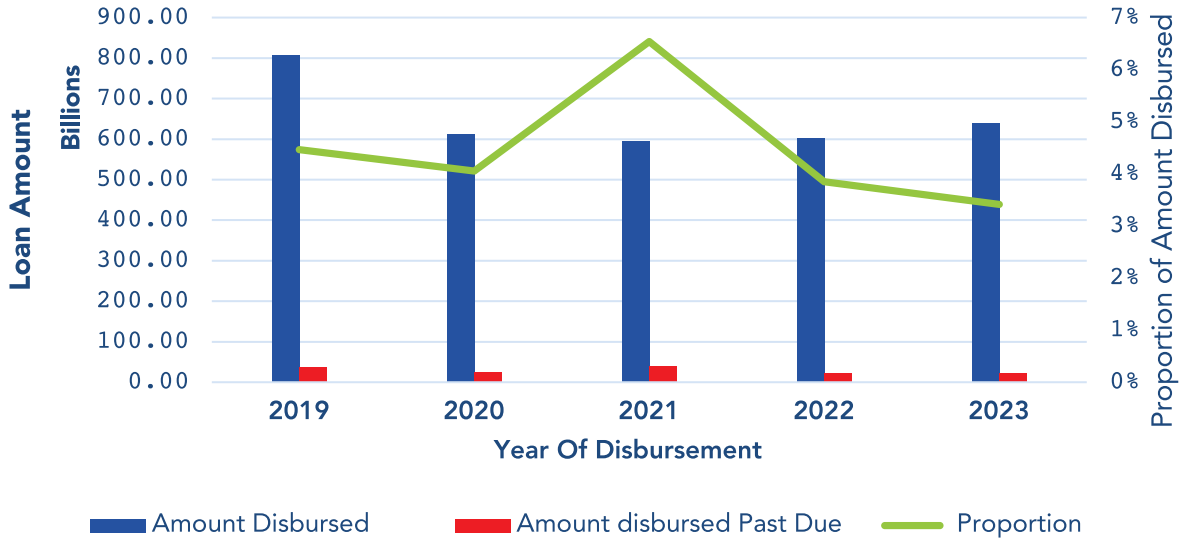
Key Insight:

Many sectors experienced volatility during the five-year period greatly impacted on by Covid-19 disruptions. Though recovery was witnessed from 2021, the hospitality and services sectors continued to struggle. 2023 reflected a mixed picture, with some sectors showing strong recovery and growth while others face continued challenges potentially due to economic challenges such as inflation or higher interest rates.

3.3.3 Yearly Performance of Loan Repayments

Figure 3 5: Yearly Performance of Loan Repayments

Yearly Proportion Of Loans that Remained Unpaid after 90 days-(Amount)



The graphs show a cohort of clients whose loans were 90+ days past due. The percentage is the value of 90 days past due outstanding loans against the total amount disbursed to identify the level of distressed loans trends over the years.

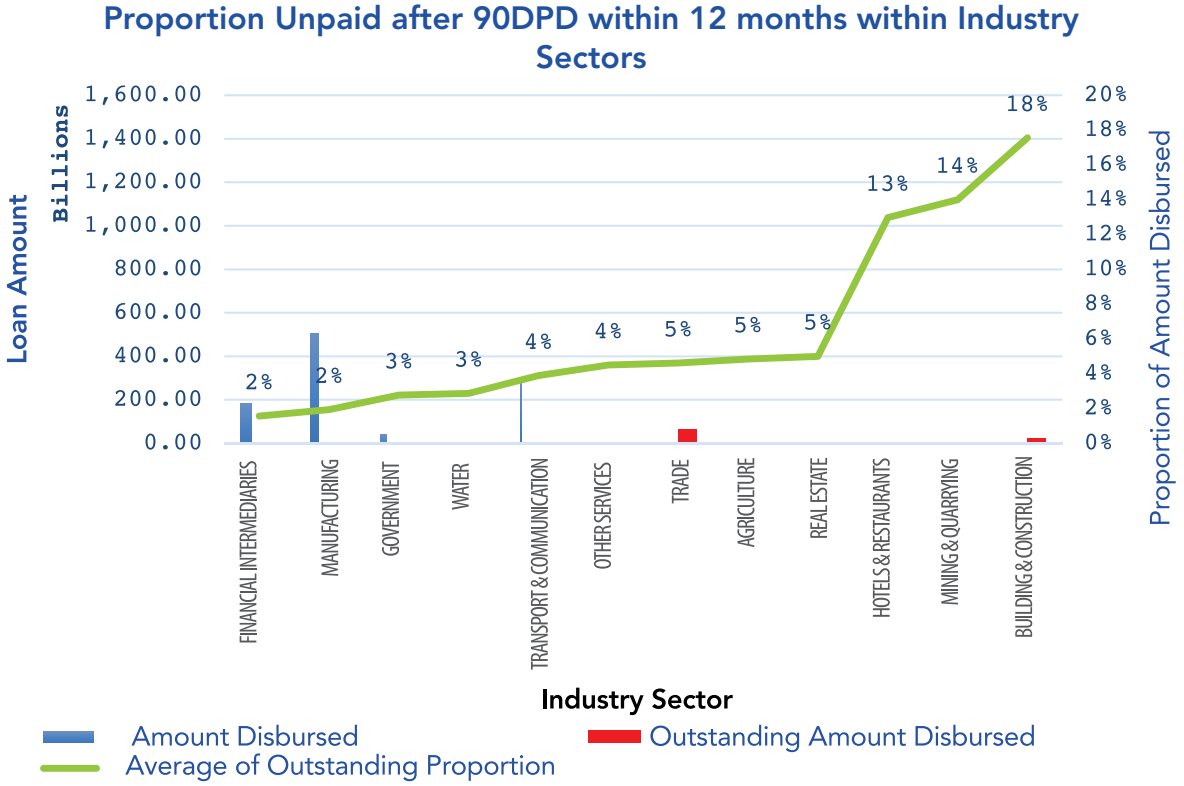
An analysis of the loan data year by year (2019–2023) is as follows:

- **2019/2020** had a moderate level of overdue loans suggesting that repayment issues were present but manageable. The outstanding proportions indicate that while loans were overdue, efforts to manage them were relatively consistent compared to the challenges seen in later years.
- **2020/2021** was severely impacted by the COVID-19 pandemic. The significant rise in outstanding proportions shows a sharp increase in defaulting loans. The inability of borrowers to repay loans can be attributed to economic disruptions during the pandemic. The proportion of loans unpaid after 90 days spiked in 2021 to 7%, suggesting increased difficulties in repayment during that year. This indicates a challenging period, likely due to the ongoing economic recovery struggles.
- **2021/2023** There is a notable decline in both the loan amount and the proportion of unpaid loans from 2021 to 2023, with the proportion of unpaid loans falling to 3% in 2023, indicating improving loan repayment trends.

Key Insight: The performance of loans was impacted over the period from Covid-19 disruptions with amount disbursed declining between 2020 and 2021. Although the loan amount disbursed started to rise again after 2021, the outstanding loan proportion steadily decreased, indicating stronger loan performance or better borrower solvency in recent years. This suggests that economic recovery from the pandemic was taking effect, leading to better loan management and repayment.

3.3.4 Performance By Sector

Figure 3 6: Loan Performance by Sector



This dataset provides an analysis of loans across various **industry sectors,** focusing on loans that are **90+ days past due.** The chart displays the proportion of loans that remained unpaid after 90 days past due (90 DPD) within 12 months, categorized by different industry sectors.

Key Trends:

- The **Building & Construction** sector has the highest proportion of outstanding loans at 18%, suggesting significant repayment challenges in this sector despite moderate loan disbursement.
- **Mining & Quarrying and Hotels & Restaurants** also have a high outstanding proportion at 14% and 13% respectively, despite very small loan disbursements, indicating higher risks in these industries.
- **Trade** has the highest loan amount disbursed but maintains a relatively low outstanding proportion of 5%, indicating stronger loan performance.
- The **Manufacturing, Water,** and **Financial Intermediaries** sectors exhibit low proportions of unpaid loans (2%-3%), suggesting better repayment performance in these sectors.
- Sectors like **Agriculture** and **Real Estate** show moderate proportions of outstanding loans (around 5%).

Key Insight:
The data highlights sectors with repayment risks are Building & Construction, Mining & Quarrying, while Trade demonstrates strong loan performance despite large disbursements suggesting it is a lower risk sector.

3.4 LOAN TYPE ANALYSIS

The analysis below reviews loans by type of loan designated as digital or non-digital. Digital loans are those that are primarily accessed via mobile channels as opposed to the traditional process of loan application and disbursement i.e. designated non-digital loans.

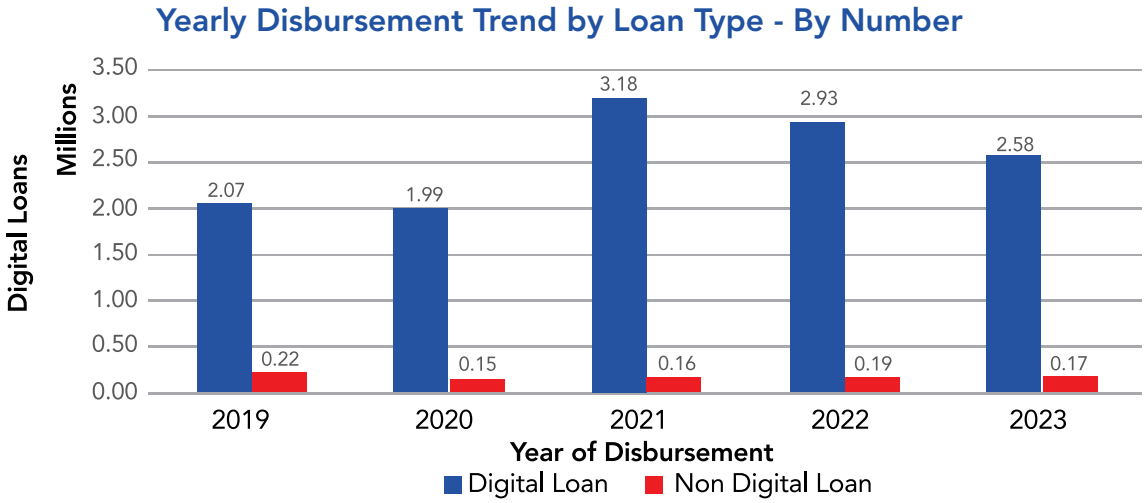
3.4.1 Loan by Type of Loan (Digital versus Non-Digital Loan)

The data presents a comparative analysis of **digital loans** and **non-digital loans** in terms of **volume** and **value** over the period from 2019 to 2023.

Data Description

- **Volumes:** Represents the number of loans issued.
- **Values:** Represents the total monetary value of the loans issued.

Figure 3 7: Yearly Disbursement Trend by Loan Type - By Number of Loans

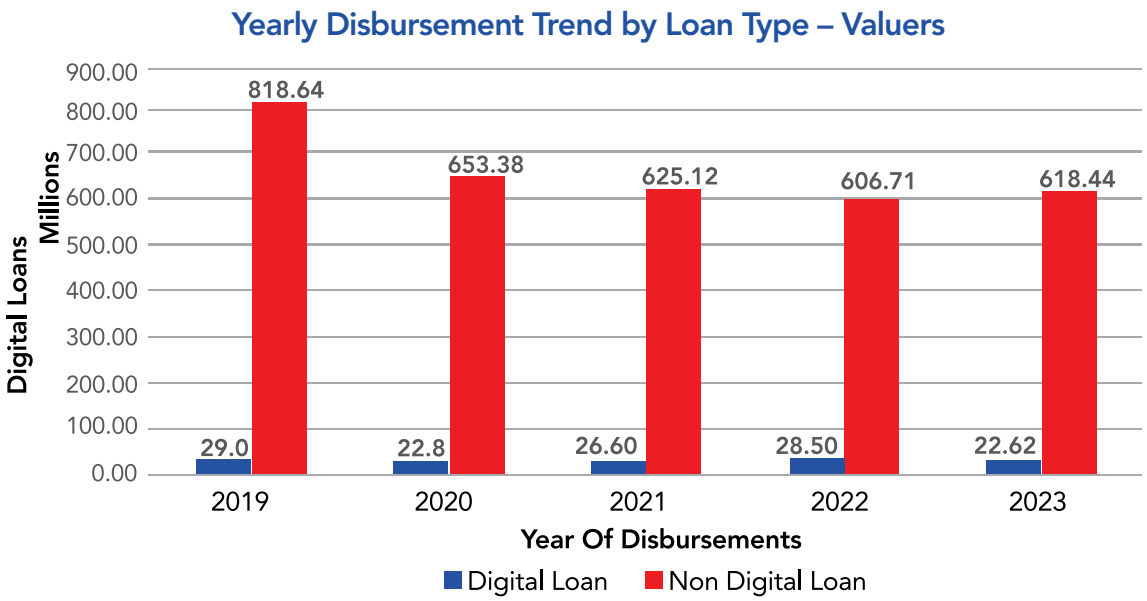


Volume of Loans

- **Digital Loans Trend:**
  - There was an initial increase in digital loan volumes from 2019 to 2021, peaking in 2021. This was followed by a decline in 2022 and 2023, possibly due to market saturation, changes in consumer behavior, or regulatory impacts.
- **Non-Digital Loans Trend:**
  - The volume of non-digital loans showed a decrease in 2020, a slight recovery in 2021 and 2022, and then a decrease again in 2023. This indicates a fluctuating trend but without sustained growth.

2021
The peak year
in digital loan volumes

Figure 3 8: Yearly Disbursement Trend by Loan Type – Value of Loans



Value of Loans

- **Digital Loans Trend:**
  - The value of digital loans decreased in 2020 but saw an increase in 2021 and 2022. The value then decreased again in 2023, reflecting volatility in trend, which could be attributed to changes in loan sizes, interest rates, or borrower demand.
- **Non-Digital Loans Trend:**
  - The value of non-digital loans consistently decreased from 2019 to 2022. However, there was a slight increase in 2023, indicating a possible recovery or increase in loan amounts or new loan approvals.

Summary of Trends and Patterns

- **Digital Loans:**
  - **Volume:** The increase in 2021 suggests a strong adoption or increased demand for digital loans, but subsequent decreases indicate potential market saturation or other influencing factors.
  - **Value:** Volatility with fluctuations in the loan value was evidenced by decrease in 2023, probably due to a combination of factors including reduced loan sizes or changes in lending conditions.
- **Non-Digital Loans:**
  - **Volume:** A fluctuating trend portrayed a notable decrease in 2020, and gradual recovery followed by another decline in 2023.
  - **Value:** The consistent decrease from 2019 to 2022, with a slight increase in 2023 suggests a reduction in the overall value of non-digital loans, possibly due to decreased lending volumes or changes in the loan portfolio.

Comparative Insights:

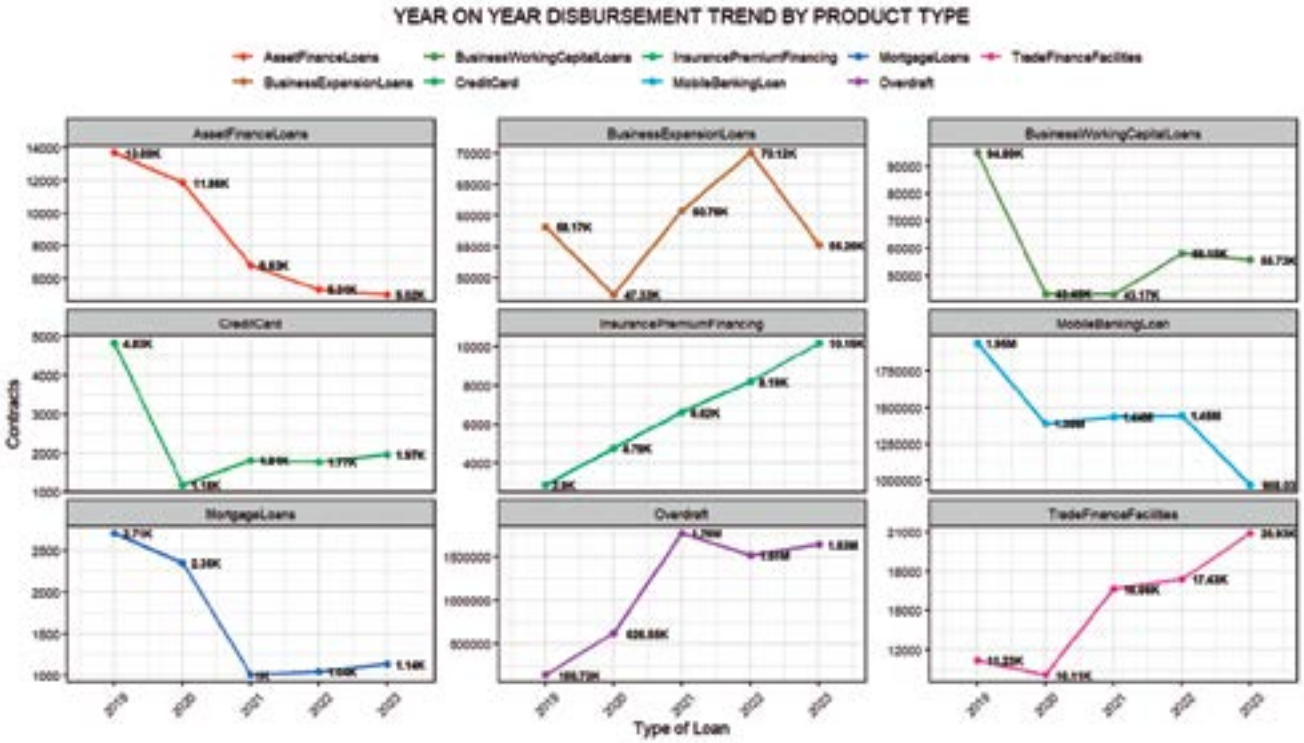
- Digital loans generally have a higher volume of transactions compared to non-digital loans, reflecting their growing popularity and accessibility.
- Non-digital loans, while having a lower volume, hold significantly higher value, indicating they may involve larger loan amounts or are distributed among a smaller number of high-value borrowers.
- The overall decrease in loan values for both types in 2023 suggests potential economic pressures or shifts in the lending environment.

Key Insight:
These trends provide insights into the evolving nature of loan distribution and value, reflecting broader changes in financial technology adoption and economic conditions. There has been a strong drive in the financial sector to use mobile channels as the means to enable customers to access loan facilities. This may have expanded the ability of lower value loans to be issued and increased the reach of these loans to previously unbanked.
The growth of digital loans products like Mshwari and Fuliza that are supported by MPESA are a case in point.

3.4.2 Loan By Purpose (Loan Product)

The analysis looks at the main products and the trends of disbursed amounts over the five-year period.

Figure 3 9: Year on year Disbursement Trend by Product Type (Volumes)



Summary of Major Trends

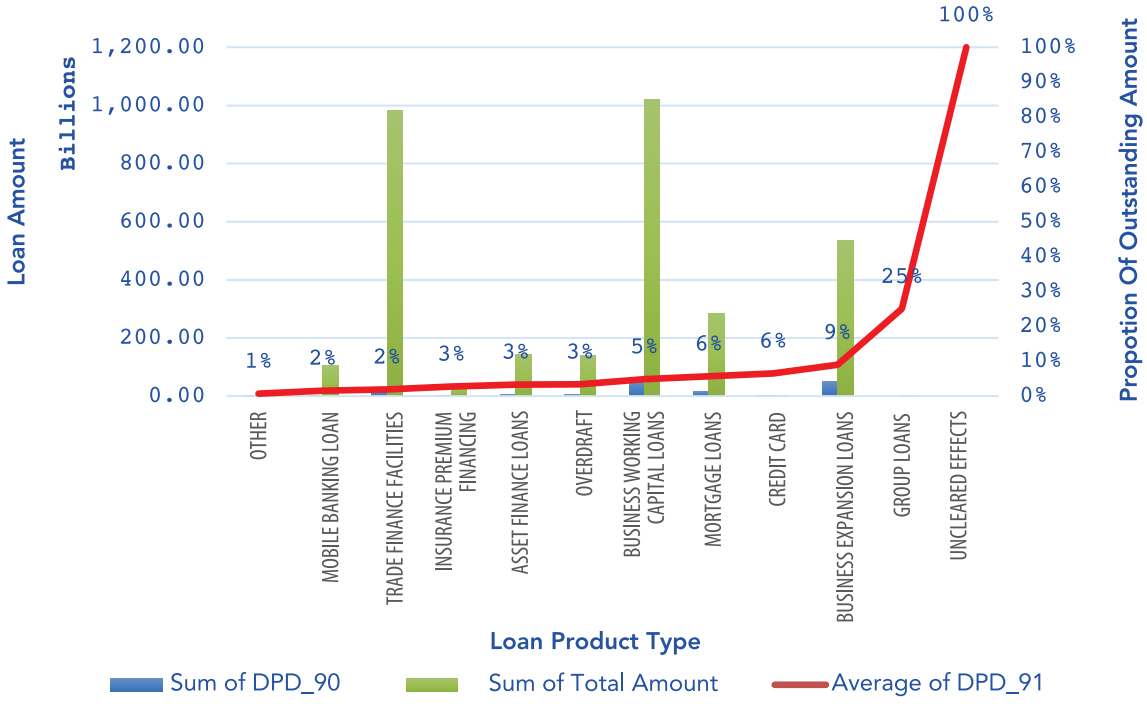
- Growth in Overdraft, Trade and Insurance Premium Finance Facilities: The sharp rise in overdrafts and growth in trade and insurance premium finance facilities indicate an increased demand for flexible and short-term financing solutions, likely to support liquidity and business operations.
- Decline in Mobile Banking Loans and Asset Finance Facilities: Despite their early popularity, mobile loans have seen a decline, potentially due to market shifts or regulatory impacts. Asset Finance Facilities have shown a steady decline over the period from earlier years.
- Fluctuating Demand for Business Expansion and Working Capital Loans: Business expansion and working capital loans remain essential, with demand fluctuating based on economic conditions, peaking during recovery periods.
- Decline in Credit Card and Mortgage Loans: Reduced mortgage loans and credit cards suggest either economic constraints affecting long-term investments or shifting borrower preferences.

Key Insight:
The data reveals significant shifts in loan product usage over the five-year period, reflecting evolving borrower needs, economic conditions, and the financial product landscape. Products like overdrafts and trade finance facilities are becoming more prominent, while traditional loans like asset finance and mortgages are declining in popularity. The trends indicate that borrowers are seeking more flexible and accessible financing, particularly in uncertain economic conditions.

3.4.3 Performance By Loan Product Type

This data provides a detailed look at various loan product types, focusing on their performance in terms of loans that went 90+ days past due.

Figure 3 10: Performance by Loan Product Type



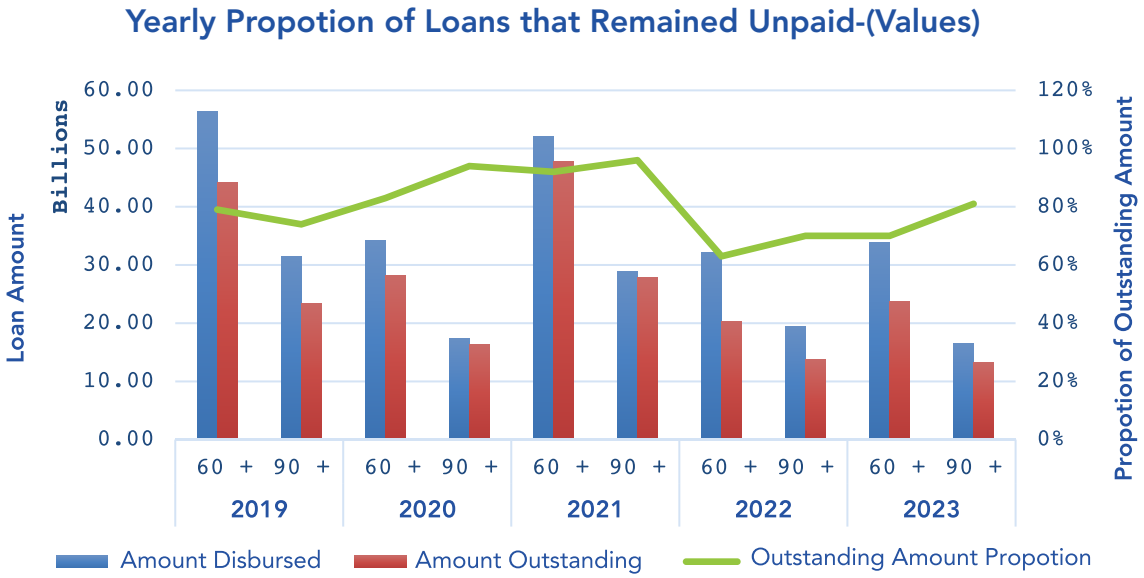
- **General Observations:**
  - **High Delinquency Risk:** Mortgage Loans, Business Expansion and Working Capital Loans, exhibit high proportions of delinquent loans.
  - **Group Loans Concern:** The group loans product type shows a peculiar trend where the proportion delaying in payment is significantly higher than any other product.
  - **Lower Delinquency Risk:** Mobile Banking, Insurance Premium Financing, and Trade and Asset Finance Facilities have the lowest delinquency amongst all products suggesting these may be lower-risk products.

Key Insight:
This analysis suggests that different loan products exhibit different risks of delinquency as loans age beyond 90 days. Managing these risks is critical to improving overall loan performance

3.4.4 Performance By Year of Loan

The dataset represents loan data for MSMEs focusing on loans with amounts 60+ and 90+ days past due

Figure 3 11: Performance by Year of Loan



An analysis of the loan data year by year **(2019–2023)** is as follows:

2019

2020

2021

2022

2023

1

2019
had a moderate level of overdue loans, with a relatively high proportion of both amounts and counts remaining unpaid. This suggests repayment issues were present but manageable. The outstanding proportions indicate that while many loans were overdue, efforts to manage them were relatively consistent compared to the challenges seen in later years.

2

2020
was severely impacted by the COVID-19 pandemic. The significant rise in outstanding proportions and counts shows a sharp increase in defaulting loans. The inability of borrowers to repay loans can be attributed to economic disruptions during the pandemic. Loan repayment deteriorated, making this year one of the worst performing.

3

2021
saw further worsening in loan repayment behavior, especially in the 90+ days category where the outstanding amount is highest among all years. While the number of loans in default (count) reduced, the proportion of outstanding amounts was very high, showing that although fewer loans were overdue, the ones that were had large amounts remaining unpaid. This indicates a challenging year, likely due to the ongoing economic recovery struggles.

4

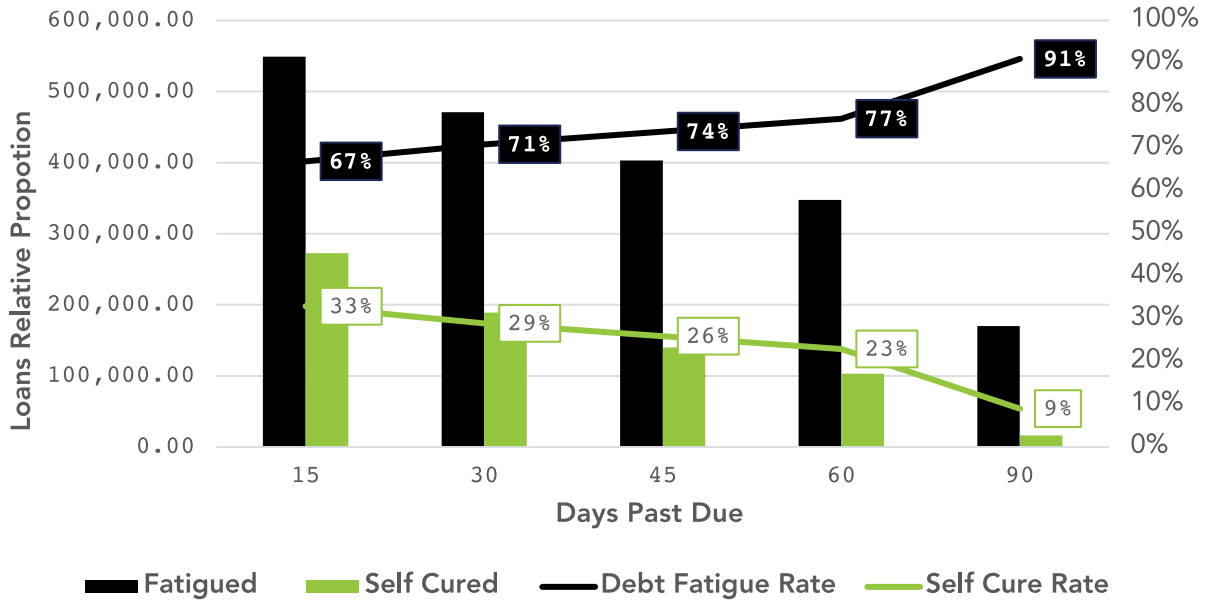
2022
showed marked improvement in loan repayment. The outstanding amount proportion dropped considerably, especially in the 60+ days category. This suggests that economic recovery from the pandemic was taking effect, leading to better loan management and repayment. Despite some loans remaining unpaid, this year stands out as one of the best performers in terms of loan recovery.

5

In **2023,** there was continued stabilization in loan repayment behavior. Though not as good as 2022, the outstanding amount proportion remained relatively low compared to earlier years, indicating a consistent recovery. The lower outstanding count proportion also points to improved repayment behavior, though challenges remained.

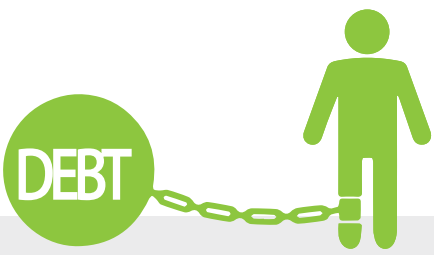
3.4.5 Debt Fatigue and Self-Cure Rate

Figure 3 12: Debt Fatigue and Self-Cure Rate



This dataset reflects the proportion of loans that remain outstanding past various overdue thresholds (15, 30, 45, 60, and 90 days) for loans disbursed between 2019 and 2023. The green line represents borrowers that were able to repay and return to performing status for each category of days past due while the black line represents those that were unable to and remained past due at each threshold.

Key Insights:
The longer a loan remains past due the higher the chances the loans will remain unpaid over a longer period with the borrower unable to repay the facility on time.



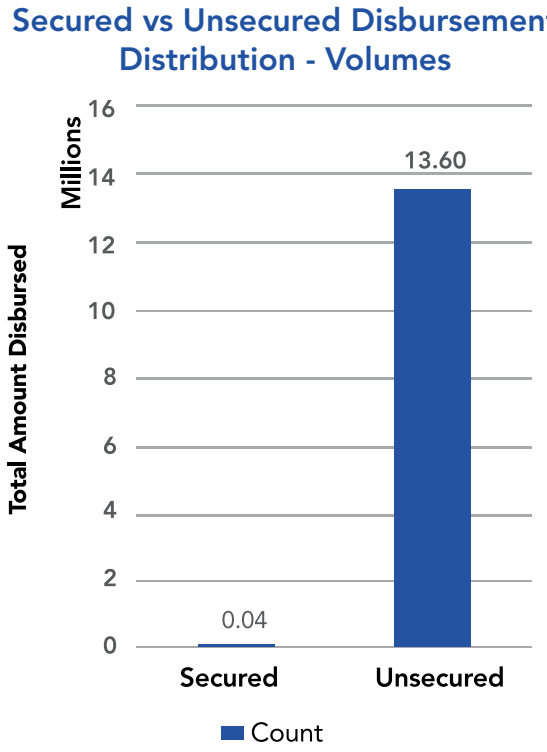
91%
Debt fatigue rate on 90days' loan for loans disbursed between 2019 -2023

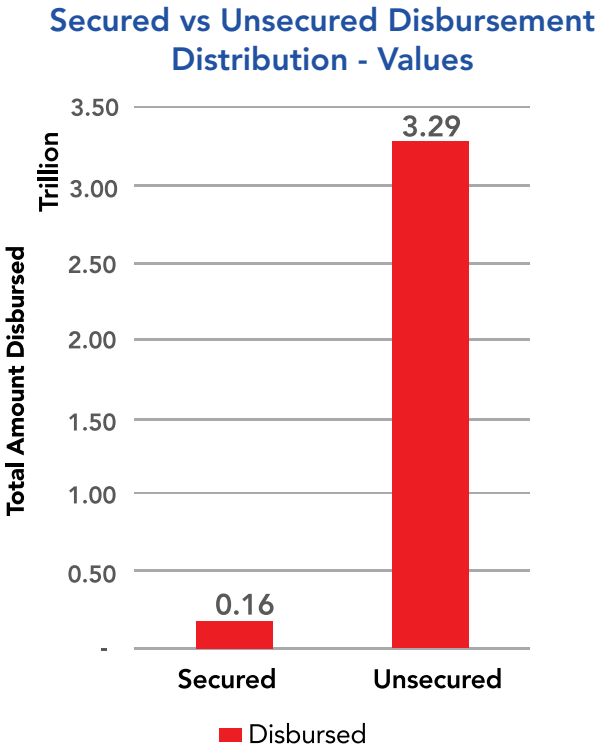
3.5 COLLATERAL ANALYSIS

3.5.1 Analysis By Secured or Non-Secured Status

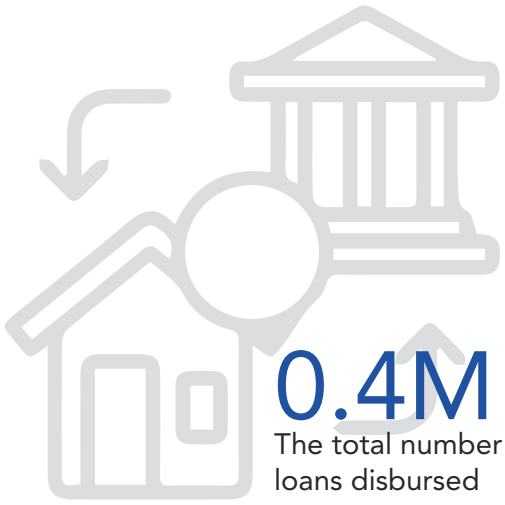
This section analysis loans by their secured or non-secured status

Figure 3 13: Secured vs Unsecured Disbursement Distribution





The charts above provide a comparison between secured and unsecured loans in terms of the total amount disbursed and the number of loans disbursed.



0.4M

The total number of Secured loans disbursed

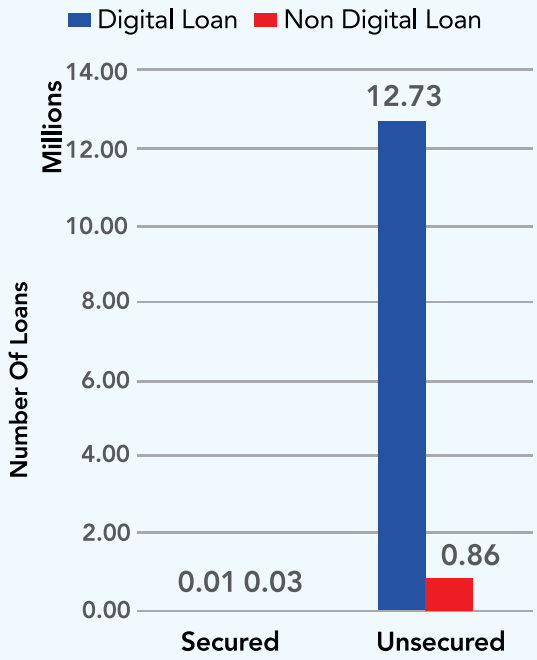
Key Observations:

Unsecured loans significantly outweigh secured loans in terms of the total number of loans disbursed. The total number of loans for unsecured is over 13 million compared to around 400 thousand for secured loans.

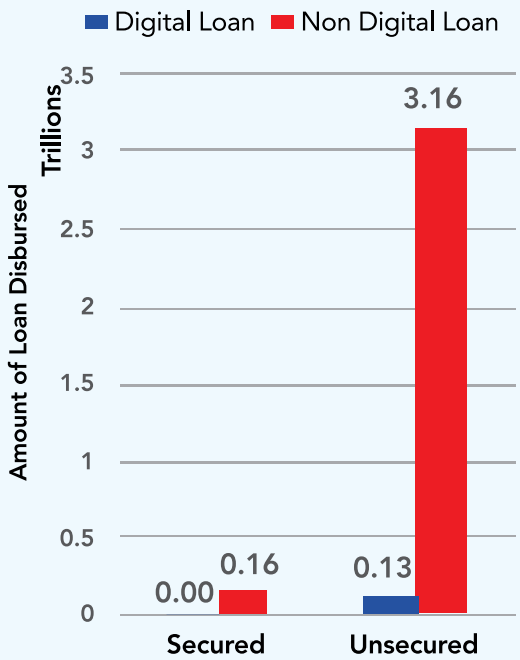
The opposite is true for the loan values with secured loans having a far higher amount disbursed at over 3 trillion shillings while unsecured loans only account for 0.16 trillion.

This suggests that the loan value for unsecured loans is very small as compared to the secured loans also pointing at the proliferation of digital loans that have a higher volume and lower disbursed amount per the charts below.

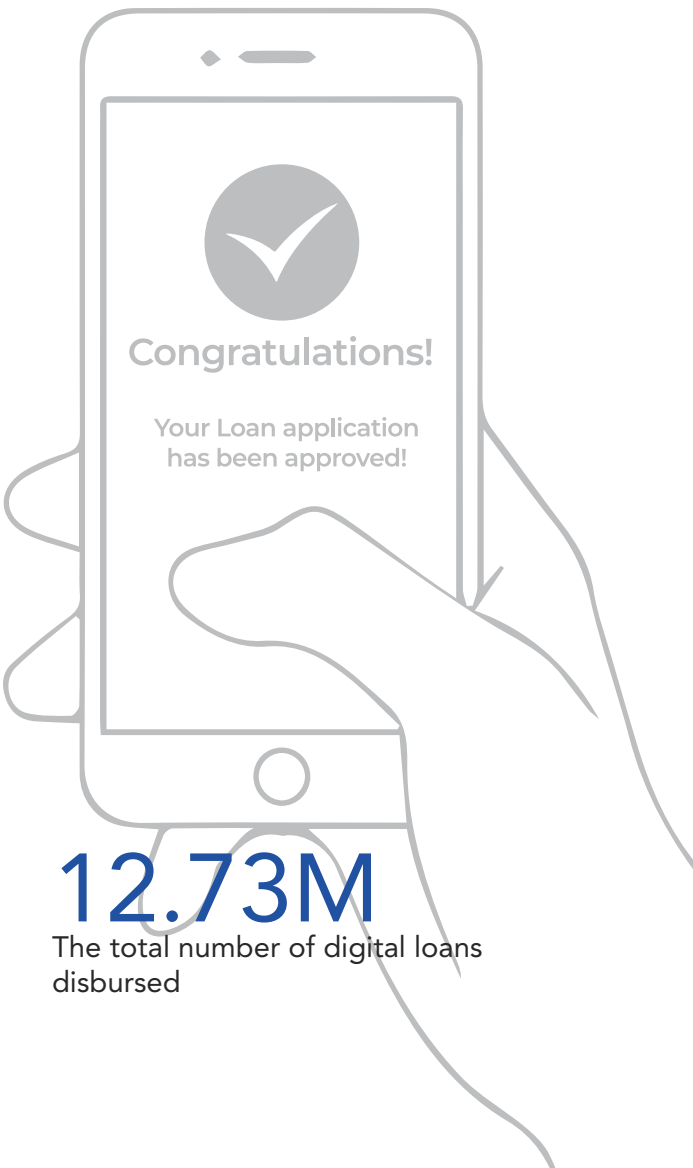
Volumes of Secured vs Unsecured Disbursement Distribution



Values of Secured vs Unsecured Disbursement Distribution



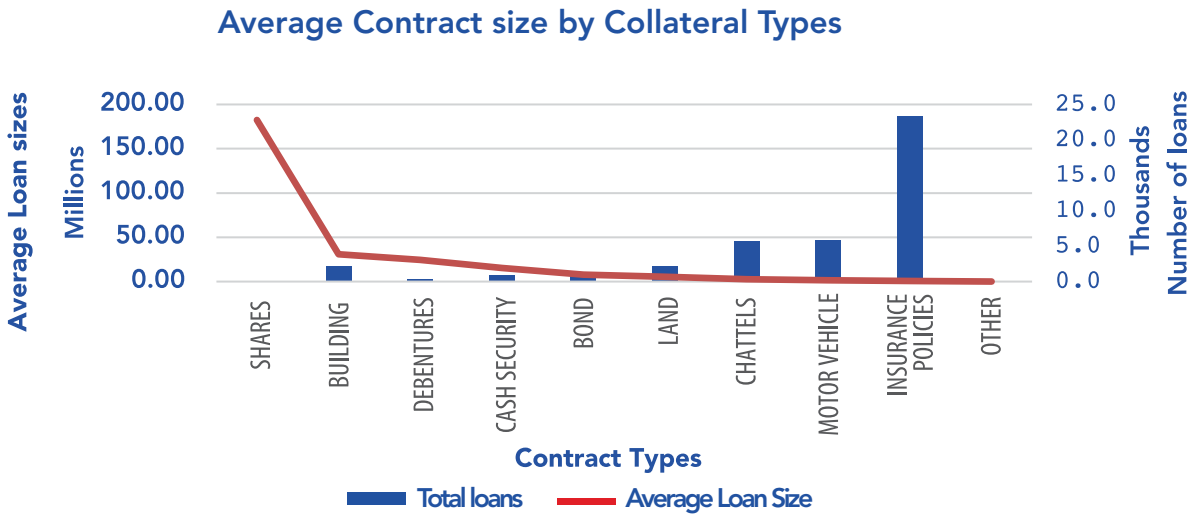
Key Insight:
Overall, the analysis highlights that unsecured loans dominate in terms of the number of loans disbursed to MSMEs. This points to the growth of digital lending in the financial sector with a strong reliance on the mobile channels to drive credit growth.



12.73M
The total number of digital loans disbursed

3.5.2 Average Contract Size by Type of Collateral

Figure 3 14: Average Contract Size by Type of Collateral



Trends and Patterns Identified:

1. **Inverse Relationship Between Loan Size and Volume:**
   - Higher-value collateral types like shares, buildings, and debentures have fewer loans but larger average loan sizes. This reflects their use in larger, more significant financial transactions.
   - Lower-value collateral, such as chattels, motor vehicles and insurance policies, have smaller loan sizes but much higher volumes. This suggests these are used more frequently for everyday borrowing or smaller-scale financial needs.

2. **Real Estate Dominance:**
   - Collateral types linked to real estate (buildings and land) are prominent in terms of both volume and loan size. The substantial borrowing activity reflects the continuing reliance on physical assets in securing financing for MSMEs.

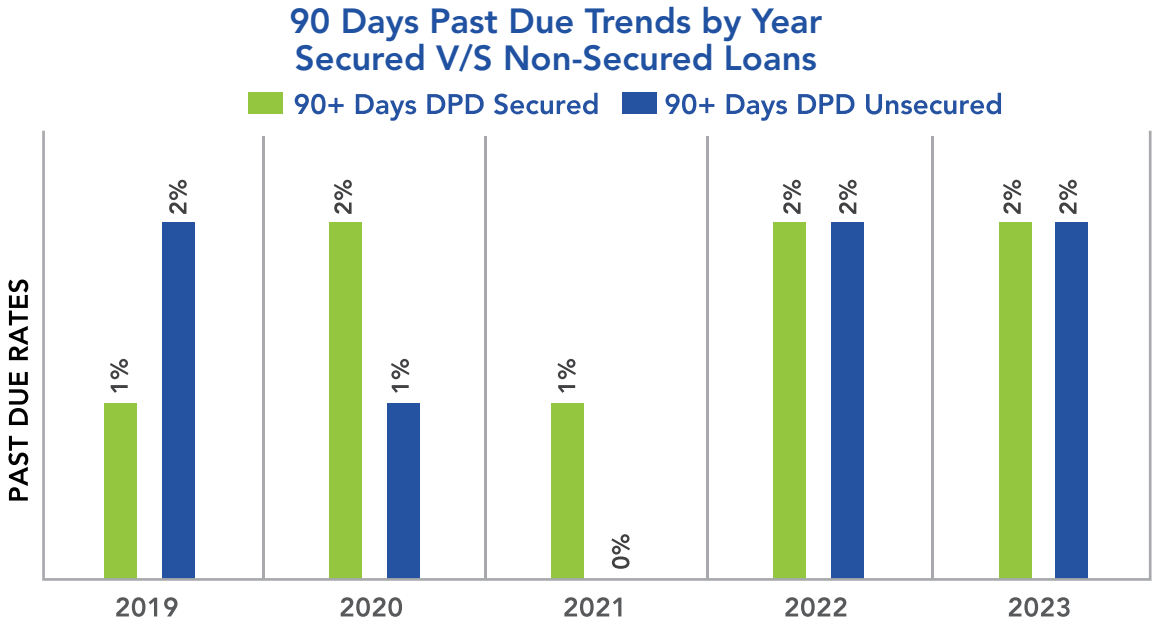
3. **Varied Use of Financial Instruments:**
   - Financial instruments like debentures and bonds are used for moderate loan sizes. Their role in securing medium-sized loans demonstrates their importance for borrowing though not as prevalent as real estate-backed loans.

4. **High Frequency of Low-Risk Loans:**
   - Insurance-backed loans, while the smallest in size, dominate in terms of the number of loans issued. This reflects their use in personal finance and low risk borrowing. This type of collateral is easily accessible and popular for small, short-term loans.

Key Insight:
The data highlights the different ways collateral influences both the volume and size of loans. High-value collateral types like shares and buildings are used for large-scale financial transactions, while smaller collateral types, such as motor vehicles and insurance policies, cater to more frequent, lower-value loans. The overall pattern shows a diverse lending environment, where the choice of collateral significantly impacts the scale and purpose of the loans issued.

3.5.3 Default Risk by Secured or Non-Secured Status

Figure 3 15: Default Risk by Secured or Non-Secured Status



Key Trends and Patterns Identified

Pandemic Impact (2020):

- Both secured and unsecured loans saw a sharp increase in delinquency rates during 2020. This is likely due to the economic disruptions caused by COVID-19, which impacted borrowers' ability to repay loans across all sectors.

Post-Pandemic Recovery (2021-2023):

- Both categories saw improvement in 2021, with delinquency rates dropping significantly. Secured loans benefited from their collateralized nature, while unsecured loans experienced a stronger rebound, reflecting increased borrower stability.
  - By 2023, the rates for secured loans had dropped for 90 days past due, indicating an improvement in loan performance.
  - Unsecured loans, despite being riskier, also saw improvement in 2023, with delinquency rates falling for 90 days past due, suggesting enhanced borrower discipline and economic recovery.

2022 Economic Pressures:

- Both secured and unsecured loans experienced higher delinquency rates in 2022, likely due to the global inflation crisis and higher interest rates. The impact was more pronounced for unsecured loans, with the delinquency rate peaking in 2022.
- Secured loans also saw a spike in **2022,** but these loans performed better overall due to the collateral backing them.

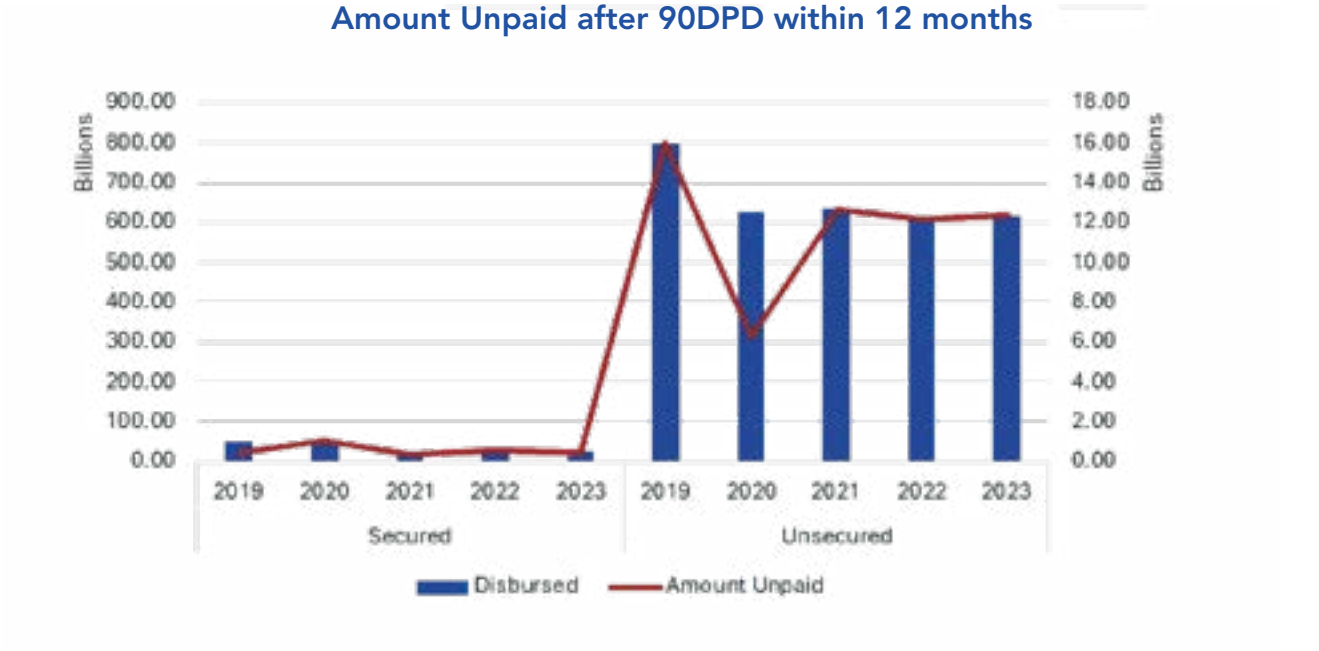
Stability in 2023:

- 2023 marked a return to stability, as delinquency rates across both secured and unsecured loans improved. Secured loans had lower rates overall due to the presence of collateral, but unsecured loans also showed strong signs of recovery, reflecting the easing of economic pressures and borrowers' improved ability to manage debt.

Key Insight:
The data shows a clear impact of the pandemic on loan delinquency rates, with 2020 being a challenging year for both secured and unsecured loans. However, the recovery in 2021 and 2023 suggests that borrowers have been able to regain financial stability, supported by improving economic conditions. Secured loans fared better overall due to the security of collateral, while unsecured loans saw more volatility, especially during 2022, due to their inherently higher risk. Nonetheless, both categories have shown positive trends as the economy stabilizes.

3.5.4 Correlation between types of assets financed (secured versus unsecured) and loan performance.

Figure 3 16: Correlation between secured vs unsecured assets & loan performance



The chart illustrates the trends in loan amounts that remain unpaid 90 days past due (DPD) within a 12-month period for both Secured and Unsecured loans over different years. The chart represents the amount disbursed in billions against the loan amount past 90 DPD in billions.

Secured Loans:
From 2019 to 2023, the outstanding amount for secured loans past 90 DPD shows a gradual increase over these years, but it remains consistently lower than in the unsecured category.

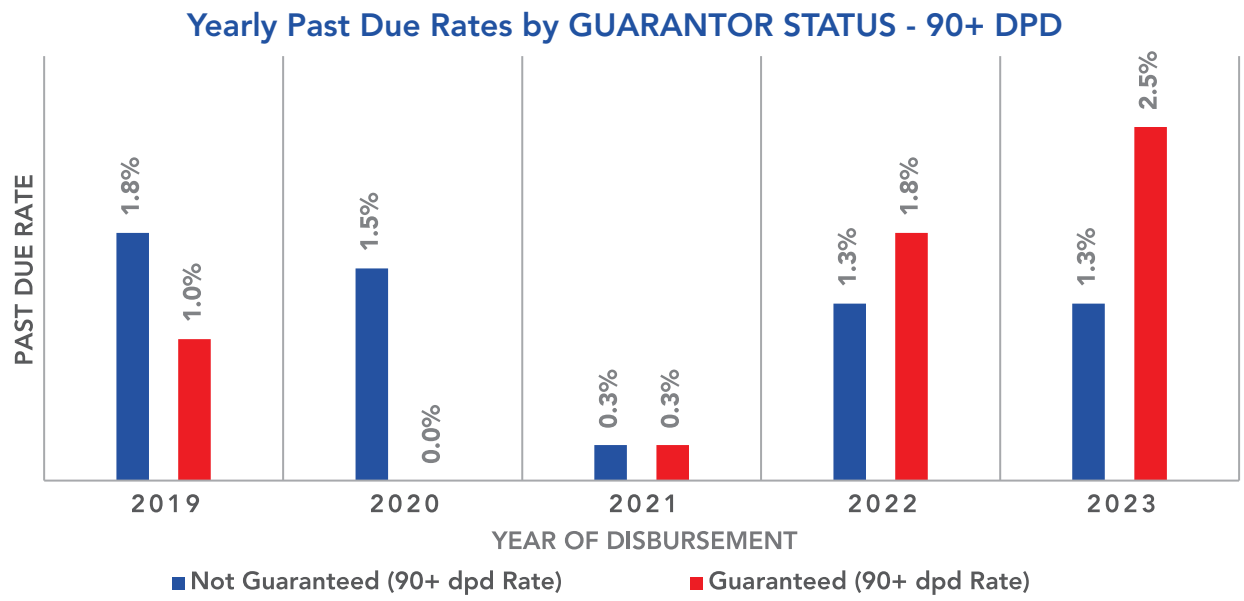
Unsecured Loans:
The outstanding amount past 90 DPD in the unsecured category rises steeply alongside the increase in disbursed amounts, suggesting higher default risk in this loan type.

General Pattern:
The data demonstrates that unsecured loans are associated with a higher level of default risk, given their higher outstanding amounts past 90 DPD. Secured loans show more stability with lower levels of unpaid amounts past 90 DPD compared to unsecured loans, indicating potentially lower risk in secured loan categories.

Key Insight:
This pattern implies an increasing credit risk associated with unsecured lending. Secured loans, by contrast, show relatively steady and lower levels of both disbursed and unpaid amounts, indicating lower default risk.

3.5.5 Effectiveness of guarantors on loan performance.

Figure 3 17: Yearly Past Due rates by GUARANTOR STATUS - 90+ dpd

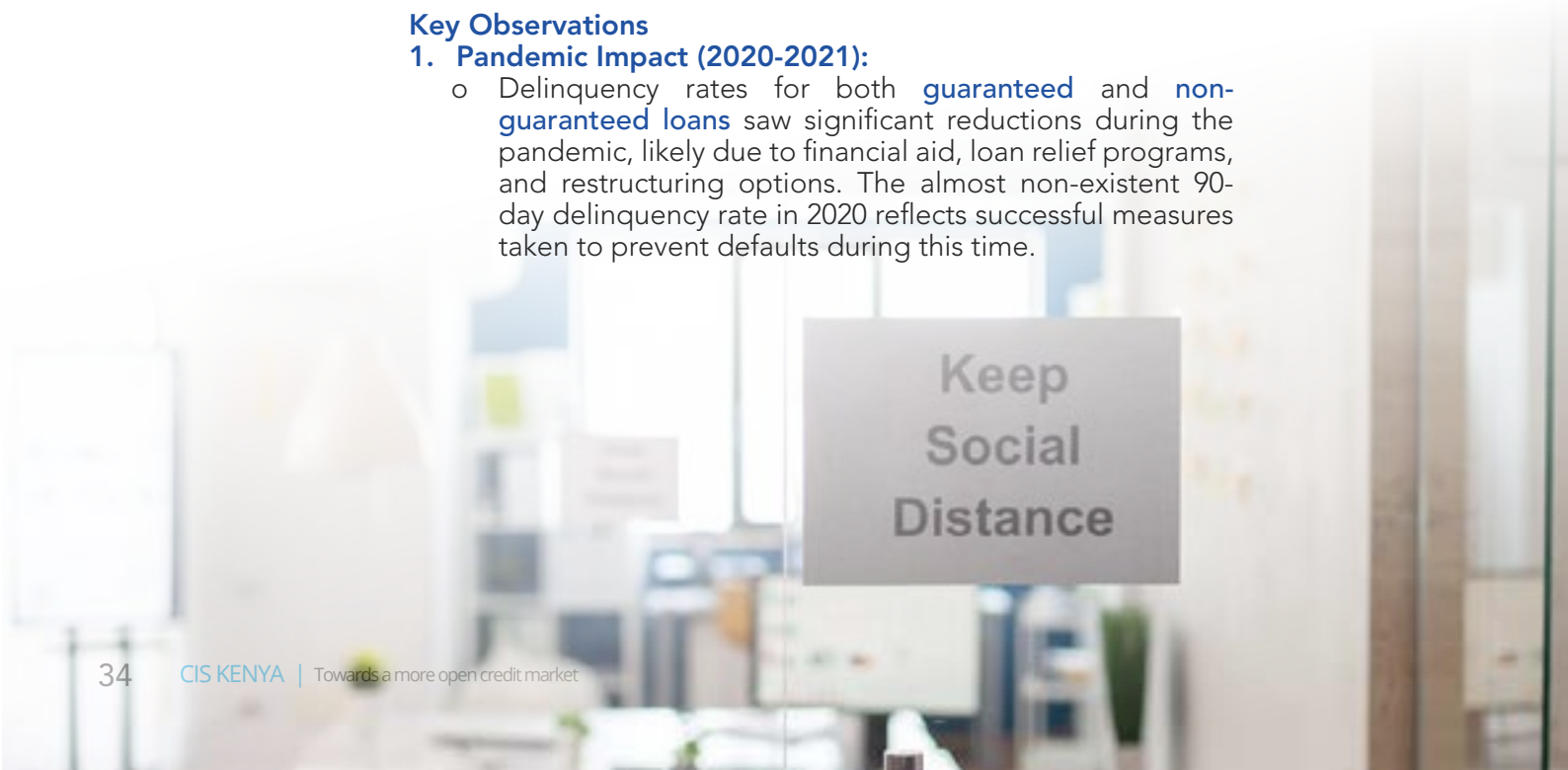


Overview of the Data

The dataset provides information on loans that were guaranteed between 2019 and 2023. It shows two main variables for each year guaranteed loans and non-guaranteed loans. Guaranteed loans are mainly loans issued to groups with group members providing cross-guarantees as security for the loans. These loans tend to be for micro enterprises.

Key Observations

1. **Pandemic Impact (2020-2021):**
   - Delinquency rates for both guaranteed and non-guaranteed loans saw significant reductions during the pandemic, likely due to financial aid, loan relief programs, and restructuring options. The almost non-existent 90-day delinquency rate in 2020 reflects successful measures taken to prevent defaults during this time.



2. **Post-Pandemic Recovery (2022-2023):**
   - Rising Delinquency Rates: As relief measures tapered off and borrowers faced full repayment obligations, delinquency rates for both types of loans increased sharply, particularly for guaranteed loans. The spike in 90-day delinquency rates in 2023 for guaranteed loans suggests a period of acute financial distress.
   - Non-Guaranteed Loans: These loans maintained relatively lower delinquency rates, even during periods of economic stress, possibly reflecting better borrower profiles or more stringent lending criteria.

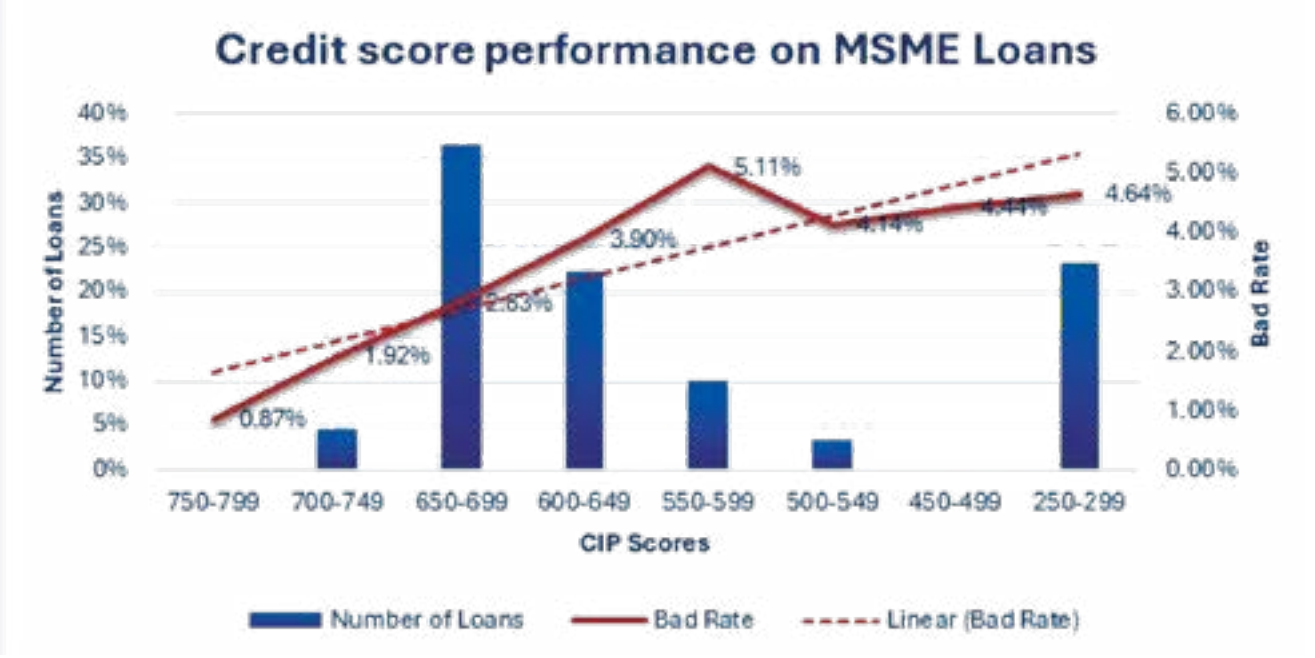
3. **Guaranteed vs. Not Guaranteed Loans:**
   - Guaranteed Loans showed more volatility in delinquency rates, especially in 2022-2023, indicating that borrowers of guaranteed loans were more susceptible to economic shifts or financial challenges. The higher rates suggest that these borrowers may be in sectors or situations that are more vulnerable to changing conditions.
   - Non-Guaranteed Loans, on the other hand, had more stable delinquency rates throughout the period, indicating stronger repayment capabilities or a more conservative lending approach by lenders when not backed by guarantees.

Key Insight:
The delinquency patterns in the data reflect the economic shocks of the pandemic, the recovery efforts, and subsequent financial challenges faced by borrowers. Guaranteed loans appear to be more sensitive to financial instability, as shown by the spikes in delinquency rates in recent years probably from the type of borrower targeted for these loans, mainly micro enterprises. Non-guaranteed loans generally maintained lower delinquency rates, suggesting stronger borrower resilience or more cautious lending practices. As economic conditions evolve, these patterns may help predict future risks for lenders in both guaranteed and non-guaranteed loan portfolios.

3.5.6 Credit Score Performance on MSME Loans

One of the metrics assessed is the predictiveness of credit scores on the performance of MSME Loans. Credit bureaus generate scores for borrowers to give an indication of the likelihood of default. Creditinfo's Predictor Score, the CIP score, is generated for each borrower with ranges between 799 (highest) and 250 (lowest). The higher the score the lower the predicted likelihood of default.

Figure 3 18: Credit score performance on MSME Loans



The chart illustrates the relationship between **CIP Scores** (credit score ranges) and two key metrics:

1. The proportion of loan agreements relative to the total in each credit score range.
2. The proportion of bad loans relative to the contracts in each credit score range.

Key Observations:

- **CIP Score Range:** The x-axis shows different ranges of credit scores from the best 750-799 to the lowest 250-299.
- **Relative Contract Proportion:** The blue bars represent the percentage of loans issued to borrowers in each credit score range.
  - The largest proportion of loans are granted to borrowers with a score between 650-699, followed by those in the 550-599 range.
  - The smallest proportion of loans are issued to borrowers with scores of 450-499 and 750-799.
- **Bad Rate Trends:**
  - The default rate for loans in each credit score range reveals that:
    - The bad rate is lowest for the highest score range (750-799) at 0.85% and highest for the 250-299 range at 7.74%.
    - The generally increasing trend as credit scores decrease means that lower credit scores are associated with higher default rates.
    - The default rate based on individual borrowers increases as credit scores decrease, peaking at 7.74% for the 250-299 range.

Trends and Patterns:
Inverse Relationship Between Credit Score and Default Rate:
Higher credit score ranges (e.g., 750-799) have the lowest bad rates, while lower credit scores (e.g., 250-299) are associated with much higher default rates. This confirms that riskier borrowers tend to default more often.

Concentration of Contracts in Middle Ranges:
The largest proportion of loans are granted to borrowers in the middle credit score ranges (650-699 and 550-599), suggesting lenders focus on borrowers in these mid-range categories.

Disparity in Risk:
While there are fewer loans issued in the 250-299 range, the risk (as shown by bad rates) is extremely high, indicating that lenders likely limit exposure to these riskier borrowers.

Key Insight:
The analysis demonstrates that the higher the credit score, the lower the probability of default, with mid-range credit scores attracting the most loan contracts but with varying levels of risk as indicated by the bad rate trends.

This demonstrated predictiveness of the credit score makes a case for the use of scores as alternative means of qualifying MSMEs for credit and reducing the need to rely on collateral.

3.6 DEMOGRAPHIC ANALYSIS

In this section we analyze the loans to MSME based on the gender of the primary proprietor either male or female.

3.6.1 Disbursements By Gender Of Proprietor

Figure 3 19: Disbursement by Gender by Volumes

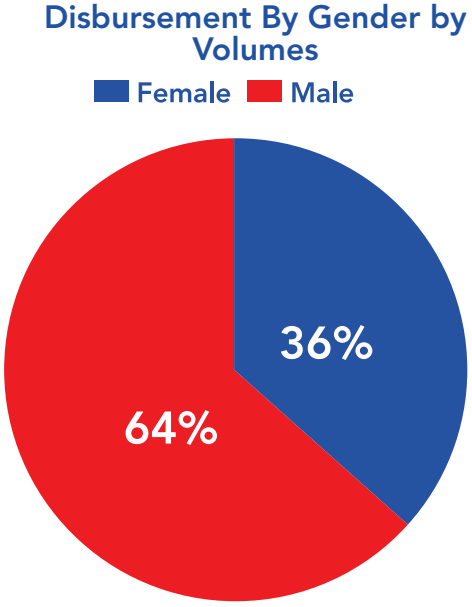
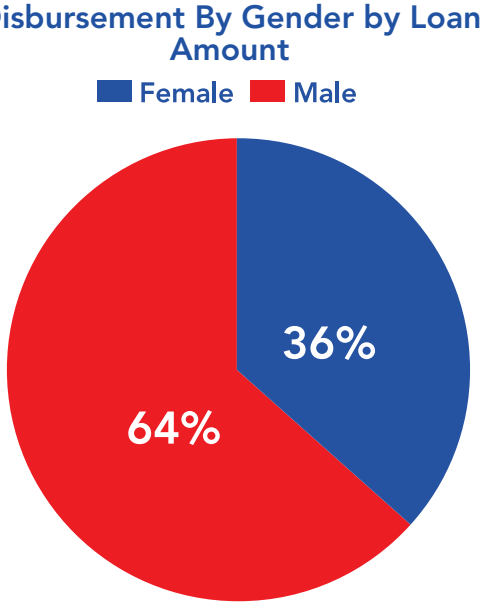
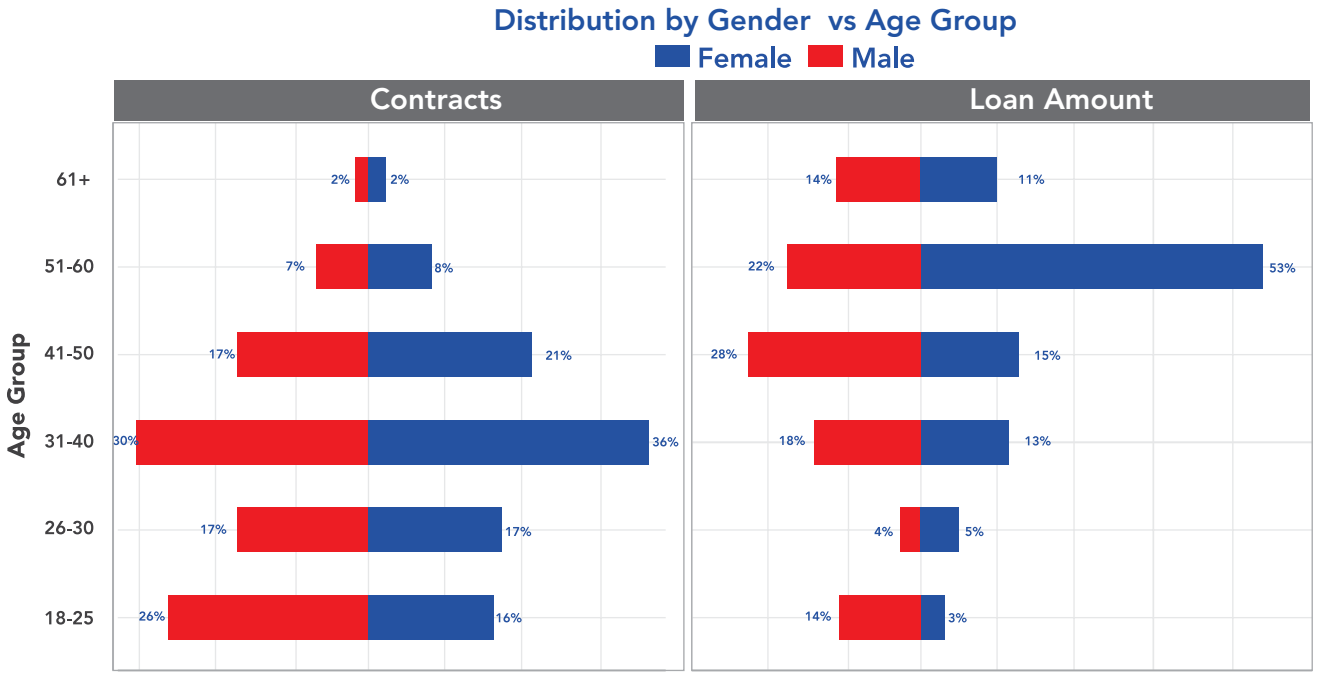


Figure 3 20: Disbursement by Gender by Loan Amount



From the data it is observed that male-led MSMEs dominate in both the number and value of loans disbursed to MSMEs at 64% of both value and volume disbursed with females at 36% respectively.

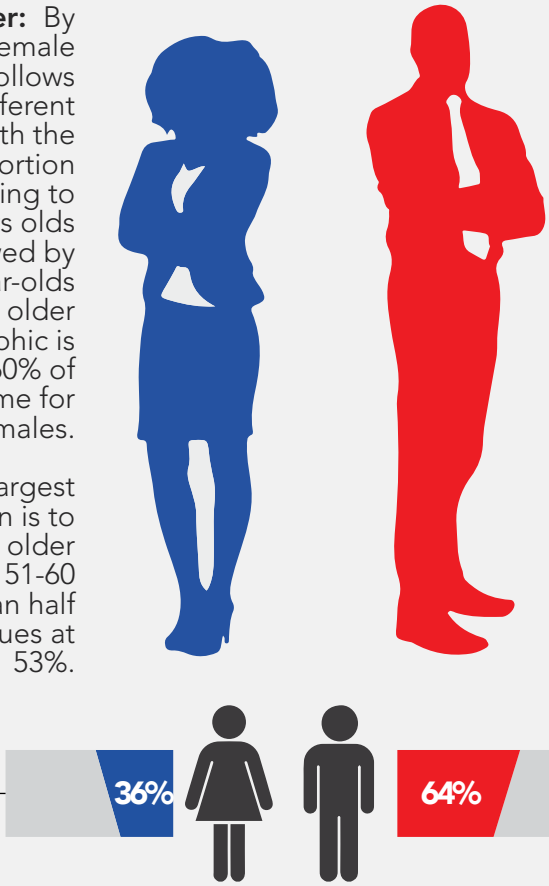
3.6.2 Disbursement By Gender and Age Group of MSME Proprietor



The chart above analysis the distribution of loans to MSMEs based on the age of the proprietor for both Male and Female gender.

Female Gender: By volume the female demographic follows a slightly different distribution with the largest proportion by volume going to the 30-41 years olds at 36% followed by the 41–50-year-olds at 21%, i.e., the older demographic is accessing over 60% of loans by volume for females.

By value the largest proportion is to the much older demographic of 51-60 years at more than half of the loan values at 53%.



Male Gender: By volume the largest proportion is to the age group 31-40 years at 30% followed by the 18-25 years at 20%, i.e., the younger demographic of under 40 years is accessing over 50% of loans by volume.

By value the largest proportion is to the 41–50-year-olds at 28% followed by the 51–60-year-olds at 22%, i.e., the older demographic of over 40 years is accessing over 50% by value of loans.

This suggests that for males, the value of loans given to the younger age groups is smaller than for the older age groups given the younger demographic has a higher volume. This may be an indication of the adoption of digital borrowing by the younger demographic as compared with the older who may be going for the more traditional non-digital loans.

Key Insight:

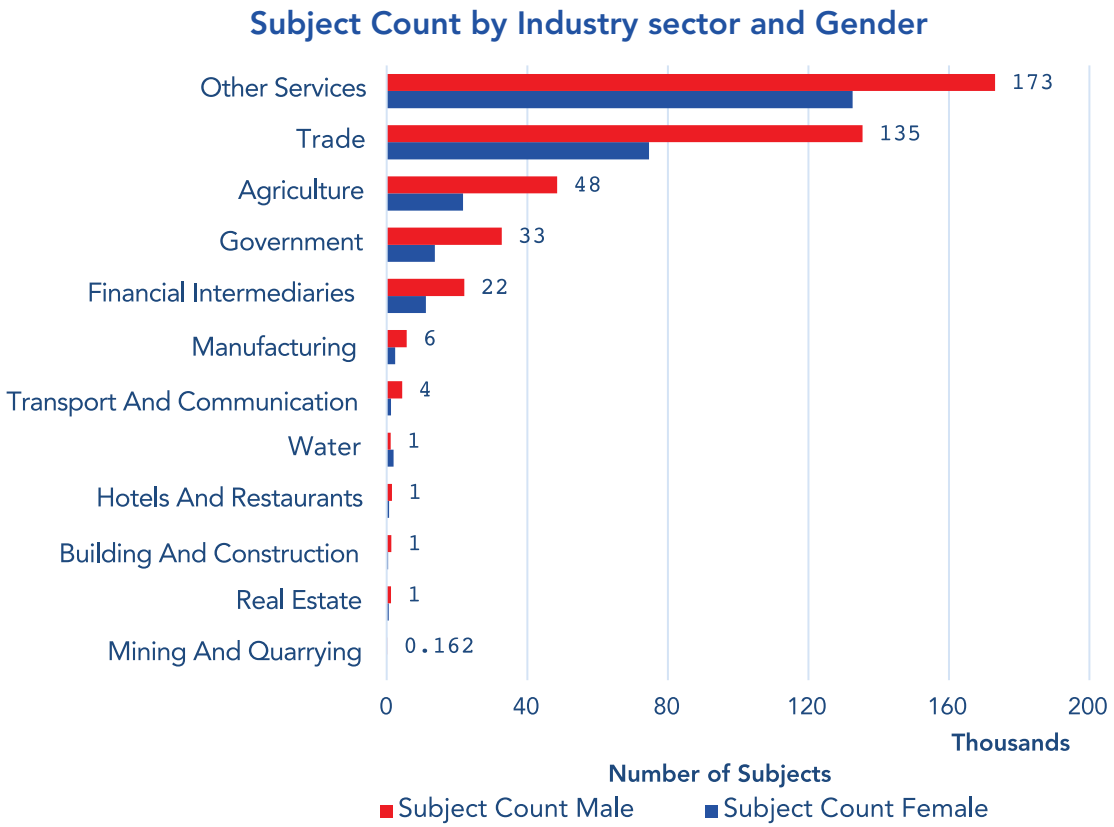
From the uneven distribution of loans by age groups between the genders, it can be surmised that:

a. **The males have a more even distribution within the age groups as the disparities are not very large.**
b. **The males have better taken advantage of the move to digital channels of credit access given the larger volume of younger demographic accessing credit.**
c. **The female demographic is still mainly the older generation who may have more established enterprises and have a better track record to demonstrate to lenders.**
d. **The smaller number of younger females accessing loans compared to males may suggest that females are yet to take advantage of the digital loan products available to access credit for their MSMEs.**

3.6.3 Number of MSMEs By Industry based on Gender of Proprietor

The data provides a breakdown of MSMEs by industry sector, categorized by gender (female and male) of the MSME's primary proprietors.

Figure 3 21: Subject Count by Industry sector and Gender



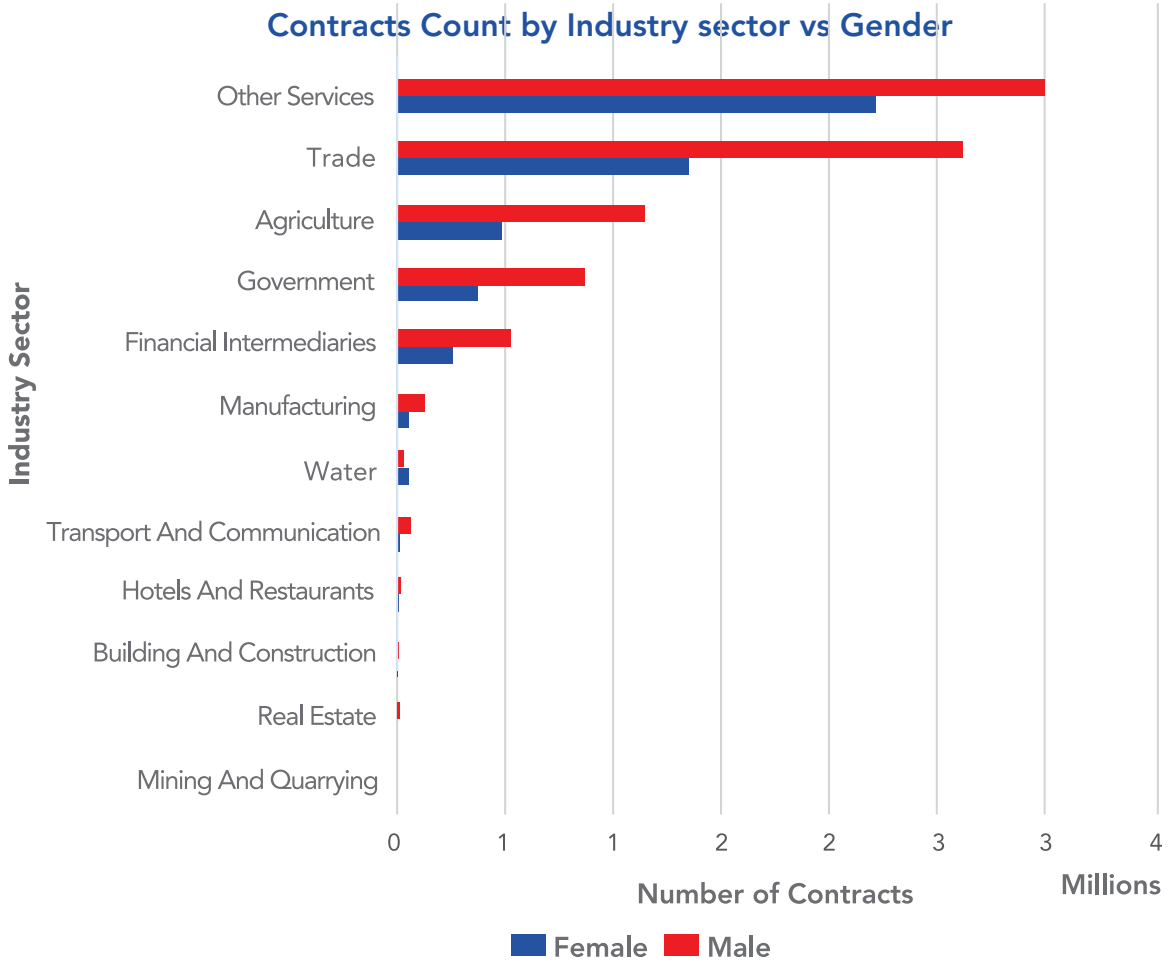
Subject Count

- Male borrowers dominate most sectors. For instance, in Agriculture, there are 48,496 male borrowers compared to 21,692 female borrowers. This trend is consistent across industries like Manufacturing, Trade, and Transport and Communication.
- A few sectors, such as Other Services, show a more balanced or higher female subject count (132,642 females vs. 173,140 males), suggesting greater female participation in these industries.

3.6.4 Total Loans by Industry based on Gender of Proprietor

The chart below shows the total number of loans disbursed to each gender by industry of the MSME.

Figure 3 22: Contracts Count by Industry sector vs Gender



Contract Count (Loan Agreements)

- The contract counts follow a similar gender disparity pattern, with male borrowers holding more contracts than females in most sectors.
- The Agriculture and Trade sectors, for example, have the highest number of contracts for male borrowers.
- Other Services stands out for having a high number of contracts for both genders, indicating high activity across both male and female borrowers.

Patterns and Trends:

- Gender Disparity: Male borrowers consistently outnumber females across most sectors, indicating a gender gap in loan accessibility or demand.
- Loan Size Correlation: Male borrowers tend to secure significantly higher loan amounts, particularly in high-capital sectors like Manufacturing and Real Estate.

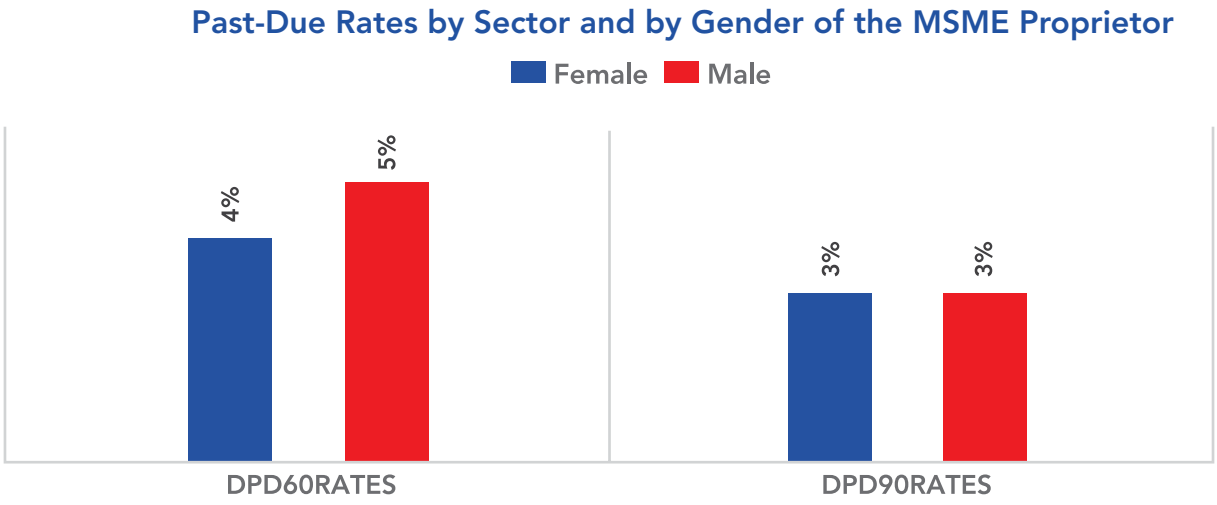
Insights:

- The gender gap may be due to socio-economic factors that limit women's access to larger loans.
- Industries like Other Services and Agriculture could offer more inclusive opportunities for female borrowers, although loan amounts remain skewed towards males.

Key Insight:
The data highlights both opportunities and challenges in addressing gender disparities in the financial sector with the glaring and continued dominance of male gender in the amount of credit disbursed in every sector.

3.6.5 Past-Due Rates by Sector and by Gender of the MSME Proprietor

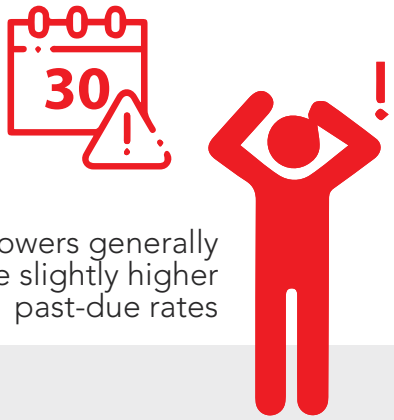
Figure 3 23: Past-Due Rates by Sector and by Gender of the MSME Proprietor



The data provides insight into 60-day and 90-day past-due rates (DPD) across various industry sectors from 2019 to 2023, segmented by gender of the business owner (Female and Male).

Overall Past-Due Rates by Gender:

- Male borrowers generally have slightly higher past-due rates compared to females in the 60 DPD rates. The proportions are similar in the 90 DPD rates.
- Across most sectors, male borrowers tend to have slightly higher past-due rates compared to female borrowers.



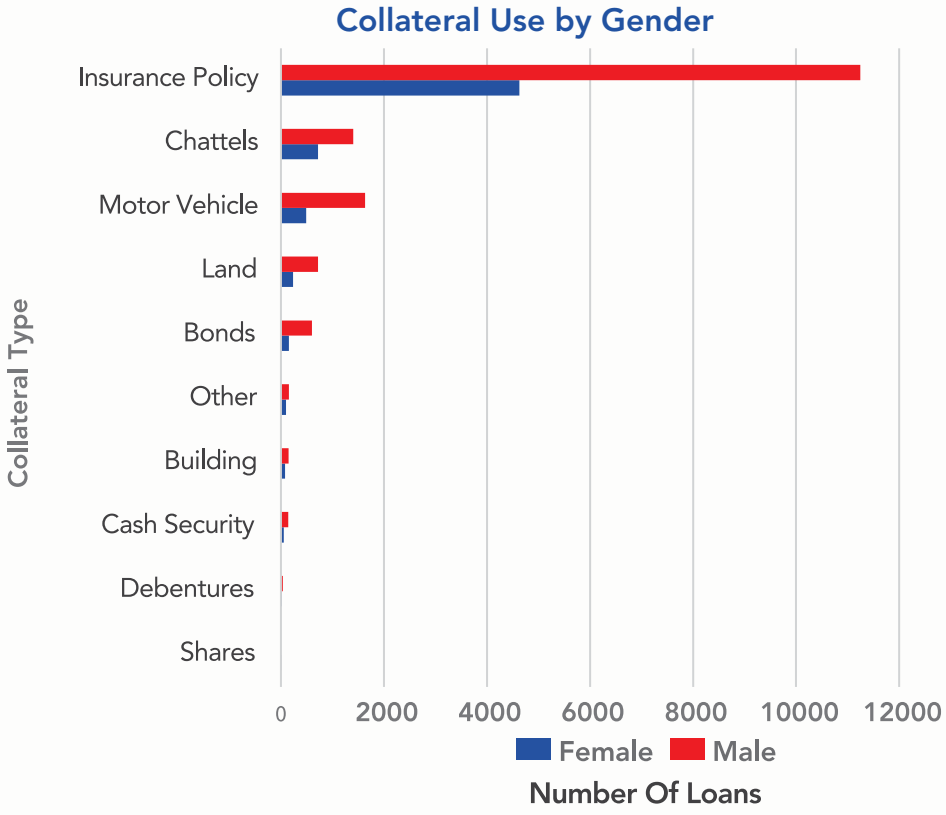
Male borrowers generally have slightly higher past-due rates

Key Insight:
In summary, while there are some similarities between gender groups, the most striking pattern is the slightly higher default risk associated with male gender, indicating potential for the female gender to borrow more without necessarily increasing defaults.

3.6.6 Collateral Use by Gender of Proprietor

The chart below represents an analysis of loans to MSMEs by gender and use of collateral.

Figure 3 24: Collateral Use by Gender of Proprietor



The analysis of the use of various types of collateral by gender gives us the following inferences:

Financial Access: Males may have greater access to financial resources and credit, allowing them to take more loans and use a wider variety of collateral.

Risk Aversion: Females might be more risk-averse and prefer using safer collateral like insurance policies.

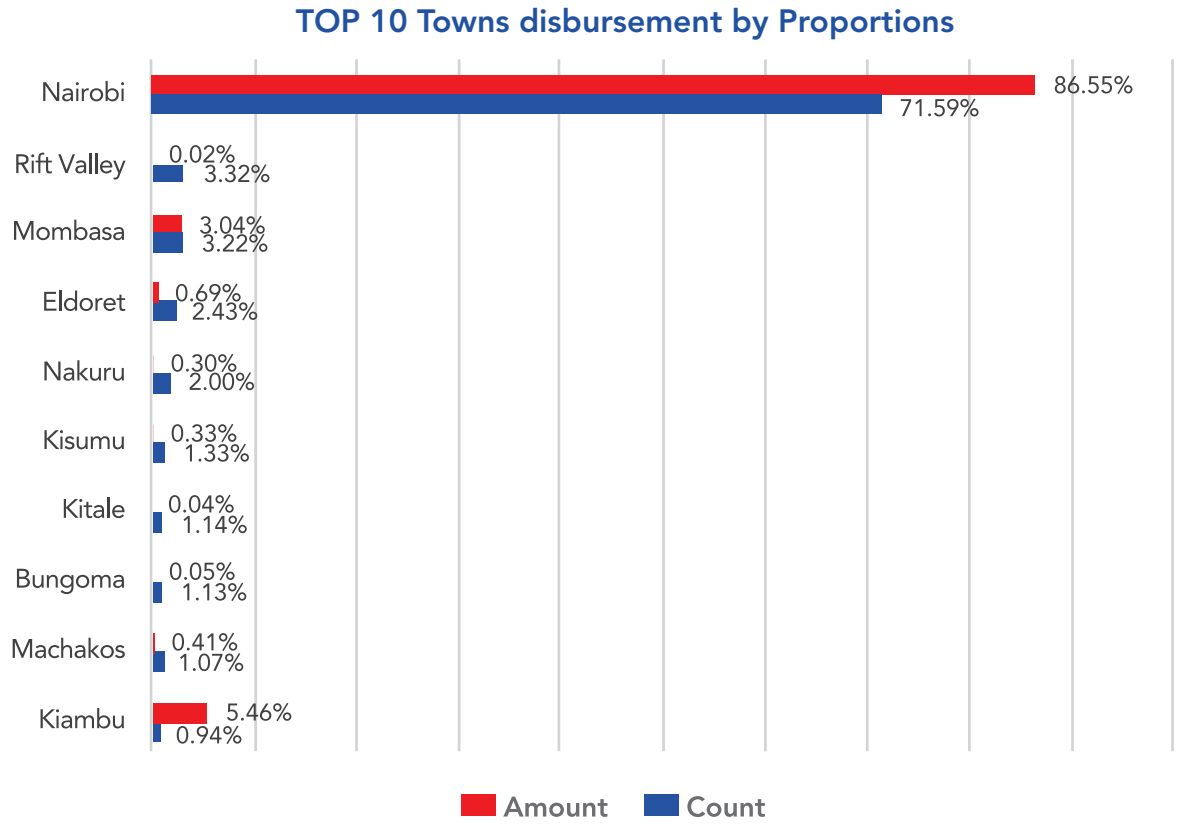
Asset Ownership: Males may own more assets like land, motor vehicles, and chattels, which can be used as collateral.

Key Insight:
From the lower use of collateral by the female gender, it may be surmised that they have lower access to varied collateral types and hence lack the ability to apply these for accessing credit for their MSMEs.

3.7 GEOGRAPHICAL ANALYSIS

This section analyzes loans to MSME based on MSME location in the country. The data available is mainly for non-digital loans (traditional loans) where the physical location details like town of the borrower are captured at time of disbursement of the loan to the MSME. On the other hand, digital loans may not have a designation by location as the mobile number is the primary indicator and, therefore, where this is not indicated these are excluded in the analysis.

3.7.1 Top Ten Towns By Amounts Disbursed to MSMEs



An analysis of the MSME loans by the geographical location of the borrower shows that most loans are given to MSMEs in the larger urban centers. Nairobi County has the bulk of MSME loans being the largest economic center. Other areas are Mombasa, Kiambu, and Nakuru that are also large economic centers.

Key Insight:
There is a lending bias towards MSMEs located in the urban and peri-urban economic centers of the country. MSMEs in more rural areas are disadvantaged as they have limited access to credit from the formal lenders as evidenced by the distribution of loans geographically.

4

DISSEMINATION WORKSHOP

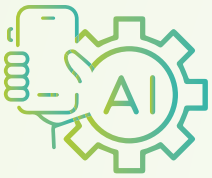
4.1 WORKSHOP DESIGN AND PARTICIPANTS

The workshop was attended by 51 participants from various related organizations, National Treasury, KBA, KNCCI, KAM, Strathmore University, MFI, Digital Lenders, CRBs, Banks and other Credit Providers.

- A complimenting presentation by the National Treasury representative on the CGS
- A summary of the CRB data analysis was presented to the participants
- Break-out groups discussed specific topics on enhancing MSME access to credit.

4.2 WORKSHOP DISCUSSION OUTCOMES

The workshop group discussions proposed the following interventions that would further enable MSME access to credit and address gender imbalances in loan extensions:



1. Technology, Alternative Data and Artificial Intelligence:
Participants noted that growth of digital lending has widened the reach of credit to more borrowers using mobile payment platforms and observed that application of AI and alternative data sources could further widen the reach of credit to MSMEs that are currently outside the reach of mainstream financial institutions.

2. Credit Guarantee Scheme:
Participants noted that the CGS had enabled access to credit for MSMEs that had previously not been able to access from the participating financial institutions. As currently constituted, the CGS remains limited in its ability to impact a wider market. Workshop participants recommended full implementation of the CGS across all financial institutions and increased awareness programs.

3. Movable Property Security Rights Registry (MPSR):
The collateral registry offers lenders an option to use alternative collateral as security for loans to MSMEs and has the potential to enhance access to credit for women-led MSMEs based on their movable assets. Considering the low uptake of this service, participants proposed increased use of technology to provide MSMEs the opportunity to register their movable assets and make valuation process more efficient. The need to create broader awareness about the collateral registry amongst lenders and MSMEs was emphasized.

4. Training and Capacity Building:

Participants noted the large gap in awareness of existing solutions and products amongst MSMEs. They also noted that high level of MSMEs' informality in their operations was a significant hindrance to their access to credit. There is need for targeted training to equip the MSME owners with financial literacy, product knowledge, application of the CGS and collateral registry, MSME scores and ratings, the role of CRBs, and improving business and corporate governance structures.

5. Gender Inclusive Lending

Participants noted the gender imbalance in MSME loan access and recommended:

- Supporting women-led businesses to enhance level of formality
- Use of blended scores that further consider women's lower credit risk
- Tailored financial products for women-led MSMEs with more favorable loan terms.
- Recognition of women's participation in social saving groups (chamas) as a basis for additional data points on payments and savings in credit scoring
- Lowering collateral requirements.

6. Sustainable Financing:

Participants discussed the emerging focus on sustainable finance and how MSMEs can benefit and recommended:

- o sensitization and capacity building to guide MSMEs understand how to tap into green financing.
- o Development of products and solutions that focus on social diversity and inclusion, climate mitigation and risk management, including green products, energy efficiency, green buildings, and climate-smart agriculture.
- o Increased efforts by lenders to recognize, reward and support green solutions through collaborations with CRBs.

5 RECOMMENDATIONS

5.1 RECOMMENDATIONS FROM THE DATA ANALYSIS INSIGHTS

5.1.1 Use of Credit Scores to Predict Default Risk

An analysis of the performance of loans based on their CRB Score demonstrated that the score is quite predictive on the likelihood of default of an MSME loan. MSMEs that had a higher score at the bureau performed better than the MSMEs that had a lower score. The bureau score can be used as an alternative collateral for MSMEs and can facilitate further access to credit at lower costs for MSMEs.

5.1.2 Removing Gender Biases in Lending

The analysis demonstrates that male led MSMEs dominate by almost double the number of loans and amount disbursed to female-led MSMEs, despite evidence of a better repayment behavior by female-led MSMEs. There is opportunity to extend more credit to female-led MSMEs without an increasing the level of non-performing loans.

5.1.3 Reliance on Immovable Assets in Lending to MSMEs

The study shows continued over-reliance on immovable assets to secure credit to MSMEs. Although the types of collateral in use are broad (financial instruments, vehicles and land and buildings), there is over-reliance on the latter even when the impact on loan performance is not material. To support expansion of credit to MSMEs, lending institutions should broaden the acceptable security types to include movable assets.

5.1.4 Digital / Technology Use in Lending to MSMEs

The analysis of loans by type shows significant dominance of digital loans by volume. Due to their ease of access via bank digital platforms, digital loans can be used to drive access to MSME credit. Considering that digital loans are linked to borrowers' mobile money accounts, lenders should strive to use mobile money transactions as an alternative source of data for assessing MSME creditworthiness.

5.2 RECOMMENDATIONS ON THE BROADER CREDIT MARKETS

5.2.1 Expansion of the Credit Information Sharing mechanism

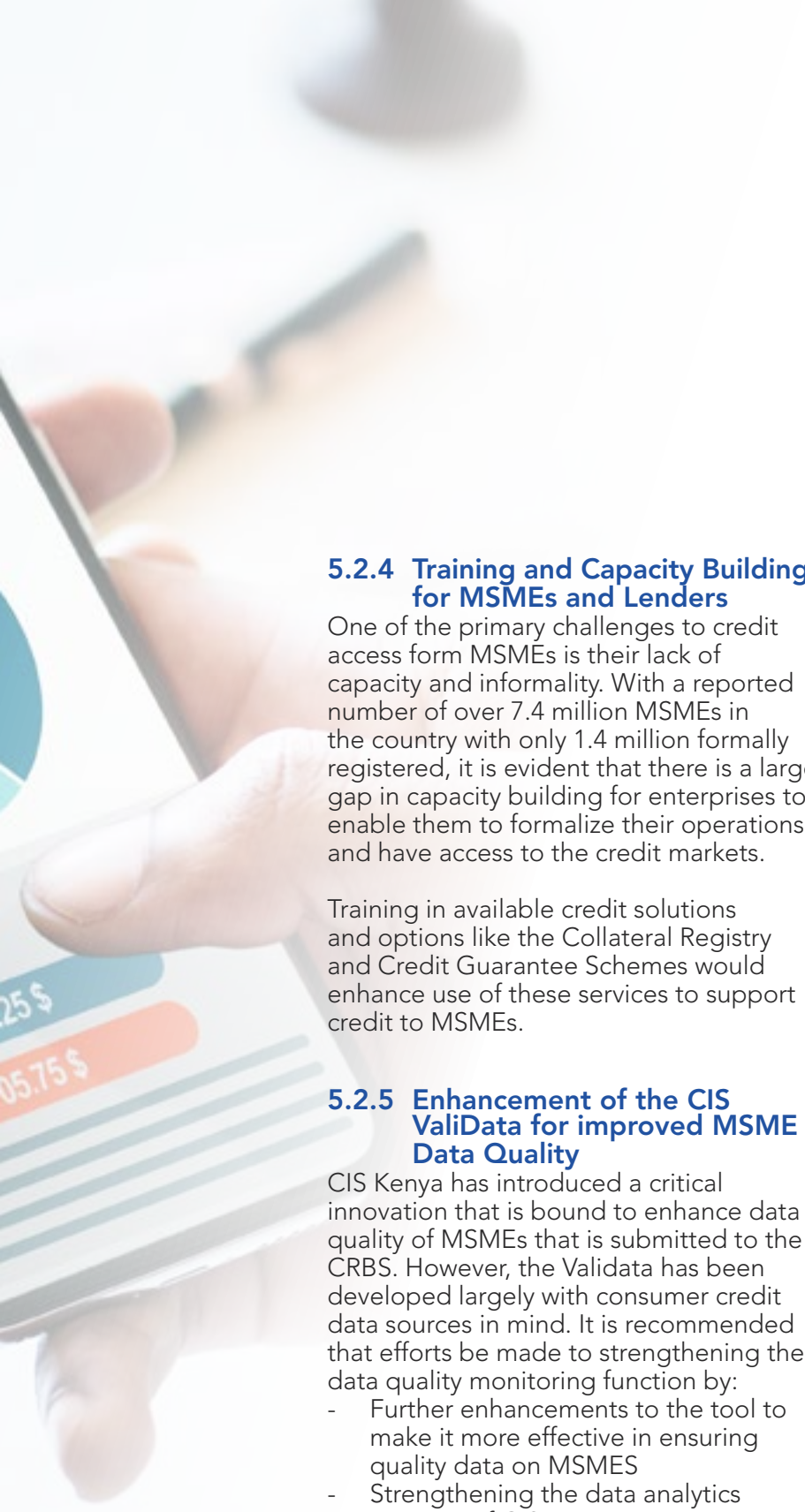
The CIS mechanism should be expanded to include various sources of MSME credit such as government-driven initiatives (Youth, Women's and Hustlers Funds) in order to better assess MSME credit standing. Inclusion of unregulated micro credit institutions and non-deposit taking savings and credit cooperatives would further enrich the CIS mechanism.

5.2.2 Data Specification Template

The data analysis has shown that there are gaps in the submission to the CRB of MSME-related data points. In the on-going review of the DST, CIS Kenya should ensure that the DST data fields are expanded to include more sectors and geographical location of the borrower would allow for better aggregation of MSME related loan data.

5.2.3 Linking of Collateral Registry and Credit Guarantee Schemes

One of the primary challenges to credit access by MSMEs is the requirement by most lending institutions for security to back any credit extension, hence the establishment by Government of the MPSR and the CGS. There is need for a deliberate policy action to scale up access of these two schemes to support the MSMEs in accessing credit from formal lending institutions. In addition the Government should explore the possibility of linking the two schemes for information sharing.



5.2.4 Training and Capacity Building for MSMEs and Lenders

One of the primary challenges to credit access form MSMEs is their lack of capacity and informality. With a reported number of over 7.4 million MSMEs in the country with only 1.4 million formally registered, it is evident that there is a large gap in capacity building for enterprises to enable them to formalize their operations and have access to the credit markets.

Training in available credit solutions and options like the Collateral Registry and Credit Guarantee Schemes would enhance use of these services to support credit to MSMEs.

5.2.5 Enhancement of the CIS ValiData for improved MSME Data Quality

CIS Kenya has introduced a critical innovation that is bound to enhance data quality of MSMEs that is submitted to the CRBS. However, the Validata has been developed largely with consumer credit data sources in mind. It is recommended that efforts be made to strengthening the data quality monitoring function by:

- Further enhancements to the tool to make it more effective in ensuring quality data on MSMES
- Strengthening the data analytics capacity of CIS Kenya
- Introduce technological solutions to enable less sophisticated lenders connect to the CIS Validata to broaden its usefulness in making available MSME data to CRBs

5.2.6 Influence Government CIS Policy changes that impact lending to women-led MSMEs

The Government of Kenya does not have a National Policy on the CIS Mechanism. There is need to formulate a National CIS Policy to achieve the following:

- Define the importance of CIS in the credit market and the economy as a whole due to its crucial role in financial sector stability and access to credit for MSMEs
- Promote expansion of the range of credit providers in the MSME space (including chamas) that submit data to CRBs to increase visibility of women-owned MSMEs that borrow and repay their loans
- Empowering CIS Kenya to play a greater role in supporting credit providers in the MSME space to participate effectively in CIS, including its ability to identify and resolve technological challenges that hinder unregulated credit providers from participating in CIS
- Enabling CIS Kenya monitor and support improvement of the quality of data submitted to CRBs so as to ensure that information on MSMEs available in CRBs is of the highest standard
- Promoting the use of Alternative Dispute Resolution as an effective tool for amicable and cost-effective resolution of CIS-related disputes and ensuring credibility of the CIS Mechanism.

5.3 RECOMMENDATIONS ON ADDITIONAL / FOLLOW UP STUDIES ON THE SUBJECT OF CREDIT ACCESS FOR MSMES

As a follow up to this study and based on its insights, the following areas are recommended for potential study to further enhance understanding of the MSME credit market and find solutions to unlock credit to this vital sector of the economy.

1. Include **a survey of MSMEs** in follow up studies to understand their challenges and suggestions on **improving access to credit**.

2. Include **a survey of Lenders** in follow up studies to understand their challenges, suggestions and initiatives towards **improving of credit access** to MSMEs and addressing **gender inclusivity**.

3. **Scope alternative data sources** that could supplement existing credit data within the CIS mechanism to support MSME lending.

ENDNOTES

[1] Kenyan Banking Sector Analysis: Current Trends, Challenges, and Future Prospects - creditnow.ke

[2] The Focus on SMEs is a welcome Intervention (kam.co.ke)

[3] Companies Registry Statistics - Business Registration Service (brs.go.ke)

[4] Credit Guarantee Scheme (treasury.go.ke)

[5] MPSR - Business Registration Service (brs.go.ke)

[6] Youth Enterprise Development Fund (youthfund.go.ke)

[7] Welcome - Women Enterprise Fund Kenya (wef.go.ke)

[8] The Financial Inclusion Fund – JIINUE . JIENDELEZE (hustlerfund.go.ke)

[9] Focus-Note-Digital-Credit-in-Kenya_Updated.pdf (fsdkenya.org)

[10] Interpretation of this category (Government) is subject to interpretation or clarification in the on-going review in the DST.

Credit Information Sharing Association of Kenya (CIS KENYA)
Located at the Kenya School of Monetary Studies Mathare North Road, off Thika Highway

P.O. Box 65041– 00618 Ruaraka Nairobi, Kenya
t. **254 20 2600118** t. **254 774 832 059** e: **info@ciskenya**.co.ke

www.**ciskenya**.co.ke