

The Effect of Corporate Governance on the Success of Credit Guarantee Schemes in Kenya: A Case of African Guarantee Fund for Small and Medium-Sized Enterprises

By

Joshua O. Obengele

A thesis submitted to the School of Business and Economics

of

Daystar University

Nairobi, Kenya

In partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION  
in Strategic Management

June 2016

APPROVAL

THE EFFECT OF CORPORATE GOVERNANCE ON THE SUCCESS OF CREDIT  
GUARANTEE SCHEMES IN KENYA: A CASE OF AFRICAN GUARANTEE  
FUND FOR SMALL AND MEDIUM-SIZED ENTERPRISES

by

Joshua Obengele

In accordance with Daystar University policies, this thesis is accepted in partial fulfillment of requirements for the Master of Business Administration degree.

Date:

\_\_\_\_\_  
Joanes Kyongo, MBA,  
1<sup>st</sup> Supervisor

\_\_\_\_\_  
Jinnah Waweru, MA (Economics),  
2<sup>nd</sup> Supervisor

\_\_\_\_\_  
Thomas Koyier, MSc,  
Head of Commerce Department

\_\_\_\_\_  
Evans Amata, MFC,  
Dean, School of Business and Economics

DAYSTAR UNIVERSITY

Copyright © 2016 Joshua Obengele

## DECLARATION

THE EFFECT OF CORPORATE GOVERNANCE ON THE SUCCESS OF CREDIT  
GUARANTEE SCHEMES IN KENYA: A CASE OF AFRICAN GUARANTEE  
FUND FOR SMALL AND MEDIUM-SIZED ENTERPRISES

I declare that this thesis is my original work and has not been submitted to any other college or university for academic credit.

Signed: \_\_\_\_\_  
Joshua O. Obengele  
(14-2140)

Date: \_\_\_\_\_

## ACKNOWLEDGEMENTS

I am indebted to a number of people without whom this thesis would not have been written. Firstly, to the almighty God for his grace and granting me patience and perseverance through the conduct of this study. I also would like to acknowledge the advice and guidance of my first Supervisor Mr. Joanes Kyongo and my Second Supervisor Mr. Jimnah Waweru for their knowledge, experience and valuable assistance in the preparation and completion of this study. May the almighty God bless you abundantly.

To my dear wife Beatrice and my children who have been very supporting and understanding during the period of my studies and of this research despite the inconveniences that may have been caused by my absence. I grant you a special thank you for your practical and emotional support. May the almighty God bless you.

Finally to my lecturers, classmates and friends, I salute you and say thank you for your help, support and contributions all through the course of this study. May God's blessings come upon you all.

## TABLE OF CONTENTS

<b>ACKNOWLEDGEMENTS</b> .....	v
<b>TABLE OF CONTENTS</b> .....	vi
<b>LIST OF TABLES</b> .....	viii
<b>LIST OF FIGURES</b> .....	ix
<b>LIST OF ABBREVIATIONS AND ACRONYMS</b> .....	x
<b>ABSTRACT</b> .....	xii
<b>DEDICATION</b> .....	xiii
<b>CHAPTER ONE</b> .....	1
<b>INTRODUCTION AND BACKGROUND TO THE STUDY</b> .....	1
Introduction .....	1
Background to the Study .....	2
Statement of the Problem .....	10
Purpose of the Study .....	10
Objectives of the Study .....	11
Research Questions .....	11
Significance of the Study .....	11
Justification of the Study .....	12
Assumptions of the Study .....	13
Scope of Study .....	13
Limitations and Delimitations of the Study .....	13
Definition of Terms .....	14
Summary .....	15
<b>CHAPTER TWO</b> .....	16
<b>LITERATURE REVIEW</b> .....	16
Introduction .....	16
Theoretical Framework .....	16
General Literature Review .....	22
Empirical Literature Review .....	33
Conceptual Framework .....	37
Summary .....	38
<b>CHAPTER THREE</b> .....	39
<b>RESEARCH METHODOLOGY</b> .....	39
Introduction .....	39
Research Design .....	39
Population .....	41
Sample Size .....	42
Sampling Technique .....	43
Data Collection Instruments .....	43
Data Collection Procedures .....	44
Pretesting .....	45
Data Analysis Plan .....	45
Ethical Considerations .....	46

Summary .....	47
<b>CHAPTER FOUR</b> .....	48
<b>DATA PRESENTATION, ANALYSIS AND INTERPRETATION</b> .....	48
Introduction .....	48
Presentation, Analysis and Interpretation .....	48
Summary of Key Findings .....	70
<b>CHAPTER FIVE</b> .....	72
<b>DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS</b> .....	72
Introduction .....	72
Conclusion .....	76
Recommendations .....	77
<b>REFERENCES</b> .....	79
<b>APPENDICES</b> .....	85
Appendix A: Questionnaire .....	85
Appendix B: Interview Schedule .....	91
Appendix C: Responses .....	92

## LIST OF TABLES

<i>Figure 2.1: Conceptual Framework</i> .....	37
<i>Table 3.1: Number of AGF Staff</i> .....	42
<i>Table 3.2: Sample Size</i> .....	42
<i>Table 4.1: Response Rate</i> .....	49
<i>Table 4.2: Respondents Profile by Gender and Job Level</i> .....	50
<i>Table 4.3: Respondents Age and Period of Service at AGF</i> .....	50
<i>Table 4.4: Respondents Age Bracket and Job Level</i> .....	51
<i>Table 4.5: Familiarity with Corporate Governance Structure of AGF</i> .....	52
<i>Table 4.6: Shareholding Structure of AGF</i> .....	52
<i>Table 4.7: Shareholder involvement in Day-to-Day Decisions and Management</i> .....	54
<i>Table 4.8: Problem with CEO serving Dual Role as Board Chairman</i> .....	55
<i>Table 4.9: Stakeholder Representation at the Board</i> .....	56
<i>Table 4.10: Is AGF Successful</i> .....	59
<i>Table 4.11: Some Key Performance Indicators</i> .....	60
<i>Table 4.12: Leadership and Motivation Influence on Success of AGF</i> .....	63
<i>Table 4.13: Effectiveness of Current Corporate Governance Structure</i> .....	65
<i>Table 4.14: Need for Change of the Corporate Governance Structure?</i> .....	65
<i>Table 4.15: Growth in Shareholder Capital</i> .....	69
<i>Table 4.16: Statement of Comprehensive Income</i> .....	69



## LIST OF FIGURES

<i>Figure 2.1: Conceptual Framework</i> .....	37
<i>Figure 4.1: Existence of Internal Control Structures</i> .....	57
<i>Figure 4.2: Influence of Corporate Governance to the Success of AGF</i> .....	61
<i>Figure 4.3: Number of SMEs Accessing AGF Guarantees</i> .....	67
<i>Figure 4.4: Number of Financial Institutions Benefiting from AGF Guarantees</i> ...	68

DAYSTAR UNIVERSITY

## LIST OF ABBREVIATIONS AND ACRONYMS

AECID	Agencia Española de Cooperación Internacional para el Desarrollo
AFD	Agence Française de Développement
AfDB	African Development Bank
AGF	African Guarantee Fund
AGRA	Alliance for a Green Revolution in Africa
ARIZ	l'Accompagnement du Risque de financement de l'Investissement privé en Zone d'intervention de l'AFD
ATI	Africa Trade Insurance Agency
CG	Credit Guarantee
CGS	Credit Guarantee Scheme
DANIDA	Danish International Development Agency
DCA	Development Credit Authority
DFI	Development Finance Institution
EAPP	Enhancing Agriculture Productivity Project
GOWE	Growth-Oriented Women Enterprise
IFC	International Finance Corporation
KIRSAL	Kenya Incentive-Based Risk Sharing Agricultural Lending
MIGA	Multilateral Investment Guarantee Agency
NESC	National Economic and Social Council (Kenya)
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation (USA)
PCG	Partial Credit Guarantee

PFI	Partner Financial Institution
PROFIT	Program for Rural Outreach of Financial Innovations and Technologies
SME	Small or Medium Enterprise
SMME	Small, Micro, or Medium Enterprise
UK	United Kingdom
USAID	United States Agency for International Development

DAYSTAR UNIVERSITY

## ABSTRACT

Many different types of financial instruments have been developed globally to enable access to finance by Small and Medium Sized Enterprises in the form of credit guarantee schemes. However, a number of such schemes have been unsuccessful and have ended up collapsing or being wound up. A number of studies have concentrated on the design and many other technical aspects of the schemes as reasons for their failures. The purpose of this study was to establish the effect of corporate governance on the success of credit guarantee schemes in Kenya using AGF as a case. The research objectives were to identify key areas of corporate governance in AGF, to establish the effect of corporate governance on the success of credit guarantee schemes in Kenya, and to investigate challenges faced by credit guarantee schemes in embracing corporate governance for their success. Case study design was used in this study. The population for this study was 37, the entire staff at AGF; the sample size was 25 people. Purposive sampling was used in the selection of respondents and primary data was collected through questionnaires and interviews; secondary data was collected through document reviews. The data was analyzed using Statistical Package for the Social Sciences (SPSS) software version 20. Data presentation was done through frequencies, tables and figures. The findings of the study were that ownership structure played a critical corporate governance role at AGF; corporate governance has an effect in the sustainability of AGF; leadership and motivation are key influencers of corporate governance hence also influence the success of AGF; internal controls and operational structures as governance components have an effect on the success of AGF. The study recommends that AGF continues laying emphasis on corporate governance as key influencer of its success and be a role model to other credit guarantee schemes.

## DEDICATION

I dedicate this thesis to my father, Silas Ajong'o Obengele, for his constant support and encouragement, and to my late mother, Magdalene Onono. May the almighty God rest her soul in eternity.

DAYSTAR UNIVERSITY

DAYSTAR UNIVERSITY