Financial Sector Support Project. (P151816)

AFRICA | Kenya | Finance & Markets Global Practice |
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Implementing Agencies: Directorate of Budget & Fiscal & Economic Affairs

Key Dates

Key Project Dates

Bank Approval Date:30-Apr-2015

Effectiveness Date:10-Jul-2015

Planned Mid Term Review Date:28-Feb-2018

Actual Mid-Term Review Date:--

Original Closing Date:31-Jul-2020

Revised Closing Date:31-Jul-2020

Project Development Objectives

Project Development Objective (from Project Appraisal Document)
The project's development objective is to strengthen the legal, regulatory and institutional environment for improved financial stability, access to and provision of, affordable and long term financing.

Has the Project Development Objective been changed since Board Approval of the Project Objective?
No

Components

Name
Component 1: Strengthening Institutions:(Cost $23.30 M)
Component 2: Enabling Efficient Financial Intermediation:(Cost $6.40 M)
Component 3: Mobilizing Long-Term Finance:(Cost $5.30 M)
Component 4: Supporting Project Management:(Cost $1.30 M)
Contingency:(Cost $0.70 M)

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	Satisfactory	Moderately Satisfactory
Overall Implementation Progress (IP)	Satisfactory	Moderately Satisfactory

Overall Risk Rating	Moderate	Moderate

Implementation Status and Key Decisions

The Kenya Financial Sector Support Project (FSSP) was approved by the Board on April 30, 2015 and declared effective as of July 10, 2015.
The first Implementation Mission for the Financial Sector Support Project (FSSP) Project was carried out in Nairobi from Oct 21-30, 2015. As part of the supervision, all the on-going sub components were examined closely, with particular emphasis on identification of a set of first mover activities that could be implemented in the first eighteen months of the project cycle. In particular, the mission team worked with all of the beneficiary regulators to review the agreed upon work plan that was endorsed by the Project Steering Committee on September 28, 2015, and to assist project beneficiaries in preparing for the implementation of specific first-mover activities under the work plan. The retrospective progress and current status of the project, mission's key findings and next steps are presented below. In addition, follow up monitoring consultations were conducted during January 2016 wherein the FSSP team on the ground (Mehnaz Safavian and Charles Musau of the PIU) met with the key counterparts/partners including RBA, IRA, OAG, KDIC, SASRA, CMA, FSD and DfID. The purpose of these discussions was to follow up on work plans and key activities for the next 18 months.

Component 1: Strengthening Financial Institutions
This component will focus on the overarching reform, modernization, and capacity support to the financial sector institutional framework. This component will deliver technical assistance to the various beneficiaries, mostly in the form of consultancies, to design roadmaps and action plans, and implementation support to realize the planned reforms. It will also support the upgrade of IT systems and deliver capacity support to ensure a more effective functioning of the financial architecture.

Subcomponent 1A – Banking Supervision
The overall development objective of the banking supervision component of the project is to assist the Kenyan authorities in further developing regulatory and supervisory frameworks that are effective in mitigating risks associated with the banking sector's rapid development, deepening and expansion across sectors and borders.

Key activities, work plan updates & key issues
Key factors influencing the outcome of this work stream: The first implementation mission was largely affected by recent events in the Kenyan financial sector i.e. the shutting down of Imperial Bank (largest tier 2 bank in Kenya) by the CBK due to fraudulent activities by management of the bank and the sharp rise in interest rates. As of Oct. 26, the yield on the 91 day T-bill stood at 22.5% (nearly double the rate of 11.7% of June, 2015), reportedly due to cash flow problems of the Government and increased borrowing needs.
Key activities: i) Strengthening consolidated supervision across sectors ii) Strengthening cross-border supervisory coordination iii) Strengthening crisis preparedness and crisis management iv) Strengthening financial stability and macro-prudential policy v) Strengthening the financial sector safety net
KDIC: KDIC is one of the beneficiaries of the project. It was recently established by the Kenya Deposit Insurance Act 2012 as the main authority responsible for bank resolution and deposit insurance, and is the successor to the previous Deposit Protection Fund, which was a "paybox plus" deposit insurer, housed at the CBK and with deposit insurance and liquidation powers only. The new KDIC, which commenced operations in July 2014, is an autonomous body, which has an expanded mandate, including that of statutory manager or receiver of distressed banks. The FSSP is supporting, inter-alia, KDIC's effectiveness as a resolution authority and deposit insurer. In this regard, the mission indicated that the project could support urgent technical assistance that might be required in the resolution of Imperial Bank should KDIC request such assistance. The team met with the KDIC during the mission in Oct 2015. However the team was preoccupied with the Imperial Bank situation underway. Mehnaz Safavian subsequently met with KDIC in Jan 2016, during which time the acting CEO affirmed his gratitude to the FSSP team for the support and expressed interest in TA activity.
Suggested work plan amendments: i) alignment of duplicative activities. For example, both the Financial Stability/Research team and the Banking Supervision Department have submitted proposals for developing databases that are similar or overlap ii) inclusion of a consultancy to strengthen supervisory processes, procedures and operations within the BSD of the CBK for period of about 6 months. A TOR has subsequently been circulated and received a No Objection from the bank iii) exclusion of activities which fall outside the scope of the project design (as the mission understands them) e.g. video-conferencing, laptops, i-pads, activities related to financial inclusion surveys and training on RBS for AML/CFT iv) inclusion of a database to identify risks at the micro and macro levels for the CBK Research Department
Key issues: **i)** As a result of the Imperial Bank situation and heightened focus on supervision by the Governor of the CBK, the project remains susceptible to urgent requests from CBK and KDIC to assist with capacity building in this area and would need to remain open to adjustments to the scope of the project. However, this is likely to be limited as the IMF is currently conducting a deep dive assessment of the sector and will provide an aide memoire / recommendations upon completion. The FSSP team will assist in implementation of these suggested actions ii) it is currently envisaged that an FSAP will be conducted in FY2016.

Subcomponent 1B – Payments
The objective of this sub-component is to: (i) support efforts by the National Treasury to scale-up digitization of government payments and services, and (ii) support CBK to upgrade payment systems, technology infrastructure, and enhance payment systems regulations and oversight.
Key activities, work plan updates & key issues
Change Management: While the authorities have set up a cabinet-level ICT committee driving e-government initiatives, they have yet to institutionalize change management frameworks and project management functions launched under ad hoc provisional structures at NT. Therefore, a key activity in the work plan will be to recruit a program manager and other technical specialists (comprising a central program management unit at the Treasury) to introduce robust governance structures.

MDAs: The program is initially targeting a limited cluster of MDAs viz.: i) Ministry of Lands, Housing and Urban Development; ii) Office of the Attorney General and Department of Justice; iii) National Transport and Safety Authority; iv) Department of Immigration Services; and v) Kenya Police Service.
Proposed changes to the work plan: i) For the Government Digital Payments Program, introduction of a readiness assessment to provide a baseline of the current state of readiness for each targeted MDA; ii) for the CBK, scoping and definition of business and technical requirements for upgrading the RTGS system and facilitation of engagement with capital markets and other stakeholders to achieve strong commitment and collaboration.
Recommendations: i) adjustment of the stated work plan at NT to be organized into 2 thematic areas: 1. Policy and strategy management (planning, implementation, and M&E) related to the digitization initiative, including partnership management and 2. Digitization and change management ii) adjustment of the stated work plan for CBK to be organized into 2 thematic areas: 1. Upgrading and replacing the current RTGS and CSD systems and 2. Reviewing payment system oversight framework and practice; iii) the establishment of key measurement indicators for NT to digitize payments and services across targeted MDAs; iv) the establishment of key output indicators for monitoring work plan progress

Subcomponent 1C – SACCOs
The objective is to strengthen the supervisory systems and capacity of the five-year old SACCO Societies Regulatory Authority (SASRA) which has the responsibility for licensing and prudentially supervising all deposit-taking SACCOs. This component will help SACCOs meet the high demand for financing the real economy by implementing a housing loan securitization demonstration project among the strongest SACCOs and improving finance performance/confidence in the sector.
Key activities, work plan updates & key issues
Improving and automating Risk-Based Supervision at SASRA: To be achieved by revising processes, ratios, reporting formats, training the 20 new supervisors and automating off/on-site supervisory processes. Research and implement a market conduct supervisory unity within SASRA.
Implementation of a central liquidity facility (CLF): facilitating payment services so consumers can use SACCOs as a primary financial institution
Initiating a Deposit Guarantee Fund for Deposit-Taking SACCOs: SASRA to continue this work, as envisioned in the SACCO Act
Key issues to be addressed in the short term: i) SACCOs currently do not have access to positive data in the credit bureaus and this is urgently needed (fewer than 10 SACCOs are part of the credit reference bureaus). ii) Liquidity to keep up with the demand for loans
Proposed changes to the work plan: after interacting with regulators, various changes were proposed including proposed timelines for each activity, improvements in the SASRA website and CRM, moving key functions to electronic platforms, removal of non-essential items and establishment of a CLF

Component 2: Enabling Efficient Financial Intermediation
This component will move forward the financial inclusion agenda in the Republic of Kenya with a focus on strengthening financial infrastructure and making more transparent the pricing of financial intermediation (savings and lending) so that more businesses and individuals have access to affordable financial products. The component will support consultancies, training and IT purchases.

Subcomponent 2A – Credit Reporting
The overall objective is to develop a comprehensive credit information sharing/credit reporting system in Kenya which facilitates increased coverage of the adult population by credit bureaus to at least 30% by 2018 and increased access to affordable finance for individuals, SMES and households. A robust credit information sharing system will allow borrowers to establish credit histories and leverage the same as reputational collateral while helping to prevent over-indebtedness and foster responsible lending and borrowing practices.
Key activities, work plan updates & key issues
Enhancing the existing framework for credit information sharing: To be achieved through a review of the existing framework, identification of gaps and development of proposals for areas across the financial sector in which the framework can be harmonized.
Enhancing consumer education on credit information sharing: To be achieved through development of a consumer education program on credit reporting and delivery of campaigns through mass media channels.
Key issues: i) Credit information sharing is a new development in the Kenyan market and, after consulting with various stakeholders, the team is of the view that capacity building for credit providers is critical ii) the CBK is the regulatory body with legal mandate to supervise credit bureaus (and, by extension, credit bureau subscribers/data providers whether regulated by CBK or not), however TA is required to strengthen the CBK's oversight on the credit information sharing system iii) it will be important to review the legislative framework and capacity for credit information sharing for the non-regulated sectors, such as utilities, telecommunications providers and retailers iv) since consumer education and awareness on credit reporting is generally lacking in Kenya, it is important to implement a broader campaign initiative led and facilitated by the National Treasury
Proposed changes to the work plan: i) Include TA to CBK for development of an enhanced supervisory framework for credit reference bureaus and data providers. This should address, among others, issues related to data integrity (accuracy and completeness), consumer protection and dispute resolution ii) Include TA to credit providers (banks, MFIs, SACCOs, leasing companies etc.) to participate in CIS, utilize credit bureau products and services and to integrate data into risk management practices across the account cycle iii) Include a review of the CIS framework and capacity of the non-regulated sectors such as utilities, telecommunications companies and retailers that provide goods and services on post-paid basis.

Subcomponent 2B – Enabling Secured Transactions
The overall objective of this sub-component is to strengthen the framework governing secured transactions (movable collateral) to facilitate increased lending to SMEs at more affordable rates by supporting the necessary legal and regulatory reforms for secured transactions, followed by the creation of an electronic movable assets registry.
Key activities, work plan updates & key issues
Enactment of a new secured transactions legal framework: The Office of the Deputy President has provided an accelerated timeline for the expected enactment of the new legal framework of June 2016. The current work plan has therefore had to be adjusted to reflect accelerated timelines for activities such as drafting of the initial bill, study tours, stakeholder workshops etc. A zero draft of the bill has been prepared by the international advisor and being reviewed by the TWG as at 1 Feb 2016. A local law firm has been procured to provide Kenyan context.

The establishment of an e-registry system: Includes digitalization of government services, development of an online storage system, and the development of online software for the collateral registry. To be sequenced in parallel with the enactment of the law to the extent possible. Based on the current work plan, the intended date for go-live of the registry is January 2017.
Technical Working Group (TWG): A TWG has been formed, consisting of members from the OAG/DOJ (co-chair), NT (co-chair), KLRC, KBA, CBK, FSD Kenya and World Bank Group. The TWG meet frequently and lines of communication remain open and well-coordinated.
Key activities thus far: During the FSSP mission in Oct 2015, the Secured Transactions TWG hosted a 2-day workshop, supported by WBG and FSD Kenya, to socialize the intended regime with various stakeholders including commercial banks, legal fraternity in Kenya and regulators. This event was attended by Sebastian Molineus and Alejandro Alvarez de la Campa. The TWG have also completed a 5-day drafting session from 1-5 Feb 2016, during which the initial draft of the Bill was discussed and commented on by the various stakeholders involved, together with the international legal consultant who drafted the Bill.
Work plan: currently being revised to reflect correct sequencing of activities with respect to the enactment of the law vs. implementation of the electronic register. Proposed changes to the initial work plan include the addition of a drafting specialist to reside within the OAG/DoJ. This expertise could be deployed for both the secured transactions framework as well as for the drafting of the implementing regulations for the Insolvency Law. Capacity building for staff and other stakeholders to be given greater priority once the legislative process is sufficiently advanced.
Key issues: i) capacity constraints at the OAG. To be addressed by the hiring of an additional administrative resource to report to the TWG. ii) The accelerated timelines proposed by the GoK require swift development of the law and a smooth implementation of the electronic registry. Any delays in procurement or operationalization of the e-registry could be detrimental to the overall outcome. iii) ensuring that the new law is synchronized with and speaks to the Insolvency Act of 2015 at a technical level

Subcomponent 2C – Implementing the Insolvency Regime
The overall objective of this sub-component is to assist the DoJ in the implementation of the new Insolvency Bill by building the capacity of key stakeholders and to assist in drafting the regulations.
Key activities, work plan updates & key issues
Capacity building: Build capacity within DOJ and OAG on the Insolvency Act of 2015, and to build legal skills and competencies for the Insolvency Section.
Online data storage: To build an online system for data storage and retrieval to track insolvency proceedings in real time.
Work plan amendments: i) procurement of a drafting specialist to reside within the OAG/DoJ, to be synchronized with the secured transactions process such that the specialist will provide capacity on both agendas ii) incorporate study tours to other jurisdictions for public sector staff (especially DOJ staff and judiciary) to better understand the implementation of the Act. To be synchronized with the secured transactions process so that locations overlap iii) training plan should be developed by an Insolvency practitioner, and a partnership developed with a local capacity building institution should be explored in order to scale up the training of both public and private sector stakeholders (e.g. lawyers, judges, banks, accounting firms, etc.).
Key issues: **i)** ensure that the implementing regulations are developed appropriately to regulate the practitioners; ii) licensing and certification of practitioners is done in conjunction with global good practice; iii) a robust code of conduct is developed; iv) all stakeholders are sufficiently trained; v) synchronizing the law with the pending secured transactions law.

Component 3: Increasing Availability of Long-term Finance
This component will focus on strengthening the demand for and supply of long-term funds so that Kenya's growing development finance needs for long-term projects in infrastructure, housing, etc. can be met. The component will include support via consultancies, training and IT purchases

Subcomponent 3A – Pensions
The objectives are to further expand pension fund coverage to informal sector workers and to strengthen the administration, governance and supervisory oversight of existing public and private sector pension funds. Coverage expansion to this group will reduce the risk of poverty for the elderly. Establishing the funded public sector pension scheme (PSSS) on a sound administrative and governance basis will allow the fund to become a leading player within the sector (as is the case in other countries in the region, including South Africa), and a key provider of domestic, long-term capital. Improving the governance of the private sector pension funds will also raise the knowledge and capacity of the trustees who bear the responsibility for the investment of the funds, assisting them to further diversify their portfolios into productive, longer-term, domestic investment opportunities.
Key activities, work plan updates & key issues
Development of National Pension Plan: includes strategy and implementation of plan for extending informal sector coverage. To be achieved through formulating a taskforce of stakeholders, chaired by the National Treasury with RBA as the Secretariat, to review existing arrangement and drive the development of a more integrated policy, coordinating all 'pillars' of pension provision. A study on how to increase coverage of informal sector pensions will form part of this review, and will focus on how to achieve scale at the Mbao mobile money-based pension scheme.
Support for the establishment of the Public Sector Superannuation Scheme (PSSS): To be achieved through the upgrading of the Pension Management Information Systems (record keeping and reporting), including the biometric registration for members of the reformed, funded scheme. Governance training for the Governing Board of the fund will be provided in-house and through attendance of international courses. A follow up meeting with the Pension Department at the Treasury (responsible for establishing the PSSS) was held in Jan 2016. Following amendments to the 2012 PSSS Act made under the 2015 Finance Bill, the CS has certain key decisions to make including deciding upon a start date for the scheme, which categories workers will join and provide a budget estimate for the government/ employer 7.5% contributions (previous amounts provisionally allocated by the government were not based on accurate calculations).
Update of RBA data management and reporting ICT systems: To be achieved through a through a needs-based review and the upgrading of the data management systems, including information extraction for risk-based supervision analysis.
Development of RBA's risk-based supervisory approach: To be achieved through a review of the Risk-based Supervision Toolkit, upgrading of certain modules (including fraud detection and enforcement), the development of and training on the use of an Inspection Manual for RBA staff, the drafting of Pension Fund Governance Guideline and sensitivity training on these new regulations for pension fund trustees.

Mbao: a subsequent visit to Nairobi in January 2016 by Fiona Stewart revealed an increased focus on the Mbao platform as this has been used to attract savings in the informal sector. The platform faces IT constraints and the team has resolved to bring in a consultant to assess the robustness of the platform and provide a sustainable solution to enable growth in this space. Team is currently in the process of identifying consultants to undertake this. The Mbao Pension Scheme was launched on 28th June 2009 with the support of RBA to cater for the informal sector workers in Kenya. Since inception, Mbao has registered over 130,000 members of which 80,000 are currently active. However, growth has been very slow.
Key work plan amendments: **i)** Inclusion of support for the establishment of the PSSS (administrative and governance training). This was previously omitted as representatives from the Treasury's Pension Department were not present at the planning meeting. ii) coherent categorization of supervisory items within the work plan to ensure resources are able to be effectively used (with less TORs to draft and pilot through the approval system) ii) During the Jan 2016 visit, a request was made to the CMU to potentially fund a WBG PROST (Pension Reform Options Simulation Tool) modeling tool, which would be undertaken in collaboration with the SPL team. This would allow the Pension Department to present updated, independently verified numbers which will both aid the budgeting process and allow the PSSS to finally start to operate. The team will follow up on this request to determine if funding can be allocated and will amend the work plan accordingly.
Key issues: Procurement of ICT hardware and software to be reassessed to ensure compatibility with other regulatory areas (such as the IRA) in light of the pending FSA implementation by June 2016

Subcomponent 3B – Insurance
The objective is to promote inclusive insurance coverage, to be achieved through the development of new product areas such as index crop and livestock insurance, micro-insurance, Takaful Islamic insurance etc. The project aims to ensure the security of the sector via risk-based capital requirements and improved supervisory oversight. Ensuring such security is important for consumer protection, particularly as new, lower-income groups are covered and new products offered.
Key activities, work plan updates & key issues
ITC systems upgrades: To be achieved through upgrading data capacity and storage on the hardware side, and improved software systems to allow central processing of data from all supervised entities (agents, loss adjustors etc.), and enhanced risk-based supervision processes to be introduced.
Regulatory and capacity building support for the IRA: To be achieved through the drafting of regulations to support new product areas (index insurance, micro-insurance, Takaful Islamic insurance etc.), the training of IRA staff in the supervision of these areas, and industry sensitization to the new regulations. The IRA has requested support to review the solvency and capital regulations drafted by the IRA team in order to comply with the risk-based capital regime introduced by the insurance amendments included in the Finance Act of September 2015. This review will be coordinated with the IFC project which is currently underway to draft investment regulations for the insurance sector. Regulatory and capacity building support on the topic of Takaful Insurance will be coordinated with the project on Islamic Finance which is being supported by FSD Kenya under the CMA.
Key work plan amendments: **i)** IRA to include further support for the development of livestock and crop insurance in the work plan. The IRA need to collaborate further with Ministry of Agriculture, Land and Fisheries to ensure that adequate data collection and oversight is put in place for these new schemes, and training is required for IRA and other relevant central and local authorities on these new product areas ii) coherent categorization of supervisory items within the work plan to ensure resources are able to be effectively used (with less TORs to draft and pilot through the approval system) iii) Regarding the ICT upgrades, it is strongly recommended that only upgrades required for legal or essential operational reasons are undertaken by individual authorities ahead of the proposed FSA establishment.
Key issues: **i)** The passing of the Finance Bill on 1st October 2015 imposes an urgent legal requirement on the IRA to introduce risk-based capital requirements for insurance companies. Hence urgent systems upgrades, regulatory drafting and supervisory training to implement these legal requirements is needed. ii) Although the draft Insurance Bill is still pending (awaiting the passing of the FSA Bill), the IRA should continue drafting the sector specific regulations (index insurance, micro-insurance etc.) which will be required under this Act. iii) Procurement of ICT hardware and software to be reassessed to ensure compatibility with other regulatory areas (such as the RBA) in light of the pending FSA implementation by June 2016

Subcomponent 3C – Capital Markets
The objective is to deepen capital markets in Kenya so they can provide local currency sustainable financing to the government; long-term finance for strategic sectors, particularly infrastructure; competitive savings instruments for the banked and unbanked population, aiming at financial inclusion of the latter; and contribute to the government's initiative to develop Nairobi as an international financial center.

It should also be noted that prior to the effectiveness of FSSP, a number of capital markets activities were supported under the Infrastructure Finance and Public Private Partnership operation. Since the IFPPP is now fully committed in terms of project resources, it is proposed that any remaining activities under IFPPP be incorporated into the work plans of CMA and CBK to be supported by FSSP.

Key activities, work plan updates & key issues
Key activities relating to each component of FSSP: i) Component 1 - focuses on training, consulting services and IT investments for the PDMO (Public Debt Management Office), CMA (Capital Markets Authority), NIFC (Nairobi International Financial Centre) and strengthening of domestic CSD by supporting linkages with Euroclear ii) Component 2 - focuses on supporting the Government in project management, marketing and oversight of the next phase of mobile retail savings products iii) Component 3 - focuses on supporting the CBK on implementing a functioning OTC market for government securities, developing an automated auction service for Government bonds and consulting services on money markets, foreign exchange markets and derivatives
Proposed changes to the work plan: i) Review IT investments and related activities to strengthen the CMA to remove duplications and improve sequencing of services and investments ii) review training and study tours for CMA and NFIC to exclude the participation of the private sector and assess the capacity of available staff to conduct the proposed training, thus lowering the amounts to more realistic travel budgets iii) add to the CSD strengthening, the development of a blueprint to define options and roadmap to consolidate the private and the public sector CSDs iv) add to the mobile retail products, the development of a study to analyze impact and lessons learned from the two pilot mobile savings projects by NT and CBK after their launch and help inform an optimized institutional structure and business model v) strengthen support to CBK's work on government bond markets

through 1) settlement upgrades to facilitate automation of the auction through Bloomberg's platform; 2) settlement upgrades to facilitate trading of T-bills and T-bonds –in sequence- through Bloomberg's E-Bond platform; 3) address operational, legal and regulatory changes on repo/sell-buy back markets, and leave for a second phase foreign exchange and derivatives markets.
Key issues: **i)** A key issue that emerged during the Oct 2015 mission was a lack of institutional coordination between the key authorities within the capital markets sphere (particularly between NT and CBK). As a result, many decisions are being delayed and no implementation of those items agreed upon. A monthly roundtable TWG has since been established, represented by NT, CBK, CMA, IFC/WB, PIU and is chaired by the US Treasury Resident Advisor to Kenya. This has resulted in a more coordinated approach, however upon further analysis of the current work plan under FSSP (based on the Oct 2015 mission), the FSSP team feels that the timelines are unrealistic given the political buy-in required to have items actioned. Clemens Calice (Capital Market advisor to the PIU) has drawn up a letter to be sent from NT to CBK effectively requiring them to address certain priority issues in the short term (see short term recommendations below for further detail on these) ii) lack of capacity at NT (Debt Management Office not appropriately staffed). There is a plan currently underway to resolve this appointment by hiring a consultant under FSSP who could temporarily fulfill this role. iii) the result of the aforementioned issues was the inability to implement key catalytic actions that would transform the government bond market and would send a strong message to the market about the Government driving reforms. These have still not been implemented and include 1) Government Bond Market Auction and 2) the OTC and secondary government bond markets - progress on these will also help on the yield curve PDO from the IFPPP loan.
Subsequent discussions on Treasury Mobile Direct (TMD): The CBK has launched the pilot on the Safaricom platform and 42 staff from CBK have used the product. However, they are facing various roadblocks from their procurement and IT teams including i) urgently requiring a developer for the platform to relieve the CBK IT team ii) requiring a consultant/firm to implement the marketing/awareness building iii) requiring ongoing support to accompany the launch. In this regard, the CBK is currently benefiting from the help of a consultant (Emmanuel Khisa) funded by FSD Kenya, but this consultant is only funded until March 2016. The FSSP team met with the CBK in January 2016 and had agreed that the CBK would provide TORs for these 3 areas and request this support under FSSP.
Recommendations in the short term: The following have been identified as key action points in the short term, following subsequent discussions amongst the newly formed TWG for Capital Markets i) Government bond auction: 1) Implement the government bond/bill auction automation through the Bloomberg platform. CBK requires clear instructions from NT to automate the auction 2) implement the separation of retail and wholesale investors in government's bond auctions for primary issues. CBK has prepared a note for justification of this, which has been shared with NT, and are now awaiting policy direction from NT 3) CBK to release on its website and implement the auction/issuance calendar forwarded to it by NT, however the PS has not provided feedback. The aim is to start with the last quarter of the 2016 fiscal year ii) OTC Secondary Government bond market: 1) launch Over-The-Counter trading for Treasury Bills on the Bloomberg E-Bond platform by February 28, 2016 as a pilot ahead of launching all trading products. This process has already been tested, banks are ready to provide 2-way quotes and the CMA have reconstituted a Bond Market Steering Committee 2) there is lack of clarity on the withholding tax status on OTC transactions outside the exchange. It was agreed that CMA will submit proposals to be included in the next Finance Bill to clarify the position iii) Other key initiatives: 1) the horizontal repo market is a priority for the new CBK governor and the CBK is due to update on how they are making progress on the implementation of a framework for horizontal repo. This is essential for banks' daily liquidity management, CBK's monetary policy and liquidity and requires the joint leadership of CBK and CMA 2) Short selling is not permitted in Kenya but this would be required to facilitate market making. CMA due to come up with an action plan, however there seems to be no consensus within Treasury on short-selling

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	Substantial	Substantial	Substantial
Macroeconomic	Moderate	Moderate	Moderate

Sector Strategies and Policies	Moderate	Moderate	Moderate
Technical Design of Project or Program	Moderate	Moderate	Moderate
Institutional Capacity for Implementation and Sustainability	Low	Low	Low
Fiduciary	Moderate	Moderate	Moderate
Environment and Social	Low	Low	Low
Stakeholders	Low	Low	Low
Other	--	--	--
Overall	Moderate	Moderate	Moderate

Results

Project Development Objective Indicators

▶ Progress towards achieving compliance with Essential Criteria of Basel Core Principles 12 (consolidated supervision) and 13 (home-host relations) (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	MNC/LC	--	No	Yes
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

Comments

MNC = Materially Non-Compliant and LC = Largely Compliant. Baseline source is the Basel Core Principle (BCP) assessment prepared as part of the 2009 FSAP, focusing on CP 24 (Consolidated Supervision) and 25 (Home-host relationships). In 2009, CP 24 was rated Materially Non-Compliant (MNC) and BCP 25 was rated Largely Compliant (LC). The next official assessment will most likely be conducted during the next FSAP (date not yet confirmed) and on the basis of the updated (and stricter) BCP methodology. Progress will be evaluated on meeting the requirements of the revised CP 12 on Consolidated Supervision (with particular emphasis on Essential Criteria # 1, 2, 3, 5, and 6), and CP 13 Home-host relationship (Essential Criteria # 5 and 6). Completion of the following activities is expected to strengthen the BCP scores: development of templates for cross-border information exchange, development of templates for information exchange between Kenyan regulators, capacity building for consolidated supervision, and the extension of current home-host cooperation arrangements to cover crisis management.

▶ Reduced net interest margin (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	TBU	--	No	Yes
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

Comments

Achievement of this indicator will be measured as a downward trend as setting an actual number tends to be arbitrary

▸ Long-term assets held by pension funds (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	47.00	--	47.00	52.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

Overall Comments

Intermediate Results Indicators

▸ Mapping exercise of financial conglomerates (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	No	Yes
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▸ Number of MDAs services using electronic payment instruments (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	0.00	3000.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Increase in Pension coverage (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15.00	--	15.00	20.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Draft framework for sub-national entities on debt management (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	No	Yes
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Increase in banked retail investor accounts accessing TMD (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15000.00	--	0.00	150000.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Draft legal framework for a secured transactions regime (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	Yes	Yes
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Depth of credit information index (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	1.00	3.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Draft framework / regulation for new long term products (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	0.00	2.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Increase in volume of secondary market transactions of government debt (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	N/A	--	No	Yes
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

▶ Increase in Insurance coverage (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	3.70	--	3.70	6.00
Date	01-May-2015	--	05-Feb-2016	31-Jul-2020

Overall Comments

Data on Financial Performance

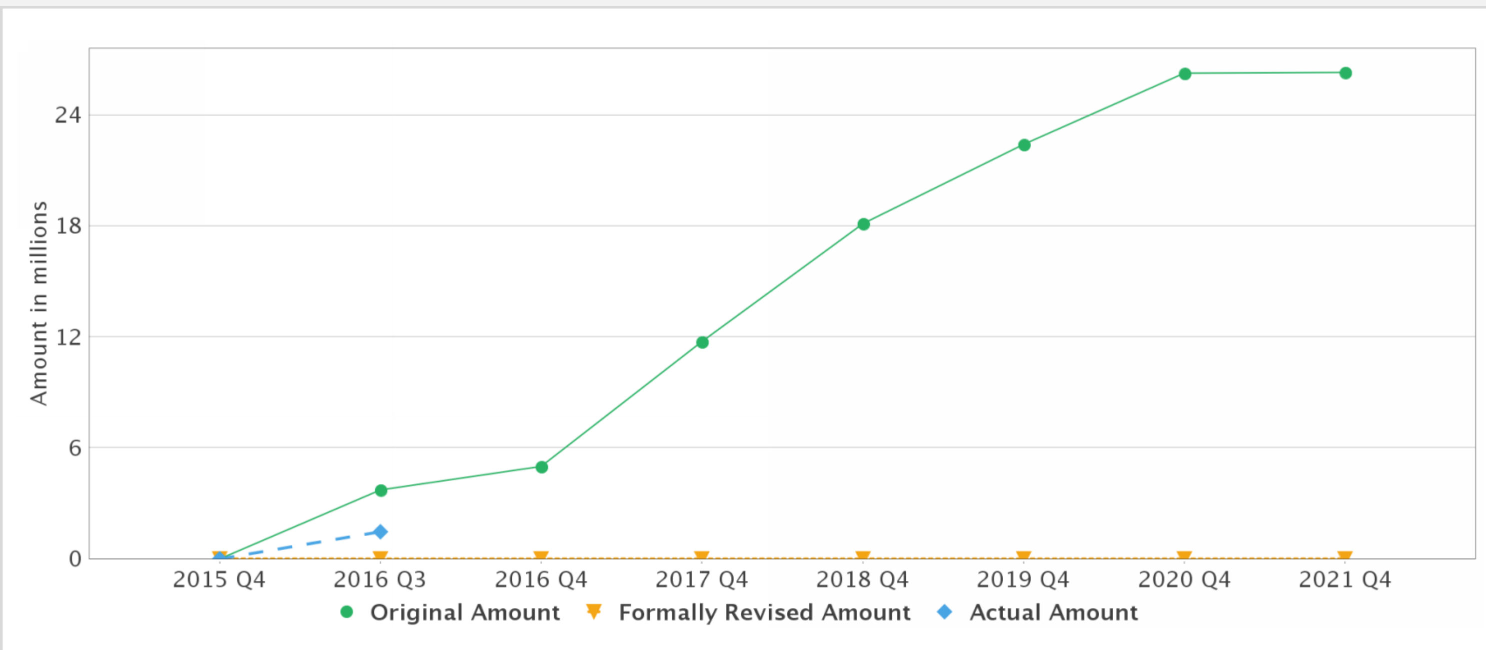
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P151816	IDA-56270	Effective	XDR	26.30	26.30	0.00	1.45	24.85	6%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P151816	IDA-56270	Effective	30-Apr-2015	04-Jun-2015	10-Jul-2015	31-Jul-2020	31-Jul-2020

Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.