

CREDIT NUMBER 5627-KE

Financing Agreement

(Financial Sector Support Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 4TH JUNE, 2015

CREDIT NUMBER 5627-KE

FINANCING AGREEMENT

AGREEMENT dated 4TH JUNE, 2015, entered into between REPUBLIC OF KENYA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty-six million three hundred thousand Special Drawing Rights (SDR 26,300,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).
- 2.05. The Payment Dates are February 1 and August 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligation:) shall terminate is twenty years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its Cabinet Secretary at the time responsible for Finance.

- 5.02. The Recipient's Address is:

The National Treasury
Treasury Building
P.O. Box 30007-00100
Nairobi, Kenya
Facsimile:
254 20 330426; 254 20 218475

- 5.03. The Association's Address is:

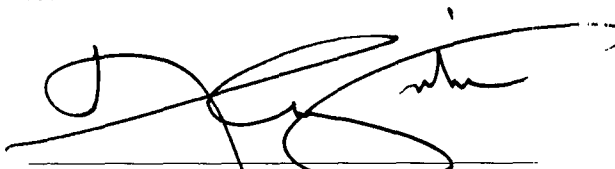
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS	248423 (MCI)	1-202-477-6391
Washington, D.C.		

AGREED at ⁻³⁻ 4TH JUNE Nairobi, Kenya, 2015, as of
the day and year first above written.

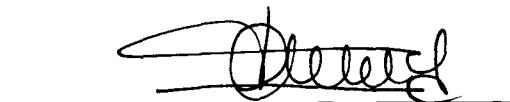
REPUBLIC OF KENYA

By


Authorized Representative
Name: HENRY ROTICH
Title: CABINET SECRETARY,
NATIONAL TREASURY

INTERNATIONAL DEVELOPMENT ASSOCIATION

By


Authorized Representative
Name: DIARIEDOU GAYE
Title: COUNTRY DIRECTOR

SCHEDULE 1

Project Description

The objective of the Project is to strengthen the legal, regulatory and institutional environment for improved financial stability, access to, and provision of, affordable and long term financing.

The Project consists of the following parts:

Part A: Strengthening Institutions

Provision of technical assistance, advisory services and goods and equipment to various Beneficiaries to design roadmaps and action plans, and implementation support, inter alia, in:

1. The carrying out of reform of the financial architecture, including:
(a) consolidation of all the non-banking regulators into a single financial services authority; (b) creation of a more investor friendly environment in anticipation of the vast investment needs of the incipient natural resource economy;
(c) improvement of the interface for the public to access a range of public services through the digitization of the payments for such services; and
(d) strengthening of market conduct supervision.
2. Modernizing supervision, through the filling of the regulatory gaps and the adoption of best practices related to consolidated supervision, and upgrading of information technology system to enable efficient collection of information.
3. Building capacity through support to the NT, and various regulators and other institutions making up the financial architecture, including the KDIC and SASRA, and the strengthening of the PDMO.

Part B: Enabling Efficient Financial Intermediation

Strengthening of the financial intermediation to enhance access to affordable financial products to businesses and individuals, including:

1. Improving credit information sharing, through support for the expansion of the credit reporting system to allow the participation of all providers in full-file credit information sharing.
2. Strengthening collateral mechanisms to facilitate increased lending to small and medium enterprises, including the establishment of an electronic moveable assets registry.

3. Facilitating the implementation of a new insolvency regime, through the provision of support to the Attorney General's office in insolvency regulations and other commercial and legislative drafting, structured training for insolvency practitioners and the judiciary, and organizing awareness building campaign for the public and private sector.
4. Expanding the availability of alternative savings instruments, by developing alternatives to bank deposits such as purchases of government bonds by retail investors using the mobile platform.

Part C: Mobilizing Long-term Finance

Strengthening the demand for and supply of long-term funds to meet the growing development finance needs for projects in infrastructure and housing; through:

1. Development and support for the uptake of instruments to facilitate the channeling of financing to infrastructure, including, among others, infrastructure bonds and funds, sharia compliant instruments, housing finance products, and securitization and equity markets.
2. Strengthening institutional investors, through the mobilization of long term savings by bringing in new players into the market and developing the local capacity among institutional investors to invest in long term projects through capital markets instruments.

Part D: Project Management

Provision of technical advisory services, equipment, and logistical assistance for Project management and strengthening of the institutions involved in Project management activities.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall vest the NT with the overall responsibility for Project implementation, for which purpose the NT shall maintain a PIU, to be headed by a full-time Project Manager, to assist the NT in: (a) assessing and prioritizing project proposals prepared by the Beneficiary institutions; (b) undertaking quality control for terms of reference of proposals approved by the PSC; (c) overseeing implementation activities; (d) administering project funding and procurement processing (including the employment of consultants) and managing the Project accounts; (e) following up on the agreed financial covenants and disbursement conditions; (f) recommending any necessary adjustments in the implementation methods; (g) providing periodic project progress reports; and (h) acting as the focal point for contacts between the Recipient and the Association.
2. For the purpose of providing oversight to the Project, the Recipient shall establish, by no later than three months after the Effective date, and maintain thereafter, a PSC to be chaired by the Principal Secretary of the NT, and comprising of a number of representatives from NT and the financial sector regulators. The PSC shall be vested with the responsibility of overseeing the progress and effectiveness of the Project, approving of work plans and budgets and providing policy direction.

B. Anti-Corruption

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators as agreed between the Recipient and the Association. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements and management letter for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan:

(a)	Limited International Bidding
(b)	National Competitive Bidding, subject to the provisions set forth in paragraph 3 of this Section B
(c)	Shopping
(d)	Direct Contracting

3. The following additional provisions shall apply to National Competitive Bidding:
- (a) The tender submission date shall be set at least thirty (30) days after the later of (i) the date of advertisement; and (ii) the date of availability of the tender documents.
 - (b) Recipient-owned enterprises shall be allowed to participate in the tendering only if they can establish that they are legally and financially autonomous, operate under commercial law and are independent agencies of the Recipient's government.
 - (c) Bidding documents and tender documents shall contain, *inter alia*, draft contracts and conditions of contracts, including provisions on fraud and corruption, audit and publication of award and shall be in form and substance satisfactory to the Association.
 - (d) Extension of tender validity shall be allowed once only, and for not more than thirty (30) days, unless otherwise previously agreed in writing by the Association.
 - (e) Tender evaluation shall be based on quantifiable criteria expressed in monetary terms as defined in the tender documents, and not on a merit points system.
 - (f) No domestic preference shall be used in the evaluation of tenders. Accordingly, contracts shall be awarded to qualified tenderers who have submitted the lowest evaluated substantially responsive tender.
 - (g) Notification of contract award shall constitute formation of the contract. No negotiation shall be carried out prior to contract award.

- (h) The two envelope bid opening procedure shall not apply.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan:

Procurement Method
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection Based on Consultants Qualifications
(e) Single Source Selection of consulting firms
(f) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association
(g) Selection of consultants under Indefinite Delivery Contract or Price Agreement
(h) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(i) Single-source procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects", dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services, Operating Costs and Training under Part A of the Project	16,550,000	100%
(2) Goods, works, non-consulting services, consultants' services, Operating Costs and Training under Part B of the Project	4,550,000	100%
(3) Goods, works, non-consulting services, consultants' services, Operating Costs and Training under Part C of the Project	3,750,000	100%
(4) Goods, consultants' services, Operating Costs and Training under Part D of the Project	950,000	100%
(5) Unallocated	500,000	
TOTAL AMOUNT	26,300,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is July 31, 2020.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 1 and August 1, commencing August 1, 2021, to and including February 1, 2053	1.5625%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
2. “Beneficiaries” means the Recipient’s institutions eligible for receiving funds or services under the Project, including, among others, the National Treasury (NT), the Central Bank of Kenya (CBK), the Retirement Benefits Authority (RBA), Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA), the Saccos Society Regulatory Agency (SASRA), the Kenya Deposit Insurance Corporation (KDIC), and the Public Debt Management Office (PDMO).
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (revised July 2014).
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
6. “KDIC” means Kenya Deposit Insurance Corporation, established and operating under the Kenya Deposit Insurance Act of 2012.
7. “NT” means the Recipient’s National Treasury, or any successor thereto.
8. “Operating Costs” means incremental expenses arising under the Project, including the costs for the management and monitoring of the Project activities, office supplies and consumables; communication; operation and maintenance of office vehicles; per diem and travel costs for project staff; reasonable bank charges; and allowances and salaries of contracted staff (excluding salaries of the Recipient’s civil servants).
9. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (revised July 2014).
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 26, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

11. “PIU” means Project Implementation Unit referred to in Section I.A.1 of Schedule 2 to this Agreement.
12. “PDMO” means Public Debt Management Office, a directorate within the NT, in charge of the Recipient’s public debt management.
13. “PSC” means Project Steering Committee referred to in Section I.A.2 of Schedule 2 to this Agreement.
14. “SASRA” means Sacco Societies Regulatory Authority, a state corporation, established under the Sacco Societies Act Cap 490 B of the laws of the Recipient, and acting as a regulator.
15. “Training” means all costs for the following expenditures incurred in providing training or workshops: travel by participants and presenters to the training or workshop site, per diem allowances of such persons during the training or workshop, honoraria for the presenters, rental of facilities, materials, supplies and translation and interpretation services.