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Report No: PAD1232

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 26.3 MILLION
(US$37 MILLION EQUIVALENT)

TO THE

REPUBLIC OF KENYA

FOR A

FINANCIAL SECTOR SUPPORT PROJECT

April 9, 2015

Finance and Markets Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2015)

Currency Unit	=	Kenya Shillings
KES 91.62	=	US$1
SDR 0.71054	=	US$1

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
AKI	Association of Kenyan Insurers
AMFI	Association of Microfinance Institutions
CAR	Capital Adequacy Ratio
CBK	Central Bank of Kenya
CDSC	Central Depository and Settlement Corporation
CMA	Capital Markets Authority
CPAK	Certified Public Accountants of Kenya
CPS	Country Partnership Strategy
CSD	Central Securities Depository
CSPS	Civil Service Pension Scheme
DC	Defined Contribution
DFID	UK Department for International Development
DTMs	Deposit-taking Microfinance Institutions
EAC	East African Community
ESMID	Efficient Securities Market Institutional Development
FBS	Fixed Budget Selection
FLSTAP	Financial and Legal Sector Technical Assistance Project
FSA	Financial Services Authority
FSAP	Financial Sector Assessment Program
FSSP	Financial Sector Support Project
GDP	Gross Domestic Product
GEMLOC	Global Emerging Markets in Local Currency Program
GoK	Government of Kenya
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
ICT	Information and Communications Technologies
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IFPPP	Infrastructure Finance Public Private Partnership
IFR	Interim Financial Report
IPSAs	International Public Sector Accounting Standards

IRA	Insurance Regulatory Authority
ISSAI	International Standards on Auditing or International Standards of Supreme Audit Institutions
IT	Information Technology
KASIB	Kenya Association of Stock Brokers and Investment Banks
KDIC	Kenya Deposit Insurance Corporation
KEPTAP	Kenya Petroleum Technical Assistance Project
KSH	Kenya Shillings
LCS	Least Cost Selection
MDA	Ministries, Departments, and Agencies
MFI	Credit-only Microfinance Institutions
MTP2	Medium Term Plan II
MTPL	Motor Third Party Liability
NCB	National Competitive Bidding
NPLs	Non-performing Loans
NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
NT	National Treasury
OPCT	Older Person Cash Transfer
OTC	Over the Counter
PDMO	Public Debt Management Office
PDO	Project Development Objective
PIM	Project Implementation Manual
PIT	Project Implementing Team
PIU	Project Implementing Unit
PSC	Project Steering Committee
PSSS	Public Sector Pension Scheme
QBS	Quality-Based Selection
QCBS	Quality- and Cost-Based Selection (QCBS)
RBA	Retirement Benefits Authority
RFP	Request for Proposal
RTGS	Real Time Gross Settlement Systems
SACCO	Savings and Credit Cooperative
SASRA	SACCO Societies Regulatory Authority
SBD	Standard Bidding Documents
SME	Small and Medium Enterprises
SRO	Self-regulated Organizations
SSA	Sub-Saharan Africa
SSS	Single Source Selection
TMD	Treasury Mobile Direct

Regional Vice President:	Makhtar Diop
Country Director:	Diarietou Gaye
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Practice Manager:	Irina Astrakhan
Task Team Leader:	Smita Wagh

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Financial Sector Support Project

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PAD DATA SHEET

Republic of Kenya

Financial Sector Support Project (P151816)

PROJECT APPRAISAL DOCUMENT

AFRICA

Report No.: PAD1232

Basic Information			
Project ID P151816	EA Category C - Not Required	Team Leader(s) Smita Wagh	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 30-Apr-2015	Project Implementation End Date 31-July 2020		
Expected Effectiveness Date 1-Aug-2015	Expected Closing Date 31-July 2020		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Irina Astrakhan	Gloria M. Grandolini	Diarietou Gaye	Makhtar Diop

Borrower: Republic of Kenya			
Responsible Agency: Directorate of Budget, Fiscal & Economic Affairs, National Treasury			
Contact:	Geoffrey Mwau	Title:	Director General
Telephone No.:	254202 252 299	Email:	gnmwau@treasury.go.ke

Project Financing Data(in USD Million)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	37.00	Total Bank Financing:	37.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	37.00
Total	37.00

Expected Disbursements (in USD Million)

Fiscal Year	2016	2017	2018	2019	2020	2021				
Annual	6.00	7.00	8.00	9.00	6.00	1.00				
Cumulative	6.00	13.00	21.00	30.00	36.00	37.00				

Institutional Data

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Cross Cutting Areas

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[ ] Gender
[ ] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Finance	General finance sector	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Financial and private sector development	Other Financial Sector Development	100
Total		100

Proposed Development Objective(s)
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.

Components

Component Name	**Cost (USD Millions)**
Component 1: Strengthening Institutions	23.3
Component 2: Enabling Efficient Financial Intermediation	6.4
Component 3: Mobilizing Long-Term Finance	5.3
Component 4: Supporting Project Management	1.3
Contingency	0.7

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	**Rating**
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Low
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
OVERALL	Moderate

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		**X**
Natural Habitats OP/BP 4.04		**X**
Forests OP/BP 4.36		**X**

Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Team Composition

Bank Staff

Name	Role	Title	Unit
Smita Wagh	Team Leader (ADM Responsible)	Senior Financial Sector Specialist	GFMDR
Andrea Vasquez-Sanchez	Team Member	Sr Program Asst.	GFMDR
Antony Randle	Team Member	Consultant	GFMDR
Catalina Garcia-Kilroy	Team Member	Lead Securities Market Specialist	GFMDR
Christiaan Nieuwoudt	Disbursement Officer	Finance Officer	WFALA
Edward Felix Dwumfour	Safeguards Specialist	Senior Environmental Specialist	GENDR
Dahir Elmi Warsame	Procurement Specialist	Consultant	GGODR
Elizabeth Chacko	Team Member	E T Consultant	GFMDR
Evans Makini Osano	Team Member	Sr. Securities Market Specialist	GFMDR
Fiona Elizabeth Stewart	Team Member	Senior Financial Sector Specialist	GFMDR
Joel Buku Munyori	Procurement Specialist	Senior Procurement Specialist	GGODR
Josephine Kabura Kamau	Financial Management Specialist	Sr Financial Management Specialist	GGODR
Kennedy Mukuna Opala	Team Member	Consultant	GTCDR
Kishor Uprety	Country Lawyer	Senior Counsel	LEGAM
Mehnaz S. Safavian	Team Member	Senior Financial Sector Specialist	GFMDR
Miquel Dijkman	Team Member	Senior Financial Sector Specialist	GFMDR

Moyo Violet Ndonde	Team Member	Operations Officer	GFMDR
Svetlana Khvostova	Safeguards Specialist	Natural Resources Mgmt. Spec.	GENDR
Thilasoni Benjamin Musuku	Team Member	Senior Financial Sector Specialist	GFMDR
Lucie Muchekehu	Team Member	Program Assistant	AFCE2

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Kenya	Nairobi Area				

I. STRATEGIC CONTEXT

A. Country Context

1. Kenya's economy is estimated to have grown at a rate of 5.4 percent in 2014 despite the slowdown in the services sector due to security concerns.[1] This growth was effected in a sound macroeconomic environment where both inflation and exchange rates remained stable. Kenya's recent economic performance is in line with its regional peers. Average growth between 2010 and 2013 was 6.2 percent, which compared favorably with the average for other countries in Sub-Saharan Africa (5.4 percent). In its immediate neighborhood, the East African Community (EAC), Rwanda grew at 7.1 percent, Tanzania at 6.7 percent, Uganda at 5.4 percent and Burundi at 4.1 percent, over the same period.

2. There is a general consensus that despite the resilience it has shown in recent times, Kenya's current growth trajectory is unlikely to realize the goals of Vision 2030 – the Government of Kenya's (GoK) strategic plan to "create a globally competitive and prosperous nation with a high quality of life by 2030". The Economic Pillar of Vision 2030 envisages that the Kenyan economy will grow at a sustained rate of at least 10 percent annually beginning in 2012. Given the growing size of Kenya's young population, every year that this "takeoff" is delayed creates a backlog of unemployment that builds social unrest. Kenya is now at the juncture where transformational changes in a few priority sectors are needed to shift it to a higher growth path and consolidate its status as a lower middle-income country.

3. Before the slowdown last year, the services sector in Kenya had consistently exhibited higher than average growth. In fact, the recent service sector slowdown was largely concentrated in the tourism sector. Other services such as finance and insurance, retail trade and ICT continued to grow faster than other sectors. Finance and insurance grew at 9.1 percent in 2014.

4. Despite this, businesses continue to cite finance as one of the chief constraints to their growth, and domestic resource mobilization - especially of long term funding - remains below target levels. The cost of credit is one of the main reasons businesses, especially small and medium enterprises (SMEs) rely on family and friends for financing. Moreover, as Kenya is poised to consolidate its middle-income status, the needs of the real economy to fill the vast infrastructure gap and ensure the gains from the incipient natural resources economy pose new challenges for the financial sector.

B. Sectoral and Institutional Context

Stability, Outreach, and Efficiency

5. The Kenyan financial sector is the third largest in sub-Saharan Africa (SSA) and has been relatively stable through recent slowdowns and shocks, both domestic and global. It is comprised of (i) a large banking sector that has leveraged its gains in resilience and growth to establish a

[1] The data are drawn from the Kenya Economic Update, Issue No. 11, March 2015 and factor in the 2014 rebasing of the national accounts.

notable sub-regional presence, (ii) a relatively well developed securities market (third in terms of capitalization in SSA), and (iii) a relatively large pensions and growing insurance sector. This has been the result of concerted efforts on the part of the GoK and an entrepreneurial private financial sector.

6. The financial sector continues to be dominated by the banking sector; banking assets stood at about 60 percent of GDP. The banking sector has strengthened substantially over the last decade. It has been resilient to domestic shocks (post-election violence in 2008 and subsequent lower economic growth) and international shocks (global financial crisis and the rising prices of food and fuels in particular). In fact, the ratio of gross non-performing loans (NPLs) to gross loans was at 5.2 percent in 2013 compared to 30 percent in 2003. The improvements in banking sector stability are a major achievement compared to 2003 when the high level of NPLs, mainly a result of loans extended by state-owned banks, presented a risk to the system. Concerted efforts since 2000 to reform the banking sector, introduce professional management practices, liberalize interest rates, and replace direct controls on lending with open market operations made it possible for Kenyan banks to leverage the resulting gains to venture abroad.

7. Kenya's banking sector has been undergoing rapid structural change over the last decade. Cross-industry and cross-border integration have contributed to greater interconnectedness of financial systems, both nationally and internationally. Financial innovation is creating a more complex financial system in terms of the intricacy of financial instruments, the diversity of activities and the concomitant mobility of risks. These structural changes have raised the possibility of adverse consequences of financial instability on economic performance affecting both Kenya and – through the banking and trade linkages – the wider East Africa region. The Central Bank of Kenya (CBK) has made important strides in updating and strengthening the legal and regulatory frameworks for banking supervision but the evolving structure of the banking sector continues to create new challenges from a prudential perspective.

8. Technological innovations and the emergence of financial institutions and initiatives that target traditionally underserved segments of the market have expanded the reach of the financial sector.[2] The expansion of retail banks into lower-income markets and regulation of credit-only microfinance institutions (MFIs) has led to an expansion in deposit accounts, branches and agents. At the same time, financial institutions started leveraging off developments in information and communications technologies (ICT) by introducing agency banking, facilitated by the introduction of regulation to permit the use of agents. Between 2010 and September 2013, a total of 21,816 agents were licensed, lowering the costs of providing financial services in sparsely populated areas and increasing outreach. Over the same period the Savings and Credit Cooperative (SACCO) sector has become increasingly formalized, facilitated by the establishment of the SACCO Societies Regulatory Authority (SASRA) in 2008.

[2] According to FinAccess surveys, the share of the adult population using various forms of formal financial services increased from 26.4 percent in 2006 to 66.7 percent in 2013, driven mostly by the introduction of the M-Pesa mobile phone based payment systems in 2007 and the regulation of MFIs. Additionally, financial exclusion (i.e. lack of use of financial products –either formal or informal) declined from 38.4 percent to 25.4 percent in the same period. Nevertheless, businesses continue to identify access to finance among the top five constraints they face, as reported in the Enterprise Survey 2013.

9. Mobile phone based payments have dramatically changed the landscape of retail payments and transfers. Introduced by Safaricom's M-Pesa, the customer base of mobile money transfer services (including the other mobile network operators) stood at 23.75 million customers at end June 2013. The number of mobile money transactions amounted to 643.1 million at year end June 2013 with a total volume of Ksh 1,689 billion.[3] Correspondingly, the total number of agents increased to 103,165 by end of June 2013 from 61,313 in June 2012.

10. While outreach has substantially increased, the interest rate spread in the banking sector remains high. The interest rate spread has averaged 10.42 percent over the period from 2000 to 2010. In January 2014, the spread was at 10.48 percent – marginally above the long-term average. The recent rise in the interest rate spread can partly be attributed to the rise in short-term interest rates (Central Bank Rate, Interbank Rate and 91 day T-Bill rate) from mid-2011 until mid-2012 as part of monetary tightening during this period, but is also evidence of a structural problem. To facilitate lower interest rate spreads, *inter alia*, information asymmetries and risks need to be ameliorated by expanding information available at credit bureaus (to include positive information as well as information from non-bank financial institutions and commercial entities such as shops and utilities), improving the land and companies registries and titling, and improving the process of taking and realizing collateral. Other factors affecting spreads include the effective competition in the Kenyan banking sector, the stability of the benchmark rates in the government paper market, and the availability of alternative savings instruments.[4]

Long-term financing

11. The Kenyan capital market is the largest in East Africa and third in terms of capitalization in SSA, after South Africa and Nigeria. The capital market is dominated by equities and government bonds. A total of 60 companies are listed on the Nairobi Securities Exchange (NSE) with a total market capitalization of over Ksh 1.9 trillion[5] at the end of 2013. The 10 largest listed companies, the majority of which are commercial banks, account for over 70 percent of market capitalization. The outstanding government bond market represents about 26 percent of GDP. The non-government bond market remains underdeveloped (though growing at a fast pace).

12. An automated bond-trading platform has been introduced linking the NSE and CBK, which has contributed to an increase in government bond trading. However, volumes are well below their potential and a reliable government bond yield curve still needs to be developed. The market structure and infrastructure remain inadequate and the hybrid bond market structure, which would facilitate Over the Counter Trading of bonds alongside exchange based trading, is yet to be operationalized. The repo market, a foundation for the bond market, is not functioning well and the sale/buy back market has recently been beset by scandals in which investors lost money.

13. A number of key gaps and market weaknesses exist in the capital market including limited number and size of new equity and debt issuance and limited diversity of capital markets products and services amid increasing appetite for investment, especially from institutional and foreign

[3] Approximately US$18.6 billion.
[4] For a detailed discussion on the issue of spreads in Kenya please refer to the Kenya Economic Update, Issue No 9, December 2013.
[5] Approximately US$21 billion

investors. A strengthened policy and regulatory environment and market infrastructure are required to support market development, efficiency and integrity. There is also a clear need to focus on corporate governance and strengthening supervision.

14. The Kenyan insurance sector is underdeveloped (especially with regards to penetration ratios) but has a relatively large number of companies. The industry has 45 insurance companies, 2 re-insurance companies, 154 insurance brokers, and 4205 insurance agents. The industry is regulated and supervised by the Insurance Regulatory Authority (IRA), established in 2007. Gross premium income was at Ksh 131 billion[6] at the end of 2013 (66 percent falling under general and 34 percent under life insurance business) compared to Ksh 56 billion[7] in 2008. The primary business line for insurance companies in Kenya is motor insurance, a frequent phenomenon in developing markets given that Motor Third Party Liability (MTPL) is often mandatory. Insurance penetration (total premiums to GDP) stood at 3.77 percent of GDP at end 2013, which is low given the large number of insurance companies.

15. Low per-capita incomes, instances of fraud, and weak supervision are some of the deterrents to the development of the insurance market. The GoK has three main goals for the insurance sector: a) promote consumer education and protection, b) promote an inclusive, competitive and stable insurance industry, and c) offer quality customer service.

16. The Kenyan pensions system manages assets of about 17 percent of GDP. The Retirement Benefits Authority (RBA) has regulated and supervised the industry since 2000, using risk-based supervision. Pension funds are established on a trust basis with governing bodies made up of members and sponsor representatives and are licensed by the regulator. Most are now defined contribution (DC) funds, with defined benefit (DB) schemes being largely closed to new members. The RBA also licenses the industries service providers - with 16 fund managers, 12 custodians, and 26 registered external administrators currently operating in the country. Total pension fund assets as of December 2013 amounted to KSh 633.5[8] billion, with the National Social Security Fund (NSSF) accounting for 21 percent.

17. The pension system in Kenya consist of a three pillar system, where the first pillar delivers universal pension of a very low amount aimed at poverty eradication via the means tested Older Persons Cash Transfer (OPCT). The second is a mandatory contributive pillar based on a defined benefit scheme managed by the NSSF, while the third is a voluntary pillar, formed by occupational and individual pension schemes. Outside the OPCT which is being gradually extended, the overall coverage of the system is low. The currently unfunded Civil Service Pension Scheme (CSPS) covers 450,000 civil servants, with the NSSF covering 1.3 million formal, private sector workers on a mandatory basis. The approximately 1,200 occupational pensions have around 400,000 members. Overall, coverage has remained at around 15 percent of the labor force, with more than 80 percent of the workforce in the informal sector having no social security or pension coverage.

[6] Approximately US$1.4 billion.
[7] Approximately US$0.6 billion
[8] Approximately US$7.0 billion

Rationale for continued support

18. World Bank support to financial sector development in Kenya over the last decade was delivered largely, but not entirely, under the umbrella of the Financial and Legal Sector Technical Assistance project (FLSTAP). FLSTAP was approved in October 2004 as a technical assistance loan with an IDA credit of US$18 million and DFID co-financing of US$10 million. The overall development objective (PDO) of the project was to create a sound financial system and strengthened legal framework and judicial capacity that would ensure broad access to financial and related legal services. When the Project closed in March 2013, almost all of the PDO indicators had been achieved and in some cases even exceeded expectations. In addition, the GoK with support from other partners such as Financial Sector Deepening Kenya, has implemented various other reforms in the financial sector.

19. The new operation will build on previous financial sector reforms and the gains realized through FLSTAP. It will take into account the progress made on the stability and access fronts by the financial sector over the duration of the project and the evolving needs of the financial and real sector. The Project will support the Kenyan authorities in further developing regulatory and supervisory frameworks that continue to be effective in mitigating the new risks associated with the financial sector's rapid development, deepening and expansion across sectors and across borders. It will support the upgrade of the supervisory, regulatory and institutional framework to keep pace with more complex markets and products with the overall objective of cementing stability.

20. In addition, Kenya's financial sector is also now at the stage where it would benefit from a more targeted approach that supports solutions to specific constraints that curtail the growth and job creation potential of the Kenyan private sector. These constraints include:

(a) availability of "affordable" credit to businesses especially SMEs
(b) scarcity of term finance to address Kenya's development needs

21. Many factors underpin the affordability of credit and the current interest rate structure in Kenya, including (i) returns on risk-free government paper, (ii) competition in the banking structure, (iii) risk pricing and credit information gaps, (iv) gaps in the collateral systems, and (v) gaps in consumer protection and dispute resolution frameworks. For the GoK, this is a priority issue and the recommendations of the Inter-institutional Interest Rate Committee touch on these areas. The CBK's Monetary Policy Committee introduced (June 2014) the Kenya Bank' Reference Rate in a bid to introduce more transparency in the way that banks price their products.

22. Since bank financing still dominates in Kenya and banks tend to rely primarily on deposits as their source of funds, there is a general shortage of long-term funds for infrastructure, mortgages, etc. Reforms are needed on the supply side because even as the liquidity position of institutional investors (pensions, insurance companies) has improved, these funds are not necessarily finding their way to the market. On the demand side, the agenda includes supporting a wider array of instruments and issuers.

C. Higher Level Objectives to which the Project Contributes

23. The GoK's Vision 2030 explicitly puts financial services at the center of higher economic growth in Kenya. The economic pillar of this strategy aspires to achieve high economic growth based on high national savings rates, which highlights the central role to be played by the financial sector. The financial sector is explicitly identified as one of the seven fast-track sectors in Vision 2030. Among its main objectives for financial sector development the strategy identifies: (i) improving stability; (ii) enhancing efficiency in the delivery of credit and other financial services, and; (iii) improving access to financial services products for a much larger number of Kenyans. The current Financial Services Medium Term Plan II (MTP2) 2013-17 concretizes these goals by listing specific projects/programs that feature on the GoK's priority list. The GoK has requested the World Bank to support it in implementing the Financial Services MTP2 as documented in a letter dated July 4, 2014.

24. The Project contributes to World Bank's twin goals of eliminating poverty and boosting shared prosperity by supporting Kenya in achieving higher rates of private-sector led growth and job creation. In this vein, the most recent Country Partnership Strategy (CPS) for Kenya spanning the period from FY2014-2018 was adopted in June 2014. Domain One: Competitiveness and Sustainability explicitly recognizes the private sector as the engine of economic growth and includes among the outcomes "improved enabling environment for private investment".

25. In keeping with other operations in the Finance and Markets Global Practice, the activities under this Project are closely intertwined with the World Bank's twin goals of eliminating poverty and boosting shared prosperity. Research has shown a causal positive relationship between financial development and economic growth (particularly working through the credit to firms channel) and a positive association with declines in income inequality.[9] Higher levels of financial development cause a faster decline in the percentage of the population living below the poverty line, [10] and income inequality tends to fall more rapidly.[11] Responsible financial systems directly help the poor, for example, by making available formal saving vehicles and risk mitigation tools which allow them to take advantage of opportunities for advancement (e.g., education expenses), cope with adverse shocks (e.g., health expenses), and fund productive investments.

26. Moreover, financial crises disproportionately hurt the poor, both through the direct loss of assets, and through the loss of jobs caused by lower economic growth. Financial crises can also cause negatively impact for public finances if substantial public debt is added to the governments' ledger. The additional debt can lead to diminished budgetary scope for the provision of critical public services sorely needed by the poor.[12] Therefore, strengthening financial institutions is also critical to the twin goals. In addition, long-term finance facilitates the critical infrastructure and capital investments needed to increase productivity and competitiveness.

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[9] See "Who gets the credit? And does it matter? Households vs. firms lending across countries", Beck et al, 2012, The B.E. Journal of Macroeconomics.
[10] Empirical evidence shows that a 10 percentage point increase in the ratio of private credit to GDP reduces the share of population living below the poverty line by 2.5-3 percentage points.
[11] "Finance, Inequality, and the Poor", Beck et all, Journal of Economic Growth 2007.
[12] It was estimated that some 120 million people worldwide were pushed into poverty during the recent global financial crisis.

27. The Project will advance this agenda by strengthening the legal and regulatory framework within which the financial sector operates, both creating new opportunities for private investment and managing the concomitant risks. Having access to a wide range of financial instruments differentiated by maturities and other characteristics at affordable prices is fuel for the private sector engine and feeds into growth and job creation.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

28. 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.

B. Project Beneficiaries

29. As indicted by the PDO, the main thrust of the Project will be to shore up the legal, regulatory and institutional environment within which the financial sector operates. As such the immediate beneficiaries of the Project will be the institutions that make up the financial architecture in Kenya. This includes the National Treasury and the various financial sector regulators (the CBK, the RBA, the IRA, the Capital Markets Authority (CMA), and SASRA). Other beneficiaries from the financial architecture include entities such as the Kenya Deposit Insurance Corporation (KDIC), and the incipient Public Debt Management Office (PDMO).

30. The ultimate beneficiaries of the Project will encompass a much larger group, the end-users of financial services in Kenya. This will include businesses, households and individuals that will benefit from access to a wider range of financial products and services on improved terms.

C. PDO Level Results Indicators

31. One of the principal lessons learned from FLSTAP relates to the need for a tighter results framework which makes it easier to map the logic chain all the way through from the activities that the project supports to the outcomes that are measured. In keeping with this, the results framework for this Project includes the following indicators that are clearly attributable to the activities it supports.[13] Please see Figure 1 below for further illustration.

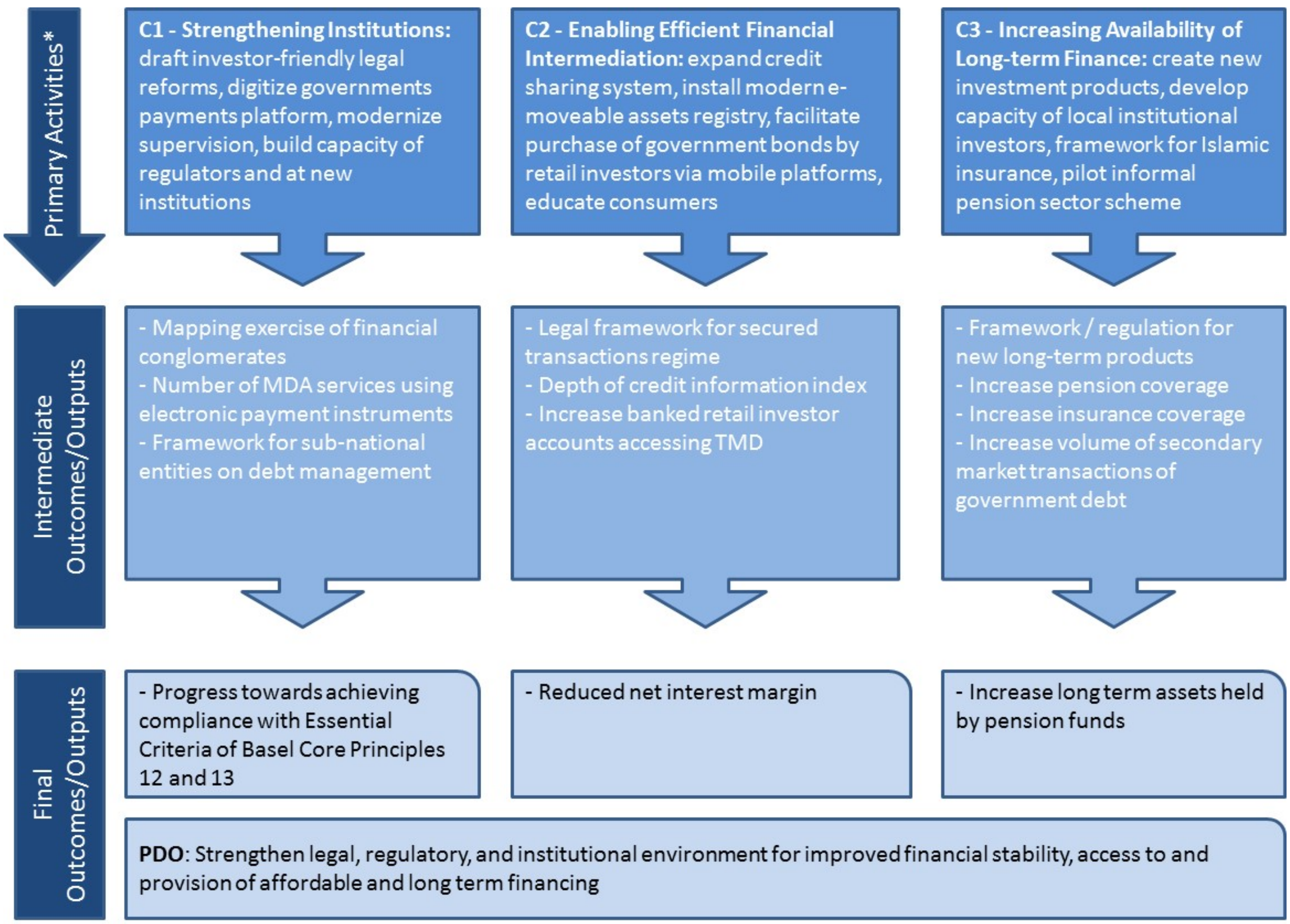
a. **Progress towards compliance with Basel Core Principal (BCP) 12 (consolidated supervision) and 13 (home-host relationship):** Over the course of FLSTAP, Kenya achieved prudential levels on several of the baseline measures of home market stability (NPLs, CAR, etc). During this time, with the growth of financial conglomerates and cross-border financial institutions, a new set of supervisory issues have also emerged. This indicator will measure the progress towards (and maintenance of) specific essential criterion underlying these two BCPs.

[13] For precise definition of indicators please see Annex 1. Results Framework and Monitoring.

b. **Net interest margin:** The cost of credit (bank financing) continues to be a constraint for businesses in Kenya. This issue has carried over from FLSTAP where the interest spreads indicator was higher than the target at the end of the project. This indicator measures the ex-post earnings from financial intermediation and is less noisy than the ex-ante difference between the lending and deposit rates. Setting an arbitrary end-Project target for this indicator can be problematic so success in the achievement of this indicator will be measured as a downward trend.

c. **Long-term assets held by pension funds (% of portfolio):** One of the key objectives of the Project is to catalyze the mobilization of long-term domestic funds. Pension funds are currently the most important potential source of such funds in Kenya. With the development of new products, the related legal frameworks / regulations, and training for institutional investors on these products, the project aims to increase the percentage of long term assets held by the pension funds.

Figure 1. Results Logic Chain



*The list of activities, outputs, and outcomes are not all inclusive. Component 4 (Project Management) is excluded because it primarily relates to administrative activities and does not directly contribute to the PDO and intermediate indicators.

III. PROJECT DESCRIPTION

A. Project Components

32. The Project will have four components:[14]

a. Component 1 – Strengthening Institutions (US$23.3 million): 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.

   i. Reforming Financial Architecture: The GoK has plans to streamline and make more efficient the overall financial architecture. This includes effecting (a) a consolidation of all the non-banking regulators into a single Financial Services Authority (FSA); (b) reforms necessary to create a more investor friendly environment in anticipation of the vast investment needs of the incipient natural resource economy; (c) an improved interface for the public to access a range of public services through the digitization of the payments for these services, and (d) strengthening market conduct supervision.

   ii. Modernizing Supervision: Over the last decade as the Kenyan financial sector has gradually become more sophisticated, it has required that regulators keep pace with these changes. The growing ownership linkages of the Kenyan banking sector with other businesses and with financial institutions in the East Africa region have created new challenges for the Central Bank in being able to supervise them effectively. Similarly, new challenges have confronted the non-banking regulators as the markets have reached out to new clients with new products. Keeping pace with these developments involves filling the regulatory gaps and supporting the adoption of best practices related to consolidated supervision etc. The Project will also support an upgrade of IT systems to enable regulators to collect information more efficiently.

   iii. Building Capacity: The Project will also deliver capacity support to the National Treasury, various regulators and other institutions that make up the financial architecture. Relatively new institutions such as the Kenya Deposit Insurance Corporation (KDIC) and SASRA will benefit from this support such that they are better able to deliver on their mandate. The Project will also support the creation of the PDMO, a significant step in the development of long term finance.

b. Component 2 – Enabling Efficient Financial Intermediation (US$6.4 million): This component will move forward the financial inclusion agenda in the Republic of Kenya

[14] A detailed description of each component and activities to be supported by this Project is included in Annex 2.

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 related to:

i. Improving credit reporting: One of the main issues with the pricing of credit in Kenya is the need to enhance transparency in the process. Credit providers are usually constrained for data, and the Project will support the expansion of the credit reporting system so that all credit providers can participate in full-file credit information sharing.

ii. Strengthening the regime for moveable collateral: Support will be provided to strengthen moveable collateral mechanisms to facilitate increased lending to SMEs at affordable rates by supporting the necessary legal and regulatory reforms for secured transactions, followed by the creation of an electronic moveable assets registry.

iii. Supporting the implementation of the new insolvency regime: As the new Insolvency Bill is expected for debate in Parliament, the Project will provide support for the implementation of the bill and building the capacity of key stakeholders to ensure a robust regime is in place.

iv. Expanding the availability of alternative savings instruments: The focus here is on facilitating additional savings mobilization by developing alternatives to bank deposits such as purchases of government bonds by retail investors using the mobile platform.

c. Component 3 – Mobilizing of Long-term Finance (US$5.3 million): 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 to:

i. New term products: The priority here is to develop and support the uptake of instruments that can channel financing to infrastructure given Kenya's infrastructure investment gap. Such instruments could include infrastructure project bonds and funds, sharia compliant instruments, housing finance products. Other instruments that could be improved to support infrastructure, as well as other long-term financing needs (e.g. housing and SME financing), include securitization and equity markets.

ii. Strengthening Institutional Investors: The priority is to mobilize long term savings by bringing in new savers into the market and developing the local capacity among institutional investors, mainly pension funds and insurance companies, to invest in long term projects through capital markets instruments.

d. Component 4- Project Management (US$1.3 million): Funds will be allocated for the purposes of project management. The project will make use of an existing Project Implementation Unit (PIU) that is currently managing the IDA-funded Infrastructure Finance/PPP project (P121019). Discussions with the counterparts have indicated that there will be a need to supplement capacity and staffing in this unit as deemed necessary to manage the new project.

B. Project Financing

33. The proposed project will comprise of an IDA credit of US$37 million. There is no co-financing envisaged for this operation.

C. Project Cost and Financing

Project Components	Project cost	IDA Financing	% Financing
1. Strengthening Institutions	US $23.3 million	US $23.3 million	100 %
2. Enabling Efficient Financial Intermediation	US $6.4 million	US $6.4 million	100%
3. Mobilizing Long Term Finance	US $5.3 million	US $5.3 million	100%
4. Supporting Project Management	US $1.3 million	US $1.3 million	100%
Total Costs	US $36.3 million	US $36.3 million	100%
Contingency Funds	US $0.7 million	US $0.7 million	100%
Total Project Costs	US$37 million	US$37 million	100%
Total Financing Required	US$37 million	US$37 million	100%

D. Lessons Learned and Reflected in the Project Design

34. The present operation is in many ways a successor to FLSTAP and builds on the gains realized by the Kenyan financial system over the FLSTAP years. The groundwork for this project was laid over a two year period beginning with the closing months of FLSTAP. The deep working knowledge of the Kenyan financial sector, gained over a long and oftentimes challenging project implementation period, has been leveraged in the preparation of this operation. The Implementation Completion and Results Report (ICR) prepared subsequent to the closing of the

project in March 2013 detailed the unfinished reform agenda in Kenya and in a very pragmatic way documented the challenges that the project faced, especially in the early years.

35. Thus, project design this time significantly relies on the lessons learned during FLSTAP with the expectation of being able to avoid similar delays in implementation. Among the key takeaways are:

a. Streamlining project scope and beneficiaries list: Consultations with the client and beneficiaries indicate that the principal reasons for the slow take-off of FLSTAP were the broad reach of FLSTAP both in terms of scope and the number of beneficiaries. Selectivity is always a challenge in the design of a technical assistance project of this nature, given that the client has requested support for a very ambitious financial sector strategy plan. But this Project has about half the number of beneficiaries of FLSTAP, and a focus on only those projects/programs from the Financial Service MTP2 where the World Bank has a comparative advantage as compared to other development partners.[15]

b. Creating ownership among stakeholders from the outset: On a related note, another reason for the issues that FLSTAP faced in the implementation phase is that it took a while before the client claimed ownership of the project. To a certain extent this problem has been resolved by the strong closing of FLTSAP, but in addition, the project design this time has tried to adhere very closely to the dialogue with the client.

c. Developing a tighter, clearly attributable results framework: FLSTAP was eventually a well-received Project with the GoK expressing a high degree of satisfaction with the support delivered under the Project. But as noted in the ICR Report, the broad PDO of the project actually did it a disservice by making attribution an issue. This time every attempt is being made to develop a tighter results framework with a clearly drawn logic chain from the activities that the Project will support to the outcomes that are measured via the indicators.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

36. The Project will be implemented over a period of five years. The Implementing Agency for the Project will be the National Treasury (NT). Overall strategic guidance to the Project will be provided by the Project Steering Committee (PSC), which will meet at least semi-annually. The Steering Committee will be chaired by the Principal Secretary, National Treasury and be comprised of representatives from the Treasury and from among the financial sector regulators. Representatives of the Association will sit in on the Committee meetings as observers only, to facilitate information exchange and support project implementation related decisions.

37. The National Treasury has made arrangements to use a PIU under it, which is currently managing the IDA-supported Infrastructure Finance Public Private Partnership (IFPPP) project

[15] This process is explained further in previous knowledge products, specifically the Setting Priorities Note.

and the Kenya Petroleum Technical Assistance Project (KEPTAP), to undertake the day-to-day implementation of the project. The PIU will be strengthened with additional hires as required to manage this Project. The GoK will benefit from the experience already acquired by the PIU team in implementing a previous financial sector project (FLSTAP) that was very similar in scope and substance. The manual of operations will be updated to better reflect system related aspects (use of client connection, PROCYS), as well as the need to standardize communications among the implementing agencies, the PIU, and Treasury in order to expedite processing of requests. The PIU will report to the Director General, Budget, Fiscal & Economic Affairs of the NT.

B. Results Monitoring and Evaluation

38. Monitoring and Evaluation (M&E) specialists at the PIU will be responsible for gathering and reporting the data required to ensure that the performance of this Project is evaluated in line with the PDO and results indicators. This function will entail coordination with the various entities that are the primary source of the required data.

39. Reviews during implementation support missions by IDA will include formal annual and semi-annual work program consultations at which time annual procurement and capacity building plans will be subjected to detailed review and approval actions by the World Bank. The PIU will be required to prepare the information necessary to inform these implementation review exercises and to ensure that all indicators in the results framework of Annex 1 are reported on with recent progress data.

C. Sustainability

40. The GoK has consistently demonstrated a strong understanding of the role of the financial sector in its overall development agenda outlined in Vision 2030. Its commitment to the reform agenda in this sector has been a constant regardless of any political economy consideration. Thus, it is anticipated that changes brought about by this Project will be sustained.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

41. The overall risk rating for the Project is estimated to be moderate. In common with other projects in Kenya, the political/governance and macroeconomic risks are substantial and moderate, respectively. The risks related specifically to this project are however deemed somewhat lower.[16]

42. As with any technical assistance project, effective implementation of this Project depends significantly on the Government moving ahead with the reform agenda in the financial sector, and

[16] The SORT guidance note indicates "This category assesses the risks to the development objective stemming from the country's political situation and governance context. It is important to note that it does not assess the overall riskiness of a country. Political and governance risks should be assessed against the development results associated with the operation or CPF. For instance, it is conceivable that an operation or CPF in a country that is perceived to be highly risky in terms of its overall political and governance context could nevertheless have a low or moderate risk rating in this category."

effecting the necessary legal changes. The GoK has in the past demonstrated a good understanding of the need for reforms in the sector and the request for this Project was motivated by a strong desire to move forward with the Financial Services MTP2. Thus, the likelihood that sectoral reform will be stalled or reversed is estimated to be moderate.

43. The technical design for this Project has been informed by extensive consultation with the client over the period of several months. While the broad-reaching nature of the support to be delivered under this project makes for a certain degree of technical complexity, this risk is mitigated by the fact that this Project is a successor project and the design draws on many of the lessons learned from FLSTAP. Hence the technical design risk is estimated to be low/moderate.

44. On a related note, the institutional capacity for implementation was also developed over the course of FLSTAP. Since this Project will be implemented by the PIU from the closing years of FLSTAP and leverage existing relationships with the various beneficiaries this risk is also deemed to be low.

Systematic Operations Risk- Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Low
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
OVERALL	Moderate

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

45. This Project will primarily serve as an instrument to facilitate further reform and modernization of the enabling environment within which the providers of financial services and products function in Kenya. The ultimate impact of the Project will be the effective functioning of a financial sector that effectively serves the evolving needs of the real sector. The immediate impact of the Project activities will be on the enabling economic environment such that it catalyzes changes in the market.

46. Given the nature of the project activities (technical assistance and capacity building), a quantitative economic and financial analysis is not the appropriate tool to assess their impact. However, the results chain (Figure 1) illustrates how activities related to an improved legal and

regulatory environment, strengthened capacity of the numerous financial regulators and/or new government institutions, consumer education, and the development of long-term investment products are the most tangible indicators of the project's impact.

47. Assumptions: A critical assumption of any technical assistance project of this nature is that the changes in the enabling environment are sufficient to catalyze the warranted changes in the functioning of financial markets and institutions. In the Kenyan context, this is a reasonable assumption since the private sector (both financial institutions and other businesses) are vibrant and eager to utilize emerging opportunities. The entrepreneurial talent and capacity in the market is more developed than that in most other countries in SSA. And there is high likelihood that the impact of the activities that the Project will support will percolate to the market.

48. Risks: The project will support a wide-reaching reform agenda that in some form involves all the sub-sectors that make up the financial sector. As such, it involves a wide range of stakeholders. Thus, there is some likelihood that the process of reaching an agreement on the reform agenda may be prolonged and impact the pace of implementation of the Project. This risk is mitigated by the Financial Services MTP 2. A thorough consultative process, that involved all the stakeholders, preceded the drafting of this strategy document.

49. Sustainability: The GoK has amply demonstrated its understanding of the importance of the financial sector and the role that it plays in supporting growth and job creation. The reforms that were supported by FLSTAP have been absorbed and sustained, and there is every indication that the proposed project and its impact will be similarly sustained.

50. Rationale for public sector provision: Building and improving the legal and regulatory framework is fundamentally a public good. Gaps in this framework can distort incentives with an adverse impact on the functioning of the private sector. All the activities that this Project will support focus on developing new legal and regulatory frameworks / legislation, building regulator capacity, and educating the public, all of which will directly contribute to improved stability, enhanced efficiency of the delivery of credit and other financial services, and greater access to financial services for more Kenyans. Accordingly, the character of these activities lends itself well to support from the public sector.

51. WBG's value added: The proposed new operation primarily builds on the gains realized through FLSTAP. It takes into account the progress made in the stability of and access to the financial sector over the duration of FLSTAP and the evolving needs of the real sector. It also leverages other complimentary WBG engagements (Kenya FSAP Update 2010, EAC FSAP 2013, IFPPP, Efficient Securities Market Institutional Development (ESMID) Program, and the WBG Government Bond Markets Advisory Services Program (formerly GEMLOC - Global Emerging Markets in Local Currency Program) and in-house knowledge particularly in areas related to bank supervision, crisis preparedness, pension legal and regulatory frameworks, and collateral registries and legislation. In addition, the proposed areas of interventions are not currently supported by other donors, further supporting the value of the WBG's contribution in this project.

B. Technical

52. The technical assessment for this Project was initiated over a period that predates the formal project preparation cycle. The broad-based nature of FLSTAP allowed for an ongoing dialogue with the various stakeholders through the period of project implementation. Subsequent to project closing in March 2013, the dialogue was continued via knowledge products such as the FLSTAP ICR Report, Setting Priorities note, and the special focus on spreads in the Kenya Economic Update Issue No. 9.

53. The GoK's own Financial Services MTP 2013-17 identifies the broad priority areas in this sector. These priorities were further discussed with the GoK during the various missions related to this Project. Annex 2 draws on these discussions to provide a more detailed context for the activities included in the project description and components.

C. Financial Management

54. The World Bank's financial management team conducted a financial management assessment of National Treasury-PIU, the entity implementing the Financial Sector Support Project. The financial management residual risk rating for NT-PIU is assessed as Moderate.

55. The objective of the financial management assessment was to determine whether the financial management arrangements (a) are capable of correctly and completely recording all transactions and balances relating to the project; (b) facilitate the preparation of regular, accurate, reliable and timely financial statements; (c) safeguard the project's entity assets; and (d) are subject to auditing arrangements acceptable to the Bank. The assessment complied with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010. Details on the financial management arrangements, including disbursement arrangements, are provided in Annex 3.

D. Procurement

56. Procurement will be carried out in accordance with the World Bank's (i) "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" of January 2011 as revised in July 2014; (ii) Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" of January 2011 as revised in July 2014, and (iii) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits & Grants", dated October 15, 2006, as revised in January 2014, and the provisions stipulated in the Legal Agreement. The procurement under the Project components is expected to comprise of: (i) selection of consultants to carry out studies and formulation of legislations and selection of professional staff for Project implementation, (ii) procurement of ICT equipment and other office equipment and (iii) some minor works such as office partition.

57. The PIU which is implementing the on-going IFPPP operation under the National Treasury will be responsible for all procurement activities under this Project. The procurement capacity of the PIU of IFPPP is currently strained by the other IDA-funded projects that the same PIU manages. Hence, it is strongly recommended that this capacity of the PIU be strengthened through

deployment of additional qualified procurement staff with working knowledge in both GOK/World Bank procurement procedures to manage the procurement requirements of the Project. To enhance FSSP procurement implementation, the PIU should organize regular training in procurement process administration, contract monitoring and management. Detailed procurement arrangements are provided in Annex 3.

58. An assessment of the procurement capacity of the PIU for IFPPP to implement FSSP procurement activities has revealed that PIU does not have adequate capacity to support FSSP. The procurement assessment was carried out in January 2015. The key weaknesses and risks of the capacity of the existing PIU are: (i) inadequate number and capacity of the procurement staff; (ii) deficiencies in the quality of procurement documents prepared by PIU such as RFP, evaluation reports, draft contracts, etc., which often necessitates multiple revisions that result in prolongation of award of contracts, and (iii) weak contract management skills. The recommended mitigation measures are:

(a) Supplement PIU with an additional qualified Procurement Officer;
(b) Prepare a Procurement Guide as part of the Project Implementation Manual (PIM) which: (i) defines the roles and responsibilities of all offices that will be involved in any aspect of procurement implementation of the project; (ii) set out the sequence and timeframe for the completion of procurement decisions of all individual players as well as for coordination of the contribution of the players in procurement implementation; and (iii) establish service standards for processing of payments to contractors and suppliers;
(c) Develop and agree with the Association a procurement training plan as part of PIM for all PIU staff;
(d) Establish an effective tracking systems of: (i) Procurement Plan implementation, and (ii) processing of payments to contractors and suppliers; and

E. Social (including Safeguards)

N/A

F. Environment (including Safeguards)

N/A

G. Other Safeguards Policies Triggered

N/A

H. World Bank Grievance Redress

59. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection

Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Republic of Kenya

Financial Sector Support Project (P151816)

Results Framework

Project Development Objectives

PDO Statement

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.

Project Development Objective Indicators

		Cumulative Target Values				
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5
Progress towards achieving compliance with Essential Criteria of Basel Core Principles 12 (consolidated supervision)and 13 (home-host relations) (Text)	MNC / LC[17]	No	No	No	No	Yes
Reduced net interest margin (Text)	TBU	No	No	Yes	Yes	Yes
Long-term assets held by pension funds (Percentage)	47.00	48.00	49.00	50.00	51.00	52.00

[17] 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 (which has not yet been planned) 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.

Intermediate Results Indicators						
	Cumulative Target Values					
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5
Mapping exercise of financial conglomerates (Text)	No	No	No	No	Yes	Yes
Number of MDA services using electronic payment instruments (Number)	0	0	500	1000	2000	3000
Increase in Pension coverage (Percentage)	15.00	15.00	15.00	17.00	17.00	20.00
Draft framework for sub-national entities on debt management (Text)	No	No	No	Yes	Yes	Yes
Increase in banked retail investor accounts accessing TMD (Number)	15,000	0.00	0.00	0.00	.00	150,000.00
Draft legal framework for a secured transactions regime(Text)	No	No	Yes	Yes	Yes	Yes
Depth of credit information index (Text)	0	0	1	1	2	3
Draft framework / regulation for new long term products (Number)	0.00	0.00	0.00	2.00	2.00	2.00
Increase in volume of secondary market transactions of government debt (Text)	N/A	No	No	No	No	Yes
Increase in Insurance coverage (Percentage)	3.70	4.00	4.20	4.50	5.00	6.00

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Progress towards compliance with Basel Core Principles 12 and 13	As in Footnote 19.[18]	Semi-Annual	BCP assessment	PIU
Reduced Net Interest Margin	Net interest margin = (Interest income–Interest expenses) / Average assets	Semi-Annual	Bank financial statements to CBK	PIU
Long-term assets held by pension funds	Measured by percentage of long-term assets[19] held in pension funds' investment portfolios.	Semi-Annual	RBA	PIU

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Mapping exercise of financial conglomerates	Mapping of ownership linkages	Annual	CBK	PIU
Number of MDA services using electronic payment instruments	MDA = Ministries, departments, and agencies	Annual	NT	PIU

[18] BCP 12 Consolidated supervision: An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide. BCP 13 Home-host relationships: Home and host supervisors of cross - border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.

[19] Long term assets = Long-term assets are defined as bonds over 8 years duration, listed and unlisted equity.

Increase in Pension coverage	Percentage of working-age population that are members of a pension fund system[20]	Semi-Annual	Financial Sector Stability Report, RBA	PIU
Draft framework for sub-national entities on debt management	Framework for the newly set up county governments in Kenya	Annual	CBK	PIU
Increase in banked retail investor accounts accessing TMD	TMD = Treasury Mobile Direct[21]	Semi-Annual	CBK, Ministry of Finance	PIU
Draft legal framework for a secured transactions regime	draft legal framework approved by cabinet for submission to parliament	Annual	CBK, NT	PIU
Depth of credit information index	Depth of credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.	Annual	Doing Business Indicators	PIU
Draft framework / regulation for new long term products	Draft framework / regulation for new long term products[22]	Annual	CMA	PIU
Increase in volume of secondary market transactions of government debt	Secondary market trading volume of government debt	Semi-Annual	CBK	PIU
Increase in Insurance coverage	Insurance penetration = gross written premiums (for all types of insurance) as % of GDP	Annual	IRA	PIU

[20] System includes public and private pensions (civil service, NSSF, voluntary occupational, and personal pension plans)
[21] TMD is product that enables retail investors to purchase government bonds using the mobile platform
[22] Refer to description of Component 3 in Annex 2 for examples of the possible products.

Annex 2: Detailed Project Description

REPUBLIC OF KENYA: Financial Sector Support Project

1. The technical assessment for this Project was initiated over a period that predates the formal project preparation cycle. The broad-based nature of FLSTAP allowed for an ongoing dialogue with the various stakeholders through the period of project implementation. Subsequent to project closure in March 2013, the dialogue was continued via knowledge products such as the FLSTAP ICR Report, Setting Priorities note, and the special focus on spreads in the Kenya Economic Update Issue No. 9.

2. The GoK's own Financial Services MTP 2013-17 identifies the broad priority areas in this sector. These priorities were further discussed with the GoK during the various missions related to this Project and these technical discussions are detailed in this annex. These discussions helped to narrow down the priority areas under MTP2 that would be included under this Project.

3. The scope and nature of this project are very similar to FLSTAP but take into account the changes in the Kenyan financial sector that have taken place over the last decade. In addition to continuing support to the overall stability agenda, the Project will also focus on two key issues that currently constrain the availability of finance in Kenya, (a) the cost of credit, and (b) the supply of and demand for long term funds.

4. Thus, there are three main components that will cover the bulk of the activities to be supported by the Project. These activities will take the form of consultancies, purchases of goods mostly IT systems, and training and capacity building. In addition, project funding will also be used for additional staffing for the PIU as deemed necessary during the appraisal process.[23]

Component 1 – Strengthening 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. Activities include the following:

a. **Reforming Financial Architecture**: The GoK has plans to streamline and make more efficient the overall financial architecture. This includes:

   i. *Setting up the Financial Services Authority (FSA):* Kenya's regulatory architecture is currently organized along sectoral lines, with separate regulators for the banking (undertaken by the Central Bank of Kenya; CBK), savings and credits cooperatives (Saccos Society Regulatory Agency; SASRA), insurance (Insurance Regulatory Authority; IRA), pensions (Retirement Benefits Authority; RBA) and capital markets (Capital Markets Authority). As part of the recommendations of the Para-statal Reform Committee it is proposed that the various non-banking regulators be consolidated into a

[23] Detailed activities table included at the end of this annex.

single Financial Services Authority. This sub-component will provide assistance to the Kenyan authorities in this regulatory consolidation process, so as to realize synergies and efficiency gains, ensure an orderly transition process, and support the long term objectives of stability and development of the financial sector, and also fill any gaps in the regulatory framework as they relate to specific issues such as non-deposit taking lenders and consumer protection etc. Contingent on the passage of the FSA and other related bills, the drafts of which are currently under review, the technical assistance will comprise of consultancies to develop a roadmap for integration, harmonization of the integrated regulatory frameworks, and development of market conduct supervision.

ii. *Developing an investor friendly environment:* Significant discoveries of oil portend a major transformation of the Kenyan economy and financial system. Given the vast financial needs of the incipient natural resource economy, it is important that the financial system be prepared for its participation in this economy. Technical assistance will be provided on the design and functioning of a legal and regulatory framework that will best allow the localized financial sector to be part of this new economy, at an estimated cost of US$150,000.

iii. *Digitization of government payments:* The National Treasury has made digitization of government payments a priority reform objective. This sub-component will support the strengthening of the institutional capacity of the Treasury for managing digitization initiatives and keep pace with changing payment needs of households and small businesses. Under this objective, two main activities have been identified: (i) policy and strategy management, including strengthening partnership management (solution providers financing and/or operating ICT infrastructure or equipment); and (ii) change management (project management framework and procedures for coordination and facilitation of all payment digitalization initiatives across beneficiaries.).

Specifically, this sub-component will provide support to: (i) establish and strengthen the capacity of a strong change and program management unit at the National Treasury to serve as an efficient and effective agency and secretariat for government digitized services and payments for all MDAs; (ii) strengthen the technical competences of the unit/agency; (iii) develop capacity for systematic monitoring and evaluation of digitization initiatives across beneficiary MDAs, including collecting and analyzing data, measuring outcomes, writing and disseminating reports on implementation progress; and for reporting to cabinet to track progress; (iv) build the capacity of beneficiary MDAs for direct implementation of activities related to digitization of government services and payments; (v) consultancies for critical technical resources including project coordinators, project managers and technical specialists providing specialized training and coaching support for MDA-level administrators and officials; and (vi) provide procurement of limited ICT equipment and services, and essential logistics for managing change at beneficiary MDAs.

b. **Modernizing Supervision:** Over the last decade as the Kenyan financial sector has gradually become more sophisticated, it has required that regulators keep pace with these changes. This sub-component will support:

i. *Improving supervision:*

Banking: The growing ownership linkages of the Kenyan banking sector with other businesses and with financial institutions in the East Africa region have created new challenges for the Central Bank in being able to supervise them effectively. This subcomponent will support the Kenyan authorities in further developing regulatory and supervisory frameworks that continue to be effective in mitigating the new risks associated with the banking sector's rapid development, deepening and expansion across sectors and cross-border. This includes completing a mapping of financial groups, development of information sharing templates for cross-border and cross-sector supervision, and setting up comprehensive crisis management groups. It also includes shoring up macroprudential supervision by building capacity to identify domestic systemically important banks and assess systemic risk, and adoption of a methodology informing the activation and release of countercyclical capital adequacy buffers.

Non-banking: Similarly, new challenges have confronted the non-banking regulators as the markets are being encouraged to reach out to new clients with new products. Strengthening the supervisory capacity of the CMA in the context of more sophisticated markets and stakeholders is critical to ensure the efficient functioning of the domestic capital market. This includes developing the analytical tools and supportive IT infrastructure to conduct accurate and timely financial analysis of market participants. This also involves developing training facilities so the CMA can develop a systematic on-line training program, benefiting both internal staff as well as market stakeholders. The total estimated cost of the program is US$2.9 million.

In pensions, this includes examining the Pensions Policy, the role of the NSSF, and strengthening supervisory capacity of the RBA. In insurance, subsequent to the passage of the Insurance Bill in Parliament, the new law will have to be supported by detailed regulations covering issues ranging from prudential issues, risk management, reinsurance, licensing to conduct of insurance business.

ii. *Upgrading IT systems:* The Kenyan authorities are seeking to contain the fragmentation of financial infrastructure in Kenya and enhance full and intensive use of electronic payment instruments by households, small businesses and government. The Project will support the GoK to undertake a fundamental re-evaluation of maintaining an architecture that splits RTGS and ACH platforms as well as maintains separate CSDs for government and corporate securities; and assess capacity for the technical platforms to meet current demand, as well as payment needs and scalability to meet demand in the perceptible future. Since the establishment of the ACH system and CSDs in Kenya, there have been remarkable technological advances in the market for the supply of financial market infrastructure solutions with offerings of ATS systems emerging as a single integrated system incorporating both RTGS and ACH; and a CSD system. In addition, outreach of financial services in Kenya has increased over the intervening period with a number of financial institutions leveraging ICT to introduce agency banking and other similar technological innovations, thus exerting some pressure on the adequacy of technical platforms comprising the ecosystem for national payment systems. There will be a similar assessment and upgrade of the RBA systems to support improved data systems.

c. **Building Capacity**: The Project will also deliver capacity support to the National Treasury and various regulators and other institutions that make up the financial architecture. These include:

i. *Kenya Deposit Insurance Corporation (KDIC):* The newly-established KDIC faces a major challenge to deliver on its new mandate as the designated bank resolution authority, going well beyond its previous "paybox plus" mandate which also included powers to act as a liquidator. The enhanced mandate gives KDIC new roles in receivership and new powers like P&A for bank resolution. The Project will deliver capacity and other support to KDIC to discharge its new enhanced role and also to create public awareness of this role to enhance confidence in the banking system.

ii. *Sacco Societies Regulatory Authority (SASRA)*: SASRA is the most recently created regulator in Kenya that began operations in 2010. As such, strengthening Sacco supervision will require a significant and sustained technical assistance effort, both to the regulator and to the sector. SASRA has made significant investments in upgrading its IT infrastructure with a view to strengthening its offsite monitoring function. The supervised entities, however, still report challenges in producing reliable prudential data, which reflects a combination of capacity constraints with hardware and software deficiencies. Data reliability concerns greatly complicate SASRA's supervisory effectiveness and also prevent SASRA from transitioning towards a more risk-based supervisory approach (wherein decisions regarding the allocation of scarce supervisory resources are made on the basis of the risk profile of individual SACCOs). SASRA is also in the process of overhauling its legal framework. One of the areas to be addressed is the legal gaps in SASRA's powers to enforce disciplinary and corrective actions on SACCOs, where it has encountered some challenges. It is therefore suggested to conduct a review of the legal framework as well as advise on the use of such tools.

iii. *Public Debt Management Office (PDMO)*: Developing the PDMO directorate as a strong institution in charge of Kenya's public debt management and issuance is critical for the development of a sustainable and liquid long-term government debt market, which in turn would support a broader range of long-term capital markets products for the private sector. The new PDMO would, overtime, take the responsibilities currently performed by CBK as fiscal agent of the Ministry of Finance related to debt issuance. Support to the PDMO will take the form of capacity building for each of its functions, a resident advisor from the CBK, IT purchases among others.

Component 2 – Enabling Efficient Financial Intermediation: This component will move forward the financial inclusion agenda in Kenya with a focus on strengthening the credit 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 activities related to:

a. **Improving credit information data sharing:** Stakeholders including the GoK, regulators, credit reference bureaus, and diverse credit providers have expressed interest in expanding the credit reporting system so that all credit providers can participate in full-file credit information sharing. Presently, the legal framework is fragmented across several pieces of legislation and while the Credit Bureau regulations allow other users of the credit bureau to access credit reports there are no legal mechanisms that mandate other credit providers to submit full file information to the bureaus.

b. **Strengthening collateral mechanisms:** A sound operational, legal and regulatory framework for a modern secured transactions regime (moveable collateral) is the basis and the pre-requisite for firms to be able to leverage their moveable assets in order to access credit from banks, suppliers, and other credit providers. Following the new legal framework, the establishment of an electronic moveable assets registry will facilitate quicker and more transparent processes for borrowers and lenders to use movable assets as a way to secure loans. A modern electronic moveable assets registry will need to be established based upon an appropriate and comprehensive secured transactions legislation and regulatory framework which should establish the registry as well as set out clear, defined and non-contradictory rules for the creation, perfection and enforcement of moveable assets, among other objectives.

c. **Implementation of the new Insolvency Regime***:* Significant progress has been made in reforming the insolvency framework for Kenya, through the development of a new Insolvency Law (published in 2014), and which is expected to come before Parliament for debate in the coming weeks. Passage of the bill will represent a major milestone in the reform agenda, but will also necessitate a significant push to fill in the regulatory gaps and to build capacity within the judiciary, supportive institutions, and the Government. Support from the World Bank will, therefore. include; (i) support to the Attorney General's (AG) office for drafting the regulations; (ii) structured training for the insolvency practitioners and the judiciary, potentially through the judiciary training center; (iii) awareness building campaign for the public and private sector; (iv) capacity building to the AG's office commercial and legislative drafting.

d. **Expanding the availability of alternative savings instruments:** The focus here is on instruments that can serves as alternatives to banking products. For instance, supporting the second stage for Treasury Mobile Direct (pilot ongoing with WB support) which would allow retail investors to buy government bonds using the mobile platform are alternatives to bank deposits that can facilitate domestic resource mobilization at attractive rates to small savers.

Component 3 – Mobilizing 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 to:

a. **New term products**: The priority here is to develop and support the uptake of instruments that can channel financing to infrastructure given Kenya's infrastructure investment gap. Such instruments could include infrastructure project bonds and funds, sharia compliant instruments, housing finance products. Other instruments that can be improved to support infrastructure, as well as other long-term financing needs (e.g. housing and SME financing), include securitized assets, equity products, and a new informal pension scheme.

b. **Strengthening institutional investors:** The priority is to develop the local capacity among institutional investors, mainly pension funds (including trustees) and insurance companies to invest in infrastructure projects through capital markets instruments. Options range from hands-on training with specific projects to developing collective investment platforms that can share costs of analysis and monitoring of infrastructure investments. Institutional investors will have to be trained to understand the risk-return profiles of various investment instruments and the appropriate role they can play in the overall fund portfolio. Mobilizing additional long term services by supporting the establishment of the transformed public sector pensions scheme (PSSS) and the informal pensions scheme is part of this agenda. Additionally, the performance and investment rules would need to be reviewed so they allow the flexibility to increase exposure to infrastructure assets within prudent risk limits.

Detailed Activity Table

	Activity descriptions
C1: Strengthening Institutions	
C1.i	Strengthening policy and strategy management for digitization of govt payments
C1.i	Strengthening digitization and change management framework for govt payments
C1.i	Defining the scope of consolidation and legal support in overhauling the current draft FSA Bill
C1.i	Harmonization of regulatory frameworks (FSA Bill)
C1.i	Develop a road map (FSA Bill)
C1.i	Development of market conduct supervision
C1.i	Strategic advice on regulatory structure for non-deposit-taking lenders
C1.i	Strategic advice on regulatory structure for consumer protection for financial services
C1.i	Design of investor friendly FS framework
C1.ii	CMA Technical financial analysis tools
C1.ii	CMA e-learning facility
C1.ii	CMA training program
C1.ii	IT upgrade of existing/new CSD (software and hardware)
C1.ii	Electronic Trading Platform for market making in government debt (design, implementation and training)
C1.ii	Assessment of CCP
C1.ii	Replacement of RTGS & ACH with ATS and CSD systems
C1.ii	Capacity injection at CBK to Update Payment Systems Regulations and Oversight
C1.ii	RBA ICT upgrades: Review of RBA ICT systems, Optimisation of the Risk ToolKit, Roll out ICT interface with pension industry, Improve RBA's statistical data extraction, Ensure RBA's compatibility with other financial sector regulators, Develop customer interaction / relationship management system for complaints handling, Upgrading of the existing hardware, Develop RBA's reporting systems as a basis for EAC template, Case based System, Knowledge transfer (on Microsoft Dynamics, Business Intelligence)
C1.ii	RBA RBS: Post-risk scoring, intervention training, Certification for trustees, Development of pension fund governance guidelines, post risk scoring tool kit

C1.ii	Development of templates for cross-border information exchange
C1.ii	Development of templates for information exchange between Kenyan financial regulators
C1.ii	Framework for capital surcharges for domestic systemically important banks
C1.ii	Framework for development of countercyclical capital buffers
C1.ii	Framework for Cooperation and information exchange in the domestic financial safety-net
C1.ii	Domestic Crisis Simulation Exercise
C1.ii	Crisis management groups
C1.ii	Facilitate implementation of the revised regulatory regime for IRA
C1.ii	Enhance Insurance RBS and IT upgrades
C1.ii	Improve IRA institutional capacity
C1.iii	Institutional building of PDMO: strategy, organization, processes, manuals, etc
C1.iii	Development of framework and capacity for sub-national oversight and training
C1.iii	IT supporting the new PDMO (software and hardware)
C1.iii	Capacity building of new PDMO staff
C1.iii	Resident advisor/secondment for PDMO
C1.iii	Capacity building of Nairobi International Financial Centre Authority staff
C1.iii	Capacity building of Policy Holders Compensation Fund staff
C1.iii	Development of framework for an investor-friendly environment
C1.iii	ICT support to KDIC to enable accelerated pay-out
C1.iii	Supporting KDIC’s effectiveness as a *deposit insurer*
C1.iii	Supporting KDIC’s effectiveness as a *resolution authority*
C1.iii	Capacity building consolidated supervision
C1.iii	Financial stability monitoring– building capacity
C1.iii	Development of a framework to determine a target ratio for KDIC’s deposit insurance fund
C1.iii	Risk-based contribution methodology for KDIC

C1.iii	Capacity building/onboarding program for new KDIC employees
C1.iii	Public Awareness Strategy for KDIC
C1.iii	Upgrading IT to enhance reliability of supervisory reports for SACCOs
C1.iii	Upgrading SASRA's IT system for supervisory reports
C1.iii	Risk based supervision for SACCOs
C1.iii	Advisory on remedial action and resolution framework and the design of the safety net for SACCOs

C2: Enabling Efficient Financial Intermediation

C2.i	TA for review of existing legislative and regulatory framework for CIS and assessment of its adequacy for comprehensive CIS – Hiring a local consultant or firm.
C2.i	TA to develop comprehensive CIS legislation.
C2.i	TA & Capacity Building to sponsoring Ministry and Parent Ministries/RA on CIS
C2.i	Consultant to design and deliver TA & Capacity Building for the regulator on oversight and supervision and develop appropriate oversight toolkit (credit info sharing)
C2.i	Consultant to design and deliver a training of trainers program on CIS for the lender community (banks, MFIs, Saccos)
C2.i	Consultant to design a consumer education and financial literacy program on credit reporting and responsible borrowing and lending.
C2.i	Cost of delivery of the consumer education and financial literacy campaign through various media channels (radio, TV, Social media, etc.)
C2.ii	Comprehensive review of existing legal regime related to security interests in moveable property.
C2.ii	Drafting a secured transactions law (or personal property security law) that repeals existing legislative provisions and establishes a modern legal framework.
C2.ii	TA & capacity building for development of the modern legal framework for the sponsoring ministry, Attorney General's Chambers (and Members of Parliament (or committees of Parliament) and facilitation of stakeholder consultation and debate.
C2.ii	e-Registry system for moveable assets (off the shelf software application)
C2.ii	e-Registry system for moveable assets (hardware)
C2.ii	TA – Local Specialist for e-registry system
C2.ii	TA & Capacity building for designated entity of e-registry system by (International Firm or ST/Banking Expert)
C2.ii	Travel costs for ST/Banking expert/Firm(designated entity)
C2.ii	Training events/workshops for e-registry system for moveable assets

C2.ii	TA for design of a training program for target stakeholders (lenders & potential users, legal community, potential borrowers (MSMEs) and CBK if required And training delivery
C2.ii	Communications plan and communication activities for broad community of stakeholders
C2.iii	Support for drafting the subsidiary legislation and drafting regulations
C2.iii	Capacity building for insolvency practitioners and judiciary
C2.iii	Awareness and consensus building campaign
C2.iii	Support to the AG's office for legislative drafting (commercial and government)
C2.iv	Project management support in implementation of TMD for 3 years
C2.iv	Training on marketing, oversight and security features of TMD
C2.iv	Launch, promotion and marketing TMD to mass market
C2.iv	Institutional set-up for operating TMD
C2.iv	IT hardware and software for second phase of TMD

C3: Mobilizing Long-Term Finance

C3.i	Regulatory and operational framework for money market instruments, foreign exchange operations and derivatives to address existing shortcomings
C3.i	Development of prototype instruments/transactions that can channel long term financing to such as infrastructure, housing and SME finance, including sharia compliant instruments
C1.ii	Framework, regulations and capacity building for new products (Islamic finance) - CMA
C1.ii	Framework, regulations and capacity building for derivatives - CMA
C3.ii	Strengthening the equity market in corporate governance, access by smaller issuers (e.g. GEMs market).
C3.ii	Developing the capacity domestic among institutional investors and trustees to invest in infrastructure through capital markets instruments.
C3.ii	Holistic review of pension policy and develop informal sector pension scheme: Study on innovative product development for informal sector pensions, feasibility study on universal registered informal pension scheme, pilot implementation, awareness campaign
C3.ii	Support for PSSS: Pension records and payroll clean up and reconciliation, Introduction of biometric pension records, Complete roll out of all modules of Pension Management Information System,
C3.ii	Support for PSSS: Capacity building for in-house administrators and trustees of new funded scheme

C4: Project Management Expenses

Annex 3: Implementation Arrangements

REPUBLIC OF KENYA: Financial Sector Support Project

Project Institutional and Implementation Arrangements

1. The Implementing Agency for the Project will be the NT. Overall strategic guidance for the Project will be provided by the PSC. The PSC will be chaired by the Principal Secretary, NT and be comprised of representatives from NT and the financial sector regulators. Representatives of IDA will sit in the PSC meetings as observers only to facilitate information exchange and support project implementation decisions. The Committee may from time to time co-opt other members from the implementing agencies or other Government agencies depending on the issue being discussed. While decision-making in the PSC will be by consensus, the NT as chair will have the deciding vote where agreement cannot be reached.

2. The administrative responsibility for day-to- day operations of the Project will lie with the PIU managing the IDA-supported IFPPP project. This PIU will be expanded with additional new hires as necessary to manage this project. The PIU is headed by a full-time Project Manager who has an excellent understanding of financial and legal sector reform issues, possesses a drive for results and an ability to bring stakeholders together in a collaborative manner, and has a good knowledge of procurement matters. The PIU will report to the Director General, Directorate Budget, Fiscal & Economic Affairs of the NT.

3. The PIU will be responsible for: (a) assessing and prioritizing project proposals prepared by beneficiary institutions; (b) undertaking quality control for terms of reference once a project proposal has been approved by the PSC; (c) overseeing project implementation activities; (d) administering project funding and procurement processing (including the employment of consultants) and managing the Project Accounts and the Special Account; (e) following up on the agreed financial covenants and disbursement conditions; (f) proposing any necessary adjustments and amendments to implementation methods; (g) providing periodic project progress reports; and (h) acting as the focal point of contacts between the GoK and IDA during the project implementation period.

4. Once a project proposal has been approved by the PSC, each beneficiary organization will be responsible for preparing the terms of reference and requests for proposals and/or equipment specifications for procurement of consultant services and goods, respectively. The PIU will provide procurement support and advice on procedural matters to each of the beneficiaries in the preparation of these documents. The documents will be submitted to the PIU where the procurement specialist will be responsible for ensuring that all the World Bank Guidelines for procurement of goods and consultant services are followed. The PIU will assist Beneficiaries in the evaluation of Request for Proposals (RFPs) as well as communicating the results of the evaluations to the World Bank. Consultants, contractors and suppliers will be selected in accordance with Bank guidelines, on the basis of proven experience.

5. The PIU will liaise closely with the various implementing agencies to ensure that project activities will be handled in a way that meets project development objectives effectively, in a

timely fashion and in accordance with World Bank requirements. The PIU has prepared the Project Implementation Plan and the Procurement Plan for the first 18 months of project activities.

Financial Management, Disbursements and Procurement

Financial Management

6. **Background.** The World Bank's financial management team conducted a financial management assessment of the pre-existing PIU, which will be responsible for the day-to-day administrative management of this project. The pre-existing PIU has been responsible for the IDA and DFID funded FLSTAP, which closed on March 31, 2013, as well as the overall project implementation, supervision, monitoring and reporting of the IFPPP project and the Kenya Petroleum Technical Assistance Project (KEPTAP), which became effective in October 2014.

7. The objective of the financial management assessment was to determine whether the financial management arrangements (a) are capable of correctly and completely recording all transactions and balances relating to the project; (b) facilitate the preparation of regular, accurate, reliable and timely financial statements; (c) safeguard the project's entity assets; and (d) are subject to auditing arrangements acceptable to the Bank. The assessment complied with the Financial Management Manual for World Bank-Financed Investment Operations that became effective on March 1, 2010.

8. **Budgeting arrangements.** The budgeting process is deemed adequate. The budgeting process follows the GoK procedures titled; Government Financial Regulations and Procedures. These regulations are currently undergoing a review following the enactment of the PFM Act 2012. The budget preparation process is spearheaded by the Principal Secretary upon release of the annual circular requiring all ministries to prepare their budgets within a set ceiling. The PIU consolidated budget is forwarded to the Directorate of Budget, Fiscal, & Economic Affairs in the NT who then forwards to the National Treasury for approval and inclusion in the printed estimates.

9. The budgets for 2014/15 were prepared in excel and uploaded into the Hyperion of the Integrated Financial Management System (IFMIS). For the PIU, their budget in IFMIS is a one line item since the detailed budget will be uploaded in PIU's information accounting system-Quick Books. The NT should work towards having IFMIS at its PIU instead of having a parallel system. The National Treasury PIU budget monitoring will also be done on a monthly basis through management reports that show actual versus the budgeted amounts and on a day-to-day basis. The vote book will be used to monitor the budget.

10. **Staffing.** The staffing in the PIU of National Treasury was assessed as adequate in terms of qualifications, numbers and experience. The existing PIU has a Financial Management Specialist and an Accounts Assistant who have adequate experience and qualifications-minimum undergraduate degrees and Certified Public Accountants of Kenya (CPAK). The National Treasury Directorate of Accounting Service plans to deploy an accountant to assist in projects handled by the PIU. They are currently in charge of the accounting aspects of IFPPP project, KEPTAP and will also handle the proposed Financial Sector Support Project. Additional staff, such as an Assistant Project Manager and Procurement Specialist, will added to the PIU, with further additions as needed.

11. **Accounting Records and Information Accounting System.** The existing PIU uses Quick Books Version 2006 accounting software which is able to produce the various reports and hence is deemed adequate for FSSP. As noted under budgeting, the NT should work towards having IFMIS at its PIU instead of having parallel systems.

12. **Internal control systems.** The PIU uses the government financial guidelines titled, "Government Financial Regulations and Procedures." These guidelines cover several financial management policies and procedures including budgeting procedures, cash management, inventory management procedures as well as preparation of financial statements. Though the guidelines are sufficient as they included critical controls that were pertinent to the project's operations, these regulations are currently undergoing a review following the enactment of the Public Finance Management (PFM) Act 2012.

13. **Internal Audit and the Audit Committee.** The NT has an internal audit function with adequate qualifications and experience. The internal auditors are seconded to the ministry by the Internal Auditor General at National Treasury. They undertake the reviews of the internal control systems and key activities. These are scheduled in a risk-based annual work plan that is prepared prior to the beginning of every year.

14. The National Treasury (NT) has a Ministerial Audit Committee which is supposed to meet on quarterly basis. Their key role is to oversee the adequacy of the internal control mechanisms instituted by the NT by reviewing the audit issues raised by the Internal and External Auditors and monitoring the implementation of these issues. By doing this, they enhance oversight, governance, accountability and transparency within the NT. However, the Committee is currently not operational. Following the enactment of the PFM Act 2012, the audit committee composition and functions should be as prescribed in the regulations. The regulations have not been finalized and they are bound to affect the ministry's audit committee's composition. The ministry is however free to constitute an Interim Audit Committee pending the finalization of the PFM regulations.

15. **Financial Reporting Arrangements.** The PIU will prepare quarterly un-audited Interim Financial Reports (IFRs) for the project in form and content satisfactory to the Association, which will be submitted to the Bank within 45 days after the end of the quarter to which they relate. The format of the IFR will be agreed between the World Bank and PIU. The contents of the IFR will include: a) Statement of Sources and Uses of Funds; and b) Statement of Uses of Funds by Project Activity/Component.

16. The PIU will also prepare the project annual accounts/financial statements within three months after the end of the accounting year in accordance with accounting standards acceptable to the Bank. The audited financial statements and management letter should be submitted to the Bank within six months after the end of the accounting year. The ministries will each prepare its accounts in accordance with International Public Sector Accounting Standards (IPSAs). In February 2014, the GoK established a Public Sector Accounting Standards Board, responsible for setting accounting standards to be observed in the public sector.

17. **External Auditing arrangements.** The project will be audited by the Auditor General who is mandated by the Constitution to audit all public funds. The project will be annually audited and the audit report and management letters must be submitted to the Association within six months

after the end of the financial year. The audit will be done in accordance with the International Standards on Auditing or International Standards of Supreme Audit Institutions (ISSAI). The audit reports will be disclosed in accordance with the Bank's disclosure policy. The audit terms of reference have been agreed with the Association.

Table 1: Audit Reports and Due Dates

Audit Report	***Due Date***
National Treasury **Project Financial Statements** i.e. FSSP Annual audited financial statements and Management Letter for the project (including reconciliation of the Designated Accounts with appropriate notes and disclosures)	Within six months after the end of each fiscal/financial year.

18. **Financial Management Action Plan.** The following actions need to be taken in order to enhance the financial management arrangements for the Project:

Table 2: Action Items for Financial Management Arrangements

Action	**Date due by**	**Responsible**
Reconstitution of the ministerial audit committees	By 30 June 2015	National Treasury
Pursue installation of IFMIS at NT PIU	During implementation	National Treasury

19. **Governance and Accountability issues.** The Kenya constitution 2010 has devoted Chapter 6 on 'Leadership and Integrity' and public entities are guided by the clauses in this chapter. The PFM Act 2012 has also emphasized this. In this regard, the ministries/agencies are reviewing their policies on Governance and Anti-corruption. Their integrity assessment officers that are not yet trained by the Ethics and Anti-corruption Commission of Kenya are supposed to undergo the training.

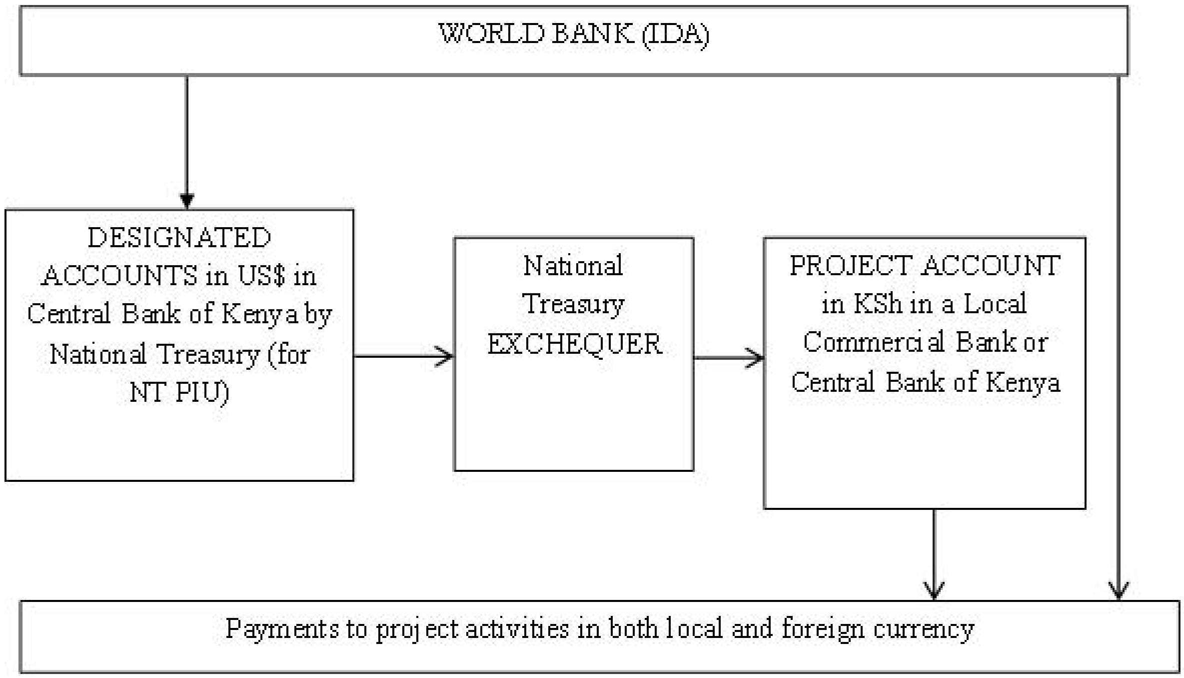
20. **Conclusion of the financial management assessment.** The conclusion of the assessment is that overall residual risk rating is moderate, hence, the project will have an in-field supervision once a year. The conditions outlined in the FM action plan have to be implemented for the financial management arrangements to meet the minimum Bank's requirements under OP/BP 10.00.

Disbursements

21. **Banking Arrangements.** The Recipient (National Treasury) will open a designated account denominated in USD at the Central Bank of Kenya. The PIU will also open a Project Account denominated in KSh at the Central Bank of Kenya or a commercial bank acceptable to the Association from which they will pay for eligible project activities.

22. **Funds Flow Arrangement.** Funds will flow from the World Bank to the Designated Account using the government exchequer request system and to the Project Account where payments of the eligible project activities can be made.

Figure 1: Funds Flow



23. **IDA Disbursement Methods.** The project will adopt the transaction based Statement of Expenditure (SoE) method of documentation and disburse through the advance to the designated account. The Bank will give an initial advance with a ceiling set for the designated account, according to the PIU initial work plans. Subsequently, the PIU will submit its SoE electronically and the Bank will process the electronic withdrawal application in Client Connection and deposit funds into the Designated Account. Funds will then be transferred from the Designated Account at National Treasury through the exchequer system into the project account and payments in relation to project eligible expenditures can be made from this account. The PIU already has access to Client Connection.

24. In addition, whenever needed the direct payment method of disbursement, involving direct payments to suppliers for works, goods and services upon the borrower's request, may also be used. Payments may also be made to a commercial bank for expenditures against pre-agreed special commitments. Reimbursements can also be made to the Designated Account where an implementing entity uses its own funds to finance eligible project activities. These payments will also be reported in quarterly IFRs. The IDA Disbursement Letter will stipulate the minimum application value for direct payment and special commitment procedures as well as detailed procedures to be complied with under these disbursement arrangements.

Procurement

25. **General.** Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011 as revised in July 2014; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 as revised in July 2014 and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The corruption prevention mechanism, to be developed as part of the PIM, will be implemented.

26. **Procurement of Works.** Minor civil works for office set-up and partitioning of offices for FSSP at the existing PIU, PDMO, KIDC and SASRA shall be procured with local shopping or National Competitive Bidding (NCB) whichever is appropriate to facilitate set up of the necessary office spaces.

27. **Procurement of Goods and non-Consultant services**. Goods procured will include computers, laptops, communication equipment, office equipment/furniture and other ICT-related goods, etc. for the FSSP and PDMO, KIDC and SASRA offices. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all International Competitive Bidding (ICB) and National SBD agreed with or satisfactory to the Association.

28. **Selection of Consultants**. Consultancy services for both individuals and firms will be procured.

a. Firms - Consultancy services will be procured in accordance with the Bank's Guidelines. Unless agreed to otherwise by the Association, the selection method will include Quality- and Cost-Based Selection (QCBS) whenever possible, Quality-Based Selection (QBS), Fixed Budget Selection (FBS), Least Cost Selection (LCS), Selection Based on Consultants' Qualifications, or Single Source Selection (SSS) as appropriate. Short lists of consultants for services estimated to cost less than US$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

b. Individuals - Individual consultants (IC) will be employed for TA services.

29. Procedure of Single Source Selection (SSS) would be followed for assignments which meet the requirements of paragraphs 3.8-3.11 of the Consultant Guidelines and will always require the Bank's prior review regardless of the amount. Procedures of SSS of IC would be followed for assignments which meet the requirements of paragraph 5.6 of the Consultant Guidelines.

30. **Capacity Building, Training Programs, Workshops, etc**. Training and capacity building activities will take place including development of capacity in PIU, and the relevant Government institutions to enhance their capability to review the eligibility and compliance with procurement

processes. Training and capacity building activities would include workshops, study tours, seminars, conferences and on-the-job training. All training and workshop activities would be carried out on the basis of approved annual programs that would identify the general framework of training activities for the year, including: (i) the type of training or workshop; (ii) the personnel to be trained; (iii) the selection methods for institutions or individuals conducting such training; (iv) the institutions which would conduct the training; (v) the justification for the training, i.e., how it would lead to effective performance and implementation of the project and or sector; (vi) the duration of the proposed training; and (vii) the cost estimate of the training. Reporting would be required by trainees upon the completion of training.

31. **Operating Costs**. Operating costs for the PIU financed by the project are incremental expenses arising under the project and based on annual work plans and budgets approved by the Association. Operating costs comprise the reasonable incremental expenses incurred by the Recipient and approved by IDA attributable to Project implementation, management, and monitoring, consisting of the following costs: 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 contractual staff (excluding the salaries of the Recipient's civil servants). These items will be procured using the implementing agencies' administrative procedures, which are reviewed and found acceptable to the Bank. The procedures for managing these expenditures will be governed by the Borrower's own administrative procedures, acceptable to the Association.

32. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the Project Implementation Manual.

33. **Assessment of the agency's capacity to implement procurement.** Procurement activities will be carried out by the existing PIU which is managing IFPPP. The PIU has a Project Coordinator that reports to the NT.

34. An assessment of the procurement capacity of the PIU for IFPPP to implement FSSP procurement activities has revealed that PIU does not have adequate capacity to support FSSP. The procurement assessment was carried out in January 2015. The key weaknesses and risks of the capacity of the existing PIU are: (i) inadequate number and capacity of the procurement staff; (ii) deficiencies in the quality of procurement documents prepared by PIU such as RFP, evaluation reports, draft contracts, etc., which often necessitates multiple revisions that result in prolongation of award of contracts, and (iii) weak contract management skills. The recommended mitigation measures are:

(a) Supplement PIU with an additional qualified Procurement Officer;
(b) Prepare a Procurement Guide as part of the Project Implementation Manual (PIM) which: (i) defines the roles and responsibilities of all offices that will be involved in any aspect of procurement implementation of the project; (ii) set out the sequence and timeframe for the completion of procurement decisions of all individual players as well as for coordination of the contribution of the players in procurement implementation; and (iii) establish service standards for processing of payments to contractors and suppliers;

(c) Develop and agree with the Association a procurement training plan as part of PIM for all PIU staff;
(d) Establish an effective tracking systems of: (i) Procurement Plan implementation, and (ii) processing of payments to contractors and suppliers; and

34. **Procurement Plan.** The Borrower prepared during project appraisal a procurement plan for project implementation which provided the basis for the procurement methods. The plan was agreed between the Borrower and the Association during negotiations. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Association annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

35. **Frequency of Procurement Supervision.** In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended implementation support missions every six months to visit the field to carry out post review of procurement actions.

36. **Goods Prior Review Threshold.** Procurement Decisions subject to Prior Review by the Association as stated in Appendix 1 to the Guidelines for Procurement as follows:

	Procurement Method	Prior Review Threshold (US$)	Comments
1.	ICB (Goods)	≥ 3,000,000	
2.	LIB (Goods)	≥ 3,000,000	
3.	NCB (Goods) packages	< 3,000,000	
4.	Shopping	< 100,000	
5.	Direct Contracting	≥ 100,000	Below 0.1 million Post Review

Summary of the Goods Procurement Packages planned during the first 18 months after project effectiveness

1	*2*	*3*	*4*	*5*	*6*	*7*
Ref. No.	**Description**	**Estimated Cost US$**	**Procurement Method**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date**
1	CMA Technical financial analysis tools	625,000	ICB	No		Sept 2015
2	Office Equipment	29,700	Shopping	Yes		July 2015
3	Admin expenses	34,550	Shopping	Yes		Dec 2015
4	Enhance Insurance RBS and IT upgrades	50,000	ICB	No		July 2016
5	Capacity building/onboarding program for new KDIC employees	10,000	Shopping	Yes		Jan 2016
6	Institutional set-up for operating TMD	178,500	NCB	Yes		Jan 2016

37. **Consultant - Prior Review Threshold**: Selection decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	Prior Review Threshold	Comments
1.	Competitive Methods (Firms) (QCBS, QBS, FBS, LCS)	≥ 500,000	
2.	Single Source (Firms)	≥ 100,000	
3.	Individual Consultant Selection (ICS)	≥ 200,000	
4.	Consultant Qualification Selection (CQS)	<300,000	The threshold for CQS is US$ 300,000 as per the Guidelines.
5.	Single Source (SS)	≥ 100,000	

Summary of the Consultancy assignments planned during the first 18 months after project effectiveness

1	2	3	4	5	6	7
Ref. No.	**Description**	**Estimated Cost US$**	**Procurement Method**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**
1	TA – Local Specialist for e-registry system	150,000	ICS	No		Oct 2015
2	New Staff: Procurement Specialist, Asst. Project Mgr, Project Officer	198,000	ICS	No		July 2015
3	Defining the scope of consolidation and legal support in overhauling the current draft FSA Bill	250,000	CQS	No		Aug 2015
4	Design of investor friendly FS framework	75,000	CQS	No		Dec 2015
5	Assessment of CCP	100,000	ICS	No		Dec 2015
6	Development of templates for cross-border information exchange	110,000	ICS	No		July 2015
7	Development of templates for information exchange between Kenyan financial regulators	73,000	ICS	No		July 2015
8	Framework for capital surcharges for domestic systemically important banks	65,500	CQS	No		July 2015
9	Supporting KDIC’s effectiveness as a *deposit insurer*	73,000	ICS	No		July 2015
10	Supporting KDIC’s effectiveness as a *resolution authority*	73,000	ICS	No		July 2015
11	Upgrading IT to enhance reliability of supervisory reports for SACCOs	82,500	CQS	No		July 2015

12	TA for review of existing legislative and regulatory framework for CIS and assessment of its adequacy for comprehensive CIS – Hiring a local consultant or firm.	25,000	CQS	No		Dec 2015
13	TA to develop comprehensive CIS legislation.	125,000	CQS	No		Mar 2016
14	Consultant to design a consumer education and financial literacy program on credit reporting and responsible borrowing and lending.	150,000	ICS	No		June 2016
15	Comprehensive review of existing legal regime related to security interests in moveable property.	40,000	ICS	No		Sept 2015
16	Drafting a secured transactions law (or personal property security law) that repeals existing legislative provisions and establishes a modern legal framework.	500,000	CQS	No	Prior	Sept 2015
17	Support for drafting the subsidiary legislation and drafting regulations	150,000	ICS	No		Dec 2015
18	Awareness and consensus building campaign	25,000	ICS	No		Sept 2015
19	Support to the AG's office for legislative drafting (commercial and government)	300,000	CQS	No		Nov 2015
20	Project management support in implementation of TMD for 3 years	75,000	ICS	No		Jan 2016
21	Regulatory and operational framework for money market instruments, foreign exchange operations and derivatives to address existing shortcomings	125,000	ICS	No		Oct 2015
22	Strengthening the equity market in corporate governance, access by smaller issuers (e.g. GEMs market).	50,000	ICS	No		Jan 2016
23	Capacity building/onboarding program for new KDIC employees	15,000	ICS	No		Jan 2016
24	CMA training program	150,000	ICS	No		Sept 2015
25	Advisory on remedial action and resolution framework and the design of the safety net for SACCOs	146,000	ICS	No		Jan 2016
26	Consultant to design and deliver TA & Capacity Building for the regulator on oversight and supervision and develop appropriate oversight toolkit (credit info sharing)	125,000	ICS	No		July 2015
27	Enhance Insurance RBS and IT upgrades	150,000	ICS	No		Oct 2015

28	Strengthening policy and strategy management for digitization of govt payments	250,000	ICS	No		Aug 2015
29	Capacity injection at CBK to Update Payment Systems Regulations and Oversight	150,000	ICS	No		Sept 2015
30	RBA ICT upgrades: Review of RBA ICT systems, Optimisation of the Risk ToolKit, Roll out ICT interface with pension industry, Improve RBA's statistical data extraction, Ensure RBA's compatibility with other financial sector regulators, Develop customer interaction / relationship management system for complaints handling, Upgrading of the existing hardware, Develop RBA's reporting systems as a basis for EAC template, Case based System, Knowledge transfer (on Microsoft Dynamics, Business Intelligence)	250,000	CQS	No		Aug 2015
31	RBA RBS: Post-risk scoring, intervention training, Certification for trustees, Development of pension fund governance guidelines, post risk scoring tool kit	187,500	CQS	No		Aug 2015
32	Facilitate implementation of the revised regulatory regime for IRA	125,000	ICS	No		Sept 2015
33	Consultant to design and deliver a training of trainers program on CIS for the lender community (banks, MFIs, Saccos)	75,000	ICS	No		June 2016
34	TA & capacity building for development of the modern legal framework for the sponsoring ministry, Attorney General's Chambers (and Members of Parliament (or committees of Parliament) and facilitation of stakeholder consultation and debate.	100,000	ICS	No		Nov 2015
35	Framework, regulations and capacity building for new products (Islamic finance) - CMA	150,000	CQS	No		Dec 2015
36	Framework, regulations and capacity building for derivatives - CMA	112,500	CQS	No		Dec 2015
37	Holistic review of pension policy and develop informal sector pension scheme: Study on innovative product development for informal sector pensions, feasibility study on universal registered informal pension scheme, pilot implementation, awareness campaign	175,000	CQS	No		July 2015

38	Support for PSSS: Pension records and payroll clean up and reconciliation, Introduction of biometric pension records, Complete roll out of all modules of Pension Management Information System,	500,000	CQS	No	Prior	July 2015
39	Electronic Trading Platform for market making in government debt (design, implementation and training)	285,000	ICS	No	Prior	Jan 2016
40	Replacement of RTGS & ACH with ATS and CSD systems	200,000	ICS	No	Prior	Sept 2015
41	IT upgrade of existing/new CSD (software and hardware)	150,000	ICS	No		Dec 2016
42	Development of framework for an investor-friendly environment	100,000	CQS	No		Jan 2016

Environmental and Social (including safeguards)

38. N/A

Monitoring & Evaluation

39. The PIU will monitor and evaluate progress against the proposed indicators through regular reports. The PIU will report on the PDO and intermediate indicators as set out in Annex 1 on a semi-annual basis. The data will come from the regulators. The specific reporting templates will be defined in the PIM. The project will be audited annually by the Auditor General.

Annex 4: Implementation Support Plan

REPUBLIC OF KENYA: Financial Sector Support Project

Strategy and Approach for Implementation Support

1. This implementation support plan (ISP) describes how the World Bank will support the risk mitigation measures and provide the technical advice necessary to help the client achieve the PDO. This ISP also identifies the minimum requirements to meet the World Bank's fiduciary obligations. It has been developed based on the nature of the project and its risk profile. Formal implementation support visits and field visits will be carried out semi-annually and focus on the areas detailed below.

2. There will be strong coordination between the World Bank and the PIU, the party responsible for day-to-day administrative project management. The World Bank task team will bring a comprehensive set of instruments and expertise to advise on project activities. It will work closely with the PIU to ensure project success. The team plans two implementation support visits on average per year to Kenya, as well as ongoing dialogue via audio conferences and email.

3. In addition to implementation support visits and ongoing engagement, the World Bank project team will carefully monitor the progress of project implementation and achievement of results via formal and informal reporting channels. Formal reporting channels include Implementation Status and Results reports (ISRs), and results monitoring reports supplied by the PIU. Informal channels include interaction with direct beneficiaries of the project, reports from local media, and country economic analysis.

4. The project team will also take a flexible approach to ensure that it meets client needs as circumstances evolve.

Implementation Support Plan

Time	***Focus***	***Skills Needed***	***Resource Estimate***	***Partner Role***
Year 1	Project/Task Management	TTL / Financial Sector Specialist (HQ)	*10 weeks*	*PIU: Project Manager*
	Procurement Supervision	Procurement Specialist (Nairobi)	*2 weeks*	*PIU: Procurement Officer*
	Financial Management Supervision	Financial Management Specialist (Nairobi)	*2 weeks*	*PIU: Financial Management Officer*

	Technical Support	Technical Specialists (HQ/Nairobi	*10 weeks*	*Project Beneficiaries*
Years 2 - 5	Project/Task Management	TTL / Financial Sector Specialist (HQ)	*32 weeks*	*PIU: Project Manager*
	Procurement Supervision	Procurement Specialist (Nairobi)	*8 weeks*	*PIU: Procurement Officer*
	Financial Management Supervision	Financial Management Specialist (Nairobi)	*8 weeks*	*PIU: Financial Management Officer*
	Technical Support	Technical Specialists (HQ/Nairobi	*20 weeks*	*Project Beneficiaries*

Skills Mix Required

Skills Needed	***Number of Staff Weeks***	***Number of Trips***	***Comments***
Project/Task Management	*42*	*10*	
Procurement Supervision	*10*	*0*	
Financial Management Supervision	*10*	*0*	

Partners

Name	***Institution/Country***	***Role***
PIU	*National Treasury / GoK*	*Administrative management*