COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS) ADDITIONAL FINANCING

Report No.: PIDISDSA19540

Date Prepared/Updated: 17-Aug-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Africa	**Project ID:**	P160770
		Parent Project ID (if any):	P121611
Project Name:	EAC Financial Sector Development and Regionalization Project I: AF (P160770)		
Parent Project Name:	Financial Sector Development & Regionalization Project I (FSDRP I) (P121611)		
Region:	AFRICA		
Estimated Appraisal Date:		**Estimated Board Date:**	29-Sep-2016
Practice Area (Lead):	Finance & Markets	**Lending Instrument:**	Investment Project Financing
Borrower(s):	EAC Secretariat		
Implementing Agency:	EAC Secretariat		
Financing (in USD Million)			
Financing Source			**Amount**
IDA Grant			10.50
Total Project Cost			10.50
Environmental Category:	C - Not Required		
Appraisal Review Decision (from Decision Note):			
Other Decision:	Track 2 processing with regular Decision Meeting chaired by Country Director is underway		
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

The origins of the EAC can be traced back to the long history of trade, administrative, and socio-cultural ties between Kenya, Tanzania, and Uganda, stretching back nearly a century. After earlier post-Independence efforts for closer integration ended within a decade in 1977, the EAC in its present form was formally created via a treaty agreement between Kenya, Tanzania, and Uganda in 2000. In 2007, EAC membership was extended to Burundi and Rwanda. In March 2016 the EAC Summit comprising of the Heads of State approved the application of South Sudan to join the EAC. The details of South Sudans' path to full participation are still to be fully known.

Since the signing of the EAC Treaty, the Partner States have committed to an increasingly ambitious high-level regional integration agenda, which as per the Treaty, will eventually culminate in a political federation. Along this path, the EAC implemented a customs union in early 2005. Another significant milestone was achieved with the signature of the Common Market Protocol in November 2009 and then ratified by all Partner States in April 2010. The agreement envisages the phased liberalization of trade in financial services and the elimination of restrictions on the free movement of capital. Most recently, the EAC has signed the Monetary Union Protocol, which maps the path to the creation of a single currency by 2024. Among the pre-requisites for the Monetary Union the Protocol includes the commitment to integrate their financial systems and adopt common principles and rules for the regulation and supervision of the financial system.

Sectoral and institutional Context

Even as policy-makers commit to an increasingly closer regional economic community, the financial sector has, in some senses, been ahead of them in recognizing the potential of the regional market. In the financial sector this is made obvious by the number of thebanks that operate in more than one of the Partner States. The basis for today➢(s banking integration in the EAC goes back to reforms undertaken in the 1990s, when Kenya, Tanzania and Uganda adopted policies to reduce government➢(s share in the financial sector, allowing the market to play a more important role in resource allocation. These reforms paved the way for foreign bank entry into the region. Among the first banks to enter were Barclays, Stanbic, and Standard Chartered, while several other smaller foreign banks set up greenfield subsidiaries from the second half of the nineties onwards.

At present, Kenyan banks dominate cross-border banking in the EAC. Beginning in the early 2000s Kenyan banks have grown their presence in the region such that the Central Bank of Kenya (CBK) is home supervisor to eleven banks with cross-border banking interests in the EAC, of which three are foreign controlled banks. These banks have set up a substantial branch network in the region with over 300 branches in the EAC outside Kenya) as of end December 2014. Inclusive of South Sudan, this constituted 36 per cent of their total branch network. More recently, CRDB from Tanzania has also set up shop in Burundi, signifying a deepening of the cross-border banking links in the EAC.

Similarly, the case for capital markets integration is also clear, in theory. As most markets in the region are too small to be viable on a stand-alone basis, regional integration is a compelling solution.. Although Kenya➢(s capital markets overshadow the other four Partner States combined, the data also highlights the potential of an integrated market. Regional integration is arguably the most expedient way to build a deeper and more efficient capital market that can meet the regions' long-term financing needs. Hence, it follows that all the countries in the region would benefit from combining their capital markets into a single integrated EAC market with the advantages of greater scale, efficiency and visibility with institutional investors. The alternative of building independent national markets and then bringing them up to scale is costly, time-consuming, and inherently disadvantageous to small financial systems

C. Proposed Development Objective(s)

Original Project Development Objective(s) - Parent

To establish the foundation for financial sector integration among EAC Partner States.

Proposed Project Development Objective(s) - Additional Financing

To establish the foundation for financial sector integration among EAC Partner States. For the purposes of this additional financing the "foundation of financial sector integration➢(refers to formulating a regional approach to financial inclusion, furthering legal and regulatory harmonization and building institutional capacity to manage the increasingly integrated financial sector in the EAC.

Key Results

PDO:
Number of accounts within regulated institutions
Number of trades executed through EAC CMI IT platform
Number of EAC Council Directives relating to financial sector harmonization

Intermediate:
Number of policy papers prepared by technical staff and approved by Project Steering Committee
Harmonized statistics for financial subsectors represented in the centralized database
Development of implementation strategies for certification programs

D. Project Description

The Additional Financing of US$10.5 million equivalent will be allocated across three of the projects' six original components and will also cover Project Management costs. The selective scale up is based on three main criterion (a) the activities deepen the development effectiveness by contributing to the achievement of the PDO, (b) the activities are a natural progression from activities previously supported by the project, and (c) there is strong client-demand.

Component Name

1. Financial Inclusion and Strengthening of Market Participants

Comments (optional)

Additional activities under Financial Inclusion and Strengthening of Market Participants will include a US$2.6 million to scale up activities that support the implementation of three key diagnostics that were undertaken during the original project pertaining to (a) Financial Education; (b) Retail Payments Interoperability, and; (c) Banking and Insurance Certification Programs. TWGs comprising representatives from the Partner States will drive the consultative process of developing implementation strategies based on the recommendations from the diagnostic analysis and ensure that these strategies are launched at the national level. Recognizing that the financial systems in Burundi and Rwanda are less developed than those of the other Partner States the AF will pay particular a

Component Name

2. Harmonization of Financial Laws and Regulations

Comments (optional)

Scaling up Harmonization of Financial Laws and Regulations will include US$1.9 million in additional activities under this component to build on the momentum generated by the adoption of the Council Directives (CDs) under the original project. The component will continue to support the capital markets CDs in the pipeline and also assist Partner States implement the recommendation of the IOSCO assessments completed under the original project. The AF will expand the methodology that led to the successful adoption of the capital markets CDs to include legal and regulatory harmonization in the pensions and insurance sectors. National regulators in these two sectors have already laid some of the groundwork that will be scaled up under the AF.

Component Name

3. Institution Building

Comments (optional)

Additional activities amounting to US$ 4.9 million under Institution Building will continue inter alia to support technical expertise at the EAC in areas of financial policy and research, pensions, payments, statistics etc. To solidify one of the key achievements of the parent project, the AF will support the training of end-users and other activities to ensure the increasing use and sustainability of the capital markets infrastructure system. Working closely with the IMF, activities on building a database of standardized statistics to map intra-regional financial flows will be continued.

Component Name

4. Project management

Comments (optional)

Project management fees and reimbursable expenses will amount to US$1.1 million equivalent and will cover full-time fiduciary staff for three years. In addition, project management expenses will also cover the bi-annual meetings of the Steering and Executive Committees.

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

F. Environmental and Social Safeguards Specialists

Edward Felix Dwumfour (GEN01)

Jane A. N. Kibbassa (GEN01)

II. Implementation

Institutional and Implementation Arrangements

The additional financing will follow the same implementation arrangements as the parent project. The EAC Secretariat will be the implementing agency for the grant and bear all fiduciary responsibilities.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
In keeping with the parent project, the additional financing will primarily support legal, regulatory, and policy reform relating to the functioning and supervision of the financial sectors of the EAC Partner States. The activities supported by the additional financing will comprise consultancies, workshops, and goods purchases, including IT hardware and software. The additional financing will not support any works. As such, there are no safeguards issues or impacts associated with the proposed additional financing.
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
There are no works anticipated related to the activities under the proposed additional financing.
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Not applicable
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Not applicable
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Not applicable

B. Disclosure Requirements

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/ Audit/or EMP.
If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ ] No [ ] NA [×]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ ] No [ ] NA [×]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ ] No [ ] NA [×]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ ] No [ ] NA [×]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ ] No [ ] NA [×]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ ] No [ ] NA [×]

V. Contact point

World Bank
Contact: Smita Wagh
Title: Sr Financial Sector Spec.

Borrower/Client/Recipient
Name: EAC Secretariat
Contact: Dr. Enos Bukuku
Title: Deputy Secretary General, Planning and Infrastructure
Email: ebukuku@eachq.org

Implementing Agencies
Name: EAC Secretariat
Contact: Dr. Enos Bukuku
Title: Deputy Secretary General, Planning and Infrastructure
Email: ebukuku@eachq.org

VI. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

VII. Approval

Task Team Leader(s):	Name: Smita Wagh	
Approved By		
Practice Manager/ Manager:	Name: Irina Astrakhan (PMGR)	Date: 21-Aug-2016
Country Director:	Name: Yisgedullish Amde (CD)	Date: 24-Aug-2016