1. Project Data

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<tr>
<td>P121611</td>
<td>Fin Sec Dev + Regionalization Proj-FSDRP</td>
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<td>Finance, Competitiveness and Innovation</td>
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<td>30-Mar-2014</td>
<td>25,451,894.90</td>
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| Original Commitment | 16,000,000.00 | 0.00 |
| Revised Commitment  | 25,980,884.84 | 0.00 |
| Actual              | 25,451,894.90 | 0.00 |

Prepared by Nestor Ntungwanayo, Reviewed by J. W. van Holst Pellekaan, ICR Review Coordinator Christopher David Nelson, Group IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

As per the Financing Agreement (FA) on page 5, "the Project Development Objective (PDO) was to establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States". The PDO statement on page 8 in the Project Appraisal Document (PAD) was identical.

During the September 2016 restructuring, the concept of ‘foundation of financial sector integration’ was clarified to refer 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”.

This was a clarification and not a change of the original PDO and the 2016 Additional Financing (AF) was an expansion of the original project. Consequently, there will be no split assessment of the project, but this review will evaluate the project performance against the revised result framework and the clarified PDO, which is parsed as follows:

Objective 1: To establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States through formulating a regional approach to financial inclusion;

Objective 2: To establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States through furthering legal and regulatory harmonization;

Objective 3: To establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States through building institutional capacity to manage the increasingly integrated financial sector in the EAC.

b. Were the project objectives/key associated outcome targets revised during implementation? 
   No

c. Will a split evaluation be undertaken? 
   No

d. Components

Component 1. Financial Inclusion and Strengthening Market Participants (at appraisal US$1.24 million; actual US$4.30 million). This component was to support the completion of four studies as follows: (i) cross-regional mobile banking in the EAC, (ii) demand and supply barriers to provision of and participation by the unbanked in nonbank services, (iii) retail payments infrastructure and how it can better support access to finance, and (iv) financial education issues in EAC States, including EAC Certification on Banking and Financial Services.

Component 2. Harmonization of Financial Laws and Regulations (at appraisal US$2.04 million; actual US$4.23 million). This component supported an EAC task force whose mission was to prepare the legal and regulatory EAC bills for legislation on microfinance, Savings and Credit Cooperative Societies (SACCOs), branchless banking, banking and accounting, securities markets, insurance, pensions, payment systems, and investment funds - and to submit them to the Council of Ministers.

Component 3. Mutual Recognition of Supervisory Agencies (at appraisal US$2.26 million; actual US$0.70 million). This component aimed to strengthen compliance within the EAC and supported by an EAC Secretariat task force whose mission was to (i) develop compliance instruments consistent with international principles in banking such as Basel Core Principles, International Organization of Pension
Supervisors, and International Association of Insurance Supervisors (IAIS); (ii) assess compliance with International Principles in Banking, Pension, and Insurance; (iii) elaborate a multi-year action plan to comply with international principles in banking, pension, and insurance; (iv) assess compliance with International Principles in Securities Markets; and (v) implement a multi-year action plan to comply with International Organization of Securities Commissions (IOSCO) Principles and support a peer reviewer process for Kenya, Tanzania, Rwanda, and Uganda.

Component 4. Integration of Financial Market Infrastructure (at appraisal US$2.19 million; actual US$3.75 million). This component intended to support the following activities: (i) integration and upgrading of real-time gross settlement; (ii) sensitization of the population on use of electronic means of payment; (iii) Central Securities Depositories (CSD) project team and Steering Committee meetings; (iv) provision of review and advice on governance, ownership, source capital, and a public-private partnership framework for the EAC CSD; (v) purchase of CSD platform; (vi) demutualization (converting mutual or cooperative organizations to public companies owned by shareholders) of the stock exchanges; (vii) adoption of a common Automated Trading System (ATS) platform; (viii) a study on implementing regional trade reporting system for over-the-counter trades; (ix) development of an EAC regional trade finance legal and regulatory framework, and its enforcement mechanism; and (x) a study on the opportunities and barriers to the development of a regional commodities/futures market in the EAC.

Component 5. Development of the Regional Bond Market (at appraisal US$0.31 million; actual US$0.00 million). This component was intended to achieve the following: (i) the elaboration and implementation of a government bond market development strategy in each Partner State, (ii) the development of a primary market for non-government bonds, and (iii) the development of a secondary market for non-government bonds.

Component 6: Capacity Building (at appraisal US$7.60 million; actual US$12.10 million). This component aimed to strengthen capacity at both the regional and the national level to ensure that the integrated market functions effectively and that all economic agents in the regional area aware of the benefits from the process of integration. The component was initially rolled out in Rwanda and Burundi to address the highest skills gap in these two countries and extended to other Partner States. This component also focused on (i) strengthening the Department of Financial Regionalization Policy at the EAC, and (ii) establishing a Project Administration Team (PAT) within this department.

Unallocated: at appraisal (US$0.36 million; actual US$1.10 million). This amount was set aside to fund unplanned activities in case of need.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

   (i) Cost: The estimated cost at appraisal totaled US$16.0 million and the actual cost amounted to US$25.7 million fully funded by World Bank (IDA) grants to the EAC.

   (ii) Financing: The project was financed by two World Bank (IDA) grants totaling US$26.5 million; comprising an original grant in the amount of US$16 million, and an additional grant amount of US$10.5 million.
(iii) **Borrower Contribution:** There was no beneficiary contribution proposed at appraisal or during successive restructurings.

(iv) **Date:** The project was approved on January 31, 2011, became effective on June 20, 2011, and was initially scheduled to close on March 30, 2014. A mid-term review of project implementation was completed on October 22, 2012, and the project closed six years and nine months behind schedule on December 31, 2020.

(v) **Restructurings:** The following changes were made through seven Level 2 restructurings as detailed below:

- **The first restructuring was approved on February 28, 2014** and aimed to: (a) reallocate funds between the six components, (b) extend the project closing date by an additional 15 months to June 30, 2015 and, (c) revise the results matrix.

- **The second restructuring was approved on June 18, 2015** and aimed to extend the closing date until February 29, 2016. The proposed change was to extend the project closing date by eight months from June 30, 2015 to February 29, 2016 to: (a) provide adequate time to successfully complete the implementation process for the CMI IT System and related procurement packages, (b) facilitate and build on the natural continuation of several ongoing activities, and (c) begin the process of identifying and prioritizing activities for Phase II.

- **The third restructuring was approved on February 25, 2016** and intended to request a seven-month extension until September 30, 2016. The goal was to: a) provide adequate time to successfully prepare and finalize the additional financing package and b) facilitate the uninterrupted implementation of several ongoing activities, particularly those relating to the Capital Markets Infrastructure IT system and the passage of capital markets Council Directives. With this extension the project was 5 years and 8 months old.

- **The fourth restructuring was approved on 28-Sep-2016,** and intended to change the loan closing date until the end-September 2016.

- **The fifth restructuring was approved on 30-Sep-2016** for the purpose of providing Additional Financing (AF) for activities related to the Original Project, with a closing date set on September 30, 2019. The AF in the amount of US$10.5 million equivalent aimed to leverage the momentum gained and lessons learned during the past five years of implementation. The purpose of the AF was to scale up activities in partner states, and a new member (South Sudan) was associated to the project to facilitate peer-to-peer knowledge exchanges with other EAC Partner States.

- **The sixth restructuring was approved on August 02, 2019.** The proposed changes included: (a) an extension of the project closing date from September 30, 2019 to June 30, 2020, and (b) the revision of the Results Framework, specifically to revise one PDO indicator in order to better capture the implementation progress of the project; and to add six new intermediate indicators and delete one intermediate indicator.

- **The seventh restructuring was approved on 29-May-2020** for a proposed closing on December 30, 2020. This extension intended to complete remaining capital market infrastructure (CMI) activities including on-site capacity training on User Acceptance Testing (UAT) and Go Live, which
faced serious challenges following the advent of the Coronavirus pandemic. A final six month extension of the closing date was therefore approved to complete these activities.

(vi) Restructurings and Split Rating: The operation used grant resources to fund TA with an original amount of US$16 million at the 2010 approval, and an additional financing at the June 2016 restructuring. The purpose of the AF was to scale up activities in partner states which (a) made notable progress toward broadening and deepening the EAC financial sector, (b) were in line with the natural progression from activities previously supported by the project, and (c) were supported by strong client priorities within the large financial sector integration agenda (ICR, para 19). The scope of the project became overall more ambitious, and generally the operation can be assessed on the basis of the more ambitious revised outcomes and outcome targets (OPCS, 2021). Outcomes and outcomes targets were revised three times (2014, 2016, and 2019) to adjust to ground conditions. While there were some glitches in the M&E implementation, the main thrust of the operation was to achieve more ambitious outcome targets set at the AF restructuring.

3. Relevance of Objectives

Rationale

The project was consistent with the priorities for regional development in Eastern Africa. The EAC originally included Kenya, Tanzania, and Uganda, but in 2007, the membership was extended to Burundi and Rwanda, and in 2018 to South-Soudan. The project aimed to support an ongoing regional integration with the ratification of the Common Market Protocol by all partner States in April 2010. The agreement envisaged, among other things, a phased liberalization of trade in financial services and the elimination of restrictions on the free movement of capital by 2015 at the latest. The private sector has also played a major role in propelling regional financial integration in East Africa. Several banks that have operations in more than one partner State have, to some degree, adopted a regional business model motivated by a range of factors including client-demand, their own corporate structures, and by opportunities perceived along the regional trade corridors.

The project aimed to address key weaknesses in the regional financial systems which were consistent with the Bank's recommendations. Weaknesses identified in the PAD were as follows: (i) financial systems in East Africa are generally small even relative to the size of their Gross Domestic Product (GDP) and were dominated by the banking sector, (ii) low levels of access to formal financial services, (iii) limited development of national securities markets and institutional investors. Moreover, the PDOs were consistent with the World Bank's recommendations from the financial sector assessment of the EAC completed in 2014 in the key areas of (i) banking structure and efficiency, (ii) banking supervision and crisis management, (iii) payment systems, and (iv) capital markets.

The project was consistent with the Bank's suggested strategies in most partner States throughout until the closing date. The World Bank Group has been active in most of the CEA countries supporting the financial sector (Burundi, Kenya, Rwanda, Tanzania, Uganda, including South Sudan more recently). For
instance, the CPS for Kenya (FY14-FY20) had a pillar supporting competitiveness and sustainability under which the following advisory work was planned: (i) financial sector innovation, (ii) financial deepening & development, and (iii) capital markets. For Uganda, the FY2018-2022 has a pillar 5 supporting improved business environment with results expected in the areas of expanded loans to businesses, and credit to the private sector.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States through formulating a regional approach to financial inclusion

Rationale
Theory of change

The goal of the first part of the PDO was to have in place a regional approach to financial inclusion as a pillar for financial integration within the EAC partner states. Specific activities were identified and aimed to establish a single market of financial services within the EAC Partner States, and to generate a wide range of financial products and services at competitive prices. Under this objective, those activities aimed at facilitating access to finance and market participation. Expected outputs included the completion of several regional studies and EAC certifications while key outcomes included an increased volume of cross border payment transactions and a large number of direct project beneficiaries, including women. The key assumption was that each partner state be fully committed to financial sector integration, which was overall observed throughout the period of project implementation.

Efficacy toward the first objective is described below and it draws from the ICR material presented on pages 11-13, and the Annex 1.

Outputs

- A financial education strategy for the EAC Partner States was prepared aiming to enhance financial literacy and inclusion across the region, and increase savings and investments;
- Twenty trainers were trained in each country through a Training of Trainers program aimed at providing financial education;
• Financial Education Implementation Guides were designed and printed ready for distribution, with a content agreed upon among the Partner States;
• The number of implementation strategies for certification programs developed in banking and insurance was fully achieved, reaching the target of 3. Those strategies aimed to enhance the professional standards, and to increase the quality and volume of services in the EAC community; and
• The number of training programs developed for each of the financial sub-sector was fully achieved, reaching the target of 10 as planned.

Outcome

• The number of accounts within regulated institutions [banks and deposit-taking microfinance institutions (MFIs)] reached 109,500 in all partner states exceeding the target of 75,000 by 46 percent.

Rating
High

OBJECTIVE 2
Objective
To establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States through furthering legal and regulatory harmonization.

Rationale
Theory of change

The goal of the second part of the PDO was to strengthen the legal and regulatory harmonization as a step stone toward financial sector integration among EAC partner states. Specific identified activities aimed to establish a single market of financial services within the EAC Partner States, and to generate a wide range of financial products and services at competitive prices. Under the second objective, there were activities aimed at expanding the legal and regulatory financial sector harmonization, including the harmonization of financial laws and regulations against Common Standards and the development and approval of instruments aimed at strengthening the legal and regulatory basis of the financial sector integration. Key outputs included approved Council Directives (CDs), bills, policies and strategies. Some of the outcomes included the number of EAC legal instruments supporting financial sector harmonization. The key assumption was that each partner state be fully committed to financial sector integration.

Efficacy toward the second objective is described below and it draws from the ICR material presented on pages 11-13 and the Annex 1.

Outputs

• 21 Securities Markets Council Directives (CDs) to facilitate the flow of funds among Partner States and to ensure the harmonization of the laws and regulations across the capital markets in the region were developed and approved by the EAC Council;
• Investment principles were standardized so that investments made by pension funds and insurance companies could be treated as domestic within the EAC by regulators;
• An EAC Pension and Retirement Benefits Policy and Implementation strategy was developed and approved by the EAC Council;
• An EAC Insurance Bill and six regulations were prepared, including fifteen other regulations that were at an advanced stage of drafting toward supporting the regional growth of the insurance industry;
• An EAC microfinance bill which created opportunities and access to financial services for the small and micro enterprises was developed;
• An EAC bill on the establishment of the East African Financial Services Commission (EAFSC) was developed and aimed to coordinate the oversight of nonbank financial sector in the EAC within the context of the Monetary Union;
• An EAC Retirement Benefits Bill was prepared and aimed to allow pension funds operate freely in each Partner State’s markets and employees (or self-employed persons) able to move their accrued pension benefits/ future benefits between funds and across the EAC region;
• Guidelines for consumer protection, principles on extending pension coverage to the informal sector, and investment guidelines were developed, strengthening the pension portability and the pension sector in the EAC partner states;
• The following studies were also completed: (i) study on assessment of pension structure in the EAC from the perspective of regionalization, and (ii) study on the Risk-Based Supervision in EAC Securities Markets;
• The number of finalized EAC policies and implementation strategies were fully achieved, reaching the target of 3 established at appraisal;
• The target for the development of the regulations and guidelines to harmonize legal and regulatory framework was partially achieved, reaching 27 out of a target of 37. The indicator was achieved at 73% of its end-project target;
• Key prepared laws and regulations at the project’s close included: (i) Six (6) Insurance Regulations which were approved by the Capital Markets, Insurance and Pension Committee (CMIPC) meeting in Nov. 2020 and were to be submitted to the next Sectoral Council on Finance and Economic Affairs (SCFEA), which was expected to take place in Q1 2021; and (ii) the last set of 15 Insurance regulations were to be discussed by the Regional Technical Working Group meeting which was scheduled in Q1 2021. The update since the project closure is as follows: (i) no further developments were made on the last set of 15 insurance regulations, partly because there were no funds to convene the Regional TWG meeting; (ii) the six insurance regulations which were approved by the CMIPC were to be considered by the Sectoral Council on Finance and Economic Affairs (SCFEA) in May 2022, and (iii) the draft Council directives on principles for EAC securities market legal and regulatory framework were adopted by the Council.

Outcome

• The number of EAC legal instruments relating to financial sector harmonization completed during the project implementation reached 24 against a target of 25 (96 percent).
OBJECTIVE 3

Objective
To establish the foundation for financial sector integration among Eastern African Countries (EAC) Partner States through building institutional capacity to manage the increasingly integrated financial sector in the EAC.

Rationale
Theory of change

The goal of the third part of the PDO was to build institutional capacity that has the ability to manage the increasingly integrated financial sector in the EAC. Specific activities aimed to establish a single market of financial services within the EAC Partner States, and to generate a wide range of financial products and services at competitive prices. Some of them consisted in (i) the mutual recognition of supervisory agencies, (ii) access to finance banking, and (ii) integration of financial market infrastructure, and the completion of studies. Expected outputs included (i) the installation of an information technology (IT) system facilitating stock exchanges operations and settlements, and depository systems in the region, and (ii) a central database mapping intra-EAC positions and macro-financial data. Some of the expected outcomes were: (i) an increase of cross border payment transactions and (ii) the number of the securities markets established. The key assumption was that each partner state be fully committed to financial sector integration.

Efficacy toward the third objective is described below and it draws from the ICR material presented on pages 11-13, and the Annex 1.

Outputs

- The interoperability of Capital Markets Infrastructure (CMI) was established through the purchase and installation of an information technology (IT) system, which has linked stock exchanges and settlement and depository systems among countries in the region;
- The EAC successfully tested functionality with the participation of the Dar es Salaam and Rwanda stock exchanges. The onboarding process for the technology was to continue with Uganda and Burundi after the project closed, and Kenya maintained its previous stance as an observer;
- Four participating Partner States stock exchange and trading platforms were connected and mock sessions were ongoing. The CMI was expected to go live in the first week of December 2020, and support was provided to Burundi in establishing its capital market;
- Regional Road Maps for the Establishment of Payment Switches were developed, allowing the development of national road maps to synchronize implementation, and facilitating more efficient retail payment systems and enhancing cross-border trade;
- The target of developing a Road Map for establishing a centralized database for capturing cross border financial flows as fully achieved;
- A central database mapping intra-EAC positions and macro-financial data from all Partner States was established, and the project supported collection, collation, and standardization of data, aiming to improve regional oversight of an increasingly interlinked financial sector and architecture;
• A standardized training curriculum in banking and insurance for financial sector professionals was developed, aiming to have a pool of skilled financial sector professionals in the EAC;
• There was a regionalization of long-term institutional savings through assessments and development of pension/insurance policies and implementation strategies, setting the stage for pooling long-term savings in the region to meet the demand for large scale investment projects;
• The following studies were also completed: (i) a study on the promotion of interoperability of card switches in the EAC, (ii) a study on the requirement for implementation of cross border mobile payments, (iii) a study on the Development of Insurance Certification Program, (iv) a study on EAC regional Banking certification, (v) a regional study on financial education issues in EAC Partner States to develop regional/national strategies, (vi) the assessment of IOSCO 8 New Principles for Rwanda, Kenya, Uganda and Tanzania , (vii) a study on the Assessment against IOSCO Principle 38 for Rwanda, Kenya, Uganda and Tanzania, (viii) a study on the IOSCO Principles Assessment for Rwanda on the original 30 principles, (ix) a study on the assessment of compliance with IAIS Insurance Core Principles, and finally (x) a study on demutualization of Uganda Securities Exchange, and (xi) the study on the development of a Burundi securities legal and regulatory framework.
• The target for the number of policy papers prepared by the Project Administration Team (PAT) was exceeded, reaching 13 against a target of 10.

Outcome

• The target of four markets successfully linked to the EAC Capital Markets Infrastructure (CMI) IT platform was fully achieved;
• The target for the estimate of cross border payment transactions was partially achieved, reaching 80 percent of the target at US$5.90 million against a target of US$7.40 million;
• The target for the Development of a Regional Road Map and five other National Road Maps for universal switches on retail payments was exceeded, reaching 6 out of the target of 5. The outstanding strategy is for Tanzania, which opted to develop its own roadmap based on the developed EAC regional roadmap.
• However, only one securities market was established. It was in Burundi but is yet to become operational.

Rating
Substantial

OVERALL EFFICACY
Rationale
Overall efficacy is rated substantial based on the following achievements toward the three distinct objectives embedded in the PDO:
• **Toward formulating a regional approach to financial inclusion in the EAC**, key results included (i) completion of a financial education strategy and programs as well as implementation guides; (ii) the training of trainers in financial integration, and (iii) an increased number of accounts (reaching the target) in regulated financial institutions (banks and deposit-taking microfinance institutions);

• **Toward strengthening the legal and regulatory harmonization in the EAC**, key achievements were (i) the issuance of Council Directives (CDs) and the harmonization of the laws and regulations across the capital markets in the region, (ii) the standardization of investment principles related to pension funds and insurance companies within the EAC by regulators; (iii) the approval of an EAC Pension and Retirement Benefits Policy and Implementation strategy, (iv) an EAC Insurance Bill and six regulations, and (v) the adoption of a Microfinance Bill, a bill on the establishment of the East African Financial Services Commission; as well as an EAC Retirement Benefits Bill.

• **Toward building institutional capacity to manage the increasingly integrated financial sector in the EAC**, key results were: (i) the successful linking of markets to the EAC Capital Markets Infrastructure (CMI) IT platform, and (ii) the Development of Regional Road Maps for universal switches on retail payments. Partial achievement was related to the increase of cross border payment transactions. However, the target for established securities markets was missed.

### Overall Efficacy Rating

Substantial

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#### 5. Efficiency

An economic and financial analysis was not carried out at appraisal as this was a predominantly technical assistance project with limited investments. Instead, an in-depth technical analysis of all project components was completed. Similarly, no economic and financial was conducted at project closure. Instead, the ICR reported on page 14 elements related to the operational efficiency of the implementation processes of the project.

Key findings were as follows: (i) overall, the project structure was unchanged, but the activities and scopes under each component were increased, especially when the Additional Financing was approved, leading to changes of PDO indicators and intermediate result indicators and targets, (ii) the project life span of nine years helped in the development of a regional bond market, and the harmonization of EAC financial laws and regulations, which were essential for EAC regional integration, and (iii) the long period of project implementation resulted in staff turnover at the EAC Secretariat and the World Bank. The change in senior management of the EAC Secretariat delayed the AF effectiveness, but implementation pace was accelerated and the allocated IDA fund was fully disbursed. The World Bank task team leaders changed three times, thus affecting the ability to extract project-related data and transfer the initial knowledge and ideas of designing the project, but overall there were no major operational efficiency weaknesses of project implementation.

However, the ICR did not compare the cost of project implementation to similar Bank regional projects. In this case, the ICR noted various reasons for increased costs of project management ranging from the project's complexity to delays in procurement. In the event the cost of project management tripled in comparison to the budgeted amount at appraisal. Overall efficiency is therefore rated as Modest.
Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

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<th>Rate Available?</th>
<th>Point value (%)</th>
<th>*Coverage/Scope (%)</th>
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<tr>
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* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The PDO relevance was high as it was consistent with the Bank's EAC regional strategy and the priorities of the most recent CPS of most of the EAC member countries. The overall efficacy was substantial, as one element of the PDO was highly achieved, while the two others were substantially achieved. Finally, efficiency was modest, as there were shortcomings in the project's operational efficiency since administrative costs for the project tripled compared with those costs at appraisal. Since there were moderate shortcomings in the project's efficiency the overall outcome of this project is rated Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The ICR identified on pages 25-26 a series of risks that may curtail the impact of long-term expected outcome as follows:

- **Sustainability of the reform agenda launched by the project is not anticipated:** The project's implementation relied on a dedicated team of professionals funded by the project and supported by the EAC Secretariat staff and management and the relevant committees and organs of the EAC. Without further financial support, this dedicated team was demobilized, and the desired long-term outcomes pursued by this project may not be fully achieved. Moreover, efforts by the EAC Secretariat to secure the resources needed to consolidate financial sector regional integration were unsuccessful, and a dedicated directorate to achieve the task was therefore not established.
• **There are financial constraints in partner states to sustaining the achieved outcome:** Some EAC partner states may not find sufficient budget to finance the implementation of the financial education strategy/financial literacy within their respective countries. Inadequate budgets will therefore remain an important constraint to pursuing the financial integration agenda of the community forward, including the goal of achieving a single market in financial services and the implementation of the Monetary Union Protocol.

• **The economic and political risks remain high in the EAC.** The COVID-19 pandemic might exacerbate the downward economic trends as most businesses were forced to scale down operations and others close shop altogether. The pressure on the regional economy is expected to persist due to the interlinkages between the EAC economies and the global markets. Furthermore, most EAC work is driven through the Government and the public sector, with the summit being the highest decision-making organ of the community, constituted by the heads of state in the respective partner states. The economic and financial developments are closely connected to the political developments within the East African region, and the political risk remains high, driven by the election cycles in the partner states, and the existence of fragile states within the EAC.

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**8. Assessment of Bank Performance**

**a. Quality-at-Entry**

The ICR discussion of the quality-at-entry issues on pages 17-19 and 23-24 has inspired the overall assessment presented below.

**The project design drew from a conducive regional environment.** This project addressed an issue that was at the core of the Partner States cooperation as it aimed to enhance the free movement of capital as envisioned in the EAC Common Market Protocol. Technical notes related to the EAC financial sector status accompanying the Project Appraisal Document were prepared to shed light on the context of project design and implementation. The project intended to facilitate the creation of a single market in financial services across the EAC as a prerequisite for attaining a common currency expected to be achieved in 2024. The project also intended to leverage the will and commitment of the EAC members to make progress toward a financial sector integration as envisioned in the EAC Treaty.

**Senior Bank staff were at the forefront in selecting project activities and assessed key aspects of the project.** Experienced and committed task teams at the World Bank headquarters provided technical support to the project from the outset, as the EAC Secretariat had limited financial sector expertise to design and support project activities, thus constituting a high risk for the project. During appraisal, the World Bank team adequately assessed the project design and major aspects, including technical, institutional, and procurement, in order to create the conditions of PDO achievement.

**The project design factored in the diverse dynamics within the partner states.** The project benefited from the diagnostic work undertaken before appraisal which provided a better understanding of the landscape for financial sector integration. The project had to take into account the complexity and diversity of the EAC financial sector which had disparities in the policy and regulatory frameworks at the Partner States level. For instance, the regulatory infrastructure of small markets tended to be of higher cost and lower quality than in larger markets, and various Partner States in the EAC were at different
levels of economic and financial sector development. Therefore, building a consensus among Partner States was one of the most important tasks, justifying why the project design and launch moved quite slowly. Finally, all Partner States had mixed feelings about the strengthening of the Secretariat in terms of both technical capacity and its convening role. The Bank project team took the lead in bringing all EAC member states to agreement on the main thrust of the project development objective.

While operational arrangements were well-crafted, implementation readiness lacked during the earlier years. The project team relied on a well-staffed Project Management Unit (PMU), called the Project Administration Team (PAT), which comprised not only the usual fiduciary staff (procurement and FM), but also the technical specialists in payments, insurance and pensions. By placing the project within the framework of the EAC Secretariat organizational structure and not as an independent Project Implementation Unit (PIU), the project endorsed the EAC institutional governance framework. This institutional alliance meant that the project could not independently move ahead with the creation of the Directorate of Regional Financial Integration (as planned during project appraisal) because it could not obtain the endorsement the EAC Secretariat. However, the EAC Secretariat had limited dedicated staff including financial sector expertise and faced capacity challenges to support project activities, causing delays during the earlier years of project implementation.

Overall the project quality at entry is rated Moderately Satisfactory. The project was grounded on the realities in the partner states and their problems. It was consistent with the EAC Secretariat's perspectives, and the diverse spectrum of the respective financial sectors in the Partner States, and the Bank engaged the partner states well ahead of time and was informed by their knowledge and the Bank's experience with similar projects. However, because inadequate preparation, project implementation readiness lacked and led to delays in the project launching.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision
The ICR discussion of the quality of supervision and implementation issues on pages 19-21 and 24 is reflected in the overall assessment presented below.

The World Bank staff remained focused on the goal, despite complex reforms and inefficient implementation procedures: Reflecting the challenges associated with implementing a complex financial sector reform agenda involving six Partner States, and significant capacity constraints on the ground, the project faced severe implementations delays in the initial stages. There were vastly different degrees of financial sector development across EAC Member States, and these disparities constituted a major challenge to the establishment of a single financial market in the community, especially with Partner States having disproportional implementing capacity. While originally planned to last 3 years, it took seven closing date extensions and 8.5 years of implementation, due predominantly to procurement delays. The latter arose from the complex internal approving system of the Procurement Committee, which took two months to approve bid evaluation reports, and delays were in large part due to the capacity challenges at the implementing agency (EAC Secretariat). For instance, the budget approval process was long and inflexible, and any resource reallocation required full approval of the Council of Ministers meeting twice in a financial period. These bureaucratic processes adversely affected the ability of the project to quickly
respond effectively to the need of the Partner States in a dynamic financial sector environment. However, both the Bank team remained focused on maintaining sustained dialogue with the PIU and on pursuing the project's goal.

The WB team provided close supervision to compensate for the limited EAC implementation capacity and the complexity of the project. The World Bank’s main counterpart was the EAC Deputy Secretary General (Planning and Infrastructure) at the EAC Secretariat. At the technical level, the Director of Planning led the project implementation, and the PAT was housed under this directorate. While the directorate was fully committed to the project, it relied heavily on the staff of the PAT with financial sector technical expertise. The task team was led by experienced and seasoned professionals (one task team leader during project preparation and two during implementation) in the finance sector and included a mix of skills that was adequate to cater for a thorough implementation support of this project. The team included financial sector specialists, emerging market specialists, pension insurance specialists, M&E specialists, FM and procurement specialists, all with experience in supporting financial sector development projects in environments similar to the Partner States. The overall procurement risk, for example, was considered high from the outset and the risk had to be mitigated by intense involvement of a large number of project-financed staff in the PAT. The World Bank’s guidance was therefore provided in all dimensions of project conception, preparation, and early implementation well beyond what is common practice in World Bank projects.

Implementation had to address gaps and delays in decision-making processes. Within the framework of the EAC Secretariat, all policy matters and those with a cost implication had to be approved through the relevant Sectoral Committee, Sectoral Council, and the Council. Considering the structure of the meetings and competing priorities when it came to convening of meetings, there were substantial delays in the decision-making processes, thus affecting execution of activities. There was a need for support and collaboration with the Partner States’ governments, ministries, departments, and agencies as well as the private sector for the implementation of activities and programs in the Partner States. In most cases, the relevant officers at the Partner State level were engaged with other activities and priority was not given to regional activities, and necessary financial and human resources are not always allocated to implement the regionally agreed actions plan at the Partner State levels. This also applied to the private sector, whose representatives were not always directly involved in regional work especially EAC meetings and policy decisions.

The Bank team continued sustained implementation despite external shocks. The COVID-19 global pandemic was a major challenge as it restricted movement between the Partner States as well as within the Partner States, hampering a great deal of regional work, particularly the nature of the project which included a series of technical meetings and consultations. Shifting from in-person meetings to virtual ones were challenging due to the different level of connectivity between the EAC Secretariat and the Partner States. Partner States’ specific challenges included political and natural disasters. The election cycles by and large affected other affairs on the economic front, especially the periods leading to and after the general elections. The governance mechanism at the EAC level requires unanimous agreement among all Partner States and the head of states and minister-level participations (in some cases, physical participation to the meeting) are required to ratify regional law, regulations, policies, and strategies, which are distracted by such national challenges and the political landscape, in particular, election cycles.

The overall quality of supervision was Satisfactory. During the first two years, progress was limited mainly because the implementation readiness was missing. Moderate shortcomings were that it took two years to recruit staff, disbursement was low at the original closing date, the Results Framework was
revised three times, and two out of five indicators were dropped. The project team introduced changes in the Results Framework and extended the closing date multiple times. The World Bank’s technical and fiduciary teams provided regular support to focus on maximizing the project’s development impact, which resulted in adjustments, including project restructuring and extending the project closing dates. The task team conducted regular implementation support missions to take stock of progress. The ISRs were candid, detailed, and well-targeted to outline important events and formulated a clear and complete picture. The project team also produced clear and detailed Aide Memoires.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
This assessment of the M&E issues of the project draws for a major part from the material presented on pages 21-22 of the ICR.

The PDO was generally clear, although it was improved at restructuring. There was a congruence between the theory of change presented under Section 4 and the results framework. The PDO indicators and expected targets were compatible with the Partner States’ approach and their overall financial sector reform agenda to support broadening and deepening of the financial sector through a single market among EAC Partner States. An M&E specialist was recruited soon after project effectiveness, which ensured the partners in the implementation units were fully integrated into the management information process of the project.

A results framework detailed in the Annex 1 of the PAD, which included output and outcome-level indicators, was monitored by the EAC Secretariat on a monthly basis. Indicators were generally specific and measurable, but mostly at the output-level, as this was an essentially technical assistance project. For instance, approval of legal and regulatory texts at regional level was the starting point to move toward financial sector regional integration, and all PDOs were articulated around that kind of achievements. Quantitative indicators were also identified to gauge achievement of outcome, including the change in the number of accounts in the financial institutions of Partner States, and the volume of cross-border transactions.

b. M&E Implementation
The EAC Secretariat maintained a robust M&E system. The M&E system tracked the performance indicators, scheduling, and implementation data and expenditure as agreed within the framework of the
annual work plans and budgets. The EAC Secretariat provided regular implementation reports to IDA. The project’s Results The project contributed to strengthening not only the EAC Secretariat but also regulators and financial sector market participants at both the regional and national levels.

The EAC Secretariat prepared quarterly reports with results framework data, reviewed by the Project Steering Committee and discussed in conjunction with the World Bank implementation support and devoted substantial resources to support financial education, certification programs, and other capacity-building activities. A technical expert within the EAC Secretariat performed regular M&E of project results.

Changes in the results framework were later introduced through restructuring to further enhance results monitoring. While the original M&E framework was not considered complex, the PDO indicators were revised during restructuring where some were dropped and replaced with new ones, while some metrics were changed without material changes to the project design or level of ambition. Discussions during implementation support missions related to institutional capacity building, financial viability, technical reviews, and site visits provided. A midterm review was conducted on October 22, 2012, to assess implementation progress. The team consulted with counterparts to understand their needs and reached out to the relevant experts within the World Bank to provide required support.

Overall, the project was subjected to regular implementation support missions that monitored progress and provided extensive support. The progress and guidance were recorded in 18 Implementation Status and Results Reports (ISRs) and Aide Memoires. The task team regularly collected data, updated progress against the baseline, and highlighted issues for the World Bank management’s attention. Several reports, including quarterly and annual progress reports and monthly fiscal reports were used to monitor the project’s outcome and results indicators.

c. M&E Utilization

Appropriate data collected from the progress reports on indicators were evaluated and used to inform decision-making on project activities. For example, based on the data and information collected from the midterm review, the World Bank, and the EAC Secretariat decided to restructure the project and extend the closing date. Modifications of annual work and procurement plans were also done whenever required.

M&E Quality Rating
Substantial

10. Other Issues

a. Safeguards

Environmental and social safeguards compliance. The project was assigned the Category C as it did not have any activities that were likely to have adverse environmental or social risks and/or impacts.
b. Fiduciary Compliance

Financial Management

According to the ICR on page 23, overall financial management (FM) was eventually satisfactory. Initially, FM performance was considered Moderately Unsatisfactory due to weak budgeting processes and inadequate keeping of accounts and internal audits. Main FM issues faced by the project included (a) delays in recruiting one additional accountant and two internal auditors and in resolving ineligible expenditures; (b) slow implementation of internal audit recommendations in the early life of the project; and (c) delays in concluding capital markets infrastructure (CMI) consultancy arrangements. However, these issues were eventually addressed, and FM was improved substantially and was subsequently rated Satisfactory during the later stages of the implementation period. The project complied with the relevant provisions of the Financing Agreement including timely rendition of quarterly interim financial reports (IFRs) and the annual audited financial statements. The external auditors’ opinion on the financial statements was unqualified throughout the life of the project. After project closure, assets acquired with the project resources were handed over to the EAC Secretariat.

Procurement

Overall procurement performance is rated Moderately Satisfactory. Procurement for the project was carried out in accordance with the World Bank’s Procurement Guidelines. The EAC Secretariat was responsible for all procurement aspects as it had experience in implementing activities funded by development partners including the World Bank mostly in the form of grants. The project encountered procurement delays mainly due to the slow internal procurement approval process and the non-readiness of Partner States. The main contributing factor in slow contract implementation was the lack of readiness on the side of Partner States in the implementation of the CMI system. When the implementation of the CMI system was delayed and later started, some Partner States went ahead with upgrading their national system by engaging other vendors. The World Bank acted as a mediator by having separate meetings with each party to discuss and resolve contentious issues and signing the amendments with the supplier (Infotech).

c. Unintended impacts (Positive or Negative)

There were no unintended impacts.

d. Other

None

11. Ratings

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<td>Quality of M&amp;E</td>
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12. Lessons

The ICR identified a series of findings and lessons discussed on the pages 26-27, and this review selected two lessons which are rephrased below:

(a) **A complex objective can be achieved by drawing on a conducive broad context, a phased implementation and additional financing.** The idea of contributing to financial integration among the CEA countries at different levels of economic development initially appeared ambitious and unachievable. To succeed, the project drew from the goal of free movement of capital as envisioned in the EAC Common Market Protocol and the commitment of the political leadership in the five member countries of the EAC. Moreover, the project team selected phased activities that were considered as a common denominator for all countries, and their implementation produced results. Given the broad-based nature of financial sector integration, the project’s agenda was complex and wide ranging. The Bank team adopted a phased agenda: (i) first, the project team restricted activities to the fastest moving parts of the larger financial sector agenda, which responded to the client demand. Second, the above principle continued to guide the design and implementation of the AF and selectivity was exercised within the broad areas of support. The project ended up being a front runner for the regional integration in Africa and globally, and the challenges faced were acceptable for any innovative project of this nature. With the Bank project team’s close implementation support, the project picked up momentum toward the last years and was able to meet its development objective.

(b) **Crafting the appropriate implementing arrangements is as important as the other key features of the project.** The structure and location of the PAT were key to project implementation. The Project Administration Team (PAT) was supported by a Steering Committee and an EAC Executive Committee with senior-level membership drawn from relevant institutions in the partner states that helped smooth decision-making. The PAT relied, not only on the usual fiduciary staff, but also on the technical specialists in payments, insurance and pensions. To complement the EAC Secretariat limited technical capacity, the Bank project team provided the needed expertise and just-in time advice. A clear articulation of the EAC’s commitment toward regional integration also provided a supportive and enabling framework under which most of the project’s initiatives were premised. The adequate implementing arrangements coupled to the Bank’s team expertise were key to the results achieved by this project.

13. Assessment Recommended?
Yes

Please Explain

This was an innovative and original TA project implemented in a regional context. The Bank would gain in preparing a Project Performance Assessment Report (PPAR) to analyze the status of outcomes a couple of years after the project closure including the extent to which the project's achievements have been sustained. Lessons learned from PPAR would benefit the World Bank in its interventions supporting financial sector integration in Africa, and in other parts of the world as well.

14. Comments on Quality of ICR

The ICR is comprehensive and provides a concise narrative of the project design, context, and achieved results, and it is generally evidence-based. The quality of analysis was strong, but the results orientation was limited by the fact this was a TA project, for which achieved outcomes are difficult to measure and to attribute. The ICR was internally consistent, as all parts of the storyline were mutually reinforcing from the activities, the implementing arrangements, the achieved outputs and the progress toward the PDOs. Moderate shortcomings of the ICR arose from the fact that the assessment of results was output-based and component-focused instead of being objective and outcome-based. An objective-based assessment should have focused on a parsed PDO. The overall quality of ICR is rated Substantial.

a. Quality of ICR Rating

Substantial