Financial Sector Support Project. (P151816)

AFRICA | Kenya | Finance & Markets Global Practice |
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Implementing Agencies:

Key Dates

Key Project Dates

Bank Approval Date:30-Apr-2015

Effectiveness Date:10-Jul-2015

Planned Mid Term Review Date:28-Feb-2018

Actual Mid-Term Review Date:--

Original Closing Date:31-Jul-2020

Revised Closing Date:31-Jul-2020

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

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

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components

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

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	Moderately Unsatisfactory	Moderately Unsatisfactory
Overall Implementation Progress (IP)	Moderately Unsatisfactory	Moderately Unsatisfactory
Overall Risk Rating	Moderate	Moderate

Implementation Status and Key Decisions

Since project effectiveness, a number of key implementation challenges around procurement and payments have emerged which have been discussed with National Treasury. These challenges have effectively halted procurements and delayed payments on the Project. Recent dialogue with National Treasury has resulted in resolving these delays, and Management expects implementation and progress towards the achievement of the Development Objectives should be back on track within 6 months.

Component 1: Strengthening Financial Institutions

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

Subcomponent 1A – Banking Supervision

Key activities, work plan updates & key issues

Key factors influencing the outcome of this work stream: The key issue affecting the sector at present is the implementation of the interest rate caps (refer to market developments above for further detail) which is part of a broader market constraint i.e. high cost of credit in Kenya. The reduction in spreads has been particularly felt by smaller banks (tier 2 and tier 3) as they generally have a higher cost of borrowing. The sector has also suffered from a loss of confidence following the shutting down of 3 banks in the last 24 months (Dubai Bank, Imperial Bank and Chase Bank). These events resulted in a flight to quality as depositors favored larger banks and, consequently, smaller banks currently cannot borrow at acceptable rates on the interbank market due to this lack of confidence. These banks are therefore borrowing at rates in excess of 10% from the regulator (CBK). The drying up of credit is an economy-wide issue but areas affecting the banking sector specifically include: reduced profitability of the sector, higher NPLs/reduction in the quality of assets, reduced liquidity for the bottom half of the sector (i.e. there is liquidity but it is heavily skewed to tier 1 banks), concerns over supervisory capacity of the regulator following the alleged fraudulent activities that caused the shut downs of the 3 banks, overall concerns over stability of the sector and the consequential impact on the NSE as banking shares comprise a majority of the overall market cap.

From a regulatory perspective, the FSA Bill has recently been passed and the CBK will be concerned over its regulatory position going forward. This will need to be accounted for in the support provided under FSSP.

Key activities: i) Strengthening consolidated supervision across sectors ii) Strengthening cross-border supervisory coordination iii) Strengthening crisis preparedness and crisis management iv) Strengthening financial stability and macro-prudential policy v) Strengthening the financial sector safety net.

KDIC: KDIC is one of the beneficiaries of the project. It was recently established by the Kenya Deposit Insurance Act 2012 as the main authority responsible for bank resolution and deposit insurance, and is the successor to the previous Deposit Protection Fund, which was a “paybox plus” deposit insurer, housed at the CBK and with deposit insurance and liquidation powers only. The new KDIC, which commenced operations in July 2014, is an autonomous body, which has an expanded mandate, including that of statutory manager or receiver of distressed banks. The FSSP aims to support, inter-alia, KDIC’s effectiveness as a resolution authority and deposit insurer. In this regard, a medium-term advisor has recently been procured to assist the KDIC over a period of 18 months in strengthening its institutional capacity.

Suggested work plan amendments: i) alignment of duplicative activities. For example, both the Financial Stability/Research team and the Banking Supervision Department have submitted proposals for developing databases that are similar or overlap ii) inclusion of a consultancy to strengthen supervisory processes, procedures and operations within the BSD of the CBK for a period of about 6 months. A TOR has subsequently been circulated and received a No Objection from the bank iii) exclusion of activities which fall outside the scope of the project design (as the mission understands them) e.g. video-conferencing, laptops, i-pads, activities related to financial inclusion surveys and training on RBS for AML/CFT iv) inclusion of a database to identify risks at the micro and macro levels for the CBK Research Department

Key issues: i) As a result of the current uncertainty in the banking sector and heightened focus on supervision by the Governor of the CBK, the project remains susceptible to urgent requests from CBK and KDIC to assist with capacity building in this area and would need to remain open to adjustments to the scope of the project.

Subcomponent 1B – Payments

Key activities, work plan updates & key issues

Change Management: While the authorities have set up a cabinet-level ICT committee driving e-government initiatives, they have yet to institutionalize change management frameworks and project management functions launched under ad hoc provisional structures at NT. Therefore, a key activity in the work plan will be to recruit a program manager and other technical specialists (comprising a central program management unit at the Treasury) to introduce robust governance structures.

MDAs (States Ministries, Departments, and Agencies): The program is initially targeting a limited cluster of MDAs viz.: i) Ministry of Lands, Housing and Urban Development; ii) Office of the Attorney General and Department of Justice; iii) National Transport and Safety Authority; iv) Department of Immigration Services; and v) Kenya Police Service. Procurement of specialists to support the Government Digital Payments (GDP) Taskforce to scale up implementation of the digitization agenda in MDAs is currently underway and awaiting PS approval.

Proposed changes to the work plan: i) For the GDP Program, introduction of a readiness assessment to provide a baseline of the current state of readiness for each targeted MDA; ii) for the CBK, scoping and definition of business and technical requirements for upgrading the RTGS system and facilitation of engagement with capital markets and other stakeholders to achieve strong commitment and collaboration.

Recommendations: i) adjustment of the stated work plan at NT to be organized into 2 thematic areas: 1. Policy and strategy management (planning, implementation, and M&E) related to the digitization initiative, including partnership management and 2. Digitization and change management ii) adjustment of the stated work plan for CBK to be organized into 2 thematic areas: 1. Upgrading and replacing the current RTGS and CSD systems and 2. Reviewing payment system oversight framework and practice; iii) the establishment of key measurement indicators for NT to digitize payments and services across targeted MDAs; iv) the establishment of key output indicators for monitoring work plan progress v) On April 6th, 2017, Cabinet approved the Computer and Cybercrime Bill 2016, which seeks to address investigative and prosecutorial challenges arising from the current legal framework. The Bill aims at improving investigations into cybercrimes by making provisions for procedural law tools and securing electronic evidence for effective national and international cooperation. Cyber security is currently an area of concern and during a mission in March 2017, the GDP team voiced interest for FSSP project support on cyber security.

Key Issues: i) There is been no movement on any of the planned items since the last update, most notably at the CBK where none of the procurement/preparatory activities have even started. Team to consider requesting the CBK to either reconfirm interest or consider refocusing/reallocating funds elsewhere; ii) team to consider requesting NT GDP team to also reconfirm interest or consider refocusing/reallocating funds elsewhere.

Subcomponent 1C – SACCOs

Key activities, work plan updates & key issues

Improving and automating Risk-Based Supervision at SASRA: To be achieved by revising processes, ratios, reporting formats, training the 20 new supervisors and automating off/on-site supervisory processes. Research and implement a market conduct supervisory unity within SASRA. A training program has been developed along with the Kenya School of Monetary Studies and the International Credit Union Regulators' Network and will be launched in May 2017. A potential resident advisor was asked to submit a methodological approach and costs at the end of February 2017 but contracting has not yet been completed. Both the training of staff and contracting of an advisor should be completed by the end of May.

Implementation of a central liquidity facility (CLF): facilitating payment services so consumers can use SACCOs as a primary financial institution. This report was presented and discussed with the SASRA Board and adopted by management. The CLF report was also presented the National Treasury and Deputy Governor of CBK. The Deputy Governor of CBK will be invited to visit CLFs in the US and Canada and meet with other SACCO regulators during her July visit to the Bank of Canada. Together, SASRA and CBK need to agree on liquidity support mechanisms for DT-SACCOs and communicate with the sector.

Initiating a Deposit Guarantee Fund for Deposit-Taking SACCOs: TORs have been developed and issued for this component however identification of a consultant has been slow to proceed. SASRA to continue this work, as envisioned in the SACCO Act and a report should be completed by year-end.

Key issues: i) SACCOs currently do not have access to positive data in the credit bureaus and this is urgently needed (fewer than 10 SACCOs are part of the credit reference bureaus). ii) Liquidity to keep up with the demand for loans.

Component 2: Enabling Efficient Financial Intermediation

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

Subcomponent 2A – Credit Reporting

Key activities, work plan updates & key issues

Enhancing the existing framework for credit information sharing: To be achieved through a review of the existing framework, identification of gaps and development of proposals for areas across the financial sector in which the framework can be harmonized.

Enhancing consumer education on credit information sharing: To be achieved through development of a consumer education program on credit reporting and delivery of campaigns through mass media channels.

Key issues: i) Credit information sharing is a new development in the Kenyan market and, after consulting with various stakeholders, the team is of the view that capacity building for credit providers is critical ii) the CBK is the regulatory body with legal mandate to supervise credit bureaus (and, by extension, credit bureau subscribers/data providers whether regulated by CBK or not), however TA is required to strengthen the CBK's oversight on the credit information sharing system iii) it will be important to review the legislative framework and capacity for credit information sharing for the non-regulated sectors, such as utilities, telecommunications providers and retailers iv) since consumer education and awareness on credit reporting is generally lacking in Kenya, it is important to implement a broader campaign initiative led and facilitated by the National Treasury

Proposed changes to the work plan: i) Include TA to CBK for development of an enhanced supervisory framework for credit reference bureaus and data providers. This should address, among others, issues related to data integrity (accuracy and completeness), consumer protection and dispute resolution ii) Include TA to credit providers (banks, MFIs, SACCOs, leasing companies etc.) to participate in CIS, utilize credit bureau products and services and to integrate data into risk management practices across the account cycle iii) Include a review of the CIS framework and capacity of the non-regulated sectors such as utilities, telecommunications companies and retailers that provide goods and services on post-paid basis.

Subcomponent 2B – Enabling Secured Transactions

Key activities, work plan updates & key issues

Enactment of a new secured transactions legal framework: The Movable Property Security Rights Bill has successfully passed through Parliament and is currently awaiting Presidential assent.

Regulations: A zero draft of the accompanying regulations for the proposed law were drafted by the international advisor in May 2016. However, no further action has been taken by the Technical Working Group (TWG) on this item and the regulations are awaiting finalization. The TWG hopes to address this in April 2017.

The establishment of an e-registry system: Includes digitalization of government services, development of an online storage system, and the development of online software for the collateral registry. Intended to be sequenced in parallel with the enactment of the law to the extent possible, however significant delays have occurred due to long lag times to finalize the technical procurement documentation and the reliance on the regulations to feed into this document. Based on the current work plan, go-live of the registry is expected by December 2017. The procurement process for a project manager to oversee the implementation of the registry is in the process of being negotiated.

Capacity building and training: With respect to the law, the focus needs to now shift to training of stakeholders and ensuring that beneficiaries of the law understand the implications. Similarly, users of the registry will need to be trained accordingly. TORs for a project manager to facilitate the training and capacity building work stream have been prepared but are being revised following input from IFC collateral registry colleagues during a visit to Nairobi in February 2017.

Public awareness campaign: A TOR is being drafted to hire a project manager to oversee the public awareness and marketing campaign.

Key issues: i) capacity constraints and commitment of time at the technical working group level: the key issue at this point is finalization of the accompanying regulations for the proposed law. The regulations will influence the technical specifications of the electronic registry solution (which is currently being delayed) and will also be required to operationalize the law after enactment. In practice, the law would need to be operational 9 months after official assent (due to take place in April 2017). The TWG needs to urgently finalize this with the international advisor. ii) Given the recent passing of the Bill through Parliament, the relevant stakeholders (including the legal fraternity and financial sector) need to be trained on the proper use of the law and registry. However, training on the registry is subject to the registry procurement process being completed and having a registry team on board. iii) Procurement of the electronic collateral registry: the timing of the procurement has been significantly compromised due to a lack of commitment at the decision-making level of the TWG and a lack of resolution with respect to the regulations. This is a critical issue as the procurement process has not started and will likely take over 2 months to complete. The respective firm will then require at least 4 months to provide a practical solution, which is likely to occur towards the end of CY 2017. This leaves only a small window with respect to the law becoming effective 9 months post the April 2017 assent. iv) During the IFC visit to Nairobi in February 2017, a suggestion was made to form a smaller and more dynamic sub-committee within the TWG who could meet more often and make decisions more rapidly. As the project enters a phase of integration between various parties implementing the registry (with the addition of external project managers), this will be key in ensuring that decisions can be made in a timely fashion.

Subcomponent 2C – Implementing the Insolvency Regime

Key activities, work plan updates & key issues

Updates affecting the work stream: The OAG&DoJ has recently been restructured and the key counterpart (Registrar General) has assumed a new role in the form of CEO of the Business Registration Service company (a parastatal with a separate Board). This restructure has had an impact on the capacity of the team to execute tasks with respect to Insolvency and Secured Transactions work, although the disruption should be temporary.

Review of insolvency regulations: Procurement of a specialist to assist the OAG/DoJ in a review of the insolvency law and regulations has been underway. The preferred candidate has been contacted but the contract is under negotiation following disputes over rate of compensation.

Capacity building: Build capacity within DOJ and OAG on the Insolvency Act of 2015, and to build legal skills and competencies for the Insolvency Section. The implementing team has attended various conferences under the training plan and are abreast of best practice updates.

Online data storage: To build an online system for data storage and retrieval to track insolvency proceedings in real time.

Key issues: i) ensure that the implementing regulations are developed appropriately to regulate the practitioners. The team at the OAG&DoJ have noticed inconsistencies with the regulations and urgently require a review of the existing regulations; ii) a key issue outstanding is the lack of training of the judiciary and other legal professionals on the Insolvency Act and regulations. This is an area of concern as judges are currently presiding over matters concerning areas of the law they have not been trained on. Similarly, other stakeholders have not received training. Once of the key reasons for the lack of judicial training has been an inability to bed down a suitable window to conduct the training due to a lack of availability of the judiciary. It is unlikely that availability will improve before the August 2017 elections. It may be worth considering combining judiciary training with the Secured Transactions law training in order to streamline this process; iii) licensing and certification of practitioners in conjunction with global good practice: this is currently underway; iv) synchronizing the law with the recently passed secured transactions law.

Component 3: Increasing Availability of Long-term Finance

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

Subcomponent 3A – Pensions

Key activities, work plan updates & key issues

Development of National Pension Plan: includes strategy and implementation of plan for extending informal sector coverage. To be achieved through formulating a taskforce of stakeholders, chaired by the National Treasury with RBA as the Secretariat, to review existing arrangement and drive the development of a more integrated policy, coordinating all 'pillars' of pension provision. A study on how to increase coverage of informal sector pensions will form part of this review, and will focus on how to achieve scale at the Mbao mobile money-based pension scheme. The Taskforce has yet to launch the National Strategy. Support for the development of the document has been suggested. Expert consultants to undertake the review of informal sector pension coverage are currently under procurement.

Support for the establishment of the Public Sector Superannuation Scheme (PSSS): To be achieved through the upgrading of the Pension Management Information Systems (record keeping and reporting), including the biometric registration for members of the reformed, funded scheme. Governance training for the Governing Board of the fund will be provided in-house and through attendance of international courses. A follow up meeting with the Pension Department at the Treasury (responsible for establishing the PSSS) was held in Jan 2016. Following amendments to the 2012 PSSS Act made under the 2015 Finance Bill, the CS has certain key decisions to make including deciding upon a start date for the scheme, which categories workers will join and provide a budget estimate for the government/ employer 7.5% contributions (previous amounts provisionally allocated by the government were not based on accurate calculations). The PSSS has still to become operational. Approval to commence the collection of contributions is still awaiting approval by the Cabinet Secretariat, pending budget allocations. Support for the Pension Department has been provided (including forecasting of necessary contributions). Support for the Governing Board of the scheme will be provided as soon as appointed.

Update of RBA data management and reporting ICT systems: To be achieved through a through a needs-based review and the upgrading of the data management systems, including information extraction for risk-based supervision analysis. Procurement of system upgrades is currently underway.

Development of RBA's risk-based supervisory approach: To be achieved through a review of the Risk-based Supervision Toolkit, upgrading of certain modules (including fraud detection and enforcement), the development of and training on the use of an Inspection Manual for RBA staff, the drafting of Pension Fund Governance Guideline and sensitivity training on these new regulations for pension fund trustees. Consultant expert has been appointed and supervisory support work is due to commence shortly.

Mbao: a subsequent visit to Nairobi in January 2016 by Fiona Stewart revealed an increased focus on the Mbao platform as this has been used to attract savings in the informal sector. The platform faces IT constraints and the team has resolved to bring in a consultant to assess the robustness of the platform and provide a sustainable solution to enable growth in this space. Team is currently in the process of identifying consultants to undertake this. The Mbao Pension Scheme was launched on 28th June 2009 with the support of RBA to cater for the informal sector workers in Kenya. Since inception, Mbao has registered over 130,000 members of which 80,000 are currently active. However, growth has been very slow.

Key work plan amendments**:** i) Inclusion of support for the establishment of the PSSS (administrative and governance training). This was previously omitted as representatives from the Treasury's Pension Department were not present at the planning meeting. ii) coherent categorization of supervisory items within the work plan to ensure resources are able to be effectively used (with less TORs to draft and pilot through the approval system) ii) During the Jan 2016 visit, a request was made to the CMU to potentially fund a WBG PROST (Pension Reform Options Simulation Tool) modeling tool, which would be undertaken in collaboration with the SPL team. This would allow the Pension Department to present updated, independently verified numbers which will both aid the budgeting process and allow the PSSS to finally start to operate. The team will follow up on this request to determine if funding can be allocated and will amend the work plan accordingly.

Key issues: Procurement of ICT hardware and software to be reassessed to ensure compatibility with other regulatory areas (such as the IRA) following the passing of the FSA Bill in April June 2017.

Subcomponent 3B – Insurance

Key activities, work plan updates & key issues

ITC systems upgrades: To be achieved through upgrading data capacity and storage on the hardware side, and improved software systems to allow central processing of data from all supervised entities (agents, loss adjustors etc.), and enhanced risk-based supervision processes to be introduced. Procurement for the system upgrade is currently underway.

Regulatory and capacity building support for the IRA: To be achieved through the drafting of regulations to support new product areas (index insurance, micro-insurance, Takaful Islamic insurance etc.), the training of IRA staff in the supervision of these areas, and industry sensitization to the new regulations. The IRA has requested support to review the solvency and capital regulations drafted by the IRA team in order to comply with the risk-based capital regime introduced by the insurance amendments included in the Finance Act of September 2015. This review will be coordinated with the IFC project which is currently underway to draft investment regulations for the insurance sector. Regulatory and capacity building support on the topic of Takaful Insurance will be coordinated with the project on Islamic Finance which is being supported by FSD Kenya under the CMA. Investment regulation support has been provided and revised Investment Regulations have been discussed with industry. Additional regulations (including risk-based capital, technical provisions etc.) have been approved by the IRA Board, discussed with the Attorney General and are due to be gazette shortly. Further regulatory reforms await the passing of the Insurance Bill. Drafting of the National Pension Policy paper to commence shortly.

Key work plan amendments: i) IRA to include further support for the development of livestock and crop insurance in the work plan. The IRA need to collaborate further with Ministry of Agriculture, Land and Fisheries to ensure that adequate data collection and oversight is put in place for these new schemes, and training is required for IRA and other relevant central and local authorities on these new product areas ii) coherent categorization of supervisory items within the work plan to ensure resources are able to be effectively used (with less TORs to draft and pilot through the approval system) iii) Regarding the ICT upgrades, it is strongly recommended that only upgrades required for legal or essential operational reasons are undertaken by individual authorities ahead of the proposed FSA establishment.

Key issues: i) The passing of the Finance Bill on 1st October 2015 imposes an urgent legal requirement on the IRA to introduce risk-based capital requirements for insurance companies. Hence urgent systems upgrades, regulatory drafting and supervisory training to implement these legal requirements is needed. ii) Although the draft Insurance Bill is still pending (awaiting the passing of the FSA Bill), the IRA should continue drafting the sector specific regulations (index insurance, micro-insurance etc.) which will be required under this Act. iii) Procurement of ICT hardware and software to be reassessed to ensure compatibility with other regulatory areas (such as the RBA) in light of the following the passing of the FSA Bill in April June 2017.

Subcomponent 3C – Capital Markets

Key activities, work plan updates & key issues

Key activities relating to each component of FSSP: i) Component 1 - focuses on training, consulting services and IT investments for the PDMO (Public Debt Management Office), CMA (Capital Markets Authority), NIFC (Nairobi International Financial Centre) and strengthening of domestic CSD by supporting linkages with Euroclear ii) Component 2 - focuses on supporting the Government in project management, marketing and oversight of the next phase of mobile retail savings products iii) Component 3 – focuses on developing long-term finance.

Work plan updates: i) On M-Akiba: the product itself has a few limitations which the Treasury is aware of: 1) having the Exchange and brokers between the Treasury and investors who charge fees; 2) issuing a segmented 3-year bond for which there is no obvious secondary market liquidity. The team has proposed to support them with market research on: a) lessons learned from the launch of M-Akiba; b) improvements to the product so it best fits the profile of the unbanked potential savers (instead of the 3-year bond); c) institutional set ups to manage the platform to eliminate intermediation layers between the Treasury and investors; d) assessing the use of Fintech technology, particularly distributed ledger –Blockchain to simplify the platforms backing the system. The research is already planned in the work plan, and is awaiting the approval of the PDMO. ii) On strengthening the PDMO: the PDMO urgently needs to order Bloomberg terminals to follow the trading activities especially in the light of the move to E-Bond on the OTC market. The procurement has been initiated. iii) On the CSD: the team will explore whether the equipment required for the new CSD may be purchased under the FSSP.

Key issues: i) PDMO and sovereign debt market reforms: In April 2016, a new head was appointed at the PDMO, after a long vacancy. This helped put the emphasis on addressing inefficiencies in the sovereign debt markets, institutionally and substantially. Institutionally, the head of the PDMO launched monthly meetings with the market to inform and get feedback on reforms, and launched a monthly internal meeting with the CMA and CBK, chaired by the CBK, in order to coordinate the reform program on the sovereign debt markets. On substance, a letter from the National Treasury to the CBK set up a comprehensive agenda on the automatization of the primary auction, separation of retail and wholesale investors in the primary auction, automatization of the OTC secondary market through the E-Bond platform from Bloomberg, and regular auction calendar. The first auction calendar was issued in July 2016, but was not followed by further updates. The OTC trading platform is pending the adoption by the CBK of trading rules for T-Bills, and clarity on the ownership of the company formed to oversee the trading of the T-Bonds. ii) Retail Mobile savings channels: In March 2017. M-Akiba, a mobile phone access to purchase government bonds in very small amounts, without the need for a bank account, was launched in its pilot phase. Transactions are from 30$ to 140$. It is the first of a kind mobile-only government bond. The launch was a pilot, for $1.5 million, and the main launch for $50 million is planned in June. Since 2011, the team from Finance and Markets worked with the CBK and the National treasury to design this product. As of April 6th, 2017, the bond was fully purchased by 5,692 investors. The Treasury and Safaricom will shortly launch an awareness campaign to support the June launch. In parallel, the CBK is finalizing the Treasury Mobile Direct (TMD) which would be the mobile channel for existing retail investors into government bonds (about 8000), and would allow the separation of retail and wholesale investors in the primary auction. iii) CSD: At the request of the CBK, The World Bank team started to work with the CBK in early 2017 on upgrading their Central Securities Depositary (CSD), to ensure automatization of processes, and reduce the settlement time for the sovereign debt market. The upgrade of the CSD is also needed for the proper functioning of the electronic trading platform for the OTC market. The FSSP loan may eventually support the upgrade of the CSD infrastructure. iv) Infrastructure finance: in early 2017 the World Bank team designed a comprehensive technical assistance program to crowd-in institutional investors into the financing of the PPP projects. Some PPP projects are coming to market, in the Toll road sector. The World Bank Group has the experience of developing a similar program in Colombia to mobilize pension funds into the financing of a large Toll Road Program, using a capital market investment vehicle, which is providing a reference to the Kenya program. The objective is to bring local currency financing so as to reduce the contingent liabilities of the government (with respect to the foreign exchange risk). v) On new instruments: under complementary technical assistance to the loan, the WBG has been working actively with the CMA to structure a new asset class, Asset Backed Securities (ABS). The VAT tax treatment of this transaction was an obstacle to the development of this product as charging VAT did not make it economically viable. The WBG prepared material to justify the rationale for exemption, and in March 2017, the Budget Speech recognized VAT exemptions for ABS. Amendments to the VAT Act are expected to be made through the Finance Bill 2017. vi) Framework for short selling: as of March 2017, the CMA has completed its revision to the framework for securities lending and borrowing, after various rounds of market consultations. It is expected that the regulations would be issued by the end of June.

Recommendations in the short term: i) Implement the government bond/bill auction automation. ii) Implement the separation of retail and wholesale investors in government's bond auctions for primary issues (which should be effective with the implementation of the Treasury Mobile Direct). iii) Release of the auction calendar at regular intervals without interruption. iv) Approval of the trading rules for the T-Bills in order to launch the E-bond platform for OTC secondary government debt market v) Implement a framework for horizontal repo. This is essential for banks' daily liquidity management, CBK's monetary policy and liquidity and requires the joint leadership of CBK and PDMO.

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	Substantial	Substantial	Substantial
Macroeconomic	Moderate	Moderate	Moderate
Sector Strategies and Policies	Moderate	Moderate	Moderate
Technical Design of Project or Program	Moderate	Moderate	Moderate
Institutional Capacity for Implementation and Sustainability	Low	Low	Low
Fiduciary	Moderate	Moderate	Moderate
Environment and Social	Low	Low	Low
Stakeholders	Low	Low	Low
Other	--	--	--
Overall	Moderate	Moderate	Moderate

Results

Project Development Objective Indicators

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	MNC/LC	--	NA	Compliant
Date	01-May-2015	19-Sep-2016	30-Dec-2016	31-Jul-2020

▶ Reduced net interest margin (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target

Value	No	--	No	Yes
Date	01-May-2015	--	30-Dec-2016	31-Jul-2020

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	47.00	47.00	49.00	52.00
Date	01-May-2015	19-Sep-2016	19-Sep-2016	31-Jul-2020

Overall Comments

Intermediate Results Indicators

▸ Mapping exercise of financial conglomerates (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	No	Yes
Date	01-May-2015	19-Sep-2016	30-Dec-2016	31-Jul-2020

Comments

Exercise is ongoing, final results to be reported in Q3 pf FY16/17

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	174.00	3,000.00
Date	01-May-2015	--	30-Dec-2016	31-Jul-2020

▸ Increase in Pension coverage (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15.00	15.00	18.20	20.00
Date	01-May-2015	19-Sep-2016	30-Dec-2016	31-Jul-2020

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	No	Yes
Date	01-May-2015	--	30-Dec-2016	31-Jul-2020

Comments
A County financing paper developed and shared with Capital Markets National Steering Committee

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15,000.00	--	0.00	150,000.00
Date	01-May-2015	--	30-Dec-2016	31-Jul-2020

Comments
The baseline figure has been recommended for amendment to zero.

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	No	Yes
Date	01-May-2015	--	30-Dec-2016	31-Jul-2020

Comments
The Bill is in Parliament and has passed the 2nd reading stage

▸ Depth of credit information index (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	1.00	7.00	3.00
Date	01-May-2015	19-Sep-2016	30-Dec-2016	31-Jul-2020

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	0.00	2.00
Date	01-May-2015	--	30-Dec-2016	31-Jul-2020

Comments
Policy Guidance Note on Exchange Traded Funds. Draft Framework 1. Policy Guidance Note on Asset Backed Securities 2. Policy Guidance Note on Global Depository Receipts and Global Depository Notes. 3. Amendments to the Public Offers and CIS Regulations to allow for regional issuance and marketing of products.

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	N/A	--	Yes	Yes
Date	01-May-2015	19-Sep-2016	30-Dec-2016	31-Jul-2020

▸ Increase in Insurance coverage (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	3.70	--	2.92	6.00
Date	01-May-2015	--	19-Sep-2016	31-Jul-2020

Overall Comments

Data on Financial Performance

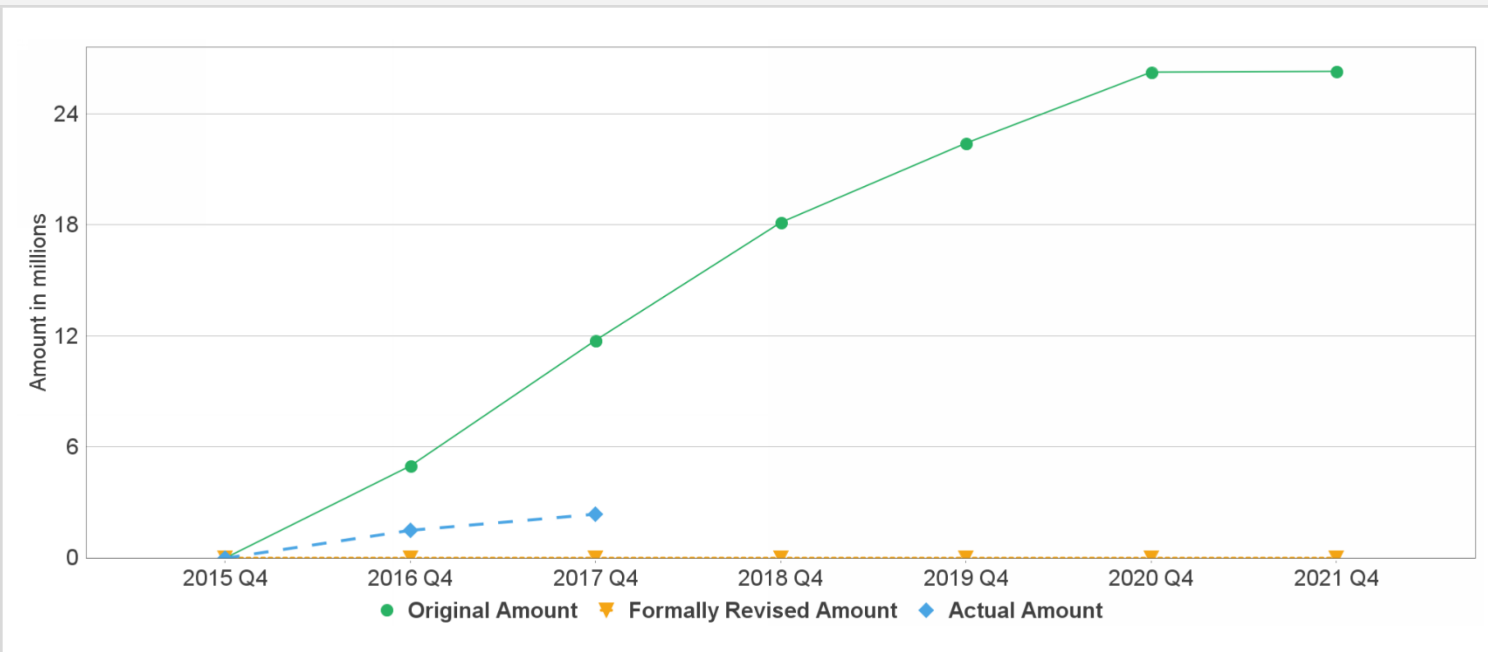
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P151816	IDA-56270	Effective	XDR	26.30	26.30	0.00	2.36	23.94	9%

Key Dates (by loan)

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

Cumulative Disbursements



Restructuring History

There has been no restructuring to date.

Related Project(s)

There are no related projects.