Public Disclosure Authorized

Financial Sector Support Project (P151816)

AFRICA EAST | Kenya | Finance, Competitiveness and Innovation Global Practice |
IBRD/IDA | Investment Project Financing | FY 2015 | Seq No: 13 | ARCHIVED on 30-Sep-2021 | ISR47675 |

Implementing Agencies: Republic of KENYA, Directorate of Budget & Fiscal & Economic Affairs

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: 19-Feb-2018
Original Closing Date: 31-Jul-2020
Revised Closing Date: 31-Dec-2021

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	Satisfactory	Satisfactory
Overall Implementation Progress (IP)	Satisfactory	Satisfactory
Overall Risk Rating	Moderate	Moderate

Implementation Status and Key Decisions

The Financial Sector Support Project (FSSP) became effective on July 10, 2015, with an expected closure date of April 2021. FSSP was built on previous financial sector reforms and gains realized through the Financial and Legal Sector Technical Assistance Project (FLSTAP). The project 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. The FSSP project is expected to support Kenyan financial sector authorities in further developing regulatory and supervisory frameworks that continue to be effective in mitigating the new risks associated with the financial sector's rapid development, deepening expansion across sectors, and across borders. It supports the upgrade of the supervisory, regulatory, and institutional framework to keep pace with more complex markets and products with the overall objective of enhancing stability.

FSSP's project components and key interventions include:

Component 1: Strengthening Financial Institutions
This component focuses on the overarching reform, modernization, and capacity support to the financial sector institutional framework. This component delivers 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 also supports the upgrade of IT systems and delivers capacity support to ensure a more effective functioning of the financial architecture.

Under this component, the project has primarily assisted financial sector regulators in strengthening their supervision and surveillance systems, through both IT upgradation and advisors and technical assistance on the implementation of risk-based supervision; and helped develop frameworks for deposit guarantees and deposit insurance for the non-bank sectors. Beneficiaries of this component include the Central Bank of Kenya (CBK), the Insurance Regulatory Authority (IRA), the SACCO Societies Regulatory Authority (SASRA), the Kenya Deposit Insurance Corporation (KDIC) and the Capital Markets Authority (CMA)

Component 2: Enabling Efficient Financial Intermediation
This component accelerates 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 supports consultancies, training and IT purchases.
Under this component, the Project has committed to support the implementation of a collateral registry system, and provide technical assistance in shoring up the legal and regulatory framework for movable property. Additionally, the Project is supporting strengthening of the Insolvency Framework through technical assistance, and providing assistance in assessing and strengthening the credit reporting system in Kenya. Key beneficiaries under this component include the Office of the Attorney General, and National Treasury.

Component 3: Increasing Availability of Long-term Finance
This component focuses 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 includes support via consultancies, training and IT purchases.
Under this component, the Project is supporting the development of a range of products for long term finance, including around informal pensions, new capital market products, and new insurance products. Additionally, this component will assist regulators in upgrading systems and modernizing financial infrastructure for issuing long term debt. Key beneficiaries include the National Treasury – Public Debt Management Office (PDMO). Retirement Benefits Authority (RBA), Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA), and Central Bank of Kenya (CBK).

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	Substantial	Moderate	Moderate
Macroeconomic	Moderate	High	High
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

PDO Indicators by Objectives / Outcomes

Improved financial stability

►Implement Kenya Deposit Insurance Corporation (KDIC) bank resolution/crisis management operational framework (Yes/No, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	Yes	Yes	Yes
Date	24-Aug-2018	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	Indicator changed from progress towards achieving compliance with Essential Criteria of Basel Core Principles.			

Enabling effecient intermediation

►Reduced net interest margin (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	Yes	Yes	Yes
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021

Enhanced access to long term financing

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	47.00	50.00	50.00	52.00
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021

Intermediate Results Indicators by Components

Strengthening institutions

►Crisis simulation training and practice sessions undertaken regularly to activate KDIC operational framework for crisis management (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	1.00	1.00	3.00

Date	05-Nov-2018	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	One (1No.) training was held in December 2015 where 30 officers drawn from the Financial Sector Regulators were trained. Indicator changed from Mapping exercise of Financial Conglomerates. The contract with the Toronto Center to support KDIC undertake crisis simulation training and practice sessions could not be signed due to disruptions caused by travel restrictions related to the COVID-19 pandemic.			

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	312.00	341.00	1,500.00
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021

Enabling Effecient Financial Intermediation

►Depth of credit information index (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	8.00	8.00	3.00
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021

►Increase in banked retail investor Accounts (MAkiba) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15,000.00	580,020.00	582,572.00	150,000.00
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	As at the end December 2020, the updated total number of retail accounts stood at 582,572 (M-Akiba accounts only). NT/PDMO working on affordable new issuance framework. Approval received to re-issue a bond within the next financial year.			

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	Yes	Yes	Yes
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	The Secured Transaction Regime Act was assented into law on 16th May 2017. Indicator achieved			

Mobilizing long-term Financing

►Increase in Insurance coverage (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	2.80	2.34	2.43	3.57
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	Ongoing	Ongoing	Yes
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	Assessment of financing gaps for counties has been concluded. The draft report is under review. County borrowing Circular released by the CS/NTon 9th February 2021 Counties providing clear guidance on borrowing by county Governments stipulating the minimum requirements before issuance. Subsequently counties such as Kisumu, Machakos and Bungoma become the first counties to complete a Public Credit Rating (March 2020) by GCR. The CMA and CRA Teams held a meeting on June 11, 2021 to update on the status and way forward in regard to progressing the County Financing project. The NT, CRA and CMA are planning a meeting to progress the project including pursue progress made by Laikipia County on their inaugural issuance.			

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

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	2.00	2.00	2.00
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	The Capital Markets (Commodities Markets) Regulations 2020 and the Capital Markets (Coffee Exchange) Regulations 2020 were gazetted by the Cabinet Secretary for the National Treasury and Planning on 3rd April 2020. The Business Laws (Amendment) Bill, 2019 was also enacted into Law in March 2020 (The bill highlights the rights of offered to buy out minority shareholders). For the last quarter, the Authority was reviewing the draft Collective Investment Scheme framework which includes- Th e Collective Investment Schemes (Alternative Investment Funds) Regulations, The Collective Investment (General Schemes) Regulations and the Draft Collective Investment Schemes Act.			

►Increase in Pension coverage (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15.00	22.00	22.00	20.00
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021

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

	Baseline	Actual (Previous)	Actual (Current)	End Target

Value	N/A	Yes	Yes	Yes
Date	01-May-2015	31-Dec-2020	30-Jun-2021	30-Apr-2021
Comments:	The Secondary Market Government Bond Turnover stood at Kshs. 270.8 Billion as at Q2 2021. A comparison with Q1 2021 indicat es a 35.92% increase from the Kshs. 199.23 Billion turnover recorded during that quarter. This is also a 98.2% increase from Q2 2020 whereby Kshs. 136.63 Billion turnover was recorded. In Q2 2021, a total of Kshs. 271.23 Billion worth of bonds has been traded at the Exchange. This is a 98.49% increase from Q2 2020 whereby Kshs. 136.65 Billion worth of bonds had been traded.			

Performance-Based Conditions

Data on Financial Performance

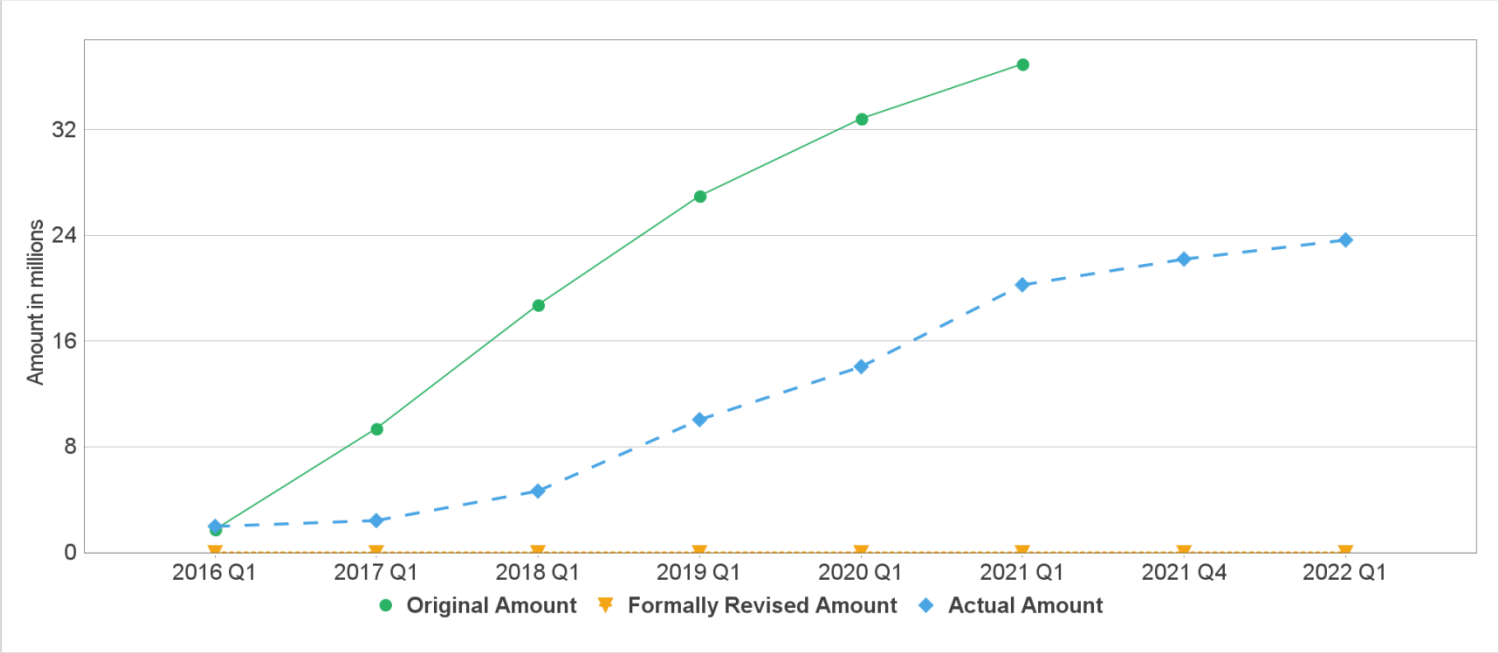
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P151816	IDA-56270	Effective	USD	37.00	37.00	0.00	23.68	13.31	64%

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-Dec-2021

Cumulative Disbursements



PBC Disbursement

PBC ID	PBC Type	Description	Coc	PBC Amount	Achievement Status	Disbursed amount in Coc	Disbursement % for PBC

Restructuring History

Level 2 Approved on 09-Nov-2018 ,Level 2 Approved on 27-Jul-2020 ,Level 2 Approved on 28-Apr-2021

Related Project(s)

There are no related projects.