



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
FINANCIAL SECTOR DEVELOPMENT & REGIONALIZATION PROJECT I (FSDRP I)
APPROVED ON JANUARY 31, 2011
TO
EAC SECRETARIAT, EAST AFRICAN COMMUNITY

FINANCE, COMPETITIVENESS AND INNOVATION

AFRICA

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ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
CMI	Capital Markets Infrastructure
EAC	East African Community
EAMI	EAC Monetary Institute
FSDRP	Financial Sector Development and Regionalization Project
IDA	International Development Association
IPF	Investment Project Financing
MTR	Mid Term Review
PDO	Project Development Objective



Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

BASIC DATA

Product Information

Project ID P121611	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 31-Jan-2011	Current Closing Date 30-Sep-2019

Organizations

Borrower EAC Secretariat,East African Community	Responsible Agency EAC Secretariat
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Project Development Objective (PDO)

Original PDO

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

Current PDO

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

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IDA-D1410	30-Sep-2016	11-Nov-2016	15-Feb-2017	30-Sep-2019	10.50	6.76	3.87
IDA-H6410	31-Jan-2011	14-Feb-2011	20-Jun-2011	30-Nov-2016	15.48	14.91	0



Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

Note to Task Teams: End of system generated content, document is editable from here.



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

Context and Background

Several of the six East African Community (EAC) Partner States¹ have experienced significant economic growth in recent years, which has helped propel the prominence of the regional bloc following its revival in 2000. Since its reconstitution, EAC Partner States have signed and ratified a series of agreements to signal their commitment to a progressively ambitious high-level regional integration agenda, including increased financial sector integration. Significant milestone agreements include: i) the EAC Common Market Protocol, signed in 2009, that aims to develop a single market that liberalizes trade in financial services and allows the free movement of capital between Partner States; and ii) the EAC Monetary Union Protocol, signed in 2013, that maps the path to a single currency by 2024.

As policy makers recognized the importance of increased regional integration, the financial sector, in certain instances, already moved to realize the benefits of the regional market. Notably, a number of the banks now operate in more than one of the Partner States. Kenyan banks currently dominate cross-border banking in the region. The growing presence of cross-border banks has created a more competitive market structure in the smaller financial systems and introduced a range of products and services that would not have been otherwise available. Other financial services, such as mobile money and other digital financial services, would similarly gain in efficiency and innovation with further regional integration. In addition, regional integration also benefits institutional investors (pensions and insurance) as well as capital markets as it arguably offers the most expedient way to build a deeper and more efficient financial markets that can meet the region's long-term financing and investment needs.

The EAC Financial Sector Development and Regionalization Project (FSDRP) has been supporting the EAC and the Partner States to shore up their institutional framework and develop capacity so that they can better manage the risks and make the most of opportunities presented by increased financial sector integration. Specifically, the project serves as an important financing, policy, and convening instrument to further financial sector integration by harmonizing financial sector legal, regulatory and policy frameworks, linking financial market infrastructure, adopting a regional approach to financial inclusion, strengthening capacity of market participants, and institution building. In addition, the project fosters the establishment of necessary regional financial architecture that supports the growth and innovation of the financial sector. For instance, project activities support the interoperability of cross border payment systems and mobile money services as well as the installment of capital markets infrastructure (CMI) which paves the way for further development and outreach of digital financial services in the securities market sector. Regional alignment of the legal, regulatory and policy framework of the financial sector by the Partner States would also contribute to increase the efficiency, affordability and accessibility of financial services in the region which offers the solid foundation or backbone for fostering regional economic growth. Completion of remaining activities under FSDRP will offer the needed regional framework for further developing the regional digital economy, which is also being pursued through a regional single digital market operation.

Since project implementation started in 2011, FSDRP has developed a significant number of financial sector reforms that have not only aligned Partner states' legal and regulatory frameworks but have also ensured their conformity with international best practices within the microfinance, capital markets, pensions and insurance sectors. Under Additional Financing (AF), over 2,000 officials from regulatory agencies, government ministries and the private sector representing the six Partner States have participated in technical working groups (TWGs), stakeholder consultations, sectoral council (Minister of Finance level) meetings, and Central Bank Governors' meetings organized by the project and EAC Secretariat (EAC) to support the reform agenda. Such forums have also served as a platform for exchange of information, knowledge and experiences between the financial sector authorities of the member countries. The project has also bolstered regional

¹ Partner States include: Kenya, Tanzania, Uganda, Rwanda, Burundi and South Sudan (which joined in 2016).



capacity to train financial sector professionals who can effectively work in rapidly growing and increasingly interconnected financial sub-sectors such as banking, pensions, insurance and capital markets.

Notable progress has been in the capital markets space. Firstly, support from the project has been critical to the establishment and launch of the Burundi Capital Market. Secondly, the project developed 16 Council directives (EAC Legal instruments) to harmonize the legal and regulatory frameworks of securities markets in the region. Lastly, with these enabling frameworks in place, the investment in an information technology (IT) system to integrate Partner States' capital market infrastructure paves the way for a regional market in long term funds, which is critical to financing the development needs of the Partner States, for instance providing long term financing for infrastructure. These project activities in the securities market not only contribute to the Maximizing Finance for Development (MFD) approach that supports countries to maximize their development resources by drawing on private financing and sustainable private sector solutions, but also contribute to the growth of a regional digital market and, in turn, the digital economy.

Project details and Status

The original parent FSDRP project was an IDA grant in the amount of SDR 10.5 million (US\$16 million equivalent) that was approved by the Board on January 31, 2011 and closed on November 31, 2016 with over 98% of project funds disbursed. The current project is an Additional Financing IPF IDA Grant worth SDR 7.6 million (US\$10.5 million equivalent). The current closing date is September 30, 2019. The Project Development Objective (PDO) is to establish the foundation for financial sector integration among EAC Partner States. As of July 2019, the overall disbursement ratio was 84.83 percent and there are four procurements under implementation representing about 15 percent of project funds (US\$1.6 million).

Of the six key results indicators, the project registered significant progress in four by the start of June 2019. Notably:

- (i) Number of accounts within regulated institutions (Banks and MFIs) (number) increased from 73.4 million in December 2017 to 78 million in December 2018 (exceeding the estimated target for December 2018 of 73 million);
- (ii) Number of legal instruments relating to financial sector harmonization in the EAC (Number) increased from 14 in December 2018 to 23 in June 2019;
- (iii) Development of implementation strategies for certification programs (Number) increased to 2 in December 2018, achieving the target set by project closure (September 2019); and
- (iv) The number of policy papers prepared by the Project Administrative Team (PAT) and presented to the Steering Committee increased to 13 in June 2019 from 8 in December 2018 (exceeding even the estimated target by project target of 10 papers).

The remaining two indicators have been revised or changed to better measure the achievements and progress of the project. See the Rationale for Restructuring and Results Framework below for more details.

In addition, both ratings on the progress toward the achievement of the Project Development Objective (PDO) and the Implementation Progress (IP) are Moderately Satisfactory (MS). Further, the project made good progress to resolve fiduciary issues identified in June 2017 as well as improving other Financial Management (FM) issues, resulting in an upgrade of the FM rating from Unsatisfactory to Moderately Satisfactory.

While the AF project is currently making good progress, it suffered from a slow start with a ten month delay in implementation during its first year. The reasons for this delay were multiple: i) changes in EAC senior management, specifically changes in the Secretary General (SG), who heads the EAC, at the tail-end of AF negotiation and the retirement of the Deputy Secretary General (DSG) responsible for the project following project effectiveness; ii) a five month effectiveness delay as decision points agreed during negotiation were not clearly relayed to the SG; and iii) a delay in workplan approval following project effectiveness given issues with changes to project staffing discussed during negotiations. Despite this delayed start, the Project Administration Team (PAT) worked hard to accelerate the implementation of project activities to overcome initial delays and slow disbursement. The most recent Financial management review corroborates this acceleration by noting a boost in disbursement.



A review of outstanding project activities towards the end of 2018 found that, despite the acceleration of implementation, the completion of some of these activities by September 2019 (current closing date) would be difficult. This challenge was recognized early on by the PAT and the EAC submitted a formal request for an extension of the closure date in January 2019 and again in May 2019 (given the change in the directors responsible for regional integration). This request is for a nine month extension of the closing date from end-September 2019 to end-June 2020. The proposed extension will result in an extension of more than 2 years cumulatively beyond the original project closing date, which was March 30, 2014 for which RVP approval is required. With this extension, the project age by end-June 2020 would be 9 years and 6 months.

Rationale for Restructuring

1. While a number of the project activities will be fully implemented by the current closing date (end-September 2019), the PAT has serious concerns that key activities that contribute to the achievement of the project PDO and pave the way for key growing EAC agendas such as digitalization and financial inclusion will not be completed. These activities include: i) the installment of a functional CMI IT system – the largest project activity that is the key to ensuring a regional, digitally connected securities market; ii) work on the interoperability of cross-border payment systems and mobile money services; and iii) activities to ensure a regional approach to increasing financial inclusion. With the requested short extension of nine months in the project’s closing date (which does not change the project’s closing fiscal year FY20), the PAT are confident that these key activities will be successfully implemented.
2. The full implementation of this project is also critical to furthering the EAC commitment to increased financial sector integration. Recently, the EAC Partner States confirmed their commitment towards the establishment and operationalization of the EAC Monetary Institute (the EAMI), which is expected to continue the financial sector integration agenda and coordinate all efforts for the long-term plan to move towards an EAC Monetary Union. The completion of FSDRP project activities will provide the legal and policy foundations needed by the EAMI to further financial sector regional integration.
3. In addition, EAC is in the process of finalizing institutional reforms, including its organizational structure. The current reform plan includes the establishment of a directorate dedicated to leading financial sector matters by early 2020. At present, the EAC does not have such a technical department and relies heavily on the FSDRP PAT members to provide technical expertise on the financial sector. With the impending closure of the FSDRP project, there are concerns about retaining the institutional memory needed to build on FSDRP achievements particularly as this new directorate is expected to lead the operationalization of EAMI in the coming years. The short extension in the project closing date allows for a smooth transition of FSDRP expertise to the new financial sector directorate.
4. Lastly, this project is requesting a restructuring to change the results indicators to ensure better tracking of project progress and achievement towards the PDO. A review of the project results indicators framework, at the request of the EAC to adjust these indicators, confirmed that the progress and achievements of the project were not fully captured by the currently approved indicators. The indicator on number of trades executed through EAC CMI IT platform is proposed to be revised to Number of Markets successfully linked to the EAC CMI IT platform to capture the result realistically reflecting the status of project implementation and what can be ascertained to be completed within the proposed closing date. The indicator on harmonized statistics for financial subsectors represented in the databases is removed as this activity has been subsumed in the EAC Statistics Development and Harmonization Regional Project (P164243) approved by the Board in July 2018.
5. A number of achievements that are not captured by the currently approved indicators are detailed in the Context and background section, more specifically:
 - Related to project activities under Component 1 of the project:



- 10 training programs have been developed for different financial sub-sectors and are awaiting final approval by various EAC Channels.
- 6 Regional and National roadmaps for universal switches on Retail Payments have been developed and are awaiting final approval of various EAC Channels.
- Related to project activities under Component 2 of the project:
 - 2 out of 3 EAC policies and implementation strategies have been finalized.
 - 24 of the 37 Regulations and guidelines to harmonise legal and regulatory framework have been developed
- Related to project activities under Component 3 of the project:
 - The Burundi Securities Market has been established
 - The Road Map for establishing a centralized database for capturing cross border financial flows has been developed

See Results Framework below for details.

II. DESCRIPTION OF PROPOSED CHANGES

The proposed changes to the project are the following:

- (a) Extension of the project closing date from September 30, 2019 to June 30, 2020.
- (b) Changes to the Results Framework, specifically to –
 - i. Revise one PDO indicator in order to better capture the implementation progress of the project; and
 - ii. Add six new intermediate indicators and delete one intermediate indicator to capture the progress made better.

I. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Loan Closing Date(s)	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Components and Cost		✓
Cancellations Proposed		✓



Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-D1410	Effective	30-Sep-2019		30-Jun-2020	30-Sep-2020
IDA-H6410	Closed	30-Mar-2014	30-Jun-2015, 29-Feb-2016, 30-Sep-2016, 30-Nov-2016, 31-Jan-2019		



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Financial Sector Development & Regionalization Project I (FSDRP I) (P121611)



Results framework

COUNTRY: Africa

Financial Sector Development & Regionalization Project I (FSDRP I)

Project Development Objectives(s)

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

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
Project Development Objective: To establish the Foundation for Financial Sector Integration			
Number of accounts within regulated institutions (Banks and deposit-taking MFIs) (Number (Thousand))		57,370.00	75,000.00
Number of Markets successfully linked to the EAC CMI IT platform (Number)		0.00	4.00
<i>Action: This indicator has been Revised</i>	<p>Rationale: <i>The proposed change in the PDO indicator related to the CMI is to better track the project implementation progress. Specifically to revise the indicator from "Number of trades executed through EAC CMI IT platform" to "Number of Markets successfully linked to the EAC CMI IT platform". This is because the CMI IT system is still being installed so tracking trades through this system will be difficult. As such the change to track the number of Partner States linked by the system is proposed to better align the PDO indicators with the progress of the project.</i></p>		
Number of legal instruments relating to financial sector harmonization in the EAC (Number)		14.00	25.00



Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	End Target
Component 1: Financial Inclusion and Strengthening of Market Participants			
Development of implementation strategies for certification programs (Number)		0.00	2.00
Development of training programs for each of the financial sub sector (Number)		0.00	10.00
Action: This indicator is New	<p>Rationale: <i>This new indicator captures achievements of project activities that are developing certification programs for the banking and insurance sectors as well as training programs developed for various financial sub-sectors to support the financial Sector Regionalization Activities. Previously, these achievements were not fully captured, but developing regional capacity to train financial sector professionals is important to effectively work in rapidly growing and increasingly interconnected financial sector in the region.</i></p>		
Development of a Regional Road Map and five other National Road Maps for universal switches on Retail Payments (Number)		0.00	6.00
Action: This indicator is New	<p>Rationale: <i>This new indicator captures achievements of project activities implementing recommendations from the diagnostic study on interoperability of card switches and cross border mobile banking/payments. Previously these achievements were not captured in the results framework, but they play an important role in facilitating electronic payments across the EAC and contribute to increase the digital financial services and to economic growth.</i></p>		
Component 2: Harmonization of financial laws and regulation (Action: This Component is New)			
Number of finalized EAC policies and implementation strategies (Number)		0.00	3.00
Action: This indicator is New	<p>Rationale: <i>This new indicator captures achievements of project activities to develop regional policies and corresponding implementation strategies in the following sectors: Microfinance and SACCOs, and Pensions. Previously, these</i></p>		



Indicator Name	DLI	Baseline	End Target
		<i>achievements were not captured at all in the results framework, but they are furthering financial sector integration by harmonizing the policy direction in certain sub-sectors across EAC Partner States.</i>	
Development of the Regulations and guidelines to harmonise legal and regulatory framework (Number)		0.00	37.00
Action: This indicator is New	<p>Rationale: <i>This new indicator captures achievements of project activities that are harmonizing legal and regulatory frameworks in the following sectors: Securities, Pensions, and Insurance. Previously, these achievements were not captured at all in the results framework, but they are furthering financial sector integration by harmonizing legal and regulatory frameworks across EAC Partner States.</i></p>		
Component 3: Institution Building			
Number of policy papers prepared by the PAT (Number)		7.00	10.00
Harmonized statistics for financial subsectors represented in the database (Number)		3.00	5.00
Action: This indicator has been Marked for Deletion	<p>Rationale: <i>This indicator is proposed to remove as this activity has been subsumed in the EAC Statistics Development and Harmonization Regional Project (P164243) approved by the Board in July 2018.</i></p>		
Establishment of Securities Market (Number)		0.00	1.00
Action: This indicator is New	<p>Rationale: <i>This new indicator captures achievements of project activities supporting the establishment of the Burundi Securities Market. Previously these achievements were not captured in the results framework, but they play an important role in establishing a securities market in Burundi needed to facilitate the development of a regional securities market.</i></p>		



Indicator Name	DLI	Baseline	End Target
Development of a Road Map for establishing a centralized database for capturing cross border financial flows (Number)		0.00	1.00
Action: This indicator is New	Rationale: <i>This new indicator captures achievements of project activities supporting the development of a database on cross border financial flows. Previously these achievements were not captured in the results framework, but they are important to developing data and statistics at a regional level on financial flows that can be used to measure levels of financial sector integration.</i>		



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Financial Sector Development & Regionalization Project I (FSDRP I) (P121611)
