Report Number: ICRR0023504

1. Project Data

Project ID	Project Name	
P151816	Financial Sector Support Project	
Country	**Practice Area(Lead)**	
Kenya	Finance, Competitiveness and Innovation	

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-56270	31-Jul-2020	27,202,573.56
Bank Approval Date	**Closing Date (Actual)**	
30-Apr-2015	30-Jun-2022	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	37,000,000.00	0.00
Revised Commitment	37,000,000.00	0.00
Actual	28,161,817.27	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Burcin Pamuksuz	Vibecke Dixon	Avjeet Singh	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to both Schedule 1 of the Loan Agreement (p.5) and the Project Appraisal Document (p.7), the project development objective (PDO) was “to strengthen the legal, regulatory and institutional environment for improved stability, access to and provision of, affordable and long-term financing.”

This review will assess the project outcome based on the objective parsed as follows:

Objective 1: To strengthen the legal, regulatory, and institutional environment for improved financial stability

Objective 2: To strengthen the legal, regulatory, and institutional environment for access to and provision of affordable and long-term financing

b. Were the project objectives/key associated outcome targets revised during implementation?
Yes

Did the Board approve the revised objectives/key associated outcome targets?
Yes

Date of Board Approval
09-Nov-2018

c. Will a split evaluation be undertaken?
No

d. Components
The Financial Sector Support Project (FSSP) consisted of four components and was to be implemented by the National Treasury (NT).

Component 1: Strengthening Institutions (Estimated Cost at Appraisal: US$23.3 million, Actual Cost at Closing: US$17.74 million): This component involved a combination of reform, modernization, and capacity-building activities for the financial sector. These were to be delivered through technical assistance to the various beneficiaries, mainly through consultancy services to design roadmaps, action plans, and implementation support to realize the planned reforms. Also, it was to support the upgrade of information technology (IT) systems and to deliver capacity support to ensure more effective functioning of the financial infrastructure. Some of the activities to be implemented were setting up the Financial Services Authority (FSA), digitalizing government payments, improving supervision in banking, non-banking and pensions sectors, and implementing a Central Securities Depository (CSD) system. In addition, capacity-building services were to be delivered to Kenya Deposit Insurance Corporation (KDIC), SACCO (Savings and Credit Cooperative), Societies Regulatory Authority (SASRA), and Public Debt Management Office (PDMO).

Component 2: Enabling Efficient Financial Intermediation (Estimated Cost at Appraisal: US$6.4 million, Actual Cost at Closing: US$1.29 million): This component was to facilitate access of businesses and individuals to affordable finance through strengthening the credit infrastructure and making the pricing of financial intermediation more transparent to contribute to Kenya's financial inclusion agenda. The activities to be implemented under this component were strengthening the collateral mechanism, improving credit information sharing, implementing the new Insolvency Regime, and expanding the availability of alternative savings instruments.

Component 3: Mobilizing Long-Term Finance (Estimated Cost at Appraisal: US$5.3 million, Actual Cost at Closing: US$1.01 million): This component was to address Kenya's growing development finance needs for long-term projects in infrastructure, housing, etc., through strengthening the demand for and supply of long-term funds. The support was to be provided by provision of consultancy services, training, and IT purchases.

Component 4: Supporting Project Management (Estimated Cost at Appraisal: US$1.3 million, Actual Cost at Closing: US$2.13 million): The project was to be managed by the project implementation unit (PIU) under the NT, which was already managing the IDA-supported Infrastructure Finance Public Private Partnership (IFPPP) project.

Revised Components: Due to findings at the mid-term review and in line with the Government of Kenya's request, some of the activities under Component 1 were revised (Restructuring 1). This was due to a change of strategy of the Central Bank of Kenya following the instability experienced in the Banking sector. The objective of improving financial stability remained unchanged. (See section on Restructurings for details).

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

Project Cost: The project cost estimated at appraisal was US$37 million. The actual cost at closing was US$28.08 million.

Financing: At appraisal, the International Development Association (IDA) credit was estimated at US$37 million including contingency (equivalent of 26.3 million Special Drawing Rights-SDR). The project disbursed US$28.08 million. A total of US$4.59 million unspent Project's funds was reallocated to refinancing of a project preparation advance (PPA) granted to the Kenya Aviation Systems Improvement Project. The undisbursed amount at the project closure is approximately US$ 8.08 million. A US$ 0.66 million is yet to be refunded to WB. The remaining difference of US$0.18 million is FX related loss (information provided by the TTL on June 2, 2023.

Borrower's Contribution: At appraisal, no Borrower's contribution was foreseen, and none materialized at closing.

Dates: The project was approved on April 30, 2015 and became effective on July 10, 2015. The closing date was extended by a total of 23 months through three restructurings (the second, the third and the fourth) from July 31, 2020, to June 30, 2022.

Restructurings:

Restructuring 1-November 9, 2018

The MTR review conducted in March 2018, recommended a restructuring of some of the indicators in order to reflect changes in the financial sector priorities and the authorities' strategy for the use of project funds. Following some instability in the banking sector (failure of two tier-2 banks in August and October 2015) the Central Bank of Kenya (CBK) shifted its strategic focus to strengthening banking supervision, deposit insurance and financial system infrastructure. The use of FSSP funds was redirected to support these priorities. The PDO remained relevant, and the focus remained on stability of financial markets. The restructuring of the indicators reflected these changed priorities and uses of funds. Accordingly, the first PDO indicator was replaced by a new one focusing on implementation of KDIC Bank resolution/crisis management operational framework. Also, a new intermediate results indicator was added in this regard and two targets for two intermediate results indicators were revised downwards.

Restructuring 2-July 27, 2020

The closing date of the project was extended from 31 July, 2020 to April 30, 2021. This extension aimed at enabling the NT to proceed with procurement and implementation of on-going activities such as the CSD system by the CBK and to consolidate results and core foundations for market-based products targeting the poor and vulnerable living in the informal economy.

Restructuring 3-April 28, 2021

The closing date of the project was extended further from April 30, 2021 to December 31, 2021 for the completion of the initiation phase of CSD system which was delayed due to restrictive conditions imposed by COVID-19 and to ensure smooth transition of the project to a new project Supporting Access to Finance and Enterprise Recovery (SAFER) (P175017) which was under preparation. The extension was to enable a smooth transition of the project's activities to a new operation, the Supporting Access to Finance and Enterprise Recovery (SAFER) (P175017) project, which was under preparation.

Restructuring 4-December 21, 2021

This restructuring extended the project implementation period for another six months to 30 June 2022. The cumulative extension of the project closing would reach to 23 months. The extension was to allow the completion of the remaining activities of the CSD initiative of the CBK. Additional support towards follow-up phases of implementation for the CSD was envisioned to happen under the SAFER project.

Restructuring 5-February 14, 2022

This restructuring facilitated, reallocating US$4.4 million of unspent FSSP's funds towards the refinancing of a PPA granted to the Kenya Aviation Systems Improvement Project (KASIP).

Reason to not to undertake a split assessment of the project outcome: The change introduced regarding the first PDO indicator was to drop an indicator which was no longer a priority for the Government of Kenya (GoK) and adding a new one in line with the priorities. However as both indicators serve for assessing impact of the intervention for improved stability of financial markets but just reflect different measure. The project's means to achieve strengthened financial stability (improved institutional, legal capacities and improved financial infrastructure modernizing supervision) remained unchanged. The downwards revision in the target of "increase in insurance coverage" was due to a miscalculation of the baseline figure at design stage. The restructuring corrected the baseline figure (from 3.70% to 2.80%) and adjusted the final target (from 6% to 3.57%) at project closing accordingly. Regarding the intermediate results indicator of "the number of MDA services using electronic payment instruments", the work on the government digital payments (GDP) was put on hold by Kenyan authorities the downward adjustment was made to match the remaining implementation time of the project. These changes did not trigger a split rating.

3. Relevance of Objectives

Rationale

Country Context: At appraisal and closing, the project development objective was well aligned with GoK's priorities. The Vision 2030 – the GoK's strategic plan to "create a globally competitive and prosperous nation with a high quality of life by 2030" puts financial services at the center of higher economic growth in Kenya. The economic pillar of this strategy targets high economic growth based on high national savings rates in the financial sector. To develop its financial sector, the strategy identifies improved stability, enhanced efficiency in the delivery of credit and other financial services, and improved access to financial service products by many Kenyans as the priority targets, which are fully aligned with the project's development objective. The objective was also aligned with the Financial Services Medium Term Plan II 2013-2017, which supported the realization of GoK's priority projects and programs in line with Vision 2030.

World Bank Strategy: The Project contributed to the World Bank's twin goals of eliminating poverty and boosting shared prosperity by supporting Kenya in achieving higher rates of private sector-led growth and job creation. At appraisal, the project development objective aligned with the Country Partnership Strategy (CPS FY14-FY20) agenda. The first domain of the strategy (Domain One: Competitiveness and Sustainability) explicitly recognized the private sector as the engine of economic growth and included, among the outcomes, an "improved enabling environment for private investment (Pad, p.6). The PDO remains highly relevant with the three objectives (Objective 1: Boost Kenya's fiscal and debt stability, Objective 3: Foster micro, small and medium enterprises and small producer success for faster job creation, Objective 6: Increase household resilience to and national preparedness for shocks) of the most recent CPS for Kenya (CPS FY23-FY28).

Previous Sector Experience: FSSP was a follow-up project to the Financial and Legal Sector Technical Assistance Project (FLSTAP). It was building on the achievements of FLSTAP and the government's Vision 2030, which identified the financial sector as a key sector to move the counttowardrds middle-income status. While FLSTAP concentrated on creating a sound financial system and strengthening the legal framework and judicial capacity to ensure broad access to financial and related legal services, FSSP aimed to improve financial sector stability and improve conditions to access longer-term affordable finance. FSSP supported further developing regulatory and supervisory frameworks that effectively mitigate the new risks associated with the financial sector's rapid development with more complex markets and products. In addition, the project design also relied on lessons learned from FLSTAP to avoid delays and implementation problems. The lessons learned were developing a tighter, clearly attributable results framework, creating ownership among stakeholders, and streamlining the project scope and beneficiaries list.

As the financial sector in Kenya was undergoing rapid structural changes, the institutions involved in the sector needed support to strengthen their legal, regulatory, and institutional frameworks to improve financial stability and availability of affordable and long-term financing. With this context, the PDO was appropriately pitched for development status, the capacity of the government, and constraints in the operational context.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Objective 1: To strengthen the legal, regulatory and institutional environment for improved financial stability

Rationale

Theory of Change: The banking sector in Kenya has been going through a rapid structural change over the last decade. This rapid change has generated a more complex market and products while raising the possibility of adverse consequences of financial instability on economic performance in Kenya (PAD, p.2). The theory of change suggests that financial stability can be improved if financial sector regulators and supervisory institutions are strengthened through modernized financial sector infrastructure and new and improved risk-based regulatory and supervisory frameworks. These would help mitigate risks and increase communication among the authorities, thus contributing to financial stability.

Some activities for achieving this objective were, establishing new IT systems, data centers, and operating frameworks; capacity building to regulators and supervisory institutions on risk management, crisis simulation, supervision of emerging products; technical assistance for the development of financing schemes; review and design of new surveillance systems and conducting awareness raising campaigns. These activities (inputs) were expected to lead to outputs of improved IT systems and improved risk-based supervision and surveillance systems. In addition, outputs like establishing KDIC as a deposit insurance agency of the banking sector, establishing a deposit guarantee fund for deposit-taking SACCOs, a national insurance policy, and an upgraded risk-based supervision system for the Retirement Benefits Authority (RBA) were expected. As an outcome, the regulators and supervisory institutions were expected to monitor the financial sector effectively and introduce policy reforms or change policy formulations in a timely manner through improved financial sector infrastructure, contributing to financial stability. The strengthened regulatory, legal, and institutional frameworks would better mitigate risks associated with Kenya’s rapidly developing financial sector. Overall, the causal pathways from TA and modernized infrastructure to expected results (strengthened capacities, operational crisis management framework, improved financial stability) were valid and direct. The results achieved could be attributable to the project’s intervention. Project outputs would reasonably be expected to improve the sector’s stability and increase its resilience against future crises and shocks. The critical assumptions were the regulators, and supervisory institutions use upgraded financial infrastructures developed through the project and that the newly developed frameworks are implemented.

The first PDO indicator (Related to Basel Core Principles 12 and 13) was dropped, and a new indicator (Implementation of KDIC bank resolution/crisis management operational framework) was introduced.

According to the restructuring paper, this new PDO indicator captured the modernization of financial architecture in Kenya and had direct linkages to the financial system's stability and efficiency of crisis resolution reflecting a change in strategy by the authorities on the use of FSSP funds. The PDO remained unchanged, and the scope of activities remained essentially the same.

With respect to the indicators of achievement, one of the PDO indicators for this objective (reduced net interest margin) did not have a baseline. During the meeting with the TTL (June 2, 2023), it was clarified that at appraisal, setting an arbitrary end-project target for this indicator would be problematic, so success in the achievement of this indicator was to be measured as a downward trend (PAD, p.8). According to information provided by the TTL (through links to economic financial research institutions), the net interest margin in Kenya has a downward trend.

With respect to the capacity-building activities, some surveys addressed to the beneficiary institution's staff and banking sector representatives could have been used to collect further evidence on the impact of the project's intervention on "strengthened financial stability."

Outputs:

Achievements as reported in the Results Framework: Four out of five intermediate results indicators were achieved.

- The target of 1500 f MDAs (Ministries, Departments, Agencies) using electronic payment instruments) was not achieved. At project closing, 360 MDAs were using electronic payment instruments.
- Increase in banked retail investor accounts accessing M-Akiba: The target was to achieve 150,000 accounts. At project closing, it was 582,572 accounts, exceeding the target.
- Depth of credit information index: Depth of credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information from either a public registry or a private bureau to facilitate lending decisions (PAD, p.22). The project achieved a magnitude of 8, exceeding the target of 3.
- Draft legal framework for a secured transaction regime: The Secured Transaction Regime Act was assented into law on May 16, 2017. Target was achieved.
- Crisis simulation training and practice sessions undertaken regularly to activate KDIC operational framework for crisis management: Through the training and the practice sessions, KDIC is working with other agencies to assess activation of the crisis management operational framework and communication responses, vulnerabilities, technology, and training approaches. Target was to conduct three sessions. The sessions took place in 2015, 2021, 2022. The target was achieved.

Additional output achievements reported in the ICR:

- The project strengthened the technical capacity of the CMA and its market surveillance ability, which is expected to enable the CMA to monitor and supervise markets closely and take necessary corrective actions on time. In addition, access to capital markets was facilitated through mobile phones, increasing financial inclusion.
- FSSP strengthened the newly established SASRA to start supervising the growing SACCO industry, which serves most of the unbanked informal sector through reviewing market conduct policies and regulatory framework and establishing a deposit guarantee fund for deposit-taking SACCOs. As a result of institutional strengthening provided by the project, SASRA was able to take on the supervision of additional SACCOs (124 SACCOS by the end of 2012, over 350 SACCOs in 2023)
- With respect to the pension scheme, FSSP supported the strengthening of the RBA to allow the regulation of the pension sector, including the upgrade of the risk-based supervision system, the setup of the Kenya National Entrepreneurs Savings Trust, the Kenya Pension Fund Investment Consortium, development of national insurance policy.

- The project supported the design and operationalization of KMRC and contributed to developing the World Bank's follow-up project (Kenya Affordable Housing Finance Project-P165034).

Outcomes:

Achievements as reported in the Results Framework:

- Implementation of the Kenya Deposit Insurance Corporation (KDIC) bank resolution/crisis management operational framework: With the support of FSSP, KDIC was established and started operations. KDIC has increased the limit on deposit insurance from 100,000 KSh to 500,000 KSh; KDIC is now covering about 99 percent of the deposits. KDIC helped the creditors recover part of their lost funds. The public became more aware of the protection offered by KDIC through the awareness-raising campaigns supported by the project. As a result, deposits in commercial banks gradually started to rise again. (ICR, p.19). However, the ICR does not provide input about the magnitude of such an increase. Although the Operational Framework, including the Bank Resolution Policy & Procedures and a Risk Management Policy, were developed within the project's framework, the implementation did not start at the time of the ICR. The documents have since been considered by the Board Technical Committee, awaiting approval by the Full Board (ICR, p. 29). Target partially achieved.
- Reduced net interest margin: Although this indicator was part of the results framework, the baseline value was unavailable. Therefore, the reduction could not be measured. According to the ICR, at project closing net interest margin was 5.88% and had a downward trend as targeted in the PAD (from the links of research institutes provided by the TTL on June 2, 2023). The downward trend can be attributable to improved information asymmetries and expanded information available to credit agencies due to modernized financial infrastructure and strengthened institutions. Target achieved.

The project's efficacy in achieving the first objective is rated Substantial. The project increased the depth of the credit information index to the highest grade, increased the institutional capacities on financial crisis management, established a framework for secured transactions regime, and contributed to developing alternative savings products as outputs. As an outcome, the project contributed to a gradual decrease in the net interest margin. These achievements increased the financial sector's resilience to possible future crises and its level of preparedness to tackle associated problems. This shows that the project may plausibly contribute to increased financial stability.

Rating
Substantial

OBJECTIVE 2

Objective
Objective 2: To strengthen the legal, regulatory and institutional environment for access to and provision of affordable and long-term financing

Rationale

Theory of Change: The theory of change suggests that access to and provision of long-term financing can be improved if a new range of products and financial frameworks are developed, and if financial infrastructures of regulators are modernized. Some of the activities for the realization of this objective were technical assistance support on the development of roadmaps, recommendation papers on informal pensions, new capital market products, new insurance products, assessing financing/lending gaps, and conducting awareness raising campaigns. These activities were expected to lead to outputs of a sectorial report on financing/lending gaps of the Capital Market Act, lessons learnt from a benchmarking exercise from the Brazil bond market and a re-engineered M-Akiba government bond (the first mobile platform for the issuance of government bonds), a report on pension framework, an action plan on the motor third party liability market and developed guidelines for investment performance in infrastructure and housing. These outputs were expected to lead to a range of new capital market products as well as an upgraded infrastructure for issuing long term debt. As a result, both the demand and the provision of long- term financing were expected to improve. Overall, the causal pathways from the activities (TA and capacity building) to outputs (new financial market products, modernized financial infrastructure, increased capacities) and to outcomes (increased access to and supply of long-term finance) were valid and direct. The results achieved could be attributable to the project's intervention. The critical assumptions were that new products developed would be favorable enough to attract savings and that there would be demand for such products.

The intermediate results indicator "increase in volume of secondary market transactions of government debt" did not have a baseline figure, and thus made the measurement of progress difficult. The M&E framework could have benefitted from an additional indicator to assess enhanced provision of long- term financing.

Outputs:

Achievements as reported in the Results Framework: Four out of five intermediate results indicators were achieved.

- Increase in insurance coverage: The achievement for this indicator (2.24%) remained below baseline value (2.80%) and the target value (3.57%). The project team informed IEG (June 2, 2023) that insurance coverage in Kenya was declining as it was not perceived as an essential instrument even in the context of pandemic. Target not achieved.
- Draft framework for sub-national entities on debt management: Through FSSP, an assessment of financing gaps for Counties was concluded. As a result, a County Borrowing Circular was released by the CS/NT in February 2021. Counties were provided with clear guidance on borrowing, stipulating minimum requirements before issuance. Target achieved
- Draft regulation for new long-term products: As a result of the project's activities, the Commodities Markets Regulations and Coffee Exchange Regulations were adopted in 2020. In addition, the Business Laws Bill was amended in the same year. Within the framework of Capital Markets Act: (i) Collective Investment Schemes Regulations and (ii) Alternative Investment Funds Regulations were adopted in 2022. Target of development of two draft regulations was achieved and exceeded.
- Increase in pension coverage: The pension coverage increased from 15% to 25%, exceeding the target of 20%. This was possible as a result of RBA's educational campaigns targeting youth, elderly and informal sector workers on the need to save for retirement.
- Increase in volume of secondary market transactions of government debt: This indicator refers to secondary market trading volume of government debt. The ICR reports increase in volume of secondary market transactions of government debt from Ksh 195.48 billion in Q2-2022 to Ksh 196.95 billion in Q3-2022 corresponding to an increase of 0.01%. On the other hand, the ICR reports that this

is a 34.6% decrease from the level of Q3-2021 (Ksh 301.03 billion). Also, according to PAD, this indicator needs to be monitored semi-annually. ICR's reporting is on quarterly basis. Target almost achieved.

Additional output achievements reported in the ICR:

- Following draft frameworks / regulations for new long-term products were developed: A framework for hybrid bond trading, a framework for derivatives regulation, a policy framework for youth saving for retirement and a legal and regulatory pension framework.
- With the support of the project, the first mobile and informal sector pension scheme was developed.

Outcomes:

Achievements as reported in the Results Framework:

Long-term assets held by pension funds increased from baseline of 47% to 51% at project closing, almost achieving the target of 52%.

Additional achievements reported in the ICR:

The project contributed to expanding the availability of alternative savings instruments. Support to the re-engineering and uptake of the M-Akiba government bond was set up as a saving instrument targeting the informal sector. The development of a re-engineered M-Akiba product seeks to leverage on the innovation and outreach channel of the mobile money wallet to increase savings and source of domestic borrowing for the government (ICR, p.16). As mentioned under Objective 1 above, banked retail investor accounts accessing M-Akiba government bonds increased from 15,000 in 2014 to 582,572 in December 2020.

The ICR reports that many women became more aware of access to capital markets, pension schemes, and depositor rights through the CMA, RBS and KDIC's financial inclusion and financial literacy campaigns. However as none of the indicators were gender tagged, this achievement could not be measured.

Overall, the project's efficacy in achieving the second objective is rated Substantial. The project achieved to improve the legal framework for long term financing, to increase pension coverage and to increase long term assets held by pension funds as outcome. These achievements indicate that the project may plausibly contribute to strengthening the environment for access and provision of long-term financing.

Rating
Substantial

OVERALL EFFICACY

Rationale

The project's efficacy in strengthening the legal, regulatory and institutional environment for improved financial stability was Substantial. The project's efficacy in strengthening the legal, regulatory and institutional environment for access to and provision of affordable and long-term financing was also Substantial. Overall efficacy is rated Substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic and Financial Analysis:

At appraisal, given the nature of the project activities (technical assistance and capacity building), a quantitative economic and financial analysis was not considered the appropriate tool to assess their impact (Pad, p.14). At closing, the ICR did not provide an economic and financial analysis either due to the nature of activities covered under the project. The ICR reports that the cost of major activities was kept within the original budget estimates and that component costs did not significantly exceed the estimated costs, except for expected inflation adjustments. According to the ICR, the project management component costs exceeded the original estimate mainly due to the extension of the project's closing date by 23 months (ICR, p.17). The ICR does not attempt to calculate benefits achieved due to increases in pension and insurance coverages.

Administrative and Operational Efficiency:

The administrative and operational efficiency of the project was impacted negatively due to delays related to financial management, procurement, and implementation issues. The project was planned as a five-year project to succeed the FLSTAP project, which ended in 2013. However, this could not be achieved due to NT's administrative workload increased during Kenya's general election in 2013 and with the changing political economy in the country. The lack of ownership among some beneficiaries delayed the start of project activities. The ICR reports that had the project succeeded FLSTAP immediately and not had a two-year delay, the project could have gone with the momentum established earlier, and some implementation delays could have been avoided. The project also experienced some implementation delays due to COVID-19 restrictions, and most face-to-face training could not be implemented. The use of both the World Bank guidelines and the local procurement rules of Kenya doubled the time required for procurement processes while delaying the implementation of project activities. Additional approval requirements for payment of invoice processes added to the payment delays (see section Fiduciary Compliance section for details). Furthermore, the appointment of an alternative PIU in December 2021 duplicated fiduciary mandates, complicated project implementation, and resulted in delays in processing transactions. The ICR reports that some activities which could not be completed under FSAP will be continued under SAFER Project (ICR, p. 17).

An economic and financial analysis was not conducted at appraisal. However, although a before and after comparison could not be made, an attempt to conduct an economic and financial analysis of increased pension coverage could have been made. In addition, due to administrative and operational inefficiency, the project duration was extended by 23 months. This also contributed to an under-disbursement of project funds. For these reasons, Efficiency is rated 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:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project development objectives were highly relevant to the country's context and the World Bank strategy. The project's efficacy in achieving the first objective (To strengthen the legal, regulatory, and institutional environment for improved financial stability) is rated Substantial. The efficacy in achieving the second objective (To strengthen the legal, regulatory, and institutional environment for access to and provision of affordable and long-term financing) is also rated Substantial, and the overall efficacy rating is therefore Substantial. The project's efficiency is rated Modest due to significant shortcomings in operational and administrative efficiency, including financial management and procurement, causing implementation delays. Based on these sub-ratings, the overall outcome is rated Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

Technical risk: The FSSP provided significant support on upgrading the IT systems of several regulatory bodies and supervisory institutions combined with capacity-building activities. To sustain the progress achieved, the beneficiary institutions will need additional resources to keep their systems updated against technological changes or cyber security threats. Also, the technical capacity built through the project will need to be maintained.

Financial risk: The dialogue sustained with the policy makers and the regulators during the implementation enabled the WB team to set up SAFER Project. However, the ICR reports a risk that some activities may fall through. Several regulatory and supervisory institutions (KDIC, RBA, NT, and SASRA) need significant funding to implement the schemes established through the FSSP, which SAFER cannot easily meet.

Governance risks: According to ICR, the implementation was delayed due to a lack of ownership among some beneficiaries, and it took about two years for the PIU to bring them on board. The financial sector in Kenya involves financial sector regulators with diversified capacities, cultures, and implementation processes. Although this may create synergies and contribute to the development of the sector (see the section on lessons), if not coordinated well and managed in a cohesive manner, this diversification may negatively impact the governance of financial sector policies and the improvement of the sector.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project had strategic relevance as it supported the Government of Kenya's Vision 2030. A comprehensive assessment of GoK's needs was conducted, and the results were embedded in the project's design. The implementation arrangements at appraisal were sufficient. The PIU at the NT was responsible for the management and supervision of the project. The PIU had previous experience with the World Bank's projects, particularly with FLSTAP, that were similar in scope and substance. The World Bank's inputs and processes were overall sufficient. Fiduciary compliance of the PIU was assessed, and key weaknesses and risks were identified. Accordingly, some mitigation measures, notably concerning procurement, were recommended. An additional procurement officer was recruited. The PIU staff received comprehensive training on WB's procurement regulations and the Systematic Tracking of Exchanges in Procurement (STEP) system. While designing the M&E framework, although lessons from previous World Bank Projects were taken into account, the framework still had some weaknesses (see M&E section).

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

To supervise the project, a task team was appointed by an experienced professional in financial sector reforms and composed of a financial sector specialist; a securities market specialist; a financial economist; a pension expert; and an M&E, FM, and procurement specialist. In addition, Nairobi-based experienced World Bank staff supported the team and provided guidance to the implementing agencies in Kenya.

The World Bank team's focus on development results was demonstrated by their effort to address the changing needs of the borrower and to restructure the project accordingly. As a result of the mid-term review, and in line with the Borrower's request, some of the activities were revised, and the results framework was amended. According to the ICR (p.23), during the implementation, the project was subjected to 14 implementation support/supervision missions that monitored progress and supported the implementing agencies and beneficiaries. The progress and guidance were recorded in fourteen

Implementation Status and Results Reports (ISRs) and four Aide Memoires. The project team engaged with the PIU daily to increase trust and provided solutions to tackle implementation problems, particularly on fiduciary issues (ICR, p.25).

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Overall, the theory of change was sound and was reflected in the results framework. The PAD defined three PDO indicators to measure the achievement of the project objectives. The baseline for the progress indicator toward achieving compliance with Basel Core Principals 12 and 13 was defined, but the end target (to measure progress) was vague. The indicators of reduced net interest margin and long-term assets held by pension funds were well defined, but the indicator of reduced net interest margin did not have a base value and end target and was, therefore, not measurable. The intermediate results indicators were overall specific and achievable, except the indicator measuring the increase in the volume of secondary market transactions which did not have a baseline value. To improve the accuracy of the project's attribution of the capacity-building activities, the M&E design could have included indicators of beneficiary feedback (some surveys addressed to beneficiary institution's staff and banking sector representatives).

At appraisal, the project team assessed the PIU's M&E capacity. Training to the PIU was provided to mitigate risks of weak M&E capacity, and a full-time M&E officer was recruited. The results framework was developed through a consultative process, and beneficiaries were involved in defining target indicators and assessing their achievement (ICR, p.22).

b. M&E Implementation

During implementation, the PIU collected and reported necessary monitoring data while coordinating data collection among various financial sector institutions participating in the project. The mid-term review was conducted in the first quarter of 2018 to assess implementation progress. The review recommended changes in line with GoK's changing needs. These changes were implemented in the first restructuring. According to the ICR, the financial instability experienced due to the failure of two banks, resulted in a change in the priories of the Government in Kenya. A new PDO indicator was introduced to reflect the GoK's new priorities on strengthening banking supervision, deposit insurance, and financial system infrastructure. The original indicator aimed to assess progress towards achieving compliance with Basel Core Principles 12 and 13, which are on consolidated supervision and home-host relationship, respectively. The new indicator concentrated on KDIC and its crisis management operational framework, strengthening banking supervision and targeting financial stability. Although this change in line with the priorities of GoK is understandable, the newly introduced indicator was relatively weak and remained at the output level. Also, the weaknesses in the results framework mentioned in the M&E Design section were not addressed during the restructurings. The progress during the implementation and guidance were recorded in Implementation Status Reports and Aide Memoires.

c. M&E Utilization

The borrower regularly received reports on M&E findings. The project team and the implementing agencies used the findings to make appropriate adjustments to the implementation plan, depending on the status of physical progress. For example, the progress of CSD contracts was a critical input in the decision to restructure the project and determining the realistic project completion and closing dates.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was an Environmental Category C project (with minimal or no adverse environmental or social impacts). The project did not trigger any of the safeguard policies.

b. Fiduciary Compliance

Financial Management: The National Treasure, through its PIU staffed with the fiduciary team, was responsible for the financial management of the project. The ICR reports that financial management arrangements at the start of the project were adequate. A qualified project accountant was appointed; interim financial and external audit reports were submitted timely; regular withdrawal applications for expenditure documentation and advances were submitted. However, in December 2021, the status of the PIU, including existing staff, was revoked by the government, and an alternative PIU team was appointed to implement the project while the first PIU continued to work and deliver progress reports under their current contracts. At the project's initiation, the PIU was granted authority to incur expenditures and prepare and sign off invoices. This authority was revoked later, and the PIU was authorized to only initiating the payment process. The NT made the actual payments, and this extended the payment process. Some payments took over 100 days, and others took over a year to process (ICR, p.21). The presence of two PIUs in charge of project management resulted in a lack of budget for the project, delayed submission of quarterly IFRs, the external audit report for June 30, 2021, and withdrawal applications for documentation of expenditure for the period September 1, 2021, to September 30, 2022, resulting in the designated account being inactive for 13 months (ICR, p.24). For the year ending June 30, 2022, the Auditor General expressed an unqualified (clean) audit opinion for the FSSP. The Financial Management was rated as Moderately Satisfactory at closing.

Procurement: The PIU at the NT was responsible for administering the project funding and procurement processing. The PIU was to provide procurement support also to the beneficiaries. At appraisal, an assessment of the procurement capacity of PIU revealed that PIU did not have adequate capacity to support the project in terms of several staff, quality of document preparation, and contract management. As mitigation measures, the PIU was supplemented with an additional qualified Procurement Officer, and all staff received training in World Bank procurement rules and the STEP system. However, as reported in the ICR, procurement remained a significant issue during project implementation (ICR, p. 17). The use of both the World Bank guidelines and procedures and the GoK's own procedures doubled the time required to complete procurement activities. In addition, PIU did not have access to the Integrated Financial Management Information System (IFMIS) and lacked mandates to access the procurement and payment systems (ICR, p.21). The requirement for the Supply Chain Department to render professional opinions, to the Accounting Officer (PS/NT) for approval, increased the time spent in the procurement cycle. This also caused delays in payments to staff, suppliers, and service providers. PIU experienced difficulties in tracking the Procurement Plan implementation, contract implementation, and contract monitoring which resulted in further delays in project implementation. The Procurement was rated as Moderately Satisfactory as closing.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	Due to modest efficiency rating as a result of administrative and operational inefficiencies.
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The following are lessons learned from the ICR with some paraphrasing:

- **When designing and implementing projects which include improvement of digital financial services, having IT and cybersecurity experts in the project team can increase project's achievements**. The FSSP project involved all of the regulatory and supervisory entities and their upgrading of IT frameworks. This required management of technology related risks and good understanding of cybersecurity. The project team could have benefitted from such expertise within the team to assist with the design, and making necessary adjustments to the project activities. As digital financial services and the need to manage technology related risks is quickly gaining importance, having strong expertise on IT and cybersecurity on the project teams can improve design and implementation of similar financial services projects in the future.

- **Bringing all supervisory /financial sector stakeholders together under one project can create synergies between the actions and can improve implementation as well increase outcomes of the project.** Such schemes may increase coordination and communication among the relevant institutions. In the case of FSSP, supporting both PDMO and CBK together contributed to a better coordination of the M-Akiba issuance. In addition, the provision of support to both CMA and NT under the project facilitated the approval of a new capital markets regulation.

- **Having a flexible project design and participatory approach can contribute to increasing achievement of project development objectives.** This project's flexible design allowed to address the government's emerging needs in relation to the changing economic and financial conditions in Kenya. It was possible to adjust activities, through restructuring the project to provide support and set up of KDIC during the time of bank failures.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a detailed overview of the project. It is candid in explaining the issues encountered at different phases of implementation. The report is concise and follows most of the guidelines. The report is mostly internally consistent. The quality of the ICR could be further improved by enriching efficacy section (particularly for Objective 2) by the information and evidence provided in various sections of the report (i.e., Lessons and Recommendations, Other Outcomes and Impacts). The Annex1 Section B of the report provides a comprehensive list of outputs by components. However, while assessing the efficacy of the objectives, the report's emphasis on linking activities with outputs and outcomes and their attribution to the impact of the project's intervention is not always clear. The report provides information on some of additional results achieved which are not monitored through the results framework (i.e., impact of financial inclusion and financial literacy campaigns on women). However, these are not backed with quantitative evidence. The discussion in the Lessons and Recommendations section are useful and supported by the narrative, however mostly in the form of facts and findings.

Overall, the quality of ICR is rated Substantial.

a. Quality of ICR Rating

Substantial