

**MINUTES OF THE FINAL PROJECT CLOSURE FOR THE CENTRAL BANK OF
KENYA CAPACITY DECISION MAKING PROJECT MEETING
HELD ON 23.01.2012 AT TREASURE BUILDING**

Present

1. Kennedy Nyachiro	Chair-Ministry of Finance	kennedynyakundi@treasury.go.ke	2252299
2. Boniface Kitili	UNDP-Kenya	boniface.kitili@undp.org	0207625169
3. Peter Rotich	Central Bank of Kenya	rottichpk@treasury.go.ke	2860000/ 0722718941
4. Julien Bouzon	European Union	julien.bouzon@eeas.europa.eu	0705153169
5. Grace Okara	CBK	Okaraga@ksms.or.ke	0721380914
6. Fredrick Mutunga	Ministry of Finance	fmutunga@treasury.go.ke	0773371748

Absent with Apology

1. Mr. Kinyanjui - Ministry of Finance
2. Ms. Carolin Averbeck - Team Leader

Agenda

1. Opening Remarks
2. Project Implementation Mechanism
3. Final project report-summary
4. Reactions from members
5. Way forward
6. AoB

1.0: Opening Remarks

Mr. Nyachiro started by registering the apology of the Director, External Resources Department who had earlier confirmed that he would chair the meeting but could not due to urgent office matters that now had to attend to. He then confirmed to all that he had been mandated to chair the meeting. He then invited all to the meeting and after taking another apology for Ms. Carolin Averbeck of UNDP, he briefly outlined the purpose. Mr. Mutunga read through the agenda and then the under the guidance of the chair, all confirmed that the agenda met the objective of the meeting.

He then invited the CBK team to make a presentation of the final project report.

2.0: Final Project Report (Summary)

The coordinator of the project presented a summarized report. The report was presented in subheadings viz: Background of the Project, Project Implementation Mechanism, Project Governance, Project Achievements, Project Challenges, Lessons Learnt and Conclusions. The details are outlined below as presented.

2.1: Project Brief

The Bank requested technical assistance from development partners to strengthen its Research, Monetary Operations and Debt Management (MODM) and Currency Operations & Branches Administration (COBA) Departments. The technical assistance was aimed at improving the Bank's macroeconomic and monetary policy management capacity, promoting and deepening of domestic debt markets as well as improved currency management practices.

The technical assistance was to be in the form of three (3) Technical Advisors (TAs) to the Governor on matters related to the formulation of monetary policy, macroeconomic and monetary policy management capacity, currency management and generally reforming the Bank to become a premier institution not only as regulator but also a first class monetary policy formulator and implementer, and a source of frontier knowledge.

The overall project output was to include a strengthened analyses and decision support capacity of the three CBK Departments with the following specific outputs:

- *Strategic plans for each of the three departments developed*
- *Staff of the three departments trained in adapted models, tools, systems etc. for economic analysis and decision-guidance*
- *Accurate macroeconomic forecasts and analyses*
- *Improved signaling component of government securities*
- *An agreed staff training and development plan/programme.*

The first phase of the Project ran for six months beginning August 1, 2008. Under this Phase UNDP provided financial support for the recruitment of a Technical Advisor for the Research Department. Following successful completion of the first phase on January 31, 2009, the Bank negotiated for a second phase, this time incorporating a new partner, namely the European Commission. The second phase ran for two years from February 1, 2009 to January 31, 2011.

2.2: Project Implementation Mechanism

The implementation of the project was through a **Joint-Contribution Agreement** signed between the European Commission (EC) and the UNDP on 31st December 2008. This was in

addition to a Protocol of Implementation signed between the EC, Ministry of Finance and CBK. Under this arrangement, the Treasury was to be the National Accounting Office (NAO) while CBK, as the implementing agency, was to be responsible for the delivery of programme activities to achieve specified results, as set forth in the approved work plan. While both EC and UNDP jointly financed the project to the tune of Kshs. 51 million (€500,000) and Kshs. 8.8 million (€86,275) respectively, UNDP was to also provide technical support for implementation and management of the activities under the approved work plan.

2.3: Project Governance

Overall project guidance was provided by a Steering Committee (SC) established in February 2009 to provide policy decision authority and guidelines/direction to the Project. The Steering Committee comprised the Permanent Secretary, Treasury, The Governor, CBK as well the Heads of Mission of the EC and UNDP. A Project Technical Committee (TC) comprising Heads of Departments served by the project and HR as the secretariat was also established in February 2009 to offer support and guidance on the day to day implementation of the project.

2.4: Project Achievements

The CBK Capacity Building Project enabled fast-tracking of several reforms that had been initiated in the Bank. The CBK team highlighted the following achievements under the Project:

- *Recruitment of a Technical Advisor (TA) for the Research Department for 30 months beginning August 2008.*
- *Development of the CBK macroeconomic model under the stewardship of the Research Department TA. The Model is currently being used for macroeconomic forecasting and analyses especially in relation to MPC decisions. The Model has also enabled the Bank to put in place policies to lower inflation down to below 5% target.*
- *Coordination of the CBK/University of Oxford Book Project by the TA, Research Department resulting in the publication of the book, "Kenya Policies for Prosperity" edited by the Governor together with other distinguished professors. The book, which was launched in February, 2011 addresses key issues that will face economic policy makers in the country in the coming years including structural issues of trade, employment generation and education; land policy, migration and urbanization; and the fiscal challenges facing an aging but increasingly urbanized, and increasingly affluent society.*
- *Recruitment of a Technical Advisor for the Monetary Operations and Debt Management Department (MODM) for six months beginning October 2010.*
- *Contribution of the TA towards reforms in MODM which have made the capital markets and auction system more efficient.*

- *Reforms undertaken by COBA resulting in among other things, reduced operations costs for commercial banks following the opening of several currency centers across the country.*
- *A series of staff capacity building opportunities through visits to several Central Banks. Staff gained useful lessons in the areas of currency production/management and printing processes, reserves management, implementation of monetary policy, primary and secondary markets for government securities with specific focus on market structure and financial literacy education and project management. Lessons learnt from these capacity building activities were instrumental in the setting up of various currency centres, as well as addressing challenges relating to the connectivity between the Central Bank securities registry and the Nairobi Stock Exchange's Automated Trading System.*

2.5: Project Challenges

The major challenge experienced by the Project was the difficulty of timely identification of suitable Technical Advisors for two departments: COBA and MODM. Although several rounds of recruitment were initiated, the process did not yield suitable candidates for various reasons. Some of the candidates especially those in academia were found to possess the required technical skills but were lacking in practical experience while those in the diaspora sought to be remunerated at levels that could not be accommodated by the project budget. Equally, although technically competent, some of the candidates did not have sufficient policy advising experience to qualify for the position. It was only in October 2010 that the Bank was able to identify a TA for MODM.

For the position of Technical Advisor, COBA no qualified candidate was identified despite four rounds of advertising by both CBK and UNDP. A decision was thus reached for the Bank to explore the possibility of collaborating with other Central Banks for technical assistance. This was however hampered by the fact that the Sveriges Riksbank (Swedish Central Bank) from which the CBK had hoped to secure a technical advisor was faced with staffing constraints and was thus unable to release one for an extended period of time. All in all, these challenges point to a lack of an adequate pool of potential TAs in the local and international job market. This particular outcome, which frustrated the project in the first phase, in essence confirmed the need for enhanced capacity building to support policy making institutions.

Another challenge was the turnover of key project personnel especially in UNDP, halfway through the project. This resulted in disruption of communication flow between CBK and UNDP, a fact that hampered general implementation of project activities including convening of crucial committee meetings for efficient decision making.

2.6: Lessons Learnt

By design, the project intended to recruit three Technical Advisors to the Governor. The project design did not however anticipate any challenges in the recruitment process. Hence, when the project ran into difficulties in recruiting Technical Advisors, there were no inbuilt mechanisms to vary the intended activities. In future, therefore, it may be useful to build in the project design, alternative approaches for achieving project objectives if the envisioned activities fail to materialize for one reason or another.

One of the greatest impediments to the recruitment process was the budgetary ceiling for the remuneration levels of the TAs. In the recruitment process, however, it was noted that the project could not match the salary expectations of some of the would-be candidates for the position. A prior market survey of the prevailing remuneration levels would have assisted in this respect. Such a survey would also have taken into account the short nature of the contract hence the need to remunerate at levels slightly higher than those for longer term consultants.

It would appear that key project personnel did not have sufficient back up support to assist to respond to various communication and or queries in their absence. This matter hampered communication towards the end of the project and resulted in some delays in decision making. In future, it may be useful to put in place adequate staff backup with sufficient knowledge of the project activities to provide continuity in the absence the main project personnel.

2.7: Conclusion

Support from the EC and UNDP was instrumental in assisting the Bank to leverage implementation of various activities in the targeted Departments. Not that these reforms would not have been undertaken, but the CBK Capacity Building Project enabled fast-tracking of the reforms. Indeed, the greatest success of the project support was the development of the CBK Macroeconomic Model in the Research Department which has enabled the Bank to improve its forecasts and policy analysis, improve support to the Monetary Policy Committee (MPC) as well as put in place policies to lower inflation down to below 5% target. Reforms in MODM have made the capital market and auction system more efficient, while reforms being undertaken by COBA have resulted in among other things, reduced operations costs for commercial banks following the opening of several currency centers across the country.

Due to the challenges highlighted above, it is evident that the envisaged transfer of capacity was minimal especially in those departments for which a TA could not be found and/or was found too close to the project completion date. This implies that the anticipated strong capacity at the lower level in the Bank remains elusive. While interim measures such as field visits/attachments to collaborator Central Banks and other relevant institutions assisted in bridging the gaps, there remains a significant gap in capacity needs that should be addressed in future.

3.0: Reactions from Members

After the presentation, the chair thanked both Peter Rotich and Grace Okara who jointly made shared the final project report. He noted the concerns raised which affected the delivery of project milestones in time and advised that in future, a baseline be undertaken before fixing salaries of advisors.

The meeting noted that despite persistent requests and explanations by CBK through the Project Board, EU remained quite inflexible and demanded that allocated funds must remain as signed off irrespective of the emerging complications. It was also noted that the project design overlooked some key parameters eg. Project did not give room to allow for alternative approaches.

The CBK Officers thanked Boniface Kitili of UNDP for supporting and finalizing the financial report for the project despite having just taken over the project after it had operationally closed. CBK was also requested to pass sincere thanks to Irene Waithaka of CBK who had acted as a liaison officer/link between the Bank and UNDP and ensured that the meeting was held and attended by all parties.

In conclusion, members noted the well documented lessons and the chair asked all to take note and ensure these are considered in future project designs. Additionally, the chair requested EU to be flexible as may be demanded during project implementation with a view of ensuring project objectives are achieved.

5.0: Way Forward

Having discussed the report submitted by the CBK, and having confirmed that the project had no assets to hand over, with the guidance of the Chair, all unanimously confirmed despite the constraints faced, most of which were beyond the project control (attributed to project design) the project had delivered at least 65%. Mr. Julien Bouzen from EU confirmed that EU had received and approved a copy of the final report as submitted via UNDP, and that UNDP had made refunds for the balance. CBK also confirmed that all payments had been made.

Having confirmed this, and with guidance of the Chair, *all unanimously approved that this project be both operationally and financially closed.* The milestones for the project closure were outlined as:

- Submit minutes for review and sign off
- Submit combined delivery reports for sign off
- Upload minutes in UNDP ATLAS system

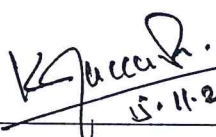
6.0 AoB



The bank wanted to know if there was a window for further engagement with both UBDP and the EU. In response EU noted it had already committed the 10th European development funds and was now in the process of identifying new areas of support as from 2014 onwards. He further noted that it was quite unlikely that the Bank would provide this kind of support.

The UNDP representative noted that several projects will be due for closure in December 2012 and was also in the process of finalizing a strategic framework which will guide the interventions for the period commencing 2013. He however noted that the already identified interventions did not include this kind of support and were guided by GoK draft MTP II priorities. However, the Bank was advised to submit if any, a proposal which it considered key in delivery of its services. This would be considered amongst others and feedback provided.

Alternatively, the Bank was advised to instead submit future proposals through the Public Financial management (PFM) Sector Working Group and encouraged to get in touch with WB as this bank was Chairing this group.

There being no other business, the meeting ended at 12.50 pm.

Signed: 
15.11.2013

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