REPUBLIC OF KENYA

THE NATIONAL TREASURY & ECONOMIC PLANNING

SUPPORTING ACCESS TO FINANCE AND ENTERPRISE RECOVERY (SAFER) PROJECT

PROJECT ID: 7018-KE

PROJECT IMPLEMENTATION UNIT (PIU)

TERMS OF REFERENCE

CONSULTANCY SERVICES TO FORMULATE THE KENYA NATIONAL ENTREPRENEURS SAVINGS TRUST (KNEST) STRATEGIC PLAN 2023 – 2028

September 2023

1. INTRODUCTION

1.1 The SAFER Project

The Government of Kenya has received a Credit from the World Bank as part of the Bank's program for COVID-19 response focusing on supporting businesses, accelerating recovery, and strengthening economic resilience. The Supporting Access to Finance & Enterprise Recovery (SAFER) Project development objective is to increase access to financial services, enhance the capabilities, and support the COVID-19 recovery of Micro, Small and Medium Enterprises (MSMEs) in Kenya. SAFER is a five year $100 million IDA Credit whose Financing Agreement was signed on 8th February 2022 while its effectiveness date is 9th May 2022.

The Project complements ongoing World Bank Group activities in Kenya and is informed by numerous consultations with the GoK, financial sector, and other actors in the MSME ecosystem resulting from the Enhancing Access to Finance for MSMEs (P171828) analytical diagnostic. The Project also draws numerous synergies with the second Kenya Inclusive Growth and Fiscal Management DPO (P172321) that provides the GoK with additional fiscal space to support the economic downturn induced by the global pandemic and help fill the financing gap. The Kenya Financial Sector Support Project (P151816) and the Kenya Industry and Entrepreneurship Project (P161317) have laid the foundation for a lot of the work proposed under the SAFER project, around support to strengthen the legal, regulatory and institutional environment for improved financial intermediation as well as assistance to MSMEs through business training and supplier development programs, respectively. The activities in this Project will also complement the Kenya Youth Employment and Opportunities Project (P151831), which aims to increase employment and earnings opportunities among vulnerable youth, including by providing small start-up grants and business development services.

The primary project beneficiaries are MSMEs in the formal and informal sector. Other beneficiaries will be Government of Kenya (GoK) institutions that will be key to delivering targeted financial support to MSMEs through institutional strengthening and capacity building to facilitate the provision of financial and non-financial services to MSMEs. These include the National Treasury (NT), Ministry of Industry Trade and Investments (MITI), Central Bank of Kenya (CBK), SACCO Societies Regulatory Authority (SASRA), and the Credit Guarantee Scheme (CGS). Development Finance Institutions (DFIs), commercial banks, SACCOs and Micro Finance Banks (MFBs) participating in the provision of liquidity and de-risking support will also directly benefit from capacity strengthening under the Project.

1.2 Project Components

SAFER comprises three components (with sub-components) as listed below:

a) **Component 1 – Innovation and Liquidity Support to MSMEs (US$ 55 million)**

Liquidity support to MSMEs through:

(i) Window 1 (US$ 25 million) – provision of lines of credit through the Apex PIE to Participating Financial Institutions (PFIs) for the provision of Sub-Loans to Eligible MSMEs
(ii) Window 2 (US$ 30 million) – provision of a line of credit through the Apex PIE to PFIs operating digital channels for the provision of Sub-Loans to Eligible MSMEs.

The objective of this component is to support the immediate response to the COVID-19 pandemic focused on resilient recovery of informal sector MSMEs, especially women-owned and youth-led micro and small firms in hard hit sectors. Liquidity support will be provided to MSMEs through regulated financial intermediaries (SACCOs, MFBs, and commercial banks) with a focus on MSME banking, especially those innovating with digital channels (hereinafter referred to as participating financial institutions (PFIs).

b) **Component 2 – De-risking Lending to MSMEs (US$ 30 million)**

Support for the recovery and growth of MSMEs through:

(i) provision of financing to capitalize the Credit Guarantee Scheme (CGS) to enable the provision of partial credit guarantees to PFIs on their Sub-Loans to Eligible MSMEs; and
(ii) supporting the establishment, capitalization and operationalization of the Credit Guarantee Company (CGC).

The objective of this component is to unlock lending to MSMEs during the COVID-19 crisis and beyond to support recovery and growth of enterprises. This component would ramp up support to the existing CGS as an emergency COVID-19 response measure and support the establishment and the capitalization of the Credit Guarantee Company (CGC).

c) Component 3 – Technical Assistance and Project Management (US$ 15 million)

This component will provide technical assistance to build resilience capacity of the MSME finance ecosystem beyond the lifecycle of SAFER. During the life of the Project, the component will support NT, CBK, SASRA, and PFIs in the delivery of components 1 and 2 and ensure overall growth of the MSME lending market. The technical assistance (TA) support will cover both project implementation and monitoring and evaluation and will be bolstered with support from specialists on M&E and MSME subject areas.

Subcomponent 3a (US$5 million): technical assistance to: (i) the National Treasury, in setting up the Credit Guarantee Company (CGC) and market development for financial products and services,

(ii) the CBK to develop prudential regulations for the CGC, and (iii) the CGC, including (A) the development of operational policies and procedures; (B) design of technical specifications for information technology infrastructure and an information management system; (C) development of detailed manual for the scheme with clear eligibility criteria for PFIs and MSMEs, assessment methodology and preliminary assessment of PFIs. Support will also be provided to the CBK to develop prudential regulations for the CGC. Once the CGC has been established, the project will provide support to build its operational capacity to ensure it effectively delivers its mandate. (D) design, establishment and cascading to PFIs of an ESMS and a framework for screening climate and disaster risks and tracking and assessing climate mitigation impacts; (E) design and implementation of a monitoring, evaluation and learning system; and (G) capacity building and staff training.

Subcomponent 3b (US$2 million): TA to Participating Financial Institutions (PFIs). Most of the TA will be needed by the PFIs (SACCOs, MFBs, and commercial banks). The support will target strengthening of governance arrangements, risks management capacity, business models, and operational efficiency, integrating gender sensitization, knowledge sharing and trainings on climate change adaptation or mitigation, or information on the impacts of climate risks in financial markets.

Subcomponent 3c (US$6 million): TA to financial sector regulators to strengthen the regulatory environment and enhance and digitize the financial infrastructure. This subcomponent will support follow-on TA activities related to strategic initiatives started under the Kenya FSSP (P151816) that are tied to underlying structural weaknesses holding back improved financial intermediation, liquidity distribution and ALM. These activities will include: the implementation of a shared digital services platform for SACCOs (i.e. SACCO Central initiative by SASRA), which will also establish a mechanism for a centralized liquidity facility similar to the inter-bank market to aid liquidity distribution and ALM in the SACCO sector; implementation of the informal sector micro pension scheme by NT; added support for the Central Securities Depository (CSD) initiative by CBK; and, gender sensitization.

Subcomponent 3d (US$2 million): Support Project Management by NT including coordination, financial management, procurement, communication and outreach, audits, environmental and social risks management, monitoring and evaluation, operation of the Project Implementation Unit (PIU) and Trainings.

1.3 Project Beneficiaries

The primary SAFER beneficiaries include MSMEs in the formal and informal sector, with a focus on women owned MSMEs. Other beneficiaries will be GoK institutions that will be key to deliver targeted financial support to MSMEs through institutional strengthening and capacity building to facilitate the provision of financial and non-financial services to MSMEs and by improving the necessary financial sector infrastructure. These include the NT, MoTEI (represented by the Micro Small Enterprises Authority – MSEA), CBK, SASRA, KNEST and the new CGC. Banks and SACCOs and MFBs participating in the provision of liquidity and de-risking support will also directly benefit from the strengthened capacity providing access to finance to MSMEs and conduct ESF assessments. Moreover, the project will ultimately contribute to a more robust and inclusive financial ecosystem that will benefit the entire Kenyan population including the economic resilience of women owned MSMEs in informal sector market segments.

1.4 Project Implementation Unit (PIU)

The NT shall maintain, throughout the implementation of the Project, a Project Implementation Unit (PIU) within the NT, with resources and composed of key staff, with qualifications, experience and under terms of reference acceptable to the Association, including a Project coordinator, a credit guarantee specialist, a financial intermediary financing specialist, a procurement specialist, a Project accountant, a monitoring and evaluation specialist, an environmental and social management specialist, and such other specialists performing such functions as may be further detailed in the POM.

The PIU shall be responsible for overseeing the day-to-day implementation, management, supervision and overall coordination of the Project, including, (i) acting as a first stage grievance committee for all environmental and social related complaints, (ii) acting as the main focal point for interaction with the PIEs and other stakeholders on behalf of the Project, and (iii) monitoring progress of the Project.

The PIU is currently located at the 7th Floor, North Tower, Anniversary Towers, University Way.

1.5 Project Coordination Committee (PCC)

The NT shall establish and maintain throughout the implementation of the Project, a Project Coordination Committee (PCC) chaired by the Principal Secretary, National Treasury. The PCC shall comprise among others the governor of the CBK, principal secretary Ministry of Trade, Enterprise and Industry, and the chief executive officer of SACCO Regulatory Authority or such other persons as may be agreed.

The PCC shall be responsible for, inter alia; (a) providing strategic and policy guidance for Project implementation, and (b) resolving any Project coordination and implementation bottlenecks that may arise.

The PCC shall meet at least every six months to, inter alia, review the Project results, discuss any key issues arising and agree on key milestones over the following six months.

1.6 KENYA NATIONAL ENTREPRENEURS SAVINGS TRUST Plc (KNEST)

Background

The Government of Kenya has carried out a series of reforms in the Pensions industry in the recent past. However, pensions coverage extends to only around 20% of the labour force, almost exclusively in the formal sector. Informal sector workers in Kenya constitute more than 80% of the total work force and contribute 33.8% of the GDP. However, they are not adequately covered by the available formal pension saving mechanisms. This is because the traditional formal pension arrangements are not designed to meet the unique needs of the sector, thus, signaling a market failure that required Government intervention.

Formal sector workers are covered on a mandatory basis through employer and employee contributions made to the National Social Security Fund (NSSF) and through occupational pensions offered by their employers. As in the rest of the sub-Sahara African region, workers in the informal sector are not adequately covered by existing old-age savings mechanism.

The informal sector is a heterogeneous segment with unique needs. Studies show that established pensions providers are not designed to service informal sector workers' unique circumstances and varied needs (no payroll or tax Pin number for registration, receive small, irregular, and intermittent contributions, no employer contribution or tax incentive to save, frequent need to access fund for emergency purposes) – thus, making this segment difficult and expensive to cover.

Existing micro-pension offerings have also failed to achieve the scale required to lower costs and become sustainable. Costs are particularly important for pensions as investment returns (which need to be safe and secure) can rapidly get drained by high administrative charges, making saving for the long-term futile.

Pension coverage has also failed to take off amongst informal sector workers partly because stand-alone pension products are not attractive, as pressing short-term financial needs also must be managed. This means that, even when the intention is to save for the long-term, individuals frequently dip into those savings, and this prevents them from building a sufficient pot to take care of their financial needs in old age.

It is due to these challenges that different long-term saving initiatives in the market have not only failed to thrive but also failed to reach scale and sustainability – signaling the existence of a viability gap that the private sector is unwilling to finance, and a market failure that required Government participation / intervention.

A concept paper to establish a national pension scheme to cater for both long-term and short-term needs of the more than 18 million marginalized informal sector workers, recommended that the Government puts in place an infrastructure that will meet the unique and heterogeneous needs of this sector. Further, it was recommended that the infrastructure be incubated at the National Treasury until the scheme, to be known as Kenya National Entrepreneurs Savings Trust (KNEST), attains operational efficiency and gains sustainability.

Establishment of KNEST

The Cabinet approved the establishment of the Kenya National Entrepreneurs Savings Trust (KNEST) – a unique National Micro-Pension Scheme with a sustainable model that combines long-term saving with pressing short-term needs to the more than 15 million marginalized informal sector workers.

The National Treasury and Economic Planning registered the Scheme as an Individual Pension Plan (IPP) under the Kenya National Entrepreneurship Savings Trust and operationalized it through the incorporation of two separately limited liability companies under the Companies Act: –

1. ***The National Informal Sector Public Limited Company*** as the sponsoring company and;
2. ***Kenya National Entrepreneurs Savings Trust Public Limited Company*** as the Trust Corporation.

Mandate of KNEST

KNEST's mandate of expanding the pension coverage for the informal sector workers in Kenya is a major pillar in the Bottom-Up Economic Transformation Agenda (BETA). The Government's plan to provide an inclusive growth model through promoting savings in the informal sector finds practical application in the KNEST roll-out plan and road map. KNEST's budget is prepared considering the often-forgotten segment of the population who contribute immensely to the Gross Domestic Product. According to the Kenya National Bureau of Statistics (KNBS) 2016 Report, the informal sector is the most critical segment of the population accounting for over 80 percent of the total workforce in Kenya and contributing 33.8 percent of the Gross Domestic Product (GDP).

KNEST Plc is expected to have a total membership of approximately 2 million people at commencement, with the initial monthly member contribution projected at Kshs.35 million from voluntary contributions besides the compulsory contributions from the Financial Inclusion Fund.

The Government through the pronouncement of H.E the President, has further identified KNEST as a vehicle to manage the saving component of the Financial Inclusion (Hustler) Fund. In its objectives, KNEST aims at extending pension coverage to the informal sector who have for a long time been unserved or underserved by the existing pensions providers. KNEST has a voluntary savings channel for those who do not wish to borrow from the Hustler Fund and a mandatory channel for the 5% savings component that is deducted from Hustler loan. The savings are split into long-term (pensions) and short-term savings that can be accessed at any time to meet the daily financial shocks experienced by this sector. The pension savings are matched by the Government at a ratio of 2:1. The scheme leverages appropriate technology in providing the savings mechanisms that inculcate a saving culture in this unique sector.

KNEST is projected to significantly raise the savings rate in the country from the current rate of less than 20 percent to more than 40 percent in the next 5 years. The effect of increased domestic savings is to defray the cost of debt.

KNEST is intentionally structured to serve the unique and heterogeneous needs of the informal sector workers. The scheme is projected to be financially viable within 3 – 5 years. During the incubation period, the Government will be providing seed funding. After the incubation period, the scheme is expected be financed through internally generated investment earnings with specific focus on minimizing costs.

KNEST now wants to formulate a 5-year strategic plan to inform its pension service delivery to the marginalized informal sector workers. The development of this strategic plan will take on board the government's broad development agenda as expressed in the Vision 2030, the *Kenya Kwanza* Manifesto and the BETA (Bottom-up Economic Transformation Agenda) model. The plan will focus on extending pension coverage to Kenyan workers in the informal sector who are largely not coverage in the current pension arrangement.

These Terms of Reference are for consultancy services to design a Strategic Plan for 2023 to 2028 for KNEST Plc.

2.0 SERVICES TO BE RENDERED

2.1 Objectives of the Assignment

The overall objective of this consultancy is to formulate a 5-year strategic plan to inform KNEST Plc pension service delivery to the marginalized informal sector workers.

2.2 Scope of the Assignment

The consultant is expected to undertake the following tasks:

(i) Anchor strategic visioning workshop for the Board and Management to identify the organization's mission statement, vision statement, core values, the strategy pillars and associated strategic outcomes.

(ii) Facilitate a strategy planning workshop to undertake a critical analysis of the operating environment.

(iii) Apply human-centered design methods to crystallize the retirement saving issues relevant to marginalized informal sector workers and to identify the specific strategic objectives needed to address these issues. The objectives must be aligned with the Government's long term development agenda.

(iv) Develop the organization's business model and target operating model.

(v) Develop the organization's strategic risk management framework.

(vi) Develop the implementation matrix with timelines for initiative implementation and their associated budgets for the strategy.

(vii) Develop the monitoring and evaluation plan, which incorporates the strategic risk management framework, for the strategy.

2.3 Deliverables

The consultant is expected to produce the following deliverables:

Deliverable	Timeline
Inception Report demonstrating understanding of the Terms of Reference for the assignment.	By End of Week 1

Strategic review meeting with the Board, Management, and staff of KNEST and produce a report.	By End of Week 2
Draft review report	By End of Week 4
Final report	By End of Week 6

2.4 Estimation of Effort

The time required to conduct this assignment is estimated at six (6) months.

2.5 Work and Reporting Mechanism

The Consultant shall work under the direct and overall supervision of the Chief Executive Officer of KNEST, and in close collaboration with the Project Implementation Unit (PIU).

3. QUALIFICATIONS OF THE CONSULTANT

The consultancy firm should have the following qualifications:

(i) Minimum of 10 years of experience in strategic planning with experience in organizational and change management being an added advantage
(ii) Familiarity with strategic planning tools, and demonstrable in-depth working knowledge of the Human-Centered Design and strategic risk management framework
(iii) Experience and understanding of governance issues in the public sector in Kenya.
(iv) Proven excellent communication and facilitation skills.
(v) Highly motivated and committed to the values of transparency and integrity.

Qualifications for the lead consultant Academic Qualifications

(i) A Master's Degree in Economics or Public Management/Administration, Business Administration, or any other relevant degree.
(ii) Certification in any relevant results-based strategy development framework, e.g., the Balanced Scorecard.
(iii) Certification in Service Design or Human-Centered Design.

Experience

- Over five years' professional experience in strategic planning and management consultancy and in the application of any results-based strategy management framework such as the Balanced Scorecard.

- Demonstrated experience in working with government partners and other stakeholders in public sector development programs, especially in the area of strategy formulation for the pensions sector.

Skills and Competencies:

- Ability to work with minimal supervision;
- Proven excellent written and oral communications skills in English;
- Must be results-oriented, a team player, exhibiting high level of enthusiasm, tact, diplomacy, and integrity;
- Demonstrates excellent interpersonal and professional skills in interacting with government and development partners;
- Skills in facilitation of stakeholder engagements/workshops;
- Evidence of having undertaken similar assignments;
- Experience in research, strategy formulation, management and programming-related work.