

Enabling Efficiency *in* Regulatory Reporting: Application of Generative Artificial Intelligence to Corporate Governance Disclosures *in* Kenya



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About MALENA

MALENA is IFC's artificial intelligence (AI) platform that extracts meaningful insights from unstructured environmental, social, and governance (ESG) text at scale, enabling rapid analysis, increasing productivity, and building investor confidence.

MALENA is designed for the following stakeholders:

- **Regulators:** Capital market authorities, securities regulators, exchanges, banking regulators, and environment ministries can assess ESG disclosures at scale from regulated entities, enabling faster turnaround times and better oversight.
- **Investors:** Asset owners and managers, banks, private equity firms, project finance lenders, insurance companies, export credit agencies, and stock exchanges can rapidly review annual, sustainability, integrated, and impact reports and other ESG-related disclosures, enabling faster due diligence and more efficient portfolio management.

MALENA is tailored to emerging markets and available as a free public good at <https://malena.ifc.org/>.

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Foreword

As the Capital Markets Authority of Kenya (CMA), our mandate is to promote orderly, fair, and efficient capital markets while safeguarding investor interests and strengthening market integrity. In an environment of growing market sophistication and expanding disclosure requirements, the Authority must continually modernize its supervisory approaches to remain effective, responsive, and forward-looking.

This case study presents CMA's collaboration with the International Finance Corporation (IFC) to pilot and deploy the MALENA platform, an innovative application applying generative artificial intelligence (AI) to regulatory reporting and corporate governance oversight. The initiative was driven by the increasing volume, depth, and complexity of disclosures arising from the implementation of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015. While the "apply or explain" framework has enhanced transparency and accountability among issuers, it has also placed significant demands on issuer and regulatory capacity. Addressing this challenge required a solution that improves efficiency while preserving the quality, consistency, and credibility of supervision.

Through a close and iterative partnership with IFC, CMA tested and refined the use of AI to support the review of issuer disclosures, using MALENA to rapidly extract, organize, and reference relevant information from issuer documents. The results demonstrate that AI, when applied responsibly and with appropriate governance, can materially enhance regulatory effectiveness. MALENA has enabled faster reviews, improved consistency across assessments, and increased targeted engagement with issuers, allowing CMA staff to focus greater attention on judgment, interpretation, and supervisory decision-making.

For clarity, MALENA is not a decision-making system, nor does it replace the statutory responsibilities or professional judgment of CMA. The platform is designed to augment regulatory capacity by improving efficiency and traceability, while ensuring that accountability and regulatory discretion remain firmly at the core of CMA's supervisory function. Importantly, human oversight remains central to the process, with AI serving as a tool to augment, not replace, regulatory expertise.

This experience aligns with CMA's broader vision to embrace digital innovation in support of market development, sustainability, and investor protection. As environmental, social, and governance (ESG) and climate-related considerations become increasingly material to Kenya's capital markets, data-driven and AI-enabled solutions will be critical to strengthening oversight, reducing compliance costs, and enhancing transparency. The MALENA pilot provides a scalable and replicable model for other regulators in emerging markets seeking to modernize supervision while maintaining high regulatory standards.

I would like to acknowledge IFC and the project's development partners for their strong collaboration and technical support. It is my hope that this case study will serve as a practical reference for regulators and policy makers exploring the responsible use of AI to enhance regulatory capacity and support sustainable capital market development.

Mr. Wyckliffe M. Shamiah
Chief Executive Officer
Capital Markets Authority of Kenya

Executive Summary

This case study examines the collaboration between the Capital Markets Authority (CMA) of Kenya and the International Finance Corporation (IFC) to enhance regulatory reporting and corporate governance (CG) oversight in Kenya's capital markets through the application of generative artificial intelligence (AI), specifically the MALENA platform.

Context and Challenge

Kenya, with the largest capital market in East and Central Africa, offers opportunities to proactively strengthen capital markets surveillance and regulatory reporting systems to support a transparent and high-growth investment environment due to the increasing volume and complexity of disclosures required by the 2015 Code of Corporate Governance. The CMA is responsible for ensuring compliance with this code, which mandates annual self-assessments from issuers and comprehensive reviews by the regulator. However, the manual review process is resource-intensive, time-consuming (often taking up to seven months), and subject to inconsistencies.

AI-Driven Solution

To address these challenges, IFC and CMA piloted the MALENA AI platform, designed for large-scale, rapid screening of environmental, social, and governance (ESG) insights. MALENA leverages natural language processing to analyze unstructured text data from issuer disclosures, enabling faster, more consistent, and higher-quality regulatory supervision.

The collaboration involved:

- Design thinking sessions to tailor the AI solution to CMA's needs.
- Prompt engineering to convert the CG self-assessment questionnaire into AI-interpretable prompts.
- Iterative beta testing to improve model accuracy and eliminate hallucinations, achieving 86 percent accuracy and 0 percent hallucinations in beta testing, and 95 percent accuracy post-launch.
- Capacity building for CMA staff and the launch of the MALENA questionnaire hub, allowing rapid, AI-powered assessment of issuer disclosures.

Key Results

- Operational Efficiency: MALENA reduced the average review and response time for issuer self-assessments by three months.
- Consistency and Quality: The AI platform improved reviewer consistency and enabled more detailed, actionable feedback to issuers.
- Scalability: Since launch, over 545 issuer documents (covering 75 percent of Kenyan issuers) have been screened using MALENA.
- Market Impact: The initiative is expected to standardize supervision, lower reporting costs for issuers, and enhance transparency and compliance with CG standards.

Broader Implications

The success of MALENA in Kenya demonstrates the potential for AI-powered regulatory solutions in emerging markets. The approach is being considered for broader application across Sub-Saharan Africa, the Middle East, North Africa, Brazil, and India. The CMA also plans to expand its oversight from CG to ESG, aligning with international standards such as IFRS S1 and S2.

Conclusion

The partnership between CMA and IFC, supported by global donors, showcases how AI can transform regulatory processes, improve market integrity, and foster sustainable capital market development. The MALENA platform stands as a replicable model for leveraging AI to enhance regulatory capacity, efficiency, and transparency in emerging markets.

Introduction

Kenya is one of the fastest-growing economies in Sub-Saharan Africa, offers opportunities to proactively strengthen capital markets surveillance and regulatory reporting systems to support a transparent and high-growth investment environment. Solutions powered by artificial intelligence (AI) can help address gaps in analytical capacity while enhancing operational efficiency and oversight. Beta testing of MALENA, an AI platform, for regulatory reporting by Kenyan companies resulted in time savings, increased consistency, and improved quality of supervision.

Since 2023, the International Finance Corporation (IFC), part of the World Bank Group, has been collaborating with the Capital Markets Authority (CMA) of Kenya to beta test and introduce AI-powered surveillance for Kenyan capital markets. Using MALENA, an AI platform designed for rapid, large-scale screening of environmental, social, and governance (ESG) insights, IFC is supporting the digitization and application of AI solutions within regulatory agency surveillance functions to evaluate company compliance with national frameworks, including corporate governance (CG) and ESG codes. This is expected to lead to an increase in private capital enabled, as reducing the compliance burden on issuers and improving the efficiency of market surveillance activities are expected to strengthen CG practices and boost market capitalization.¹

Capital Markets and Corporate Governance Assessment in Kenya

Kenya's capital markets are substantial. As of February 2025, the total market capitalization reached US\$16.071 billion (Kes 2.08 Trillion) comprising 62 listed companies across various sectors, including agriculture, automobiles, banking, commercial, construction, energy, insurance, investment, investment services, manufacturing, telecommunications, real estate investment trusts, and exchange-traded funds. Kenya has the largest capital market in East and Central Africa, the fourth largest in Sub-Saharan Africa, and ranks in the top 50 globally.

CMA was established in 1989 as a statutory agency under the Capital Markets Act (Cap. 485A) of Kenya. It is responsible for developing and regulating orderly, fair, and efficient capital markets in Kenya to promote market integrity and investor confidence. CMA's regulatory functions include licensing and supervising capital market intermediaries; ensuring market participants' compliance with the legal and regulatory framework; regulating public offers of securities (equities, bonds, and capital market product issuances such as collective investment schemes); promoting market development through research on new products and services; reviewing legal frameworks to address market dynamics; promoting investor education and public awareness; and protecting investor interests.

In 2015, with IFC's technical support, CMA established the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the 2015 Code), which replaced the 2002 Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya. The 2015 Code was informed by the need to respond to changes in the business environment, as well as the benefits of aligning local Kenyan standards with global best practices to enhance the institutional strengthening of listed companies.

The 2015 Code outlines principles and recommendations for structures and processes that companies should adopt to integrate good CG into their corporate structures, business dealings, and culture. It encourages the adoption of standards that exceed the minimum requirements set by legislation. One of the major changes in the 2015 Code is the shift from a "comply or explain" approach to an "apply or explain" approach. The latter approach is a compliance mechanism that

¹ Private capital enabled is defined as the monetary value of all potential private investments, including financing, investment, guarantees, and technical assistance.

requires companies to either adhere to the recommended governance practices outlined in the code (“apply”) or provide a clear and reasoned explanation for any deviations (“explain”). The approach is based on principles rather than rules.

While the new approach ensures that issuers strive to comply with the 2015 Code, it imposes a reporting burden on them and, consequently, creates a stringent market surveillance requirement for CMA. It is responsible for reviewing CG-related disclosures, determining how issuers meet the 2015 Code recommendations, and assessing the adequacy of explanations supporting noncompliance.

Since 2016, to comply with the 2015 Code, Kenyan companies are required to conduct CG self-assessments and submit these to CMA for review—signed by the company chairperson, chief executive officer (CEO), and company secretary—within four months of the end of their financial year. Self-assessments represent a continuous reporting obligation, with failure to report considered noncompliance. Issuers are expected to submit source documents for regulatory review and upload these disclosures to their websites for greater accessibility and transparency. With the recently released Capital Markets (Public Offers, Listings, and Disclosures) Regulations 2023, the application of the 2015 Code is now mandatory for Kenyan companies.

CMA independently evaluates the self-assessments of over 60 issuers based on its Corporate Governance Scorecard and Assessment Methodology. It also reviews issuer disclosures, including annual reports, websites, notices, circulars, articles of association, resolutions from shareholders’ meetings, board charters, media publications, codes of conduct, and sustainability reports. The scoring criteria and methodology, outlined in detail in Appendix A, serve as benchmarks against which the CG practices of each issuer are assessed and monitored to ensure compliance with the 2015 Code’s principles, recommendations, and guidelines.

CMA’s CG Scorecard evaluates issuer practices and implementation based on seven principles: commitment to good CG; board operations and control; shareholder rights; stakeholder relations; ethics and social responsibility; accountability, risk management, and internal control; and transparency and disclosure.

The existing assessment process involves scoring each of the 78 responses to questions from the annual survey using a Microsoft Excel-based template. Scores range from 0 to 3. The issuer receives zero points if the required CG practice is not observed, one point if it is partially observed, two points if fully observed, and three points if the issuer’s practices exceed the requirements of the 2015 Code. Issuers are categorized by score into one of four ratings: leadership (75 percent or more), good (65 to 74 percent), fair (50 to 64 percent), or needs improvement (less than 50 percent). CMA discloses consolidated scores by sector and trends in its yearly *State of Corporate Governance Report of Issuers of Securities*. CMA does not disclose issuer-level scores.

Once CMA receives a self-assessment, it typically takes seven months on average to analyze the results and respond to the company. The number and length of reports also affect the time required to review and respond to issuers. CMA’s internal review process includes peer review to ensure objectivity and alignment among reviewers. After the review, CMA responds to the issuers with a draft report for their consideration, detailing any gaps in reporting. The process concludes with a meeting between CMA and the company to agree on the results of CMA’s review, which is formally documented in a letter from CMA to the chairperson, CEO, and company secretary. Each issuer receives individual, customized feedback that includes key highlights, improvements, and recommendations. Year on year, CMA expects issuers to address gaps in performance.

The *Seventh Edition of the Report on the State of Corporate Governance for Issuers of Securities to the Public in Kenya* (covering the fiscal year from July 1, 2023, to June 30, 2024) was released in January 2025. The report identifies significant improvement in the annual weighted overall governance score of issuers over the period 2017/18 to 2023/24, with the score rising from a fair rating of 55 percent in fiscal year 2017/18 to a good rating of 73.56 percent in 2023/24. The annual weighted overall score for all issuers had, however, peaked in fiscal year 2022/23, and its subsequent fall reflects a decrease in performance, dropping by 2.15 percentage points from 75.71 percent (leadership) in 2022/23 to 73.56 percent (good) in 2023/24. CMA also

shifted its review scope from a disclosure-based assessment to an implementation-based approach, whereby issuers are required to document how they implement the 2015 Code provisions.

Despite the decline in the overall score among issuers, the following principles showed improvement in 2023/24 compared with 2022/23: commitment to good CG rose from 78.60 percent (leadership) to 81.31 percent (leadership); ethics and social responsibility improved from 74.82 percent (good) to 74.94 percent (good); and accountability, risk management, and internal control increased from 80.7 percent (leadership) to 80.72 percent (leadership).

Delivering AI-Powered ESG Analytical Capacity

Research conducted in 2021 by IFC and Amundi Asset Management highlighted the value of unstructured text data as a source of insight into ESG performance for emerging market issuers. This study also demonstrated the potential of AI solutions, such as natural language processing, to extract value from such data. Natural language processing algorithms, including IFC's MALENA sentiment analysis solution, can analyze large volumes of unstructured text data from public sources, enhancing users' analytical capabilities. This facilitates rapid, comprehensive, and large-scale analysis of unstructured text data, strengthening regulatory supervision and oversight.

In 2023, IFC publicly released MALENA, its AI-powered platform for providing ESG analysis at scale, as a global public good. MALENA is the World Bank Group's first AI-as-a-service and an early example of innovation that uses data and AI to achieve greater development impact. It is one of the few AI applications specifically designed for emerging markets and has been trained using IFC data to enable MALENA to recognize an ESG, climate, and gender taxonomy of more than 1,000 terms. The platform, accessible via the web at <https://malena.ifc.org/#/> or an application programming interface (API), operates on a bring-your-own-data model. Its goal is to enhance the value of investments by improving ESG practices through AI-powered validation, scoring, and benchmarking. Users include regulators, multilateral development banks, asset managers, financial institutions, and export credit agencies.

Collaborating closely with the CMA governance team, IFC focused on providing technical guidance to implement the 2015 Code and beta test generative AI applications for question-and-answer purposes. IFC also delivered technical training and raised awareness at CMA about digitization and the use of AI, in addition to developing and launching new generative AI features through the MALENA interface.

The first step in this collaboration involved IFC running design thinking sessions with CMA. These are collaborative, creative problem-solving sessions that apply a human-centered approach to innovation. During these sessions, the IFC and CMA teams collaborated to understand CMA's needs, define problems, brainstorm solutions, and create and test prototypes, all with the goal of developing a user-centric solution.

CMA explained that while the self-assessment review process is well-structured and ensures an accurate evaluation of CG practices to facilitate regulatory interventions that promote compliance and accountability, CMA has increasingly faced capacity constraints alongside a rise in the quantity and size of disclosures, causing the average review process to take seven months. Some documents, such as annual reports, can be lengthy, comprising as many as 200 pages. Additionally, issuers produce weak and extensive ESG disclosures, resulting in tedious, inconsistent, and inefficient validation. For example, in interviews, CMA noted that of the 32 companies reporting on sustainability issues, only 16 have released quality sustainability reports. Other review constraints include gaps in high-quality data, difficulties in comparing performance between companies, and the need for assurance in nonfinancial reporting. Limited time and expertise also impede CMA's ability to formulate actionable recommendations for issuers.

Additionally, while most issuers comply with the requirement to submit self-assessments, they expressed concerns about the costs related to training, printing, consultancy, monitoring, and evaluation for sustainability reporting, and they continue to look for ways to reduce these reporting expenses. Issuers also show interest in exploring opportunities for

improvement, with CMA receiving requests to share reports from issuers in the leadership category for benchmarking purposes. Alongside the challenges faced by regulators and issuers, there are also gaps in awareness and expertise among other capital market stakeholders, such as stockbrokers and fund managers, regarding the analysis of CG disclosures to make informed investment decisions.

IFC and CMA agreed to beta test AI-powered solutions to, first, address the capacity constraints that CMA faces owing to limited resources; second, enhance oversight quality by improving efficiency, consistency, and accuracy in CMA's reviews (minimizing human error); and third, generate time savings for CMA. CMA also anticipated that innovative experimentation with AI in support of supervisory duties would showcase its leadership in the East Africa region in adopting digitization and AI. Finally, CMA expected that the MALENA-enabled AI feature would help tailor supervisory actions to support engagement in areas where issuers had gaps, thereby enhancing issuer reporting quality and increasing public awareness among investors regarding the use of AI for ESG analysis of issuers and public securities.

Following the design thinking intake sessions, the next step involved actively engaging with CMA to transform CMA's CG self-assessment questionnaire into a set of questions using prompt engineering, which is the practice of designing and refining prompts (instructions or questions) to elicit specific responses from AI models. IFC and CMA beta tested MALENA's generative AI-powered responses and revised the final questionnaire from the original 78 CMA questions to 83 AI-adapted questions.

Results from three iterations of the questionnaire were reviewed for accuracy through successive validation by IFC and CMA, with CMA providing detailed feedback on the preferred results (Table 1).

Table 1. Results from Beta Testing

Iteration	Accuracy (%)	Hallucinations (%)	No. of companies	Sectors
1	75	14	1	Banking
2	83	6	5	Banking, oil and gas, telecommunications
3	86	0	8	Agriculture, banking, beverages, insurance, oil and gas, telecommunications

Source: Original to this publication, IFC.

With each iteration, IFC successfully improved model accuracy and minimized hallucinations. Model accuracy refers to the percentage of correct predictions made by an AI model, while hallucinations refer to false or misleading information generated by AI models, often presented as factual. Such errors can arise from insufficient training data, incorrect assumptions, or biases in the training data.

IFC tested various wording, phrasing, and formats to achieve the desired results, incorporating techniques such as chain-of-thought prompting, which broke complex tasks into smaller steps for the model to follow. Prompts were crafted to divide larger questions into smaller, more manageable parts. Performance improvements were achieved by refining questions, offering clear instructions, and using precise language to eliminate ambiguity. Other innovations included clearly specifying the desired output format.

CMA's feedback was pivotal and included suggestions regarding the length and accuracy of responses. Additionally, discussions with CMA focused on identifying the correct context, providing relevant background information, and assigning roles or personas for the AI to emulate a CG specialist with expertise in identifying and assessing corporate disclosures. CMA also provided examples of desired input-output pairs (known as few-shot prompting).

The project team successfully implemented these improvements during the iterations, resulting in more accurate answers and reducing hallucinations to zero in the final iteration.

The third step in the collaboration involved training, awareness, and capacity-building processes for CMA to implement AI-powered analysis. The final step encompassed system enhancement and the launch of the MALENA questionnaire hub feature on March 31, 2025, at: <https://malena.ifc.org/#/questionnaire/hub>. With the release of this feature, CMA and Kenyan issuers can rapidly screen issuer disclosures using CMA's pretested CG self-assessment questionnaire. This allows for rapid assessment and validation through the generation of AI-powered answers that can be traced back to the source documents.

Results: Accelerated Assessments and Standardized Supervision

Results from beta testing

Outcomes tracked during beta testing include improved operational efficiency (time savings) as well as enhanced oversight capabilities and improved quality of regulatory supervision by CMA through the use of MALENA. CMA confirmed the following benefits from beta testing MALENA for the sample of eight issuers (for full list, see Appendix C):

- *Improvements to operational efficiency through time savings.* By using MALENA to validate issuer self-assessments, CMA saved time in assessing company disclosures and could invest the time saved in interpreting, assessing, and making judgments. During beta testing, CMA reported a three-month reduction in the questionnaire review and response time.
- *Improvements to oversight capabilities through increased reviewer consistency and better quality assessments.* CMA noted consistency among reviewers as another benefit, since MALENA can analyze disclosures without missing information. The MALENA solution provided more detailed analysis, which, in some instances, led CMA to change its assessments. Further, as issuers varied in terms of transparency and quality of implementation, MALENA was also effective in enabling continuous checking of policy implementation by issuers.
- *Improvements to the quality of regulatory supervision by CMA through better quality issuer engagement.* The time savings generated and increased review consistency resulted in more consistent recommendations and higher quality engagement by CMA with issuers. This finding was also validated through discussions with a sample of issuers.

In addition to these benefits, improvements in algorithmic accuracy were also tracked during beta testing. CMA and IFC observed that over the course of beta testing, the accuracy of the MALENA solution increased from 75 to 86 percent, while hallucinations decreased from 14 to 0 percent.

The project team held two workshops with CMA: a design thinking workshop at the start of the engagement, and a subsequent training event for CMA after the solution was launched. The project team also organized numerous meetings with CMA to review results and discuss next steps.

Results post-launch

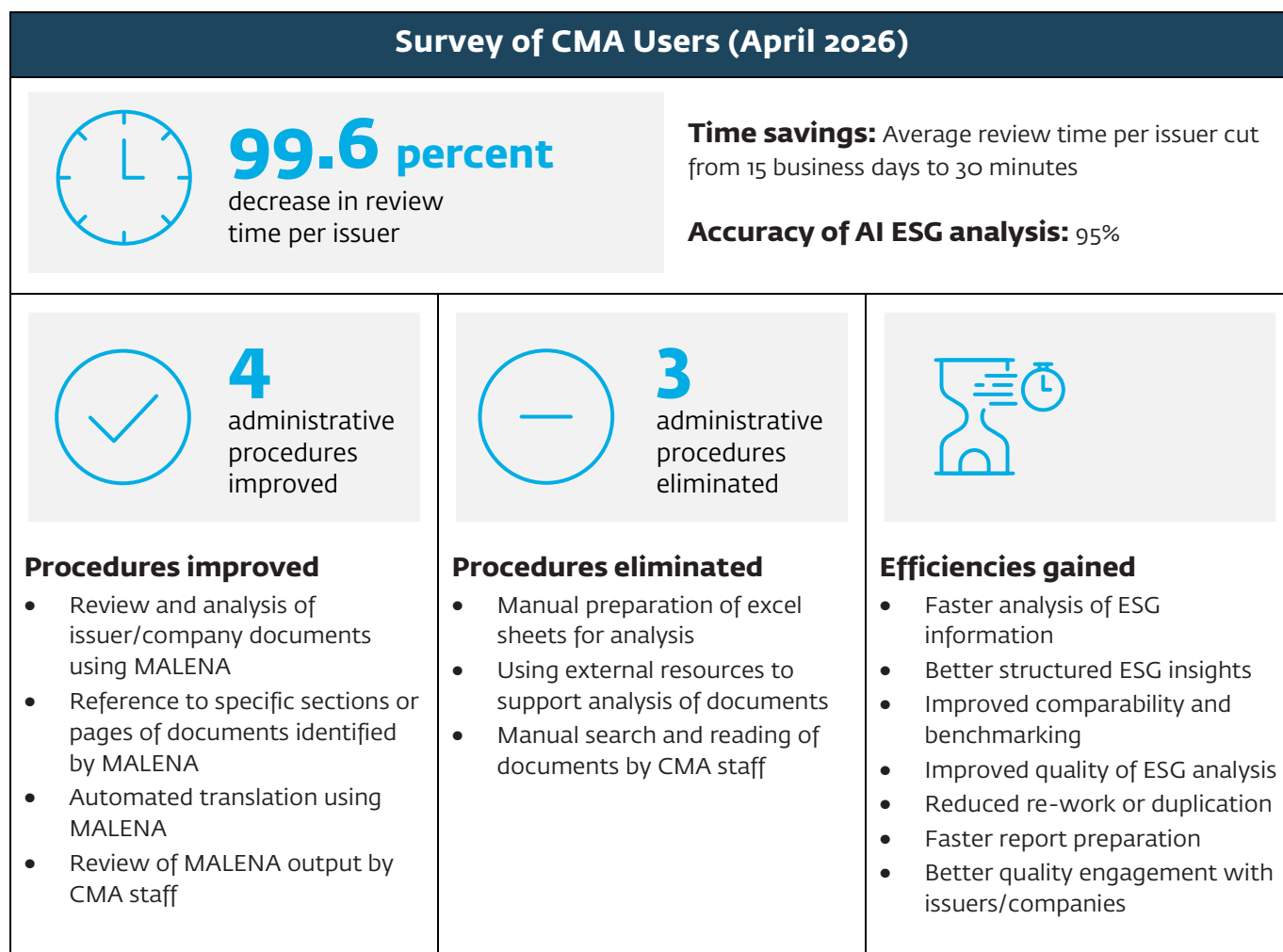
In March 2025, IFC launched the MALENA generative AI-powered questionnaire hub, enabling CMA and Kenyan issuers to upload documents and automate responses to CMA's CG self-assessment questionnaire. Appendix D includes examples of the AI-generated output. With this advance, issuers can quickly obtain AI-powered analysis to enhance CG structures and practices, while allowing shareholders, investors, and other stakeholders to efficiently assess issuers and facilitate cross-company comparisons through rapid validation of self-assessments, scoring, benchmarking, comparison, and gap identification.

Since the questionnaire hub's launch, the quantitative outcomes tracked include the total number and capitalization of Kenyan companies screened using MALENA. To date, 545 issuer documents have been screened, representing 75 percent of Kenya's issuers. The project is also monitoring the average time savings in staff hours per company screened, comparing those with and without MALENA, as well as the time periods during which the ESG analysis was conducted to determine gains in time and efficiency, and the impacts on CMA's regulatory capacity through the use of MALENA.

This release is anticipated to produce several benefits for CMA, including enhancements in CMA's timeliness, which will lead to faster assessment reviews and improved compliance with the review and response period that follows the submission of a company's self-assessment. Further, CMA believes that this AI solution will aid in standardizing the

supervision, oversight, and engagement of Kenyan issuers by boosting the quality of evaluations and adherence to the 2015 Code.

Issuers are also projected to reap benefits, such as greater transparency and ongoing checks of their sustainability reporting and disclosures. This is expected to lower reporting costs and reduce the amount of time that issuers spend on self-assessment and responding to CMA's questionnaire.



Source: Original to this publication, IFC.

Looking Ahead

Potential benefits for Kenyan capital markets

This innovation was driven by the need to support CMA and other capital markets regulators in their pursuit of operational efficiency, allowing for quicker assessments of companies. This AI-powered application will also empower other Kenyan authorities, such as the Nairobi Securities Exchange and the Institute of Certified Public Accountants of Kenya. IFC expects the solution to also be applicable to additional markets in Sub-Saharan Africa, and East and Central Africa, as well as in the Middle East and North Africa, Brazil, and India.

Potential benefits for Kenyan companies

Since the launch of the self-assessment requirement in 2019, transparency in the Kenyan market has improved, with issuers enhancing both the extent and quality of their disclosures. CMA has identified the need for greater awareness among issuers regarding the self-assessment reporting template and the evidence required for compliance with the 2015 Code. The expected benefits for Kenyan issuers from the launch of the MALENA questionnaire hub include validation of sustainability reports and a reduction in the time spent on self-assessment and reporting to CMA. Additionally, more timely feedback from CMA is expected to promote better compliance with CG standards.

Potential benefits for asset managers assessing Kenyan issuances

Discussions with Kenyan investors, asset managers, and industry associations reveal that most investors are more likely to develop strategies for green finance than to integrate ESG risk assessments into investment decision-making. This limitation arises because asset owners continue to focus primarily on financial returns. Moreover, most Kenyan asset managers invest in government bonds and other assets, such as real estate and equities. The issuance of corporate bonds is very limited, and there is minimal demand for ESG screening from asset owners, along with a knowledge gap regarding the CMA CG self-assessment questionnaire. Addressing this information asymmetry through the use of the MALENA questionnaire hub will facilitate informed, evidence-based investment decision-making by asset managers.

Future activities will involve training for Kenyan issuers, asset managers, and stockbrokers on how to use MALENA, along with a public awareness and communications campaign aimed at generating local interest and enhancing capacity for leveraging MALENA in Kenya. Additionally, CMA has confirmed its intention to implement policy reforms and administrative changes to broaden its oversight of Kenyan issuers from CG to ESG, with the goal of promoting and protecting investor interests.

The expanded analysis will evaluate systemic ESG and climate-related risks within Kenyan capital markets and deliver a comprehensive overview of how issuers manage ESG risks and sustainability, in line with Kenya's expected adoption of the International Financial Reporting Standards S1: General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and International Financial Reporting Standards S2: Climate-related Disclosures (IFRS S2). CMA, the Institute of Certified Public Accountants of Kenya, and the Nairobi Securities Exchange have all confirmed that the Kenyan market will move toward adopting IFRS S1 and IFRS S2 reporting disclosures, starting with voluntary reporting before mandatory reporting begins in 2027. CMA also plans to make better use of structured ESG data to track and benchmark issuer performance.

In response to these evolving needs from CMA, MALENA will also expand to support the implementation of Kenya's proposed ESG code and planned IFRS adoption, thereby continuing to facilitate ESG supervisory activities to assess compliance in Kenya. This initiative aims to keep delivering time and cost savings through digitization and AI-powered market surveillance.

Partners

This case study illustrates how innovation in regulatory supervision and CG supports SDG 8 (Decent Work and Economic Growth) by strengthening capital market integrity and investor confidence through scalable analysis of CG disclosures, and SDG 9 (Industry, Innovation and Infrastructure) through the responsible application of AI to modernize regulatory oversight. Central to these outcomes is SDG 17 (Partnerships for the Goals): the collaboration between the CMA, IFC, and multiple development partners pooled regulatory leadership, technical expertise, financing, and digital innovation to cocreate and scale a solution that no single institution could have delivered alone, translating global commitments into practical, market-level impact.

IFC collaborated with the following development partners: Facility for Investment Climate Advisory Services (FIAS), the World Bank Partnership Fund for the Sustainable Development Goals, the Ministry of Economy and Finance of the Republic of Korea, and other project donors.

Appendix A: Capital Markets Authority Methodology and Scoring Framework

Assessment Tools

The Capital Markets Authority (CMA) Corporate Governance Reporting Template (Microsoft Excel-based annual survey, with 78 questions), Corporate Governance Scorecard, and Assessment Methodology described here serve as pivotal instruments for reporting, assessing, and monitoring implementation of the principles, recommendations, and guidelines of Kenya's Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the 2015 Code).

Self-assessment by issuers: Issuers use CMA's Corporate Governance Reporting Template in Excel format to disclose their adherence to governance requirements and reveal the status of each requirement's application. This transparency not only bolsters compliance but also promotes accountability in governance practices. In line with CMA's emphasis on continual reporting, issuers are required to furnish the completed reporting template and the comprehensive annual report within four months of their financial year-end. Additionally, issuers are required to upload this information to their respective websites, ensuring wider accessibility and transparency to stakeholders.

Independent assessment by CMA: Upon receipt of the Corporate Governance Reporting Templates and annual reports from issuers, CMA conducts a thorough and independent assessment to ascertain the governance and sustainability status of each entity. This assessment aligns closely with an approved methodology and specific scoring criteria established for this purpose. The methodology and scoring criteria serve as benchmarks against which the governance and sustainability practices of each issuer are measured and evaluated.

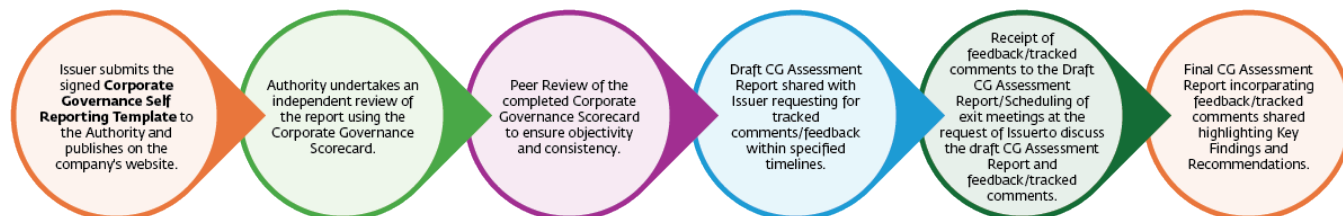
Corporate Governance Scorecard: Internally, CMA employs the Corporate Governance Scorecard to gauge the extent of the 2015 Code's implementation by issuers. The Corporate Governance Scorecard tool aids CMA in assessing the overall governance and sustainability practices among issuers, facilitating regulatory interventions. The Corporate Governance Scorecard covers the seven principles of the 2015 Code:

- Introduction to the Code (focus on commitment to good governance)
- Board operations and control
- Rights of shareholders
- Stakeholder relations
- Ethics and social responsibility
- Accountability, risk management, and internal control
- Transparency and disclosure.

Assessment Process

The assessments of corporate governance practices by issuers are based on publicly available and accessible information, such as annual reports, issuer websites, notices, circulars, articles of association, resolutions of shareholders' meetings, board charters, media publications, codes of conduct, and sustainability reports. To reduce differences in opinions among assessors and improve the accuracy and consistency of the review process, CMA uses a system of checks and balances. In summary, the assessment process adheres to a structured sequence of steps, as outlined below (Figure A.1).

Figure A.1. Capital Markets Authority (CMA) Corporate Governance Assessment Process



Source: The Report on The State of Corporate Governance Practices of Issuers of Securities to the Public in Kenya 2024. (Nairobi: Capital Markets Authority, 2024), 15.

Issuer question-level scoring: Each of the 78 questions from the Corporate Governance Reporting Template is scored using the following approach: The issuer scores zero points on each question if it has not observed the practices, one point if it has partially observed the practices, two points if it has fully observed the practices, and three points if it has gone above and beyond the requirements of the 2015 Code. Based on the final score, issuers will be categorized into one of four ratings: leadership (75 percent or more), good (65 to 74 percent), fair (50 to 64 percent), or needs improvement (less than 50 percent).

Assessment Analysis and Disclosure by CMA

The review process takes into account the unique circumstances where specific sectors, such as automobiles and accessories, telecommunications, and investment services, may contain only one issuer each. To maintain issuer anonymity, these sectors are consolidated with similar categories. This consolidation facilitates a more meaningful and robust analysis of the governance and sustainability landscape within these sectors, allowing for better comparative assessments and a deeper understanding of the governance and sustainability practices involved. CMA does not disclose issuer-level scores. Only consolidated scores by sector and trends across year-on-year scores are publicly disclosed in the yearly *State of Corporate Governance Report of Issuers of Securities* (<https://www.cma.or.ke/regulatory-framework/#policy>).

Appendix B: Capital Markets Authority Corporate Governance Reporting Template Automated Questionnaire

Questionnaire title: Capital Markets Authority (CMA) Corporate Governance Reporting Template

Questionnaire description: The CMA Corporate Governance Reporting Template serves as a valuable tool for assessing organizational practices and identifying areas for improvement. It is intended to be used by issuers to report on their application of the provisions of Kenya's Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (the 2015 Code). The completion of the reporting template and its filing with CMA fulfill the reporting requirements of the 2015 Code at 1.1.3, paragraph 2. The goal of this reporting template is to guide the issuer in its efforts to improve corporate governance (CG) structures and practices; enable shareholders, investors, and other stakeholders to rapidly understand an issuer's commitment to good CG; and present data in a structured format that allows for cross-company comparison.

Questions and sections

Introduction

1. Has the company developed and published a Board Charter which is periodically reviewed, and which sets out the Board responsibility for internal control?
2. Do the Board Charter or company documents distinguish the responsibilities of the board from management in line with Code requirements?
3. Is there a statement indicating the responsibility of Board members for the application of corporate governance policies and procedures of the company?
4. How has the Board ensured all directors, CEOs and management are fully aware of the requirements of this Code?
5. Do company documents indicate the role of the Board in developing and monitoring the company strategy?
6. Does the company strategy promote sustainability of the company?
7. Are all board committees governed by a written charter/terms of reference, disclosing its mandate, authority, duties, composition, leadership and working processes?

Board Operations and Control

8. Has the Board established a Nomination Committee comprised mainly of independent and non-executive Board members?
9. Is the chairperson of the Nomination Committee an independent director?
10. Has the board adopted and published procedures for nomination and appointment of new Board members?
11. Is the Board size adequate for the exercise of the company business?
12. Has the board adopted a policy to ensure the achievement of diversity including age, race and gender in its composition?
13. Do the Board members represent a mix of skills, experience, business knowledge and independence to enable the discharge of their duties?
14. Has the board adopted and applied a policy limiting the number of board positions each Board member may hold at any one time?
15. Have any Alternate Board members been appointed? If so, have the Alternate Director/s been appointed according to regulation and Code requirements?
16. Are independent directors at least one-third of the total number of Board members?
17. Does the Board have policies and procedures to annually assess the independence of independent Board members?

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18. Do all independent Board members have a tenure of less than 9 years?
 19. Is the Board comprised of a majority of non-executive board members?
 20. How does the Board ensure a smooth transition of Board members?
 21. Is there a Board member Succession Policy?
 22. Has the Board established an effective Audit Committee according to Code requirements?
 23. Are the functions of the Chairperson and the Chief Executive Officer exercised by different individuals?
 24. Is the Chairman of the Board a non-executive board member?
 25. Has the Board established procedures to allow its members access to relevant, accurate and complete information and professional advice?
 26. Has the Board adopted a policy on managing conflict of interest?
 27. Has the Board adopted a policy on related party transactions to protect the interests of the company and all its shareholders and which meets the requirements of the Code?
 28. Has the company appointed a qualified and competent company secretary who is a member in good standing of ICPSK?
 29. Has the Board adopted policies and processes to ensure oversight of sustainability, environmental and social risks and issues?
 30. Has the Board developed an annual work-plan to guide its activities?
 31. Has the Board determined, agreed on its annual evaluation process and undertaken the evaluation or the performance of the Board, the Board Committees, the CEO and the company secretary?
 32. Has the Board established and applied a formal induction program for in-coming members?
 33. Do Board members participate in on-going corporate governance training to the extent of 12 hours per year?
 34. Has the Board set up an independent Remuneration Committee or assigned to another Board committee the responsibility for determination of remuneration of directors?
 35. Has the Board established and approved formal and transparent remuneration policies and procedures that attract and retain Board members?
 36. How does the Board ensure compliance with all applicable laws, regulations and standards, including the Constitution and internal policies?
 37. Does the company have a compliance function with an unlimited scope, that reports to the Board/Audit Committee?
 38. In the past year, has the Board organized a legal and compliance audit to be carried out on a periodic basis?
 39. Has the Board subjected the company to an annual governance audit?

Rights of Shareholders

40. Does the governance framework recognize the need to equitably treat all shareholders, including the minority and foreign shareholders?
41. Other than at the AGM, how does the Board facilitate the effective exercise of shareholders' rights?
42. How does the Board facilitate shareholders participation at the AGM?
43. Are minority and foreign shareholders holding the same class of shares treated equitably?
44. Is there evidence that the Board proactively provides information to shareholders and the media, (and in a timely basis) on corporate affairs and corporate governance?

Stakeholder Relations

45. Does the Board have a stakeholder-inclusive approach in its practice of corporate governance and which identifies its various stakeholders?
46. Has the Board developed policies, procedures and strategies to manage relations with different/key stakeholder groups?
47. How does the Board take into account the interests of key stakeholder groups prior to making decisions?

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48. Does the company's strategy include risks and opportunities related to stakeholders?
 49. How does the Board ensure effective communications with stakeholders?
 50. Does the board periodically engage with stakeholders?
 51. Has the Board established a formal dispute resolution process to address internal and external disputes?

Ethics and Social Responsibility

52. Does the Board ensure that all deliberations, decisions and actions are founded on the core values (responsibility, accountability, fairness and transparency) underpinning good governance and sustainability?
53. Has the Board developed a Code of Ethics and Conduct (which includes sustainability) and has it worked to ensure its application by all directors, management and employees?
54. How does the Board ensure that compliance with the Ethics Code and Conduct is integrated into company operations?
55. Does the compliance function monitor compliance with the code of ethics/compliance?
56. Does the Board incorporate ethical and sustainability risks and opportunities in the risk management process?
57. How is the company performance on ethics assessed, monitored and disclosed to internal and external stakeholders?
58. Has the company established and implemented a whistle blowing policy?
59. Has the Board/or management developed policies on corporate citizenship and sustainability and strategies for company use?
60. Does the Board consider not only the financial performance but also the impact of the Company's operations on society and the environment?
61. Does the Board monitor and report activities leading to good corporate citizenship and sustainability to demonstrate they are well coordinated?

Accountability, Risk Management and Internal Control

62. Does the Audit Committee and the Board consider and review the financial statements for integrity of the process and for truthful and factual presentation?
63. Does the Annual Report contain a statement from the Board explaining its responsibility for preparing the accounts and is there a statement by the external auditor about his/her reporting responsibilities?
64. Does the board or audit committee have a process in place to ensure the independence and competence of the Company's external auditors?
65. Do the shareholders formally appoint the external auditor at the AGM through a formal and transparent process?
66. Is the Company working towards the introduction of integrated reporting (incorporating financial and non-financial information) or is the company's Annual Report prepared on an integrated basis using a framework available from the Integrated Reporting Council, The Global Reporting Initiative, G4 Sustainability Guidelines and/or Sustainability Accounting Standards Board standards?
67. Has the Board established an effective risk management framework which is inclusive of key risks as well as foreseeable risks, environmental and social risks and issues?
68. Has the Board established and reviewed on a regular basis the adequacy, integrity and management of internal control systems and information systems (including for compliance with all applicable laws, regulations, rules and guidelines)?
69. Does the Board annually conduct a review on the effectiveness of the Company's risk management practices and internal control systems and report this to shareholders?
70. Has the Board established an effective internal audit function according to Code requirements and which reports directly to the Audit Committee?
71. Does the Board disclose details of Audit Committee activities?

Transparency and Disclosure

72. Does the company have policies and processes to ensure timely and balanced disclosure of all material information as required by all laws, regulations and standards and this Code.
73. Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's governance, the Board and the Audit Committee?
74. Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to the company's mission, vision and strategic objectives?
75. Does the Annual Report cover, as a minimum, disclosures as prescribed in 7.1.1 relating to remuneration and whistleblowing?
76. As a minimum, does the company website disclose current information on all areas prescribed in 7.1.1 (Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors)?
77. Does the Board disclose the management discussion and analysis as required in 7.1.1?
78. Has the Board provided disclosures as required in 7.1.1 on compliance with laws, regulations and standards; ethical leadership, conflict of interest, corporate social responsibility and citizenship?
79. Has the Board made all required disclosures, including confirming requirements of 7.1.1 which include that a governance audit was carried out and that there are no known insider dealings?
80. Has the Board disclosed the company's risk management policy, company procurement policy, policy on information technology as per 7.1.1?
81. Has the Board disclosed information on shareholders, including the key shareholders, including shareholding by directors and senior management and the extent of their shareholdings as required in 7.1.1 and on stakeholder who influence company performance and sustainability?
82. Has the Board disclosed all related-party transactions?
83. Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of this Code?

Appendix C: Issuer Sample for Beta Testing

MALENA underwent beta testing for eight Kenyan companies in the telecommunications, utilities, banking, and media sectors (Table C.1). Over several iterations, human experts from the Capital Markets Authority (CMA) and International Finance Corporation reviewed and assessed the results for accuracy. Table C.1 lists the company names, sectors, and types of documents used to beta test MALENA's generative artificial intelligence–powered responses to the CMA questionnaire.

Table C.1. Issuer Sample for Beta Testing

Company	Sector	Source document	Document type
Absa Bank Kenya PLC	Banking	Absa Integrated Report 2022	Integrated report
		Absa Sustainability Report 2022	Sustainability report
		Absa Climate-Related Financial Disclosures 2022	Task Force on Climate-Related Financial Disclosures report
		Absa Bank Kenya Plc Board Charter	Board charter
East African Breweries PLC (EABL)	Beverages	EABL Annual Report 2024	Annual report
		EABL Sustainability Report 2024	Sustainability report
		EABL Annual Report 2023	Annual report
		EABL Sustainability Report 2023	Sustainability report
		EABL Investor Relations Policy 2022	Investor relations policy
		EABL Board Charter 2020	Board charter
Jubilee Holdings Ltd. (JHL)	Insurance	JHL Annual Report 2023	Annual report
		JHL Board Charter 2019	Board charter
		JHL Code of Ethics and Conduct 2017	Code of ethics and conduct
Kakuzi PLC	Agriculture	Kakuzi Board Charter 2024	Board charter
		Kakuzi Corporate Governance details 2024	Corporate governance section of company website
		Kakuzi Annual Report 2023	Annual report
		Kakuzi Dividend Policy 2023	Dividend policy
		Kakuzi Environmental, Social, and Governance Report 2022	Environmental, social, and governance report
		Kakuzi Code of Ethics and Conduct 2020	Code of ethics and conduct
		Kakuzi Whistleblowing Policy 2017	Whistleblowing policy
KCB Bank Kenya Ltd.	Banking	KCB Group Plc Integrated Report 2022	Integrated report
		KCB Sustainability Report 2022	Sustainability report
		KCB Board Charter	Board charter

Company	Sector	Source document	Document type
Nation Media Group (NMG)	Media	NMG Annual Report and Financial Statements 2022	Annual report
		NMG Sustainability Report 2021	Sustainability report
		NMG Corporate Governance Statement	Corporate governance statement
		NMG Board Charter	Board charter
		NMG Whistleblowing Policy 2021	Whistleblowing policy
Safaricom PLC	Telecommunications	Safaricom Annual Report 2022	Annual report
		Safaricom Board Governance Charter	Board charter
		Safaricom Governance Policies	Disclosure policy
TotalEnergies Marketing Kenya PLC	Oil and gas	TotalEnergies Annual Report 2022	Annual report
		TotalEnergies Annual Report 2021	Annual report
		TotalEnergies Board Charter	Board charter

Source: Original to this publication, IFC.

Appendix D: Extract of MALENA Artificial Intelligence–Generated Results for Kakuzi PLC

Introduction

Q. 4. *How has the Board ensured all directors, chief executive officers (CEOs), and management are fully aware of the requirements of the 2015 Code?*

MALENA answer: The Board ensures that all directors, CEOs, and management are fully aware of the requirements of this Code through several measures. Firstly, new Board members participate in an induction program tailored to orient them to the company's business, strategy, policies, and other necessary information for effective performance. The Board also ensures continuous development through annual training sessions, with at least 12 hours of governance-related education conducted annually. Furthermore, all Board members attended training during the review period, covering various focus areas including environmental, social, and governance (ESG). Additionally, the Board reviews the directors' independence, monitors compliance with governance principles, and facilitates the continued development of directors with the help of the Nomination and Remuneration Committee.

Source document references: Kakuzi Plc Annual Report 2023, page 22; Kakuzi Plc Corporate Governance details 2024, pages 21 and 28.

Q. 7. *Are all Board committees governed by a written charter/terms of reference, disclosing its mandate, authority, duties, composition, leadership, and working processes?*

MALENA answer: YES, all Board committees are governed by a written charter/terms of reference, disclosing their mandate, authority, duties, composition, leadership, and working processes. These committees have terms of reference approved by the Board, indicating their mandate, authority, duties, composition, and leadership. The appointment of the members to these committees draws on the skills and experience of individual directors. Additionally, the Board has established three committees: the Audit and Risk Committee, Nomination and Remuneration Committee, and Legal Risk Committee, and has approved appropriate terms of reference for these committees.

Source document references: Kakuzi Plc Annual Report 2023, page 24; Kakuzi Plc Corporate Governance details 2024, page 26.

Board operations and control

Q. 16. *Are independent directors at least one-third of the total number of Board members?*

MALENA answer: NO, the current composition of the Board does not meet the requirement of having at least one-third of its members as independent directors. Out of the nine directors, only two are independent. The Board has begun the process to address this by appointing one independent director during the year and plans to continue addressing this upon future retirement of nonexecutive directors.

Source document references: Kakuzi Plc Annual Report 2023, page 11; Kakuzi Plc Corporate Governance details 2024, page 18.

Rights of shareholders

Q. 40. *Does the governance framework recognize the need to equitably treat all shareholders, including the minority and foreign shareholders?*

MALENA answer: YES. The governance framework recognizes the need to equitably treat all shareholders, including the minority and foreign shareholders. The Group is committed to equitable treatment of its shareholders, including noncontrolling and foreign shareholders, as stated in its sustainability strategy. Additionally, the Board is committed to professional, transparent, just, and equitable business operations to protect and enhance shareholder value and satisfy other stakeholders' interests.

Source document references: Kakuzi Plc Annual Report 2023, pages 26 and 32.

Stakeholder relations

Q. 49. *How does the Board ensure effective communications with stakeholders?*

MALENA answer: The Board ensures effective communications with stakeholders through several mechanisms. It maintains an effective Communications Policy that allows both the Board and management to communicate effectively with shareholders, stakeholders, and the general public. The Board engages with stakeholders through community partnerships, trade shows, forums, and expositions. It also has established procedures to allow members access to relevant, accurate, and complete information and professional advice to discharge their duties effectively. Additionally, the Board ensures satisfactory dialogue with shareholders, approves resolutions and related documentation for shareholders' general meetings, and manages corporate communication to the general public and shareholders. The company also uses various channels to communicate with different stakeholders, such as newsletters, investor briefings, emails, reports, presentations, and corporate events.

Source document references: Kakuzi Plc Annual Report 2023, page 32; Kakuzi Plc Environmental, Social, and Governance Report 2022, pages 76 and 77; Kakuzi Plc Corporate Governance details 2024, pages 18, 27, and 31.

Q. 51. *Has the Board established a formal dispute resolution process to address internal and external disputes?*

MALENA answer: NO. There is no evidence in the provided contexts that the Board has established a formal dispute resolution process to address internal and external disputes. While the contexts mention conflict-of-interest procedures, grievance committees, and access to independent advice, they do not explicitly mention a formal dispute resolution process for addressing disputes.

Source document references: Kakuzi Plc Annual Report 2023, page 26; Kakuzi Plc Corporate Governance details 2024, page 31.

Ethics and social responsibility

Q. 53. *Has the Board developed a code of ethics and conduct (which includes sustainability) and has it worked to ensure the code's application by all directors, management, and employees?*

MALENA answer: YES. The Board has developed a Code of Ethics and Conduct that includes sustainability, and it has worked to ensure its application by all directors, management, and employees. The Code of Ethics and Conduct binds both the directors and employees and is integrated into the company's operations through the development of various policies and reporting mechanisms. The staff are provided with the code upon appointment and must commit to abide by its requirements as part of their employment contract. The entire Board and management have been trained on environmental, social, and governance, and sustainability. Additionally, several initiatives such as staff training sessions conducted by the Managing Director and regular monitoring by an internal Management Committee ensure the application of the Code.

Source document references: Kakuzi Plc Annual Report 2023, page 27; Kakuzi Plc Environmental, Social, and Governance Report 2022, page 54.

Q. 58. *Has the company established and implemented a whistleblowing policy?*

MALENA answer: YES. The company has established and implemented a Whistleblowing Policy, which is available on the Group's website. The policy sets out the commitment of the Board of Directors, management, and staff members to uphold high levels of integrity and the rule of law. It applies to all employees, the general public, service providers, customers, company agents, contractors, and other individuals related to the Group. The policy provides an email contact to report any fraud, misconduct, or wrongdoing, and all cases are investigated confidentially and timeously with appropriate action and feedback.

Source document references: Kakuzi Plc Annual Report 2023, page 28.

Accountability, risk management, and internal control

Q. 69. *Does the Board annually conduct a review on the effectiveness of the company's risk management practices and internal control systems and report this to shareholders?*

MALENA answer: YES. The Board annually conducts a review on the effectiveness of the company's risk management practices and internal control systems and reports this to shareholders. The Audit and Risk Committee, on behalf of the Board, reviewed the effectiveness of the internal controls and risk management systems through reports received from the internal audit function and external auditors on internal control matters. Additionally, the Board undertakes an annual assessment of these processes and approves an appropriate internal control statement for inclusion in the Annual Report and Accounts.

Source document references: Kakuzi Plc Annual Report 2023, page 33; Kakuzi Plc Corporate Governance details 2024, page 17.

Transparency and disclosure

Q. 83. *Does the Board include in its Annual Report a statement of policy on good governance and the status of the application of the 2015 Code?*

MALENA answer: YES. The Board includes in its Annual Report a statement of policy on good governance and the status of the application of the 2015 Code. The Corporate Governance Statement describes how the Group applies the main principles of the 2015 Code, acknowledges and continues to consider its recommendations, and implements them as appropriate. Additionally, the statement of directors' responsibilities and a statement on going concerns are provided within the Annual Report.

Source document references: Kakuzi Plc Annual Report 2023, pages 17 and 32.



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