1. Key development issues and rationale for Bank involvement

Problems of governance in public sector management have hampered Kenya’s efforts to create a stable macroeconomic environment, increased the cost of doing business in the country, discouraging private investment, and proved an obstacle to addressing widespread poverty and improving the quality of life of its citizens. Key governance problems include: the absence of efficient, transparent, and accountable decision-making and management in the country’s public sector, institutionalized corruption, poor economic and financial management, weak rule of law, inefficient service delivery mechanisms, and weak administrative practices. Several reform initiatives to deal with these problems since the since the 1970s and 1980s have achieved only modest results.

The Kenya African National Unity Party Government, under President Daniel arap Moi, which ruled the country for 24 years (1978-2002), made ambitious efforts in its last two years to improve and reform public sector governance. Its measures included restructuring the public sector by reducing the number of ministries from 28 to 15, eliminating some permanent secretaries, implementing a staff retrenchment program combined with improved pay and benefits, reforming the legal and judicial system, and promoting greater engagement with civil society. On December 27, 2002, a new Government took office, and inherited this ongoing reform program with the determination to address governance challenges and undertake key
policy and institutional reforms to improve both the environment for private sector investment and service delivery to the people.

The new Government’s strategy to improve public sector effectiveness was outlined in its Poverty Reduction Strategy Paper (PRSP), titled the Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation (IP-ERS, 2003-2007), prepared with the full participation of the Parliament, non-governmental organizations, development partners, and other stakeholders. The Strategy centers on three inter-linked pillars: (a) strengthening economic growth; (b) enhancing equity and reducing poverty; and (c) improving governance. The World Bank’s Board discussed and approved the Strategy on May 6, 2004 and the International Monetary Fund’s Board discussed and approved it on May 10, 2004.

In response to these initial steps taken by the Government, the Bank’s Country Assistance Strategy (CAS, Report # 29038-KE, May 19, 2004) proposed a program for re-engagement of the Bank Group with Kenya that is aligned with the IP-ERS and rooted in its results-based framework, from which the CAS’s own result-based framework is drawn.

The new Government made some progress on reforms under the public sector management technical assistance project with specific reforms, including, for example: eliminating backlogs in the audits of Government accounts; taking steps to strengthen the civil service wage policy, including retrenchment and abolition of overmanned posts approved by Government by establishing a Remuneration Board to oversee the implementation of the pay reform policy approved by Cabinet. It has established an institutional framework comprising a Cabinet Sub-Committee, a National Steering Committee on Public Sector Reforms, and a Public Sector Reforms Secretariat responsible for coordinating the implementation of on-going reform initiatives in public sector. As part of its efforts to develop an integrated sector-wide monitoring and evaluation (M&E) system to improve the allocation and use of public resources, the Government has established a Monitoring and Evaluation Department within the Ministry of Planning and National Development (MPND). To improve management and the quality of public service delivery, performance contracts have been introduced for chief executive officers and Boards of Directors of 16 state-owned corporations, and the Government is planning to introduce performance contracts for all Permanent Secretaries as part of the new results-based management approach in Government.

The Government has also taken a number of actions to root out corruption, including: (a) implementing the Economic Crimes Act (2003), which provides for the establishment of an Anti-Corruption Commission; (b) creating a new Department of Governance and Ethics in the Office of the President; (c) enacting the Public Officers Ethics Act in 2003, requiring all public officials (including the President) and employees, as well as their families, to declare their assets, and more recently, taking steps to make these declarations public; and (d) undertaking judicial reform, including establishing the Ministry of Justice and Constitutional Affairs, appointing a new Chief Justice, and firing corrupt and inefficient judges. The Cabinet has also approved the Government Financial Management Bill, Public Procurement Bill and Public Audit Bill. The Government also launched an enquiry into a large corruption case (Goldenberg), which it broadcasts nightly on Kenyan television, and suspended procurement officials associated with corruption. Further, it also took action against those involved in the Bank-funded project—the
Kenya Urban Transport Infrastructure Project (KUTIP), in which both Government officials and Bank staff members were found to have involved in corruption.

More recently, both the Kenyan public and the international community have grown skeptical of the Government’s determination in fighting corruption following new procurement scandals, and the resignation of a key senior civil servant involved in anti-corruption programs. However, some promising overarching, sectoral and grassroots initiatives are evolving including the involvement of civil society and the private sector in the fight against corruption in procurement and in monitoring the implementation of reforms; plans to conduct a governance baseline survey that would cover major areas included in the IP-ERS as well as in various sectoral work plans and programs, and introducing performance contracts and results-based management in Government as an approach to help deliver “results for Kenyans”.

The Government also presented an Anti-Corruption Action Plan in the recently concluded Consultative Group meeting, covering the period April 2005–June 2006, aimed at accelerating and consolidating reforms. Although it is not meant to represent the totality of the Government’s action on anti-corruption, the strategy has five planks:

- Enactment of the necessary legislation to establish a legislative platform on which to anchor the war on corruption.
- Vigorous enforcement of anti-corruption laws through investigation of offences of corruption and economic crimes as well as recovery of corruptly acquired property.
- Identification and sealing of loopholes through institution of effective public sector management controls.
- National public education aimed at stigmatizing corruption and inducing behavioral change.
- Implementing macroeconomic and structural reforms to reduce the incidence and demand for corruption by scaling down the role of the public sector and bureaucracy.

Beyond the initiatives in the Government’s anti-corruption action plan, there are others in various sectors, e.g. water, education, and more recently, immigration. In a recent press briefing, the Minister of Finance highlighted some specific actions taken by the Government to arrest any systemic weaknesses in financial management, including: (a) timely completion of annual project audits; (b) clearance of public accounts backlog; (c) introduction of risk-based internal audit throughout Government; (d) simplification of payment processes, and more importantly, governance review of selected projects, whose objective was to identify areas of governance weaknesses that expose projects to fraud risks.

Additionally, the 2005/2006 budget, for the first time, has been compiled without factoring in donor support. Although donor support remains critical, government officials have argued for a strategy that allows them to plan within their own resource constraints. The success of this strategy depends crucially on addressing broader economic and fiscal governance challenges, including efficient revenue collection by the Kenya Revenue Authority and prudent spending by line ministries. The Government also took a major step in passing the Public Procurement and Disposal Bill, 2005, which aims to: (a) enhance economy and efficiency; (b) increase competition; (c) improve integrity, transparency, and public confidence; (d) create a conducive
investment climate; (e) build a strong organizational framework with a strong oversight mechanism, including well defined Procuring Units and Tender Committees, and (h) reduce delays in procurement. The above initiatives in procurement anti-corruption, financial management and other improvements in the various sectors are aimed at improving the quality of governance and service delivery for communities, the private sector, and civil society in general.

A number of development partners have offered to provide assistance to support the Government implement various governance activities, including support to the justice and law and order sector, based on the Government demonstrating its strong leadership in the effort to eradicate corruption and pursue reforms. For example, the Governance, Justice, Law and Order Sector Reform Programme (GJLOS-RP), which is supported by at least fifteen development partners is a Government-led initiative which lays out a five-year plan on a sector-wide, coordinated and coherent approach to reform of public sector institutions to be able to execute their mandate effectively. The key outcomes of the programme include a safe and secure environment, a fair humane and expeditious justice delivery system, and a more democratic state that respects human rights and the rule of law.

The Government has also entered into partnership with development partners to plan and implement the Public Financial Management Reform Programme with the aim of enhancing financial governance in the public sector for effective and efficient resource utilization for economic growth and poverty reduction. The UNDP is also supporting the government through a programme to alleviate poverty through strengthening capacity and participation of governance institutions and civil society organizations including NGO’s and Community Based Organizations on public governance. This programme aims to promote participatory development planning by involving grassroots communities and all parties concerned in public policy debates to build consensus, eliminate corruption, enhance transparency and accountability, and institutionalize integrity systems and other programs and regulations that impact poverty eradication.

Additionally, Kenya is one of the first four African countries (others are Rwanda, Ghana, and Mauritius) to be scrutinized by the African Peer Review Mechanism by volunteering to be reviewed on good governance, democratic standards and economic policy. The NEPAD peer review is seen as a vital part of the African economic recovery plan and sixteen African governments already have signed up to the review mechanism, which is to assess whether they are following NEPAD aims of good governance, economic reform and democracy.

However, despite the government’s renewed commitment to improve governance and improve the delivery of services to its citizenry, coupled with the support from the development partners, significant systematic challenges remain that still need to be addressed. For instance, the Civil service is still not lean and service quality is highly variable and often poor. Issues of its bloated size and limited human capacity continue to be a significant challenge in terms of delivering services to its citizenry. Pay reform continues to be a challenge because the government has been dragging its feet on retrenchment because it does not have money pay off the retrenched workers and more importantly, because the failure to deliver on its ambitious election promise to create 2.5 million jobs in the five years after winning the election will have political implications.
There is evidence that ‘big graft’ is more difficult because of stringent attention to procurement, and intense media and general public security. The Government recently commissioned forensic audits of three Bank-financed operations under-implementation. The audit reports found direct evidence of fraud in the Kenya HIV/AIDS Disaster Response Project (KHADREP), significant risk management and control weaknesses (though little direct evidence of fraud) in the Kenya Decentralized HIV/AIDS and Reproductive Health Project (DARE), and shortcomings in the control environment in the Public Sector Management Technical Assistance Project (PSMTAP), which do not appear to have translated into fraud. The report also notes that poor government management against fraud risk, weak oversight, low capacity (particularly in accounting staff), project supervision that focuses more on documentation rather than physical evidence of implementation, and confusion over World Bank and Government requirements allow for a high possibility of corruption. There is also insufficient managerial accountability for overall performance, service delivery and corruption, and the Government could make greater use of administrative sanctions.

Intense donor interest in Kenya also has a downside. Multiple donor activities (e.g. PFM, governance statistics and accountability frameworks), fragmentation of support (some of which is very small e.g. UNDP), is a huge drain on the capacity of the Government. There have also been several missed opportunities for organized scaling up (e.g. rapid results approaches, etc), throughout the Government, but the approach has only been piloted in a few government ministries (health and water ministries with successes) rather than been mainstreamed to ensure “results” are delivered to the people. All of this runs counter to the commitments made under the Paris Declaration on aid effectiveness.

The Government recognizes the above weaknesses and has recently articulated a new vision and institutional framework for improving public sector performance (especially on governance) and service delivery as part of its broader strategy for reinvigorating its programme of growth and structural reforms for wealth creation as stated in the ERS. This approach focuses on enhancing the change management capacity of leaders in the Public Service and their teams in delivering ‘Results for Kenyans’. It will also enhance the development and promotion of a value system and code of ethics developed from the existing legislation as well as best global practice as a tool to rejuvenate the service orientation and accountability for public servants.

As part of this new initiative, the Government has recently embraced a Results-Based Management (RBM) system as a tool for helping public sector institutions to focus their work, plan strategically and demonstrate candidly the difference that each organization is making to development. It is presumed that by introducing RBM, the Government seeks to improve overall programme effectiveness as well as accountability to its citizens, donors and other development partners. Both the public and development partners want to see faster development and to know what use their resources are being put into and how efficiently.

The Government has also introduced performance contracts to all its senior officials including those in parastatals. The performance contracts are supposed to create incentives for public sector managers and their staff, to improve performance and accountability by undertaking to deliver specific outputs in line with their annual work plans, strategic plans and the ERS as well as Millennium Development Goals. By focusing on results and by providing a clear picture of
what areas and outcomes the Government is engaged in, RBM presents the opportunity of creating a synthesized alignment between capacities and the tasks undertaken by ministries and other public organizations. It also raises the challenge of finding the right skills mix for each public organization and the incentives necessary for enhanced performance.

The focus of the new program will be on public financial management to reduce discretionary powers accorded to its chief executives, and improving its service delivery system and enhancing transparency in government transactions, including procurement reforms, and consequently create the environment for needed foreign investment. To help implement its public sector management reform program, the Government is seeking assistance from the Bank and other development partners that will:

(a) Support demand-driven capacity building that is aligned with and directly supportive of the performance-based management system that the Government is rapidly putting in place, including performance contracting and components piloted earlier under the ‘rapid results’ label.

(b) Focus on some key ministries (that are key for successful implementation of the ERS, e.g., Ministry of Finance, Ministry of Planning and National Development, Ministry of Trade and Industry, Ministry of Local Government, and Ministry of Agriculture). However, because several others are important to the achievement of ERS goals and/or are moving ahead quickly to significantly enhance their focus on operational efficiency and results, the assistance program would need to accommodate a larger group of ministries that satisfy agreed eligibility requirements such as leadership and results orientation.

(c) Assist Parliament in its oversight role by supporting the various parliamentary committees in the area of economic management (budget preparation, budget execution, and expenditure control), and providing technical and logistical support for effective political oversight by the Public Accounts and Public Investment Committees; and

(d) Improve the effectiveness of donor support in these critical areas of capacity building, governance, etc, by ensuring that they are better aligned and coordinated, especially in areas such as public financial management (PFM).

Several bilateral donors in close collaboration with IDA have responded favorably with commitments to support the Sector-Wide Approach (SWAP) and the pooling of funds around a single design solution including DFID, SIDA, and EU, along with anticipated support from CIDA, and Norway. Non-pooling donors that have committed to leverage support to the SWAP include USAID and UNDP. The SWAP approach to support the Government’s institutional reform and capacity development program has been conveyed to the Government in regular meetings between Government and various Donor Coordinating Mechanisms including the PFM Donor Coordination Group and in various preparation missions. The support from donors would incorporate the various commitments within the Government’s overall macroeconomic fiscal framework including its annual budgeting, planning, and monthly SOE-based disbursement procedures.

The proposed project is consistent with the strong emphasis on improving governance and restoring the rule of law articulated both in the Investment Program for Economic Recovery
Strategy (IP-ERS), and the joint World Bank-IFC CAS, 2004-2007. Through concessional financing, the project will directly contribute to the CAS objective of building institutional capacity for improved service delivery. The project will be linked to the Economic Recovery Strategy Support Credit (ERSSC), which is currently under preparation, and will complement other lending instruments for institutional reform and capacity building such as the Financial Sector Adjustment Credit (FSAC). It will also provide technical inputs on various reforms currently being undertaken by the Government, including financial management, accounting reform, and procurement reform.

The Bank brings considerable cross-country experience in several of the reform areas under implementation as part of this project, including financial management, procurement, enhancing change management, and strengthening institutional capacity. It is also leveraging its experience as a lead or strategic partner in supporting large scale capacity building programs in a number of African countries (for example IDA’s support to Ethiopia’s Public Sector Capacity Building Program in 2004, to improve governance, accountability, and the scale, efficiency, and responsiveness of public service delivery at the federal, regional, and local levels).

As mentioned earlier, there are firm indications that a number of bilateral donors are currently supporting various programs to improve governance and deliver “results for Kenyans”. The Bank is playing a catalytic role in harmonizing, and leveraging its support for capacity building and institutional reforms, including public financial management reforms, leadership and ethics reforms as well as mainstreaming results-based management in Government with a number of other donors, including DFID, SIDA, EU, CIDA, USAID, and NORAD, who participated in several of the preparation missions. The donors, together with Government, have agreed that support for the various governance reforms mentioned inter alia would be in the form of a Sector Wide Approach (SWAp), and have jointly funded a team of consultants to assist the Government in developing a log frame and an implementation plan for all proposed reforms in government.

2. Preliminary description

This will be a Technical Assistance/Investment Loan for five years, linked closely to Development Policy Lending.


Strengthening the management of public expenditure is central. There is an urgent need to improve fiscal discipline, bring resource allocations in line with development priorities articulated in the IP-ERS, and improve the budgeting preparation and execution, reporting and evaluation processes. The objective of this component is to make budget processes and public financial management (PFM) more transparent, accountable, and responsive to policy priorities. It will therefore aim at strengthening financial resource planning, budget preparation and implementation, strengthening financial controls, ensuring that allocation of government resources is consistent with policy priorities outlined in IP-ERS, and reducing fiduciary risks by making procurement transparent and efficient and enhancing expenditure monitoring and audit. This component will have the following sub-components.
Sub-program 1.1 Strengthening budget formulation

This subcomponent supports the Government’s on-going efforts at streamlining budget formulation processes, strengthening the MTEF consultative mechanisms with stakeholders and alignment of expenditure with ERS priorities. It will also support various activities undertaken before budget formulation such as providing technical assistance to strengthen Sector Working Groups and in preparing sector reports. In the short term, budget formulation will be improved by building capacity of the Budget Supply/MTEF department in the Ministry of Finance and budget units in line ministries and government agencies. Specific activities will include helping line ministries prepare expenditure plans, training staff in program costing, and strengthening budget submissions by line ministries as well as helping Ministry of Finance with development of budget strategy paper and project appraisal system. In the medium term, the project will support the development of an organic budget law which codifies existing practices in Public Financial Management. By the end of the project life cycle, the means to support implementation of the new organic budget law will have been developed.

Sub-program 1.2 Strengthening budget execution, accounting, and financial reporting

This subcomponent supports the Government in implementing the recommendations contained in its Enhanced Financial Management Action Plan (EFMAP). Several elements of EFMAP are under implementation and others are to be implemented in the next two years. In the short term, the sub-component is likely to include technical support to: (i) improve cash management; (ii) contain occurrence of further expenditure arrears; (iii) improve predictability of cash flow to spending units; (iv) improve payment systems; and (v) ensure payroll integrity. In the medium term the principles, methodology and processes would have been established for: (i) a system for financial reporting by semi-autonomous government agencies and local authorities on budget and contingent liabilities; (ii) expenditure classification systems along the principles outlined in the international standard classifications such as the UN Classification of the Functions of the Government (COFOG) and the IMF’s Government Financial Statistics (GFS); and (iii) a framework for the preparation and presentation of timely and comprehensive periodic financial management accounts and annual financial statements based on generally accepted accounting principles and professional best practices. By the end of the project life cycle, the means to support implementation of the revised principles, methodology and processes for reporting would have been developed.

Sub-program 1.3 Strengthening Public Financial Management through the use of Information Technology

The subcomponent supports the Government in achieving two objectives: (i) timely capturing of accurate and verifiable data of budget execution, for improved financial reporting thereby reducing the opportunities for unaccountable discretion on the part of the executive: and (ii) providing enhanced internal controls to improve public expenditure management (including payroll management). In the short term, technical assistance will be provided to achieve “live” status of the new IFMIS in the Ministry of Finance and one pilot department. Activities will include
completion of the pilot test phase, resolution of the connectivity issues and data integration issues. In the medium term, alignment of PFM and IT architectures will be achieved in tandem with preparation for further roll-out of the system. Activities will include resolution of policy differences and process issues, as well as development of the required capacity and resources to support full roll-out of the system. By the end of the project life cycle, full implementation of the system would have been initiated. Activities will include finalization of manuals and training courses, set up of Ministries on the system, data take-on for priority Ministries, and establishment of change management and user support processes.

Sub-program 1.4 Strengthening the External Audit System

The subcomponent supports the strengthening of capacity of the National Audit Office to become an effective institution that will enhance financial accountability in the public sector. In the short term, the focus will be on supporting ongoing initiatives to clear the substantial backlog of overdue Local Authorities audit reporting arrears, to prevent occurrence of new audit arrears and to consider more effective and efficient audit approaches, such as risk-based auditing and performance auditing. Support will also be provided under this sub-component to strengthen the relationship between the Office of the Public Accounts Committee of Parliament and the Kenya National Audit Office. In the medium term risk-based external audits will be piloted, and if acceptable to stakeholders, full scale implementation will be planned and resourced. By the end of the project life cycle, full implementation of alternative audit approaches would have been initiated. Activities will include finalization of manuals and establishment of training courses and change management processes.

Sub-program 1.5 Strengthening the Internal Audit System

The subcomponent supports design and rollout of a risk-based systems audit approach to ministries and departments. In the short term, support will be provided to the Internal Audit Department to complete their pilot risk-based audits in order to develop and document a new standard internal audit methodology and plan and prepare for its implementation. In the medium term implementation will be initiated, together with the establishment of Ministerial Risk Management Committees to whom internal audit, external audit and other independent oversight entities will typically provide their findings for implementation. By the end of the project life cycle, use of audit results to improve internal control systems will be visible and the risk-based systems approach to internal audit would have been institutionalized.

Typical activities will include development of manuals, processes, systems and staff, well resourced for implementation.

Sub-program 1.6 Strengthening the National Procurement System

Following the passage of the Public Procurement and Disposal Bill 2005, a new Procurement Authority would be established, whose principal function is to provide oversight of the procurement regulations. The sub-component would provide support to this Authority as well as to the establishment of an effective framework and control process for the procurement of goods,
works, and services, and establish an effective monitoring and tracking system. In the short term, measures to implement the new Procurement Bill will be designed and resourced. In the medium term, the project will finance a sensitization program to disseminate the new procurement law and system to promote transparency and accountability in procurement, and training of procurement staff on the new law, regulations and systems. By the end of the project cycle, implementation of the new Bill, framework and procurement systems will have been initiated.

Typical activities will include technical assistance, some logistical support, and intensive training to procurement oversight institutions, tender boards, and procurement staff, finalization of procedure manuals; integration with financial processes and IFMIS; implementation training; data take-on; change management; monitoring of results, and provision of user support.

**Sub-program 1.7 Support to key Parliamentary Committees for effective political oversight of public financial management**

To enable the Parliament to play its oversight role in the area of economic management more effectively and to professionalize its interaction with the government, this subcomponent will support the various parliamentary committees in the area of economic management (budget preparation, budget execution, and expenditure control). It will provide technical and logistical support for effective political oversight by the Public Accounts and Public Investment Committees. In the short term, research capacity and operational support of the committees will be improved. In the medium term, their responsiveness to audit findings and follow up of their recommendations would have improved. By the end of the project cycle, the backlog of reports not dealt with would have been completed and new processes would be operational.

**Sub-program 1.8 Strengthening Revenue Collection and Management for the Kenya Revenue Authority**

The Kenya Revenue Authority’s ongoing Reform and Modernization Programme seeks to help the Government collect all the taxes due and in the process free Kenya from donor dependency and make the country a truly sovereign nation. In general, KRA has exhibited good performance in various areas, including revenue collection which has increased gradually from Kshs. 122 billion in 1995/1996 to Kshs. 229 billion in the 2003/04 financial year (FY), accounting for over 93% of total government revenue. However, the institution is yet to operate as a fully integrated organization, which has inhibited the full potential of gains accruing from its creation. The objective of this sub-component is to improve the Government’s overall fiscal objectives, including revenue collection, enhance efficiency in utilization of resources, and improve effectiveness by adopting procedures and processes with the tax administration system. Activities will focus on three main areas: (i) **Domestic Taxes Department (DTD) Reform and Modernization Project**: Technical Assistance, training and equipment in order to restructure the Domestic Tax Department (TD) from the current tax-based structure into a unified function-based tax administration; (ii) **KRA Automation Project**: Overhauling of the KRA’s information systems through the acquisition and introduction of a new modern integrated IT system for tax administration and; (iii) **Training and Change Management Project**: Training and Technical Assistance to upgrade and diversify the skills base in the organization to international best practice standards to the extent of supporting the skill base requirements of the reform program.
Component 2. Capacity Building for “Results for Kenyans”

Sub-program 2.1: Capacity Building Fund (US$4.94 million):

The primary objective of this component is to support the overall shift toward effective management of key parts of the economy to fulfill their commitments under the ERS, and their related performance contracts. This will include, but not be limited to, providing capacity building support to the five key ministries (Finance, Agriculture, Planning and Development, Trade and Industry and Local Government). While the operation will continue to focus on some key ministries, it is clear that several others are important to the achievement of ERS goals and/or are moving ahead quickly to significantly enhance their focus on operational efficiency and results. This component will therefore include arrangement for a larger group of key ministries to receive assistance when they satisfy certain agreed requirements such as leadership and results orientation.

This fund will be demand-driven, i.e., the inputs are to be specified by the targeted ministries who would demonstrate how they intend to use the funds to achieve the benchmarks. To provide for an efficient management of the CBF, a set of eligibility criteria and rules of access have been established. In addition, a technical committee will be established that screens all proposals to ensure proposed activities are consistent with ministerial objectives and support the attainment of the benchmarks in the ERSSC.

**Eligible/ineligible activities under the CBF component**

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<tr>
<th>Eligible capacity building interventions</th>
<th>Ineligible capacity building interventions</th>
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<tr>
<td>Interventions that are eligible for CBF financing should support the operationalization and implementation of their performance contracts and may include:</td>
<td>CBF is not to be used for investments where the contributions to services improvements are not readily demonstrable. These include:</td>
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<tr>
<td>• Technical support at all stages of the in the development of the participating Departments’ strategic plans, annual work plans and implementing them.</td>
<td>• Investment into commercial ventures.</td>
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<td>• Specific training activities within the Region.</td>
<td>• The purchase of motor vehicles.</td>
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<td>• CBF will only support results-oriented incremental investments. This will include for instance, resources required to re-engineer processes; to put in place systems for monitoring and evaluation; and/or to foster organizational learning.</td>
<td>• Civil works for general administrative purposes.</td>
</tr>
<tr>
<td>• Re-tooling in participating Departments to consolidate and enhance efficiency</td>
<td>• General administrative expenditures.</td>
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<td>• Staff salaries.</td>
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<td>• Activities funded from other sources.</td>
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to improve both working facilities and the environment, in the context of IRCBP’s implementation.

- Support to the rationalization of participating Departments’ roles and functions.
- Soft assets including computers and software.
- Support work aimed at reinforcing results-based approach at sub-national levels, including efforts to enhance dissemination of service contracts, and monitoring and evaluation of service delivery by beneficiaries, civil society groups and the private sector.

- Training activities outside of the Africa Region.

Sub-program 2.2 Transformative Leadership and Ethics for Results Based Management (RBM) (US$1.58 million):

Given the challenge of undertaking comprehensive and sequenced reforms within a very fluid coalition government, the government and task team have identified transformative leadership, change management, and public sector values and ethics as critical elements to be addressed as part of the capacity building process for Public Sector Reform to succeed in Kenya. This component will focus on enhancing the change management capacity of leaders in the Public Service and their teams in delivering ‘Results for Kenyans’. It will also enhance the development and promotion of a value system and code of ethics developed from the existing legislation as well as best global practice as a tool to rejuvenate the service orientation and accountability for public servants. It will build on a pilot program underway on changing the ethos and practices of the leaders to be more effective in transforming the public service in support of the Economic Recovery Strategy, especially in leading teams to accept and implement Results Based Management as the main vehicle for driving reforms.

Transformative leadership is necessary for the successful installation and institutionalization of the Results Based Management (RBM) regime. Transformative leadership entails not simply directing change but managing it in a way that ensures broad ownership, legitimacy and self-directed sustenance and replication of change in all associated systems. It is essential to the kind of work culture change necessary to effect RBM; moreover the motivational aspects entailed in building up the transformative leadership capacities of supervisors and unit heads is necessary to revisit all work processes in each unit toward making results a core pursuit and building teams focused on results at every level of the bureaucracy.
Given precipitate decline in public service ethics and professionalism in the last two decades, the Government views a revival of an ethical environment as integral to an effective and accountable results-oriented public service. Values and ethics guide the way people think and behave and thus the noted erosion of professionalism, team work, and leadership ethos are clear threats to achieving results in the broader reform program. Over the last year, the government has piloted a program to revamp the values orientation of the public service and has gone a long way in establishing the necessary foundation to retrain public servants, establish curricula at government training facilities (including the Kenya Institute of Administration) and produced a coherent Information Education and Communication (IEC) programme, including a simplified principles derived from the Public Officer Ethics Act. Further pilot initiatives have resulted in a new “Growing Our Leaders” programme in universities focused on building leadership capacity and ethics among university students, especially those in leadership positions.

There is already broad ownership of this component, as indicated, for example, by endorsement of the ethics and transformative leadership work by a two-day meeting of Permanent Secretaries lead by the Minister for Public Service and the Head of the Public Service. This meeting, the culmination of technical work to design the program, curricula, and propagation materials, and to get approval for a work plan involving the Permanent Secretaries as principal movers of the leadership agenda, committed to the transformative agenda, including RBM.

**Component 3. Technical Support and Capacity for Project Implementation (US$1.89 million):**

The overall IRCB SWAP will be managed by the existing Public Financial Management Coordination Unit (PFMCU) at the Ministry of Finance. The Unit will serve as the coordinating body that ensures that IRCBP implementation, especially in Financial Management, complies with the Sector Wide Approach Financial Management Guidelines. The Unit will report directly to the Permanent Secretary – Ministry of Finance, who will be the Accounting Officer of the project. Resources will be provided under this sub-component to help this Unit in accessing, and then mainstreaming, the required technical support for achieving the development objectives of the Government’s public sector management improvement program. The Unit is expected to require expertise in addressing cross-cutting themes such as Monitoring and Evaluation (M&E), and in developing and implementing a communication strategy.

Sub-component 2.2 (Transformative Leadership and Ethics for RBM) will be coordinated by the Secretary, Public Service Reform Secretariat, in the Office of the Cabinet Secretariat. The coordination of this component by the Secretariat will allow the immediate application of lessons being learnt in on-going pilots and also allow a ‘whole-of-government’ approach to capacity building efforts aimed at strengthening RBM.

The implementation process will be coordinated with other development partners contributing financially to PFM reforms through a Sector Wide Approach (SWAp) arrangement.

*Institutional Arrangements*

The project execution agency will be the Ministry of Finance.
Cabinet Standing Committee on Public Service Reform

A Cabinet Standing Committee on Public Service Reform has been set up to oversee the reform process. The Government will provide regular briefings to Parliament. Individual Ministers will be responsible for providing policy guidance on the public sector reform programs that fall within their purview as well as the use of the capacity building funds. Members of the committee are:

- Minister for State in the Office of the President in charge of Public Service (Chairperson)
- Minister for Finance (Alternate Chairperson)
- Minister for State in the Office of the President in-charge of Provincial Administration and National Security
- Minister for Planning and National Development
- Minister for Education and, Science and Technology
- Minister for Local Government
- Minister for Justice and Constitutional Affairs; and
- Minister for Labor and Human Resources Development

National Steering Committee: This committee will be chaired by the Permanent Secretary, Secretary to the Cabinet and Head of Public Service, and will include all the Permanent Secretaries/Accounting Officers. The committee will oversee the implementation of all reform programs/initiatives including Results Based Management and the Capacity Building Fund.

Permanent Secretary, Ministry of Finance

The PS/MoF will be the Accounting Officer for the project. As such, he will assume the responsibilities and obligations set out in Chapter 5 of the Government Financial Regulations and Procedures (GFRP) of the Government of Kenya, and will be accountable to Parliament.

PFM Advisory Committee

This committee will be appointed by the PS, Finance, who is the Accounting Officer of the project to advice him on broader financial management issues in government and more importantly on effective project implementation.

Technical Committee for Capacity Building Fund

This committee will review all proposals submitted for accessing the capacity building fund and provide recommendations to the National Steering Committee who will approve the use of the funds. This committee will draw from expert support familiar with the eligibility criteria of the funds as well as the agreed benchmarks in the ERSSC matrix and future budget support operations.

Public Financial Management Coordination Unit (PFMCU)
The PS, MoF, will be supported by a small team, which will be in the PFMCU in the Ministry of Finance. This team will consist of a program manager, financial officer, procurement officer, monitoring and evaluation officer, and an information, education, and communication (IEC) officer.

**Coordinators**

Coordinators in each of the implementing ministries, departments or agencies will be responsible for managing the resources provided to produce the outputs required for the project to achieve its objectives as follows:

**Table 1. Committees, composition and functions**

<table>
<thead>
<tr>
<th>Name</th>
<th>Composition</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cabinet Standing Committee on PSR</td>
<td>Minister for State in the Office of the President in charge of Public Service (Chairperson); Minister for Finance (Alternate Chairperson); Minister for State in the Office of the President in charge of Provincial Administration and National Security; Minister for Planning and National Development; Minister for Education and Science and Technology; Minister for Local Government; Minister for Justice and Constitutional Affairs; and; Minister for Labor and Human Resources Development</td>
<td>Oversee the reform process</td>
</tr>
<tr>
<td>2. National Steering Committee</td>
<td>PS, Secretary to the Cabinet and Head of Public Service (Chair); Permanent Secretaries of Finance (Alternate chairperson), Provincial Administration and National Security, Local Government, Planning and National Development, Public Service Reforms, Justice and Constitutional Affairs, Labor and Human Resources Development</td>
<td>Responsible for the overall development and coordination of the public sector reform agenda</td>
</tr>
<tr>
<td>3. Technical Committee Capacity Building Fund</td>
<td>Program Coordinator, Other members to be appointed by the National Steering Committee</td>
<td>Review all proposals submitted for accessing the capacity building fund and provide recommendations.</td>
</tr>
<tr>
<td>4. Advisory</td>
<td>To be appointed by the PS Finance</td>
<td>Advice the PS on broad PFM</td>
</tr>
</tbody>
</table>
### Committee issues

<table>
<thead>
<tr>
<th>Committee</th>
<th>issues</th>
</tr>
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<tbody>
<tr>
<td>5 PFM Coordinating Unit</td>
<td>Coordinator; Financial Management Officer; Procurement Officer; M&amp;E Manager; IEC Manager</td>
</tr>
<tr>
<td></td>
<td>Provide day-to-day management of the project including M&amp;E activities.</td>
</tr>
</tbody>
</table>

**Project Management**

Effective project management is essential to assure the achievement of project inputs, outputs and impact, as well as providing financial accountability with due diligence, and to conduct transparent procurement procedures in the award of contracts. The institutional arrangements for managing the project and for ensuring the sustainability of results build upon experience gained from previous projects and from earlier stages of reform as indicated earlier from lessons learned during the implementation of PSMTAP. The key executing agencies have been fully involved in the design of the current reform program and will participate in execution and management through ministerial and departmental committees and via component-specific secretariats. Project management will be coordinated by the recently established Public Financial Management Coordination Unit reporting to the Permanent Secretary, Ministry of Finance.

**Procurement**

Procurement will be carried out through the respective Government Departments and units that are directly responsible for the components and sub-components of the Project under the coordination and supervision of the Project Coordination Unit (PCU) within the Ministry of Finance. The Implementation Departments and Units will be responsible for, but not limited to, the following aspects of the procurement activities and processes of their respective components and sub-components:

1. Preparation of annual work plans and procurement plans;
2. Development of Terms of Reference (TOR), short-lists, and Requests for Proposals including technical specifications for goods and contracts;
3. Setting up a good procurement filing system and maintaining procurement documentation; and
4. Preparation of plans for annual training programs that set out the objective of the training, areas of training, and the number of trainees, cost estimates, timing and venue (e.g. local or overseas) for each training activity.

The Implementation Departments and Units will clear their plans and procurement documentation with the PCU, which will play a central role in:

1. Consolidating the annual plans of all components and sub-components of the project into annual plans of the whole project;
2. Vetting procurement documents prepared by the Implementing Departments and Units, and providing technical advice (when necessary) to procurement staff of implementing Departments and Units;
3. Advertising contracts (where appropriate) and disclosure of contract awards;
4. Participating in the evaluation of bids and proposals submitted by invited suppliers and consultants;
5. Preparing no objection letters for the PS, MoF for onward transmittal to the Bank for approval;
6. Advising the PS, MoF on matters pertaining to the implementation of the project; and
7. Maintaining a good procurement record-keeping and disclosure system.

The major risks for the implementation of the Program are the numerous ministries/departments involved in implementation and the low capacity at all levels. In order to mitigate these risks and based on the results of the assessment, a procurement specialist will be recruited to strengthen their capacities.

Financial Management

The principal objective of the Project’s financial management system will be to support management in their deployment of limited resources with the purpose of ensuring economy, efficiency and effectiveness in the delivery of outputs required to achieve desired outcomes. Specifically, the system must be capable of producing timely, understandable, relevant and reliable financial information that will enable management to plan, implement, monitor and appraise the Project’s overall progress towards the achievement of its objectives.

The PIU financial officers shall provide technical oversight, capacity building, monitoring, and coordination functions. They shall also be responsible for quarterly Financial Monitoring Reports and Project financial statements. Financial and accounting manuals shall be prepared to guide reporting at respective levels.

Qualified, experienced and independent auditors will be appointed in consultation with the Auditor General on approved terms of reference. The external audit will cover all World Bank and counterpart funds at all levels of Project execution. The control environment of implementing agencies will be assessed and appropriate accounting and reporting systems will be developed according to Operational Policy requirements through separate technical assistance (see Annex 7 on Financial Management Assessment).

The implementation arrangements will be reviewed on a regular basis to take into account technical and political changes as well as progress within the overall public sector reform effort. Each World Bank supervision mission will review the implementation arrangements within the Government and other contributing donors to suggest improvements or changes as necessary.

3. Safeguard policies that might apply

There are no perceived safeguard policies which might apply.
4. Tentative financing
Source: ($m.)
BORROWER/RECIPIENT
INTERNATIONAL DEVELOPMENT ASSOCIATION 25
Total 25

5. Contact point
Contact: Sahr John Kpundeh
Title: Sr Public Sector Mgmt. Spec.
Tel: (202) 473-6783
Fax:
Email: Skpundeh1@worldbank.org